INTERNATIONAL MONETARY FUND

MONETARY AND CAPITAL MARKETS

CAPACITY DEVELOPMENT STRATEGY 2022–25

Supporting Financial Sector Resilience Through Disruption and Change

OUR MISSION

The IMF Monetary and Capital Markets Department (MCM) supports global financial and monetary stability through the delivery of high-quality capacity development (CD) to assist our member countries in enhancing financial sector policies and operations, promoting sound and efficient financial systems, effective monetary and exchange rate policy frameworks, and sound debt management practices.[1]

"Capacity development is at the core of what MCM does–we are here to help our member countries build resilient financial sectors and much of that is long-term institution building that we do through CD."

Tobias Adrian
Financial Counsellor and Director
Monetary Capital Markets Department
MCM Capacity Development Annual Report, 2021

[1] Capacity development is an overarching term that combines technical assistance and training work.

BACKGROUND

A DISRUPTED WORLD

The COVID-19 pandemic has disrupted the globe—with an impact on economic and financial sector performance but also on the way the world conducts business. Pandemic disruptions come in addition to accelerating technology and other disruptions in the world of finance—providing us with a moment to rethink our capacity development priorities. The agility with which MCM has been able to respond to the pandemic—including adopting a fully virtual CD program, providing just-in-time advice to authorities on all aspects of the impact of COVID-19, developing a series of "COVID notes" to encapsulate this advice, and using technology and new formats to amplify our messages and support.

Adapting quickly has helped us maintain engagement with country authorities, continue assisting in reforms and helping authorities adjust to the change financial sector. Virtual delivery has ensured our CD program not only continued but also offers lessons for the future. While virtual or remote engagement is not a substitute for in-person work, even when travel conditions normalize, we expect to use virtual modalities to provide for more continuous engagement with authorities—for example, using web-based activities to supplement mission travel by meeting virtually between in-person missions or bringing in specific individuals online during travel missions; and using online training and webinars to reach a broader audience than will be possible in person.

CD IS IN OUR DNA

MCM's capacity development dates to its inception in the early 1960's when technical assistance was the sole mandate of the newly created Central Banking Service unit. Since then, MCM has evolved and expanded considerably its resources and services to support IMF member countries in building their capacity to strengthen financial supervision and regulation, conduct monetary and exchange rate policy and operations, and monitor and address financial stability risks.

If requested, the Fund may decide to perform financial and technical services, including the administration of resources contributed by members, that are consistent with the purposes of the Fund.

Article V, Section 2(b)
Articles of Agreement of the International Monetary Fund

By the 1960s, the Fund accepted special responsibility for the increasing technical assistance demands, especially in the area of central banking and fiscal affairs. To meet these demands, the Executive Board inaugurated two specialized technical assistance programs, namely, the Central Banking Service and the Fiscal Affairs Department (in 1963 and 1964, respectively).

Current Legal Issues Affecting Central Banks, Volume III

THE IMF'S CD STRATEGY LEADS THE WAY

MCM's CD Strategy is guided by the IMF's CD Strategy. The most recent 2018 Review of the Fund's Capacity Development Strategy sets two mutually reinforcing objectives of enhancing the impact and efficiency of CD. The CD delivering process is informed and guided by broader IMF policy, including the Managing Director's Global Policy Agenda (GPA) that defines the strategic direction of CD taking into consideration the evolving challenges facing the global economy. The IMF's Interdepartmental Committee on Capacity Building regularly reviews the IMF's CD considering member countries' demand and overall IMF's priorities. The recently developed CDMAP serves as the IMF's system for management and administration of CD, including budget and prioritization. Our strategy also benefits from following the recommendations of the IMF's Independent Evaluation Office (IEO) that conducts periodic evaluations of all aspects of our work, including CD, and helps ensure alignment with best practices. The IEO recommendations feed into designing a better CD strategy and delivering a higher-quality CD.

The MCM's CD Strategy was adopted in 2011 and is updated every three years. MCM's 2017–20 CD Strategy emphasized the focus on strengthening the value-added of MCM's CD work in each stage of CD life cycle, while stressing the need for agile responses to new CD needs, innovations in knowledge creation, management, and dissemination, and maintaining appropriate governance and accountability frameworks.

FIGURE 1. CD GUIDANCE FRAMEWORK

GPA
GLOBAL POLICY AGENDA

The October 2021 Agenda includes:

- Urgent policy action to control the pandemic, limit scarring, and transform the global economy
- Continued support to the membership in dealing with the ongoing and new challenges
- Continued assistance to member countries in upgrading policy frameworks and operations, reforming institutions, and enhancing their economic management capacity
- Transformation of the global economy to achieve a more inclusive, greener, and digital recovery

CCB
THE COMMITTEE OF CAPACITY BUILDING

Current priorities include:

- Support for fragile and conflict-affected states (FCS)
- Financial market deepening for low-income countries
- Improved financial supervision/regulation and monetary policy frameworks in emerging and some lower-income countries
- Strengthening CD to countries of Caucasus and Central Asia and Mongolia region

CD
CAPACITY DEVELOPMENT

MCM's core areas include:

- Financial sector supervision and regulation
- Central banking
- Digital money and finance
- Debt management and capital market development
- Monetary, foreign exchange, macroprudential policies, and capital flow management
- Financial crisis preparedness and management
- Financial stability/systemic risks

Source: IMF.org

TABLE OF CONTENTS

OUR STRATEGY

ELEMENT 1

MCM maximizes the impact of our capacity development work by providing demand-driven and country-tailored CD.

Capacity development is a collaborative venture. The effectiveness of CD and the ultimate implementation of enhanced policies and operations rest on strong partnerships with our member countries. MCM acts on requests from member countries ensuring strong engagement. MCM tailors its advice so that it fits the particular country's context, improving absorption and sustainability of the capacity building efforts. Our CD design is responsive to countries' needs and can be programmatic and long term, or can take the form of rapid, targeted engagements.

ELEMENT 2

MCM provides highly expert and specialized CD across key financial sector topics and works continuously to maintain up-to-date knowledge and skills and develop new expertise to assist member countries in traditional and emerging areas.

MCM is recognized globally for its monetary and financial stability analysis and advice. Our research and policy development, surveillance, and CD work build on and reinforce this expertise across core areas of the department's work, including central banking, financial supervision, crisis management, financial stability, debt management, macroprudential and monetary policies. We seek to develop and evolve our expertise to address emerging and growth areas including on digital money and finance, climate, and gender. Expertise is critical to the provision of relevant, credible advice that can be readily implemented by recipient countries.

ELEMENT 3

MCM ensures high-quality CD output by recruiting staff and experts with significant hands-on experience and implementing strong quality control processes.

Deep expertise and practical knowledge ensure advice is credible with authorities and other partners and is actionable in the institutional and country context. MCM recruits HQ staff and experts with practical expertise in central banking, supervision, debt management, and policy making. All external experts are backstopped by HQ staff to strongly link HQ and field work. The extensive review and clearance process for all CD outputs is the final aspect of our quality assurance.

ELEMENT 4

MCM provides CD that enhances overall economic reform by integrating its CD with the surveillance and IMF program activities and aligning its CD with IMF priorities.

CD efforts contribute to overall economic reforms if they are aligned with other reform priorities, especially in the context of resource and skill constraints. MCM works with IMF country teams to ensure that CD work is prioritized accordingly and seek synergies with surveillance and program work. CD to FCS is high priority and delivery of CD to these states will remain a focus along with the CCAMTAC region, in line with IMF CD priorities.

ELEMENT 5

MCM employs a full range of CD modalities to achieve maximum impact.

Developing capacity and delivering advice benefits from a range of modalities, any of which may be used singly or in combination effectively to deliver strong outcomes. MCM uses a blend of virtual engagements and in-person missions, technical assistance and trainings, knowledge management products, toolkits and 'how to' guides, regionally based workshops and technical assistance, large-scale courses, continuous engagements using peripatetic advisors, and targeted advisory sessions. We place long-term advisors bilaterally in member countries and also at the Regional Capacity Development Centers (RCDCs). We will continue to explore our design and use of this 'blended model' to meet evolving needs of our member countries.

ELEMENT 6

MCM builds on external and internal partnerships in provision of CD work, allowing us to access and expand skills and resources and build synergies with all CD stakeholders.

Building strong collaborative relationships improves outcomes for member countries by ensuring resources and services are appropriately deployed and complementary to other ongoing work. Coordinating CD efforts within the IMF and with other providers builds synergies in complementary areas of work. External funding relationships ensure access to both financial resources and other implementing partners and country authorities. MCM will continue to build closer relationships with many external partners and within the IMF.

ELEMENT 7

MCM utilizes feedback processes to ensure high quality and continuous improvement of our work.

MCM has a strong review and oversight process in place to ensure that CD is held to high standards and is strongly aligned with overall MCM work. We will continue to build on our results-based management (RBM) framework, along with project assessments and evaluations to gauge absorption and impact of CD, allowing us to adjust our priorities, modalities, and design for maximum results.

OUR STRATEGY IN DETAIL

ELEMENT 1

MCM maximizes the impact of our capacity development work by providing demand-driven and country-tailored CD.

Capacity development is a collaborative venture. The effectiveness of CD and the ultimate implementation of enhanced policies and operations rest on strong partnerships with our member countries. MCM acts on requests from member countries ensuring strong engagement. MCM tailors its advice so that it fits the particular country's context, improving absorption and sustainability of the capacity building efforts. Our CD design is responsive to countries' needs and can be programmatic and long term, or can take the form of rapid, targeted engagements.

Demand-driven assistance	Country authorities ultimately bear responsibility for undertaking reforms, therefore the key to delivering effective and impactful CD is to develop clear buy-in from the authorities we serve. Experience and analysis suggest that ownership by stakeholders and the will and ability of CD recipients to translate policy advice into action ensures the success of CD. MCM works with member countries' areas of interest, acts only on clear demand from the authorities, and seeks to ensure there is sufficient support for CD activities within the recipient authority.
Tailored advice	Successful CD delivery depends on the appropriateness of the advice given to country and institutional circumstances. MCM strives to adhere to its special role of trusted advisor, available when the authorities need assistance. Developing strong and effective relationships with authorities necessitates listening, understanding, translating theory into practice, and communicating clearly. We focus on the institutional, organizational, and managerial capacity in recipient countries and potential impediments to implementation of reforms including high staff turnover and the lack of absorptive capacity and adequate resources, especially in low-income and FCS, and tailor our advice in light of these constraints. We seek to customize our toolkits to meet the needs of less complex economic and financial environments and to deliver CD programmatically over time to ensure adequate support for reforms.

Diverse approaches	Diversifying approaches to the way we respond to concrete needs expands the potential for a successful engagement. The authorities may turn to MCM with a request to build a sustained capacity in MCM areas of expertise that may take several years or with a concrete and focused question that has to be resolved urgently. Being open to such a consultative role is key to deep engagements and trust. Regional workshops may bring together peer learning, sometimes prompting follow up work on a bilateral basis. Longer projects over a period of years are appropriate to meet goals of implementing reforms.
Careful design in the FSSR	The Financial Sector Stability Review (FSSR) is MCM's flagship programmatic CD product. The FSSR affords a unique opportunity for close engagement with authorities on the design of CD. The FSSR diagnostic allows for an in-depth analysis of financial sector vulnerabilities combined with an analysis of the countries' CD needs in addressing those vulnerabilities. The resulting CD roadmap for the medium term that lays out CD priorities, including those that will be delivered by other providers, and then translates those into follow-up activities, in a project implementation plan that usually covers three years. The goal is to ensure substantial buy-in and ownership from authorities, support the effective coordination of activities of contributing stakeholders, and close monitoring to ensure effectiveness and impact. Launched in late 2017, the FSSR has quickly become a cornerstone of MCM CD work.
Focal point for engagement	MCM centralizes CD management in a dedicated division, allowing us to focus on country-level engagement and strategy, which improves tailoring of CD. Specifically, MCM TA Strategy Division is responsible for deepening strategic engagements with country authorities; conducting needs assessments and developing country-tailored CD work plans in cooperation with IMF Area Departments (ADs); facilitating implementation of CD projects and monitoring progress; coordinating delivery with stakeholders; and supporting expert resident advisors or long-term experts (LTXs).

ELEMENT 2

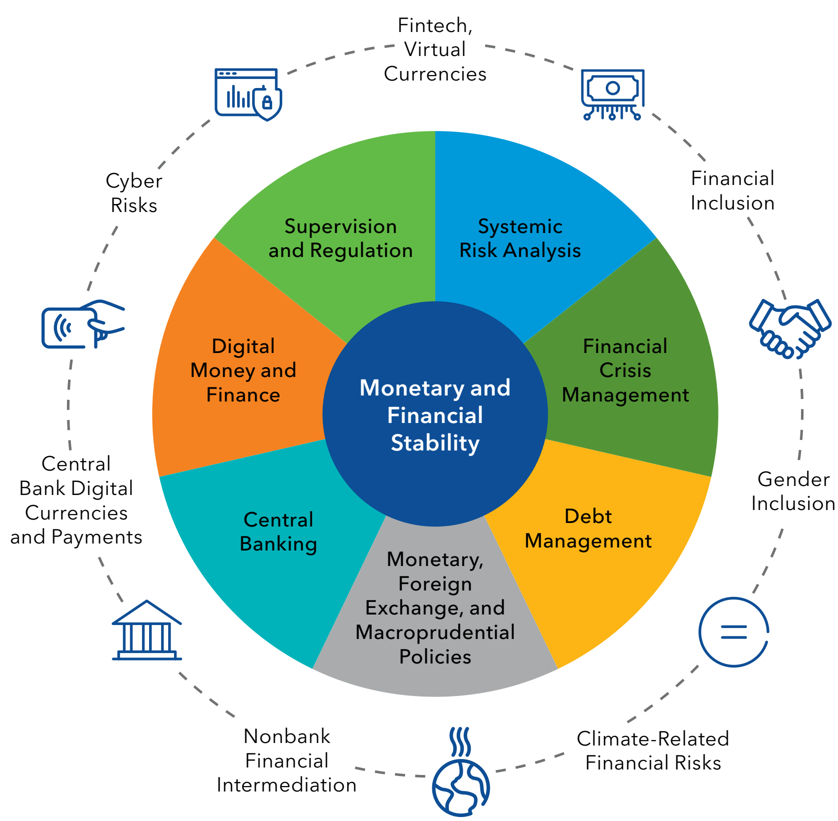
MCM provides highly expert and specialized CD across key financial sector topics and works continuously to maintain up-to-date knowledge and skills and develop new expertise to assist member countries in traditional and emerging areas.

MCM is recognized globally for its monetary and financial stability analysis and advice. Our research and policy development, surveillance, and CD work build on and reinforce this expertise across core areas of the department's work, including central banking, financial supervision, crisis management, financial stability, debt management, macroprudential and monetary policies. We seek to develop and evolve our expertise to address emerging and growth areas including on digital money and finance, climate, and gender. Expertise is critical to the provision of relevant, credible advice that can be readily implemented by recipient countries.

Excellence in core and emerging areas

MCM seeks to be the center of global excellence for monetary and financial sector expertise; we leverage this excellence in the provision of CD (Figure 2). MCM expertise is continuously developed and deepened in our CD, surveillance, program, policy, and analytical work. Country authorities understand and appreciate the depth of MCM's knowledge and expertise, building credibility and traction in implementation. Demand for all MCM areas has been growing with the COVID-19 pandemic bringing additional emphasis to central banking, supervision, crisis management, and debt management. The digital revolution in finance has created a strong and growing need for CD across all related topics—central bank digital currency (CBDC), digital payments, supervision of financial technology firms and crypto assets, and cybersecurity. Climate-related financial risks and gender inclusion are also emerging as central issues for our member countries. Central bank transparency has emerged as important for members, particularly given central banks' expanded roles in crisis recovery that requires enhanced accountability.

FIGURE 2. MCM'S CORE AND NEW GROWING AREAS OF CD



Financial Supervision and Regulation	
Working with banking, insurance, and securities markets supervisors	Financial sector supervision and regulation is a core area of MCM expertise and delivers the highest share of MCM CD. Financial supervision CD work is heavily concentrated on banking supervision and regulation, notably implementation of international standards including the Basel Core Principles for Effective Banking Supervision, Basel II/III, and risk-based supervision. Supervision work also covers conglomerate supervision, securities markets, insurers, other nonbank financial institutions, Islamic banking, and accounting standards. Demand for technical advice on financial supervision and regulation is expected to remain very strong in core areas. The financial impact of the pandemic on institutions is not yet fully recognized and assistance will be needed to manage the orderly unwinding of exceptional COVID-related regulatory measures as economies recover. The growth of nonbank financial intermediation is continuing, calling for additional support to national authorities as they grapple with understanding and adequately regulating and supervising new players and risks. The work of improving supervisory practices and implementing international standards is long term in nature and will remain very much at the heart of financial stability work in the medium term. In addition, the demand and provision for CD on regulation and supervision of fintech and the crypto asset ecosystem has markedly increased.
Regional centers are a major platform for supervision TA	Financial supervision CD is delivered using a variety of modalities including a heavy reliance on LTXs, reflecting the high-capacity need and the programmatic nature of the work. At end-2021 there were 15 long-term advisors on banking supervision deployed in RCDCs or bilaterally in central banks around the world. LTXs are highly connected to HQ and benefit from substantial input from staff and other LTXs with experience and knowledge in the area. RCDCs are a primary platform to serve many member countries on supervisory issues, with HQ-delivered missions supplementing with work focused on nonbanks as well as bespoke requests and emerging issues (such as cyber and climate risks and Fintech), or serving countries not covered by RCDCs.
Supervision is a key component of the FSSR	Supervision is a key component of FSSR CD Roadmaps, which will continue to be a strong source of CD demand. FSSRs typically identify gaps in supervision and regulation that are germane to financial stability and call for additional work over several years in the form of both technical assistance and LTX placement.
Developing training for supervisors	Training is a key component of CD in financial supervision, with a strong and continuous demand to train new and experienced staff in member country agencies. In addition to designing country-specific and regional training programs, MCM delivers training on multi-national and regional levels as well as through an online course. The Supervisory and Regulatory Online Course for Banking Supervisors (SROC), for example, in partnership with the Financial Stability Institute of the Bank of International Settlements (BIS) has been successfully delivered for the last 3 years to over 1,400 participants from 100 countries and will continue in a refreshed form.
Providing guidance on pandemic response and unwinding	Emerging practices in blended TA will expand MCM's ability to react to member needs in supervision. MCM responded to challenges and changing needs of financial supervisors following the COVID-19 shock by preparing several guidance notes on regulatory and supervisory responses and supervisory actions/priorities. These notes covered supervisory issues across banking, insurance, and securities and aimed to serve as a foundation for regulators to develop their own exceptional regulatory policy responses to the pandemic. The advice shifted subsequently to the orderly unwinding of such measures. More such timely advice, through notes and small engagements with authorities on specific questions, will form part of the delivery of blended CD in supervision going forward.

Central Banking	
Assisting central bankers across all operations	Central banking is at the heart of monetary and financial stability and MCM CD has evolved with the changing expectations and challenges facing central banks in carrying out their important mandates. Central banking work encompasses institutional and operational capacity-building ranging from monetary operations frameworks and foreign exchange operations to central bank governance, banknote management, and managing the balance sheet and financial reporting. For many FCS and low-income countries, CD in this area is focused on the ongoing modernization of central banks. For other central banks challenges relate to the ongoing changes in central bank mandates, more complex policy operations—including unconventional ones—in response to more complex macrofinancial environment, including climate change. The industry and the academic community have developed tools (non-linear econometrics, dynamic risk modeling, machine learning and big data, etc.) routinely applied in the financial sphere. At the same time, the technical level of our counterparts in member country central banks has also increased, stimulating the demand for technically advanced CD. This analytical approach to building capacity in central banks will shape our CD delivery over the medium term. The main evolving areas of analytically driven central banking CD are: **Forecasting and modeling** • *Forecasting and modeling for central banking*. In FY2021, MCM introduced modern forecasting techniques for liquidity management and the calibration of monetary operations, which allows the policy maker to factor risk into his/her decisions. Work has also started on assessing the impact of the change in macroeconomic variables "at-risk" (inflation, GDP, and others) on central bank balance sheets. This is particularly relevant for central banks that have considerably increased their balance sheet size in the COVID-19 crisis. Finally, an advanced modeling framework based on Value-at-Risk estimate is used to identify optimal foreign exchange intervention triggers.[2] MCM, together with the IMF's Information Technology Department (ITD), produced a set of free and open-source software to help central banks implement the new quantitative tools and delivered hands-on training. **Systemic liquidity management** • *Managing systemic liquidity in fixed arrangements or transitioning to a floating exchange rate.* Many of our member countries operate fixed exchange rates without capital controls. MCM has developed a conceptual framework for liquidity management that is supportive of the exchange rate and monetary arrangements as well as market development and provided practical recommendations on methods to determine the policy rate and the interest rate corridor, forecast liquidity, calibrate instruments, and design the collateral framework as well as emergency liquidity assistance (ELA). **Market development diagnostic** • *Diagnostic tools for market development.* MCM has developed a comprehensive and systematic market survey, with an appropriate data infrastructure for collection and analysis, designed to underpin reform and development of interbank markets. The surveys collect a set of feedbacks and systematically process the information received. This new approach has been particularly useful for articulating our advice and triggered a lot of interest from the authorities.

[2] See WP 2021/32.

	Collateral and emergency liquidity assistance frameworks • *Revamping collateral and ELA frameworks.* Central banks continue to grapple with this complex area, made more challenging during the COVID-19 pandemic where CD advice gave particular attention to the treatment of credit claims and less liquid assets. Advice on ELA was also refined focusing on the conditionality and monitoring framework, including funding plans and public communication. MCM staff has developed a template for ELA in fully dollarized economies where the resources for providing liquidity are limited, emphasizing the importance of good governance and strict conditionality. **Digitalization** • *Digital central banking.* MCM is working to understand and provide advice on the implications of currency digitalization of central bank operation and risk management, including collateral provision. Besides the conceptual work, LTXs in each RCDC are proactively engaging with their counterparties on the implications of digital currency for policy implementation as part of the mainstreaming of the digital issue.
Central Bank Transparency	*Central Bank Transparency.* A new work program to improve central bank governance will be launched in 2022, building on the new IMF Central Bank Transparency Code (CBTC). A CD program is being developed to engage countries in a full CBTC review that will take stock of existing transparency practices in the central bank under review looking at its transparency practices based on a five-pillar framework: (i) governance, (ii) policies, (iii) operations, (iv) policy outcomes, and (v) official relations. CBTC reviews will identify potential shortcomings and weaknesses in central bank transparency. Each review will establish a baseline along the five pillars and develop a corresponding roadmap for targeted technical assistance to address shortcomings and assist country authorities in communicating more effectively with their public and with other stakeholders. The roadmap will inform an outcome-driven technical assistance focused on achieving concrete improvements and tangible results.
A range of engagements with central banks	Central bank CD delivery utilizes a range of modalities and tools. CD is often delivered in coordination with other areas of CD including economic modeling, financial markets infrastructure and debt market development and crisis management. LTXs in central banking are placed in most RCDCs, as central bank modernization work has required sustained engagement. LTX work encompasses different aspects of central banking depending on demand and the expertise of the individual advisor. HQ missions are used across the full range of topics, along with webinars, regional workshops. In addition to maintaining databases on monetary operations and instruments (MOID)[3] and the central bank legislation database (CBLD)[4] that facilitate cross-country comparisons, the development of accessible toolkits for central bank operations (as described above) will remain key tools to ensure the relevance of CD.

[3] The MOID is a comprehensive repository that provides a cross-section of data on the operational frameworks of central banks. The MOID is updated on a 3–4-year cycle, with the last update in 2018 reflecting responses from 125 countries, including 2 monetary unions.

[4] The CBLD is a repository of central bank laws and excerpts from constitutions of IMF member countries encoded under more than 100 categories that mirror central bank laws enacted during the last two decades. The most recent update of the CBLD is 2021.

Debt Management	
Assisting debt managers in improving operations and planning	CD activity on debt management assists member countries in the challenges related to this area, including in issuing and refinancing debt. CD also focuses on Medium-Term Debt Strategy (MTDS) and its update and implementation, Annual Borrowing Plans, Local Currency Government Bond Market (LCBM) development and its assessment framework, and monitoring of public debt liabilities. New areas of demand have arisen as authorities grapple with challenges, such as liability management operations (LMO) to mitigate refinancing risks, issuance of Environmental, Social, and Governance (ESG) bonds for instrument and investor diversification and reporting practices, and investor relations for improved debt transparency.
Adapting new policies to CD assistance, in an era of high debt levels	New policies developed and adopted by the IMF in the wake of rising levels of sovereign indebtedness will form the basis of additional CD delivery over the medium term. Several recent guidance papers will help shape CD delivery, including: • *Issues in Sovereign Domestic Debt Restructuring*. This paper provides guidance on how debtor countries can mitigate the adverse effect from domestic debt restructuring. The restructuring process of sovereign domestic debt may afford more flexibility compared to external debt restructurings, but it faces unique challenges. Specifically, financial stability considerations underpinned by an inherently stronger sovereign-bank nexus play an important role in the design of domestic debt restructurings, requiring the policy response to include measures to safeguard financial stability. • *Role of State-Contingent Debt Instruments (SCDIs) in Sovereign Debt Restructurings*. This paper provides a foundation for CD on developing targeted SCDIs for countries. SCDIs can play an important role in preventing inefficient and costly debt restructurings. In an uncertain macroeconomic outlook (such as one due to the COVID-19 pandemic), effective design of SCDIs can target specialized situations and improve the outcomes of debt restructurings. • *Developing Government LCBMs*. This guidance note provides a comprehensive and systematic framework for LCBM development which helps country authorities to design a proper sequence of policy actions. Developing a robust and efficient LCBM can help to improve macro fundamentals, diversify government funding sources, and manage a country's risks by insulating its domestic economy from global capital market volatility.
Developing debt management toolkits and training	Technical assistance and training have been effectively supported not only by published papers and knowledge products, but also by the newly developed tools prepared jointly with the World Bank. CD through advisory support, including a growing number of long-term advisors, and training on several debt management topics were provided in a virtual format to the beneficiary countries across the world. During FY21, MCM created and delivered a massive open online course (MOOC), in conjunction with IMF's Institute for Capacity Development (ICD) and the World Bank, on developing a MTDS. As a CD instrument, it acts as a stepping-stone for participants to in-person and virtual MTDS training. The first iteration of the course, for government officials, ran from January to February 2021, with 175 participants passing the course and registering large learning gains through online training. The second run of the course, which started in May 2021 was made open access, allowing the general public to participate. The third run was launched in September 2021, and a French version is being developed.

Financial Crisis Management and Bank Resolution	
Improving financial safety nets	The global financial crisis solidified the need to improve crisis management frameworks, and the unprecedented nature of the COVID-19 shock has underscored the critical importance of effective financial sector safety nets. External shocks create risks for financial firms that may adversely impact asset quality and capitalization, and result in financial institutions becoming undercapitalized—with fragile states and low-income countries being particularly vulnerable given smaller buffers and/or other preexisting weaknesses.[5] Having an effective financial safety net—comprised of a supervisory early intervention framework, a resolution regime, deposit insurance, and arrangements for the provision of central bank liquidity assistance will enable country authorities to effectively handle distress by stemming contagion, resolving failing institutions and protecting smaller depositors that, generally speaking, are unable to effectively monitor risk-taking by banks.[6]
Aligning with international standards	Against this backdrop, MCM capacity development in the area of financial crisis management has predominantly focused on strengthening safety net components and building operational capacity for operating these. By assessing the components of countries' financial safety nets through bilateral engagement, providing guidance on the optimal utilization, MCM staff has sought to encourage a greater alignment with international standards,[7] support country authorities' timely efforts to strengthen their capabilities for dealing with weak or failing banks early and, more broadly, aid contingency planning efforts. As strengthening financial safety nets and preparing contingency plans can take considerable time, prioritizing the necessary reforms is generally advisable. Regional training and seminars, retooled for virtual delivery in view of travel-related disruptions and delivered through RCDCs and via partner organizations such as the Association of Banking Supervisors of the Americas, have allowed for cost-effective engagement with a large number of country authorities. The ongoing development of an online training course on bank resolution, together with the BIS' Financial Stability Institute, is expected to further expand the reach of MCM's crisis management-related trainings. Delivery of bilateral technical assistance is largely done through HQ staff and short-term experts (STXs), sometimes in coordination with financial supervision LTXs in the field, with the use of LTXs reserved for very particular situations.
Addressing balance sheets post-pandemic	Going forward, as the pandemic wanes, measures for tackling high levels of nonperforming loans (NPLs) are expected to become an important focal point of CD initiatives. With corporates in several systemically important economies already facing high vulnerabilities before the COVID-19 shock and firms in contact-intensive industries (e.g., retail, leisure, hospitality, entertainment, and travel) having experienced a sharp decline in demand for their products and services, banks may be confronted with elevated levels of NPLs that can erode their solidity and undermine credit intermediation through higher lending rates and reduced lending volumes. This, in turn, will require supervisory agencies to, among others, ensure the timely recognition of loan losses; foster the creation of specialist units for loan workouts; encourage the development of (bank-specific) timebound NPL reduction strategies; and alleviate potential impediments to effective NPL resolution—including barriers to the development of distressed asset markets. By leveraging best practices for dealing with distressed assets, MCM-delivered CD (sometimes in conjunction with efforts undertaken by the IMF's Legal Department (LEG) to reform insolvency frameworks and improve the effectiveness of debt enforcement regimes) will support authorities' efforts to improve oversight of banks with high NPLs and develop NPL reduction strategies that are tailored to country-specific circumstances (e.g., macroeconomic conditions, magnitude of the NPL overhang, financial sector buffers, type of distressed assets, legal and judicial constraints, etc.).

5 IMF, Unwinding COVID-19 Policy Interventions in Banking Systems, March 2021.

6 IMF, Managing Systemic Banking Crisis, February 2021.

7 Notably the Key Attributes of Effective Resolution Regimes for Financial Institutions, issued by the Financial Stability Board in October 2014; and the (revised) Core Principles for Effective Deposit Insurance Systems that have been issued by the International Association of Deposit Insurers in November 2014.

Monetary Policy and Macroprudential Frameworks	
All aspects of monetary and macroprudential policy	Strengthening monetary policy frameworks and understanding the interaction of monetary, macroprudential, and other types of policies have been at the forefront of MCM's work. Based on the research and analysis conducted in collaboration with other relevant departments, MCM has spearheaded the provision of technical advice in these areas, developing guidance on assessing the impact of monetary and macroprudential policies on macroeconomic and financial stability, including in the context of developments that have emerged during the global crisis. This work is closely interconnected with such areas as foreign exchange policies, capital flow management, and reserves management, as well as central bank organization and independence. MCM provides related CD in the context of FSSRs, where macroprudential policy is amongst the core areas considered, as well as through LTXs, and HQ-led missions. Assistance includes adequate data collection and monitoring, adoption of tools to analyze the developments, as well as building institutional capacity. Key current areas of demand in monetary and macroprudential policy CD are: **Foreign exchange policy** • *Transitioning to greater exchange rate flexibility.* Many members continue to move away from fixed exchange rate regimes, often in conjunction with the ambition to move to an inflation targeting regime. A forthcoming TA handbook chapter on this topic lays out options and discusses in detail the prerequisites and necessary steps in such transitions, thereby further supporting ongoing CD efforts in this area. **Forecasting and Policy Analysis Systems (FPAS)** • FPAS models and decision-making processes are central to the formulation of monetary policy under inflation targeting regimes. Accordingly, this remains a key CD area. In collaboration with ICD, MCM last year undertook a detailed stocktaking of the experience with FPAS TA that documents key features and best practices of FPAS models and other elements of FPAS CD. The paper provides a rich compendium of practices that supports TA providers, including the various STX and LTXs active in this field. **Models to improve FPAS** • To further improve the monetary policy analysis capability at the central banks and broaden the set of models that can be used in FPAS TA, an MCM team has been developing and estimating a small open economy dynamic stochastic general equilibrium model that is well suited for analyzing the transmission of interest rate and exchange rate shocks and assess policy interactions and tradeoffs. The empirical model features balance sheet and other frictions, with the transmission of shocks depending critically on structural features and initial conditions (e.g., level of external debt, depth of FX markets) and on how well inflation expectations are anchored. From early 2020, MCM has been working closely with the central banks of Malaysia and Thailand in calibrating the model and the team is now preparing to help operationalize it at these central banks and provide training to their staff. It is expected that similar modeling CD missions could be provided to other emerging market countries. **Central bank policy communication** • *Central Bank Communications.* The effective communication of central banks' objectives and policies is critical for policy success, especially in inflation-targeting regimes. The demand for CD in communications has increased rapidly in recent years. Building on the experience gained in this relatively young CD area, in early 2022, MCM published a TA handbook chapter that details the elements of successful communication frameworks and practices that will inform further CD efforts.

	Macroprudential frameworks… • *Establishing Macroprudential Policy Frameworks*. Since the global financial crisis, MCM has provided TA to help countries establish new institutional arrangements to support the developments of dedicated macroprudential policy functions, as well as interagency coordination arrangements. Advice on how to strengthen these arrangements remains in demand especially in the context of the FSSR and Financial Sector Assessment Programs (FSAPs). **…operations, analysis…** • *Operationalizing the macroprudential policy process*. TA is also needed in helping countries operationalize the new policy frameworks and is provided by a number of LTXs (e.g., Cambodia, Sri Lanka, Uzbekistan) as well as HQ-led missions. This often includes the development of a strategy mapping objectives and risk indicators to macroprudential policy actions. It also often entails strengthening policy processes and the establishment of the operational readiness to take policy actions, e.g., by closing data gaps and introducing new macroprudential toolkits. **…and tools** • *Calibration of macroprudential tools*. Demand is increasing for advice on the appropriate calibration of specific macroprudential policy tools, such as countercyclical capital buffers, or borrower-based tools, in a manner that takes account of benefits and costs of policy settings, including the potential for relaxation in periods of stress. This is a comparatively young area, and advice needs to be supported by a range of analytical work which is ongoing within MCM, and that will also feed into the TA handbook.
Capital Flow Management	
Assisting authorities in policies and tools for capital flow management	MCM is leading work and relevant CD on capital flow management and Article VIII issues that are at the core of MCM's (and the IMF's) mandate. This important area is closely interlinked with monetary, exchange rate, financial sector and macroprudential policies and foreign exchange operations. It covers exchange rate arrangements, foreign exchange systems, and capital controls of the IMF member countries. Provision of CD in this area often goes hand-in-hand with CD in monetary, exchange rate, financial sector and macroprudential policies. The MCM publication (one of the oldest at the Fund) on Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) database is mandated by the IMF Articles of Agreement and provides a yearly description of the foreign exchange arrangements, exchange and trade systems, controls on current transactions and capital controls (including by institutional investors) of all IMF member countries and is an important input to CD.
Guided by the Institutional view…	Capital flow management work is based on the institutional view on the liberalization and management of capital flows, including on the conditions in which it is appropriate to use capital flow management measures as well as when it is safe to move toward greater liberalization. The approach is designed to guide advice to countries, clarify trade-offs between policy options to maximize benefits and address risks, and assist with the development of policies that take into account the impact of capital flows on financial stability across borders. Delivery of CD is largely done through HQ staff and STXs, both in the form of technical assistance missions as well as bilateral and multi-country training.

…and Article VIII of the IMF Articles of Agreement	CD activities on Article VIII issues (restrictions on payments and transfers for current international transactions as well as multiple currency practices) support the efforts of member countries to eliminate measures or practices that are inconsistent with their obligations assumed under Article VIII of the Articles of Agreement. Such CD activities also help member counties to improve the functioning of different elements of their FX systems including the operation of FX systems, foreign exchange markets, elimination of restrictions and multiple currency practices arising from controls on payments and transfers for current international transactions and exchange rates. Provision of CD in this area is mainly done through HQ staff and experts in close cooperation with LEG on jurisdictional issues.
Financial Stability	
Solvency, liquidity stress testing and new areas of analytical work	Country authorities continue to express a high demand for tools and approaches to help them with understanding financial stability risks across a range of dimensions and how to communicate these risks to the public. CD in financial stability analysis, covering data collection and monitoring, development of analytical tools, including stress testing, will continue to be topics of interest to authorities. The basic framework for solvency and liquidity stress testing of banks is now in place at most central banks and supervisors, and CD supports these ongoing efforts. More specific and targeted tools are also being called for. For example, liquidity and foreign exchange market conditions in the COVID-19 shock brought to the fore the need to understand liquidity and foreign exchange market vulnerabilities by enhancing data collection and developing stress testing tools, with many such requests coming from country authorities. We are also strengthening corporate sector vulnerability analysis work to meet demand. The corporate sector levered up substantially across countries in the past decade and became a key source of financial stability risks. Moreover, COVID-19 drew attention to the systemic role of corporate sector distress in bank health. Another example is systemwide financial linkage and contagion analysis, including the interaction between external (FX) and financial stability risks. Increasing availability of economywide financial linkage data—the Balance Sheet Approach or financial accounts by counterpart data—through STA's CD and FSSR work allowed to expand interconnectedness analysis beyond the banking sector.
Tools for analysis and monitoring of systemic risk	We will continue to enhance our analytical toolkits, tailoring those to the needs of developing countries and work with countries to improve data collection and implementation of analytical tools. We have seen an increase in interest in communication of financial stability risks and policies as authorities are challenged to address increasingly complex circumstances and will continue to provide advice and assistance on communication to central banks and other agencies.
Communication of financial stability analysis and policies	Financial stability analysis and communication CD has been traditionally delivered from HQ but with a growing demand for LTXs arising from capacity development priorities identified in FSSR CD Roadmaps. We expect this demand to increase as country authorities grapple with tooling up central banks.
Digital Money and Finance	
Assisting in the digital transformation of money and financial services	Digitalization of financial services and money is transforming today's financial system and economic landscape, driving demand for MCM CD. Country authorities are seeking assistance in adjusting regulatory and supervisory frameworks, monetary operations, payment systems, and currency policy to take full advantage of opportunities digitalization brings and to mitigate the attending risks. This rapidly growing topical area involves expertise and collaboration across the full range of MCM's areas of work, namely, financial regulation and supervision, oversight, financial market infrastructures, cybersecurity, and central banking. MCM has responded to the pressing demand by strengthening staffing, expertise, and analysis.

Range of issues from crypto assets, new market players, and new forms of money	Technical advice to member focuses on identifying and managing the risks brought about by digital innovation for the international monetary system and financial stability, while considering its potential benefits in terms of payments, financial inclusion, and supervisory and regulatory frameworks. Initial CD activities focused on workshops and training on topics including: approaches to regulating and supervising fintech including the regulation of crypto assets, the modernization of payment systems and other financial market infrastructures, payment innovations such as electronic and mobile money, market place lending platforms, open banking, IT-related operational and third-party risks, and the use of regulatory sandboxes; digital innovation in regulatory and supervisory approaches (RegTech and SupTech); and the development of CBDCs.
Payment systems and financial market infrastructures upgrades	With increasing digitalization, requests for CD on payment systems and financial market infrastructure have been growing and are expected to continue doing so. Countries are looking to the IMF for assistance to deepen oversight skills, knowledge, and expertise on topics such as overseeing nonbank access to payment systems, modernizing payment systems and overcoming the interoperability challenges from emerging e-money or mobile payment schemes. Countries are increasingly looking for advice to strategically overhaul their payment systems and evaluate tradeoffs between improving existing infrastructure and adopting new solutions all together.
Central Bank Digital Currency	On CBDC, more than 100 countries are currently investigating CBDC, whilst a handful have actually launched CBDCs or CBDC pilots. As they do so, countries are increasingly turning to the IMF to seek advice. Requests are wide-ranging depending on domestic capacity and progress; some countries are still in early stages of exploration, while others are considering detailed design questions or might even be in execution mode. CD projects are designed to adapt to these circumstances, while never losing sight of the macrofinancial impact of CBDC design choices including legal and regulatory frameworks. CD on CBDC is delivered in four ways. First, bilateral engagements explore country specific issues and provide tailored advice. Second, regional workshops and training foster the exchange of ideas, knowledge, experience, pitfalls, and best practices. Third, analytical work develops the theoretical basis, policy views, and frameworks of analysis underpinning advice. And fourth, "CBDC program evaluations" may be undertaken to provide countries with objective and comprehensive reviews of their CBDC projects, by a group of experts led by IMF staff.
Growth area, focus on near term expansion	As CD for digital money and finance increases, MCM will continue to broaden its use of CD modalities, including through online training and the use of LTXs. MCM delivered a first hands-on bilateral advice on regulation and supervision of crypto assets, an area which will likely continue to increase in demand. More authorities are beginning to consider developing regulatory frameworks around crypto assets as the size and risk from crypto markets continues to grow. We are launching a major project, with generous funding from the Japan Administered Account for Selected IMF Activities (JSA), to build a digital money toolkit that will be useful for country authorities and CD providers alike. We will develop online seminars and training courses in this area over the medium term. We foresee strong demand for digital payments and financial markets infrastructure CD through the RCDCs, as well as increased demand for existing LTXs to work with overseers and supervisors on these topics.

Cybersecurity	
Cybersecurity supervision	Cybersecurity has emerged as an area of growing demand as supervisors seek to ensure financial systems and the technology they rely on are sufficiently protected. Beginning in 2017, MCM began work to develop policy in this area and engage with member countries in CD. MCM has adopted a three-pillar approach to providing CD on cybersecurity: an annual workshop on cybersecurity risk brings together cybersecurity professionals from central banks and supervisors in low-income and developing economies to share experiences and learn from global experts on practical tools to enhance cyber resilience; periodic regional workshops targeted at regions covered by RCDCs; and bilateral CD projects that offer a deep-dive tailored analysis and recommendations to country authorities. MCM CD focuses on integrating cyber risk into financial sector surveillance and is tailored low-income countries and other low-capacity financial systems, that are typically the weakest nodes in global networks. As part of the strategy, new tools for CD will be finalized, including an online cyber course and a cyber supervision toolkit. The new tools are expected to increase the efficiency of CD delivery and facilitate wider reach and bespoke CD initiatives, particularly for low-income environments.
More emphasis with increase in importance of digitalization	Demand for cybersecurity CD will continue to be strong, with projected modest growth and with a developing connection between CD, surveillance, and policy work. Cybersecurity risk regulation and supervision are the core of the program, but demand for CD on third party providers, cyber testing, and information sharing and incident reporting is rapidly increasing. Feedback from CD work, in particular on the risks and constraints faced by low-income countries, feeds into MCM's work in international fora and its own policy formulation. A Staff Discussion Note "Cyber Risk and Financial Stability" highlighted the IMF's CD efforts, which assist low-income and vulnerable countries in improving resilience and strengthening their systems for the benefit of everyone in this interconnected world including a number of diverse products and activities focused on the delivery of CD.
Climate-Related Financial Risks	
Incorporating climate-related risks into financial supervision...	Building capacity in tackling climate-related financial risks is high on MCM's CD agenda. Understanding and managing climate risks to the financial sector is a growth area of demand, with CD in the area expected to grow quickly as policies and tools to address these risks are developed. Central banks and supervisory authorities have become increasingly aware that climate-related financial risks are likely to be material and can be a threat to financial stability, but the journey to tackle climate financial risks has just started. During the next few years, it will be important to continue and accelerate the work to develop comprehensive supervisory guidelines, methodologies, risk indicators, and regulations for financial institutions. Supervisors will need to set specific expectations for financial institutions on governance, management, and disclosure of climate risks and address the existing data gaps to ensure that they are able to effectively identify, assess, and address climate-related financial risks as part of their ongoing supervisory activities. This will take time, as we are deepening our understanding of the risks, while standards and methodologies are being developed. But, for this effort to be successful, it is key to start building capacity now, as currently there is a structural lack of knowledge and skills to effectively assess climate risks in central banks, supervisory authorities, and financial institutions.

…and financial stability analysis	Incorporating climate risk into financial stability analysis, including stress testing, is a priority with MCM developing tools and techniques that will form part of our CD. We will also develop additional toolkits for the inclusion of climate risk in stress testing analysis, a knowledge management tool that will be broadly available to country authorities. We expect the dissemination of knowledge and toolkits to form an even greater part of the CD delivered in this area. CD activity is currently focused on building expertise on climate-related financial risks and working with partner institutions. We have begun a series of workshops with RCDCs to discuss with country authorities how to incorporate climate risk into financial sector supervision and in line with strong demand, we will continue to expand both topics and geographic reach of these webinars. Work is starting in the area of central banking that aims at building capacity of central banks to develop a strategic roadmap to better reflect climate and transition risks in their policies and balance sheets. MCM will also continue to provide CD to help central banks to better reflect rising and respond to climate risks in their policies and balance sheets.
Gender-Balanced Financial Sector Policies	
Gender-balanced policies an emerging area of CD	MCM has begun to develop activities to help countries promote gender-balanced policies in the financial sector. This work will be further developed and will be supported by analytical underpinnings and operational guidance. Working in close coordination with the IMF's Senior Advisor on Advancing the Fund's Gender Work and partnering with other organizations that analyze and promote gender equality in diverse areas of finance will be high on MCM's agenda in the coming years. MCM CD has thus far focused on the financial inclusion aspects of gender and on building awareness of the need for gender diversity in financial sector leadership. IMF staff's work (SDN 15/17 and 18/05) underscores that greater inclusion of women as users, providers, and regulators of financial services would have benefits beyond addressing gender inequality. Narrowing the gender gap would foster greater stability in the banking system and enhance economic growth.
Working with key partners	Gender-related work will involve partnership with other CD providers. For example, MCM has partnered with Women's World Banking for a series of webinars on gender-balanced leadership and will work with the Toronto Centre on gender inclusion in finance, in the context of an FSSR. This work is expected to grow, with an emphasis in embedding gender work into existing workstreams including supervision, central bank governance, and financial inclusion.

ELEMENT 3

MCM ensures high-quality CD output by recruiting staff and experts with significant hands-on experience and implementing strong quality control processes.

Deep expertise and practical knowledge ensure advice is credible with authorities and other partners and is actionable in the institutional and country context. MCM recruits HQ staff and experts with practical expertise in central banking, supervision, debt management, and policy making. All external experts are backstopped by HQ staff to strongly link HQ and field work. The extensive review and clearance process for all CD outputs is the final aspect of our quality assurance.

Recruiting of staff and experts with deep experience	MCM CD is delivered by HQ staff, STXs and resident advisors ("LTXs"); effective recruitment, retention, backstopping and training of all these CD providers is key to our ability to provide high-quality advice and build credibility with country authorities. HQ staff, both financial sector experts and economists, bring a high degree of knowledge and experience to CD work and are recruited from central banks, academia, supervisory agencies and within the IMF. CD work forms part of the portfolio of a significant portion of our HQ staff. STXs are drawn from a deep pool of individuals with long experience in the financial sector, including current and former officials of central banks, ministries of finance, debt management, and supervisory agencies and are subject to vetting and oversight. MCM partners with more than 100 Official Sector Agencies across the globe to tap their qualified and diverse expertise to meet the TA and training needs of IMF member countries by joining our CD missions and projects. This flexible use of outside experts ensures our ability to keep up with the most recent advances in the financial sector and central banking.
Long-term advisors key to delivering expert advice	LTXs form the backbone of our CD program—carrying out upwards of 60 percent of our CD—and are placed in member country institutions such as central banks or in the IMF's RCDCs. LTXs come to MCM with significant hands-on experience following a very competitive hiring process. Hiring is subject to the same rules as those applied to staff—experts are interviewed and due diligence is undertaken to ensure their fitness for the prospective work. Assignments range between one and five years, depending on country demand and availability of funding. LTXs placed in RCDCs in turn supplement their own work with that of STXs. LTXs are able to provide countries with more continuous engagement, critical to achieving traction and success of long-term reform projects, in particular in FCS (see Element 4) where progress can be slow and require more sustained attention. LTXs draw on their own work experience in central banks, debt management agencies and supervisors to tailor advice for practical implementation. Their deep experience lends credibility to the work and improves its impact.
A connected MCM CD community	LTXs are strongly connected to MCM's work at HQ, important to ensuring quality control of advice but also ensuring that MCM's work is informed by experiences in the field. Each LTX works with a TA country manager (who has responsibility for the overall CD work in the particular country) and an HQ backstopper, who works in the same subject area. Backstopping practices include review of briefs and reports, discussion of current issues and approaches to particular topics. Regular calls with all LTXs together as well as an annual workshop held at HQ provides an opportunity to focus on new issues, current concerns in the field and build the synergies between field and HQ work. Improvements in our technology and work practices in the pandemic have created additional opportunities for communication, and these will continue post pandemic. For example, LTXs participate in weekly division meetings, have access to MCM and IMF-wide webinars and are able to more easily and effectively communicate with backstoppers and country managers.
Robust quality control processes	Quality control practices include documentation and review of all aspects of CD activity including briefs, which set the scope and approach to the CD, back-to-office reports which summarize advice given and interactions with the authorities and TA reports and materials, where detailed advice and progress and documented.

ELEMENT 4

MCM provides CD that enhances overall economic reform by integrating its CD with the surveillance and IMF program activities and aligning its CD with IMF priorities.

CD efforts contribute to overall economic reforms if they are aligned with other reform priorities, especially in the context of resource and skill constraints. MCM works with IMF country teams to ensure that CD work is prioritized accordingly and seek synergies with surveillance and program work. CD to FCS is high priority, and delivery of CD to these states will remain a focus along with the CCAMTAC region, in line with IMF CD priorities.

Integration of CD and surveillance	Integration of CD with IMF surveillance and lending programs and in alignment with IMF priorities ensures member countries receive clear and consistent guidance from the IMF, in turn improving traction of policy advice. We work closely with IMF ADs to understand and coordinate the priorities set in each region and set the medium-term workplan through CDMAP. MCM will continue integrating its CD with the AD surveillance and UFR activities using various avenues. Around 75 MCM economists and financial sector experts (FSEs) are members of the AD country teams in countries that typically face significant financial sector challenges. The presence of MCM staff in the teams helps inform the AD analysis and serves as a basis for accompanying or follow-up CD. The FSAPs and the FSSRs are also useful tools in ensuring effective CD-surveillance integration. The former is a surveillance tool with strong links to CD as countries often seek MCM's technical advice to address FSAP recommendations.

THE FINANCIAL SECTOR STABILITY REVIEW

The FSSR program, launched in 2017, provides a holistic review of capacity development needs in the context of a country's financial stability risks combined with a three-year action plan for technical assistance and training to address identified needs. This flagship program is aimed at low and lower middle-income countries (LLMICs), providing a key framework for MCM and the IMF Statistics Department (STA) work in these countries over a medium term. The FSSR contains two mutually supportive modules, offering countries (i) a diagnostic review of financial sector vulnerabilities and risks and related follow-up CD; and (ii) targeted TA missions and workshops on financial sector statistics to strengthen evidence-based decision making and reporting. The FSSR covers key MCM mandate areas including supervision, crisis management, macroprudential policy and financial stability analysis along with coverage of financial sector statistical work undertaken by STA.

The FSSR is financed through a Financial Sector Stability Fund (FSSF) supported by contributions from donor partners. Current FSSF donors are China, European Investment Bank, Germany, Italy, Luxembourg, Saudi Arabia, Sweden, Switzerland, and the United Kingdom. Effective coordination of FSSR activities is an essential condition for success. At the global level, the FSSR is overseen by a Steering Committee (comprising donor partners, the IMF and the World Bank Group) that provides strategic guidance, sets policies and priorities, endorses annual work plans, and monitors program performance. This vehicle has proven to be an effective avenue for robust collaboration between the institutions on financial sector stability, inclusion, and deepening in developing countries. The IMF and World Bank Group have also set up a framework for information sharing and coordination on the FSSR and hold regular meetings both at the managerial and technical levels to discuss the findings and recommendations and to coordinate follow-up CD work.

In addition to FSSR activities, the FSSF supports MCM CD work on LLIMCs through two important training initiatives. The FSSF is co-financing the SROC for banking supervisors—which is organized by MCM in partnership with the Financial Stability Institute of the BIS—the Annual Cybersecurity Supervision Workshop, as well as the MCM Cybersecurity Online Course currently under development.

Working closely with IMF area departments	Dedicated TA country managers and MCM front office regional advisors play a critical role in establishing and maintaining an effective cooperation with the AD teams. They contribute to the development of CD strategies and work programs for countries and RCDC and serve as a day-to-day points of contacts for area departments, authorities, and MCM. The CD-surveillance nexus is also discussed at the monthly meetings of MCM TA Strategy Division with each functional division of MCM. Staff from functional divisions also keep regularly in touch with AD teams on any issues that may come up during their surveillance or program missions, as well as to follow up on earlier CD recommendations and challenges in implementation.
Fragile and Conflict-Affected States	
Fragile and conflict-affected states are a priority	Building capacity in FCS is high on MCM's agenda and will be further strengthened over the coming period, in line with IMF Board priorities.[8] MCM delivered CD to all FCS over the past ten years. MCM's CD to FCS amounted to about US$130 million over this period, about 25 percent of the IMF's total CD in these countries. More than half of MCM's total FCS CD spending was in the African region with substantial amounts in Asia Pacific and the Middle East and Central Asia. Seven FSSRs out of 22 were conducted in FCS countries, namely in Djibouti, The Gambia, Guinea, Kosovo, Sierra Leone, West Bank and Gaza, and Zimbabwe. FSSR engagements with Democratic Republic of Congo and Tajikistan have just started. Recent CD remained strong despite challenges during the COVID-19 pandemic. A third of TA missions were in FCS in FY21. Webinars and short virtual engagements early in the crisis evolved into longer virtual work. The COVID-19 crisis opened up opportunities for virtual engagements where mission activity had previously been constrained due to travel and security concerns.
Core areas are emphasized	Core MCM areas, where institutional building needs are high, will continue to be central to our work in FCS, but we will also respond to the expected high demand in new areas. Financial sector regulation and supervision, central bank operations, and debt management continue to be in high demand, and they remain critical workstreams for institutional building and supporting stronger financial systems. For example, MCM expects a step up in CD on debt transparency and central bank governance more widely. Many fragile countries have recently expressed strong interest in new CD areas, such as tackling cyber risks, developing mobile payments and payment strategies that are efficient and well regulated, exploring e-money solutions, developing the fintech-related regulatory framework, and understanding the implications of climate change and transition to a low-carbon economy for the financial sector.
Institution-building is a long term endeavor	MCM CD engagement in FCS is long-term in nature, demanding a gradual and well-sequenced pace of reforms with a focus on long-term institutional building. Building and strengthening institutions is slow and is often interrupted by acute short-term needs. Staying engaged is key to building trust even when progress is limited. MCM's substantial expertise and trusted relationships with many FCS help maintain stable engagements. For example, banking supervision TA from the RCDC to Burundi helped maintain continued relationship with the authorities during the time when their engagement with the IMF was limited.

[8] The IMF FCS Strategy is expected to be adopted by the IMF Board in the first quarter of 2022. MCM is a participant in the IMF Working Group and its Subgroups. This work is expected to intensify across the IMF, reflecting IMF Board priorities, including in MCM CD.

Careful tailoring and prioritization	The uniqueness of each FCS calls for a carefully tailored and appropriately paced CD planning and delivery depending on where exactly the country is located on the fragility spectrum. First-best advice may not work, requiring flexibility, willingness and creativity in problem solving. Providing granular advice and careful prioritization go together with the incrementality of reforms. The results-based management framework in FCS should be designed in close coordination with the authorities and include realistic milestones, outcomes, and timelines. The achievement of milestones is directly linked to their granularity and sequencing, and often is extended over a longer time horizon in FCS than in other countries.
Agility and responsiveness	CD modalities in FCS will stay agile and respond to evolving needs. Traditional mission-based delivery is critical but can be usefully combined with hands-on training, peer-to-peer learning, professional attachments, dedicated online courses, and "How-to" knowledge products. Delivery of thematic workshops, short virtual meetings on pointed issues, and desk review of documents further enhance engagements. Going forward, the 'blended model' will broaden the reach of CD (for example to a technical level staff audience in a recipient institution) and allow the CD to be continuous. One example of this approach is successfully applied in building resilience to cyber risks in LICs and FCS that culminates in an annual cybersecurity event funded by the FSSF. The workshop has helped create a peer community of practice among low-income country officials. Other examples where peer-to-peer CD was delivered successfully include such areas as enhancing risk management at central banks and currency reforms.
Use of long-term experts	MCM will continue relying on resident advisors ("LTXs") who have been crucial for our work in FCS during the pandemic. MCM had 30 resident advisors in total at end-April 2021, of which 21 in RCDCs with FCS or directly in these countries. LTXs have been very efficient and adjusted quickly to the remote modality of work building on their existing relationship and using flexible modalities of maintaining permanent contacts with the authorities. With the likely persistence of fragility or even an increase in the number of FCS post-pandemic, the demand for resident advisors in the field may increase.
The Caucasus, Central Asia and Mongolia Technical Assistance Center (CCAMTAC) Countries	
The CCAMTAC region is an IMF priority	The CCAMTAC countries are an IMF CD priority and MCM supports intensified work in this region, primarily through the new RCDC located in Almaty, Kazakhstan. The new center will help the authorities strengthen monetary and financial sector policies, ensuring robust and effective central banks or regulatory agencies contributing to sound economic growth and development needs. The work of CCAMTAC will be tailored to individual country needs which is crucial in this very diverse region that comprises low-income or fragile countries (Kyrgyz Republic, Tajikistan, Uzbekistan), emerging market economies (Armenia, Georgia), and large commodity exporters (Azerbaijan, Kazakhstan, Mongolia, Turkmenistan). CCAMTAC will complement the MCM CD work from IMF HQ. While CD on central bank operations and financial sector regulation and supervision will be substantially handled by CCAMTAC, CD on strategic or emerging issues—such as fintech, climate change, or debt management—will continue to be provided from IMF HQ. CD on debt management, contingency arrangements, as well as the FSSR work will also be done from HQ, with follow-up implementation support from the center.

ELEMENT 5

MCM employs a full range of CD modalities to achieve maximum impact.

Developing capacity and delivering advice benefits from a range of modalities, any of which may be used singly or in combination effectively to deliver strong outcomes. MCM uses a blend of virtual engagements and in-person missions, technical assistance and trainings, knowledge management products, toolkits and 'how-to' guides, regionally based workshops and technical assistance, large-scale courses, continuous engagements using peripatetic advisors, and targeted advisory sessions. We place LTXs bilaterally in member countries and also at the RCDCs. We will continue to explore our design and use of this 'blended model' to meet evolving needs of our member countries.

Blending virtual and in-person work	Blended modality of engagement is our future and MCM is committed to maintaining the best combination of remote and in-person delivery to meet the needs of the member countries in CD. While we have effectively moved our work to the virtual platforms, we have learned and adjusted along the way and will continue to do so. Based on the experience so far, a lot of scoping and preparatory work can be done remotely in an efficient way. This allows for some savings on travel expenses but could also ensure more efficient and effective CD missions (by creating early engagement and ensuring that both sides are better prepared when they do meet in person).
Blending bilateral advice with tools and training	New approaches are also being explored to enable more prolonged engagements under projects that would take into consideration the absorptive capacity and the pace of implementation of the recommendations over a longer period of time. Adequate attention will continue to be given to training. A combination of technical advice and training via missions and remote tools and activities can become a productive way to build capacity. To this end, MCM experience with its online courses has been very successful with very high attendance and excellent feedback. MCM will add to its growing assembly of knowledge management products including with expanded work on capital flows measures, central bank transparency, climate risk analysis and cybersecurity.

ELEMENT 6

MCM builds on external and internal partnerships in provision of CD work, allowing us to access and expand skills and resources and build synergies with all CD stakeholders.

Building strong collaborative relationships improves outcomes for member countries by ensuring resources and services are appropriately deployed and complementary to other ongoing work. Coordinating CD efforts within the IMF and with other providers builds synergies in complementary areas of work. External funding relationships ensure access to both financial resources and other implementing partners and country authorities. MCM will continue to build closer relationships with many external partners and within the IMF.

External partnerships	MCM will continue strengthening its partnerships with relevant CD providers, key for CD planning, delivery, and evaluation. The specific form of coordination depends on the scope and intensity of provided assistance. Specifically, MCM employs regular stakeholder meetings for large-volume CD recipients, high-level forums with donor partners and CD providers, country-level partner coordination in cases where several partners support CD to that country, meetings with country teams for smaller (less intensive) CD recipients, and post-FSSR coordination meetings for countries undertaking the FSSR. The World Bank will continue to be the main partner for coordination of CD delivered to our member countries. This will continue ensuring efficient use of resources and synergies created by the respective mandates and division of labor between the two institutions. Among the areas of close cooperation with the World Bank are debt management, digitalization, and gender and financial stability issues identified during FSSRs. The virtual coordination of CD activities will continue to complement the regular meetings to enable both higher frequency of coordination and broader participation. MCM will continue partnering with other CD providers to optimize resources and strengths, use innovative forms of collaboration, and shape the CD topics at the forefront of MCM's expertise. MCM is one of the founder members of the Toronto Centre and continues to sponsor the Centre and support its activities, including by participating in its Board and by co-hosting panels on topical issues, particularly on emerging areas of CD, such as digitalization, inclusion, gender, and green economy. MCM also partners with multiple other CD providers for targeted assistance and events. MCM plans to continue these types of collaborations benefitting our CD reach out in the emerging areas.
Internal partnerships	MCM assigns high importance to strengthening CD cooperation within the IMF. The main avenues for joint and coordinated actions include: • Close cooperation on shaping CD priorities and modalities of delivery by contributing to the work of CCB and contributing to the IMF working group on FCS Strategy, IMF ADs and ICD. • Close cooperation with IMF ADs on implementation of country strategies, and major country projects, including the FSSR. • CDMAP implementation, including by contributing to the Community of Practice discussions. • Joint missions with the IMF Fiscal Affairs Department on debt management capacity through treasury cash management and developing local securities market. • Joint work with LEG on establishing legal frameworks in supervision and regulation, crisis management and resolution, digital payments and central bank governance. • Close cooperation and joint missions with STA on FSSR diagnostics to strengthen the authorities' capacity to produce financial sector data. • Collaboration with ICD on financial modelling and FPAS. • Work with ITD on digital money and finance, development of analytical tools and support to hybrid delivery.

EXTERNAL DONORS OF MCM CD

Successful external partnerships, which are facilitated by ICD, are critical for ensuring smooth CD delivery. Partners support over 80 percent of MCM CD field work that includes RCDCs' activities and a number of bilateral or multilateral country projects. Bilateral donor partners are single-country agencies that support MCM CD projects which are regarded as priority for these countries. Multi-donor trust funds—each itself financed by different agencies or institutions—support either a single CD recipient on a broad range of topics or CD in a specific thematic area for a range of countries.

Largest Bilateral Contributors to MCM CD, FY2021

Japan	Canada	Switzerland	Norway	The Netherlands	United Kingdom

Top MCM CD Trust Funds and their Contributors, FY2020

DMF DEBT MANAGEMENT FACILITY	**DMF:** African Development Bank, Austria, European Commission, Germany, Japan, The Netherlands, Norway, Russia, Switzerland, United Kingdom
FIRST Initiative	**FIRST:** Germany, Luxembourg, The Netherlands, Switzerland, United Kingdom[1]
FSSF	**FSSF:** China, European Investment Bank, Germany, Italy, Luxembourg, Saudi Arabia, Sweden, Switzerland, United Kingdom
MNRW TRUST FUND	**MNRW:** Australia, European Commission, The Netherlands, Norway, Switzerland, United Kingdom

[1] Partners of FIRST Phase III that ended December 2020; FIRST Phase IV partners include Germany and Switzerland only.

Dissemination of CD information	MCM disseminates CD information through a broad range of channels and employs a CD communication strategy to reflect the recent technological advances and diversify our outreach. In line with the MCM Knowledge Management Strategy, MCM TA reports are disseminated IMF-wide through the Knowledge Exchange Countries platform and the Institutional Repository. MCM also encourages the country authorities to publish non-confidential TA reports, which helps spread best practices and provides cross-country lessons. Over the next three years our goal is to increase dissemination of materials in line with a forthcoming new dissemination policy from the Executive Board, and resuming the production of small videos, podcasts, and online products for public through social media and other outlets. Informing the Board regularly on MCM CD activities, challenges, trends, and priorities is high on MCM's agenda. The presentations and subsequent discussions help take stock of our CD work and share the lessons we draw from our experiences and get the Board's candid feedback that helps strengthen our strategic approaches and steer CD to member countries' needs in a coordinated way. It also helps involve the Board members, who represent member countries, into strengthening CD demand management. The recent presentation to the IMF Executive Board on Building Capacity in Monetary and Financial Policies in Fragile and Conflict-Affected States is an example of constructive discussion and strong endorsement of MCM's activities in FCS ahead of the forthcoming new IMF strategy of engagement with FCS.

ELEMENT 7

MCM utilizes feedback processes to ensure high-quality and continuous improvement of our work.

MCM has a strong review and oversight process in place to ensure that CD is held to high standards and is strongly aligned with overall MCM work. We will continue to build on our RBM, along with project assessments and evaluations to gauge absorption and impact of CD, allowing us to adjust our priorities, modalities, and design for maximum results.

Assessment and evaluations	Two-way communication strengthens the impact of our CD by ensuring that the lessons learned in implementing reforms and advice are understood and reflected in future CD design. MCM strengthens CD outcomes by enhancing CD monitoring, assessment, and evaluation. Beginning in 2017, MCM has successfully implemented a RBM framework and RBM is now at the heart of MCM CD work, with the design and delivery of all MCM TA projects being crafted using this standard catalogue. All donor-funded CD projects are subject to periodic assessments that are prepared by the MCM CD project manager. The assessments summarize the projects' progress and accomplishments during implementation and at completion. In FY19, MCM has also started expanding this exercise to internally funded projects. In addition to project assessments, MCM carries out evaluations of one major project per year, which is based on the OECD Development Assistance Committee criteria. This process offers a more structured, in-depth and independent look at a particular project. We will participate in the newly designed IMF evaluations program, with an evaluation of a major CD program beginning FY23.

RESULTS-BASED MANAGEMENT

The RBM framework is a key tool adopted by the IMF to build a systematic approach to monitoring implementation and assessing the outcomes of CD projects. RBM is a tool to inform management decisions and communicate the achievement of results to internal and external stakeholders. A logical framework (logframe) is created for every project, with articulated objectives, outcomes, milestones to meet those outcomes, and verifiable indicators that outcomes have been met. The RBM framework is embedded in CD practices and governance through the CDMAP system. MCM's practices have been aligned with the RBM framework since its IMF rollout in FY2017.

MCM has implemented several initiatives to operationalize RBM framework. MCM has made a major investment in 2021 in updating its RBM catalogue, including for emerging areas of work, in CDMAP. The RBM catalogue provides a framework for our CD design in each area, giving guidance to staff and experts carrying out the CD as well as the authorities and helping to frame expectations of the work. In keeping with IMF RBM standards, logframes are developed for each project in CDMAP and updated with each new activity undertaken in the project. We will ensure the catalogue is updated periodically to reflect changes in current areas and expansion into new areas.

We have also developed an RBM database capable of not only tracking compliance with monitoring and updating logframe elements in CDMAP, but also facilitating an in-depth analysis of the underlying data to guide decision-making including on the coverage of CD topics, countries, and institutions. We have trained MCM staff and experts on how to develop medium-term projects that are anchored in the RBM framework.

RBM and feedback from authorities	Further developing our feedback mechanisms will be a key area of focus in the medium term. MCM continues to further solidify RBM as the integrated tool of our CD and going forward MCM will be seeking for an innovative approach to improve analysis of RBM data and applying that analysis to our CD design. We will also seek stronger engagement with recipient authorities in developing a better understanding of the expectations of a CD project, including through use of RBM, and understanding the impediments to implementation of advice and recommendations. We will develop means of communication with authorities and country teams to seek this feedback and embed it in design. We will also develop an approach to assessment of projects in CDMAP, seeking to monitor and analyze these assessments and derive lessons for future work.

INTERNATIONAL MONETARY FUND
Monetary and Capital Markets Department
700 19th Street, NW
Washington, DC 20431