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Funding Issues**

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Independent Evaluation Office
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BACKGROUND PAPER



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The IMF and Capacity Development— Funding Issues

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IEO Background Paper
Independent Evaluation Office
of the International Monetary Fund

The IMF and Capacity Development—Funding Issues

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The views expressed in this Background Paper are those of the author and do not necessarily represent those of the IEO, the IMF or IMF policy. Background Papers report analyses related to the work of the IEO and are published to elicit comments and to further debate.

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ABBREVIATIONS

ACES	Analytical Cost Estimation System
AFR	African Department (IMF)
AFRITAC	African Regional Technical Assistance Center
AML/CFT	Anti-Money Laundering / Combating the Financing of Terrorism
APD	Asia and Pacific Department (IMF)
ATI	Africa Training Institute
CAPTAC-DR	Central America, Panama, and Dominican Republic Regional Technical Assistance Center
CARTAC	Caribbean Regional Technical Assistance Center
CCAMTAC	Caucasus, Central Asia, and Mongolia Regional Capacity Development Center
CCB	Committee on Capacity Building (IMF)
CD	Capacity Development
CDD	Capacity Development Department (IMF)
CDIMS	Capacity Development Information Management System
CDMAP	Capacity Development Management and Administration Program (IMF)
CDOT	Capacity Development office in Thailand, IMF
CICDC	China-IMF Capacity Development Center
DMF	Debt Management Facility
FCS	Fragile and Conflict-Affected States
FIN	Finance Department (IMF)
FIRST	Financial Sector Reform and Strengthening Initiative
GNI	Gross National Income
ICD	Institute for Capacity Development (IMF)
ICDGP	ICD's Global Partnerships Division (IMF)
ICDSE	ICD's Strategy and Evaluation Division (IMF)
JVI	Joint Vienna Institute
JSA	Japan Administered Account for Selected IMF Activities
LEG	Legal Department (IMF)
LoU	Letter of Understanding
LTX	Long-Term Expert
MCD	Middle East and Central Asia Department (IMF)
MECEF	Middle East Center for Economics and Finance
METAC	Middle East Regional Technical Assistance Center
MNRW	Managing Natural Resource Wealth
OBP	Office of Budget and Planning (IMF)
OIA	Office of Internal Audit and Inspection (IMF)
ORM	Office of Risk Management (IMF)
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PRGT	Poverty Reduction and Growth Trust (IMF)
RCDC	Regional Capacity Development Center
RMTF	Revenue Mobilization Trust Fund
RTAC	Regional Technical Assistance Centers

RTC	Regional Training Center
SARTAC	South Asia Regional Training and Technical Assistance Center
SFA	Administrative Account for Special Fund Activities
STI	IMF-Singapore Regional Training Institute
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Tool
TTF	Topical Trust Fund
UMIC	Upper Middle-Income Country
WB	World Bank

EXECUTIVE SUMMARY

This paper examines the financing of IMF capacity development (CD) as input for the IEO evaluation of IMF CD from 2012–2020.

Overall, the IMF's model for funding its CD served the institution well during the evaluation period. The dual funding model for CD was effective overall for the IMF and its membership – as external financing has been instrumental in allowing the Fund to increase CD to its members, particularly in the context of a flat real budget constraint. Externally funded CD spending grew from \$95 million in FY2012 to peak at \$176 million in FY2019 and amounted to a total of \$1.4 billion during the evaluation period (FY2012–2021). External financing also made possible the creation of regional centers for the delivery of training and technical assistance, bringing advantages in terms of proximity and attunement to conditions on the ground. Further, partnering with external donors, as well as RCDC hosts and members, helped the IMF to coordinate more effectively with others in providing CD assistance.

The IMF implemented the dual funding model pragmatically, working to offset potential risks that external financing would unduly drive CD prioritization and allocation as well as to promote the sustainability of financial support. IMF staff worked to engage new donors, diversify financing sources, increase the role of multi-partner vehicles, and front-load funding to help mitigate the risks involved with external financing for CD. Further, in the face of the COVID-19 crisis, the IMF managed resources adeptly and experimented with a new vehicle to attract new donor resources in a way that increased the IMF's ability to deploy them to meet evolving needs. Sufficient funding to deliver CD was sustained during a difficult crisis period, and the IMF is well positioned in the next few years as demand for CD ramps up again, including given the budget augmentation and accompanying increase in the envelope for externally financed CD.

However, it proved challenging to increase flexibility of funding vehicles while at the same time sustaining external donor funding and diversifying its sources. This reflected uncertainties related to the ongoing pandemic and broader pressures on national budgets, as some major donors sought to increase their own control over resources and to find ways to convey and increase the visibility of their own impact, distinct from that of other donors or even the IMF.

Further, while the IMF acted pragmatically to find ways to meet country needs, including by creating new funding vehicles that could attract donor resources, there were questions about consistency and coherence in the funding model. The vision of complementarity between internal and external resources, in which the former would fill gaps in availability of funds, was well conceived but became more challenging as competition for internal resources has increased. Further, gaps and unevenness in RCDC funding, and between countries that attract varying levels of donor interest and resources, suggest the need for further attention to ensuring a level playing field for access to resources for CD, in particular the greater continuity of interaction and regional synergies that RCDCs facilitate. Some stakeholders also sought greater coherence in the funding model and coordination in fundraising across the institution.

The IMF was working to tackle some of these challenges as this report was being prepared, for instance by examining the IMF's role in funding RCDCs and considering moving toward medium-term budgeting for multi-partner vehicles. In addition, given the risks involved in relying on external funding and the tensions inherent in the IMF CD funding model, in which external resources bring their own complications and internal resources are constrained by the flat real budget, the IMF should consider whether there may be alternative approaches to generating additional resources for funding CD that would increase its resilience and potentially raise its overall level.

I. INTRODUCTION

1. This paper examines the funding of IMF capacity development (CD), as part of the IEO's evaluation of IMF CD work, covering the period 2012–2020 (FY2012–2021).¹
2. Except in narrow circumstances, the Fund has not and does not charge for the CD it provides; instead, IMF CD is financed by a combination of IMF resources and external resources targeted specifically to CD. This sets CD apart from most other IMF operations, which rely solely on the IMF's own resources (derived from its lending operations or investment income on its assets).² Reliance on external funding has important implications for CD strategy and operations, some of which have been highlighted in the context of the COVID-19 crisis.
3. This paper will describe the IMF's approach to financing CD and how it has evolved over time, including in the initial phase of the COVID-19 pandemic (Section II); discuss issues and challenges related to the funding model (Section III); and consider the overall performance of the model and whether there are alternatives that could be explored (Section IV).
4. This paper relies on a review of IMF documents; interviews with IMF staff, Executive Directors, member country authorities, and other organizations that provide resources for IMF CD and/or are CD providers themselves; and results of IEO surveys of country authorities and IMF staff. The paper also draws on information and analysis presented in other/companion background papers prepared for this evaluation and in particular has important linkages to papers on working with partners (Radelet, 2022) and delivery of CD (Enoch, 2022).

II. FUNDING MODEL—KEY CHARACTERISTICS

A. History and Objectives

5. The hybrid model for funding IMF CD—in which CD activities are financed by a combination of internal and external resources—has evolved organically over time. Initially, all IMF CD was financed internally. External resources first emerged as a funding source when Japan stepped forward in 1990 to provide resources targeted to CD. On the IMF side, the Fiscal Affairs Department was in the forefront of drawing on external resources to fund CD activities. A 2001 Policy Statement on Technical Assistance noted the importance of the growing role of external financing in helping the IMF support countries in strengthening their economic policy and financial management capacities (IMF, 2001).

¹ The IMF Financial Year runs from May 1 to April 30.

² The IMF is reimbursed by the Poverty Reduction and Growth Trust (PRGT), funded by donor contributions for concessional funding to low-income countries, for costs related to PRGT operations.

6. The role of external funding expanded rapidly when the IMF faced new challenges in funding its activities in 2007–08 and undertook a “downsizing” of its overall administrative budget.³ In responding to these challenges, the IMF took the decision to scale back internal funding for IMF CD and look increasingly to external partners to provide resources to fund CD (IMF, 2008b).⁴ There was also a decision at that time to begin charging for technical assistance (TA) and training to help rationalize supply and demand, as detailed in Box 1, but this decision was never implemented and was later reversed, except for CD to high-income members.⁵ In addition, recipient countries occasionally “co-fund” CD that they receive from the IMF, as is the case in China (Legg, 2022). As discussed below, recipient countries also make contributions to regional CD centers of which they are members, but these contributions are not linked to the amount of CD each country receives.

7. Since 2008, IMF CD has increased dramatically, with the rise largely funded from external sources. CD represented nearly one third of the IMF’s administrative budget in FY2018– and FY2019, before falling in FY2020 and FY2021 due to the COVID-19 crisis.⁶ External resources funded 55 percent of total direct spending on CD at the peak in FY2018–FY2019, up from less than 30 percent of a smaller pie in 2008 (Figure 1). Externally funded CD spending grew from \$42 million in FY2007 to peak at \$176 million in FY2019, of \$317 million in total direct CD spending. The share of CD funded externally then fell to 48 percent in FY2021.⁷ Total externally funded CD amounted to a total of \$1.4 billion during the evaluation period (FY2012–2021).

³ The pressure on resources to finance the IMF administrative budget resulted from a decline in IMF lending, which generates revenue through interest/charges that the IMF uses on to finance its operations.

⁴ This decision was taken by management after extensive consultation with the Executive Board as part of the discussion of the medium-term budget as well as explicitly on the charging policy.

⁵ High-income members (in the top two deciles of countries ranked by the World Bank using data on gross national income) are charged for CD above a minimum threshold (IMF, 2019b). More broadly, policy requires limiting Fund-financed CD for advanced economies, in order to avoid crowding out CD to countries that could not otherwise afford it—except in crisis situations where no other source of funding is available (IMF, 2015).

⁶ During the COVID-19 crisis, CD spending fell to 26 percent of the total IMF administrative budget (including indirect costs).

⁷ Fund-financed CD spending increased slightly (\$1 million) while externally financed CD fell (\$19 million)—due in significant part to travel disruptions.

Box 1. History of IMF Charging for CD

Current IMF Policy. IMF TA provided to high income economies, defined as countries in the top twenty percent of the World Bank's ranking of GNI per capita, requires funding from the recipient, except in the case of "critical" TA as jointly determined by the relevant IMF area and CD departments.¹ Training participants from high income countries are expected to be "self-financing" (with all out-of-pocket costs covered by home institution)—with exceptions to reflect funding arrangements at regional training centers (RTCs).²

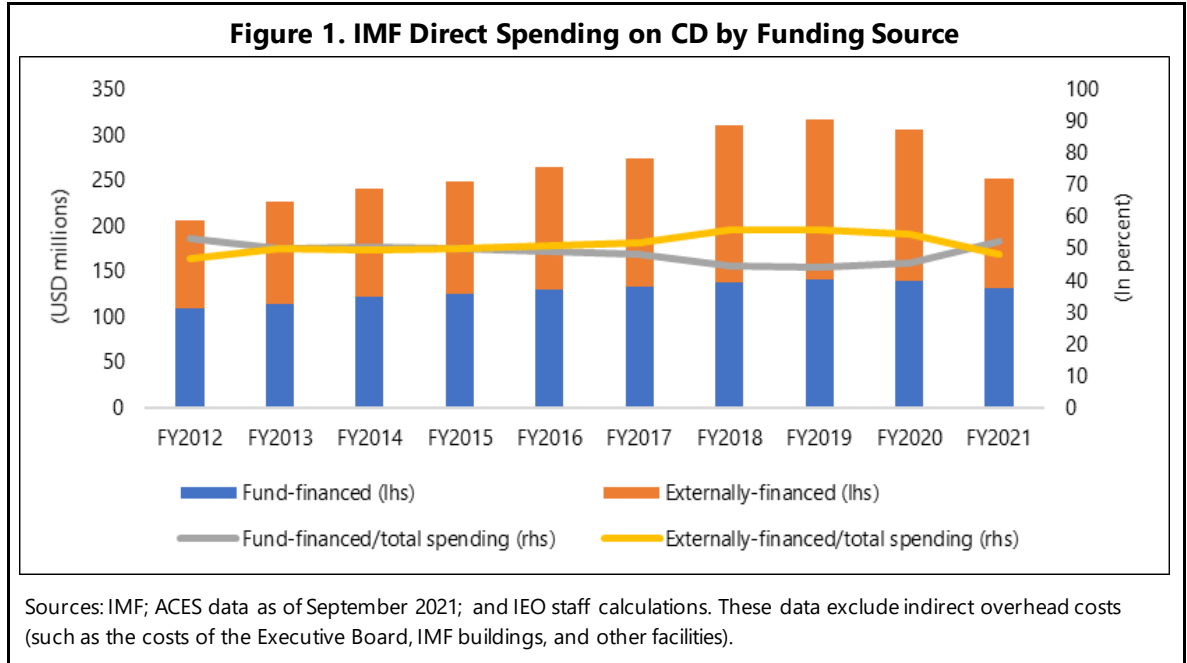
History. The IMF historically collected fees from host countries for resident TA advisors but discontinued this practice for low and lower-middle income countries as arrears appeared. According to IMF staff, there were several attempts, going back to the mid-1980s, to expand charging that did not come to fruition. Following a 2006 Strategic Review and 2007 External Panel report on IMF finances, the IMF began to explore a graduated system of charging to "make TA pass a market test" (IMF, 2008a). After extensive deliberations, a majority of the Board supported a policy to charge non-program countries on a sliding scale (linked to income level) for direct delivery costs of TA, except that financed by external/donor resources.

The introduction of charging was intended to help provide a clear signal of demand for TA and training, motivate stronger engagement and ownership, increase transparency and accountability, and thereby promote more efficient use of IMF resources. Opponents argued that TA represented a public good, with benefits extending well beyond the recipient country, and that charging raised issues of comparability of treatment, given that the Fund devotes extensive resources to surveillance (including of advanced economies) at no charge. There were also concerns that charging could result in under-investment in capacity building in non-program countries with urgent needs and a fall-off in Fund engagement. Some members also pointed to the conflict inherent in the IMF providing policy advice that requires TA that only the Fund can provide, and then charging for it.

This charging policy was scheduled to go into effect in May 2009, but in light of the global financial crisis and concerns from membership, Management "temporarily suspended" implementation (IMF, 2009b) and then rescinded the policy in 2011 (IMF, 2011). Increased external financing, a strengthening of the internal prioritization process, and the importance of CD for program countries were cited as justifications for the 2011 decision.

¹ From 2015–2019 the policy applied to advanced economies, rather than high income. The IMF revised this policy in 2019 to apply to high-income countries, which had the effect of excluding some countries close to middle income status and adding some oil rich states (IMF, 2019b). The policy was also adjusted to introduce a minimum threshold introduced to avoid high administrative costs to collect small fees, as well as to make other adjustments to streamline procedures and avoid potential awkwardness in charging a country that is a large donor for a small request.

² In general, the cost of training per participant falls below the minimum threshold for charging for CD. However, any single-country training event requested by an advanced economy would be fully charged. The number of participants from self-financed countries was also expected to remain minimal, with an expectation of no more than two at a standard face-to-face course.



8. This funding model has been codified in Statements of Policies and Practices on CD, which recognized that internal “IMF01” and external “IMF02” funding were not perfect substitutes for each other (IMF, 2014c and 2019d). The statements accordingly specified the role for each and the importance of additionality, reflecting principles agreed by the Board in the context of the 2013 and 2018 CD reviews. These are laid out as follows in the 2019 statement:⁸

- “Fund’s role. Fund financing of CD should be considered in the following cases: (i) in countries or on topics where donor funding is not available, including program cases; (ii) when a quick reaction is required; or (iii) when Fund expertise in particular areas needs to be maintained.
- Donors’ role. Donor financing of CD should be considered in the following cases: (i) when donor interests are consistent with Fund priorities and objectives; (ii) when sufficient space is available in the Fund’s budget to cover related indirect costs; and (iii) when sufficient space exists under the overall limit for externally financed CD expenditure set by the Board in the context of the Medium-Term Budget.
- Additionality. Donor financing should result in additional delivery of CD to members.”

The IMF sees the two funding sources as playing complementary roles in supporting IMF CD. External funding has been described by IMF staff as “best suited” to CD that is planned or programmed over the medium term, since it is targeted to certain countries and/or topics and

⁸ The third stipulation under the donor’s role was added in 2019. The second stipulation under the donor’s role was revised in 2019 to substitute “related indirect costs” for “co-financing” in the 2014 version (IMF, 2014c and 2019d).

since work programs are agreed with partners, while internal funding can be directed to under-resourced or unforeseen demand since the institution has greater flexibility in decision-making about its own resources (IMF, 2018b).

9. For comparison, the World Bank also receives funding from external donors via trust funds that cover the costs of about two-thirds of the World Bank's CD-type activities; the balance of CD-type activities take the form of reimbursable (i.e., fee-based) advisory services provided to higher income countries or services provided in the context of lending (and funded as part of those loans).⁹ Regional development banks primarily associate CD with specific projects, with financing provided in that context. On the other hand, bilateral aid organizations that provide CD as part of their activities generally do not impose charges for these services, which are funded from within their own governments' foreign assistance budgets. Some countries also hire private sector consultants or other commercial entities to provide technical support or advice, for instance in Saudi Arabia as discussed by Chopra (2022).

B. Budget and the Role of the Board¹⁰

10. Parameters for CD resourcing are decided through the medium-term budget process. Each year, the medium-term budget proposed by Management and approved by the Executive Board designates an envelope for overall CD spending. Internal resources for CD are determined by departmental budgets, which make adjustments from their structural (past year) budget to reflect streamlining or reprioritization among their activities, within the "flat real" budget constraint that the IMF faced during the evaluation period (2012–2020).¹¹ Resources for CD tend to be more flexible, and thus may be at risk if there is the need for streamlining, as surveillance and lending activities are more directly tied to execution of the IMF's mandate. In FY2016–2020, IMF-funded CD represented about 12 percent of gross administrative spending, or about 20 percent of spending once indirect costs were allocated. (See Jensen and Kell (2022) for a discussion of CD spending relative to other IMF activities.) The medium-term budget each year also sets out a ceiling for externally financed CD spending, which has created a real flat envelope

⁹ The Bank's CD-type activities are not centrally managed or monitored but instead come about either as an element of project or program lending, or in the form of "other advisory services and analytics" provided by the Bank's 15 global practice groups. The amount of this type of work performed has not historically been directly tracked, although the Bank is currently pursuing reforms aimed to bring greater continuity and closer tracking.

¹⁰ See also De Lannoy (2022a).

¹¹ The Fund's "new" income model, adopted in 2008, created an additional potential constraint for the administrative budget, including CD spending. This new income model "was designed to move away from reliance on lending income for financing the Fund's non-lending activities," which would be covered by investment and other non-lending income (IMF, 2022b). (During the Global Financial Crisis, when income from non-concessional programs rose and income from investments fell, the Executive Board invoked "exceptional circumstances" to allow for lending income (excluding surcharges) to cover a significant portion of its non-lending operating costs. This practice continued through the evaluation period, with lending in effect cross-subsidizing surveillance, CD, and other activities.)

for externally financed CD since FY2019. This limit was set to help keep an appropriate balance between Fund outputs, among other factors.

11. Allocation and execution of the CD budget is overseen through several channels.¹² The Committee on Capacity Building (CCB) takes a leading role, meeting three times per year to oversee CD operations: to update Fund-wide CD priorities and make indicative resource allocations to regions and workstreams; to take stock of external funding vehicles and fundraising; and to assess the execution of CD workplans from the previous financial year and review outcomes and evaluations. As noted above, the CCB is charged with assessing new financing initiatives as needed to address CD needs. It can also recommend strategic shifts, for instance to refine the balance of funding. In this process, the CCB is supported by the work of divisions within the Institute for Capacity Development (ICD), in particular the strategy and evaluation division (ICDSE), which serves as secretariat for the CCB, and also the global partnerships division (ICDGP), whose mandate and activities are described in Box 2.

Box 2. ICD Global Partnerships Division

ICD's Global Partnerships Division (ICDGP) oversees and manages external financing for CD across the IMF, including resources provided through RCDCs, thematic funds, and bilateral arrangements with donors (IMF, 2020f). ICDGP coordinates across CD-delivery departments and area departments, at headquarters and in the field. Key tasks include the following:

- Fundraising, including strategy, policy, engaging potential partners, negotiating and formalizing funding agreements and replenishments (working with LEG) for bilateral funding arrangements as well as multi-donor vehicles.
- Relationship management, including maintaining the flow of communication with donor partners, providing information about funded activities, and facilitating appropriate acknowledgement and visibility of donor partner support.
- Governance, e.g., participating along with area department representative(s) in steering committee meetings for regional technical assistance centers (RTACs) and thematic funds and organizing external evaluations as required by donors.
- Administrative activities related to RTACs, including ensuring consistency in application of Fund policies and procedures and providing fiduciary oversight of budget execution.
- Trust fund management (in collaboration with FIN and LEG).
- Planning and facilitating work program and activities, e.g., by provide financial information to guide formulation and execution of these work programs.

Corporate fundraising and governance undertaken for the IMF as a whole is estimated to represent about one-fifth of ICD's administrative budget (IMF, 2020f). In FY2020, ICDGP had 33 employees: four fungible macroeconomist staff members (Division Chief, Deputy Division Chiefs, and one senior economist), 25 staff members in the Specialized Career Stream (administrative support, budget and financial officers, TA and senior TA Officers), and four contractual employees (two administrative, and two TA/Senior TA Officers).

¹² This is discussed further in Towe (2022).

12. Other departments also play a role in monitoring and managing the financing and budgeting of CD. For instance, Office of Budget and Planning (OBP) monitors risks related to IMF staff involvement in externally financed CD reimbursed via chargebacks. Because some staff time is reimbursed by external sources, the IMF necessarily has more staff on board than can be funded with its own resources, so that OBP takes practical steps through the budget process to control spending and staff levels to protect against changes in donor funding.

13. Risks across the institution, including related to CD are defined and assessed by the Office of Risk Management (ORM), as part of a risk management framework that was initially developed in 2006. Financing-related CD risks were first identified in the 2014 Risk Report, which pointed to “the possibility of significant reductions in funding for capacity development from fiscally-constrained donors, and the risk that heavy reliance on donor-funded TA could skew work towards priorities differing from recipient needs” (IMF, 2014b).

14. The Board’s role in overseeing CD activities in general is somewhat different from programs, surveillance, and other IMF work—as is discussed in more detail (De Lannoy, 2022a).¹³ The Board must approve establishment of new sub-accounts as part of its financial due diligence, but this is done on an “lapse of time” basis without discussion of the details, such as the focus of CD to be funded. Governance of these agreements, as discussed above, is provided through direct interaction between the IMF and contributors, or groups thereof. In addition, the Board receives information about CD priorities, budgeting, and spending in the annual Medium-Term Budget paper as well as the Board report on budget “outturns”.

C. External Donors and Funding Vehicles

15. The number of countries providing resources for IMF CD expanded dramatically from 2008 through 2020—to a total of 120 contributors including country members of Regional Capacity Development Centers (RCDCs, discussed below). Table 1 shows the top contributors for the period FY2019–FY2021.¹⁴ Japan was the first external donor and largest over the three-year period of FY2019–2021, providing \$109 million (18 percent of the total); for the full evaluation period of FY2012–2021, Japan provided \$327 million. The European Commission provided \$74 million (12 percent) in FY19–2021 and \$304 million across the full evaluation period, making it the second largest donor in both these periods. Most donors are IMF member countries, joined by a few multilateral organizations beyond the European Union (e.g., the Caribbean Development Bank, the European Investment Bank, and The Arab Fund) and occasionally a

¹³ In 1991, as part of a broader effort aimed at “reduction and streamlining of Board documentation,” a decision was made to recognize the Managing Director’s authority to accept TA requests from members as part of ordinary business, ending the requirement for Board approval of individual TA requests, which led to 118 individual decisions by the Board in the year preceding the decision (IMF, 1991).

¹⁴ The Austrian Finance Ministry and Central Bank each fund about one-third of the Joint Vienna Institute in a collaborative undertaking with the IMF. These resources go directly to the JVI rather than being channeled through the IMF and thus are not included in data on contributions to IMF CD.

private foundation (e.g., the Gates Foundation).¹⁵ Some top contributors, such as Kuwait, India, and Ghana provide most or all of their funding as hosts of an RCDC.

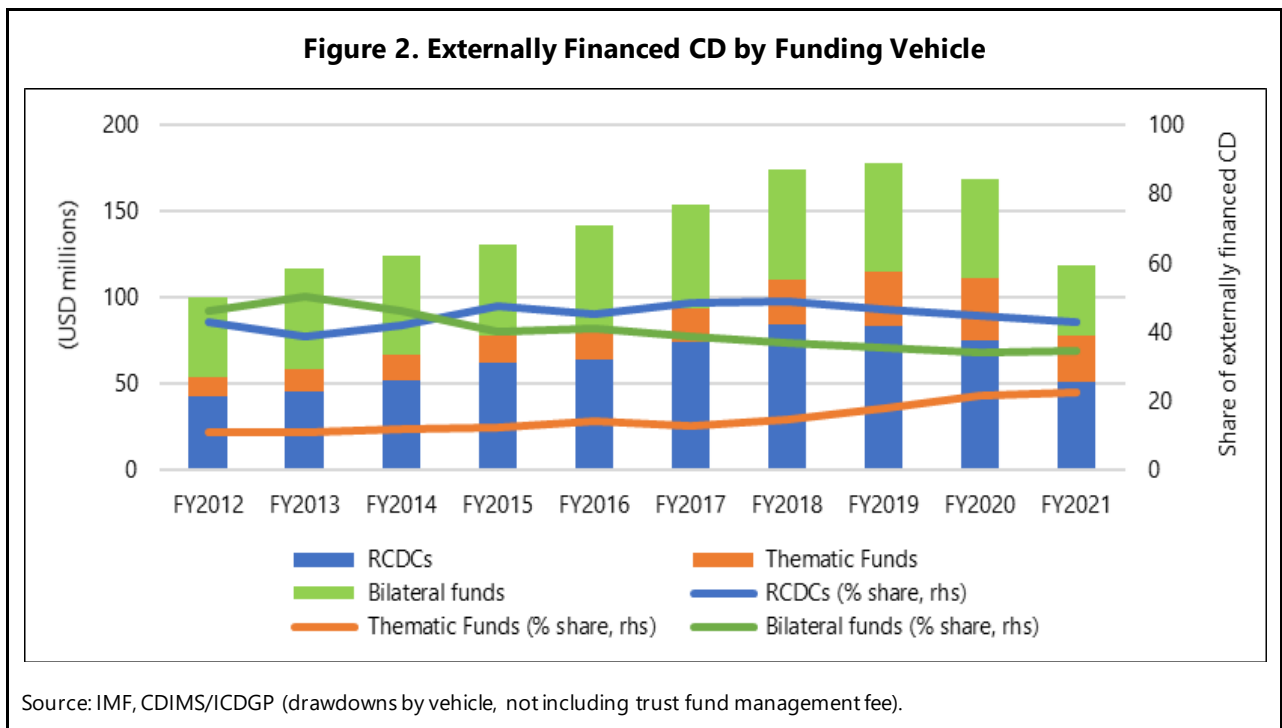
Table 1. Partner Contributions, FY2019–2021		
Donor	Contributions (In millions of USD)	Share (In percent of total)
Japan	109	18
European Commission	74	12
Germany	42	7
Switzerland	40	7
United Kingdom	33	6
Netherlands	31	5
China	30	5
Canada	26	4
Kuwait	25	4
Norway	20	3
Austria	15	3
France	14	2
Korea	14	2
Australia	12	2
Sweden	11	2
Luxembourg	10	2
New Zealand	8	1
Singapore	8	1
Kazakhstan, Republic of	8	1
Denmark	5	1
Ghana	5	1
Belgium	4	1
Caribbean Development Bank	4	1
Spain	3	1
Sri Lanka	3	0
Other donors and institutions	49	8
of which: private foundation	1	0
Total	600	100

Source: IMF, CDIMS.
Note: Amounts shown are contributions in FY2019–2021. Figures adjusted for RTC costs covered directly by the hosts, which are not reflected in IMF accounts.

¹⁵ The IMF has guidelines for accepting resources from private sector entities, which are laid out in a document provided to the Board for information (see IMF, 2018a).

16. The growth of external funding was accompanied and facilitated by new structures for donor relationships and CD delivery. External funding was initially provided bilaterally through individual donor countries, which set parameters for topics, countries, or regions on which they wished to focus. As external funding grew, the IMF developed and promoted multi-partner vehicles to channel funding to regions or shared objectives, which have taken two main forms. Regional Capacity Development Centers (RCDCs) – a recent term that includes entities originally conceived as Regional Technical Assistance Centers (RTACs) and Regional Training Centers (RTCs)—represent a partnership among host countries, donor partners, and in most cases member beneficiary countries to support CD activities in a targeted group of countries.¹⁶ Multi-donor trust funds focus on thematic issues across regions (Thematic Funds) or occasionally individual countries across CD topics (Country Funds).

17. About two-thirds of external funding was channeled through multi-partner vehicles that focused on specific regions or purposes in FY2020 (Figure 2). RCDCs themselves peaked at about half of total external funding in FY2018, falling to 43 percent in FY2021, while the share of resources from Thematic Funds grew from about 10 percent at the start of the evaluation period to 22 percent by FY2021. Bilateral funding accounted for 35 percent of all external funding by FY2020, down from nearly 50 percent in FY2012.¹⁷



¹⁶ Organizationally, RTACs are based in area departments, whereas RTCs are based in ICD.

¹⁷ Shares in FY2021 were affected by the COVID-19 crisis and are thus not included in the discussion.

18. There are currently seventeen RCDCs—six in Africa, five in Asia-Pacific, two in the Middle East, two in Latin America, one in Europe, and, most recently, one in Central Asia. The locations, donor partners, and member beneficiaries of these vehicles are detailed in Annex I, along with a figure illustrating the coverage and overlap of the RCDCs (from De Lannoy, 2022b).

19. RCDCs are financed primarily by donor partners, member country partners, and host country partners, in different combinations, typically but not always in phases lasting about 4–5 years. Figure 3 shows the total funding of each RCDC and the share committed by different sources.¹⁸ The IMF typically covers the salaries and benefits of IMF staff at the centers, in particular RCDC Directors.¹⁹ The IMF also jointly funds the Joint Vienna Institute (JVI) and the IMF-Singapore Regional Training Institute (STI). Some internal IMF resources were also targeted for RCDCs as part of the augmentation of the IMF’s budget in FY2023–2025, as discussed in, Section III.A below.

20. Twelve centers—ten RTACs, the hybrid South Asia Regional Training and Technical Assistance Center (SARTAC), and the Africa Training Institute (ATI)—have similar structures. Donor partner contributions represent between 30 to 90 percent of external funding for these centers. Host contributions play a substantial role in some centers, such as SARTAC and Caucasus, Central Asia, and Mongolia Regional Capacity Development Center (CCAMTAC), for which hosts committed more than half of total funding, and also in the Middle East Regional Technical Assistance Center (METAC, 22 percent) and AFRITAC West II (16 percent). Commitments from member countries receiving CD range from 6 percent to as much 25 percent of the total.²⁰ These shares, and the information in Figure 3, represent commitments, which are not always received as expected. Beginning in FY2021, additional funding was provided to some RCDCs as part of a new COVID-19 Crisis CD Initiative funding vehicle. The COVID-19 Initiative is discussed further in Sections II.E below.

21. The other five RCDCs have varying structures. The IMF CD Office in Thailand (CDOT) is hosted by the Bank of Thailand, and its project activities are supported by the government of Japan. The Middle East Center for Economics and Finance (MECEF) is funded by the government of Kuwait, and the China-IMF Capacity Development Center (CICDC) is funded by the People’s Bank of China. The JVI is an independent entity funded equally by the IMF, Austrian Ministry of Finance, and Austrian Central Bank, with discrete funds from other donors for specific projects.²¹

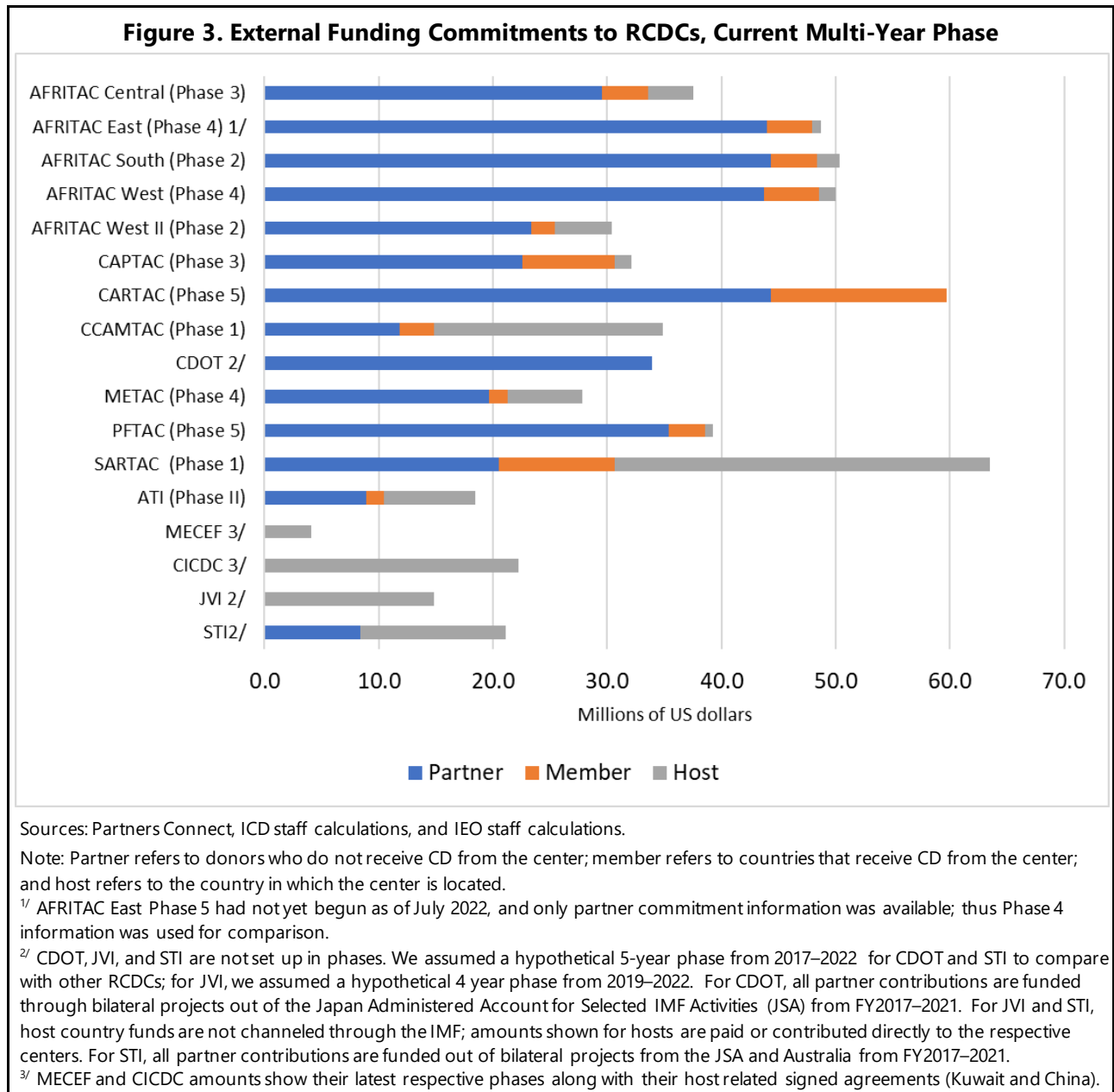
¹⁸ Internal transfers also play a role in some RTACs, so that the contribution shares may not account for the full amount of a particular RTACs total resources. In particular, these internal transfers account for 6 percent of funding for AFRITAC Central (Phase 3) and METAC (Phase 4).

¹⁹ The SARTAC Director is also from IMF staff, but this salary is funded by the center itself. Six of the ten RTACs also benefit from some internal IMF funding beyond the Director’s salary, primarily for administrative expenses.

²⁰ There is no standard expectation for the level of beneficiary member contributions, as this is agreed through consultations among members and potential donors.

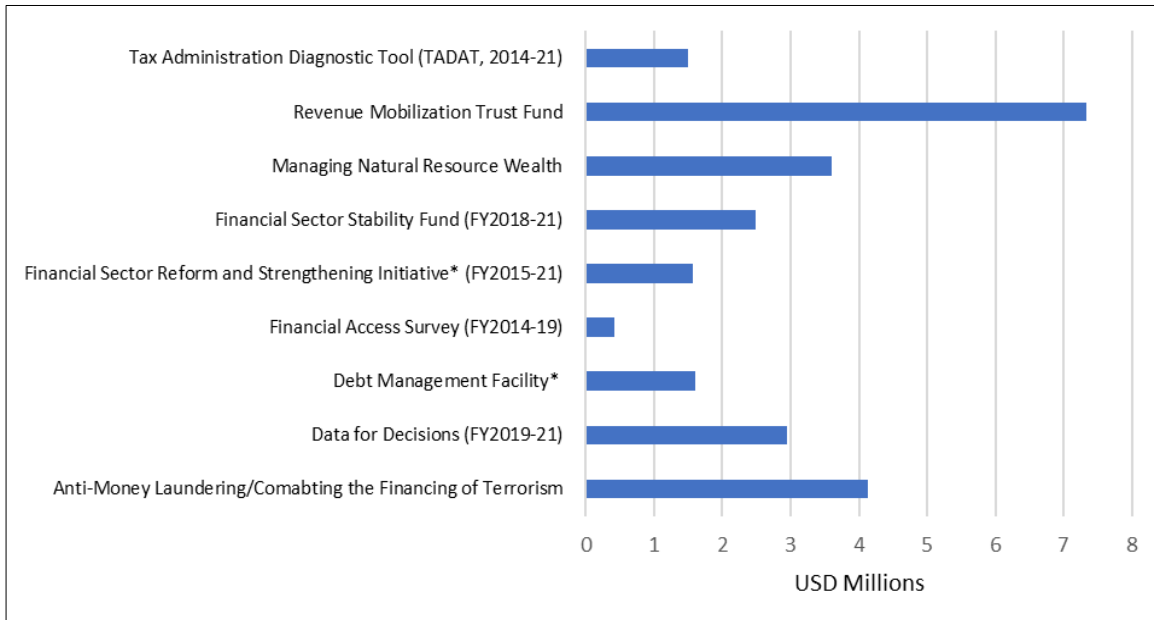
²¹ The IMF finances one-third of the JVI’s operating budget, with the other two-thirds split between the Austrian National Bank and the Austrian Ministry of Finance.

The STI is jointly funded by the IMF and the governments of Japan and Singapore, with some support from the Australian Government.



22. During the evaluation period, external resources were provided for CD through nine topical Thematic Funds—two of which were joint with the World Bank, Debt Management Facility (DMF, now in its third phase) and Financial Sector Reform and Strengthening Initiative (FIRST). FIRST is no longer active; the Financial Access Survey fund has been merged with the Data for Decisions fund. The average annual funding for each is shown in Figure 4. These trust funds are entirely financed by external donor resources, and most focus on low-income and lower middle-income countries.

Figure 4. Thematic Trust Funds, Average Annual Funding, FY2012–2021
(Or as indicated)

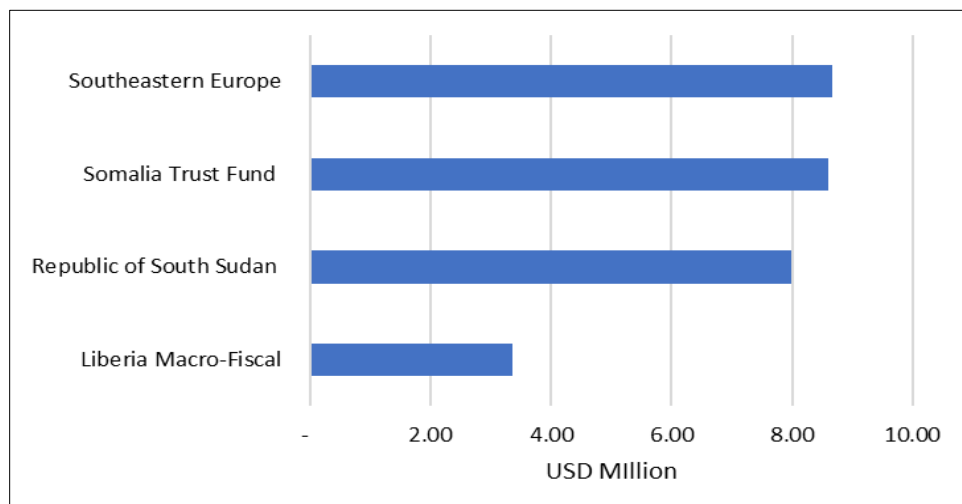


Source: CDIMS (Amounts Drawn) And ICD Staff.

Note: Trust Funds with Asterisks are Joint with The World Bank.

23. In addition, there were four country-focused trust funds active over the course of FY2012–2021, as shown in Figure 5. The funds for Liberia and South Sudan are no longer active.

Figure 5. Country Thematic Trust Funds, Total Funding, FY2012–2021



Source: CDIMS, amounts drawn

D. Governance and Administration of Externally Funded CD

Fundraising

24. All external resources are provided to the IMF's Administrative Account for Special Fund Activities (SFA) through separate sub-accounts.²² As of November 2020, there were 51 such sub-accounts, 23 of which were for bilateral contributors to fund CD projects specified in individual agreements with the IMF and the balance of which were established for the purpose of financing multi-partner vehicles such as RCDCs or Thematic or Country Trust Funds (IMF, 2020b).²³

25. External funding is coordinated through a centralized process, coordinated by ICDGP. Originally, each CD department maintained its own relationship with donors. However, as the IMF looked more to external financing for CD, the need to coordinate engagement became apparent, including to avoid departments directly competing with each other for donor resources. After formation of ICD in 2013, a document laying out the "Review Process for the Approval of New Donor-Financed Initiatives" indicated that this new department would coordinate all fundraising in order to ensure "consistency with institutional and budget objectives" and "adequate consultation among relevant Fund departments" (IMF, 2014a).²⁴ This approach was intended "to provide a one-stop window for donors and to ensure consistency with the overall fundraising strategy and policies and procedures regarding CD." CD departments were thus expected to inform ICD about potential new initiatives or donor contacts at the initial stages of the process. Management approval was required for all initiatives.²⁴

26. This process was updated in 2021 to reflect the strengthened role of the CCB, which brings departments together to establish priorities for CD in a medium-term work plan, as well as reviewing available financing for shortfalls or gaps and identifying fundraising priorities (IMF, 2021a). Endorsement of the CCB and approval of management is required for new vehicles or closing of major funding vehicles when over \$10 million per year is involved; the CCB must also be notified of any initiatives or major adjustments to existing initiatives under this amount.²⁵

Arrangements for and Oversight of External Contributions

27. Arrangements with external contributors are formalized in Letters of Understanding (LoUs). These LoUs specify financing details and include program documents outlining the broad

²² The SFA was created in March 2009 with the aim of providing a more systematic approach to external financing, including adjustments to the cost recovery model (IMF, 2009a).

²³ One sub-account is used for funding of externally financed staff appointees.

²⁴ This includes all funding vehicles, i.e., Regional Technical Assistance Centers (RTACs), Topical Trust Funds (TTFs), Regional Training Centers (RTCs), new bilaterally-funded capacity development initiatives) and the renewal of existing multi-donor initiatives (e.g., new five-year RTAC, RTC, or TTF cycle). A simplified process is in place for small initiatives with an annual budget of less than \$1 million.

²⁵ Management approval is required for specific financing arrangements (i.e., Letters of Understanding with donors, LoUs); this approval is delegated to the Director, ICD for arrangements of up to \$10 million.

objectives to be served as well as the region, countries, and delivery modalities that can be supported with the resources.²⁶

28. Operation of these vehicles generally involves active engagement of IMF staff, who also oversee periodic external evaluations mandated by donors to assess the use of vehicle resources against objectives. Some trust funds also involve partnership with another international financial institution (e.g., the DMF with the World Bank), leading to more complicated governance arrangements.

29. For multi-partner vehicles, steering committees provide strategic guidance and contribute to priority setting; they also endorse the budget and annual work program. These committees include representatives from donor partners, member countries, and sometimes regional organizations (which in the case of RCDCs may contribute or work closely with the center), with non-members (such as consultants, WB or UN, etc) sometimes participating as observers. IMF staff are also active participants. Governance arrangements are intended to promote “country ownership, donor partner coordination, and RTAC accountability” (IMF, RTAC manual).

Administration and Cost Recovery

30. Executing externally financed CD, as well as that financed with the IMF’s own resources, involves a variety of activities beyond engagement with recipients. Some activities are considered part of direct delivery; this includes quality control (known as “back-stopping” within the IMF) as well as monitoring and evaluation. In addition, there are a variety of management and administrative tasks, some of which are carried out by CD departments and some by other departments such as the Legal Department (LEG) and the Finance Department (FIN). Direct costs that can be attributed to particular CD activities or projects—including project management and backstopping—are charged to donors directly (via “chargebacks”). To offset specific indirect CD administrative costs, the IMF charges a flat trust fund management fee of 7 percent.²⁷ Most of the receipts from this trust fund fee are allocated to ICD to cover fundraising and trust fund management costs, with some is also allocated to LEG and FIN for their work in preparing agreements and managing flow of funds, respectively. Other indirect costs not easily attributed

²⁶ LoUs must be reviewed before approval by LEG, FIN, all CDDs and area departments, and ICD’s governance division (ICDSE). External funding is channeled via subaccounts to the SFA; Board approval is required when a new subaccount is required (e.g., to establish a new RCDC or thematic fund).

²⁷ For comparison, the World Bank charges a 12 percent trust fund management fee on all direct costs of World Bank-implemented projects financed by trust funds (effective January 2021). A lower fee (5 percent for the first \$500 million and a declining fee as spending exceeds that total) is charged on direct costs of projects implemented by recipients. The World Bank’s definition of direct costs differs from that of the IMF; for instance, the Bank’s definition does not include backstopping or quality control nor any management or IT costs. See World Bank (2021).

to particular CD activities or projects, for instance related to governance of the institution and HQ facilities, are covered by the IMF.²⁸

31. In 2013, a staff working group was formed to identify and estimate the indirect costs of TA, which had increased as external financing of IMF CD grew and put pressure on the IMF's budget (IMF, 2014d). The working group set out to understand the implications of externally funded CD for internally funded activities, in order to "provide a more informed basis for assessing the merits of accepting money from donors," and lay the basis should the IMF decide to review the scope to increase the recovery of indirect costs.²⁹ Subsequently, in 2016, an "OIA Advisory Review of the Cost Recovery Model for Externally Financed IMF CD" recommended steps to strengthen the IMF's cost recovery model (IMF, 2016).

32. An inter-departmental staff working group formed the following year explored ways to enhance cost recovery, in particular to improve "chargeback" practices to increase recovery of eligible direct costs, attribute IT and similar costs where possible to specific CD projects, and harmonize cost recovery practices across RCDCs.³⁰ The proposed steps were seen as consistent with the Fund's long-time cost recovery model as well as the principle of maintaining "skin in the game" to reinforce the IMF's credibility and operational independence in its CD operations (IMF, 2017).

E. Experience and Innovations Under COVID-19

33. The COVID-19 pandemic posed a variety of challenges for IMF CD, including related to funding. While there were examples of donors agreeing flexibly to adapt to changes to the work program³¹, interruptions to in-person delivery created some practical issues related to the flow and management of external funding. Moreover, the sudden onset of the pandemic increased uncertainty about the availability of external resources for CD, including those that had already been committed—while country needs for CD shifted and arguably increased.

34. Issues with the flow and management of external funding related to the fact that even as the IMF worked to shift to virtual delivery (see Enoch, 2022), the institution could not deliver all

²⁸ Indirect costs attributed by OBP to all IMF administrative budget items represent governance and support expenses including for the operations of the Executive Board and the IMF HQ buildings and facilities. Direct costs in the IMF budget include "direct delivery" as well as activities to support CD such as management, evaluation, and analytics/development. The 7 percent fee charged to donors offsets a specific set of activities related to fundraising and legal agreements but does not take into account the broader indirect costs as attributed in the IMF administrative budget.

²⁹ This working group developed a methodology for estimating unreimbursed average costs of key unreimbursed, indirect support services (in particular for IT and HR departments) and determined that these indirect costs ranged from 8 to 11 percent across CD departments (with a weighted average of 8.8 percent).

³⁰ Implementation of these steps and the results are discussed in Section III.E below.

³¹ For instance, according to IMF staff, the Data for Decisions Fund donors readily agreed to expand the list of eligible countries, as well as to add a new modality to allow for ad hoc projects in response to the pandemic.

CD as planned. Where projects were interrupted or delayed, the IMF could not charge donors (“chargebacks”) as expected to cover related costs, for instance for backstopping and management; costs that were fixed based on anticipated needs (for instance staffing costs) then needed to be covered by the IMF’s own resources. In FY2021, reduced chargebacks and trust fund management fees linked to dollar delivery amounted to a shortfall of \$8.8 million in the net administrative budget in FY2021, which was then covered by the IMF’s own resources (IMF, 2021d).³²

35. There were also concerns about the stability of external funding and ability to meet country needs over the medium term. There were not major issues in the short term, as staff analysis showed that most Topical Trust Funds (TTFs) and RTACs had at least 6 months of average planned FY2021 spending on hand, so that their short-term liquidity situation was “broadly manageable,” although METAC faced a deficit and several others did not have resources in place to finance one year of operations (IMF, 2020a). At the same time, IMF staff also pointed to “serious funding risks” going forward, given that the need to continue to fundraise to meet current and planned activities (IMF, 2020a).

36. While donors in general remained supportive, they faced domestic pressures to adjust to economic shocks internally and to respond the crisis beyond their own borders. IMF staff concluded that new financing not related to COVID-19 was likely to be very scarce and that fundraising for existing vehicles was likely to be challenging (IMF, 2020a). Further, CD needs were evolving and growing as member countries sought support responding to the crisis, including through new or different types of CD, in some cases as part of program engagement.

37. In response to concerns about apparent or potential funding gaps, as well as the shifting needs for CD, IMF staff launched a fundraising campaign to attract new and more flexible external resources, building on some of the objectives for fundraising articulated in the 2018 CD review. The resulting COVID-19 Initiative launched in fall 2020 aimed to raise \$100 million to help “ensure that IMF staff can deliver CD support quickly and where it is needed most”—in particular to help countries manage their economies through the crisis and help them get “back on track towards the Sustainable Development Goals” (2020b). IMF staff envisioned that the Initiative would focus on providing funding for crisis-related CD needs in the areas of public finances, the financial sector, statistics, economic policy frameworks, and economic governance—including to help manage the financial support countries were receiving in the context of the crisis. Resources from this Initiative could be used to fund new projects or provide additional or gap-filling resources to existing projects or vehicles such as RCDCs.

38. The campaign approach differed from the IMF’s traditional approach of raising resources for RCDCs or Thematic Funds, which have a work program and budget. IMF staff explained that

³² Lower externally financed CD delivery reduced receipts from chargebacks for staff time by \$2.7 million (a better outturn than estimated earlier in the year) as well as Trust Fund Management Fee, which were \$6.1 million below what had been budgeted (IMF, 2021d).

they sought to attract donors on the basis of the list of general priorities and examples of potential CD projects, rather than by creating a work program and explicit budget up front, as was done for RCDCs or Thematic Funds. This alternative approach sought to increase flexibility for the IMF in allocating resources, including by avoiding detailed earmarking by individual donors. Some specific donor designations were allowed, in particular to accommodate legal restrictions on a government providing resources to the same CD project through different channels.

39. The Initiative is governed by a Coordinating Committee, rather than a steering committee as in other multi-partner vehicles, which provides input into the priorities and work program of the initiative and also serves as forum for reporting on results and for coordinating with partners or related work. The committee meets quarterly and receives a quarterly update report. IMF staff explained that the meetings of senior officials are intended to be shorter but more frequent than RCDC/TTF steering committee meetings, in order to provide ongoing opportunities for discussion and coordination. Donor endorsement is not required for specific projects; rather, IMF staff design and present proposed resource allocations aligned with the overall objectives of the Initiative, which donors can challenge if they have major objections. A single annual report on results and finances will be provided to contributors.

40. As of December 2021, declared support from donors amounted to \$39.9 million with \$30 million received and signed agreements in place for an additional \$3.7 million (IMF, 2021f). Funds began flowing in late FY2021 to fill funding gaps or meet urgent needs identified by departments or RCDCs, with outflows totaling \$3.4 million in FY2021 and \$19 million in FY2022 (as of November 30, 2021 (IMF, 2021f)). The FY2021–FY2024 Workplan included resources for regional programming through RCDCs (AFRITAC Central, East, South, West, and West 2; ATI; CAPTAC-DR; METAC; and SARTAC) as well as thematic programs (climate change, expenditure policy, fiscal risk, macro frameworks, revenue administration, supreme audit institutions, and tax policy) and country specific programs (for instance, in Albania, Brazil, Costa Rica, Jordan, Lebanon, Morocco, Pakistan, Tajikistan, and Yemen) (IMF, 2021f).

III. FUNDING MODEL: ISSUES AND ASSESSMENT

41. The two main goals of the IMF's budgeting and resource allocation process for the institution as a whole are maintaining financial sustainability, including through prudent management of budgetary resources, and "meeting the evolving needs and priorities of members in an agile, integrated, and member-focused way" (IMF, 2019a). This section will consider how the funding model for CD measures up to the objectives of sustainability and agility, examining in turn: the overall size of the CD budget and the balance between external and internal resources; the sustainability of external financing; the availability of resources across regions and countries; the implications of external financing for programming of CD; and the adeptness of governance and administrative systems in supporting the funding model.

A. Balancing Internal and External Financing

42. During the evaluation period, the IMF has sought to find an appropriate balance between the two funding sources.

43. According to the historical record, external financing for CD was never intended to fully substitute for IMF financing, and in fact the importance of maintaining an IMF stake was emphasized even as more donor funding was sought. This was because TA was considered to contain “elements of a public good” that should be financed by all members, since all members were ultimately beneficiaries (IMF, 2008a). While the public good content of CD may be hard to measure, the broader benefits for TA in program countries in particular were seen as potentially sizable. Further, there was an understanding at the time that the IMF’s value-added (and comparative advantage) in providing CD depended on its integration of TA with its other activities—helping the IMF to make its own lending and surveillance activities more effective and thus enhancing the fulfilment of its mandate (IMF, 2008a).

44. As external funding grew and IMF staff grappled with managing the shifting dynamics of CD funding, the dilemma of how to determine the appropriate amount of CD to supply, and how much to rely on external financing, was articulated in a 2011 Task Force Report.

“The Fund’s budget constraint has traditionally determined the maximum amount of TA. While some TA has always been financed externally, this used to cover only some long-term resident advisors and short-term expert visits. Donor financing, first for RTACs, and increasingly multi-donor trust funds and bilateral support for HQ-based activities (including staff), has relaxed the budget constraint significantly and has raised the strategic question of how much TA should grow. The ultimate limit comes from the requirement that TA must be demand-driven. But since the Fund is such a small player among TA providers, neither country demand nor the supply of external financing in practice has constrained TA growth. Hence, the Fund needs to decide how much it should supply” (IMF, 2011).

45. The IMF began to put in place a structure as part of its medium-term budget process to guide the overall size of CD and balance between internal and external financing, though in a quiet and implicit way without providing much information about what guided decisions. The medium-term budget set out a defined level of externally financed spending for CD, in proportion to the internally financed spending budgeted for CD. This amount included any CD funded externally, including CD funded via charging or co-funding by the recipient. This is because the limit in part serves the function of ensuring that the IMF can provide and cover the cost within its budget of necessary management and oversight of resulting CD.

46. Budget documents initially reflected this information in a footnote, without spelling out the considerations and highlighting the decision for discussion by the Board. According to IMF staff, the level of externally financed spending reflected Management’s desire to maintain parity

between internally and externally financed spending in order to preserve IMF ownership and control of its CD. As the total level of CD spending increased, external financed CD accounted for a growing share, representing 56 percent (direct costs) in FY2019, up from 47 percent in FY2012 and 27 percent in FY2008.

47. The Board was engaged more actively in discussing the balance in 2019. In the FY2020–2022 medium term budget, considerations related to the balance were made explicit and transparent to the Executive Board. Citing the “significant shift in the balance of the Fund’s outputs” toward CD, which grew from 24 percent of total gross administrative expenditures (including indirect costs) in FY2012 to 31 percent in FY2019, the FY2020–2022 medium-term budget document proposed to “level off” externally financed CD spending. It argued that this was necessary even as demand from member countries for CD continued to exceed supply, in order to:

- Maintain a focus on areas of the Fund’s core mandate where it has comparative advantage relative to other CD providers and keep CD as part of an integrated whole of IMF activities, “guided by the synergies created with lending programs and surveillance,” consistent with conclusions of the 2018 CD review.
- Ensure the quality and value of CD, given “a limited pool of experienced permanent staff to oversee and deliver CD, and this constraint can only be partially relieved by hiring external experts, given the limits on their availability and the critical need for back-stopping by HQ-based staff.”
- Manage risks to the budget given the inherent volatility of external funding, the potential for donor priorities to shift in ways that were not aligned with country needs, and the “knock-on effect” of indirect costs that were not recovered from external partners.
- Allow time to modernize CD processes and systems to support budgeting, planning, results monitoring, and reporting—which had not kept pace with growing external funding.

48. The Board thus approved a formal limit on externally financed spending of \$200 million in FY2020 and a limit on the overall CD resource envelope going forward to hold it at current levels (IMF, 2019d).³³ In the event, externally financed CD spending in FY2020 was 16 percent below the budgeted level (6 percent below in FY2019) and thus well below the limit (IMF, 2020d). The ceiling for FY2022 was set at \$210 million, although given COVID-19 circumstances the budget anticipated externally financed activity of only \$165 million.

49. The dynamics underlying the balance agreed in 2019 have shifted in the context of the global pandemic. As noted, externally financed spending was well below the established ceiling

³³ IMF staff reports that the cap did not constrain activities, as externally financed CD spending remained within the limit. There was an instance in 2019 when approval for at least one externally funded project (on tax policy administration) was delayed due to a concern that the IMF would exceed the ceiling.

in FY2020 and FY2021 and was expected to remain below the ceiling in FY2022 as well. After peaking at 56 percent in FY2018–2019, the share of externally financed direct spending on CD fell to 48 percent in FY2021. The availability of donor funding also came under greater question, given tightening fiscal space in many donor countries, raising more doubts among some stakeholders about reliance on external resources.

50. Arguing that financing for CD operations should be both predictable and consistent with the strategic importance of CD, some stakeholders have advocated for an increase in internal funding of CD, so that the IMF would not be dependent on external resources for a core function of the institution and so that availability of resources would not be subject to donor preferences. A number of Executive Directors from recipient as well as significant donor countries made this argument during Board discussions in 2020 and 2021, as well as in interviews for this evaluation, though most agreed that the IMF should not turn away resources that enable it to increase its CD support to members. The survey undertaken for this evaluation suggests some interest in increasing the share of CD financed with the IMF's own resources, as nearly half of donor respondents (46 percent) and 77 percent of member countries receiving little or no CD agreed or strongly agreed that the IMF should increase resources for CD within the existing budget envelope if needed to fund CD needs and priorities of recipient countries (Pedraglio and Stedman, 2022).³⁴ However, there has been very limited room to do so within the existing budget envelope, given the increasing range of competing needs and the flat real budget constraint.

51. The recent agreement to a temporary augmentation of the IMF's administrative budget includes an increase in internal funding for CD accompanied by an increase in the ceiling for externally financed CD spending. In December 2021, the Executive Board agreed on a framework for augmenting the IMF budget, by 2 percent in real terms each year during FY2023 to FY2025 and then returning to a flat real budget trajectory thereafter. The augmentation framework provided for a gradual ramping up of new activities focused on "new imperatives" related to climate change, digital money, fragile and conflict-affected states (FCS), inclusion and gender, as well as an increase in resources for macro-financial surveillance, with the intention of preserving appropriate resources in existing workstreams (IMF, 2022a).

52. The augmentation provided for an increase in internal resources for IMF CD in fragile and conflict-affected states, as well as on climate change and digital money; it also targeted some resources to help enhance the stability of RCDCs that serve fragile and conflict-affected states (IMF, 2021e).³⁵ About one-quarter of the total augmentation amount was targeted for CD, representing about \$17 million over the three year period, with half of this amount focused on increased field presence in FCS and greater funding stability for key RCDCs facing financing

³⁴ Among recipient countries, 36 percent agreed or strongly agreed with increasing use of fee for service for non-PRGT countries, while 47 percent disagreed or strongly disagreed.

³⁵ The framework presented to the Board in November/December included strategies for each of the topic areas receiving increased resources.

issues and the balance dedicated to increasing CD related to climate change and digital money as an integral part of the respective strategies. In FY2023, the increase for CD amounted to \$4 million (a 3 percent increase in IMF-financed CD), of which about \$2 million was targeted for CD in FCS (split between helping stabilize administrative costs of RCDCs serving FCS and funding additional long-term expert (LTX)), \$1.3 million for CD on climate change, and \$0.6 for CD related to digital money (IMF, 2022a).

53. The augmentation agreement also raised the ceiling for externally financed CD, increasing the overall envelope for externally financed CD spending to allow for additional donor resources in the augmentation areas, although some of this may reflect funds already committed (IMF, 2022a). Depending on the success of new fundraising efforts, the overall balance of funding for CD is expected to remain relatively consistent with the recent past.

B. Sustainability of External Resources

54. Reliance on external resources exposes the IMF and its CD activities to the risk that donor funding will shift or decline. Given that external resources finance more than half of IMF CD, fluctuations in this flow of resources could in theory be very consequential for the IMF's ability to continue to deliver CD at or near recent levels.

IMF Approach

55. This reality has been acknowledged and extensively discussed within the IMF over time. In particular, the sustainability of external funding and its concentration among a few donors have been highlighted in the Risk Management Report since 2014. These risks were also recognized in the 2018 CD review. The November 2020 Risk Report concluded that external financing risks had risen with the pandemic, which impacted donors' priorities and led to "competing national budget demands, including other IMF fundraising efforts" (IMF, 2020b). In updating its assessment in June 2021, the Office of Risk Management noted that donor fatigue from multiple IMF financing requests had emerged as a priority risk, while continuing concentration of top donors remained a residual risk (IMF, 2021b).³⁶ Executive Directors continued to emphasize concern about these risks in 2021, for instance during an informal Board discussion of budget augmentation, as well as in interviews for this evaluation.

56. The IMF's approach to mitigating risks, as summarized in the 2018 CD review (IMF, 2018b) has included steps to:

- "Diversify the donor base by expanding and deepening CD partnerships with bilateral donors, multilateral institutions, and private entities; and

³⁶ The IMF Office of Risk Management defines residual risk as the amount of risk that remains after controls are accounted. <http://www-intranet.imf.org/departments/ORM/Documents/ORM%20Risk%20Glossary%20as%20of%20Feb%202022.pdf>

- Seek greater funding certainty, consolidation, flexibility, and closer integration across funding vehicles, including by promoting multi-partner and umbrella agreements that enable the Fund to allocate funding across a range of CD activities;
- Standardize and simplify CD procedures to improve efficiency and transparency in CD management, fundraising, and delivery; and
- Strengthen external engagement and communications to enhance CD visibility” (IMF, 2018b).³⁷

These objectives were also formally included in ICD’s Accountability Framework beginning in August 2019, with the explicit goal of increasing the share of funding going to multi-partner vehicles” as part of “deepening and diversifying the partnership base” as a key objective for ICD (IMF, 2019c). The 2019 Policies and Practices document also underscored the importance of the sustainability and fungibility of external financing, and steps to promote broader and more strategic partnerships, expand multi-partner and umbrella agreements, and secure financing upfront before carrying out CD activity (IMF, 2019d).

57. Administrative steps also helped mitigate exposure to funding risks. External resources are raised in advance and maintained in an account at the Bank for International Settlements (BIS) for use over time. For instance, some donors pay in their commitments to IMF CD up front, at the start of a multi-year RCDC or Thematic Trust Fund phase. As a result, the IMF has accumulated resources in the BIS that go beyond what will be expended in the next budget year. In February 2022, pre-funding had risen to about \$440 million, up from about \$240–250 million before the COVID-19 crisis and relative to annual drawdowns from the account that peaked at slightly less than \$180 million in FY2019. The recent increase was partly a result of reduced spending on CD (principally, on travel) since the pandemic, and these buffer resources are not entirely fungible, so that the IMF does not have the flexibility to move resources across different purposes.

58. In general, the IMF’s success in negotiating multi-year signed donor agreements has helped provide stability in the near to medium term. According to IMF staff there have been few instances in which a lack of funds impeded implementation of planned CD programs, such as when shortfalls in funding slowed the start of a new phase for RTACs (e.g., CAPTAC-DR). The institution has also taken decisions on hiring practices to match terms of employment with time-limited funding commitments (as is discussed in another background paper on human resource issues (Stedman, 2022b)).³⁸

³⁷ Issues related to donor coordination and transparency are discussed in more detail in a companion paper (Radelet, 2022).

³⁸ In any case, there is a lag between CD fund-raising and spending, as disbursements are up-front.

Progress

59. Over the course of the evaluation period, the IMF made some strides in diversifying the donor base, increasing the role of multi-partner vehicles, and increasing flexibility in agreements. CD attracted significant new or increased contributions over the course of the evaluation period. For instance, China's participation has grown sharply since 2017, with the advent of the CICDC but also for other purposes including across a range of RCDCs. IMF staff have also worked to build greater interest among partners that might be in a position to take up or expand commitments, with recent new opportunities helping bring results, for instance, via participation in the CCAMTAC.

60. Multi-partner funding vehicles played a growing role over the course of the evaluation period and now account for two-thirds of donor contributions, up from less than half in FY2011 (Figure 2 above). These vehicles allowed the IMF to focus funding on high-level institutional objectives and to some extent consolidate administration of donor funds aimed at similar goals. IMF staff also reported to the IEO that they achieved some consolidation of funds through renegotiation of bilateral account guidelines to expand the eligible uses of resources and smaller shifts in funding from bilateral to multi-partner subaccounts.³⁹

Continued Concentration and Inflexibility

61. However, while the share of funding provided via multi-partner vehicles grew, the amount of contributions under bilateral arrangements remained relatively steady and still accounted for a third of the total in FY2021. Funding sources remain concentrated, although this improved somewhat over the course of the evaluation period: in FY2021, 60 percent of external resources were provided by the top five donors, 75 percent by the top 10, and 90 percent by the top 20 (Table 1)—compared to 71 percent, 88 percent, and 96 percent respectively in FY2012. Some of these large donors remain attached to providing funding through bilateral vehicles; Japan, for instance, continues to provide over 90 percent of its resources in a way that allows it to engage directly with IMF staff about CD activities to be funded. Accordingly, concentration of donor funding continued to be raised as an enterprise risk for the IMF in the 2020 Risk Report and 2021 update of this assessment (IMF, 2020b and 2021b).

62. Further, shifting donor circumstances and interests can affect the flow of external resources. For instance, at the start of its latest 7-year programming cycle, the European Commission decided to decentralize decisions about financing CD to its own missions in recipient countries. Fewer resources will thus be available for allocation globally across thematic funds, and engagement with multi-partner RCDCs with many beneficiary members may be

³⁹ ICD provided two examples: the Southeastern Europe Sub-Account, which was created in 2018 to support revenue administration and public financial management reform with funding from by Switzerland and the European Commission; and the incorporation of the Financial Access Survey sub-account into the Data for Decisions fund.

complicated by the decentralization of funding to different European Commission missions. More broadly, there was concern among IMF staff that shifting donor interests to emerging areas—such as gender or climate—will limit the funding and scope for CD in the IMF's traditional core areas and on foundational institutional frameworks that needed to be addressed in order to meaningfully tackle emerging issue areas.

63. However, despite concerns to the contrary, the COVID-19 crisis did not appear to lead to a dramatic stop or immediate slowing in external resources for CD. While IMF staff have experienced some challenges with fundraising, they reported that liquidity balances remained “adequate” in most CD vehicles and that partner support recovered in FY2021 relative to a dip in FY2020 (IMF, 2021d). For instance, additional funding (e.g., from the Netherlands for METAC) and resources from the COVID-19 Initiative helped meet funding needs for some RTACs, which also ended up needing less resources due to execution below programmed levels.⁴⁰

64. At the same time, the COVID-19 Initiative did not fully meet its goals in increasing multi-partner funding with greater flexibility for the IMF. Some early donors welcomed the rapid innovation by staff, and at least one donor who did not contribute nonetheless appreciated the idea of an umbrella-type vehicle that could help ease the cumbersome task on the donor side of overseeing and managing participation in multiple funds. However, the Initiative fell short of its initial goal of \$100 million.⁴¹

65. IMF staff reported that the timing of the initiative proved more of a challenge to gaining donor support than the limits on earmarking/donor control, since some agencies did not have contingency funds for emergencies or flexible, multi-year resources available to commit. But in interviews with IEO, some donors who were asked to participate but chose not to expressed concern about the lack of a clear agenda, the diverse array of projects to be financed, and the stronger role for IMF staff in the management and coordination structure that they perceived provided for less donor control. Moreover, authorities from one country that did choose to participate emphasized that the flexibility for the IMF in prioritization and allocation allowed under this initiative would not be appropriate more broadly. At the time of this writing, there appeared to be a general lack of buy-in for the new approach to be implemented more widely.

⁴⁰ For instance, the METAC annual report for FY2021 indicated a funding shortfall of \$3.9 million, relative to a \$36.1 million in committed CD (METAC, 2021). But the METAC annual report documented that activities were fully funded due to additional resources provided by the Netherlands, redirection of resources intended to fund a second PFM advisor, lower than anticipated spending on short-term experts, collaboration with the MECEF, and related efficiency gains.

⁴¹ IMF staff indicated that up to the end of 2021, the Initiative was able to meet all internal funding requests and thus considered that the funding level of the Initiative was adequate up to that time.

Other Complications and Pressures

66. Increasing pressures from donors for direct attribution of results and visibility for their role also complicated the IMF's efforts to enhance flexibility and simplify administration. Donor government officials interviewed for this evaluation underscored the pressures they face in this regard, including due to tightening budgets, particularly in the wake of the COVID-19 pandemic. These types of pressures make donor partners more likely to negotiate for specific features to meet their interests and needs, including timing and reporting, as well as to distinguish what their resources (as opposed to combined resources) are supporting. Indeed, donors suggested that the IMF do more to raise their visibility—for instance by featuring their country's name at a training session or even have a local representative open a panel discussion—as a way to help demonstrate the impact of their contributions and thus provide justification for their own domestic budget and political decision-making purposes. The IMF has worked closely with donors to adapt to their needs, and Radelet (2022) finds that these partnership efforts have helped navigate the tensions involved.

67. The IMF is not alone in facing the challenge of reconciling donor interests with its own institutional objectives. For instance, the World Bank has been working to move toward an approach to donor trust funds that promotes complementarity and strategic alignment of their operations with the rest of the Bank's work.⁴² Bank staff reported that in discussing reforms, donors expressed concerns about retaining control of how their resources were expended, noting in addition that small donors worried that consolidating funds would lead to their priorities being lost amid the Bank's broader agenda.⁴³ However, the fact that other providers are grappling with similar challenges does not diminish the difficulties of managing them.

68. An additional issue for the IMF in the context of the RCDC funding model is the contributions by recipient members. As noted above, the share of RCDC resources that recipient members committed to provide varied widely across the centers, depending on agreements reached by all stakeholders at the beginning of each phase. Recipient member contributions are an important element of the RCDC model, incorporating them in the governance of the centers

⁴² According to World Bank staff interviewed for this evaluation, the reforms were motivated by a concern about fragmentation of individual trust funds, which numbered over 1000 that fed into about half as many "programs"—making it difficult for the Bank to aggregate or provide an account of what they were accomplishing. Under the "whole of finance" approach, trust funds have been asked to prepare "Portfolio Roadmaps" that define the broader objectives for the practice's trust fund activities, to indicate where smaller trust funds could be consolidated into larger "Umbrella" vehicles, and to explain how each fund fits with Bank-wide objectives. In a second stage, Bank staff were working to introduce a decision-making process that brought under regional vice presidencies in the Bank, similar to the Fund's steps to give area departments a leadership role in setting priorities.

⁴³ Since most donors are also shareholders in the institution, Bank staff reported some success in appealing to those broader interests in promoting a more integrated approach. While aiming to sharply reduce the number of programs, from about 550 to 72, Bank staff that this was an ambitious goal that might not be met if existing donors did not wish to change their agreement; however, any new trust funds would be required to be part of the new structure.

and decisions about their programs. However, recipient member contributions in some cases fell short of commitments. When the share they provided was small, the budget impact was limited. Nonetheless, the lack of follow-through raised questions, for instance on the part of some donor partners, about the RCDC model.

Prognosis

69. IMF staff has continued to consider strategies to advance and refine the funding model and consider the trade-offs across different approaches. This has included exploring alternative components of a medium-term strategy to achieve predictable and potentially increased internal funding for core IMF priorities along with well-aligned, flexible, and sustainable external funding. Continuing and extending this work will be important to ensure stability through the medium to long term.

70. At this time, external funding for CD appears well positioned in the near term, given the policy and practice of securing needed resources in advance of anticipated spending. The addition of a carry forward mechanism for externally financed expenditures that was approved as part of the FY2023–2025 Medium Term Budget will help by providing additional flexibility as the IMF seeks to respond to pent up demand for CD, the timing of which is difficult to predict.⁴⁴ However, the potential to sustain external funding at current levels, or to increase it if the IMF needs additional resources to support member country needs for CD, is uncertain and hard to assess over the medium to long term. Additional fundraising for emerging areas such as climate change may hold more promise than for traditional CD programming aimed at longer-term institution building.

C. External Funding and Availability of Resources Across Regions and Countries

Role of External Funding in RTACs

71. As discussed, external financing enables the IMF to offer more CD to its member countries, and engagement with donors can also bring benefits in the form of enhanced coordination (see Radelet, 2022). However, external financing also has implications for the availability of resources across the membership and topics.

72. While the IMF prioritizes CD work carried out by CD departments and RCDCs based on country demand, donors also set parameters for the expenditure of their resources—both in the process of negotiating Letters of Understanding, their multi-year contributions, and in ongoing engagement via Steering Committees or bilateral oversight. The result is that the availability of

⁴⁴ The new carry forward policy for externally financed spending is intended to reduce incentives for accelerating end-year spending and facilitate the management of funding for multi-year programming. IMF staff expect this to be particularly important for CD spending “given its medium-term nature and inherent uncertainty. The new carry-forward mechanism will parallel the analogous mechanism for internal funding, with a ceiling of 3 percent. See IMF (2022b).

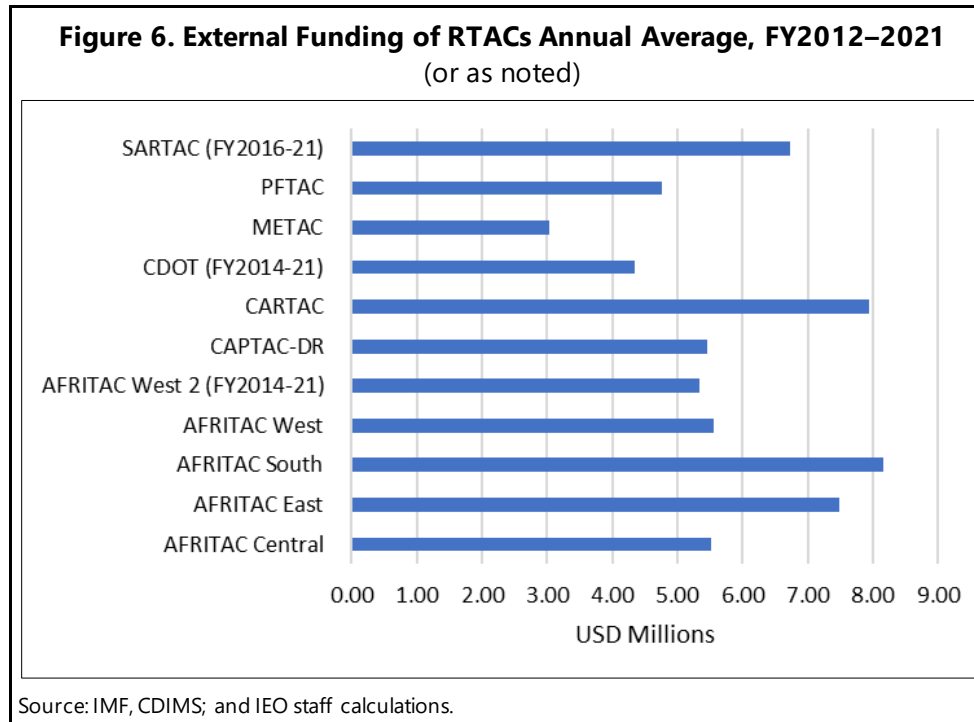
external resources varies across types of countries, regions, and topics. RCDC resources are only available to members in the regions they cover, and most thematic funds focus on low-income country and low and middle-income countries.⁴⁵ Topical focus is inherent to the theme of each trust fund, but not all areas are covered, with some topics, such as customs reform, receiving very limited external funding. In addition, external resources provided bilaterally are frequently directed to specific regions or country groupings, as well as particular topics. This creates what one IMF staff member described as a “patchwork” of external funding. Further, these resources are typically programmed in advance and require approval from steering committees or donors to change plans in response to evolving circumstances.

73. Some stakeholders interviewed for this evaluation expressed concern about inadequacies or incongruities in availability of resources across regions. In particular, there were questions about the coverage and funding of RTACs—which function as delivery mechanisms as well as serving as channels for resources. The current constellation of RTACs cover 120 countries, with RTCs covering more than 140 countries, 39 of which are additional, i.e., not RTAC members (see Annex I for coverage). Figure 6 shows that average annual funding for these regional centers varied widely over the evaluation period.⁴⁶ Some of the disparity reflected introduction of new centers that thus were active for shorter periods: for instance, SARTAC did not begin until 2017; as shown in Figure 3, funding commitments over SARTAC’s first five-year phase were among the highest of the RTACs during the current funding phase. There were some gaps in RTAC coverage, for instance for countries in South America that might have benefitted from greater continuity of interaction and regional synergies that RCDCs can facilitate.⁴⁷

⁴⁵ The gaps and overlaps in country coverage of RCDCs are further discussed in De Lannoy (2022b).

⁴⁶ CCAMTAC funding did not begin until FY2021 and is thus not shown.

⁴⁷ See Ter-Minassian (2022) and Chopra (2022). The latter case study indicated that it was not clear whether the presence of a regional center “would have resulted in more, better, or different TA” in the countries examined. Note that none of the three countries—Georgia, Saudi Arabia, and Somalia—had access to an RCDC during the evaluation period, but Georgia is now a member of CCAMTAC.

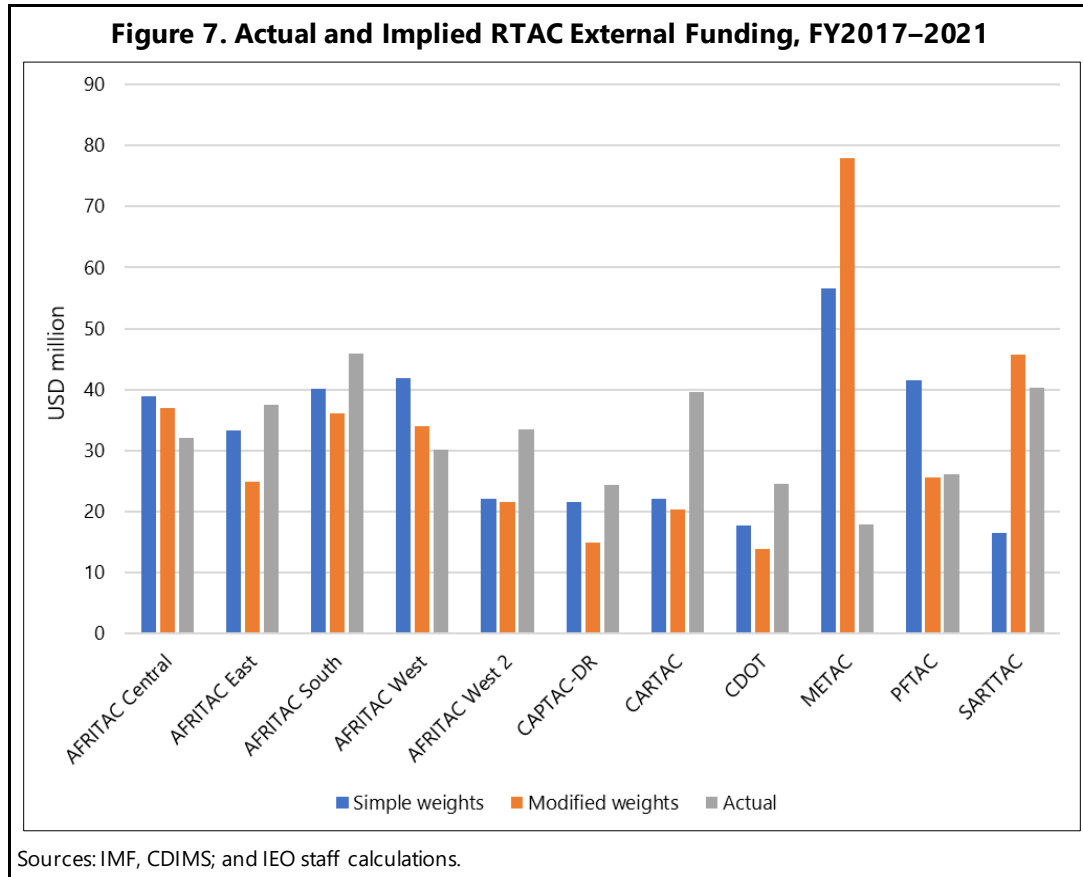


74. Authorities and some IMF staff expressed the view that the incomplete coverage of RCDCs and limited funding available through that avenue complicated programming of CD to some regions. The level of resources for each center is determined not by any assessment of the needs or characteristics of members but rather by the willingness of donors and hosts to commit funding. Some RCDCs have faced challenges in attracting resource commitments and/or faced funding shortfalls due to delays in follow through on commitments. Further, different RTACs rely on different distributions of member, donor partner, and host contributions, as demonstrated in Figure 3 above.

75. IEO performed an analysis of RTAC funding that compared actual funding over the period FY2017–2021 with notional external funding based on two weighting schemes that took into consideration characteristics such as income per capita, fragile state status, program country status, relative economic size, and a proxy for current level of capacity (Figure 7).⁴⁸ The simulation suggests that METAC is significantly under-funded—depending on the weighting scheme and period, the benchmarks suggest it should have received \$55–78 million in the last five years (FY2017–2021), while in reality it received slightly under \$20 million. The simulation also suggests that AFRITAC Central and to a lesser extent AFRITAC West may be somewhat

⁴⁸ Details are provided in Annex III. The analysis considered all external resources provided to each RCDC, including those contributed by RCDC members and hosts. The first benchmark (“Simple Weights”) assigns higher weight to low-income countries, countries classified by the Fund as fragile states, and IMF program countries; it also assumes that CD needs are inversely proportionate to per capita income. The second benchmark (“Modified weights”) also seeks to reflect capacity level by incorporating the World Bank’s Government Effectiveness Index and also factors in economic size, using each country’s share in global GDP.

under-funded, while funding of CARTAC, AFRITAC West 2, CDOT, AFRITAC East, AFRITAC South, and CAPTAC-DR exceeds the simulated amount using both the simplified and modified weights. Plans for CCAMTAC show that its funding is on par with the weights that would be implied by a similar simulation.



76. Resources from the COVID-19 Initiative have helped buttress RCDC resources, in particular with \$2.5 million going to AFRITAC East. More recently the budget augmentation, provides resources enhance the stability of RCDCs serving FCS, as discussed above. However, this did not address issues across RCDCs.

Influence of External Funding on Resources for Countries and Regions

77. Under the current CD funding model, internal and external financing are complementary, with the former intended to fund CD “in countries or on topics where donor funding is not available, including program cases” (IMF, 2019d). In theory then, if external financing is not

available for a particular high priority or urgent CD project or need, internal resources should fill gaps and offset any incongruities in responding to countries' needs for CD.⁴⁹

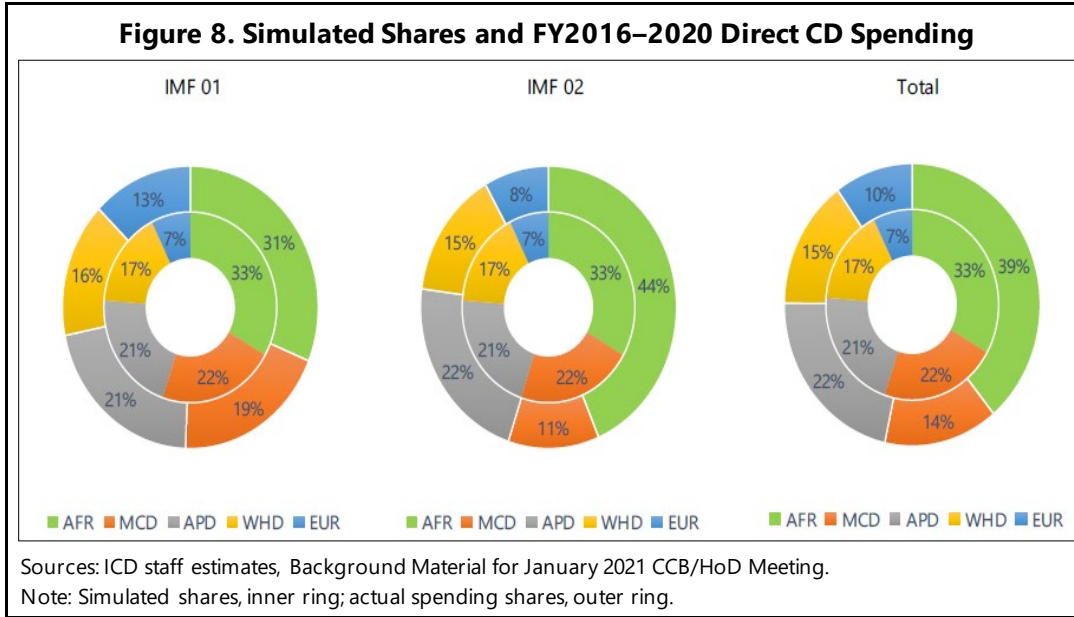
78. There is nonetheless some evidence that suggests that the availability of external funding affects the amount of CD resources allocated to particular countries or regions. For instance, econometric analysis suggests that membership in RCDCs was associated with significantly higher levels of CD allocation beyond that which would be explained by the level of development and country size as represented in the model (Towe, 2022). This same analysis found that the AFR and APD regions received significantly higher allocations of CD, while Middle East and Central Asia Department (MCD) received significantly lower allocations.⁵⁰

79. In addition, analysis undertaken by IMF staff showed that allocation of CD regions was not fully proportional to what would have been expected given country size and level of development, largely because external funding did not reach the proportional amount (IMF, 2020e).⁵¹ Figure 8 shows the results for this analysis. As the figure shows, external funding exceeds the simulated proportional share for AFR countries. However, the internal resources theoretically freed up in this way do not appear to go to the region with the most significant underfunding from external resources, MCD. Indeed, MCD argued internally during prioritization and allocation discussions that the region has long suffered from too few CD resources, given institution-building challenges and reform needs, compared to similar regions. In interviews, CDDs took different views about the effect of the availability of external resources, including via RCDCs, on CD allocation to MCD countries; some took the view that limited external resources constrained the CD they could make available, but others pointed to a more complicated picture, including challenges in engaging effectively with technical officials and gaining the authorities' commitment to medium-term CD programming.

⁴⁹ The 2018 CD review emphasized that because external funding is "often available only to certain countries and/or topics ... it is best suited to medium-term CD efforts," while internal funding is more flexible and can be directed to under-resourced or unforeseen demands (IMF, 2018b)."

⁵⁰ The explanatory power of the regressions conducted for this analysis is low, so that the model provides an indication but not a clear determination of the impact of different factors on CD allocation (Towe, 2022).

⁵¹ MCD received 19 percent of internally funded CD and 11 percent of externally funded CD in this period, compared to the simulated regional share of 22 percent.



80. Notwithstanding this analysis, there are a wide range of factors that help determine the availability of resources and their allocation, as is discussed in detail by Towe (2022). Among other things, the availability of resources from donors as well as the allocation of the IMF's own resources may be affected by factors such as commitment to reforms as well as security challenges in the region. Thus, this paper does not draw a conclusion about consistency or equity in the availability of resources for CD across regions, although this is clearly an issue that merits attention going forward.

81. Donor targeting of resources to individual countries was also seen by some IMF staff and other stakeholders as having a distortionary effect on CD received. For instance, in some cases external funding enabled CD for particular countries, that might not otherwise have been prioritized given the relatively strong capacity already existing in these countries; this was arguably the case with an LTX for Georgia funded by the RMTF, heavy provision of CD to Cambodia, and support for CD to Peru (Chopra, 2022, Citrin, 2022, and Ter-Minassian, 2022).

82. In addition, a slightly larger share of CD for the top ten country recipients in FY2012–2020 was funded by external resources than for all recipients—64 percent on average for the top ten (ranging from 38 percent for China to 76 percent for Tanzania) compared to 59 percent on average across the full group of recipient countries. The realities of external funding were also sometimes seen as dictating the modality of CD delivery, with some countries receiving CD from LTXs through RCDCs, since that was where the funding was available when they would have preferred direct HQ staff involvement (Legg and Sembene, 2022, and Ter-Minassian, 2022).

83. Disparity in availability of external resources across regions, countries, and topics is a feature of this source of funding. The IMF's model seeks to balance this with internal IMF

resources. IMF staff heavily involved in the planning and management of CD attested that the heavy reliance on external funding had led to some loss of flexibility in the allocation of CD resources, both across countries and topics, with increasing pressure on internal resources to fill the gaps where external financing was not available. The process of prioritizing and allocating such resources is discussed by Towe (2022).

D. Programmatic Issues Related to External Funding

84. External funding posed some practical issues for the programming of CD, and potentially the IMF's agility in adapting to changing circumstances and needs, although these appeared to be within the IMF's capacity to manage.

85. Country case studies prepared for this evaluation provide some insights into the challenges.⁵² External resources were found to be essential (based on interviews with a variety of stakeholders), particularly to multi-year CD engagement, in a range of countries. For instance, Chopra (2022) noted that the variety of funding mechanisms fit recipient country circumstances, with a multi-donor dedicated trust fund supporting focused CD for Somalia, a combination of topical trust fund, bilateral, and IMF resources financing CD in Georgia, and Saudi Arabia essentially self-financing much of the CD it received through the arrangement for charging high-income countries. However, the case studies also identified some downsides. In the Democratic Republic of the Congo, external financing was reportedly critical to support intensive CD engagement, but the sensitivity of this donor funding to political developments in that country was seen as affecting the "adequacy, timeliness, and predictability" of CD (Legg and Sembene, 2022). In other cases, donor funding directly affected the delivery of CD, for instance leading to the discontinuation of a resident adviser in Nigeria when targeted resources dried up (Legg, 2022). The recent IEO evaluation of IMF engagement with small states found that authorities sometimes requested CD support in areas where they knew funding was available, rather than in areas with the most pressing needs (IEO, 2022).

86. Uncertainties related to the timing of external resource flows also created programmatic challenges. For instance, while multi-year commitments and related RCDC or trust fund phases allow for multi-year programming, the distinct phases that result from this approach necessitate periodic transitions between phases, with considerable uncertainty about how much funding the next phase might involve. Thus, IMF staff and RCDC members may envision an expanded program for a subsequent phase, reflecting needs and interests of members, but the ability to deliver on this vision depends on identifying donor resources. Another complication is that contributions do not always come in as planned, for instance from RTAC member countries or due to donor circumstances.

⁵² Case studies were prepared for several countries in each of the following regions: Africa (Legg and Sembene, 2022), Asia (Citrin, 2022), Europe (Everaert, 2022), Latin America (Ter-Minassian, 2022), and the Middle East (Chopra, 2022).

87. Some RTACs in particular faced resource shortfalls over the course of the evaluation period as they encountered difficulties in raising sufficient commitments to fully finance planned work programs. RTACs can and do begin new phases with incomplete funding for the full work program, as documented in FY2020 and FY2021 annual reports for individual centers; while not a prevalent problem, at times this has affected the pace with which the work program can proceed, as was the case for CAPTAC-DR's most recent phase, according to IMF staff interviewed for this evaluation. IMF staff noted that donor interest in RTACs tended to fluctuate, with the same center seeing strong interest in one phase and more difficulties in a subsequent phase, and vice versa. Funding issues, as well as unexpected changes in the execution of each RTACs' program, could lead to changes in funding status; a shortage of funds could lead to last-minute fundraising to fill the gap, while under-execution could allow for an existing phase to be extended.⁵³ Managing these developments was challenging and time intensive for RTAC and Fund staff alike.

88. Further, IMF staff emphasized that departmental budgets could be affected by shortfalls in delivery of externally funded CD, especially if staff had been hired on the assumption of the associated revenues. For instance, they might hire six experts based on budgeted TA for the coming year, creating a fixed cost, but if that was not delivered due to unexpected circumstances or simply a lack of interest on the part of recipients, then the resources needed to pay for the staff hired never materialized and the department had to figure out how to fund them for the duration of their pre-agreed contract or until they could be redeployed to another funded activity.

89. As noted above, such strains were experienced during the COVID-19 crisis. Interruptions to delivery of planned externally financed CD led to lower than expected "chargebacks," as well as lower receipts from trust fund management fees, which are applied as a share of actual spending, so that the Fund had to absorb costs that would have been funded by external resources (IMF, 2020c). In fact, spending on externally financed CD was much more impacted than that for Fund-financed spending: externally financed spending in FY2021 was \$118 million, 60 percent of the original budgeted amount, while Fund-financed spending was \$131 million, 91 percent of the original budget. According to IMF staff, the inflexibility of pre-programmed IMF02 resources was a significant factor in the shortfall, while IMF-financed activities were more readily repurposed toward virtual delivery (IMF, 2021d).⁵⁴ Some departments were able to regroup and find ways to deliver most expected CD projects before the end of FY2021, but others faced more lasting challenges. Engagement was often but not always restored virtually. In addition to rigidities in resource allocation, departments faced finite personnel resources (which

⁵³ For instance, a delay in receipt of some funding commitments for Pacific Financial Technical Assistance Centre (PFTAC) was offset by slower execution, so that the end of Phase 5 was fully funded and in fact extended to October 2022 (PFTAC, 2021).

⁵⁴ The fact that a much greater share of management and administration costs (including the CDMAP launch and testing) were funded from internal resources also contributed to the higher than expected outcome for Fund-financed spending (IMF, 2021d).

have separate budget ceilings) that inhibited translation of savings on travel to increased staffing.⁵⁵

E. Administrative and Governance Challenges

Fundraising

90. Identifying potential external resources, securing commitments, and engaging with donors became a bigger and more important job as reliance on external financing increased. (See Box 2.) While donors continue to interact directly with CD departments on questions of substance, many donors have multiple objectives and engagements with the IMF and provide resources through multiple funding vehicles. Accordingly, ICD was given a central role in coordinating fundraising, with the idea that donors would have a “one stop shop” for funding IMF CD (IMF, 2014a). As ICD has built up its role in delivery of CD, other CD departments have raised questions about ICD both controlling fundraising and also raising funds for its own CD. Indeed, a number of CDD staff in interviews for this evaluation suggested that these dual roles posed a conflict of interest for ICD, given the competition for donor resources.

91. Recent changes may help address these concerns. The revised guidelines on approval of outside funding provide a strong role for the inter-departmental CCB. In addition, a 2021 restructuring of ICD introduced a clearer distinction between those parts of the department dealing with institutional governance and those involved with ICD-specific delivery functions. Several divisions work under one Deputy Director on Fund-wide CD strategy, evaluation, partnerships, funding, and operations; divisions responsible for direct delivery of CD as well as a separate division responsible for budget, resource allocation, and policy coordination for ICD-delivered CD report to another Deputy Director.

92. It is too early to judge the effectiveness of this new approach in balancing ICD’s roles. However, it is clear that a central mechanism for coordinating engagement with donors is essential. While external donors as well as Executive Directors in general expressed appreciation for efforts to engage with donors and understand their needs and perspectives, some also expressed concern about a “proliferation of funds” and apparent lack of coordination of fundraising, so that some donors received multiple requests from different IMF interlocutors in quick succession. IMF staff said that such uncoordinated requests for funding of CD were very

⁵⁵ For instance, the background document for the June 2021 CCB meeting indicated that “around \$24 million of indicative validated FY2022 demand was not included in the workplan, despite the existence of \$71 million of overall space within the aggregate envelope. In some instances, this reflected uncertainty about the materialization of authorities’ requests. In others, particularly for PFM, Tax Policy, and Monetary and Macprudential Policies, departments reported that this also reflects rigidities in external financing and staffing availability that prevented adjustment of envelopes. There is, however, budget space available in the centrally held buffer that would enable additional allocations to be made to these workstreams, subject to area department prioritization, if the rigidities can be addressed” (IMF, 2021c).

rare, although they acknowledged the challenge that IMF requests for donor resources for other purposes—for instance to debt relief—could lead to confusion about priorities and required better coordination.

Administrative Costs and Recovery

93. IMF staff has put considerable effort into improving recovery of direct costs from donors, including IT where possible, as proposed in 2017 (IMF, 2017). However, unrecovered costs remain an issue within the IMF. Staff interviewed for this evaluation expressed the view that charging practices in CD departments continue to fall short of capturing the full costs of supporting externally financed CD. Staff noted that direct costs were notoriously difficult to estimate and track given inconsistencies in time reporting by Fund staff, sometimes leading to under-charging. Further, there was concern that some IMF work related to CD projects was not attributable as direct costs. Examples given were time spent in designing projects that preceded the point at which there is an externally funded activity to charge against, and time spent on supervision and management that may not be attributable to a specific project. The latter broader costs are not covered by the trust fund management fee, which as noted above offsets specific administrative functions conducted primarily outside CD departments.

94. While external resources financed about 60 percent of total direct delivery of IMF CD for the full period FY2012–2021, external resources financed only about 17 percent of management/administration and 28 percent of analytics/development. An increasing share of the latter two CD components were funded by external resources over time (Figures 9a and 9b). However, the share of management and administration in particular that is funded by external resources is still considerably smaller than the share of direct delivery (Figure 9c).

Figure 9a. IMF CD Component: Management and Administration

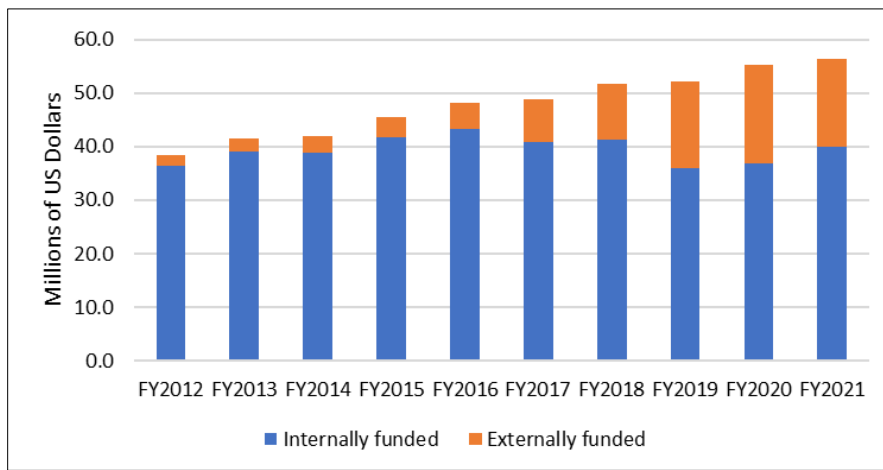


Figure 9b. IMF CD Component: Analytics and Development

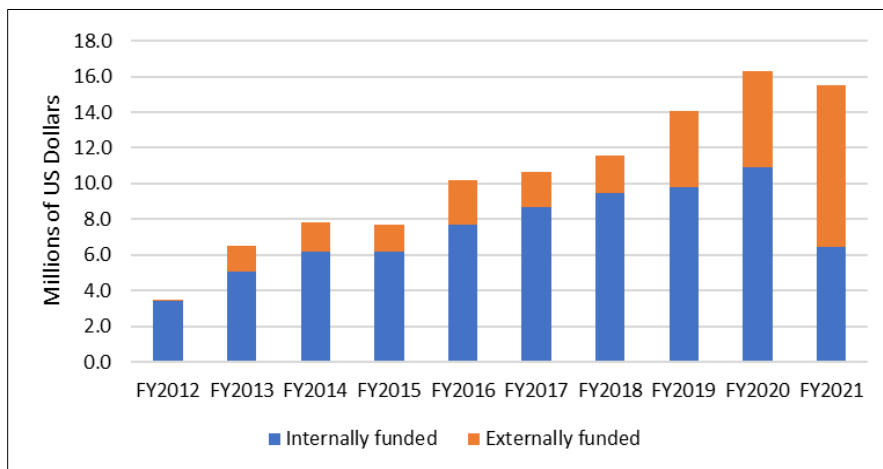
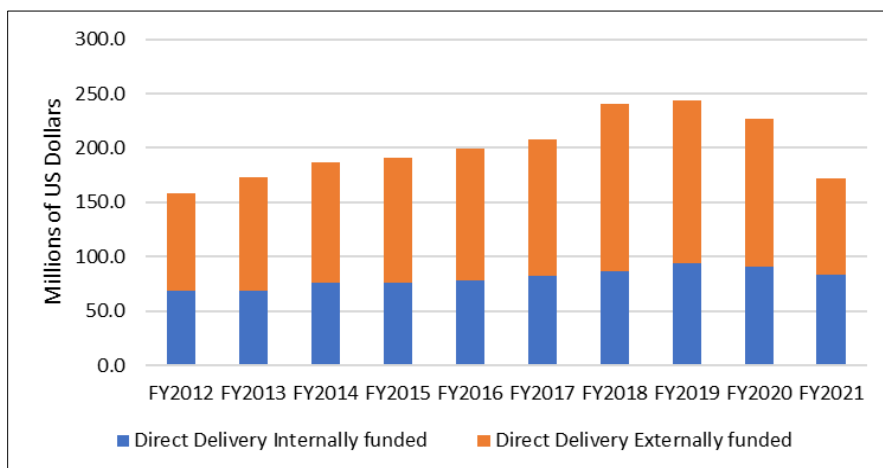


Figure 9c. IMF CD Component: Direct Delivery



Sources: IMF, ACES; and IEO staff calculations.

95. While unrecovered costs pose challenges for budgeting and for arriving at the right balance between internal and external funding, there are also arguments for the IMF to fund a disproportionate share of indirect costs, and against seeking full recovery of all costs associated with externally funded CD. Strategic work related to CD could be described as an overhead cost for externally financed CD projects, but it could also be considered part of the IMF's contribution to a partnership with donors. Seeking 100 percent cost recovery would put the IMF more in the mode of a contracting agency delivering a service to donors, rather than a partner pursuing its own strategic mandate. Thus, assuming more of the burden for indirect costs of CD is seen as an important part of having "skin in the game." The World Bank similarly does not believe that it fully recovers all costs associated with administration of trust funds and sees this as an appropriate part of its approach to engaging with partnerships with external donors.

Governance of Externally Financed CD

96. External funding was seen by some stakeholders interviewed by the IEO as complicating the governance of IMF CD, as discussed further in De Lannoy (2022a). On the one hand, a number of Directors expressed concern that donors' direction of where and how their resources will be used, both via initial funding agreements and ongoing engagement with Fund staff or Steering Committees, undermines the Executive Board's oversight. However, some donors expressed concern that the Executive Board could be considered to have undue influence over CD, since it sets broader objectives that guide CD, particularly those that did not consider themselves to be directly represented on the Board—for instance the European Union and Ministries of Development or Cooperation.

97. Some donors in IEO interviews raised questions about access to information about the projects they fund as well as broader IMF engagement with recipient authorities—as well as about the cost of IMF CD, as discussed in Jensen and Kell (2022). These donors argued that they want or expect a full partnership with the IMF as part of making their resources available—including access to all information about projects in real time, the opportunity to engage directly with experts providing CD, and inclusion in broader IMF policy discussions with recipients. In addition, a few donors also commented in interviews, that they receive different reporting information from the IMF and World Bank related their trust fund partnership on the DMF, complicating their efforts to oversee the resources they provide.

98. These challenges are also interconnected with the IMF's quest to increase the sustainability and flexibility of external funding. Some of the steps the IMF could take to simplify the funding structure, thereby reducing administrative burdens and potentially increasing the IMF's flexibility and discretion for allocation, might help increase the role and voice of the Executive Board. One such example might be to aggregate a group of RTACs into a single unit, with one steering committee. But while this might increase the oversight of the Executive Board, it would reduce the voice of recipient members of the centers, as well as the oversight role and voice of donor partners, including non-members (e.g., private foundations) as well as bilateral aid

agencies that provide and are accountable for resources for CD, which are indirectly represented on the IMF's Executive Board.

IV. FUNDING MODEL: LESSONS AND FUTURE CONSIDERATIONS

99. The dual funding model for CD has clearly been effective overall for the IMF and its membership—as external financing has been instrumental in allowing the Fund to increase CD to its members, particularly in the context of a flat real budget constraint. External financing has also brought other benefits, including the expansion of regional centers and their decentralized delivery, a more programmatic approach to funding and delivery, and greater attention to governance and accounting for results (see Radelet, 2022).

100. Stakeholders were broadly positive about the funding model. Recipients were appreciative of the availability of CD, although there were some instances of shortfalls or cases in which the delivery modality was determined by funding source rather than authority preference (e.g., delivery by an LTX via the RCDC instead of by IMF staff from HQ). Donors valued the opportunity to finance IMF CD—which they generally saw as higher quality and more effective than other CD providers—to support their own priorities in terms of specific topics, countries or regions. These partners saw advantages to the Fund's reliance on internal and external resources, as the fact that the IMF put its own resources behind its CD ("skin in the game") helped build and maintain confidence in the output. Further, as one donor pointed out, the availability of internal resources was important to provide stability for CD, to help mitigate any gaps in donor interests or fluctuations in their financial commitments.

101. The IMF has implemented the funding model pragmatically, adapting it as needed and seeking ways to offset potential risks that external financing would unduly drive CD prioritization and allocation program as well as to promote sustainability of financial support. In particular, the discussion in Sections II and III above illustrates the IMF's attention to the risks involved—including to promote the complementarity of external and internal funding, increase the role of multi-partner vehicles linked to regional needs and core thematic topics, and preserve the IMF's role as partner rather than contracting agency. The IMF also acted on the COVID-19 crisis as an opportunity as well as a challenge, managing resources adeptly and experimenting with a new vehicle to support shifting CD needs with donor funding.

102. Nonetheless, the reliance on external funding inevitably involves the risk that donor interest or resources could decline or shift, and entails some inflexibility in resource availability across time, countries, and purposes. This results primarily from rigidities created by the funding vehicles that are focused on specific regions, types of countries, or technical topics. The fact that some stakeholders continue to perceive that funding through RCDCs leads to uneven access to CD needs further attention, as does evidence of disproportionate funding to donor-preferred regions and countries that are served by RCDCs. Concerns about funding "core" tasks as opposed to specific initiatives or new topics also require ongoing care.

103. IMF efforts to increase the flexibility of funding vehicles to be responsive to country needs, while at the same time sustaining external donor funding and diversifying its sources, have achieved some limited progress but face difficult odds for major additional change. As discussed above, this reflects uncertainties related to the pandemic and broader pressures on national budgets; it is also affected by the desire of some major donors to preserve or even increase their own flexibility to target their resources, and to find ways to convey and increase the visibility of their own impact, distinct from that of other donors or even the IMF. It is very difficult to judge the potential for future fundraising, particularly given that past positive experience of staff in raising needed funds points in an optimistic direction, while increasing voices of concern about donor fatigue, including from donor country Executive Directors, suggest a less rosy picture.

104. The tensions in the funding model encouraged the IMF to carefully tune its decision-making process to maintain the right balance across priorities and to enhance its accountability and transparency, but the organic evolution of the model has affected its overall coherence. As the funding model developed, with external financing expanding and the delivery of IMF CD itself evolving, the IMF acted pragmatically to find ways to meet country needs, including by creating new funding vehicles that could attract donor resources. However, as noted above, external funding influences the allocation of CD, while from a donor perspective it may be hard to see how various pieces fit together, as suggested by some donors interviewed for this evaluation who described the IMF's fundraising as more opportunistic than strategic.

105. There is potential to bring greater coherence to the funding model, to enhance the clarity around how different vehicles and funding sources come together to support a unified vision for CD that advances the IMF's mandate. Continuing to provide CD at the same level in the near term depends on respecting existing arrangements with donors and even continuing to attract outside resources. Enhanced coherence would need thus to be accomplished by building on or refining the existing structure, with the goal of making clear how it is driven by institutional objectives and, in the process, to counter perceptions that it is designed based on the availability of funds.

106. IMF staff has continued to consider how to refine the funding model and enhance its stability, as discussed above. Among issues under recent discussion, according to IMF staff, is how to frame RCDCs more as a delivery platform rather than funding vehicles, as well as increase and standardize the role of IMF funding in the fixed, structural costs of RCDCs. There is also discussion of moving toward medium-term budgeting for multi-partner vehicles, rather than raising funds for successive, set-term phases. In these efforts, ongoing engagement with both donors and the Board to identify a way forward that fulfils the IMF's mandate and inspires donor support will be essential.

107. Nonetheless, external funding inevitably brings uncertainties and risks, particularly in highly uncertain economic times. Further, the IMF CD funding model entails natural tensions, since external resources bring their own complications and internal resources are constrained by

the flat real budget. Given these realities, the IMF should continue to monitor the funding model and pursue further enhancements that could increase the resilience and potentially raise the overall level of funding to sustain support for the CD needs of member countries, including in core as well as new areas. Useful enhancements could include adjustments to existing arrangements to improve effectiveness and efficiency, for instance by consolidating donor accounts. In addition, to help mitigate donor fatigue, the IMF could further enhance communication and coordination across departments regarding requests to and engagement with donors, with the goal of ensuring that any requests are well-aligned and prioritized.

108. Going further, potential alternative approaches could also be explored, such as an endowment or internal stabilization mechanism, a targeted increase in contributions from some CD recipients, or a larger contribution from internal resources via a targeted augmentation or reallocation from other activities.

109. An endowment or internal stabilization or set aside mechanism could help manage risks related to fluctuations in the availability of external resources relative to demand for CD. If financing such a vehicle turns out to be of limited interest to donors, the IMF could consider setting aside a small amount of its own resources into a "CD-stabilization account," for instance during periods of high operational income. Resources built up in such an account could then be "run down" in years of high CD demand or shortfalls in external funding. However, this would compete with other potential uses of operational income, notably efforts to increase precautionary balances.⁵⁶ It may also raise legal issues related to the distribution of income.⁵⁷ In addition, such an approach would need to be considered in light of the general principle that non-lending income should finance non-lending operations (such as surveillance and CD), which was part of the New Income Model adopted in 2008 in order to avoid having borrowing countries disproportionately finance the IMF's non-lending mandates (IMF, 2007). The impact of such a funding mechanism on future external commitments and donor incentives would also need to be taken into account.

110. The IMF could also consider expanding its approach to seeking contributions from recipients for CD, beyond those made by RCDC members. For instance, the IMF could consider extending its policy for charging a targeted group of members for CD that they receive. As

⁵⁶ Precautionary balances are accumulated by the IMF each year from operational income in order to strengthen the institution's balance sheet, help to ensure the value of members' reserve positions at the Fund, and safeguard the IMF's financing mechanism. As part of closely monitoring precautionary balances given the uncertainty in the global economy related to the pandemic, the IMF reviewed the adequacy of precautionary balances in December 2021. At that time, the Executive Board broadly considered that the pace of accumulation of precautionary balances was expected to be adequate, although some Executive Directors sought to avoid delays in or increase the pace. Directors asked staff to closely monitor risks (IMF, 2021g).

⁵⁷ The uses of IMF operational income and distribution thereof are governed by the IMF's Articles and other decisions of the Executive Board. Any innovation would need to be reconciled with the relevant rules and practices.

illustrated in Box 3, if non-program upper middle-income countries (UMICs) contributed half of the amount of IMF-funded spending on direct delivery of CD they received in FY2012–2021, this would have offset about 10 percent of internally funded spending in this period, although there would be costs to administering the policy and collecting these funds. The IMF could also explore increasing the expectations for co-funding of CD for UMIC countries that are heavy users of CD. It should be noted that expanding recipient country contributions would involve risks and challenges, as discussed in Box 3, and could have other effects on demand as well as the conduct of CD.

111. The IMF could also increase resources for CD from its administrative budget. Although CD received considerable additional internal funding as part of the budget augmentation, as discussed above, these resources were earmarked for specific needs and thus will do little to provide additional flexibility in channeling CD resources or filling gaps in donor funding more generally. However, increasing the IMF's own resources for CD within the current budget envelope would require either shifting spending from other areas or increasing the overall budget envelope—and thus represents a strategic decision for the membership.

Box 3. Considerations for an Expanded Policy on Contributions from CD Recipients

Among the options that could be considered to increase resources for CD is the expansion of the IMF's policy for collecting contributions from, or charging, recipients of CD. An expanded charging policy has been explored in the past, including in 2007-8 when a graduated approach was introduced but then rescinded, as explained in Box 1. The 2008 approach was designed to charge non-program countries on a sliding scale (based on income level) for direct delivery costs of TA, except that financed by external/donor resources.

A more targeted approach might focus on upper-middle income countries (in addition to high income countries as is the case under the current policy). Sixty upper-middle income countries received internally funded CD totaling \$249 million in FY2012–2021, about 31 percent of all internally funded CD over the period.¹ Given the importance of CD to complement IMF programs, one might want to exclude CD provided to countries engaged in IMF programs; in the FY2012–2021 period, about \$82 million of IMF-funded CD spending went to UMIC countries with IMF programs.

If the non-program UMIC countries had reimbursed the IMF at a rate of 50 percent of the cost of direct CD delivery in FY2012–2021 (and their demand for CD had been unchanged), this would have offset the cost of about ten percent of internally funded direct delivery (which amounted to \$803 million over this period), or about 4 percent of total direct delivery of CD.

Pursuing this option would depend on finding a simple administrative approach, to avoid spending undue time and expense in collecting charges and ensure that resources collected would be additional. A potential pitfall is that CD projects might be delayed by recipient countries needing to seek legislative approval for necessary budget allocations. There would also be a need to protect against other risks related to "self-financing" of CD, such as questions about equal treatment of member countries as well as potential friction with authorities and the potential for questions and conflicts related to the role of recipient countries in selection of experts and establishment of timetables, as well as that of IMF mission chiefs and departments in recommending CD for which countries would then have to pay the IMF.

Any expansion of charging would also likely face concerns and challenges from those who view CD as a public good that countries should have access to as part of being members, and the potential that new charges could impede reliance on IMF CD, or push countries to turn to other CD providers, whose advice and assistance may or may not align with that of IMF surveillance or lending programs.

¹ One country accounted for 9 percent of the internally funded spending on CD for UMIC countries. The top three UMIC recipients of CD accounted for about 17 percent, the top five accounted for 24 percent, and the top ten accounted for 38 percent. The twenty UMIC countries receiving the most CD (each of whom received 3 percent or more of the total) accounted for 60 percent; the remaining 40 percent was provided to 38 other UMIC countries.

ANNEX I. FUNDING VEHICLES

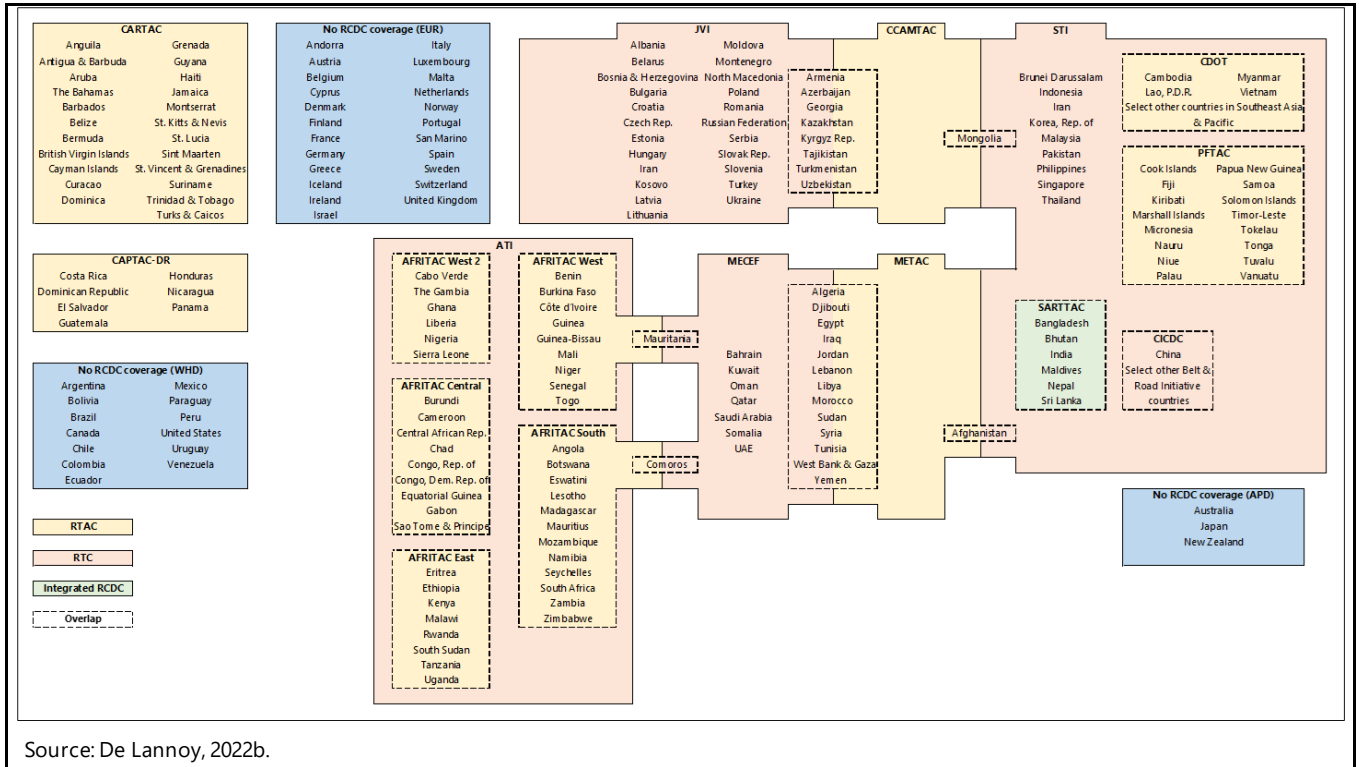
Name	Established	Host	Donor Partners	Member countries
Joint Vienna Institute, JVI	1992	Vienna	Austria and other international partners/donors	30 countries in central and SE Europe, Caucasus, Central Asia
PFTAC	1993	Fiji	ADB, Australia, EU, Korea, New Zealand	16 Pacific Island countries and territories
Singapore Training Institute	1998	Singapore	Australia, Japan, Singapore	37 countries in Asia Pacific
CARTAC	2001	Barbados	Canada, CDB, EU, Mexico, UK	22 Caribbean countries and territories
AFRITAC East	2002	Tanzania	EIB, EU, Germany, Netherlands, Switzerland, UK	Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, and Uganda
AFRITAC West	2003	Cote d' Ivoire	China, EIB, EU, France, Germany, Luxembourg	WAEMU plus Guinea and Mauritania
METAC	2004	Lebanon	EU, France, Germany, Netherlands, Switzerland	Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Sudan, Syria, Tunisia, West Bank and Gaza, and Yemen
AFRITAC Central	2007	Gabon	China, EIB, EU, France, Germany, Netherlands	CEMAC group plus Burundi and Democratic Republic of the Congo
CAPTAC-DR	2009	Guatemala	EU, Canada, Luxembourg, Mexico	Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama
AFRITAC South	2011	Mauritius	Australia, China, EIB, EU, Germany, Netherlands, Switzerland, UK	Angola, Botswana, Comoros, Eswatini, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, S Africa, Zamia, and Zimbabwe
Middle East Center for Economics and Finance (MECEF)	2011	Kuwait	Kuwait	Arab League Member Countries
CD Office in Thailand (CDOT)	2012	Bangkok	Japan*, Thailand	Cambodia, Lao PDR, Myanmar and Vietnam (core beneficiaries)
AFRITAC West II	2013	Ghana		Cape Verde, The Gambia, Ghana, Liberia, Nigeria, and Sierra Leone
Africa Training Institute, ATI	2013	Mauritius	Australia, China, EIB, Germany, Korea, Mauritius	45 countries in SSA
SARTAC	2017	India	China and other member countries	Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka
China-IMF CD Center (CICDC)	2018	Beijing	China	China and countries in the Belt and Road Initiative
CCAMTAC	2021	Kazakhstan	Asian Development Bank, Korea, Poland, Russia, Switzerland	Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan

Table AI.2. Thematic Trust Funds

Name	Partners	Target Countries	Size and timeframe	Purpose
Revenue Mobilization (RMTF)	Australia, Belgium, Denmark, European Union, France, Germany, Japan, Korea, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom	Low- and lower middle-income countries	Phase Two: 2017-2023, \$83 million raised. First phase: 2011-2017, \$26 million.	Support countries as they design and administer effective tax systems. Response to "Addis Challenge" of the 2030 Agenda for Sustainable Development. Successor to TPA-TF.
TADAT	France, Germany, Japan, the Netherlands, Norway, Switzerland, and the United Kingdom	Global	Phase Two: 2019-2024, \$7.6 million. Phase One:	Provide an objective and standardized performance assessment of a country's tax administration system. By helping identify administrative strengths and weaknesses and facilitating shared views among all stakeholders, the tool helps develop a reform agenda that can manage, monitor, and evaluate progress.
Managing Natural Resource Wealth (MNRW)	Phase Two: Australia, the Netherlands, Norway and Switzerland. Phase One: Australia, European Union, Kuwait, Netherlands, Norway, Oman and Switzerland	Low- and lower-middle income countries	Phase Two: 2017-2024, envisioned as a \$30 million fund; \$28 million raised to date. Phase One launched in 2011 with US\$25 million	To help countries build capacity to manage their natural resource wealth effectively. The fund also helps create a stable macroeconomic environment for exploration and exploitation of natural resources, helping to ensure that they are managed in a socially responsible way.
Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT)	France, Japan, Luxembourg, Netherlands, Norway, Qatar, Saudi Arabia, Switzerland, United Kingdom. Canada and Korea (Phases 1 and 3); Germany (Phase 3); Kuwait (Phase 1); and Qatar (Phase 3).	Global, aimed at countries where the pace of economic development has outstripped regulatory capacity and/or where ML/FT risks are considered high or have the potential to develop.	Phase I ran from 2009-2014 and had an overall budget of \$27 million, from 12 donors. Phase II went from 2014-20 with funding of \$28 million. Phase III began in November 2020 with donor commitments of about \$29 million.	Support resource-rich countries in their efforts to mobilize and manage their natural resource wealth effectively. The MNRW also helps build capacity to design and implement macroeconomic and macroprudential policies in countries that are highly dependent on large and volatile resource revenues. The current phase will place particular focus on AML/CFT systems that have been affected by the pandemic as well as effective delivery of capacity development, virtually.
Financial Sector Stability Fund	China, Germany, Italy, Luxembourg, Saudi Arabia, Sweden, Switzerland, the United Kingdom, and the European Investment Bank	Low- and lower-middle-income countries	\$28 million, 2017-2024 (Phase One)	To support countries as they assess and address risks and vulnerabilities in the financial sector, and to help promote financial development and inclusion. The FSSF supports Financial Sector Stability Reviews (FSSRs)—a standardized diagnostic assessment.
Debt Management Facility – Joint with World Bank	Austria, the European Union, France, Germany, Japan, the Netherlands, Norway, Switzerland, the United Kingdom, the United States, and the African Development Bank.	86 countries (as of June 2020 DMF Eligible Countries (FY21) final.xlsx (dmfacility.org)), primarily low- and lower-middle income countries but also including 16 upper-middle income countries. All countries were IDA-eligible in 2008 but may have since graduated.	Third phase launched in July 2019; first two phases launched in 2008 and 2014 respectively.	Strengthen debt management to reduce debt-related vulnerabilities and improve debt transparency

<i>Financial Sector Reform and Strengthening Initiative (FIRST).</i>	Current partners include Germany and Switzerland	low- and middle-income countries	Established in 2002. \$6 million in FY2012-2021.	Promoted financial sector development by supporting a broad range of financial sector reforms, including banking, insurance, capital markets, pensions, and crisis preparedness.
Data for Decisions (D4D)	China, the European Union, Germany, Japan, Korea, Luxembourg, the Netherlands, Norway, and Switzerland.	Low- and lower-middle-income countries. About one-third of activities focus on fragile states.	Phase 1: 2018-2023, \$31 million raised.	Support countries in improving the availability, quality, coverage, timeliness, and dissemination of macroeconomic statistics in order to facilitate better policy making. Works with countries to develop the necessary infrastructure to compile and report on many Sustainable Development Goals indicators.
Somalia Country Fund	Second phase: Italy and United Kingdom. First phase: Canada, the European Union, Italy, the United Kingdom, the United States, and the Arab Fund for Economic and Social Development.	Somalia only	First phase started in 2015; funding totaled \$9.6 million. Second five-year phase started in 2021; \$2.4 million raised as of March 2021.	Strengthen Somalia's operating and technical capacity to make economic and financial institutions more effective, transparent, and accountable.

ANNEX II. SCHEMATIC REPRESENTATION OF REGIONAL CAPACITY DEVELOPMENT CENTERS



ANNEX III. DISTRIBUTION OF FUNDING ACROSS RTACs¹

This annex describes an exercise to compare the actual distribution of funding across RTACs to simulated potential demand for CD. Our methodology is similar to one used by ICD in preparing background materials for the CCB, which simulated regional shares of CD resources.

We constructed two benchmark funding allocations to compare to actual funding. The first, “Simple Weights,” assigns weights to countries depending on certain characteristics and assumes that CD needs are inversely proportionate to per capita income. Weights equal to 1 are assigned to all low-income countries, countries classified by the Fund as fragile states, as well as IMF program countries.² The remaining countries that belong to lower-middle income group are assigned weights equal to 0.7; upper-middle income countries are given weights equal to 0.3; and high-income countries receive weights equal to zero. All country weights are time-invariant and use the 2021–2022 World Bank classification. Country weights are aggregated (by simple addition) for each RTAC and normalized by dividing the aggregates by the sum of weights for the member countries of each RTAC.³ The results can be interpreted as simulated shares of the total funding for all RTACs.

The second, “Modified weights,” introduces two additional adjustments that are intended to better anticipate countries’ potential CD needs as well as reflect relative sizes of their economies. The World Bank’s re-scaled Government Effectiveness Index⁴ was used as a proxy for capacity level and share in global GDP⁵ was used to measure economic size. First, an approximation of potential CD needs for each country is obtained by multiplying the simple weight (from the previous paragraph) by the inverse of the Government Effectiveness Index, normalized by dividing the aggregates by the sum of weights for all countries in the sample. Second, countries’ shares in global GDP are also normalized so that the sum of weights for all countries in the sample equals 100 percent. Third, the final notional weights are obtained for each RTAC by a weighted average specified by the following formula: $MW = 0.8 * CD\ Needs + 0.2 * Relative\ size$.

¹ This annex was prepared by Lukasz Jannils.

² The World Bank classification is used for low-income countries <https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2021-2022>. The IMF classification as of March 2022 is used for fragile states. All countries that had a program active as of December 2020 were identified as program countries.

³ In order to reflect the fact that some RTACs launched their activities later than others, we multiply the scalar with aggregate weights for individual RTACs by a matrix of dummies indicating whether a particular RTAC was operational in a given financial year or not. This procedure is performed prior to normalization. As a result, while country-level weights are time-invariant, RTAC-level weights may vary slightly from one financial year to another.

⁴ Government Effectiveness Index published by the World Bank takes values from -2.5 (low effectiveness) to +2.5 (high effectiveness). In order to avoid entering into the negative territory, all values were re-scaled by adding a constant equal to 2.5, which yields a new range with minimum equal 0 and maximum equal 5.

⁵ Data taken from the October 2021 World Economic Outlook Database.

Contrary to the first approach using simple weights, in which country weights are time-invariant, modified weights are calculated annually.⁶

Table 1 below presents the notional shares of CD funding for RTACs that is implied by the Simple and Modified weights (for the former we report weights for FY2021 and for the latter we report average for the period FY2017–2021). Distribution of CD funding among RTACs implied by the two weighting schemes is compared against the data on the annual average of actual RTAC funding.⁷

RTAC	Simple weights, FY2021⁸ (In percent)	Modified weights, FY2017–2021 average (In percent)	Actual funding, FY2017–2021 average (In percent)
AFRITAC Central	11.0	10.5	9.1
AFRITAC East	9.4	7.0	10.7
AFRITAC South	11.4	10.2	13.1
AFRITAC West	11.9	9.6	8.5
AFRITAC West 2	6.3	6.1	9.5
CAPTAC-DR	6.1	4.2	6.9
CARTAC	6.3	5.8	11.2
CDOT	5.0	3.9	7.0
METAC	16.1	22.4	5.1
PFTAC	11.8	7.2	7.4
SARTTAC	4.7	13.0	11.4
Sum:	100.0	100.0	100.0
Sources: IMF, CDIMS; and IEO staff calculations.			

It is important to note that this analysis considered all external resources provided to each RCDC, including those contributed by member recipients and hosts. The share of funding assumed by each of these groups varied widely across the centers, with a very large host contribution to SARTAC and CCAMTAC (57 percent), and to a lesser extent METAC (22 percent) and AFRITAC

⁶ Due to the fact that CD spending is reported by financial year, we convert calendar years to financial years by assuming that $CY(n) = FY(n + 1)$.

⁷ The main analysis relied on CDIMS data, as indicated above. We also performed the analysis including CCAMTAC, using its prospective funding level from Partners Connect. This analysis concluded that CCAMTAC's funding level was roughly in line with both the notional and modified weights.

⁸ Simple weights are identical for all financial years after FY2016 when all centers were in operation, because an annual average was used.

West II (16 percent); member country contributions were relatively high in CARTAC (25 percent), CAPTAC (25 percent), and SARTAC (16 percent), while for other centers the member contributions amounted to 10 percent or less.

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