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Independent Evaluation Office
of the International Monetary Fund

BACKGROUND PAPER



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The Capacity Development Work of the IMF in Small Developing States

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IEO Background Paper
Independent Evaluation Office
of the International Monetary Fund

The Capacity Development Work of the IMF in Small Developing States

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The views expressed in this Background Paper are those of the authors 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

AFR	African Department (IMF)
AFRITAC	African Regional Technical Assistance Center
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
APD	Asia and Pacific Department (IMF)
CARTAC	Caribbean Regional Technical Assistance Center
CDMAP	Capacity Development Management and Administration Program
CD	Capacity Development
CPIA	Country Policy and Institutional Assessment
CSN	Country Strategy Note
EMMIE	Emerging Market and Middle-Income Economy
EUR	European Department (IMF)
FAD	Fiscal Affairs Department (IMF)
FCS	Fragile and Conflict-Affected State
FSAP	Financial Sector Assessment Program
FSSR	Financial Sector Stability Review
FTE	Full-Time Equivalent
GDDS	General Data Dissemination System
HQ	IMF Headquarter
ICD	Institute for Capacity Development (IMF)
LIC	Low-Income Country
LIDC	Low-Income Developing Country
MC	Mission Chief
MCD	Middle East and Central Asia Department (IMF)
MCM	Monetary and Capital Markets Department (IMF)
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Center
RBM	Results-Based Management
RCDC	Regional Capacity Development Center
RTAC	Regional Technical Assistance Center
RR	Resident Representative
RSN	Regional Strategy Note
SDDS	Special Data Dissemination Standard
SDS	Small Developing State
STX	Short-Term Expert
TA	Technical Assistance
WGI	Worldwide Governance Indicator
WHD	Western Hemisphere Department (IMF)

EXECUTIVE SUMMARY

While heterogeneous in many ways, most Small Developing States (SDS) share relatively low levels of development and are dragged by serious constraints on their institutional and human resource capacity. As a result of these limitations, which are especially acute in SDS in the Pacific region and in microstates, small states have received sustained CD support from the IMF. At the same time, the geographical distribution and remoteness of many SDS has affected the way in which this CD support has been delivered.

Overall, the Fund's provision of CD to SDS is highly valued by authorities. They considered it of high quality, timely, adequate in amount, relevant, and well-tailored. Staff members were also generally satisfied with this function, noting progress over the evaluation period, and agreeing with the important contribution made by CD in Fund engagement with SDS. However, the provision of IMF CD to SDS is not problem free. The most outstanding issue is the limited implementation of CD advice and, therefore, impact. While this is clearly an area of shared responsibility by the Fund and national authorities there are several steps the Fund could take to strengthen the value provided by CD for SDS.

To foster higher levels of CD implementation, the Fund could strengthen ex ante assessments of recipients' absorptive capacity; emphasize implementation support (rather than providing more advice); rationalize more forcefully the provision of IMF CD; strengthen the incentives of recipients; and continue to strengthen its coordination with other CD providers.

The Fund should consider investing more in Regional Capacity Development Centers (RCDCs) and regional resident representatives given that the value added of the resources devoted to CD provision in SDS is maximized when channeled through locally based staff in direct contact with country officials, an effect that seems to be particularly strong in SDS. Dedicating more resources to RCDCs and regional resident representatives would also allow them to support further the surveillance and program activities. At the same time, various steps could be taken to maximize the value of locally based experts in RCDCs. First, the Fund could strengthen the provision of guidance to CD experts, explaining how best to engage with countries, clarifying duties, and explaining advisors' responsibilities vis-à-vis country teams. Second, it would be useful to develop a structure within the Fund to manage and boost the exchange of knowledge accumulated in RCDCs across regions. Third, consultations between country teams and RCDCs experts and the participation of the latter in surveillance missions could be more systematic.

Finally, country teams' role in leading prioritization and planning of country CD work, with greater focus on end-results, should be strengthened, including by making more systematic use of country and regional strategy notes.

I. INTRODUCTION

1. This paper provides background on the capacity development (CD) support for the IEO evaluation of IMF engagement with small developing states (SDS) during the evaluation period, 2010–2020.¹ The IMF classifies as SDS those members with populations under 1.5 million, excluding advanced economies and fuel exporting countries. A total of 34 countries, or 18 percent of the IMF’s membership, fall into this category: 12 are in the Caribbean, 11 in the Pacific, 7 in Africa, and 4 in Europe and Asia. Fifteen of them are “microstates,” with populations below 200,000, and 10 are currently included in the IMF list of fragile and conflict-affected states (FCS). According to the World Bank criteria, 11 of these SDS are lower-middle-income countries, 16 fall in the upper-middle bracket, and 7 in the high-income one.
2. While heterogeneous in many ways, most SDS share relatively low levels of development and suffer serious constraints on their institutional and human resource capacity. These limitations, especially acute in the Pacific region and in microstates, make SDS avid consumers of CD support from the Fund and other development partners. At the same time, most SDS are concentrated in two parts of the world (the Caribbean and the Pacific) and many are remote, which also affects the provision of CD and introduces a marked regional dimension to their engagement with the Fund.
3. This paper assesses the value added of the CD support provided to SDS and provides some possible avenues for improvement. It is based on information gathered directly from SDS authorities and IMF staff, through interviews and surveys, desk review of documents, and internal IMF data. The rest of the paper is organized as follows. Section II provides some general background on the CD provided by the IMF. Section III analyzes the most salient aspects of the CD provided by the IMF to SDS during the evaluation period. Section IV concludes.

II. CONTEXT

A. The IMF’s CD Work²

4. CD is one of the three core functions of the IMF, together with surveillance and lending and program support. The objective of the Fund’s CD work is “to help member countries build strong institutions and boost skills to formulate and implement sound macroeconomic and financial policies. Some of these efforts also aim to deepen the dialogue between Fund and member country experts on specialized aspects of macroeconomic and financial policy issues, complementing policy discussions between member countries and the Fund related to surveillance or Fund-supported programs” (IMF, 2019). CD services from the Fund are available

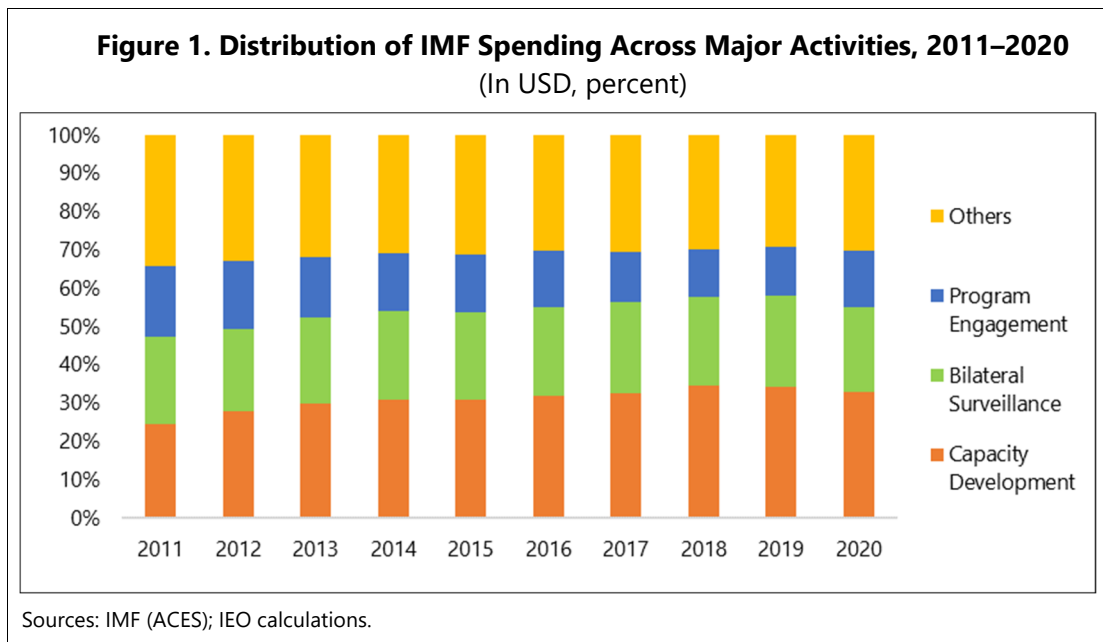
¹ The IEO already evaluated the Fund’s technical assistance (TA) in 2005 and 2014 (IEO, 2005; 2014), covered in depth CD-related aspects in its evaluation of the role of the Fund in fragile and conflict-affected states (FCS) (IEO, 2018). The IEO will complete later this year a new full evaluation on the IMF and Capacity Development.

² For further general information on IMF CD provision, including history, governance, and resources allocation, see IEO (2021), available at: <https://ieo.imf.org/en/our-work/Evaluations>.

to all member countries, at their request and mostly free of charge.³ Low-income developing countries and FCS are the major beneficiaries, although middle-income countries also receive substantial CD support.

5. CD priorities are set through an extensive internal allocation process which seeks to balance members' interests, evidence on the results and impact of CD, and the Fund's institutional priorities and CD supply capacity. CD is delivered in a variety of topics related to the Fund's core areas of expertise, including public finances, monetary and financial policies, macroeconomic frameworks and tools, legal frameworks, and statistics, although the bulk has traditionally been more narrowly focused on public financial management (PFM), tax administration, macroeconomic statistics, and financial sector stability. CD includes both technical assistance (TA) and training. TA is typically provided by the Fund's functional departments (e.g., the Fiscal Affairs Department (FAD) and the Monetary and Capital Markets Department (MCM)), and training is organized by Institute for Capacity Development (ICD). There is increasingly close consultation of CD work with and direction on prioritization from the area departments.

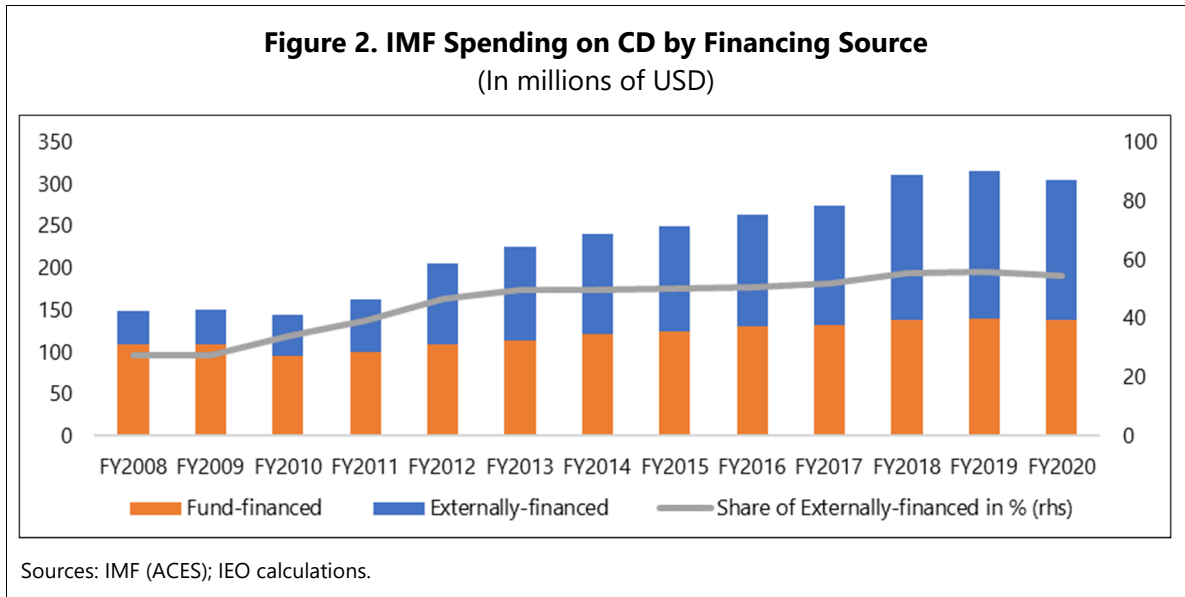
6. The share of resources devoted by the IMF to CD work has grown during the evaluation period and now accounts for about one-third of the Fund's operational budget (Figure 1). Nonetheless, the Fund's CD constitutes only a very small fraction of the CD assistance provided globally, in a very crowded market, by multilateral, regional, and bilateral entities, including civil society organizations.



³ "The Fund does not charge recipient countries for delivery of CD services except for high-income countries (for CD that is not deemed critical and that costs above a minimum threshold). In some cases, countries make voluntary contributions to finance CD services they receive from the Fund. Depending on the circumstances, a high-income country may receive both Fund-financed CD and CD financed by its own contributions to the Fund" (IMF, 2019).

7. The IMF delivers its CD through a mix of modalities and sources⁴: it can take the form of one-off technical assistance missions, multi-year programs, assignment of experts—for short or long terms—training courses and workshops, or online learning; it is usually tailored to one individual member country but can have a regional focus; it can be delivered in country, at IMF Headquarters (HQ), or remotely; it can be sourced directly from the Fund’s HQ or through one of its regional centers; and it can be delivered by IMF staff or by consultants hired on contract. The IMF, however, does not fund other CD providers nor delegate the delivery of CD services. Beyond the provision of advice, the Fund provides, as part of its CD services, follow up and implementation support to facilitate the adoption of measures and, ultimately, to achieve impact. Quality control is conducted via oversight by CD experts from HQ, a process known as “backstopping.”

8. The expansion of the IMF CD services has been made possible by the increase of external financing, which now covers over a half of the Fund’s CD spending (Figure 2) and more than 80 percent of the total field delivery. However, as recognized by the Fund (IMF, 2019a), “internal and external funds are not perfect substitutes because the use of external funds is subject to donors’ preferences for particular regions, topics, or delivery vehicles.” The Fund sets aside most of the available internal resources to provide CD to countries benefiting from a Fund-supported program or to those with particularly pressing needs.



9. The Fund currently has two complementary systems for the management and monitoring of CD. The Capacity Development Management and Administration Program (CDMAP) is being rolled out to operationalize the 2018 CD Strategy Review (include reference) to support the management of IMF CD in an integrated fashion; from the capture of CD demands to the execution

⁴ While technically part of the IMF’s CD function, targeted diagnostic interventions such as FSAPs, FSSRs, Climate Change Policy Assessments, and Disaster Resilience Strategies, crucial for many SDS, are covered in other background papers for the evaluation IMF Engagement with Small Developing States. See Lombardi and Rustomjee (2022), and Marston (2022).

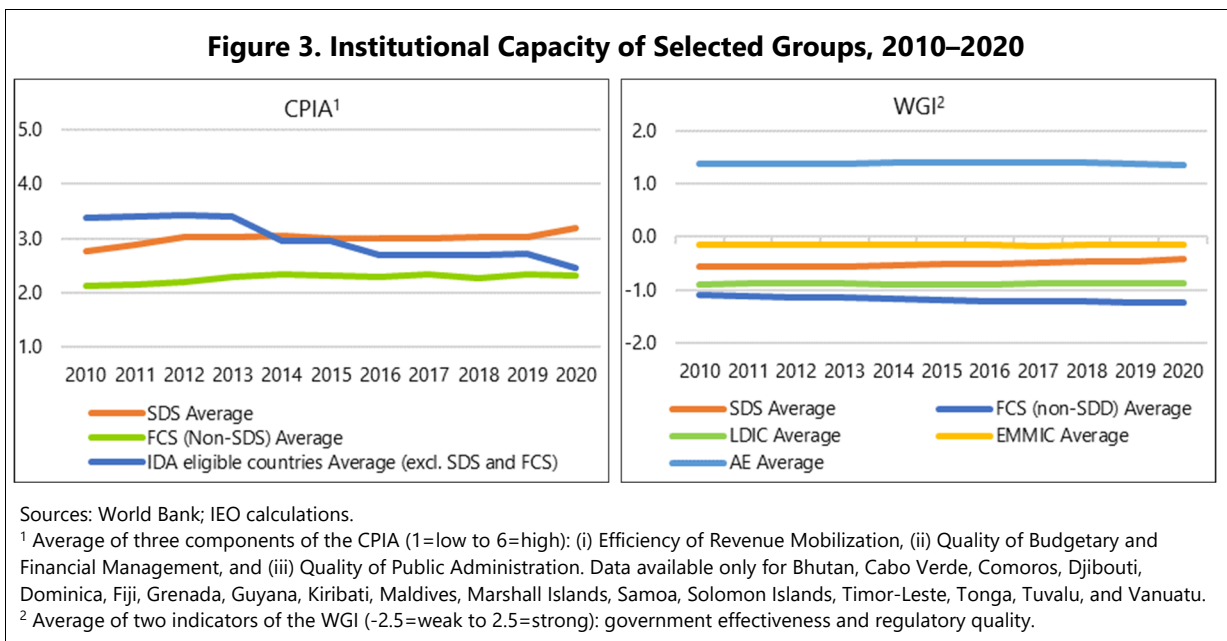
and reporting of specific projects. CDMAP is intended to: (i) support more efficient and transparent CD operations; (ii) facilitate the integration of CD, surveillance, and lending activities; (iii) develop a country-centric approach; and (iv) better inform the decision-making process surrounding planning, prioritization, and execution of CD from the strategic to the operational level.

Complementary to the CDMAP, the Fund's Results-Based Management (RBM) Framework⁵ is a system for the collection and management of data on the results of CD operations, intended to help in the areas of project management, accountability and reporting, monitoring and evaluation, and strategic decision making and prioritization. The core of the RBM is a logical framework that ties together the Fund's CD deliverables—inputs, activities, and outputs—with their benefits on CD recipients—organized in milestones, outcomes, and objectives. The RBM-CDMAP will be evaluated in the forthcoming IEO evaluation on the IMF and capacity development.

B. Special Features of SDS Affecting the Provision of CD

Low Capacity—High Need for CD

10. While there is substantial diversity within the SDS group, the majority of SDS suffer from severe limitations on institutional capacity and face a serious challenge of talent retention. World Bank data suggests that their institutional capacity is significantly lower than in larger countries in a comparable income bracket, although higher than in low-income countries (LICs) or FCS (Figure 3). Moreover, both the Country Policy and Institutional Assessments (CPIA) and the Worldwide Governance Indicators (WGI) show only marginal improvements over the last decade.



⁵ The RBM was first introduced in the mid-2000s and required for all CD projects from 2017. Following the 2018 CD Strategy Review, it was reorganized under a new RBM Governance Framework presented in 2020 (IMF, 2020). This governance framework was recently developed in the May 2021 Operational Guidelines (IMF, 2021) and integrated with the CD Management and Administration Program (CDMAP).

11. The constraints on institutional capacity and their implications for SDS' economic performance have long been recognized by the literature, both external and produced by the IMF. For example, Farrugia (2007) maintains that the need for institutional capacity-building for development is essential for small island states, even more than for larger countries, given their higher exposure to exogenous shocks of various types. Similarly, Bräutigam and Woolcock (2001) argue that, due to their economic vulnerability, the capacity of SDS institutions matters even more than it does for large countries. According to them, SDS with high quality institutions manage their risks and opportunities in a more successful way. Malik and Temple (2008) find that countries with weaker capacity experience more economic volatility. Brown (2010) includes the higher cost of the public administration, the limited availability of skilled individuals, and a lack of depth in specialization in his list of binding constraints to the institutional development of SDS in the Caribbean. More recently, Beuermann and Schwartz (2018) analyzes in detail the centrality of institutions for the economic development of the Caribbean.⁶

12. Compounding the lack of institutional capacity, the small size of their administrations also affects SDS ability to absorb CD. Officials are often overwhelmed by regular business and unable to interact with the multiplicity of representatives from bilateral and multilateral organizations operating in their countries. Moreover, the extremely small number of officials running key agencies, the scarce access to technical education, and the high incidence of brain drain leave institutions highly exposed to the risk of relying on a single individual (one-person risk), hampering the retention of skills and the continuity in the relationship with the Fund.

13. Internally, the Fund has recognized for years how limited SDS capacity affects their economic performance.⁷ IMF (2013) discusses the macroeconomic effects of limited capacity, including on the provision of public goods and services, fiscal performance, volatility, disaster management, or even on the implementation of a Fund-supported program. IMF (2016) describes the strong link between institutional capacity and SDS' efforts to increase their resilience to climate change and natural disasters. Perhaps most importantly, the Fund's 2017 Staff Guidance Note on the Fund's Engagement with SDS clearly states how low capacity in SDS increases the need for CD provision and, at the same time, reduces their CD absorption and implementation capacity. The note also provides a series of guidelines on how staff should address these deficiencies in the provision of CD, including through tailoring of CD, integration with surveillance, regional level provision, nurturing implementation capacity, and relying on the IMF's Regional Capacity Development Centers (RCDCs).

⁶ For a broader literature review, see Briguglio (2022).

⁷ IMF policy did not prioritize capacity development (CD) for small states prior to 2014. In 2014, Directors endorsed a statement on IMF Policies and Practices on CD which noted for staff and other stakeholders that CD prioritization should bear in mind the need for the Fund to sustain efforts to develop capacity in member countries, in particular LICs and fragile and small states. In discussing the 2018 Review of the Fund's CD Strategy, the Executive Board did not specify small states in particular in its assessment. Nevertheless, in 2019, Directors endorsed an updated statement on IMF Policies and Practices on CD which reiterated language regarding prioritization for LICs and fragile and small states (see Abrams, 2022).

14. In interviews and the staff survey conducted by the IEO⁸ for this evaluation, staff universally agreed with the characterization above. In their view, only a small number of SDS have the level and depth of capacity and human resources normally found in middle-income countries. In fact, most staff compared them to the institutional capacity levels found in much lower income developing countries. As a result, staff saw SDS as highly dependent on the provision of CD and the transfer of skills from external sources, including the Fund.

15. Overall, the provision of CD is considered, both by authorities and IMF staff, as a key pillar of the Fund's work in SDS. Moreover, 80 percent of staff considered that SDS benefit more from IMF CD than non-SDS. Some staff even opined that surveillance and program work should, for the most part, be an instrument to identify and prioritize gaps to be filled by CD provision. The staff survey suggested that, while the Fund provides higher value added to SDS than to non-SDS members across all three functions, the (positive) difference is greater in the case of CD, as 80 percent of respondents saw SDS benefiting more from this line of work than non-SDS.

Geographical and Regional Dimension

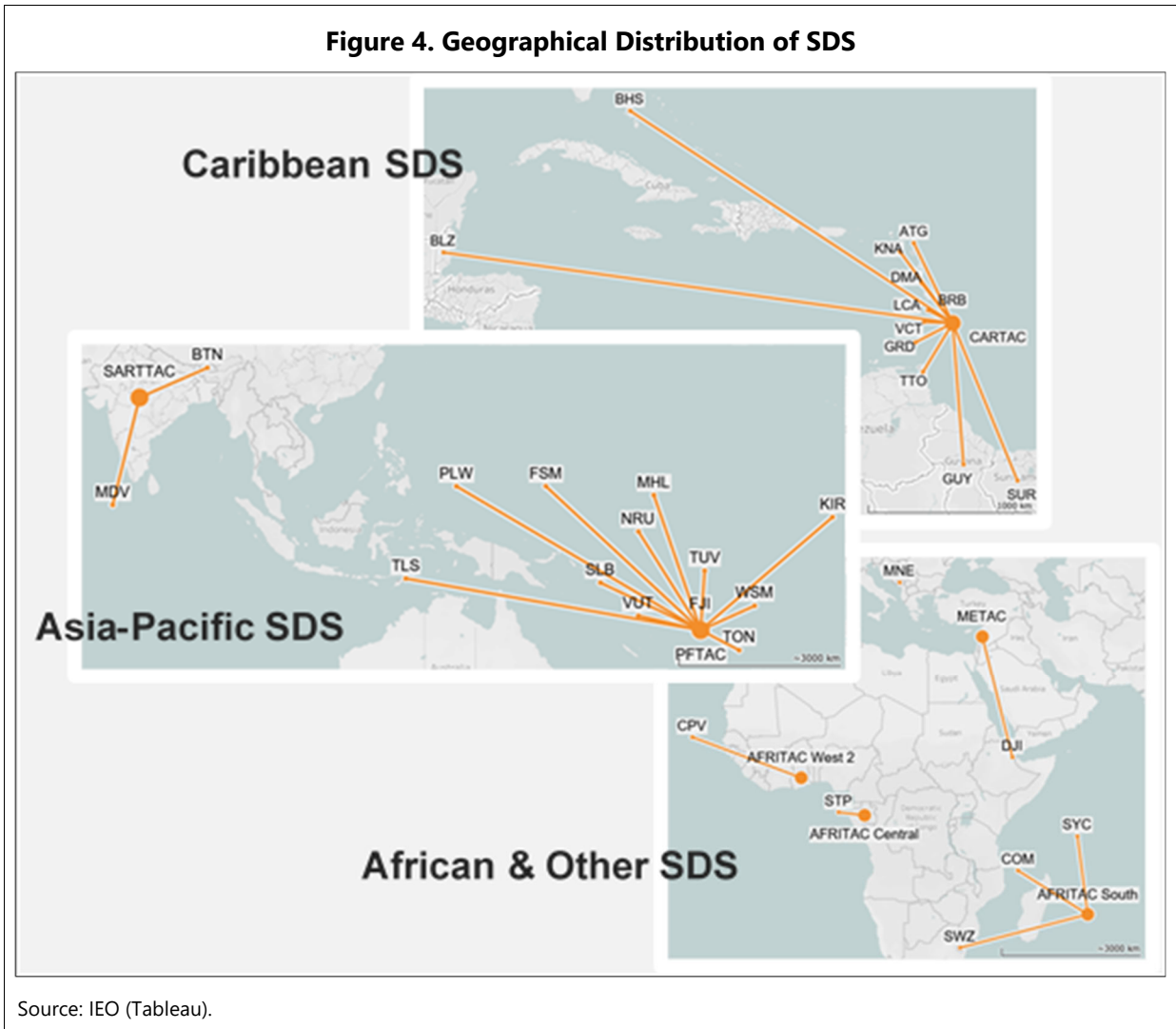
16. The provision of CD to SDS has a strong geographical and regional dimension. SDS are highly concentrated in the Pacific and Caribbean regions (Figure 4). Most of these members are islands, some in very remote locations (particularly in the Pacific). This remoteness makes the delivery of CD more difficult and costly than to other parts of the membership. Regional concentration and remoteness increase the advantages of regional delivery of CD and peer-to-peer learning. Beyond geography, the regional dimension of the provision of CD is strengthened by (i) the many common characteristics and challenges shared by SDS, most derived from small economic size and vulnerability to shocks, especially natural disasters, and (ii) the existence of regional institutions and networks, which, in many cases, are also CD recipients and play a role in the retention and spreading of capacities.

17. This regional dimension has led to a very prominent role of the IMF's RCDCs and Regional Training Centers,⁹ in the delivery of CD to SDS. Indeed, RCDCs were originally conceived to provide TA to small island economies. The first one, the Pacific Financial Technical Assistance

⁸ For details on the surveys conducted for the evaluation, see de Las Casas and Balasubramanian (2022).

⁹ The IMF's RCDCs and Regional Training Centers are located as follows: (i) Africa: East AFRITAC (Tanzania), AFRITAC West (Cote d'Ivoire), AFRITAC Central (Gabon), AFRITAC South (Mauritius), AFRITAC West 2 (Ghana), and the Africa Training Institute (Mauritius); (ii) Asia-Pacific: PFTAC (Fiji), IMF-Singapore Regional Training Institute (Singapore), IMF Capacity Development Office in Thailand (Thailand), South Asia Regional Training and Technical Assistance Center (India), and the China-IMF Capacity Development Center; (iii) Europe and Central Asia: Joint Vienna Institute (Austria), and the Caucasus, Central Asia, and Mongolia Regional Capacity Development Center (Kazakhstan); (iv) Middle East: Middle East Regional Technical Assistance Center (Lebanon); (v) Western Hemisphere: CARTAC (Barbados), and the Central America, Panama, and the Dominican Republic Regional Technical Assistance Center (Guatemala).

Center (PFTAC),¹⁰ opened in Fiji in 1993, and provides CD support for 12 Pacific Islands. The second one, the Caribbean Regional Technical Assistance Center (CARTAC),¹¹ established in Barbados in 1999 supports 12 SDS in the Caribbean. These and other RDCs, especially AFRITAC South located in Mauritius, have been responsible for a growing share of the capacity development assistance delivered to SDS. Regional Training Centers also contribute to the provision of CD to SDS; the Singapore Regional Training Institute serves SDS members in the Asia and Pacific region, the Africa Training Institute (also located in Mauritius) provides training to African SDS, and the Middle East Center for Economics and Finance serves Djibouti.



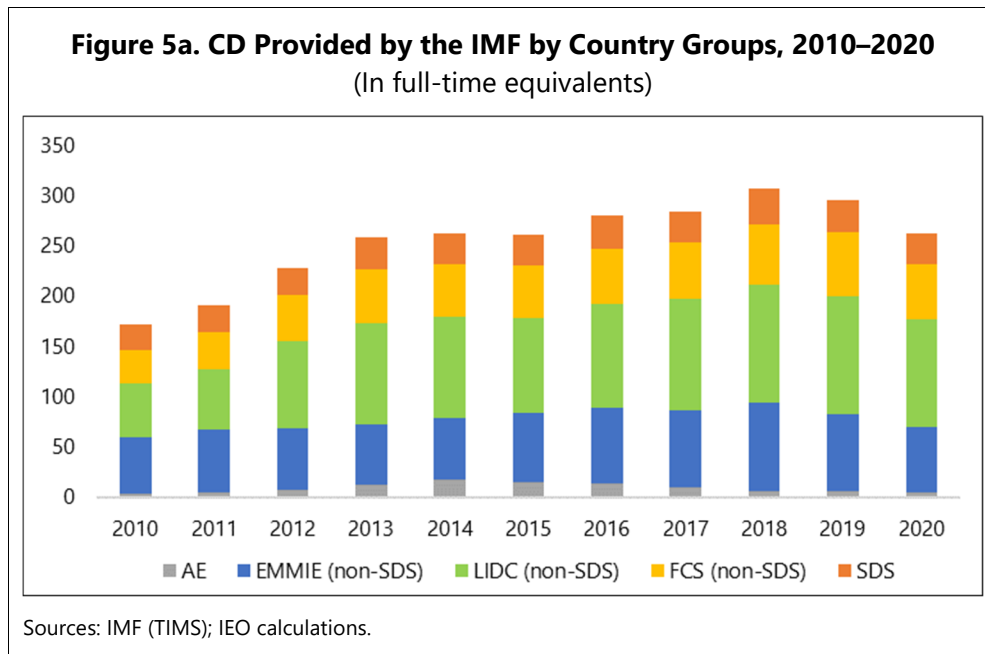
¹⁰ PFTAC currently serves 16 countries and territories (The Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, and Vanuatu), of which 12 are SDS members.

¹¹ CARTAC currently serves 23 countries and territories (Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Maarten, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos), of which 12 are SDS members.

III. IMF CD WORK IN SDS, 2010–2020

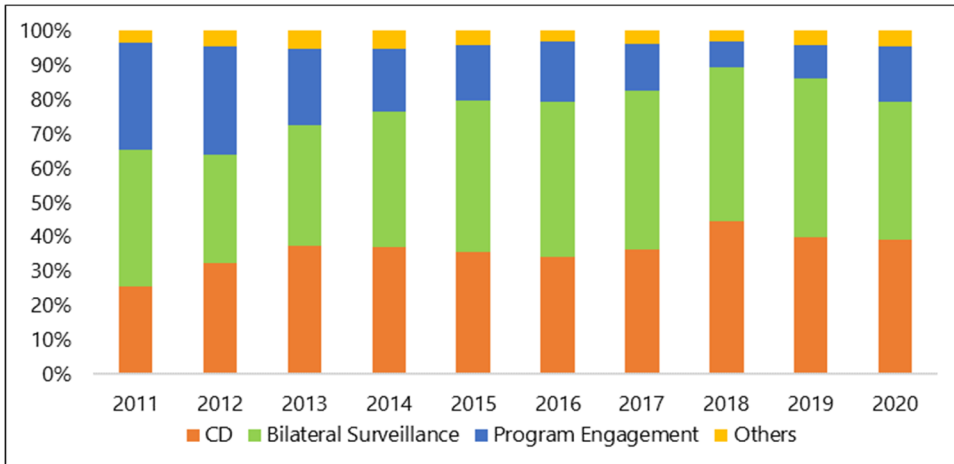
A. Amount, Quality, and Content

18. Data on the amount of CD provided to SDS, measured in Full-Time Equivalent (FTE) staff resources, show that it grew over 2010–2020 (with annual variations), increasing the proportion of IMF spending in SDS devoted to CD activities. However, the bulk of the Fund-wide increase in the amount of resources devoted to CD went to low-income developing countries (LIDC) and FCS (Figures 5a and 5b). In 2020, total FTEs for CD on SDS decreased slightly, reflecting the added difficulty of delivering CD during the pandemic. In dollar terms, the IMF spent in CD, on average, around \$700,000 per year in each SDS (Figure 5c), approximately half the expenditure in LIDCs, well below the amount devoted to each FCS (\$1.16 million), and substantially less than the \$850,000 devoted to countries in their income bracket (emerging-market and middle-income economies, EMMIE). Among SDS, the regional allocation¹² of CD during the evaluation period (Figure 5d) shows that, starting from a lower level, Asian and especially African SDS have received increasing amounts of CD.



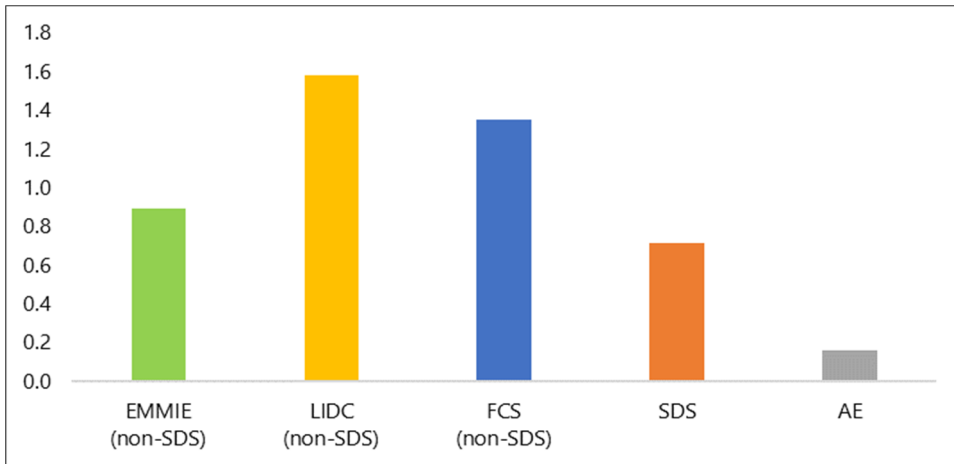
¹² Countries are classified in three main groups for this analysis: Asia-Pacific SDS, Africa and Other SDS, and Caribbean SDS.

Figure 5b. Distribution of IMF Spending in SDS Across Major Activities, 2011–2020
(In USD, percent)



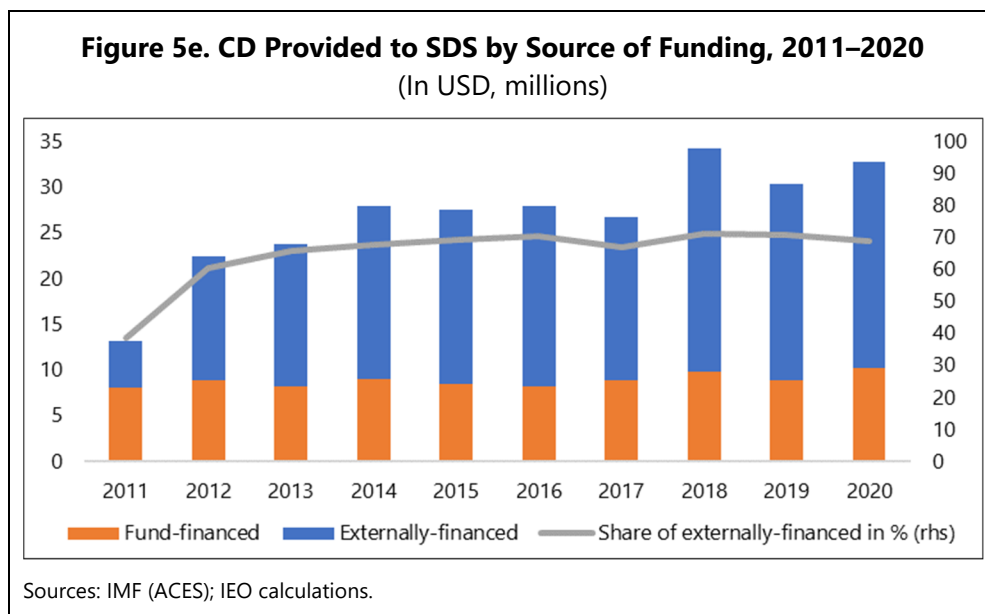
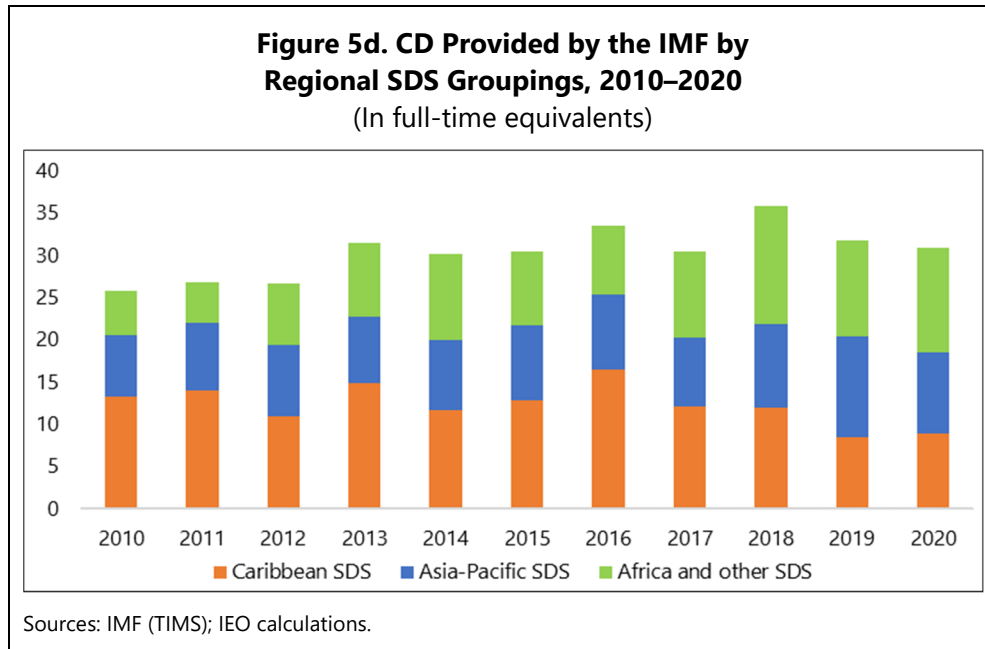
Sources: IMF (ACES); IEO calculations.

Figure 5c. Average per Country IMF Spending on CD by Country Groups, 2011–2020
(In full-time equivalents)



Sources: IMF (ACES); IEO calculations.

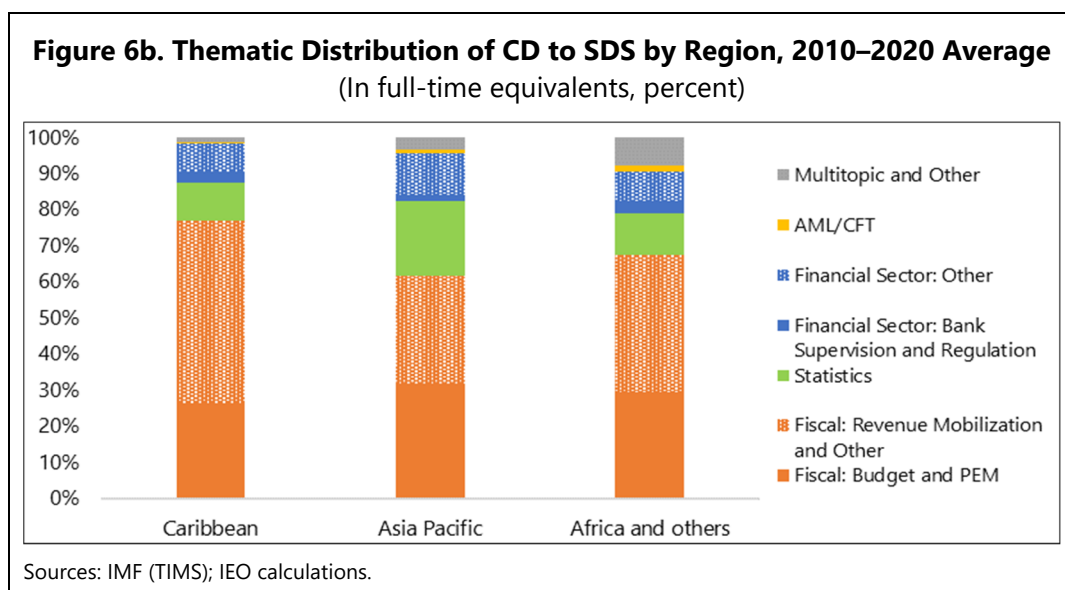
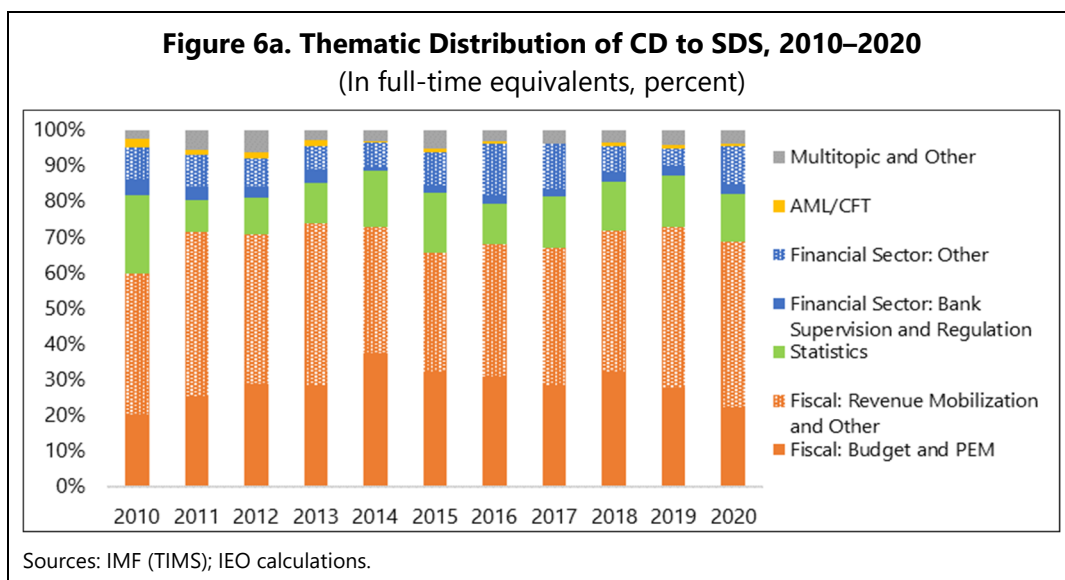
19. The increase in CD delivery to SDS has been entirely financed by the growth of external financing sources (Figure 5e). The comparison of Figures 2 and 5e reveals the centrality of externally-financed CD in the case of SDS, about 20 percent higher than for the membership as a whole throughout the period, consistent with the prominence of RCDCs in the delivery to this part of the membership.

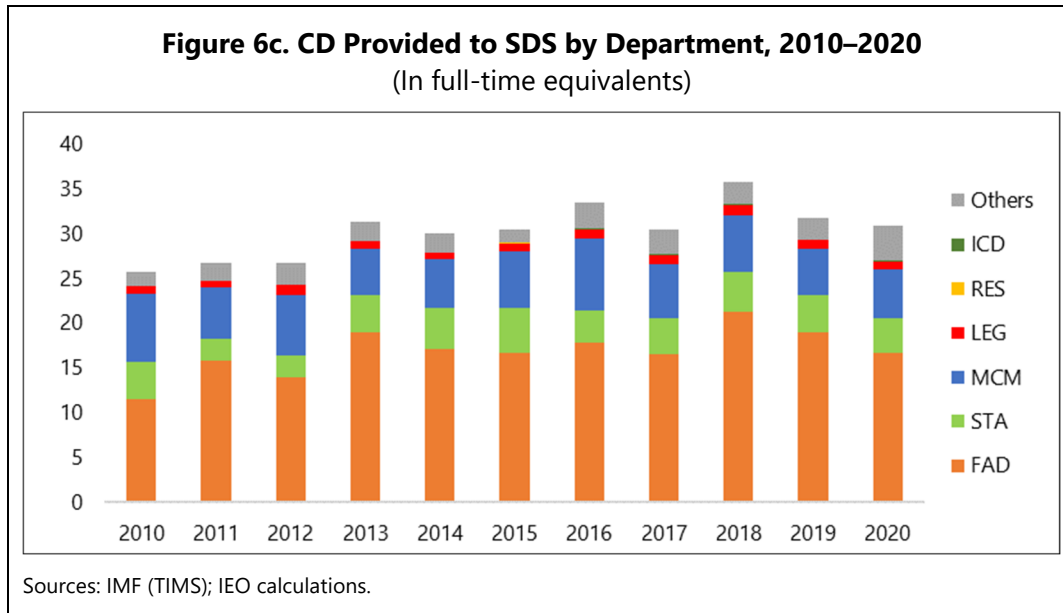


20. Authorities and staff generally agreed on the sufficiency of resources available for CD provision. In interviews, authorities expressed their satisfaction with the quantity of CD and the responsiveness of providers in addressing their needs.¹³ Some staff even argued that the ample availability of resources has led to the provision of too much CD, in the sense of exceeding the country's absorption capacity.

¹³ While not included in CD data, significant amounts of CD support are also provided by country teams while conducting surveillance and program work. Authorities appreciated this type of support, for example, with using DSA tools, designing fiscal frameworks, legal advice for debt restructuring exercises.

21. In terms of content, the overwhelming majority of the CD provided to SDS across all three regions was focused on the fiscal domain (Figure 6a-c), especially on tax administration, revenue mobilization, and PFM. At a lower level, debt issues were also an area of interest in the Caribbean and Asia-Pacific regions, while budgetary frameworks and execution received more attention in African SDS. The financial sector area attracted slightly more attention in the Caribbean and African and Other regions (partially reflecting CD provided to Montenegro, Mauritius, Seychelles, and Cabo Verde). Across all three regions, CD on this area centered mainly around financial sector oversight, Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT), bank resolution frameworks, and monetary operations. On statistics, most recurrent themes were, across the board, national accounts, balance of payment, and dissemination standards (General Data Dissemination System (GDDS) and Special Data Dissemination Standard (SDDS)).





22. In general, authorities were highly appreciative of the Fund’s CD work, considering it of high quality and well-tailored to their priorities. Satisfaction was generally highest with the support provided in the areas where the Fund has a comparative advantage, e.g., PFM, tax administration, debt restructuring, vulnerability assessments, monetary operations, bank oversight and resolution, and economic statistics.

23. Staff concurred on the quality of the CD delivered and pointed out that quality and tailoring had grown over the years. Indeed, the staff survey showed that around 90 percent of respondents believed that Fund-provided CD was well tailored, well prioritized, timely, and effective in building capacity in recipient institutions. At the same time, however, several staff in area departments mentioned an excessive tendency to recommend first-best solutions, even when more “practical and humble” advice could have worked better and facilitated implementation. The reason for this problem, according to some staff, could be the misalignment of incentives of some TA experts, more focused on impressing their managers back in HQ than on addressing SDS problems in a pragmatic way. As authorities, staff also highlighted that the best quality CD provided by the Fund was in the areas closer to its core mandate and expertise.

24. A concern, voiced by authorities, was the high dependence of CD for SDS on the availability of external funding. Along these lines, a few authorities felt that middle-income, non-program SDS rank very low in the list of Fund priorities and some requests could only be addressed thanks to the availability of earmarked external financing. For example, in Montenegro,¹⁴ CD requests were unmet until the establishment of the Netherlands-IMF Capacity Development Program, 2016–2019. Similarly, some staff members worried that the thematic and

¹⁴ Montenegro is the only SDS not served by a technical assistance center, although it benefits from the activities organized by the Joint Vienna Institute (JVI).

geographical distribution of CD, as well as its amount, could be affected by the preferences of donors, which may not always be well aligned with countries' most pressing needs.

25. Relatedly, while authorities did not express concerns regarding excessively supply-driven allocation of CD, some staff members mentioned that the dependence on donor financing introduced a supply-driven element. Rather than requesting support in the areas with most pressing needs, authorities would sometimes request the CD where they know that funding is available to them. At the same time, a few staff noted some inertia built into the CD delivery system—if something worked in the past, why not repeat it?—favoring also supply-driven allocation. To avoid these problems, staff supported recent steps to increase area departments' responsibility for CD allocation and prioritization. In this respect, several highlighted the usefulness of Regional Strategy Notes (RSN) and Country Strategy Notes (CSN) (see section on integration below) and the need for early preparation of CD missions, working in conjunction with authorities.

Assessment

26. The amount and content of the CD provided to SDS during the evaluation period were generally satisfactory. While the amount of resources devoted to CD for SDS has grown only modestly, and per-country amounts are somewhat lower than for other groups, authorities did not feel that increasing CD was a major priority. Some staff were even concerned that too much CD is being provided in some cases, exceeding the absorption capacity of recipients and reducing CD effectiveness.

27. Along with quantity, there seems to be also widespread agreement on the high quality and adequate tailoring of the CD provided to SDS. Both authorities and staff supported this view.

28. Nevertheless, there are two areas that could be improved. First, there were a few instances, as detected by the IEO in previous evaluations, of first-best advice to SDS, when approaches more tailored to the recipients' needs would have been more practical. Second, the reliance on external financing not only may endanger the continuity of CD provision, which is paramount for effectiveness in SDS, it could also bias provision, thematically and geographically, towards donor's areas of interest, and introduce a supply-driven factor in the prioritization process.

B. Implementation and Impact

29. Authorities and staff concurred that overcoming difficulties in the implementation of CD recommendations, and therefore achieving impact, had proven difficult and slow, especially in surveillance-only countries. Capacity constraints were unanimously identified as the main obstacle for implementation. For example, staff pointed in survey responses to the lack of implementation capacity in SDS as the number one problem for the effectiveness of CD (and of

other dimensions of the Fund's work). Beyond the lack of skills, the often severely stretched public administrations and the brain-drain and one-person problems sapped absorptive capacity.

30. Compounding the lack of technical capacity, some staff members pointed to faltering political will or insufficient incentives as factors dragging CD implementation. In some cases, staff reported instances of free CD delivery being accepted by authorities without a real intention to implement it, just for the sake of appearances or to use a CD request as an excuse to delay difficult reforms. This problem was made worse by the authorities' ability to shop around alternative CD providers, a common issue in many member countries beyond SDS, given the variety of sources available to them in a crowded market.

31. While recognizing domestic implementation problems, a few authorities were concerned with the sometimes stop-and-go character of the CD implementation support provided by the Fund and requested additional support during the implementation phase. They highlighted the need for continuous and on the ground follow-up engagement, and emphasized that RCDCs have been extremely helpful, especially on those topics that require long-term assistance for effectiveness. This call for further implementation support is consistent with staff's survey responses, which, although still very positive, assessed the follow up provided in support of CD implementation as slightly worse than other aspects of the CD provision, such as tailoring, prioritization, and effectiveness (78 percent of favorable responses for the follow up vs. around 90 percent for other aspects). Recent internal IMF work (Bassanetti, 2021) found a statistically significant positive association between CD advice implementation by countries and factors that boost IMF continued support and engagement (i.e., the presence of resident advisors and short-term experts on the ground and the involvement of RCDCs).

32. Several interviewed staff were concerned that the Fund cannot afford and should not be investing in repeatedly re-assessing and providing the same advice to countries, without achieving long-term sustainable improvements or, at least, having greater certainty that reasonable implementation efforts have been made. This is particularly problematic when CD is externally financed and the Fund has the responsibility to show results to donors. Beyond resource allocation, lack of implementation and impact leads to a perennial need for CD support and a high risk of turning capacity building into capacity supplementation, in which advisors end up helping with the day-to-day operations of national agencies.

33. Discussions with authorities and staff helped to identify a number of measures the Fund could explore to strengthen CD implementation:

- First, it was important to have a better ex ante assessment of the authorities' absorptive capacity and ownership regarding CD plans. This can only be achieved by deepening the dialogue and interaction with officials and developing highly tailored and granular CD programs, avoiding standardization. Some authorities asked for the introduction of strategies to strengthen skills retention in CD plans. In this respect, CD provision at the

regional level and the spread of CD provision to the largest possible number of relevant officials within recipient agencies could help.

- Second, the Fund could devote more resources to facilitate CD implementation. Given authorities' call for further implementation support and the availability of resources, some of the latter could be reallocated, away from new (or repeated) CD activities, to further assist officials with implementation.
- Third, better prioritization is considered paramount for facilitating implementation (see section on integration below). Some staff opined that the Fund should be clearer on priorities and focus more narrowly on essential needs—an exercise considered especially important in the face of the growing number of new areas to be covered by IMF CD: climate change and natural disasters, gender, digitalization, governance, etc. This implies that the Fund should be able to recognize cases in which implementation is unfeasible and to channel CD to more fruitful projects. Along this line, some staff members opined that the Fund is raising too much money for CD from donors, which creates pressure to spend it (a problem faced also by other institutions), possibly leading to lower quality CD and/or to unabsorbable amounts being provided. Pacing the delivery of CD is, in their view, needed both for the delivery of CD and for fund raising.
- Fourth, some staff members favored strategies to strengthen national agencies' incentives for implementation. A first step would be a more systematic monitoring of implementation (e.g., building on CDMAP and RBM as they mature), which could be coupled with increased transparency on the progress achieved, increasing accountability. Once implementation is better tracked, some staff argued that the provision of CD could be made conditional on a sufficient effort to implement previous advice, a practice already tried in some countries. Others suggested that countries should cover part of the cost of the CD received to improve incentives to make the best use of CD resources.
- Fifth, enhanced coordination with other institutions (see section below) may also help to increase traction levels. Closer coordination could strengthen the complementarity of the topics covered by the various CD providers active in-country and would lead to better sequencing, facilitating absorption. At the same time, cooperation among development partners would reduce the risk of CD shopping. Coordination of CD providers at the regional level can also be helpful, as staff's experience suggests that the development of a new capacity by one country provides its neighbors with a strong motivation to acquire it as well.

34. While a comprehensive assessment of the impact of CD is beyond the scope of this paper, a few themes are clear from discussion with various stakeholders. First, despite implementation problems, IMF CD is widely perceived as being very useful in SDS and having a substantive impact. However, perceptions vary across levels of development, across regions, and across types of CD. More advanced SDS are better able to benefit from the Fund's CD support.

While the CD needs of more advanced SDS may be smaller (while still significant), their absorption capacity is much greater. Consequently, authorities' perceptions regarding impact are mixed. In some cases, mainly in the more advanced SDS and in the Caribbean region, CD is perceived as having a great positive impact. In others, mostly less advanced SDS and several SDS in the Pacific region, authorities opined that CD activities, while still considered essential and very useful, have not achieved their full capacity building potential, mainly due to insufficient follow up and intermittent engagement. Areas of Fund-provided CD most highlighted by authorities in case studies as impactful—e.g., achieving capacity development and/or contributing to policy formulation—include: tax administration (in Belize, Cabo Verde, Eswatini, Montenegro, Seychelles, and St. Lucia), PFM (in Antigua and Barbuda, Fiji, and Seychelles), monetary operations (in Cabo Verde and Seychelles), financial sector oversight (in Belize and Montenegro), AML/CFT (in Belize, Mauritius, and Samoa), and national accounts statistics (in Dominica, Micronesia, and Solomon Islands).

35. Second, according to some staff, the IMF still lacks appropriate tools for systematically gathering information on CD, including on impact and effectiveness. The evaluation case studies found numerous examples of impactful CD provision across countries and regions but, as noted above, interviews with staff found concerns that the Fund "is trying to fill a bottomless hole with CD." To better address these concerns, there are high expectations regarding the potential of the RBM-CDMAP system to shed light on how well the Fund fulfills its CD responsibilities. Although data remains limited (Annex 1), specially for SDS, preliminary analyses conducted by ICD and the IEO—in the context of the forthcoming evaluation of the Fund's CD work—suggest statistically significant differences in outcome scores, pointing to poorer results in SDS than non-SDS,¹⁵ based on the somewhat larger IEO dataset. Looking at the average outcome implementation rating of projects (completed and ongoing) between 2013 and 2020, it was 2.39 for SDS, lower than for AEs (2.65) and LIDCs (2.48), similar to the rating for EMMICs (2.39), and slightly higher than for FCS (2.34). As these monitoring systems mature, the data gathered should support further analysis of whether the lack of progress in building capacity (e.g., as measured by the CPIA) is justified by the negative effect of factors beyond the Fund's control (e.g., lack of implementation, exogenous shocks, and brain drain), or whether this is in part the Fund's responsibility, and more effective CD provision mechanisms are needed.

Assessment

36. Even when the amount, quality, and content of the CD provided to SDS seems to be generally adequate, evidence on implementation is mixed; with sometimes good implementation and, at the same time, numerous cases of insufficient sustained implementation, and therefore impact. The reasons for this lack of implementation are diverse. On the part of the authorities, implementation capacity constraints are the main issue, compounded by instances of weak

¹⁵ For additional details on RBM data analysis, see Bassanetti (2021).

political will and incentives. On the part of the Fund, further attention to providing follow-up support for implementation is needed on a continuous basis.

37. Beyond hindering CD in recipient countries, implementation and impact problems complicate CD allocation decisions at the Fund and increase the risk of excessive capacity supplementation. In general, when allocating CD resources, the challenge is to find the right balance between countries' needs and their willingness to engage proactively (at the technical and political levels), taking into account countries' implementation track record.

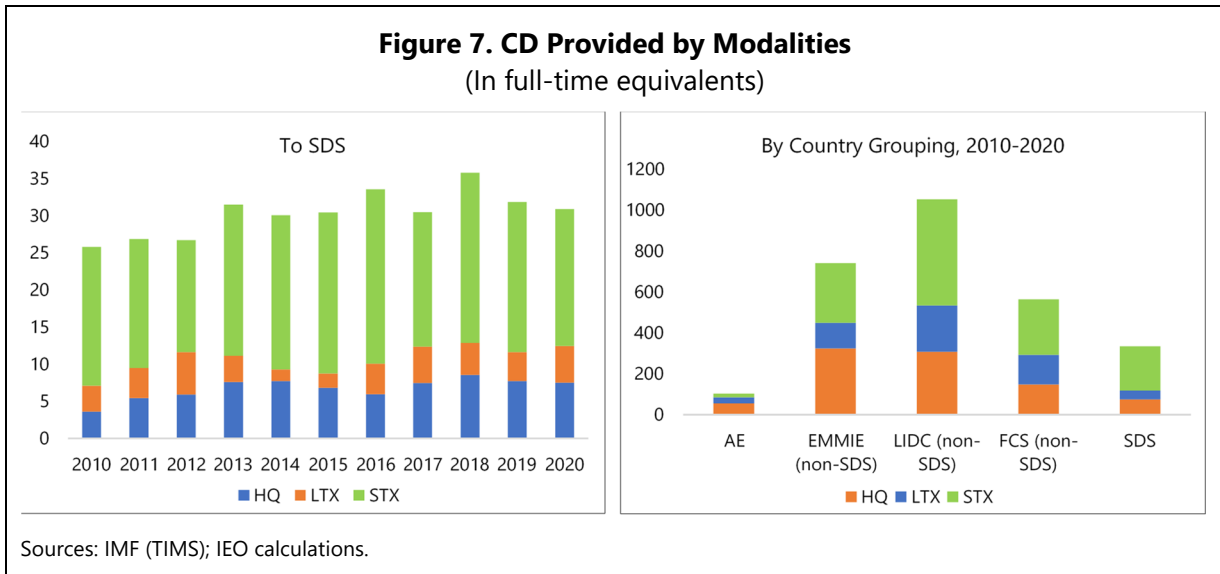
38. The responsibility for strengthening implementation and impact is clearly shared by the authorities and the Fund. The IMF should further deepen its efforts to facilitate, to the maximum extent possible, the implementation of CD advice through adequate tailoring of the advice and providing implementation support; a number of specific options have been detailed above. It should also ensure that RBM-CDMAP provides a consistent and meaningful source of information on implementation and impact.

39. Overall, it should be kept in mind that these measures are mutually reinforcing and require fluid and effective communication with country authorities and, sometimes, with donors and development partners. Thus, continued efforts on developing communities of practice could help in this respect. In the case of SDS, this means that IMF support for improving implementation and impact will largely depend on the availability of resident representatives (RRs) well-resourced RCDCs and/or longer-term resident experts, as they play a crucial role in these countries.

C. Delivery Modalities and RCDCs

40. The bulk of the Fund's CD support is provided through short-term experts (STX), largely based in RCDCs (Figure 7). This is the case for all country groups, with the exception of advanced economies, but reliance on these experts is specially marked in SDS, where STX are clustered in the local RCDCs.¹⁶

¹⁶ According to staff, the business justification for the use of STXs is based on: (i) their contribution to the agility and flexibility of RCDCs and HQ in providing CD to address the heterogeneous needs of members; (ii) their help in ensuring continuity of CD delivery; and (iii) their ability to tap regional talent and benefit from peer-to-peer learning.



41. By contrast, SDS receive less support than other groups from HQ staff, or from resident long-term experts. All authorities and staff members consulted expressed high appreciation for the role played by RCDCs and experts in serving SDS.¹⁷ RCDCs not only were considered the “eyes and ears” of the Fund in SDS, palliating to some extent the scarcity of RRs lamented by SDS authorities, they often also enjoyed a better reputation than the Fund itself as being geared to meeting SDS needs. They were perceived as a somewhat separate subsidiary of the Fund, in which authorities had a larger say, which generated a greater sense of country ownership. In survey responses, staff believed that RCDCs provide greater value added in SDS than in non-SDS countries. This does not mean that recipients did not appreciate the CD delivered directly from HQ. Authorities valued the provision through several modalities, which allowed for better tailoring, and the complementarity among them; HQ-delivered CD was generally perceived as valuable strategic guidance providing the framework, while RCDCs were seen as providing advice more tailored to national conditions and support for implementation. The very positive view of the role of RCDCs was also shared by external evaluations of PFTAC and CARTAC.

42. The success of RCDCs is based on several dimensions. First and foremost, the CD provided by them is considered more useful in terms of tailoring, pragmatism, and responsiveness, due to their better understanding of the local and regional circumstances, including absorption capacity, and their proximity allowing more frequent in-country contacts. This better understanding is predicated not only on the physical location of RCDCs but also on the longer engagement of advisors and the hiring of local experts. Staff and authorities also noted that RCDCs’ accumulation of local knowledge transcends national boundaries and discussed the benefits, not fully exploited, of delivering training at the regional level: reaching a

¹⁷ RCDCs serve also non-members willing to pay a contribution to receive CD (some being high-income), helping alleviate the scarcity of other sources of support for them. Delivery of CD to non-members is based on a letter of understanding and voluntary payment, no legal obligation to contribute for non-members.

higher number of officials, creating economies of scale, and providing a channel for knowledge sharing across countries with similar characteristics, possibly through communities of practice.¹⁸

43. A second dimension, closely related with the first one, is that RCDCs (together with RRs) are to a large extent the custodians of the Fund's relationship with SDS, which is more difficult to do from HQ. This "special relationship" is recognized by all stakeholders as making a huge difference and is especially noticeable in the countries that host RCDCs (Barbados, Fiji, and Mauritius). On top of closeness, RCDCs provide continuity to the Fund's engagement by bridging the gaps between missions and palliating the negative effect of the high turnover, and sometimes lack of experience of both staff and officials (due to brain drain and, in some cases, volatile politics). RTACs engage extensively and heavily with ministries and tax administrations, central banks, and national statistics offices, nurturing the relationship with the relevant counterparts at both the top and technical levels. This role of RCDCs was especially relevant during COVID-19, as RTACs stepped up their engagement with country teams and authorities in a context of travel restrictions.

44. Thirdly, RCDCs provide more continuous handholding and guidance, which is required for the successful implementation of CD in most SDS, given the scarcity of capacity. This continuous support not only helps implementation, it also helps with the identification and prioritization of needs and encourages timely action. Day-to-day engagement, however, also poses risks. Firstly, it has allowed, in some cases, the transformation of capacity building into capacity supplementation. This risk could be addressed, as suggested by staff, by clarifying CD experts' terms of reference and avoiding very long tenures; around four years was considered appropriate. Secondly, some staff worried that a very close interaction may increase the tendency for supply-driven CD provision. Thirdly, backstopping from HQ, through continuous and remote engagement by experts, has been a challenge at times, especially when, given heavy workloads, back-stoppers found it difficult to balance this role with their other duties.

45. Fourthly, RCDCs have acted as effective coordination centers. RCDCs not only coordinate the regional provision of CD, they also organize regional high-level conferences and working groups at the technical level. Within the IMF, RCDCs have also launched initiatives to exploit the wealth of knowledge, experience, skills, and opportunities available, between RCDCs and HQ and across various RCDCs (e.g., cross-regional conference on revenue mobilization in small island states in July 2018). Relevant staff opined that more could be done in this respect.

46. Finally, RCDCs play a much-appreciated role in contributing to the coordination with development partners and regional institutions, e.g., Caribbean Community (CARICOM) and the Eastern Caribbean Central Bank (ECCB) in the Caribbean and Public Investment Fund (PIF) and Secretariat of the Pacific Community (SPC) in the Pacific. RCDCs can, in coordination with RRs

¹⁸ See external evaluations of the three RCDCs focused on serving SDS (AFRITAC South, CARTAC, and PFTAC) agreed with this view and recommended actions in line with IEO's findings. See Chatterji and others (2015), Watson and others (2015), and DevTech Systems (2021).

and area departments, channel countries' CD needs to other institutions when they are outside the Fund's areas of expertise. In return, RCDCs have benefited, in terms of credibility and of cohesion of their work, from their relationships with regional institutions.

47. RCDCs contribution to the Fund's work in SDS is made at a relatively low cost to the Fund. Although the specifics of the financing structure vary across centers, donors finance around 75 percent of their activities, with the rest coming from members' contributions, and a small percentage from the Fund itself. RCDCs' activities also generate costs in HQ, as functional departments are responsible for quality control and monitoring (backstopping). In general, staff saw RCDCs serving SDS as sufficiently resourced and supported from HQ and donors, although some mentioned that the pandemic had tightened the provision of funds.

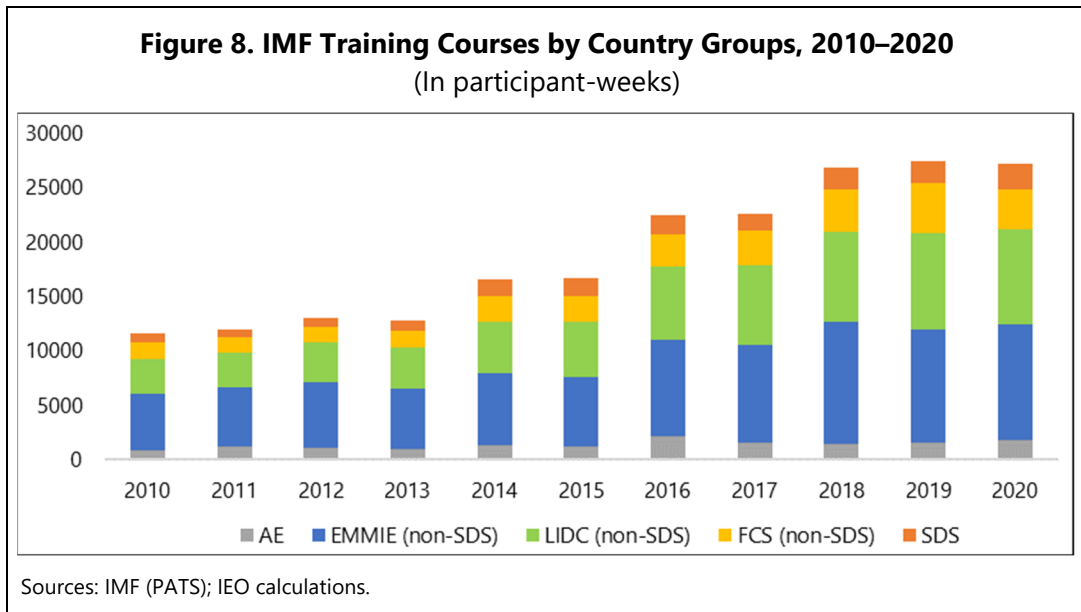
48. Staff saw the mechanisms for RCDCs priority setting as appropriate and supporting their role in SDS. Again, with differences in the specifics, the main organ for prioritization in all RCDCs was a local steering committee. To foster ownership, traction, and buy-in, the steering committees develops a mid-term plan which articulates needs and priorities of authorities, donors, and the Fund. Once the strategic direction is agreed, the Fund is in charge of the day-to-day execution, via coordination of RCDCs, country teams, and authorities. This framework is also complemented by specific programs (country and/or thematically focused) financed bilaterally by donors, usually through trust funds.

49. Beyond their appreciation for RCDCs, authorities expressed a number of views on delivery methods. They strongly preferred resident experts and longer-term provision over one-off missions, as they required implementation support. However, most recognized that adapting delivery modalities to each specific theme has yielded good results.

50. Authorities also appreciated IMF training courses—delivered regionally, at HQ, or online—as they provided an opportunity to exchange views with colleagues abroad and to reach a high number of officials (Figure 8). The Fund has more than doubled the supply of these courses over the evaluation period and, as for CD in general, LIDCs and EMMIEs have absorbed the bulk of the increase. SDS received an annual average of 49 participant-weeks per country, while FCS received 96 and EMMIEs and LIDCs 125 each (reflecting the small size of SDS' administrations).

51. Regarding remote delivery of CD, which intensified during the pandemic, authorities recognized that it had increased flexibility and somewhat reduced the remoteness problem. However, some countries with less well-developed communications systems were less able to take advantage of remote delivery. On the ground presence is clearly preferred by authorities and recognized, by authorities and staff, as a key factor, if not a sine qua non condition, for traction and effectiveness in SDS. Staff considered that virtual support, forced by the COVID-19 pandemic made assimilation and implementation of CD much harder, especially in SDS. Moreover, some authorities voiced concerns regarding the possibility of remote provision becoming the new normal and feared that some countries could become "CD orphans;" i.e.,

those with the lowest capacity levels and greater need for handholding and those with connectivity problems.¹⁹ Numerous authorities emphasized that internships or secondments of national officials in the IMF constitutes a very helpful form of capacity building.



Assessment

52. The high appreciation of the role of RCDCs extends across countries and regions and among authorities and staff. Their success is multifaceted but their deep knowledge of country conditions and close and continuous relationship with the authorities and other stakeholders are the essential ingredients. RCDCs are the cornerstone for CD provision to SDS and have also become hubs for coordination and knowledge sharing. The Fund should explore ways to exploit further RCDCs privileged position and expand their role, not only in delivering CD, but also in supporting surveillance, promoting peer-to-peer learning, strengthening coordination with other stakeholders, and boosting information and skills exchange within the IMF.

53. RCDCs' close relationship with authorities, while constituting the source of their strength, can also pose risks. The Fund needs to prevent turning CD into capacity supplementation, which can deepen SDS' dependence on external support and prevent knowledge transfer. At the same time, a too close relationship may lead to supply-driven CD provision if authorities excessively delegate prioritization or simply request what they know is available.

54. The Fund's ability to provide CD through a variety of modalities is a strength. Overall, on the ground and long-term follow-up CD provision are clearly preferable and more effective in SDS (in line with the findings of previous IEO evaluations, see IEO (2018)), although more

¹⁹ Some offices of Executive Directors reported recent experiences in which around 20 percent of their SDS members still suffered from connectivity problems.

expensive. The experience during the pandemic has proved that remote delivery can work help filling the gaps, but is a second-best, and should complement not replace in the field delivery.

D. Integration with Other IMF Activities

55. Integration, understood as the process of striving to make sure that the three main activities of the Fund—surveillance, program work, and CD—are mutually reinforcing and well-coordinated, is considered key for the traction and effectiveness of CD in SDS by those staff members close to this function. Integration is most easily achieved in the context of a program, given the intensified engagement between the authorities and the Fund and the stronger incentives posed by clear short-term targets. In the absence of a program, staff opined that integration has increased and reached satisfactory levels over the evaluation period, although it could still be improved.

56. Integration is based on the interactions between CD experts and country teams, through the formal CD prioritization and planning process, informal consultations, and the participation of advisors in surveillance missions. These interactions are seen by staff as enriching and mutually beneficial. In the words of a senior staff member with experience in this area, “every sensible MC should be constantly in close contact with functional departments (CD providing departments) and RCDC advisors.” On the one hand, CD reports constitute a rich, sometimes fundamental, input to surveillance. Thanks to their expertise and constant interaction with officials, CD experts provide a level of specificity of policy advice that is very difficult to achieve in the surveillance context, which is often limited to higher-level, big-picture messages. At the same time, in preparing policy guidance, staff in area departments considered it very useful to examine the evolution of past CD advice. Macroeconomic programming and forecasting advisors, present in some RCDCs, have proven especially valuable in bridging surveillance and CD. On the other hand, information from country teams on the overall situation of, and the challenges facing, countries is helpful for CD providers to tailor their advice.

57. Staff consulted agreed that to maximize integration, in line with internal operational guidelines for integrating capacity development with surveillance and lending, country teams should clearly be responsible for the prioritization and planning of CD, in close coordination with CD providers. Country teams have the best overall perspective on countries, and thus the ability to adequately prioritize and pace delivery. This responsibility has been fulfilled with varying degrees of success, depending on teams’ workload and interests and on departmental policies and priorities. In this respect, several staff members highlighted the utility of CSN and RSN,²⁰ for which area departments are responsible, as pivotal documents to rationalize CD provision. However, according to the information gathered by the IEO, the elaboration of these notes has

²⁰ Country and regional strategy notes provide the medium-term context, objectives, and priorities for the delivery of CD. They articulate the thematic and geographical allocation of resources, as well as the identification of the most suitable delivery modalities. Their structure, content, and time-coverage is not standardized across departments.

been uneven across SDS. Among the three departments containing most SDS, AFR has elaborated six RSNs and at least one CSN for each one of the SDS in the region. APD and WHD also have prepared six RSNs each, but there was no individual CSNs for the SDS in those departments. MCD and EUR have elaborated seven and five RSN respectively but, while CSNs were prepared for Djibouti, there was none for Montenegro. Some staff suggested that the responsibility for the elaboration of CSN should be part of the annual performance review of country mission chiefs, as is already the case in the African department.

58. Integration of CD with surveillance and program work is made more challenging by the lack of resident representatives in SDS. Currently, only one out of the 34 SDS member countries has its own resident representative. In addition, 12 Pacific SDS are covered by the IMF's regional office in the Pacific Islands. Several authorities regretted the absence of a RR in their countries, after losing it or having witnessed the benefits of this position in neighboring countries. Being part of the day-to-day business of area departments, physically on the ground with RCDCs, and in close contact with authorities, RRs are ideally placed to identify countries' needs and channel them through mission chiefs (MCs) who, in turn, should discuss them with functional departments. With the introduction of the CDMAP, resident representatives' contribution to CD planning is expected to work even more seamlessly. In parallel, staff and authorities unanimously recognized the potentially crucial role for RRs in fostering integration and, more generally, in making more effective the Fund's relationship with SDS, both at the bilateral level and with regional institutions.

59. Despite authorities' demand and RRs contribution to CD and other functions, further access by SDS to individual resident representatives was considered very difficult by staff, given budgetary constraints. Asked about the experience with regional resident representatives, as opposed to the traditional country-specific assignments, officials and staff agreed that they played a very useful role. However, their resources are spread thin, preventing them from developing all the potential such positions could have.

60. As potential problems for the integration of CD with other activities, staff mentioned an excessive independence of CD in-field advisors and the lack of coordination within countries' administration. Some staff reported instances of RCDC employees who see themselves as autonomous, with little need to report to the area departments. Some of these experts may have been working with development partners for years and have interiorized their culture, while they might have never been in the Fund HQ and have little knowledge of its institutional modus operandi. This can present challenges for MCs when signing off on CD missions, as it may become difficult to maintain oversight of the CD activity and its alignment with the Fund's priorities. At the same time, there have been instances of integration being hampered by lack of coordination among the various interlocutors within a country's administration, leading to uncoordinated requests for CD at different levels. Again, the CDMAP and a clearer mandate for country teams as coordinators of the CD planning and delivery, should help with these issues. Some staff members argued that, to fulfill this role, less experienced MCs and team members

may need training, to provide them with the tools required to manage the general relationship with country authorities, which goes beyond the provision of macroeconomic advice.

61. Among authorities, views on integration were mixed. Some interviewed officials, while recognizing the need for integration of surveillance and program work, saw CD activities as generally conducted in isolation from the other two activities. They considered the prioritization and planning of CD as a matter to be discussed between themselves and the relevant RCDC, with little involvement of HQ. Other officials, however, clearly saw the complementarity between the three functions and appreciated the benefits of having them coordinated under the umbrella of surveillance. Some authorities noted the usefulness of specific programs, like the FSAP, in promoting this integration in specific areas. The results of the authorities' survey reveal that officials had a positive perception of the integration of CD with both IMF-supported programs (including lending and non-lending arrangements and emergency financing) and, specially, with surveillance.

62. Despite the symbiotic relationship and close coordination between CD and surveillance, and the existence of room to polish and deepen it, it should be recognized that there are limitations to integration. Under the Fund's organigram, surveillance and program work are the responsibility of area departments, as they have the required knowledge of Fund policies and operations across the board. CD providers are often technical experts in their fields and, while they can provide valuable inputs for the surveillance process, they have no capacity to conduct surveillance or program operations. There are also limits derived from RCDCs' governance and their relationship with donors, as their financing is specifically intended for CD support and cannot be diverted to surveillance activities.

Assessment

63. In line with the IMF's growing emphasis on integration, CD activities in SDS have been increasingly integrated with other aspects of the Fund's work, although some authorities still did not see the connection between functions. In view of how valuable this integration is, especially in SDS—where surveillance relationships tend to be weaker, CD is crucial, and RCDCs play a pivotal role—the Fund could extend and deepen this integration.

64. Several areas can be identified in which there is room for improvement. First, in line with a possible strengthening of the RCDCs' role, the Fund could promote further integration of CD and surveillance through more agile engagement between country teams and CD providers based in RCDCs. Second, more, better staffed, and more effective regional resident representative offices could be a high value-added option for groups of SDS with similar issues and geographical links. Regional RR offices could also be more closely integrated with RCDCs. Third, given that the exercise of country teams' responsibility over CD prioritization and planning, including through the elaboration of RSN and CSN, has been uneven, greater departmental support to, and incentives for, this aspect of country teams' work would be helpful. Finally, greater familiarity of CD experts with the structure and culture of the Fund would smooth working relationships and

contribute to the elaboration of outputs better fitted to the Fund's country strategy, including by supporting surveillance.

E. Coordination with Partners

65. A big portion of the coordination work with other partners is done on the ground by regional resident representative offices and RCDCs, for which coordination with these stakeholders, some of them contributors to the financing of RCDCs, is part of their daily business. On the ground coordination is facilitated by the fact that partners tend to be more decentralized than the Fund and their representatives in the field enjoy a high degree of autonomy, making RCDCs and resident representatives the natural points for coordination. This coordination is not only important for the adequate delivery of CD, but also for the funding of RCDCs.

66. The organization of coordination with partners, including donors, development partners, regional institutions, and civil society organizations varies across countries and regions. Different fora are organized at different levels, with different partners taking the lead on different thematic domains, depending on their areas of expertise (with the Fund most commonly reported as leading on PFM). Despite all these differences, the steering committees of AFRITAC South, CARTAC, and PFTAC constitute, in all three main SDS regions, pivotal venues for agreement, between RCDC managers and donors, on strategic priorities and allocation. Beyond bilateral donors, RCDCs' coordination activities also involve development partners and other actors, with regional development banks and regional institutions being typically the most active.

67. Both authorities and staff were generally satisfied with the Fund's level of coordination with other stakeholders. Nevertheless, coordination efforts should continue to address the occasional problems detected during the evaluation period by authorities and staff. Deficient coordination led in the past, for example, to problems of overlap and oversupply of CD support. For example, instances were reported in Caribbean countries where three institutions were providing support at the same time for the development of macroeconomic frameworks, or for the implementation of models to assess policy shocks. Together with poor sequencing, these problems are particularly detrimental to effectiveness in SDS, where the absorption capacity is very limited. Poor coordination has also resulted sometimes in poor distribution of responsibilities among providers, which in turn has led to sub-optimal recommendations. As mentioned above, coordination constitutes the best antidote against the problem of CD shopping by authorities, which often leads them to choose, not the most adequate option, but the least demanding. Finally, concerns were raised by authorities and staff that some Fund staff, maybe because of the institution's "trusted advisor role," tended to be less willing to share information than their counterparts, which invariably led to weaker relationships and flows of information in the long run.

IV. CONCLUSIONS

68. Overall, the Fund's provision of CD to SDS is highly valued by authorities. They considered it of high quality, timely, adequate in amount, relevant, and well-tailored. Staff members were also generally satisfied with this function, noting progress over the evaluation period, and agreeing with the important contribution made by CD in Fund engagement with SDS.

69. Notwithstanding this positive general assessment, the provision of IMF CD to SDS is not problem free. The most outstanding issue is the limited implementation of CD advice and, therefore, impact. While this is clearly an area of shared responsibility by the Fund and national authorities, and recognizing that CD may have long gestation periods especially when institutional capacity is low, there are several steps the Fund could take to strengthen the value provided by CD for SDS.

70. To foster higher levels of CD implementation, the Fund could:

- Put more emphasis on ex ante assessments of recipients' absorptive capacity and ownership regarding CD implementation.
- Reallocate resources away from new (and sometimes repeated) CD projects towards supporting the implementation of recommendations. Putting more emphasis on implementation support, rather than providing more advice, would probably create more value added and generate greater impact.
- Rationalize better and more forcefully the provision of IMF CD, taking into account not only needs, but also absorption capacity, incentives, and ownership. The pacing of fund raising should also be adapted to the absorptive capacity of members.
- Strengthen the incentives of recipients, for example by increasing the degree to which CD provision is conditional on good-faith efforts to implement previous CD advice or using more systematic application of RBM-CDMAP to increase transparency on progress being made.
- Continue to strengthen coordination with other CD providers, both at the national and regional levels, to minimize overlap, over-supply, and CD shopping, and to improve sequencing and quality.

71. The Fund should consider investing more in RCDCs and regional resident representatives given that the value added of the resources devoted to CD provision in SDS is maximized when channeled through locally based staff in direct contact with country officials. This effect seems to be particularly strong in SDS, i.e., in areas of high geographical concentration where countries share common characteristics and challenges. Localized work produces better tailored and implementable CD, but its benefits go beyond CD, strengthening other functions and improving the general relationship of the Fund with these members. At the same time, dedicating more

resources to RCDCs and regional resident representatives would allow them to expand their role in supporting surveillance (and program work when needed) and promote further useful knowledge exchanges within and across regions and among IMF departments.

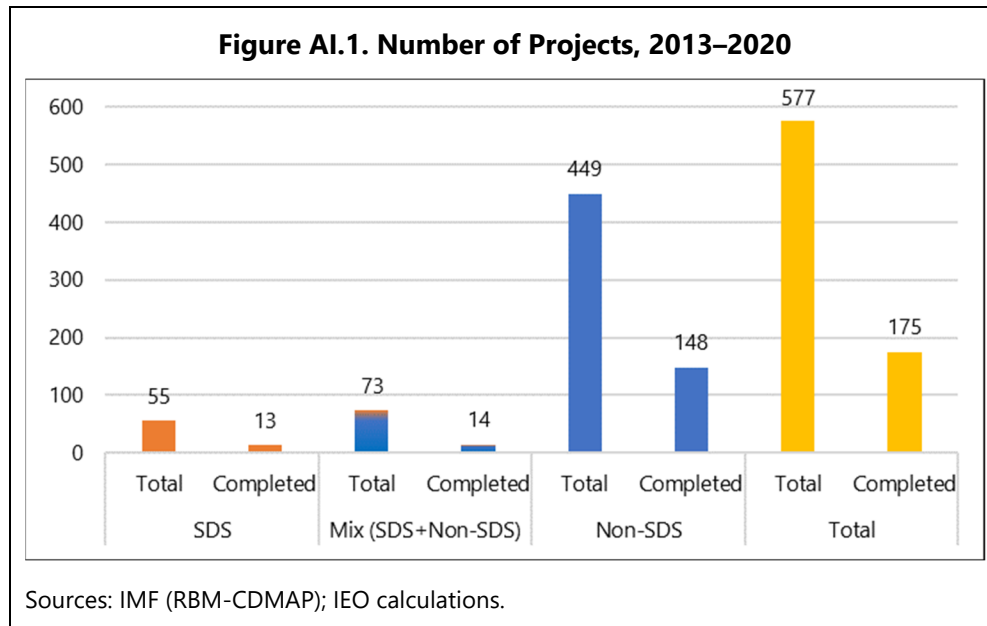
72. Various steps could be taken to maximize the value of locally based experts in RCDCs:

- The Fund could develop further, and systematize the provision of, guidance notes for CD experts, explaining how best to engage with countries, clarifying duties (including delineation of CD provision vs. capacity supplementation), and explaining advisors' responsibilities vis-à-vis country teams. Providing experts with brief training on how the Fund works would also go a long way in creating a more symbiotic relationship between CD and other functions, potentially expanding the contribution of experts to surveillance and program work.
- It would also be useful to develop a structure within the Fund to manage and boost the exchange of knowledge accumulated in RCDCs across regions. A simple coordination mechanism, with low budgetary requirements, could be the creation of a group with representatives from the existing SDS-related divisions, RCDCs, and ICD.
- Consultations between country teams and RCDCs experts and the participation of the latter in surveillance missions could be more systematic. The experience during the pandemic has proven that more frequent contact can be effective through virtual means of communication.

73. Country teams' role in leading prioritization and planning of country CD work, with greater focus on end-results, should be strengthened, including by making more systematic use of CSNs and RSNs. Working closely with RCDCs and CD delivering departments country teams are best placed to assess needs and determine priorities. This centralization of responsibility would help address concerns regarding absorption capacity assessment, dependence on donor financing and preferences, and supply-driven provision. Higher support and attention by area departments to this task would also help.

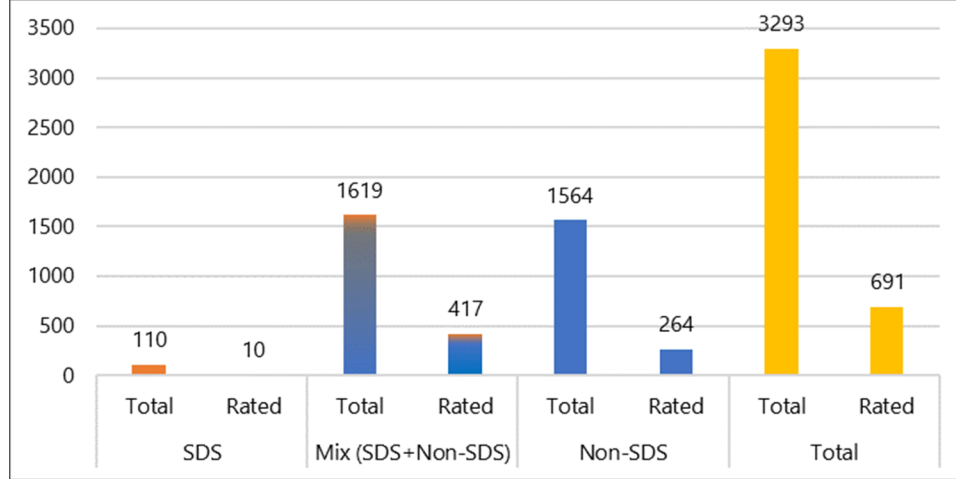
ANNEX I. RBM-CDMAP DATA FOR SMALL DEVELOPING STATES

Working with a vintage of the RBM-CDMAP database last updated on December 2020, the IEO could identify a total of 577 projects initiated between 2013 and 2020 and completed or ongoing at the end of 2020. The IEO divided the projects in three groups, those targeted to SDS, those targeted to non-SDS, and those multi-country projects that included at least one SDS as beneficiary. Only 55 projects were exclusively targeted to SDS, and only 13 of those 55 projects were completed (Figure AI.1). For non SDS, those numbers were 449 and 148 respectively.

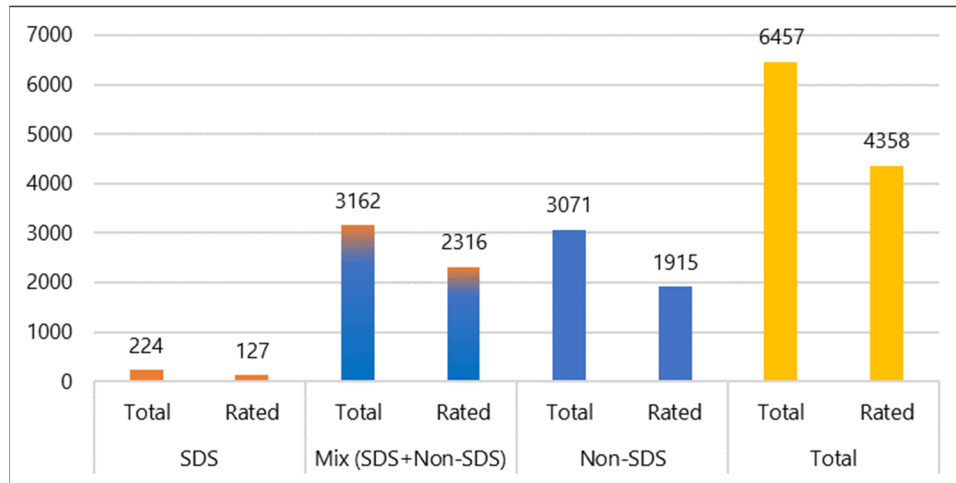


One option for measuring implementation would be looking at objectives, the most comprehensive category in RBM-CDMAP and the final stage of the implementation process. For the 577 projects identified, RBM-CDMAP contained a total of 3,293 objectives, of which 691 were rated (Figure AI.2). Projects targeted to SDS included 110 objectives, of which only 10 were rated (5 completed and 5 under implementation).

Outcomes constitute an interesting alternative to objectives when it comes to measuring implementation; they are more narrowly defined and come before objectives in the sequence of implementation. RBM-CDMAP contained a total of 6,457 outcomes, 4,358 of them rated (Figure AI.3). For SDS projects, those figures came down to 224 and 127 (of which 30 were completed and 97 under implementation) respectively.

Figure AI.2. Number of Objectives, 2013–2020

Sources: IMF (RBM-CDMAP); IEO calculations.

Figure AI.3. Number of Outcomes, 2013–2020

Sources: IMF (RBM-CDMAP); IEO calculations.

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