



August 26 2014

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 documents have been released and are included in this package:

- The **Staff Report** on IMF Policies and Practices on Capacity Development, prepared by IMF staff and completed on August 26, 2014 for the Executive Board's consideration on September 4, 2014.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Electronic copies of IMF Policy Papers
are available to the public from
<http://www.imf.org/external/pp/ppindex.aspx>

International Monetary Fund
Washington, D.C.



IMF POLICIES AND PRACTICES ON CAPACITY DEVELOPMENT

August 26, 2014

EXECUTIVE SUMMARY

This statement summarizes the IMF's policies and practices with regard to the delivery of capacity development (CD) activities. It updates the [2001 Policy Statement on IMF Technical Assistance](#), incorporating the principles outlined in the [2013 CD strategy paper](#) approved by the Executive Board as well as relevant principles described in earlier documents considered by the Executive Board.¹ 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.

¹ See [Public Information Notice—The Fund's Capacity Development Strategy—Better Policies Through Stronger Institutions](#) (PIN No. 13/72), [The Fund's Capacity Development Strategy—Better Policies Through Stronger Institutions, Report on the Task Force on the Fund's Technical Assistance Strategy](#), [Enhancing the Impact of Fund Technical Assistance](#), and [Training as Part of Capacity Building—Recent Initiatives and Strategic Considerations](#).

Approved By
Sharmini Coorey

This statement was prepared by the Institute for Capacity Development (ICD) under the guidance of Dominique Desruelle and by a staff team led by Hali Edison and comprising Dimitre Milkov. The statement has benefitted from inputs and extensive discussions with departments. Maria Julia Gutierrez and Ana Rosa Reyes Labarca provided invaluable administrative assistance.

CONTENTS

INTRODUCTION	3
MANDATE AND OBJECTIVES	3
SCOPE AND MODALITIES	4
GOVERNANCE	5
PRIORITIZATION	7
DONOR PARTNERSHIPS AND FUNDING	8
DELIVERY	9
EXTERNAL DISSEMINATION	10
MONITORING AND EVALUATION	10

INTRODUCTION

1. The principles presented in this document focus on areas that govern the Fund’s provision of CD, including its objectives, scope, prioritization, partnership with donors, delivery, monitoring and evaluations, and transparency.
2. These principles apply equally to technical assistance (TA) and training. They reflect important changes to the Fund’s CD activities over the last decade, including a marked rise in CD delivery, a sharp expansion of donor financing, and more explicit attention to the results—improved outcomes in member countries.
3. In response to the recent financial crisis, the Fund ramped up CD to countries with financial arrangements to facilitate the implementation of crisis-resolving measures. With the receding crisis, focus is shifting toward CD that helps member countries strengthen policies and institutional frameworks to boost resiliency to shocks. At the same time, the Fund continues to provide CD aimed at steadily enhancing institutional and policymaking 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.² 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.
6. The Fund’s CD program works to achieve its objectives through two main means: TA and training.

² Fund CD services can also be provided to non-members and to international organizations, with the prior approval of the Executive Board.

- TA helps member governments put in place or enhance effective institutions, legal frameworks, and policies to promote economic stability and growth. TA—essentially technical cooperation—also allows experts in member countries and the Fund to have in-depth exchanges of views on particular aspects of policy design and implementation.
- Training helps strengthen the skills of officials to analyze economic developments and 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, whether implicitly or explicitly. Many TA-labeled activities have a training component and many training-labeled activities cover design of effective institutions. Increasingly, opportunities are sought to exploit synergies by combining the delivery of TA and training.

SCOPE AND MODALITIES

7. The Fund provides CD in its core areas of competency, including:

- (i) macroeconomic policy framework and management;
- (ii) balance of payment issues;
- (iii) monetary policy and exchange rate policy;
- (iv) financial stability frameworks;
- (v) debt and asset liability management;
- (vi) fiscal policy and institutional frameworks;
- (vii) tax and expenditure policy;
- (viii) revenue administration and public financial management;
- (ix) macroeconomic and financial statistics;
- (x) data dissemination standards; and
- (xi) legislative frameworks (for the above).

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 TA recommendations can be one input into the decision to provide additional TA, 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 TA activities.

9. 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 TA reports for a broad range of countries can also help enrich 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.³

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 some cases, such as TA from Regional Technical Assistance Centers (RTACs), the Steering Committee structure is helpful to facilitate information sharing and coordination as it regularly brings together recipient countries, donors, and key providers. In deciding on CD provision, the Fund considers whether other providers are engaged in similar efforts.

GOVERNANCE

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 through (i) regular reviews of, and policy guidance for, the Fund’s CD policies and activities; and (ii) the budget process. Within this framework, Management conducts the operations related to the Fund’s CD activities, approves individual requests for CD services from members, and establishes CD policies in some areas in consultation with the Board.

- In the regular policy 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 takes decisions on policy changes and, respecting the demand-driven nature of CD activities, expresses views on broad priorities for the next three-to-five-year period.

³ The Fund neither funds other CD providers nor delegates delivery of CD services to independent contractors.

- As part of the annual budget process, the Executive Board is provided information on CD outturn, and on planned CD financing and CD delivery. This allows the Executive Board to express views on implementation of multi-year CD priorities and on integration of CD activities with Fund-wide priorities, at a time at which it sets the overall budget.
- 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.

14. 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 budget formulation. The interdepartmental Committee on Capacity Building (CCB), chaired by a Deputy Managing Director, is an integral part of that process. Every fall, the CCB reviews CD priorities in light of members' demands and overall Fund priorities, as reflected in the IMFC communiqués, Board work programs, and Management's Key Goals. 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.

15. 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;
- Decide on the allocation of the CD reserve which, among other things, allows for accommodation of urgent requests; and
- Address any other important issues that flow from Board reviews and other review experience.

16. Guided by the priorities identified by the CCB and deliberations on departments' accountability frameworks and budgets, area and CD departments agree on annual CD delivery plans.

- Area departments, in consultation with CD departments, prepare annual regional strategy notes (RSNs). RSNs outline short- and medium-term CD priorities for a specific region.

- On the basis of the RSNs, CD and area departments then develop an annual resource allocation plan (RAP). The RAP is a detailed plan about delivery of CD activities by region, by country, by funding source, and by CD department.

17. CD departments, together with Regional Technical Assistance Centers (RTACs) and Regional Training Centers (RTCs), are responsible for actual CD delivery. CD departments are also responsible for quality control.

PRIORITIZATION

18. 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. The global crisis provided a strong reminder that the Fund need 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").

19. The principles underlying the Fund's prioritization framework include:

- 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 process. As noted above, the CCB provides guidance to departments on the institutional priorities 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. Area departments, including resident representatives, 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 and RAPs.

20. Overall, the 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 and the RAP, country demand, Fund priorities, and resource constraints are translated into specific deliverables.

DONOR PARTNERSHIPS AND FUNDING

21. CD activities, unlike surveillance and program work, 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.

22. 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 the results of Fund CD with their own programming and resource allocation more directly, which helps increase the overall effectiveness of support to members.

23. 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 regions, on particular topics, or through particular vehicles.

24. 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; and (ii) when sufficient space is available in the Fund's budget to cover co-financing costs.
- *Additionality.* Donor financing should result in additional delivery of CD to members.

25. The Fund does not charge recipient countries for delivery of CD services. In some cases, countries make voluntary contributions to finance CD services they receive from the Fund. Depending on the circumstances, an advanced or middle income country may receive both Fund-financed CD and CD financed by its own contributions to the Fund.

26. New donor-financed initiatives (e.g., a new topical trust 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.

DELIVERY

27. CD services are delivered at the request of Fund member countries through various modalities. These modalities include multi-year CD programs to an individual Fund member country (or group of countries), provided either from headquarters or one of the Fund's regional centers (technical assistance or training); field assignment of experts for periods ranging from days to years; individual missions from headquarters; headquarter, regional, or national courses; peer-to-peer and technical workshops; discussions at Fund headquarters or remotely from headquarters. A close integration of all modalities of delivery should be sought when feasible.

28. 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.⁴ 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 TA 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.

⁴ 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.

29. Continued efforts are expected to be made to harness synergies between the key types of CD (TA and training) and between Fund CD and surveillance and lending operations. Staff should seek to deliver TA and training as complementary products as they share similar goals (that is, strengthening human and institutional capacity to formulate and implement sound macroeconomic, financial, and structural policies).

30. Staff is expected to use advances in information and communication technology, such as video conferences, online courses, and webinars, 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.

EXTERNAL DISSEMINATION

31. Dissemination of CD information has 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; (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.⁵

32. 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.⁶

33. In particular, dissemination of final TA advice to Executive Directors' offices 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 sixty days of the transmission of the final TA advice.

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

MONITORING AND EVALUATION

35. 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 TA advice or training content are expected to be an integral part of TA and training departments' work processes. All monitoring and evaluation

⁵ See [Public Information Notice—Enhancing the Impact of Fund Technical Assistance \(PIN No. 08/58\)](#).

⁶ See [Staff Operational Guidelines on Dissemination of Technical Assistance Information](#).

activities should seek input from recipient authorities to ensure that their views are fully taken into account.

36. 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 is expected to apply to all CD activities, whether internally or externally financed. This framework should ensure that staff and authorities remain focused on goals and is expected to lay the foundation for evaluation.

37. 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).

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

- For the backward-looking component, the review should consider the prioritization, funding, monitoring and evaluation, and delivery 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.

39. *CD department evaluations.* Departments undertake self-evaluations of selected projects, which should be guided by clear criteria for selection of relevant topics and using a common evaluation framework. 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 training courses and technical assistance missions as well as visits to countries that are large recipients of CD services. These evaluations may be conducted by staff (self-evaluations) or conducted by external experts (external evaluations).

40. *Donor-mandated evaluations.* Evaluations of RTACs and topical trust funds 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.