



## THE FUND'S CAPACITY DEVELOPMENT STRATEGY— BETTER POLICIES THROUGH STRONGER INSTITUTIONS

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### EXECUTIVE SUMMARY

**Background.** This paper outlines reforms to increase the effectiveness of the Fund's capacity development (CD) program. It builds on the 2008 and 2011 reviews of technical assistance (TA) and the 2008 review of training, which set in motion important changes to make CD more valuable to member countries. Reforms will involve Board endorsement in a few areas and implementation by staff of related next steps.

**Board endorsement.** The paper seeks endorsement for the following:

- The strengthening of CD governance, including updating the policy statement for CD and mandating regular reviews of CD policies and activities.
- The principle of a two-level system of prioritization of CD activities: (i) the institutional level, within the context of the Fund's key objectives leading to the broad composition of CD activities across regions and topics; and (ii) the country level, driven by country demand. Prioritization is needed because demand outstrips available resources.
- Three funding principles that guide Fund- and donor-financing of CD. The principles aim (i) to ensure adequate funding for CD in crisis situations; (ii) to allow donor financing when objectives coincide; and (iii) to rely on Fund financing when donor support is not available.
- The enhancement of monitoring and evaluation to ensure more systematic implementation of recommendations of CD reviews and to promote feedback of lessons learned from evaluations into prioritization and delivery.

**Next steps for staff.** Staff proposes to implement the recommendations that garner support from the Executive Board and related operational aspects of the strategy:

- Draft a new policy statement for Board endorsement. Prepare related staff guidance notes, which will be circulated to the Board for information.
- Expand Results Based Management (RBM) coverage to all TA and training to focus CD planning on outcomes and provide information for evaluation.
- Enhance CD effectiveness by exploiting TA and training synergies and harnessing new technologies.
- Leverage CD, which is highly valued by the membership, as an outreach tool for the Fund.

Approved By  
**Sharmini Coorey**

This paper was prepared under the overall guidance of Dominique Desruelle and John Green (ICD) by a staff team led by Hali Edison (ICD) and comprising Charleen Gust, Jung Yeon Kim, and Ellen Nedde, with contributions from Jorge Roldós, Aleš Bulíř, Michael Filippello, Dimitre Milkov, and Wasima Rahman-Garrett (ICD), and Andrew Berg and Rafael Portillo (RES). The paper has benefitted from inputs and extensive discussions with departments. Josephat Koima provided extensive research assistance and Carla Cullati and Maria Julia Gutierrez provided invaluable administrative assistance.

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## Acronyms

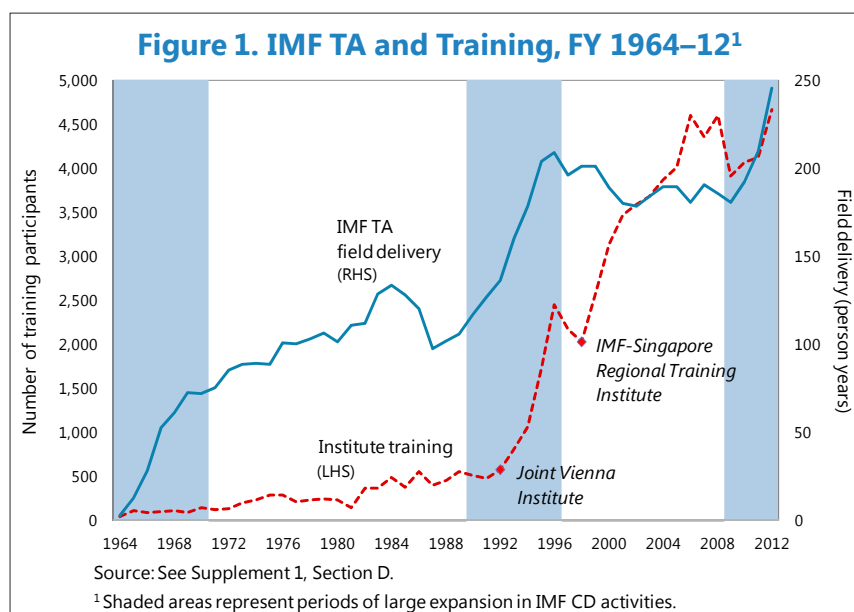
ACES	Analytic and Costing Estimation System
AFR	African Department
AFRITAC	Africa Regional Technical Assistance Center
ATI	Africa Training Institute
BA	Bilateral Agreement
CAP	Capability Assessment Program
CBS	Central Bank of Seychelles
CCB	Committee on Capacity Building
CD	Capacity Development
DFID	U.K.'s Department for International Development
EFF	Extended Fund Facility
FAD	Fiscal Affairs Department
FIN	Finance Department
FINE	Focused, Integrated, Nimble, and Effective
FPP	Financial Programming and Policies
FSAP	Financial Sector Assessment Program
FSI	Financial Stability Institute
GRA	General Resources Account
HQ	Headquarters
HRD	Human Resources Department
ICD	Institute for Capacity Development
LEG	Legal Department
LWOP	Leave without Pay
MCM	Monetary and Capital Markets Department
MERP	Monetary and Exchange Rate Policy
MOOC	Massive Open Online Course
MPA	Monetary Policy Analysis
MTS	Medium-Term Strategy
OBP	Office of Budget and Planning
OTM	Office of Technical Assistance Management
PRGT	Poverty Reduction and Growth Trust
RAM	Risk Assessment Matrix
RAP	Resource Allocation Plan
RBM	Results Based Management
RES	Research Department
RSN	Regional Strategy Note
RTAC	Regional Technical Assistance Center
RTC	Regional Training Center
SPR	Strategy, Policy, and Review Department
SSA	Sub-Saharan Africa
STA	Statistics Department
TA	Technical Assistance
TCAP	Technical Consultations and Technical Cooperation Plan
TTF	Topical Trust Fund
VE	Vulnerability Exercise
VEE	Vulnerability Exercise for Emerging Markets
WGRP	Working Group on Technical Assistance Resource Planning
WTO	World Trade Organization

## I. INTRODUCTION

**1. It has been long recognized that institutions play an important role in fostering macroeconomic stability and economic development.** The quality of economic institutions—including ministries of finance, central banks, and statistical agencies—hinges on the people running them, their approach to policymaking, and the legal and governance structures that underlie them. The Fund helps develop capacity by offering technical assistance (TA) and training. The transfer of knowledge and of best practices in the form of capacity development services (CD) is one of the Fund's core activities along with surveillance and lending. The Fund has a model of "own" delivery, standing by the products it provides. The services that the Fund provides are highly valued by members, and there are a number of success stories (Box 1 and Supplement 1.A).

**2. The evolution of the Fund's CD program has mirrored the changing focus of its work (Figure 1 and Supplement 1.B).** CD has facilitated member countries' efforts to strengthen the design and implementation of economic policies in support of economic growth and reduced

vulnerabilities. The Fund's CD program, as we know it today, originated in the 1960s with the independence of many African countries and was aimed at developing their capacity to manage their economies ("developmental TA"). Fund TA grew rapidly to assist the newly established central banks and ministries of finance. In the 1970s and 1980s, the size and scope of CD



activities expanded gradually. In the early 1990s, the needs of countries in transition ("developmental TA") and countries that sought financial support from the Fund ("curative TA" to facilitate implementation of crisis-resolving measures) resulted in large increases in TA and training services. With the recent financial crisis, CD also expanded to cover advanced economies. Donor contributions have helped facilitate a regional approach to delivery of CD services and have contributed to further growth. CD services have increased sharply since 2009 as a result of successful partnerships with donors.

### Box 1. TA Success Stories: The Cases of the Philippines and Seychelles

Technical assistance plays a crucial role in the Fund's interaction with its member countries. As noted in the IEO report on *the Role of the IMF as a Trusted Advisor*, member countries appreciate the advice that they receive through TA. This box illustrates two recent success stories of implementation of TA.

#### Philippines

An example of successful TA implementation and institutional reform in a surveillance context is the Philippines. Since its last Fund program expired in December 2000, engagement with the Philippines has been in the context of surveillance and TA.

One of the major areas of reform has been supervision of financial markets and institutions. The authorities requested TA following the recommendations of the Financial Sector Assessment Program (FSAP), completed in 2002 and updated in 2009. As this was a longer-term project focusing on addressing vulnerabilities in the financial sector, TA was delivered via a resident MCM banking supervision advisor and was supported by HQ TA on related issues, such as problem bank identification, management, and resolution, as well as stress testing. Supported by Fund TA, the authorities adopted Basel II, upgraded related areas such as supervisory review of capital adequacy, and strengthened the regulations enforcement mechanism. The MCM resident advisor left in June 2012, following the successful implementation of the TA advice.

As most TA assessment reports point out, an important part of the success of the TA implementation in the Philippines has been the authorities' commitment. Other important ingredients for successful structural reforms in a surveillance country context have been the HQ backstopping and supervision, and the coordination with the resident representative.

#### Seychelles

The case of the Seychelles provides an example of successful TA implementation in a Fund-supported program context. The policy advice was combined with a large amount of TA, focused on strengthening and reforming economic institutions.

In September 2008, the Seychelles was in an acute balance of payments and public debt crisis. In November 2008, the Fund's Executive Board approved an extended arrangement with the Seychelles. In addition to fiscal and monetary policy adjustment, the program's objectives included an ambitious Fund-TA supported institutional reform agenda.

Supported by TA from the Fund, the authorities successfully implemented important fiscal structural reforms such as: reforming the budget formulation process, improving transparency through PFM reform, and mobilizing revenue through broad tax reform. In addition, TA helped them to reform the debt management framework and restructure external debt.

Fund TA also supported the implementation of urgent reforms in both monetary and financial sectors such as: a revised central bank act, a new monetary policy framework, operationalizing a new lending facility to commercial banks, and improving liquidity forecasting. The transition to a floating exchange rate regime was supported by Fund TA to the Central Bank of Seychelles (CBS) through the adoption of reserve management and investment guidelines, improvement of day-to-day foreign exchange operations, introduction of a new real-time gross settlement foreign exchange regime, and adoption of a new foreign exchange rate act. Fund TA also helped the authorities strengthened banking supervision through the adoption of a new Financial Institutions Act.

The structural reforms quickly yielded results, despite the difficult external environment in the aftermath of the 2008–09 global financial crisis. Fund TA-supported reforms in the fiscal area led to both higher tax revenues and lower public spending, which improved the fiscal stance despite a large decline in tourist arrivals to the Seychelles. Monetary sector TA was very successful as well. The CBS started to implement liquidity and inflation forecasting, and expanded its instruments to include a standing facility for repos. Governance was also strengthened with the adoption of the new Central Bank Act.

**3. This paper builds on the 2008 TA reform strategy, the 2008 training strategy paper, and the 2011 TA strategy paper.**<sup>1</sup> The 2008 TA review set in motion a number of major reforms to enhance TA, while the thrust of the 2008 training paper was to review the objectives of training and describe the training strategy and ongoing efforts to enhance the training program (Box 2 and Annex I). The 2011 TA review emphasized four key attributes for Fund TA, which were presented as the “FINE” model: TA should be Focused on the Fund’s strengths in macroeconomics—( i.e., “sticking to our mandate”); Integrated with core surveillance and program responsibilities; Nimble to respond to crises; and Effective in providing outcome-focused advice that responds to members’ evolving needs. The current paper also follows up on earlier reviews, which have produced many valid recommendations that have not always been effectively implemented. The paper not only addresses issues raised by Executive Directors during the Board meeting on the 2011 TA review, it also takes up the issues of governance, TA and training synergies, and evaluation.

**4. The goal of this paper is to bring TA and training under a single strategy and propose steps to make Fund CD as effective as possible.** Since the 2011 TA review and the 2008 training paper were written, the landscape has continued to evolve, creating challenges and opportunities. This paper seeks Board endorsement of enhancements to governance, prioritization, the funding model, and a monitoring and evaluation system targeted at improving the management and delivery of CD consistent with the FINE model. The strategy to do so is based on setting priorities, allocating the budget, delivering CD, and evaluating and monitoring results, including a feedback mechanism from evaluation to prioritization. The strategy calls for the Fund’s CD work to be anchored in a good governance structure, particularly one that is transparent and accountable.

**5. The remainder of the paper is organized as follows:** Section II discusses new challenges and opportunities. Section III presents the objectives of CD. Section IV offers key proposals to enhance CD effectiveness. Section V outlines opportunities to expand CD delivery and outreach. Section VI estimates the resource implications of the recommendations. Section VII suggests issues for discussion.<sup>2</sup>

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<sup>1</sup> [Enhancing the Impact of Fund Technical Assistance](#), hereafter the 2008 TA review; [Training as Part of Capacity Building—Recent Initiatives and Strategic Considerations](#), hereafter the 2008 training paper; and [Report of the Task Force on the Fund’s Technical Assistance Strategy](#), hereafter the 2011 TA review.

<sup>2</sup> This paper is supported by [The Fund’s Capacity Development Strategy—Better Policies through Stronger Institutions—Background Paper](#), hereafter the Supplement. The background paper covers various aspects of CD, including the importance of institutions for growth, stylized facts about CD, measurement issues, background work on prioritization, and the evolution of the funding model. It also gives more information on the current status of the monitoring and evaluation, provides recommendations on ways to increase synergies between TA and training, and discusses the revolution in online learning.

### Box 2. Past Reviews of TA and Training

TA has been a focus of a number of reviews and evaluations over the past decade and a half. Some of these reviews encompass both TA and training while others have a narrower focus. The papers and the selected recommendations are given in Annex I.

A number of recurring themes have emerged in these reviews, and follow up has been patchy. Some of these themes include the following:

- Both TA and training support members' efforts to strengthen capacity and should be viewed as different modes of delivery directed toward that objective rather than separate activities.
- The coordination of CD with surveillance and program activities needs to improve.
- The determination of CD priorities is important, and the Fund should focus on areas where it has a comparative advantage.
- The Fund should be ready to respond to unexpected changes in demand for CD arising from changes in the environment.
- The Fund needs to ensure a well-integrated system of monitoring and evaluation to strengthen accountability and transparency.
- Fund-wide oversight of the CD program is important given that delivery of CD services is done by several departments.

Some follow-up actions were taken after these reviews and discussed in subsequent reviews. However, the implementation of some measures has fallen short partly reflecting resource constraints, work pressures, and the lack of incentives for staff to adopt these processes.

While training has sometimes been included in the above-mentioned reviews, it has been less frequently subjected to formal reviews. The most recent review that focused on training was the 2008 training paper and it highlighted the following:

- The objective of IMF training: to strengthen the analytical and technical capacities of member country officials to formulate and implement effective macroeconomic policies. It noted that IMF training was also used to generate a constructive two-way dialog between member–country officials and the Fund.
- The uniqueness of Fund training: it draws heavily from Fund work and emphasizes practical economic analysis.
- The delivery methods: training courses are aimed at meeting the needs of a broad range of countries rather than an individual country as in the case of TA.

## II. NEW OPPORTUNITIES AND CHALLENGES

**6. Changes in the CD landscape have resulted in opportunities and challenges for the management and delivery of these activities.** They have fostered the adoption of innovations and implementation of reforms that should increase the effectiveness of CD. These changes have also created challenges to planning and utilizing resources effectively for CD activities.



## 7. Several changes to the CD landscape are noteworthy:

- First, donor funding has continued to increase and now finances about 40 percent of the Fund's annual CD activities in terms of output. The support of donors has been crucial to help meet member countries' demand for Fund CD activities and is gratefully acknowledged. At the same time, donor financing has resource and prioritization implications that are important to address. Donor funding tends to be less fungible and more geared toward medium-term projects than internal funding. It may also not be available for all member countries. Moreover, arranging donor funding entails long gestation periods and thus, requires long-term planning. Finally, donor funding requires complementary expenditures by the Fund in the form of governance and overhead.
- Second, the global crisis provides a strong case that the Fund should have the ability to mobilize quickly adequate resources to respond to short-term crisis-related CD needs ("curative TA"), as well as to help countries build sound institutions to boost resilience to shocks ("preventive TA"). The crisis demonstrates the value of supporting member countries of all types, including advanced economies, in their efforts to address existing institutional weaknesses and, more broadly, to upgrade policy and institutional frameworks in light of rapid global economic and financial developments. It also points anew to the challenges of (i) linking the assessment of CD needs and allocation decisions more closely to Fund surveillance; and (ii) being as active in deploying Fund CD services for preventive as for curative purposes.
- Third, advances in technology provide new and greater opportunities to share knowledge, consistent with Fund purposes as defined in the Articles of Agreement. For instance, particularly for training, advances in information technology can be used to deliver knowledge more effectively (e.g., through a combination of online provision of interactive technical material and face-to-face courses), to meet emerging demands, to reach more officials and to connect with additional audiences.
- Fourth, following the 2011 TA review, management created a new department, the Institute for Capacity Development (ICD), to focus on the institutional development and capacity-building work of the Fund. The mandate of the new department includes developing a unified Fund strategy for CD, coordinating the provision of TA and training across departments, designing and delivering training that reflects member countries' needs, strengthening partnerships with donors, designing and coordinating processes for evaluating the effectiveness of TA and training, and seeking strategic guidance from the Executive Board through periodic reviews. In all its activities, ICD is expected to work closely with area and functional departments. ICD was created partly in response to the observation that past TA and training review recommendations had not always been consistently implemented, underscoring the need for better CD governance and a strengthened monitoring and evaluation framework.

### III. THE OBJECTIVE OF CD

**8. The IMF's Articles of Agreement provide the legal mandate for the Fund's CD program.**<sup>3</sup> Article V, Section 2(b) allows the Fund to perform, upon request, financial and technical services, provided that these services are consistent with the Fund's purposes as set forth in Article I. These services are voluntary for both the member (they are only provided if requested) and the Fund (the Fund is under no obligation to honor the request).

**9. Consistent with this mandate, the main objective of the CD program is to help build institutions and capacity in member countries to formulate and implement sound economic and financial policies.** CD services are one of the benefits of Fund membership. From the Fund's earliest days, the Executive Board and management have seen the provision of CD as a responsibility of the institution. The guiding principle is that to be effective and to have a high impact, CD activities should be planned and implemented with the full involvement and buy-in of the member country.

**10. The CD program works to achieve this objective by enhancing capacity through two means—TA and training.** TA seeks to help member governments put (or keep) in place effective institutions, legal frameworks, and policies to promote economic stability and growth. It also offers specialized advice on issues within the Fund's core mandate. Training seeks to strengthen the ability of officials to analyze economic developments and formulate and manage effective macroeconomic and financial policies. TA and training are complementary products in support of common purposes. At the same time, TA and training generally rely on different modes of delivery. For instance, training will typically aim at providing a core set of skills to a group of individuals with similar roles across countries as opposed to TA that is generally provided to one country at a time. TA often includes an element of training, such as coaching, on-the-job training or workshops geared to support country-based reform activities.

**11. The FINE model, as defined in the 2011 TA review, applies as much to training as to TA.** In particular, training should be:

- Focused on the Fund's core macroeconomic and financial mandate—the Fund has both theoretical knowledge and practical experience to share in its areas of expertise;
- Integrated with other core responsibilities of the Fund—over the medium to long run, training is expected to contribute to promoting economic stability and sustainable growth;
- Nimble in its response to changes in country needs—the supply of training has to evolve in light of changes in the main macroeconomic and financial issues facing the membership; it also has to be flexible to meet urgent needs of particular countries (e.g., transition countries); and

<sup>3</sup> In this paper, capacity development is defined as technical assistance and training. From a legal perspective, Fund technical services include technical assistance and training in the Fund's core areas of expertise. From a budget perspective, TA and training are treated as separate outputs (Supplement 1.C).

- Effective in strengthening institutional capacity—like TA, training must be able to provide high-quality, practical, outcome-focused knowledge, which directly helps participants. Given resource constraints, training supply must also be well prioritized.

**12. Training and TA share many conceptual elements, allowing integration into a CD strategy as called for in the 2011 TA review (Box 3).** Overall, the guiding principles of the CD strategy should be to: (i) allocate scarce resources in line with country demand and Fund priorities within a strategic planning and budgeting process; (ii) rely on an appropriate mix of internal and external financing; (iii) use effective and efficient delivery mechanisms; and (iv) to take advantage of systematic evaluations to continue to make improvements to CD and ensure objectives are met.

### Box 3. Training in the CD Strategy

The main objective of IMF training is to strengthen the analytical and technical capacities of member country officials to formulate and manage effective macroeconomic and financial policies. Currently, three quarters of IMF training is offered through an ICD-coordinated program of courses delivered by staff of ICD, STA, MCM, FAD, LEG, FIN and regional training institutes. The remainder is arranged independently by other Fund departments and RTACs.

The FINE model for key attributes of training, together with the related approach of “own delivery” of services (as opposed to organizing delivery by others), have direct implications for the training strategy which comprises the following elements:

- Position the Fund as a focused and effective training provider.
- Focus training on knowledge essential to effective macroeconomic and financial management—including statistical and legal frameworks—that is not provided by universities or similar institutions. Training should integrate theoretical frameworks and real world applications, using case studies drawn from Fund experience.
- Deliver a program that is global in its coverage but regional in its focus and includes peer-to-peer exchanges. Courses are delivered at headquarters, at RTCs, and in cooperation with other training partners.
- Target primarily mid- to high-level officials from finance ministries, central banks, other government financial agencies, and statistical agencies that currently have, or are expected to have, duties and responsibilities related to the courses or other training events.
- Conduct a regular dialogue with member countries to keep the curriculum relevant to country needs and reflect regional diversity. Update the curriculum in line with the Fund’s policy agenda and evolving country needs, including by seeking input from with member countries’ training directors and Fund area departments. Going forward, training will need to be included in the RSN process more effectively.
- Evaluate regularly to ensure effectiveness. Evaluation techniques currently include quantitative and qualitative participant evaluations at the end of every course, follow-up surveys of selected courses, input from partners at the RTCs, and a triennial survey of member country agencies sponsoring course participants.

Going forward, training, following the FINE model, will need to keep adapting to the changing environment and country needs. The use of new technologies, such as online courses, is currently being explored to complement face-to-face training and, possibly, to extend the reach of training. For instance, pre-course e-learning modules are being used to ensure that course participants are well prepared. Other delivery methods, such as webinars or targeted workshops run on Chatham house rules, are being tested to enhance exchanges of knowledge between higher-level officials.

## IV. ENHANCING THE EFFECTIVENESS OF CD

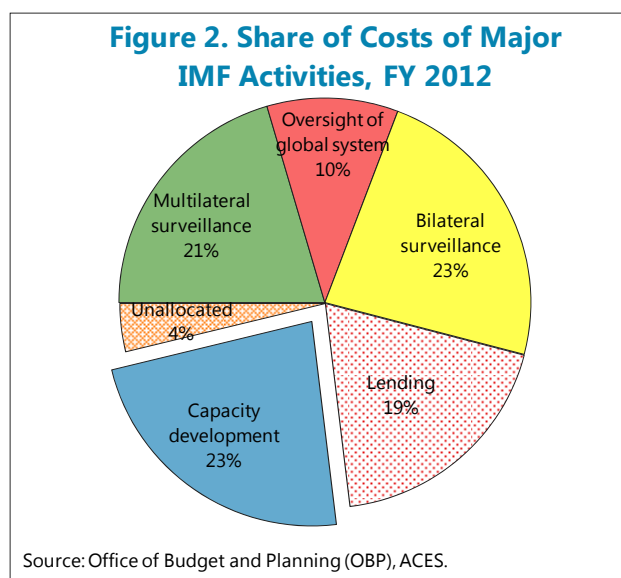
**13. This section proposes changes to current work practices that should enhance the effectiveness of CD.** These proposals include: (i) improving the governance of CD activities; (ii) aligning better CD activities with members' needs and Fund objectives by bringing all CD activities into the Fund's strategic planning framework and by enhancing the Regional Strategy Note (RSN) process; (iii) clarifying the funding model; and (iv) making greater use of evaluations.

### A. Update the Governance Structure

**14. Good governance of the Fund's CD activities is important for its success.** Over the years, as CD activities have grown in size and complexity, CD governance has progressively been strengthened. The most recent major changes in CD governance and structure were the establishment of the Committee on Capacity Building (CCB) in 2006; and the creation of ICD in May 2012 (as noted above). The original motive for setting up the CCB was to have increased involvement of management and senior staff in both area and functional departments in the high-level strategy for TA and in the monitoring (and adjustment if needed) of the implementation of such a strategy. This structure reflected the division of responsibilities for prioritizing, delivering, and assessing CD activities across numerous area and functional departments.

**15. Given the further rise in CD delivery and sharp expansion of donor financing over the last five years or so, there is a strong case to improve governance of CD activities further.** A coherent governance structure supports accountability, transparency, and establishment of clear responsibilities for prioritizing, delivering, and evaluating CD. Further improvements at this time would address certain recommendations made in previous TA reviews by the Executive Board and complement the recent creation of ICD.

**16. The size of CD activities, which is similar to bilateral surveillance, multilateral surveillance, or lending, suggests that CD governance must be put on equal footing with that of other key output areas (Figure 2).** As with these areas, setting clear expectations for the policies and practices governing both TA and training and establishing regular structured reviews of such policies and practices will help improve the quality and effectiveness of the Fund's CD work, as well as foster better integration with Fund surveillance and lending.



## 17. Strengthened CD governance would be based on the following elements:<sup>4</sup>

- **An updated policy statement for CD services.** The current statement was prepared following the 1999 TA review and approved by the Executive Board in April 2001.<sup>5</sup> The new statement would contain the principles outlined in the 2008 and 2011 TA reviews, revised as appropriate to reflect changes since 2011 and the conclusions of this review. These principles include a focus on results (improved outcomes in member countries), prioritization, efficient management, transparency, and regular reviews and evaluations. The policy statement would reaffirm the 2008 Board-approved principles that encouraged wider dissemination of TA information and the principle of voluntary publication of TA reports.
- **Regular reviews of the CD policy statement and of CD activities conducted under its umbrella.** General reviews of the Fund's TA activities have been prepared and published from time to time in dedicated studies or as part of other related work. However, this has been done on an ad hoc basis.<sup>6</sup> Future reviews of CD activities would be conducted at a similar frequency as reviews of surveillance and conditionality (three to five years). The reviews could also be used to guide prioritization and delivery of CD. ICD, in partnership with area and functional departments, would lead the reviews, develop follow-up action plans, and track their implementation. It would be good practice to have these reviews include suitably qualified independent participants. Doing so would strengthen the accountability to external stakeholders and enhance transparency.
- **A re-energized CCB to foster coherent implementation of the CD strategy across the Fund.**
  - *The committee would benefit from updated terms of reference.*<sup>7</sup> Revised terms of reference should reflect the rise of donor funding and the move to exploit further the synergies between TA and training. It would also reflect the expectation that the committee would (i) complement the demand-driven approach to CD in the RSNs by providing clear guidance to departments on institutional priorities for CD in order to improve the allocation of CD resources; (ii) review results (planned vs. actual); and (iii) provide explicit guidance on the direction of fundraising activities.
  - *Committee oversight would be aided by incorporating donor-financed CD activities more fully into the Fund's planning and budget process and by formalizing the approval of new fundraising initiatives (Section IV.C).* Such changes would put externally-funded activities on par with internally-funded activities in terms of priority setting and oversight.

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<sup>4</sup> See the [Policy Statement](#).

<sup>5</sup> See the 1999 *Review of Fund Technical Assistance*, hereafter the 1999 TA review.

<sup>6</sup> A TA evaluation program was launched in 2002 following the [Review of Technical Assistance Policy and Experience](#) to introduce a more formal approach to evaluation of the Fund's TA, and provide the Board with information on a regular basis. The last formal review was in 2008.

<sup>7</sup> Historically, the Office of Technical Assistance Management (OTM) was the secretariat of the CCB; this role has been assumed by ICD.

**Proposals for Governance**

- For Board endorsement: Update the policy statement for CD.
- For Board endorsement: Mandate regular reviews of CD to be scheduled every three to five years.

**Next Steps for Staff**

- Prepare a new policy statement for Board approval.
- Draft new terms of reference for the CCB.

**B. Enhance Prioritization**

**18. Prioritization is a key element in the CD strategy in which country teams play a fundamental role.** Prioritization is essential because the Fund, even with donor support, does not have the resources to meet all country requests. A well-functioning framework, based on country demand and the Fund's overall strategic priorities, is needed to ensure that scarce resources are appropriately allocated across regions, across countries, across topic areas, and between short- and medium-term needs. Priorities should also reflect the Fund's institutional objectives and feed into its strategic planning framework so that tradeoffs within CD and across other activities can be made.

**19. In the past, the Fund has experimented with various prioritization systems.** Tools used prior to the current system of RSNs to allocate CD were seen to be too broad or too inflexible—resulting in “box-ticking” exercises—too costly, or susceptible to delivering inappropriate signals (Box 1 in Supplement 1.E). In addition, some of these tools may have failed because insufficient attention was paid to building buy-in among users on the value of such tools or offering sufficient guidance on their optimal use.

**20. Prioritization of CD activities should take place at two levels.** At the aggregate level, decisions need to be made on the size of CD activities in relation to other key output areas as well as on the broad composition of CD across regions and topics. This is best done through the Fund's strategic planning process, which combines the departmental accountability framework and the budget process. At a more disaggregated level, the RSN/RAP process reflects country-by-country demand and allows for detailed allocation of CD by country and by project. Proposed improvements to these two levels of prioritization are discussed below.

***Institutional objectives***

**21. To complement the approach of the RSNs, which are underpinned by individual country demands, more explicit incorporation of the Fund's strategic objectives into the planning process could help bolster the alignment of CD activities with the Fund's surveillance and lending priorities.** This would require the guidance provided by the CCB to departments on institutional priorities for CD and fundraising activities (as described in Section A) to be integrated into the process that sets Fund-wide priorities, departmental accountability, and budget formulation. A calendar to facilitate such integration is outlined in Box 4.

### Box 4. Integrating CD into the Fund's Strategic Planning Process

This box illustrates how CD could be better integrated into the Fund's planning process. Key new elements include (i) putting donor-financed budget formulation on roughly the same schedule as the Fund-financed budget; (ii) reviewing fundraising activities by the CCB; and (iii) reviewing CD outcomes and evaluations of CD activities.

#### 1. Setting Fund-wide priorities

*September/October*

- Management's strategic priorities are elaborated in the context of the global policy agenda (GPA).
- Country officials discuss CD needs with area and functional departments at the Annual Meetings.
- ICD updates the donor financing envelope.<sup>1</sup>

*November*

- CCB updates guidance for CD objectives and priorities based on the GPA and institutional objectives for the coming year.

#### 2. Strategic planning

*December–January*

- Departments discuss with management accountability frameworks, including CD activities.

#### 3. Budget formulation

*February–May*

- Committee on the Budget discusses the upcoming medium-term budget, including donor-financed CD.
- Area departments update their regional strategy notes to reflect country requests at the Spring Meetings and CCB guidance on institutional objectives.
- Area and functional departments agree on the RAP.
- Board approves budget and budget is recorded in the financial system.
- CCB reviews fundraising activities over previous year and set objectives for period ahead.
- RSN and RAP finalized.

#### 4. Review and evaluation

*June–August*

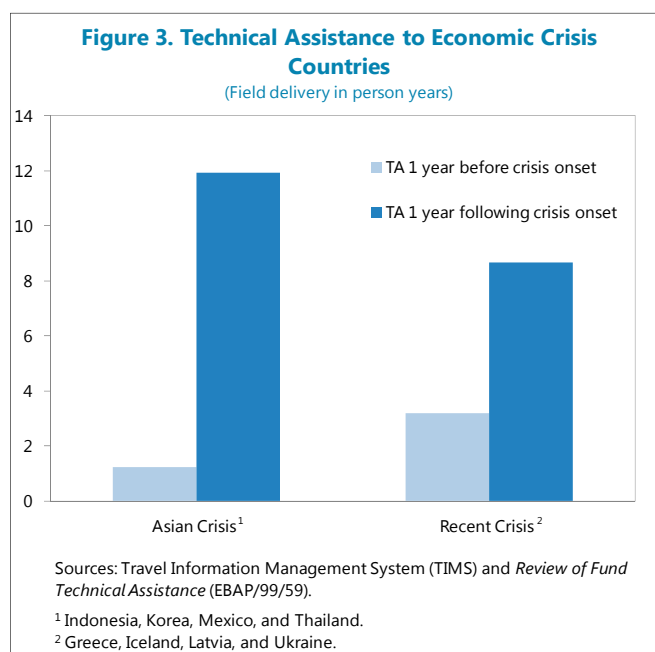
- Budget outturn paper issued with enhanced section on CD.
- CCB reviews CD outcomes relative to the RAP for the previous fiscal year and summary of evaluation papers prepared during that year. This review provides a starting point for the next cycle, incorporating lessons learned. The CCB establishes an evaluation plan for the upcoming year.

<sup>1</sup> The donor financing envelope includes monies deposited in, or committed to, trust accounts plus pledged and prospective funds that are judged likely to become available. For budgeting purposes, multi-year funding is allocated to annual envelopes as described in program documents or spread equally over the time period.



**22. More attention could also be given to preventive TA, which would contribute to Fund-wide strengthening of crisis prevention efforts.**<sup>8</sup> Examination of the level of TA delivered in selected countries before the current global financial crisis and the crisis countries of the mid-1990s suggests that the Fund may have been more reactive than proactive in delivering CD (Figure 3).

Examining a sample of crisis countries in the mid-1990s (Indonesia, Korea, Mexico and Thailand) and a sample of recent crisis countries (Greece, Iceland, Latvia, and Ukraine) reveals that, in both cases, the level of TA delivered in the year prior to the start of the crisis and subsequent entry into a Fund-supported arrangement was much lower than in the following year.<sup>9</sup> It is also possible that member countries were less inclined to request TA prior to the onset of the crisis than afterwards.



**23. In addition to the regular discussions between area and functional departments with country authorities, the Fund's cross-country analysis and new surveillance tools could be used more proactively to determine CD needs.** For instance, in addition to the Article IV process, FSAPs, and ROSCs, the vulnerability exercises (VEs) for advanced, emerging market, and low-income countries and Risk Assessment Matrices (RAMs) could help identify countries and areas that would benefit from targeted delivery of CD activities. While VE and RAMs were not explicitly designed to be a diagnostic tool for CD needs, they identify areas of vulnerability. Further targeted investigation can then determine whether CD could bolster Fund's policy advice to help member countries reduce such vulnerabilities.

**24. Background work for this paper, using the Spring 2008 Vulnerability Exercise for Emerging Markets (VEE) results, suggests the vulnerability analysis may not always have been actively used at that time for TA prioritization.** There was very little difference between the level

<sup>8</sup> The IEO report on the *IMF Performance in the Run-Up to the Financial and Economic Crisis* and the *2011 Triennial Surveillance Review* suggest that the Fund could have used preventive measures earlier than it did, including TA. In addition, the 1999 TA review recommended linking prioritization and allocation more close with Article IV consultations in order to change the orientation of TA from being largely curative to being more preventative (Annex I).

<sup>9</sup> Crisis onset deemed to be: for Asian crisis countries, the last of the financial year quarter in which the crisis occurred; and for the recent crisis countries, the last day of the IMF fiscal quarter in which the country joined an IMF program. To facilitate comparability, four countries were chosen from the sample of current crisis countries to compare to the four countries discussed in the 1999 TA review. The current crisis countries include advanced economies, which typically received little or no TA prior to the crisis.



of TA received two years before and two years after being classified as “highly vulnerable” except for countries that subsequently entered a Fund-supported program.

### ***Regional strategy notes***

**25. The RSNs were introduced in FY 2008 and together with the Resource Allocation Plan (RAP) provide the basis for prioritizing Fund TA.** In this system, area departments define TA strategies through their RSNs, and TA departments operationalize the RSNs, turning priorities into deliverables in the context of the RAP—i.e., they set budget allocations across departments.

**26. RSNs work relatively well to provide a demand-driven approach to prioritization at the country and regional level but, as currently used, are not well suited for prioritization at the aggregate level (i.e. making trade-offs across topics or regions).** The latest assessment of the RSN/RAP in the 2011 TA strategy paper described the process as working relatively well within regions, a conclusion confirmed by departments in 2013 during interviews with ICD staff. At the same time, area departments have raised questions about the opacity of resource allocation across regions by functional departments. In addition, departments have noted difficulties in shifting resources across topics and regions, in part because flexibility is constrained by past decisions on staffing and fundraising. The concerns could be addressed with the proposed integration of CD activities into the Fund’s strategic planning framework (Section IV.C).

**27. RSNs could usefully be extended to capture training.** First steps were taken in this direction in FY 2013 but more can be done. Such efforts would encourage area departments to take a more active role in the determination of training needs in their region and for all departments to consider how provision of TA and training services could be better aligned. For prioritization of training, these efforts would complement the existing collection of views directly from country authorities, including training directors, and feedback from course participants and external surveys.

**28. The health checks of RSNs done for this review suggest that RSNs would benefit from greater clarity in the description of how prioritization is set within each region (i.e., among countries) and within countries (i.e., among topics).** Guidance from the 2007 Working Group on TA Resource Planning indicated that these notes are supposed to outline in succinct terms short- and medium-term TA priorities for the region and for countries that are heavy TA users. This appears to be done only partially (Supplement 1.E). Developing a guidance note for RSNs asking departments to provide details on what factors guide their prioritization, better integrate training and TA needs and priorities, and discuss short-term vs. medium-term priorities could help strengthen RSN write-ups and ensure consistency across departments. This could help make the RSNs an even more valuable tool to prioritize and allocate CD.

**29. The pilot Capability Assessment Program (CAP) may provide another avenue through which to prioritize developmental CD for selected countries (Supplement 1.E).** The CAP is voluntary and uses a high-level assessment process to evaluate the extent to which the institutions at the core of macroeconomic policymaking are able to fulfill their mandates, to deliver on their objectives, and to respond to the most pressing macroeconomic policy challenges. Like the defunct Technical Consultations and Technical Cooperation Plan (TCAP) that came out of the 1999 TA

review, the CAP would serve as a framework for coordination with other CD providers, both multilateral and bilateral. This should help to avoid overlaps and focus the provision of CD on each provider's comparative advantage. Once a few assessments have been conducted, the pilot program will be reviewed, including determining whether the assessments provide good value for money.

**Proposals for Prioritization**

- For Board endorsement: The principle of a two-level prioritization system that would (i) account for the Fund's key objectives, and (ii) center on CD activities that are driven by individual country demand.

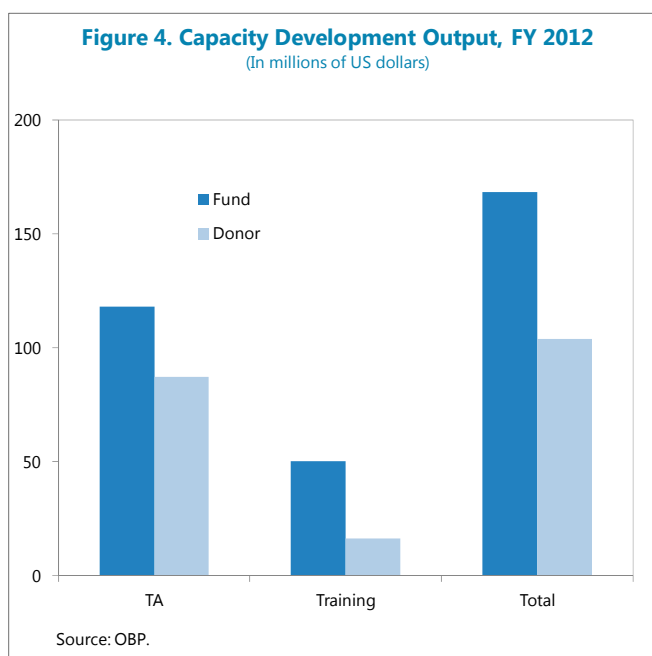
**Next Steps for Staff**

- Integrate CD activity into the Fund's strategic planning process.
- Develop a guidance note for RSNs.
- Pilot the CAP program and assess its value.

**C. Clarify the Funding Model**

**30. As foreshadowed in the 2008 TA review, donor funding has emerged as an important source of financing.**

Donors now fund roughly forty percent of CD in dollar terms, mainly through multiyear trust fund commitments (Figure 4). External funding is well suited to medium-term CD efforts and thus complements internal funding, which is more flexible and can be redirected to unforeseen demands.



**31. Donors finance CD through three channels (Figure 5):**

- **Regional technical assistance centers (RTACs) and regional training centers (RTCs).** In general, these multi-donor vehicles channel funding for the delivery of regional CD over the medium term, usually in five-year cycles. Center objectives and areas of activities are set out in each center's program document.
- **Topical trust funds (TTFs).** TTFs are also multi-donor vehicles and, as a rule, have five-year funding cycles. They focus on a single, strategic subject area, which needs in-depth research, and provide assistance to countries across many regions.

- **Bilateral agreements (BAs).** These agreements support initiatives that match the priorities of the Fund, the donors, and recipient countries. They often provide niche financing.

**32. The rapid growth in donor funding has brought many benefits, but has also raised new challenges.**

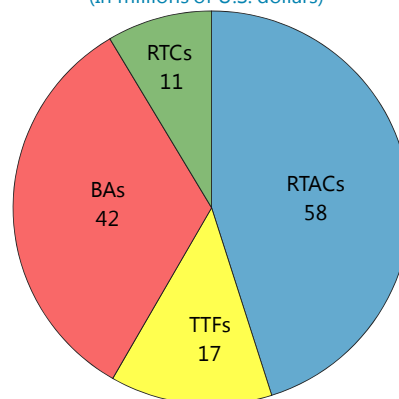
Donor funding was crucial in helping the Fund respond to pressing demands for CD services from member countries in the face of internal budget constraints. At the same time, as well explained in the 2011 TA review paper, internal and

external funding of TA (or training) are not perfect substitutes, among other reasons, because Fund and donor priorities are not always aligned. Thus, the Fund cannot rely too heavily on donor funding lest it loses sight of its own strategic priorities. Furthermore, as indicated in the [FY2014–FY2016 Medium-Term Budget](#) paper, donors do not cover the overhead costs (e.g., the use of HQ physical facilities) of the projects they finance. Thus, use of donor financing can require a “co-pay” from the Fund’s own resources, which may not necessarily have been planned in recent years.

**33. To ensure that Fund resources are allocated in line with the institutional priorities, donor-financed projects should be fully integrated into the institution’s strategic planning and budget process (Box 4).** This implies that use of donor financing needs to be considered together with use of internal financing: resources need to be prioritized and allocated in a coordinated way. This integration would serve two purposes. First, it would facilitate the two-level prioritization process outlined above. Second, it would ensure that implications for the Fund’s budget stemming from donor sponsored projects are planned in advance. Decisions involving how activities are financed are best based on broad principles because the environment—CD needs and available funding—change over time (Supplement 1.F).

**34. The 2011 TA strategy paper outlined three funding principles for TA, which remain valid and can also apply to training.**<sup>10</sup> The principles cover respectively: (i) the Fund’s role in funding CD; (ii) donor’s role in funding; and (iii) the additionality of donor funding (Table 1). These principles support the current practice of notionally assigning external financing mainly to medium-term CD needs. Such an approach leaves more Fund financing available for nimble responses to emerging needs, program support, and areas where donor and Fund interests do not overlap perfectly. The principles could also be the starting point for fundraising guidelines.

**Figure 5. IMF and Donor Funding Envelope, FY 2012<sup>1</sup>**  
(In millions of U.S. dollars)



Source: Institute for Capacity Development (ICD).

<sup>1</sup>The annual donor envelope is estimated using total multi-year commitments between FY 2010–14, divided by the length of the agreement.

<sup>10</sup> The bullets under principles 1 and 2 are drawn from paragraphs 3, 10, 11, 29 (first bullet) of the 2011 TA review and regrouped for presentation purposes.

**Table 1. Funding Model: Guiding Principles****Principle 1: The Fund should be responsible for financing CD in the following cases:**

- In countries or on topics where donor funding is not available, including program cases;
- When a quick reaction is required;
- When Fund expertise in particular areas needs to be maintained.

**Principle 2: Donor funding of CD could be considered:**

- When donor interests are consistent with Fund priorities and objectives; and
- When sufficient space is available in the Fund's budget to cover co-financing costs.

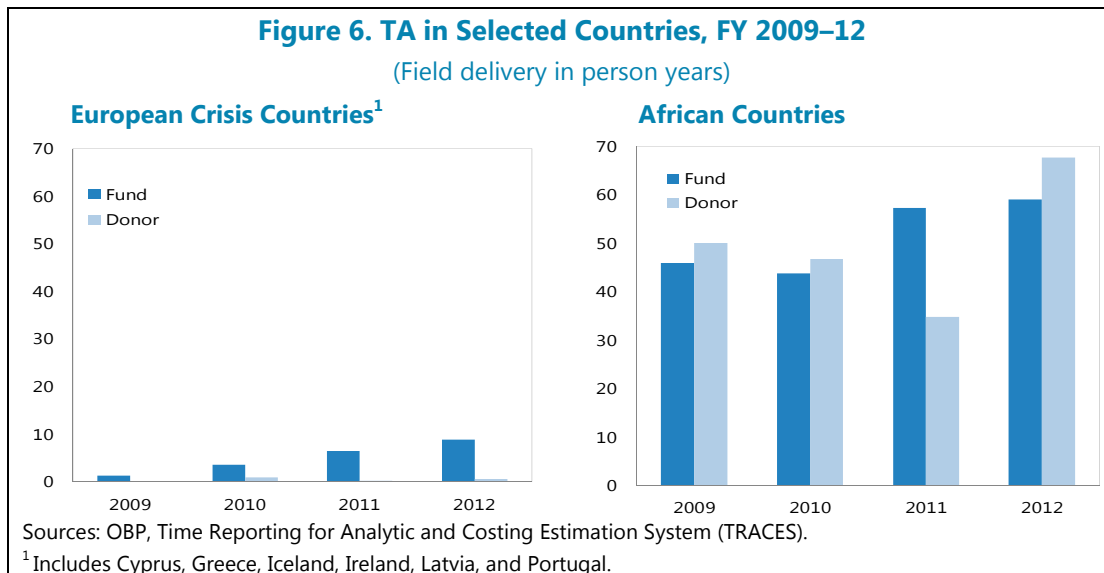
**Principle 3: External financing should result in additional delivery of CD to members:**

- Taking advantage of an increase in external funding to reduce the internal funding of CD activities could jeopardize the funding model as donors have stressed that their funding should be additional and not a substitute for Fund financing of CD.

**35. Data show that these principles have been applied in recent years.** The Fund ramped up internally-financed TA to European crisis countries quickly in FY 2010. Donor-funded TA also came through but took longer to materialize: by FY 2013, the European Union provided funding for the equivalent of five field experts (Figure 6).<sup>11</sup> The TA response to the crisis did not crowd out TA to low-income countries, as illustrated by delivery in Africa in Figure 6. Both the Fund and donors finance TA in all regions, with the bulk going to low- and middle-income countries (Supplement 1.B). However, applying these principles in the future in the face of large shocks affecting CD demand may not be as easy as in the recent past. In handling the crisis in Europe, specific factors helped: TA demand was generally limited to fiscal areas and to a few countries and the overall supply of Fund CD was rising reflecting past successful efforts to raise external finance. In the future, a large shock would best be addressed through the Fund's budget procedures.

**36. The experience with TA being provided to European countries raises afresh questions about clarity of practices vis-à-vis donors involved in both providing TA and in "co-financing" Fund-supported programs.** The Fund had often faced such situations before, mainly in the context of concessional lending. The 2011 TA review recognized the Fund's responsibility to provide assistance in these program cases, while not excluding the possibility of external financing of Fund TA where interests of the Fund and donors coincided. While there has not been any clear evidence of difficulties with such arrangements, it may be helpful to clarify guidelines on fundraising for such cases to avoid delays in services and also potential conflicts of interest.

<sup>11</sup> As elsewhere in the paper, Figure 6 shows data through FY 2012 only because data for FY 2013 are preliminary.



**37. These principles themselves do not establish an optimal level of CD or optimal financing mix.** The optimal level of CD or financing would be determined in integrated budget decisions addressing country demands but also the Fund's priorities, subject to internal and external budget constraints. Steps toward integration include the following:

- A strengthened planning process in which Fund- and donor-financed CD activities would be fully integrated into the Fund's strategic planning and budgeting framework. The donor-financed budget formulation would follow roughly the same schedule as for the Fund-financed budget. Priorities would be determined in the two-level process described above.
- Donor financing for RTACs, RTCs, and TTFs would be approved by management at the fundraising stage, following an interdepartmental consultation to ensure alignment with institutional objectives and consistency with internal budget decisions. Once this is accomplished and a multi-year budget path is established, annual implementation budgets for RTACS, RTCs, and TTFs would be fully based on commitments made to donors during the fundraising process—i.e., such budgets would not be subject to additional constraints.
- Deriving the implications for internal funding of the use of external funding will require better costing of CD activities. Overhead costs, which is the element not financed by donors, may vary significantly by the type of CD activity that is externally funded—e.g., HQ-based or field-based TA.
- Donor financing through bilateral agreements with individual members would similarly need to reflect institutional objectives, budget constraints, and commitments to donors. As originally envisioned in the 2008 TA paper, bilateral fundraising should be coordinated through ICD to provide a one-stop window for donors and to ensure consistency with the overall donor financing strategy. To reduce administrative costs, bilateral financing could be approved on a topical or regional block basis, each of which could accommodate several projects.

- Budget and financial management tools are now being developed, including as part of the RBM project, that will help manage resources but also provide monitoring information on a consolidated basis.

**38. The funding model involves risks to delivery, but mitigation measures are in place.**

- Current budget formulation sets aside 10 percent reserves to address unforeseen demands for TA. A similar training reserve will be set up for FY 2014.
- There could be a reputational risk if the Fund does not fulfill its donor agreements. The Fund has scaled up delivery capacity to meet its commitments, and delivery is monitored by staff and steering committees. Strengthening Fund-wide reviews will add a check at the institutional level.
- If external funding were to decline significantly; the impact would be delayed as many of these arrangements are multi-year. Donor financing is carefully monitored and mid-term reviews indicate that recipients and donors are pleased with our outputs. Nevertheless, further contingent planning is needed in case agreements are not renewed.

**39. The increased use of donor financing within the current employment framework has created a number of issues that need to be addressed.** As donor financing began to ramp up, departments were hesitant to expand the number of staff positions because of the uncertain durability of this financing and because particular assignments required specialized expertise that would not offer qualified candidates good growth prospects in other areas. As a result, CD departments have relied increasingly on contractual appointments to meet their business needs, with unintended adverse impacts on turnover, perceptions of fairness, and transparency (Box 5). The forthcoming HRD-led paper on categories of employment will address these various HR issues.

**Proposals for Funding Model**

- For Board endorsement: The three guiding principles of the funding model.

**Next Steps for Staff**

- Establish an approval process for new donor financing initiatives.
- Take up CD-related issues in HRD-led paper on categories of employment.

### Box 5. Employment Framework

An internal corporate workforce planning group highlighted the dramatic increase in contractual appointments in the Fund over the last five years. This trend is particularly pronounced in functional departments that deliver and manage CD, where the share of A9–A15 staff on contractual appointments (regular contractual, HQ-based experts, and long-term field experts) reached one third in FY 2012. This compares with 5 percent in area departments and 10 percent in other functional departments.

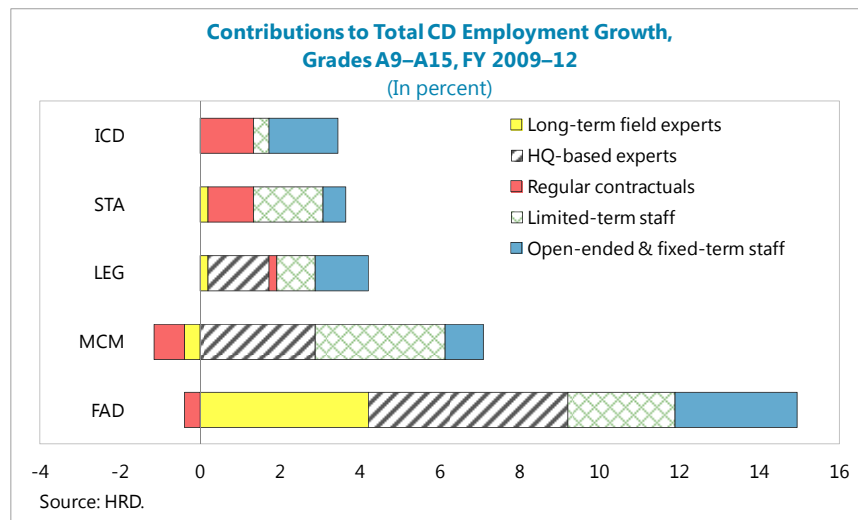
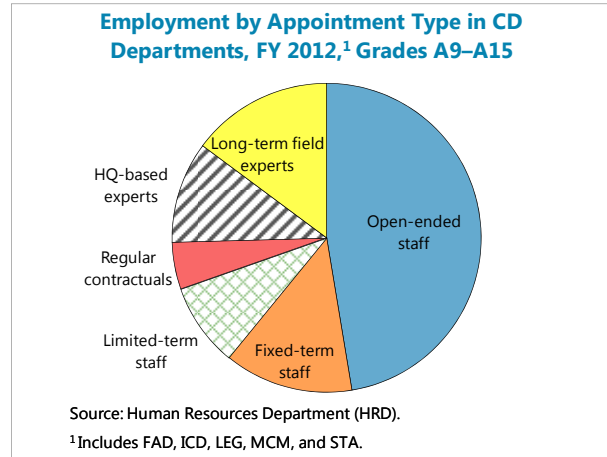
Over this period, CD departments have relied heavily on donor financing to expand activities, and opted to use contractual employment for several reasons. First, the Fund's use of donor funding in the earlier periods had covered a relatively small share of CD activity, and at the outset of the rise the size and durability of such funding were uncertain. Second, tight Fund budget and staffing constraints limited available options. Third, departments have been reluctant to offer open-ended positions to employees in career streams that may offer limited prospects for growth in the Fund.

These concerns have led to different department-specific coping strategies. In particular, CD departments have relied heavily on short-term contractual appointments even for assignments for which there are long-term business needs.

During FY 2009–12, contractual appointments contributed about one half of the roughly 30 percent employment growth for grades A9–15. ICD and STA have hired mostly regular contractual employees, while contractual appointments in FAD, LEG, and MCM have largely been in the form of HQ-based experts and long-term field experts, who receive expatriate and other benefits not available to most contractual employees.

This flexible application of the categories of employment has helped CD departments meet their business needs, but with unintended adverse impacts on turnover, fairness, and transparency. For example, use of employment types and prospects for conversion to staff appointments are uneven across departments—e.g., some departments are more likely than others to use contractual appointments as a pipeline to staff positions.

Going forward, the employment framework should better balance the need for flexibility in the workforce with the Fund's ability to attract and retain a highly qualified, diverse, and motivated group of specialists. This will in turn require fairness, growth opportunities, and mobility options between HQ and the field, and across the Fund.



## D. Strengthen Monitoring and Evaluation

**40. Evaluation and regular reviews contribute to good governance by fostering learning from past experiences and establishing a framework for accountability.** Many of the past reviews of TA considered by the Board have noted the need for a more systematic approach to evaluation and better follow through on implementation. In the case of training there have been no reviews that are parallel to TA. Rather, routine assessments—which are not considered by the Board—are conducted using survey techniques that focus on participant satisfaction and training benefits; evaluations have been less successful in measuring impact.

**41. The Fund uses a number of different evaluation instruments.** In July 2002 the Executive Board established the TA evaluation program and, as a result, the following evaluations are conducted for TA: (i) Fund-wide evaluations to assess overall TA policies and activities; (ii) departmental evaluations to self assess the impact of TA advice and extract lessons learned; (iii) RTAC/TTF evaluations conducted by external evaluators; and (iv) evaluations for other donor-funded projects. For training, the ICD program employs a number of different evaluation techniques: (i) questionnaires from participants at the end of each course; (ii) follow-up surveys sent one year to eighteen months after selected courses to participants and managers and (iii) a triennial survey of sponsoring government agencies. Dissemination and implementation of evaluation findings have been irregular.

**42. In recent years, there has been a rise in the number of evaluations conducted (Supplement 1.G).** This has in part been driven by donor requirements and evaluations often focus on specific projects or RTACs. With the expansion of externally financed CD projects, the number of evaluations continues to grow. It has been well recognized in the aid-effectiveness debate, however, that donors often require reporting on and evaluations of the use of their resources in formats that differ across donors, leading to fragmentation of the effort. Internally-funded CD is less frequently evaluated than donor-financed CD.

**43. To develop a systematic approach to evaluation, the Fund should establish a framework for monitoring and evaluation and reach a collective agreement with donors on the framework.** Greater evaluation of CD with systematic reporting and monitoring of results could be used to inform the strategic planning process. These evaluations should be focused on selected areas chosen on the basis of strategic priorities.<sup>12</sup> Thus, it would be helpful for the Fund, donors, and country authorities to agree on a common methodology of how progress and success of activities will be measured. At present, there are no common benchmarks for success for either training or TA, and this inhibits systematic assessment. Systematic procedures should also be adopted for disseminating lessons.

**44. While using a similar evaluation framework, different types of evaluation may be appropriate for different products and may be produced by different evaluators.** Currently,

<sup>12</sup> In most cases evaluations should not be exhaustive, but rely instead on sampling techniques.



evaluations are produced by the originating department (self-evaluations) or conducted by external evaluators, usually at the request of donors. Though self-evaluation is well suited to address questions about how to improve policies, programs, and CD projects, some questions, such as whether the organization is “doing the right things” are best covered through an independent evaluation.

**45. A unified approach to evaluation would provide a framework to distill lessons and address outstanding issues.** It would enable comparisons across countries and subject areas so that lessons can be drawn to strengthen future activities. Monitoring and evaluation activities would also benefit from inputs from member countries on the lasting impact of CD. This will start with a regular review of CD activities, with the new proposed policy statement serving as the basis to conduct the review. This regular review would be conducted every three to five years, along the lines of the reviews of surveillance and conditionality. The CCB would consider this evaluation and other evaluations to provide feedback into the prioritization and delivery of CD. Many components of the evaluation system exist but need to be coalesced into a more efficient and effective framework.

**46. One component of a unified approach to evaluation would be the Results Based Management (RBM) framework, which is being adopted within the Fund.** RBM has already been implemented in RTACs and TTFs and its principles are being used in some departments. The RBM system, when implemented Fund-wide, will capture information on whether outcomes are being achieved and is expected to lay the foundation for evaluation. Some analytic tools are being developed by functional departments (such as the fiscal transparency initiative) that will be helpful to the development of RBM. Standardization across TA and training departments will assist with project management.

**47. Another component of a unified approach would be a mechanism to monitor the implementation of recommendations from past country or topical evaluations.** There is a need to distill policy lessons from topical or regional evaluations and have these lessons feed back into TA that is delivered. Lessons may also feed back into training of country officials as well as of staff.

**48. A common evaluation standard for both TA and training needs to be developed.**<sup>13</sup> This will facilitate the comparison of evaluation across departments using a common language. Aspects of such good practice standards would include the following:

- Principles for good performance indicators. The framework would provide evaluators with some flexibility to select and modify indicators as appropriate, reflecting the wide range of CD.
- Principles for methodology—based on international best practices—including the basis for the evaluation (objective), the criteria (scope and relevance), and ratings (rules).
- Principles for dissemination and utilization, including accessibility of results and the utilization of recommendations and how they would feed back to the prioritization process.

<sup>13</sup> This is an outstanding recommendation of the [2005 IEO Evaluation of TA](#) that has not been implemented.

**Proposals for Monitoring and Evaluation**

- For Board endorsement: Strengthen the monitoring and evaluation framework, including feedback into prioritization and delivery of CD.

**Next Steps for Staff**

- Pursue work on RBM to enhance planning and managing of outcomes.
- Develop a guidance note to establish a common evaluation standard, based on principles for good performance indicators, methodology, and dissemination.

## V. SEIZING OPPORTUNITIES FOR CD DELIVERY AND OUTREACH

**49. TA and training are greatly appreciated by member countries.** However, opportunities remain to expand the reach and impact of CD activities and to leverage CD as outreach for the Fund. As a follow-up to the 2011 TA review, this paper considers ways to foster greater integration of TA and training.

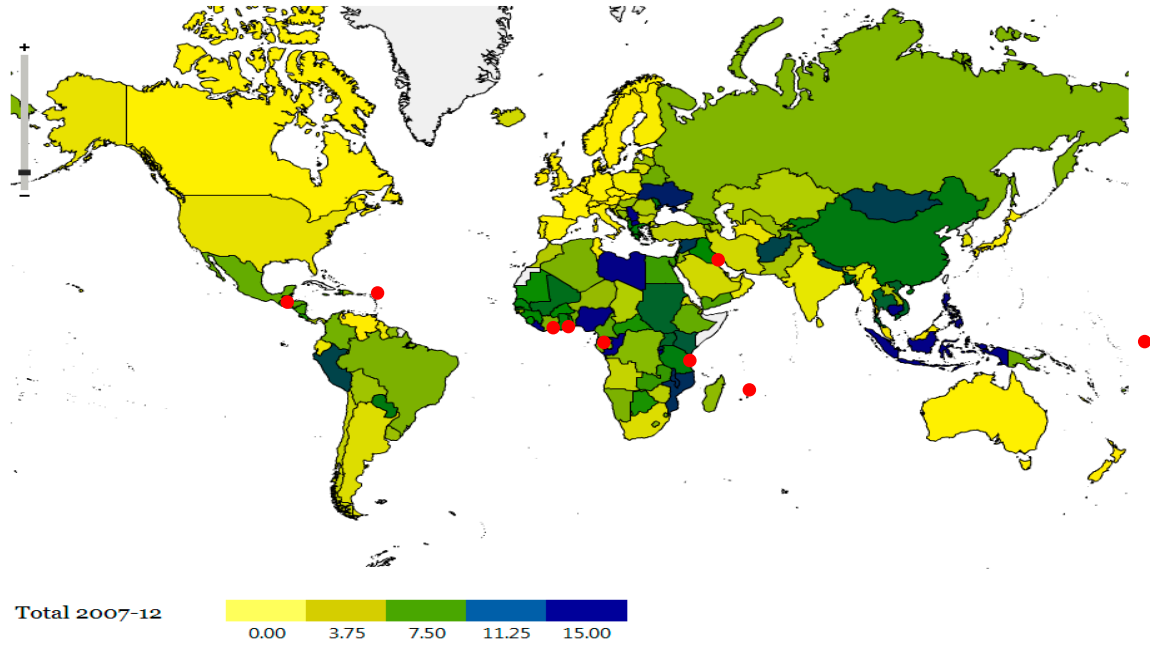
### A. Foster Greater Integration of TA and Training

**50. TA and training are complementary products sharing similar goals.** They share the objective of strengthening human and institutional capacity to formulate and implement sound macroeconomic, financial, and structural policies. Synergies between TA and training have been best exploited within TA-providing departments. Coordination across departments or between regional TA and training centers has also occurred, but requires more careful planning to ensure it is done regularly.

**51. The Fund has developed a wide network of regional TA and training centers from which it delivers over half of its CD activities (Figures 7 and 8).** These regional networks have developed independently reflecting heretofore similar but separate strategies guiding TA and training. Decentralized TA (about half of total TA delivery) has the advantage of greater ownership by member countries, clearer understanding of local circumstances and absorptive capacity, and allows for closer follow up of TA implementation.<sup>14</sup> Regional delivery of training, which represents over 80 percent of IMF training, is cost effective, focused on regional needs, and facilitates peer-to-peer exchanges and the development of cross-country networks of member country officials.

<sup>14</sup> These advantages must be balanced against the critical role of centralized TA in ensuring integration of TA with other country work.

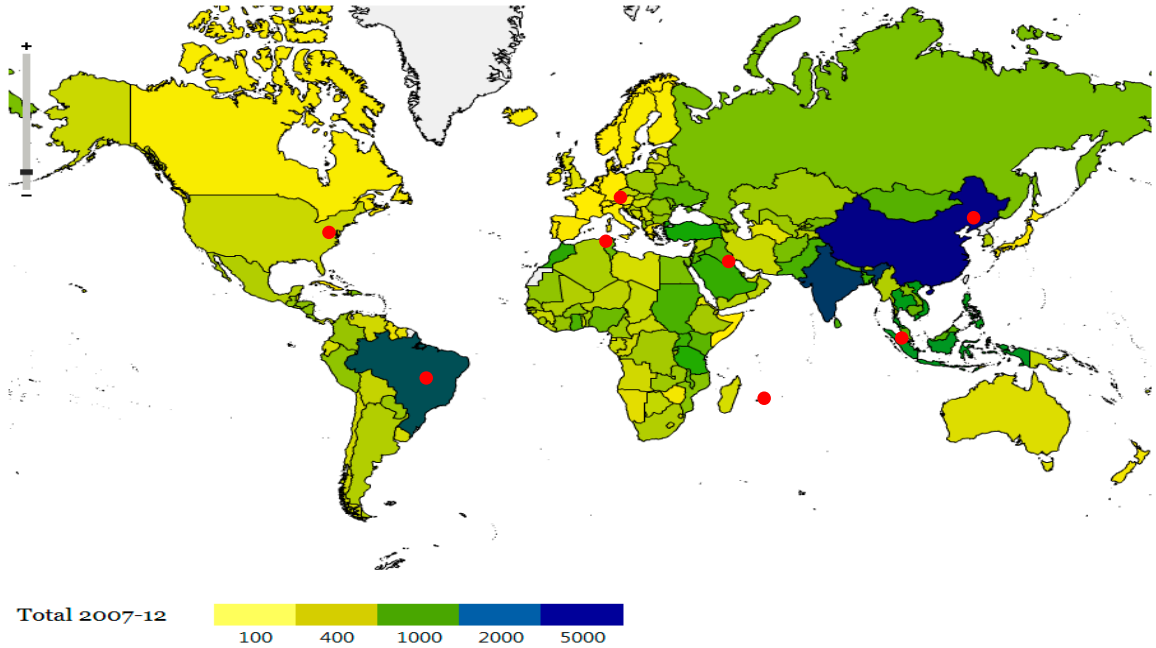
**Figure 7. Recipients of IMF TA, FY 2007–12<sup>1</sup>**  
 (TA field delivery in person years, cumulative)



Sources: Travel Information Management System (TIMS) and Participant and Applicant Tracking System (PATS).

<sup>1</sup> Excludes TA provided for multiple countries; red dots represent RTACs.

**Figure 8. Recipients of IMF Training, FY 2007–12<sup>1</sup>**  
 (In participant weeks, cumulative)



Sources: Travel Information Management System (TIMS) and Participant and Applicant Tracking System (PATS).

<sup>1</sup> Excludes training participants from regional institutions; red dots represent RTCs.

**52. The opening of the Africa Training Institute (ATI) in Mauritius presents a good opportunity to experiment with a more integrated model of regional CD centers.** Such a model would yield benefits in terms of efficiency and enhanced geographical coverage, while facilitating the coordination of TA and training activities. The ATI, which will be co-located with AFRITAC South under unified management, presents an opportunity to integrate further TA and training, while yielding administrative savings. The goal is to coordinate the delivery of TA and training in such a way that eventually these activities will be aligned on a continuum of CD.

**53. CD-providing departments strive to harness synergies between TA and training through several channels.** Training by TA departments and RTACs is well coordinated with TA delivery, supporting the implementation of TA advice or improving officials' understanding of related policy issues. Training includes hands-on workshops, focusing on best practices and peer-to-peer exchanges. Recent initiatives to offer fiscal TA on a multilateral basis highlight the benefits to delivering technical advice on a regional basis, including providing TA to regional organizations and conducting regional workshops bringing together relevant officials from participating countries to share their challenges, experiences and achievements thereby enhancing cross-regional support and development. ICD's regional training courses in macroeconomic management and finance can also provide a broader macroeconomic context for related TA issues. For example, TA in model-based forecasting aimed at modernizing monetary policy frameworks in sub-Saharan Africa has been supported by a number of training initiatives across departments (Box 6).

**54. Going forward, a clearly articulated strategy for CD will contribute to greater coordination of TA and training across departments (Supplement 1.H).** Better communication across departments about the content and planned activities in TA and training will be essential to maximize synergies. The ongoing integration of training into the RSN/RAP process will facilitate this communication.

**55. Complementary training for Fund staff could also do more to support the absorption of external training and TA by member countries.** For example, internal training could be further supplemented with hands-on lectures and workshops on topics covered by Fund TA, synthesizing TA findings and best practices.<sup>15</sup>

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<sup>15</sup> TA departments do this on an ad hoc basis or distribute relevant material in technical and guidance notes.

### Box 6. TA and Training Synergies: The Case in Sub-Saharan Africa

*Coordinated TA and training aimed at modernizing monetary policy frameworks in sub-Saharan Africa (SSA) provides a model for interdepartmental collaboration to harness synergies between TA and training.*

**Policy background.** Many SSA countries are interested in implementing more forward-looking monetary policies, owing to significant swings in inflation. Many of these countries face challenges in conducting monetary policy using monetary aggregates, including large shocks and a rapidly changing financial sector landscape.

**Interdepartmental collaboration.** AFR, ICD, and RES built on internal and external expertise to produce a series of TA and training events. RES, with SPR, partnered with the U.K.'s Department for International Development (DFID) to provide relevant research and support close collaboration among policymakers in SSA.<sup>1</sup> To complement these efforts, MCM is working on the development of markets and institutions while STA is improving the collection of high-frequency data.

- **Operationally-oriented research.** RES and SPR, in collaboration with AFR, have conducted DFID-supported applied research on monetary policy transmission, the role of food prices, and hybrid policy regimes, all relevant to creating models for forecasting and policy analysis in SSA.
- **Collaboration with central banks in SSA.** AFR hosted a high-level seminar with central bank governors on Modernizing Monetary Policy Frameworks at the 2012 Spring Meetings. At the seminar, governors expressed a strong interest in exploring ways to position central banks to enhance the conduct of monetary policy and address the challenges facing emerging African countries. A pilot program is being implemented with RES staff and external experts to train policymakers at the Central Bank of Kenya.
- **Boosting in-house modeling and forecasting capacity of central banks.** RES hosted, in collaboration with ICD and AFR, a seminar in November 2012 in Washington DC to train central bank and Fund staff on model-based forecasting and policy analysis. Participants were from the central banks of Mozambique, Tanzania, Rwanda, Uganda, and Zambia. An in-depth two-week workshop with forecasting teams from the central banks of Uganda and Rwanda followed.
- **ICD training and Kigali conference.** ICD delivered at East AFRITAC in June–July 2012 its Monetary and Exchange Rate Policy (MERP) course to introduce participants to the different types of monetary policy strategies and exchange rate arrangements. The course was closely followed by an international conference on monetary policy frameworks in July 2012 in Kigali, organized by the National Bank of Rwanda with active Fund participation. Participants drew lessons for SSA countries based on other countries' experiences transitioning to inflation targeting-type frameworks.

**Next steps.** Ongoing coordinated TA and training by departments will build on recent successes in CD in SSA. RES plans to identify a new set of countries that could benefit from similar efforts.

- Collaboration with central banks will continue, with RES training sessions planned for Kenya, Rwanda, and Uganda in 2013. Online collaborative sites have been established by ICD and RES to facilitate progress and peer-to-peer learning among trained officials and staff.
- Internal training and support for AFR desk economists will be provided by an ICD/RES course on Monetary Policy Analysis (MPA) in May–June 2013.
- ICD, with RES and AFR, will deliver a course on monetary and exchange rate policies (MERP) tailored for higher-level officials from East AFRITAC member countries in 2013 and a more advanced Monetary Policy Analysis (MPA) course in 2014.
- RES will organize a conference to bring together academics, policymakers, and Fund staff to discuss new approaches to monetary policy analysis and forecasting in SSA in 2013.

<sup>1</sup> See research as described in [Macro Research for Development: An IMF-DFID Collaboration](#).

**Next Steps for Staff on Integration of TA and Training**

- Monitor ATI experience with integrating TA and training.
- Seek opportunities to coordinate further TA and training, including enhanced communication across departments.
- Offer internal training that complements external training and TA so staff can support absorption of TA advice.

**B. Exploit New Technologies for Delivery**

**56. Advances in information and communication technology could be used to expand delivery of CD efficiently, addressing unmet demands, reaching more officials, and shortening courses for busy high-level officials.** Courses would be designed such that, after an initial investment, delivery can be expanded at relatively low marginal cost.<sup>16</sup> Online courses would not replace, but would supplement, face-to-face courses which include hands-on workshops and peer-to-peer exchanges that country officials value highly. In addition, online courses and webinars can facilitate the integration of TA and training by bringing relevant training to TA recipients as described above.<sup>17</sup>

**57. While not new, online learning has undergone revolutionary changes in the last year (Supplement 1.I).** The Fund has recently entered into a partnership with edX, a nonprofit organization founded by the Massachusetts Institute of Technology and Harvard University, to deliver online courses. These are unlike ICD's current distance learning courses or the facilitated courses offered by others that require intensive use of instructor time (Box 7). Rather, they are designed with machine-graded assessments that permit dramatic scaling up of delivery while retaining a high level of interactivity and interchange among participants. ICD is piloting several courses and modules, which are being made available to country officials as part of the regular program of courses.

<sup>16</sup> Development of an e-learning Financial Programming and Policies (FPP) course is underway.

<sup>17</sup> E-learning delivered through short pre-course modules can enhance the effectiveness of face-to-face training by ensuring that participants arrive well-prepared. Three e-learning modules have been piloted in five courses with very positive feedback from participants and requests for more e-learning content.

### Box 7. Distance Learning at Selected International Organizations

*A number of international organizations, including the IMF through the ICD training program, offer distance, facilitated, and self-paced learning programs.*

#### **International Monetary Fund**

The Fund introduced its first Financial Programming and Policies course through distance learning in 2000 and offers it four times a year in English and French. The course includes many online elements, but study guides are also sent to participants and much communication takes place by email, hence its broader classification as "distance learning." The distance segment is followed by a two-week residential segment. The course restricted to government officials from selected agencies in member countries.

#### **World Bank**

The e-Institute was launched in 2011 and runs about 60 facilitated online courses, 15 free self-paced online courses, and 20 webinars a year. Topics include climate change, governance, growth and competitiveness, health systems, and urban development. E-Institute courses are open to the public; most facilitated courses charge a fee.

#### **Financial Stability Institute (FSI), Bank for International Settlements (BIS)**

FSI Connect offers over 200 self-paced online tutorials for financial sector supervisors in topics such as capital standards, credit and market risk, accounting, and insurance. FSI Connect is available by paid subscription to all central banks, supervisory authorities, and deposit insurers.

#### **World Trade Organization (WTO)**

The WTO e-learning program began in 2005 and currently offers 15 online (facilitated) courses and 18 self-paced online modules about the WTO and trade policy. E-learning courses serve as prerequisites for attendance at more advanced regional training activities. Courses are offered free of charge, but restricted to government officials from developing and least-developed countries that are members or observers of the WTO.

**58. Webinars present another avenue for exploring the use of technology to reach a broader audience and actively engage stakeholders at relatively low cost.** Led by Fund experts on cutting-edge topics, webinars can spread the institution's knowledge and provide a forum for peer-to-peer exchanges, expanding the reach of IMF multilateral surveillance.

#### **Next Steps for Staff on Exploiting New Technologies**

- Use advances in technology to enhance the effectiveness and expand the delivery of CD.
- Experiment with webinars to facilitate high-level peer-to-peer exchanges and to spread the Fund's institutional knowledge.

## C. Leverage CD as Outreach

**59. CD presents important opportunities for outreach to enhance the effectiveness of the Fund's policy advice.** Outreach to the wider stakeholder community (academia, civil society, and parliamentarians) and to the media can enhance understanding of economic policies and the Fund's work, potentially improving buy-in and overall traction for improved policies. Outreach can boost the image of the Fund by emphasizing the tangible and positive difference that TA and training are making on the ground. Finally, outreach to donors serves to communicate that their contributions are used effectively, while giving them due recognition for their support. The impact of these



outreach efforts will be maximized if messages and events are well-coordinated across area and functional departments.

**60. Open online courses can serve as a new outreach channel, increasing familiarity with the Fund for both country officials and the general public.** Following an initial pilot period, ICD plans to make selected courses available to the general public as massive open online courses (MOOCs) (Supplement 1.I). In particular, ICD's e-learning Financial Programming and Policies course will provide an introduction to some of the basic tools of economic analysis used by the Fund.

**61. Similarly, a clear policy of dissemination of CD findings and evaluations can enhance the image of the Fund as a provider of public goods.** Transparency fosters collaboration among TA providers, promotes best practices, and mobilizes donor support.

**62. The revised policy statement will reaffirm the 2008 principles for dissemination of TA information.** Those principles encouraged the following:

- wider dissemination of CD information to donors, other CD providers, and different agencies within recipient countries;
- balancing transparency with the need to safeguard confidentiality; and
- publication of CD reports when appropriate.

#### Next Steps for Staff on Leveraging CD as Outreach

- Monitor impact of CD-related outreach.
- Enhance communication among departments of CD-related outreach activities.
- Track progress on dissemination and publication of CD findings and evaluations.

## VI. RESOURCE IMPLICATIONS

**63. The estimates of the resources required to implement the proposals in this paper are subject to a high degree of uncertainty and are provided here for illustrative purposes.**

Proposals in this paper are mainly evolutionary. They will affect governance and resource management rather than direct delivery. That said, the following cost implications are noted:

- **Governance.** Drafting a new policy statement and a policy review paper would involve ICD staff, departmental review, and Board time. No additional costs are envisaged, as this is part of the ongoing work program of ICD.
- **Evaluation (except RBM).** Some evaluations are already undertaken by CD departments and these will continue. Proposals to strengthen evaluation will build on work already in department work programs, and summarizing these is already part of ICD's work program. The Fund-wide CD review that will be undertaken every three to five years is part of the ongoing work program of ICD. If there are resource implications going forward this may be discussed at the CCB. Additional costs would be incurred if external reviewers are engaged.



- **Results Based Management.**
  - *Fund-wide IT RBM platform.* A capital project to implement RBM is now underway. It includes a new IT platform, training, and financial management tools. It is already in the budget and should not require additional resources.
  - *Area department participation.* Area department teams, including resident representatives, already devote significant time to CD prioritization when conveying country demands through the RSN process. Current plans envisage leveraging RSNs to provide input into RBM, but it is too early to estimate the net additional time requirement.
  - *CD departments.* CD providers will need to contribute thought and data to RBM and participate in evaluations. Some teams—in particular those in RTACs and those participating in TTFs—have started to contribute, but it is too early to estimate aggregate costs.
- **Comprehensive budget strategy.** No additional costs are anticipated as this is part of the ongoing budget reforms.
- **E-learning.** Financing for the e-learning pilot for the first year will be covered by the Fund's capital budget. Additional operating costs going forward (e.g. web hosting) will be covered by efficiency gains in streamlining other ICD products and through donor contributions.<sup>18</sup>

Following the Board discussion, staff will need to follow up on the recommendations endorsed by Directors and present a fully costed proposal in the context of budget discussions.

## VII. ISSUES FOR DISCUSSION

### 64. In providing guidance on CD, Directors may wish to address the following questions:

- Do Directors agree with the overall strategy emerging from this review?
- Do Directors endorse:
  - Steps to strengthen CD governance, including updating the policy statement and mandating regular reviews of CD policies and activities?
  - The principle of a two-level system of prioritization of CD activities: (i) the institutional level, within the context of the Fund's key objectives leading to the broad composition of CD activities across regions and topics and (ii) the country level, driven by country demand. Prioritization is needed because demand outstrips available resources.
  - Three funding principles that guide Fund- and donor- financing of CD. The principles aim to ensure adequate funding for CD in crisis situations, to allow donor financing

<sup>18</sup> For example, the e-learning FPP will replace the distance learning FPP and will allow long HQ courses to be shortened.

when objectives coincide, and to rely on Fund financing when donor support is not available.

- The enhancement of monitoring and evaluation to ensure more systematic implementation of recommendations of CD reviews and to promote feedback of lessons learned from evaluations into prioritization and delivery.
- Do Directors agree that there are opportunities to foster greater integration of TA and training and to exploit new technologies, such as e-learning to bolster effectiveness?
- Do Directors support leveraging CD to enhance the Fund's outreach efforts?

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## **Annex I. Selected Recommendations on TA-Related Issues**

### **Task Force on the Fund's Technical Assistance Strategy (2011)**

- Continue with the prioritization methods, but increase the size of the central reserve to 10–15 percent.
- Relate the size of internal financing of TA to the size of the Fund's operations. The level of internal financing reached after the downsizing (complemented by any crisis-related financing needs) seems to be broadly adequate.
- Phase in RBM and strengthen the TA evaluation process with in-depth ex-post reviews conducted by external evaluators.
- Exploit the synergies between TA and training better, including through the merger of INS and OTM.

### **Enhancing the Impact of Fund Technical Assistance (2008)**

- Fine-tune RSNs to better align TA with strategic priorities and medium-term budget.
- Develop a conceptual framework for evaluating TA projects.
- Refine the costing and billing of TA projects, and the outreach program.
- Strengthen the Fund's partnership with donors.

### **Conclusions of the Task Force on IMF TA (2005)**

- Give a central role to area departments and explore ways to enhance the prioritization process.
- Strengthen and expand the TA Evaluation Program and develop and implement more systematic procedures for feeding back into TA programs the lessons learned from self-assessment and evaluations.
- Create incentives for staff to implement the proposals.

### **IEO Evaluation on Technical Assistance (2005)**

- Develop a medium-term, country-focused TA policy framework, which sets the strategy and priorities giving a central role to area departments.
- Increase authorities' ownership and involvement in capacity building.
- Track TA implementation better and strengthen its ex-post evaluation.
- Discontinue the prioritization filters.

### **Review of Technical Assistance (2004)**

- Keep TA program focused, using prioritization filters, but maintain flexibility.
- Develop TA strategies to meet institution-building needs, especially in low-income countries, and to define longer-term objectives and the specific role of the Fund.
- Monitor and evaluate the effectiveness of regional TA and training centers.

- Establish a standardized evaluation methodology and continue with the formal three-year rolling program of evaluations.

### **Review of Technical Assistance Policy and Experience (2002)**

- Continue the use of prioritization filters, but discontinue technical consultations and restrict use of technical cooperation action plans to exceptional cases.
- Limit expanding regional delivery of TA and training, weighing carefully the benefits (regional externalities) against the costs (significant amounts of backstopping and oversight).
- Broaden options for greater dissemination of TA reports and information, taking into account the sensitive nature of some information in TA reports.
- Develop a comprehensive system for planning and tracking TA and create a TA evaluation program.

### **Ensuring Alignment of Technical Assistance with the IMF's Policy Priorities (2000)**

- Strengthen the prioritization of TA using the filters introduced in the Policy Statement in 2000, but the approach should not compromise the principle that all members are eligible to request TA.
- Focus on core areas of specialization.
- Make further efforts to ensure strong systems for monitoring, follow-up and evaluation of TA activities.
- Cooperate with other TA providers and draw up comprehensive TA action plans for countries with extensive TA needs.

### **Review of Fund Technical Assistance (1999)**

- Link the assessment of TA priorities and allocation decisions more closely with IMF Article IV consultations, changing the orientation of the IMF's TA from being largely curative to being more preventive.
- Conduct specific TA Consultations as part of Article IV consultations in order to assess progress in implementing past technical advice and discuss future needs. For countries requesting significant volumes of TA, a Technical Cooperation Action Plan would be drawn up that would place cooperation in a medium-term framework.
- Limit the subject areas to those areas for which the IMF has a comparative advantage.
- Place greater emphasis on the use of short-term and peripatetic experts rather than long-term experts.
- Develop an explicit policy on TA, to strengthen evaluation, and increase reporting of results to management and the Executive Board.