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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 18/94-1

9:30 a.m., November 14, 2018

1. 2018 Review of the Fund's Capacity Development Strategy

Documents: SM/18/232 and Correction 1; and Supplement 1; SM/18/233; and Correction 1; SM/18/234; SM/18/235; SM/18/252

Staff: Coorey, ICD; Powell, ICD; Shannon, ICD

Length: 129 minutes

Executive Board Attendance

C. Grasso, Acting Chair

Executive Directors Alternate Executive Directors

M. Raghani (AF)	K. Obiora (AE)
	J. Di Tata (AG)
	G. Johnston (AP)
	B. Saraiva (BR)
Z. Jin (CC)	
	A. Guerra (CE), Temporary
L. Levonian (CO)	
R. Kaya (EC)	
	A. Castets (FF)
	K. Merk (GR)
S. Gokarn (IN)	
	M. Psalidopoulos (IT)
M. Kaizuka (JA)	
	K. Osei-Yeboah (MD), Temporary
H. Beblawi (MI)	
	R. Doornbosch (NE)
	K. Virolainen (NO)
A. Mozhin (RU)	
M. Mouminah (SA)	
J. Agung (ST)	
P. Inderbinen (SZ)	
	T. Hemingway (UK), Temporary
	D. Crane (US), Temporary

J. Lin, Secretary

S. Maxwell, Summing Up Officer

D. Jiang / J. Acheson, Board Operations Officers

M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: D. Owen, M. Villafuerte Almeida. Asia and Pacific Department: O. Brekk, L. Leigh. Communications Department: A. Khetarpaul, P. Loo, W. Murray. Corporate Services and Facilities: N. Pambukhchyan. European Department: D. Smith. Fiscal Affairs Department: D. Adams, G. Schwartz, S. Tareq. Finance Department: C. Gust, W. Rahman-Garrett. Institute for Capacity Development: A. Bordon, A. ElGanainy,

N. Funke, E. Jenkner, A. Lemgruber Viol, R. Nord, B. Olden, R. Powell. Independent Evaluation Office: J. Kim. Information Technology Department: L. Husak. Legal Department: A. El Murr, Y. Liu, G. Otokwala, R. Weeks-Brown. Middle East and Central Asia Department: M. Cerisola. Monetary and Capital Markets Department: V. Bacalu, M. Erbenova, S. Gray, N. Griffin, T. Jonasson, H. Monroe, M. Oliva Armengol, N. Rawlings. Office of Internal Audit and Inspection: A. Balakrishnan, B. Lim. Office of Risk Management: M. Dal Corso. Strategy, Policy, and Review Department: S. Hakobyan, S. Panth, M. Sommer. Statistics Department: C. Dieterich, J. Mueller. Western Hemisphere Department: I. Otker. Executive Director: L. Villar (CE). Alternate Executive Director: S. Geadah (MI). Senior Advisors to Executive Directors: W. Abdelati (MI), Z. Abenoja (ST), M. Alle (AF), P. Braeuer (GR), M. Choueiri (MI), H. Etkes (NE), G. Heim (SZ), Y. Liu (CC), R. Morales (AG), J. Weil (CO). Advisors to Executive Directors: A. Abdullahi (AE), A. Arevalo Arroyo (CE), P. Braeuer (GR), X. Cai (CC), K. Carvalho da Silveira (AF), L. Cerami (IT), S. David (AP), J. Garang (AE), J. Hanson (NE), B. Jappah (AE), M. Mehmedi (EC), H. Mori (JA), A. Olhaye (AF), K. Hennings (BR).

1. **2018 REVIEW OF THE FUND'S CAPACITY DEVELOPMENT STRATEGY**

Mr. Beblawi and Ms. Choueiri submitted the following statement:

We welcome the opportunity to review the Fund's Capacity Development (CD) strategy and thank staff for the comprehensive reports as well as the outreach with our office. CD is an essential part of the Fund's mandate and is very much valued by countries in our constituency. Progress has been made in advancing the agenda set out in the 2013 CD review. This included strengthened governance, better prioritization of CD activities with area departments playing a more central role in this regard, as well as an enhanced funding model to better align donor-funded initiatives with the Fund's CD priorities and medium-term budget. We welcome the finding that Fund CD is valued by members and congratulate the staff on the recent ranking of IMF CD at the top of development partners' perceived helpfulness and influence. Nonetheless, background work for this review pointed to the need to further strengthen the CD framework. We support the review's vision for country-centered CD that is well-integrated with the Fund's policy advice and highly effective and will turn in what follows to the issues raised by staff for discussion.

The background paper Survey of Stakeholders and Independent Interviews points to a wide appreciation for the quality and usefulness of Fund CD. An essential factor in ensuring this high quality is backstopping from headquarters. It is therefore important to continue providing adequate backstopping. Is an assessment of the adequacy of backstopping from headquarters planned in the future?

The same background paper points to areas of improvement and challenges in the Fund's CD. These include, notably, the need to better integrate CD and surveillance, strengthen information sharing systems and processes, better take into consideration countries' institutional capabilities, strengthen ownership of CD by country authorities, and to improve coordination with other providers. The operational recommendations made in the paper to address these issues are generally reasonable but could have been more specific as we explain later in the statement to facilitate their implementation in a uniform manner. The External Advisory Group proposes having a more concrete plan for implementation while stressing that it is difficult to change organizational practices. In this regard, how does staff plan to address this issue, and is a guidance note for the Fund's CD strategy envisaged?

Turning to the five operational recommendations in the paper, we agree with the need to clarify the roles and responsibilities among various stakeholders. The background paper External Commentary and Background Studies makes a strong case for country authorities to play a leading role throughout the CD process. In such a country-centered approach, it is essential that area departments be more consistently active in the leading role on overall country engagement, including establishing country strategies and priorities for CD, working in collaboration with CD departments. We appreciate ongoing efforts to integrate both training and technical assistance with surveillance and lending, which led to enhanced effectiveness of CD in some of the countries in our constituency. To enhance the impact of CD, it is essential to further increase synergies with surveillance, as called for in the recent Interim Surveillance Review and highlighted as a key challenge in this review.

We support the recommendation to continue the strengthening of prioritization and monitoring. External funding has increased markedly over the past 10 years, supporting the expansion of Fund CD. External funding should be fully consistent with the Fund's priorities. As discussed in the FY19-21 medium-term budget, external financing would represent about 60 percent of direct CD spending in 2021 and CD's share of total spending will level off at 31 percent. In this context, CD prioritization takes on increased importance, including by targeting medium-term Fund-wide objectives. The background report on Staff Background Studies and Short Notes usefully suggests that internal expertise is being built in emerging areas, including climate change, gender, inequality, governance, and technology, that are macro critical. In areas such as fintech, building internal expertise is a prerequisite for the Fund to offer CD advice, avoid reputational risk, and be able to collaborate effectively with partners. In other areas, we should rely on other providers and partners.

We support the recommendation to better tailor and modernize CD delivery with a focus on implementation. This entails more consistently taking into consideration organizational and decision-making aspects, leadership and management commitment, resistance to change from different stakeholders, resource constraints, limitations in human capacity, and political instability, among other factors. It would be useful to carry out periodic assessments to gauge the effectiveness of Fund CD and its usefulness for member countries. We concur with staff that delivery of CD in languages other than English is critical to the Fund's engagement with its members. Delivery of technical assistance and training in Arabic has been greatly appreciated by countries in our constituency and was critical in tailoring the CD to individual country

needs. We take positive note of the fact that fragile states have been an institutional focus for CD delivery since 2014 and that more than a quarter of Fund TA and about one fifth of its training were delivered to fragile states in FY17. We agree that CD delivery for these countries needs to recognize capacity constraints, including limited absorptive capacity, scarcity of resources, and possible political and security concerns, as acknowledged in the IEO evaluation on fragile states. We therefore agree with staff's proposal to better tailor CD in fragile states, based on careful prioritization and sequencing, propose incremental reforms to ensure sustainability, and offer more hands-on advice. The experience with countries in our constituency indicates that long-term programmatic CD is important in building capacity in fragile states. While CD delivery is not possible in conflict countries, a third-country location could be considered in some instances. It is often useful to provide the technical institutions in these countries with relevant policy notes or desk studies to support their policy decision-making process in difficult circumstances.

We support the proposal for greater internal consultation and sharing of CD information. This would help to integrate CD processes and systems across the Fund. Accessing TA documents and using CD information indeed remain difficult, complicating internal coordination and integration. We, therefore, fully support the program led by the Knowledge Management Unit, which was aimed at strengthening internal access to Fund documents, beginning with TA reports, through a comprehensive and searchable data management system. It will be important for Office of Executive Directors to have access to this system for the group of countries that they represent. This would enable them to be adequately informed and to follow-up on current and future TA requests. We support the proposal to inform and engage the Executive Board more regularly on CD. Externally-funded CD results in indirect costs for the Fund, which are controlled by the Board in the Medium-Term Budget discussion. Nonetheless, in addition to this responsibility in setting the limits on externally-funded CD, the Board should be able to provide the strategic orientations for CD. In this regard, we see scope for the Board to be kept informed of developments in CD activities in a more frequent, systematic and comprehensive manner, as is the case for surveillance and lending.

We agree that further progress is needed in external coordination, communication, and dissemination of information. Externally-funded CD relies on three kinds of partnerships: regional centers, thematic funds and bilateral, which should be carefully coordinated. In addition, TA reports need to be more accessible so that it is easy for a staff member or the Board to have

a full picture of the CD provided to a particular country and/or in a particular area. The Survey of Stakeholders and Independent Interviews provided mixed views on coordination with other providers. It is not clear what will be done in practice to enhance this coordination. Chapter V of the background report: Staff Background Studies and Short Notes provides helpful specific recommendations and we wonder if staff is considering adopting them. With regards to the publication of TA reports, which is currently limited, we concur with the External Advisory Group on the importance of carefully balancing the costs and benefits of confidentiality and client trust with those of transparency, learning, and feedback. It is essential to preserve key commitments to confidentiality that are needed to sustain effective TA engagement. Accordingly, to increase the publication rates, preparation of a short precis of “lessons learned from the engagement” that is completely anonymized with respect to country, could be considered, as suggested by the External Advisory Group.

We would have liked the Review to touch on member-financed CD. It would have been helpful for the review to clarify the criteria for requiring members to finance their own CD. Can staff indicate when member-financed CD will be reviewed? Such a review should consider the circumstances that would justify Fund-financed CD for countries that had previously paid for their own CD. These include political transition, conflict, or a drop in external receipts.

Mr. Meyer, Mr. Merk and Mr. Braeuer submitted the following statement:

We thank staff for preparing this valuable comprehensive review of the Fund’s CD Strategy, especially detailing various important issues in separate background studies. We also thank staff for their valuable outreach in the process of this review. Technical Assistance and Training are at the core of the Fund’s mandate and an essential element to achieve its purpose as defined under the first Article of its AoA. We welcome the opportunity to consider the lessons learned with the comprehensive CD strategy for the first time, to assess progress made on the 2013 recommendations and to improve the strategy to deal adequately with current challenges. We fully support that the 2018 CD strategy builds upon the existing CD strategy and focuses on strengthening efficiency and impact/effectiveness. We will start our statement with some general comments and will then go into staff’s recommendations in more detail.

We welcome the opportunity to assess the medium-term orientation of the Fund’s Capacity Development Strategy. The five-yearly review cycle

provides an excellent opportunity to consider the fundamental framework by the Board and, in particular, to set priorities, given that scarce resources require prioritization. Unfortunately, the information provided in this report is not sufficient for the board to give strategic guidance on prioritization. We encourage to provide in the framework of the next review more, candid and transparent information to the Executive Board about different options for providing CD to enable the Board to engage in an in-depth discussion and come to a well-founded decision about prioritization of CD provision. In the meantime, especially as such information was missing in this review, we would expect the prioritization to be more prominently discussed by the Board in the budget process. Also, we feel that Box 1 does not appropriately reflect the central role of the Executive Board in the governance of Fund CD.

As a result of the 2013 adopted CD-Strategy many initiatives were set up and we need to candidly assess the progress that has been achieved and elaborate the room for further improvement. While for example the greater attention to CD in the Fund's strategic planning and budget process or the introduction of online courses had a clear positive effect, unfortunately, a number of projects were only started very recently in 2017/2018 (RBM in use for all new projects since FY2018) or remain open (HR Strategy). Overall, we must remain vigilant in improving the management, planning and delivery of the Fund's CD activities in order to further enhance its effectiveness and efficiency, not least given the quite sizeable resource implications for the Fund.

For us, the guiding question of any CD activity should be, whether the delivered actions are actually meeting the specific needs of countries and are resulting in capacity improvements in member countries to sufficiently strengthen their institutions and policy frameworks. This said, we are aware that progress in the individual countries takes time and might not always be easy to measure. However, given that IMF resources are scarce, CD measures need to have a measurable impact. Against this background, we fully support that the 2018 CD strategy builds upon the existing CD strategy, focusing on the two objectives of strengthening efficiency and impact/effectiveness. We especially support the strong focus on strategic medium-term objectives, better integration of CD with surveillance and lending, higher focus on capacity and ownership. Moreover, given the upcoming reviews of surveillance and conditionality policies we suggest specifically considering the provision of CD and its impact on their effectiveness also in that context.

While some of the recommendations are already budgeted for, we are concerned about managing additional resource implications of the various

other proposals under a real flat budget assumption. We ask for more detailed updates of specific resource needs and how they can be met through reprioritization within departments during the budget process as they develop in the future.

Concerning risks of CD engagement, we first reiterate that the last update of the risk report specifically called for institutional CD arrangements that “help ensure alignment with Fund strategy, improve efficiency, and enhance the understanding, monitoring, and measurement of outcomes”. We see these wider objectives addressed heads on in the 2018 CD strategy. However, “donor funding risks” as risk lens with the highest risk in the current Risk Report appears to get only little attention in the overview paper – even though a more detailed background study was provided. We would especially be interested in initiatives regarding cost recovery of CD activities as well as updated details about the magnitude of funding from “non-traditional donors” in order to diversify the highly concentrated donor base. In this regard, we highlight that any recourse to funds provided by private sector donors must follow the appropriate guidelines and remain limited in relation to funds from official sources. We welcome that CD projects are required to have a built-in degree of flexibility to protect against the risk of a funding shortfall. Also, to reiterate our point above, improvements within the overall CD management and delivery will likely only materialize in the medium term. Therefore, it is of the essence to continuously monitor the risks that were flagged by the ORM and envisioned mitigation very carefully.

We like to join staff in cautioning that most of the identified CD issues in this review are highly cross cutting and that it will be hardly possible to improve one specific area without also requiring improvements in other areas.

Against this background, we have some specific remarks about the operational recommendations A to E.

A) Clearer roles and responsibilities among various stakeholders

We welcome the aim to better integrate CD with the other core functions to ensure that the Fund provides overall consistent advice and to make best use of CD also for the success of IMF supported programs. To help generate significant outcomes we especially support to more consistently apply good practices to further adapt CD to the recipients’ ownership and capacity weaknesses – which must also be a concern of surveillance and conditionality in order to gain traction for policy advice. We look forward to

the 2020 Comprehensive Surveillance review, which will explore this issue further. Particularly for LICs and fragile states that have limited capacity to absorb CD a clear medium-term strategy seems necessary to generate sustainable results. This more holistic and country-centered approach will indeed profit from a leading role of area departments. In this context we also encourage to extensively improve internal and external communication and coordination, in particular with regard to other CD providing institutions and organizations (see below).

B) Continued strengthening of prioritization and monitoring

As CD spending was decided to level off in the medium term, an appropriate and more streamlined prioritization will ensure that resources are used in the most productive way – especially as CD is demand driven and resources intensive. We welcome to increase medium-term flexibility in order to react to trends. In this regard, we are pleased to learn that CD resources are mostly focused on the Fund’s core mandate.

We welcome the recently comprehensively rolled out Results Based Management as well as the common evaluation framework as initiatives to ground the Fund’s CD activities in more quantifiable data – hence, making CD management more efficient and measuring outcomes over output. Nevertheless, we acknowledge that these tools are “not an end in itself”.

Regarding the prioritization of CD activities, we would have expected more, candid and transparent information on the prioritization and the allocation of funds. For example, we would welcome an assessment by staff on the extent to which CD in the area of debt monitoring has benefitted from increased prioritization over the past few years. We consider this a clear priority area against the backdrop of current developments in debt vulnerabilities and their potentially serious implications, particularly for countries with limited administrative capacities. We recall that the 2014 Review of the Debt Limit Policy introduced an exemption for countries with weak capacity to monitor the contracting of debt with the presumption that these countries would benefit from increased capacity-building efforts. Has this presumption materialized in the form of expanded IMF CD activities aimed at improving debt monitoring?

Also, against the backdrop of a looming debt crisis in Africa, we see specific need to prioritize work on Domestic Resource Mobilization in that region. As Figure 7 of the overview paper projects some growth in CD on Domestic Resource Mobilization going forward, we would be very much

interested to learn about the underlying assumptions of that projection, especially with a view to expected demand and geographical distribution of that growth.

C) Better tailoring and modernization of CD delivery with a focus on implementation

We welcome the intention to increase the focus of the Fund's CD activities on implementation assistance as this will likely generate better outcomes than solely providing technical advice. In this regard, we find it noteworthy that there is a significant disparity between staff's and CD-recipients' view of how many TA recommendations were actually implemented. It might be possible, that staff and recipients understand the TA recommendations differently, which would support the recommendation to better "translate" TA reports in less technical language for policy makers. However, the factual impact of CD measures on improving institutions and policy frameworks seems more important than the exact counting of implemented recommendations.

Also, disparities exist between staff and recipients in their view of reasons behind failed implementation of TA recommendations: while recipients and EDs most often cited "insufficient resources", staff selected significantly more frequently "insufficient high-level support" as the reason. This highlights the need to fully consider institutional and political readiness and ownership as well as capacity constraints in designing CD strategies and that the Fund must cooperate well with other providers, which are able to work on the basis of these constraints, for example regarding leadership and management building, limitations in human capacity or political instability.

We support steps to allow flexibility to integrate TA with training and vice versa. Under a country-centered approach (see above) the CD recipient should be able to design the desired CD modalities, which could for example include implementation training for TA missions or training in other languages than English.

Regional and/or topical learning seems a valuable addition to regular CD missions targeted at usually single countries or institutions. We agree with staff that RCDCs seem well suited to explore this approach by utilizing their extensive regional networks.

At the current juncture, we doubt that relatively new technological trends with a low level of experience like "big data" and "artificial

intelligence” can make a valuable contribution to CD activities in a cost-efficient way. Rather, we support collaborative online opportunities (see below) under the condition that IT-risks for cloud-based technologies are carefully managed.

D) Greater internal consultation and sharing of CD information

As CD is recommended to move to a country-centered approach and better integrate with surveillance and lending (see above), the internal availability of CD documents, data and analytical tools as well as coordination efforts between departments becomes crucial. While we acknowledge the ongoing initiatives (searchable data management system, single access point), we recall that silo mentality and inadequate information sharing have been long standing issues within the Fund, which also need to be considered. Regarding CDMAP, the envisioned impact on the CD process sounds promising, but we would be interested in more detailed information on how CDMAP will actually achieve the expected improvements.

As CD is one of the core functions of the Fund and accounts for one third of the budget, we appreciate more regular informal and formal engagement of the Executive Board in this area. We welcome greater efforts for integration by discussing CD issues during bilateral surveillance consultations and program reviews.

E) Further progress in external coordination, communication, and dissemination of information

Coordination of CD-providers remains one of our main concerns under efficiency and effectiveness aspects to avoid duplication of efforts or conflicting advice and to better leverage other available expertise in areas that are macro-critical. As the IMF is only providing 2 percent of total CD by IFIs, the Fund must also be open to coordination efforts by other providers. We would also like to highlight that the awareness for the need of coordination is the basic requirement for any successful cooperation. Therefore, it is especially regrettable that a high number of CD-recipients did not feel that the question whether IMF TA is well coordinated with other providers was “applicable” to them. As the recipients should be moving towards being “in the driver’s seat” of their own CD-agenda, raising their awareness is prevalent. Going forward, we support the ongoing best practices in the area of cross-institutional cooperation and prefer their expansion and strategic application as recommended by staff. Nonetheless, we acknowledge that coordination efforts should not be limited to one standardized approach.

While some of the suggested best practices indicate substantial resource needs and therefore might not be able to be mainstreamed, at least a more rigorous sharing of information between development providers via new technologies should be considered.

While there might be benefits in experimenting with innovative external CD communication to broaden general CD awareness, we would like to caution that the stakeholder survey indicates that most respondents – inclusive CSOs – preferred to receive information on the Funds CD in a more traditional manner. To further build availability of CD information on the IMF website seems therefore more adequate than spending much resources on social media.

Also, a wider external availability of CD information is welcome to support policymakers', donors' and other interested parties' access. We were surprised to learn that less than 5 percent of TA reports get published so far, despite past initiatives to raise this share, and look forward to the recommendations of the interdepartmental working group in this regard.

Mr. Kaizuka, Mr. Ozaki and Ms. Mori submitted the following statement:

We thank staff for the comprehensive set of papers which provides informative background for discussions on the Fund's Capacity Development (CD) strategy, as well as the informative outreach. We broadly support staff appraisal and agree on the overall direction of the Fund CD's strategic objectives going forward. We believe, once such objectives are operationalized through implementation of recommendations, it could strengthen the Fund's CD strategy, hence mitigate the related risks. Our views on specific issues on the operational recommendations are as follows:

Roles and Responsibilities

We strongly support the necessity of enhancing involvements of the recipient authorities into CD activities. Strong ownership is a key to success of the CD, hence is essential for creating fruitful outcomes. In this regard, what is important for the recipient authorities would be to understand the urgency and risk, and then to be proactively engaged in the CD activities. We would like to emphasize the importance of the role of area departments which have regular interaction with the authorities and therefore could be appropriate points to identify the CD needs and broad country strategy. To this end, we believe area departments need to be empowered to take responsibility as leading party in grasping and prioritizing the authorities' CD needs. On this

point, we welcome staff's intention that CD and surveillance be further integrated. We are very much interested in possible enhanced and more systematic collaboration/coordination among area departments, functional departments and Institute for CD (ICD). This would be helpful to ensure the ownership of recipient authorities to CD programs.

Prioritization and Monitoring

We fully agree on the need to move further on prioritization to more appropriately respond to increasing CD demands while maintaining real flat budget under the medium-term budget. On this point, we welcome the multi-year budget allocation to CD becomes also a norm to ensure mid-term resource to be used for each CD activity. However, in determining on which area should be prioritized it should be also noted for staff to properly find out the needs of the authorities in a timely manner, as we emphasized above, and staff explained in para 21. This would be also a call for integrated approach of CD and surveillance. We also welcome the progress made by staff on strengthening of monitoring and evaluation. The launch of Results Based Management (RBM) is a big milestone in this regard. As staff pointed out, its launch should not be just a goal, but be a starting point for staff with effective and efficient PDCA (Plan-Do-Check-Action) management of CD. However, we are a little bit disappointed that there is no example referred in the staff report to showcase the productive use of RBM, though many EDs called for these examples at the previous informal meeting, and we continue to request to show some cases.

Country-Tailored Delivery Focused on Implementation

We agree that specifically tailored CD deliveries are required for specific countries as each country's circumstance varies depending on its authority's institutional capacity or political and security situation. In this regard, it is a welcoming direction that staff is exploring more flexible modality of merged TA and training by active use of new technology. On the other hands, while it seems that staff focus on using such new technology as cloud or AI, we believe that it might be useful if consideration should be given to existing modality in seeking innovative solutions given the limited resources available. Specifically, online training, from cost-efficient delivery perspective, should be the tool which could create effective synergies with TA by, for example, using it as a prerequisite for recipients to acquire fundamental skills and knowledge necessary for starting TA. Assessing the effectiveness of training, especially online training, is very challenging and it takes time for training to realize ultimate impacts on policy formulation of

recipients countries. And it is also difficult to single out the effect of training in the longer horizon. Staff's views are welcome.

Onsite follow up of CD program is desirable for their successful implementation. In this contest, the role of Regional CD Center (RCDC) should be emphasized and there should be more Board involvement to discuss the work of RCDCs as they are closer to recipients on regular basis.

Internal Consultation and Sharing of CD Information

As the importance of well-managed coordination between CD departments and area departments has been called for from time to time, we welcome the reference made in the report on further enhancing cooperation between the departments. In addition, it is a positive step that the CDMAP has been created to improve the planning, managing, monitoring and reporting of CD activities. We would appreciate if staff could present some of the examples of how the internal consultation within the Fund has been improved with the CDMAP. Related to this point, we agree that more engagement with the Board on the CD activities is warranted. The board should have ultimate responsibilities to provide strategic guidance of CD activities, properly monitor the implementation and assess their long term effect. To this end, we encourage the staff to, for example, share results of Committee on Capacity Building (CCB) which is a high-level committee to organize Fund policy work in capacity building.

Coordination, Communication and Dissemination

We welcome further consideration on coordination with other CD providers has been made in the review. Having said that, it should be noted that what is important is not only coordination in the field between stakeholders but also between Headquarters. While we recognize there are some CD initiatives including DMF, TADAT and FIRST which are the Fund-Bank joint efforts, there are some criticism that there has been duplication of the works and miscommunication between the two institutions in such area as fragile countries and domestic resource mobilization. Against this background, we encourage staff to promote straightforward discussions between the Headquarters of peer institutions including the Bank on a truly necessary basis. This is also the case for the recent initiative of Platform for Collaboration on Tax.

We welcome the progress and staff's efforts on innovative CD communication and congratulate ICD staff for its success so far. Frequent use

of SNS, information sharing through CD page of the Fund's external website, and postcard series organized back to back with the Fund-Bank Annual Meetings and Spring Meetings are very good examples of such innovative communication opportunity, which would not only enhance the promotion of the Fund CD itself, but provide good venues for recipient countries' peer learning, and for donor countries' visibility improvement. We encourage staff to continue this efforts towards this direction.

Regarding the dissemination of TA reports, we agree with External Advisory Group's (EAG) conclusion that balanced approach is warranted on this matter. While we share the EAG's view that there could be a room for improvement on the dissemination of the TA report given that only less than 5 percent of the TA reports are published, we also have a sympathy for staff in that consideration should be given for sensitivity in dealing with confidential information and in agreeing with the recipient authorities on its publication. We note that EAG proposes that two-to-three page precis of "lessons learned from the engagement" be considered. Staff's views are appreciated.

We agree on the direction towards more sustainability of external financing to CD. On the other hands, while we somewhat understand the fungibility and flexibility embedded in the Multi-year and umbrella agreements, it should be fully recognized that donors have to be accountable to their tax payers so as for the Fund to secure stable financial contribution from the donors. We expect the Fund to create longer and more strategic partnerships with them with closer and more frequent communication. Japan, even in the midst of the limited budgetary circumstance, stands ready to continue to contribute to the Fund CD activities while ensuring consistency with its own priorities. We are very much look forward to further cooperating with the Fund in the CD areas.

Mr. Fanizza and Mr. Spadafora submitted the following statement:

We thank staff and the External Advisory Group (EAG) for a comprehensive set of reports that adequately inform the review of the Fund's Capacity Development (CD) Strategy; the latter remains critical to foster sound macro-financial policies across the Fund's membership and support broader engagement with member countries.

We welcome the reported progress in implementing the 2013 agenda and broadly support the two overarching and mutually-reinforcing objectives: increasing the efficiency and impact of CD. We also agree on the specific recommendations of the proposed new CD strategy, which recognizes the

need for adaptability and tailoring to each members' needs, capacity and conditions. We particularly welcome the finding that CD contributes effectively in implementing the policy advice in member countries; on the Fund's side, we underscore the scope for CD to better support surveillance and lending, including by more effectively leveraging the synergies between the three core functions. We offer some specific comments for emphasis.

CD delivery has marked a notable increase in the past decade, presenting some challenges for the Fund. The rise in external funding of CD poses operational (if not reputational) risks, including to the Fund budget (as recognized by the 2018 Risk Report, paragraph 13); these risks need to be constantly monitored and assessed. We welcome the steps in terms of better governance and oversight to address these developments, including the role of the Board in determining the scale of such financing decided as part of the medium-term budget and the interdepartmental review process for new externally-funded initiatives. We would like to know more details about the approval process for new donor initiatives.

Better prioritization of CD activities remains paramount, on par with the leading role of area departments about the coordination with CD departments and the follow-ups on CD recommendations. CD activities should be carefully prioritized also in close collaboration with the authorities of the recipient country (see more comments below). To this end, we believe that area departments should play a key coordinating role in helping choose those CD priorities from which the Fund's core activities can benefit the most. The requirement of explicit agreement by area departments on the timing and scope of all CD missions is thus appropriate. What is the experience with the new 3-year RAP cycle in facilitating a closer involvement of area departments in CD projects? To what extent the good practices for integration of CD with surveillance developed by the African Department are shared with/endorsed by other area departments?¹

We are somewhat concerned by the finding (paragraph 10, p. 17) that “the degree of interaction internally and with country authorities on CD issues still depends too much on the interest of individual mission chiefs...”, notably for non-large CD recipient and non-program countries. In light of the weakness in the Fund's CD information sharing system, the objective of strengthening knowledge frameworks to more systematically embed good practices may prove to be ambitious (as discussed below).

¹ See Annex II of the Staff Background Study on Integration of Capacity Development and Surveillance.

CD monitoring and evaluation – notably its enlarged focus on results – is expected to be improved by the standardized application of the RBM framework, which however faces difficulties. What accounts for the long lag between the Board endorsement of the RBM framework in 2013 and its becoming a requirement for all CD operations since May 2017?

We support the key cross-cutting shift, highlighted in the report, in the Fund’s role: from a trusted advisor to a trusted partner, focused on helping design and implement a strategy that is country-tailored, flexible, with a stronger emphasis on results on the ground rather than outputs and a medium-term orientation in planning and resource allocations.

We also agree that country authorities should usually lead the CD process. We thus share the view that in scoping and prioritizing CD needs, staff should do more to encourage and foster the countries’ effort to develop and coordinate their own CD strategies. At the same time, we need to underscore that the involvement of country authorities and their ownership of the CD strategy can often be endogenous to the advice and stimulus of Fund staff throughout the entire CD process and can be substantially affected by a country’s capacity constraints, which may undermine the impact of CD.

Staff should thus play a critical supporting role as a partner also in identifying, recognizing and overcoming such constraints and we agree that surveillance is normally the most appropriate process to do so. The Article IV process is usually the natural vehicle to discuss CD needs and we support the call for consultations to become a routine component of preparing Regional and Country Strategy Notes. As indicated by the IEO, the Article IV process should be used for bridging surveillance, lending and CD in implementing holistic country strategies, while remaining mindful of the attached risks (including those highlighted in the EAG report).

Finally, in reading the various sections of the main report, it is difficult to escape a sense that delays and weaknesses in the Fund’s information sharing system and process may have undermined crucial aspects of CD, including through regional CD centers (Box 7). The finding (paragraph 10, p. 17) that “for staff, accessing TA documents and using CD information remains difficult” is somewhat disappointing, given its multi-faced negative consequences (including status quo and inertia – see Box 3). The report does not elaborate in depth on the causes of these difficulties but to the extent that they depend on weak information sharing systems, the finding is perplexing on account of the recent 2018 Risk Report, which assesses (p. 41) that “technology services continue to provide effective support for Fund

operations”. The current distance to the best practices in information sharing seems to be large in light of the statement (paragraph 24, p. 33) that “strengthened information sharing holds the promise of transforming the Fund’s CD operations”. We are surprised to learn that critical tools such as CDMAP, Digital Workplace and a KMU project are being rolled out only recently as part of the Big 5 Updates and remain far from the implementation phase². These weaknesses clash with the goal of reinforcing the Fund’s role as a knowledge hub. Staff’s comments are welcome.

Mr. Kaya, Mr. Just and Mr. Mehmedi submitted the following statement:

We thank staff for the well-written overview paper and supplementary reports on the Review of the Fund’s Capacity Development (CD) Strategy. We appreciate the Board’s early and thorough involvement in the process, but note that the Review would have benefited from a more thorough discussion on the different options regarding the provision and prioritization of CD, including trade-offs and possible modifications to the current framework so that the Board could have provided strategic direction and oversight for CD through this Review. We note that broad outreach was conducted both internally and externally, including surveys, interviews, and public consultation. Nonetheless, we regret that the overall response rate of the survey of stakeholders was only 29 percent, raising concerns on the degree of representativeness of the messages in the respective survey. We broadly agree with the main findings and key themes emerging from this Review, and endorse the strategic objectives and specific operational recommendations set out in the Report.

We support the Review’s focus on better integration between CD and surveillance and increasing the impact and efficiency of CD. The Fund’s CD activities, delivered by staff, are of very high quality and truly make a difference in many countries. We recognize that since 2013, substantial progress has been made in strengthening the CD governance structure, enhancing the prioritization processes, clarifying the funding model, strengthening monitoring and evaluation, and promoting greater integration of technical assistance (TA) and training, among others. However, further work is needed to ensure that CD is country-centered, well-integrated with the Fund’s policy advice, and highly effective. This, in turn, will require that proper mechanisms are put in place to ensure stronger control of and coordination between CD and the Fund’s other core functions, as well as improved CD processes and systems. We underscore that CD activity should

² See IT Matters for October 2018.

be measured against the objective of meeting a country's needs and assessed on whether Fund CD activity helps the recipient countries improve their institutions and policy frameworks.

The Review would have benefited from a more detailed and holistic discussion of the actual and full costs of the Fund's CD activities, as well as the sustainability of the CD funding model, including risks pertaining to external funding. The externally financed CD has doubled since 2008 – now representing 55 percent of total IMF CD – and resources remain highly concentrated, as the top five external partners fund half of externally financed CD. While official partners' generous contributions have helped the Fund to sustain an ambitious CD agenda over the last decade, we are concerned about the sustainability of the current financing model. As noted in the 2018 Mid-Year Risk Update – Risk Mitigation, while generous donor funding of CD has clear benefits, its high share in the IMF's overall funding carries risks, including rollover risks, prioritization issues, and reputational risks. Against this backdrop, the Report should have discussed in greater detail the risks pertaining to the continued growth and the share of external funding, the sustainability of the financing model, and whether the risk mitigation framework in place remains appropriate. Staff's comments are welcome. While we acknowledge that financing received from private foundations is limited thus far, we note that the framework's existing elements on the vetting and approval processes should be complemented by an equally robust disclosure requirement. In this vein, we note that including a list of all private sector financing or only the select list of largest contributors either as an annex in the budget or the income statement, but also in the Fund's Annual Report, would certainly enhance transparency.

Clear roles and responsibilities among the various stakeholders are essential to facilitating a more effective CD engagement. The Fund should continue to increase the involvement of country authorities in designing and monitoring the implementation of CD by ensuring closer dialogue throughout the CD process. This would enhance the scoping of CD needs in line with country priorities, tailor the technical and policy advice to local conditions and institutional capacity, and ultimately result in improved traction and impact. We welcome the specific measures aimed at improving the coordination between area and functional departments, and the Institute for Capacity Development. In this vein, we support the stronger strategic planning of CD, including through greater involvement of the area department teams through having a prominent coordination role, while monitoring the implementation of CD recommendations and drafting of Country Strategy Notes (CSNs). The inclusion of CD CSNs in the Article IV Consultation and Use of Fund

Resources Reports, with a few good recent examples from the African Department, is in our view an exemplary way of planning, controlling costs, and ensuring accountability. In this vein, we prefer that such an approach become the standard across all area departments for countries which are heavy CD users. Staff's comments on the metrics used to define "heavy CD user" are welcome.

With CD spending projected to stabilize and demand growing, prioritization remains essential. As with any public good that is largely for free, demand for the Fund's CD will exceed supply. While Fund CD shall remain demand-driven, rationing is unavoidable and necessary so that both the authorities and staff develop cost consciousness and offer TA only if it maps into the Fund's overall strategic priorities, and the institution has the know-how and appropriate tools to deliver. This will require a full and holistic understanding of the costing encompassing all CD activities, including the institutional infrastructure such as Regional Technical Assistance Centers. While CD work on emerging issues remains modest to date, the growth in the Fund's analytical work on new issues – such as technology, Fintech, governance, energy, inequality, gender, and climate change – may also lead to increasing requests for new types of CD. Against this backdrop, we underscore that resource constraints, macro-criticality, and the degree of in-house expertise should first be considered prior to any provision of CD in these emerging areas. In this context, we wonder how the envisaged developments and coverage of emerging issues will affect the current financing envelope under the flat budget and constrained staffing environment. At the same time, there is a need to bolster the monitoring and evaluation framework. While we strongly support the results-based management (RBM) approach, including the input/output indicators it uses, we caution against the mechanistic box-ticking related to TA outcomes. Considering that a unified RBM framework is now being rolled out Fund-wide, and information is being gathered and monitored since May 2017, we would like staff to comment on their initial insights from the use of the RBM and how the Board will be informed about the results of RBM going forward.

Tailoring and modernizing CD delivery based on absorption capacities are essential to boost the impact of CD. This will require the use of targeted diagnostic tools, strengthening flexibility in delivery, and tailoring the CD based on institutional and human capacities of the recipient countries, especially for fragile states (FS). In this context, improved tailoring of CD for FS based on careful prioritization and sequencing, proposing incremental reforms to ensure sustainability, and offering more hands-on and

on-the-ground advice are essential elements for achieving the intended results. Concurrently, increasing the impact of CD will require that the focus is on the implementation of CD; that is, on outcomes rather than outputs, while ensuring appropriate monitoring and evaluation frameworks. Close coordination with other development partners will be essential to increase the Fund's own CD impact. Considering that the top 10 CD users averaged about 60 missions each from the Fund along in FY18, we wonder to what degree the CD is demand-driven and tailored to countries' absorption capacities?

Issues pertaining to the weak CD information-sharing systems and fragmented processes should be urgently addressed. We recognize that CD processes and systems have not kept pace with the expansion of CD activities, and regret that accessing TA documents and using CD information remains utterly difficult, complicating internal coordination and integration, and leading to sizable inefficiencies and limiting the strategic analysis of CD activities. Therefore, the urgent integration of information-sharing systems across the Fund has to be a priority. We note that the implementation of the "Digital Workplace" and CDMAP present an opportunity to address these deficiencies, but regret that these initiatives were not taken earlier. Staff's comments on the completion timeline of these two projects are welcome. We would be equally interested whether the Knowledge Management Unit has a role in creating a central platform in this context. While the publication of TA documents should be in accordance with the Fund's voluntary framework and protect confidential and market-sensitive information, a publication push could, in our view, be an important quality control mechanism.

Strengthening the Fund's cooperation and coordination with other development agencies in the delivery of CD, specifically the World Bank, is key. Better cooperation and coordination with development partners, particularly on FS, would support efficiency gains by better leveraging the pool of available resources, sustaining the impact of CD, and avoiding duplication. The Fund's increased coordination, particularly with the World Bank, is critical for better prioritizing key policy objectives, and identifying quick and long-term wins. We also support the efforts aimed at better translating technical advice into more accessible messages for policymakers.

Mr. Tombini, Mr. Saraiva and Ms. Florestal submitted the following statement:

The 2018 quinquennial review of the Fund's Capacity Development (CD) Strategy is conveniently almost concurrent with the Board's evaluation of key tools for the IMF to deliver on the three pillars of its mandate: surveillance, lending and capacity building. The set of comprehensive papers

produced by staff for this CD review completes well the round of informal Board briefings on CD activities, reflecting much of what has been voiced along the way. We thank staff for the elaborate and detailed outputs and commend management and staff for the progress achieved since 2013. We also agree with Messrs. Meyer, Merk and Braeuer that an effective and in-depth Board engagement in the strategic guidance of CD, based on a wide range of relevant information, including regarding existing tradeoffs, is of the essence.

Several valuable proposals and new initiatives populate the review papers. The impending inclusion of training in the CD prioritization process, the commitment to dedicate increased attention to outcomes over outputs, the adoption of a medium-term programmatic approach and the emphasis on bringing the countries to the driving seat are particularly welcome. The latter is fundamental for the delivery of the twin objectives of increasing the impact and the efficiency of Fund CD, as intended. Paving the way for successful implementation of recommendations is an essential requirement.

Capacity development should be kept high among the institutional priorities, and human resources' incentives and management practices should reflect that. In this regard, we concur with staff that concrete steps towards enhancing the value of the work of staff delivering CD are warranted. In particular, a double penalty on career advancement may be currently attached to staff delivering CD to small states and in countries in fragile situations.

The grouping of recommendations to support the objectives of increasing impact and efficiency into five areas is useful. We wish to comment briefly on specific issues related to each one of them:

Clearer roles and responsibilities among various stakeholders

Effective engagement of country teams and efficient coordination with CD departments are critical. Success in efficiently delivering impactful CD depends on a complex set of factors, including the profound knowledge of the institutional arrangements and practices in a recipient country, as well as effectively harmonizing the parts played by each concerned stakeholder. A matrix that clearly defines responsibilities for delivery of specific outputs at each stage could be a useful tool.

Mission chiefs and resident representatives have an important role to play in assessing countries' absorptive and institutional capacity and in ensuring an unimpeded flow of information with country authorities. Staff

refers to the importance of the leadership by the country mission chief in CD delivery, noting that it is a title that increasingly misrepresents the breadth of their responsibilities. Could staff elaborate more on what is envisaged as a broader role for the mission chiefs, and country teams in general. Relatedly, it may also be useful to reconsider the profiles of mission chiefs to ensure that they can deliver on their responsibilities.

Continued strengthening of prioritization and monitoring

In the prioritization exercise, authorities should remain on the driving seat to ensure that due attention to country-specific circumstances is given. Prioritization is particularly valuable for countries in earlier stages of institutional building or in fragile situations. Moreover, prioritization should be embedded in a longer-term vision of capacity development, establishing a clear sequencing that accounts for the country-specific constraints. In particular, we see room for taking better account of the turnover rates in a country to estimate the urgency of delivering additional TA and sometimes the need for repeated training in order to reach a critical mass. Increased use of peer learning could also help address peculiar needs.

Monitoring and evaluation goes hand in hand. The Fund is a reference knowledge institution and should also excel as a learning institution. Within the framework of a results-oriented approach, expected achievements and milestones must be clearly defined through measurable indicators to adequately monitor and evaluate progress. Gaps in implementation and divergencies between the reform path taken and that recommended by the Fund should be carefully analyzed with a view to assess the relative appropriateness of TA recommendations. Such evaluations should help stakeholders to better understand the authorities' points of view and broaden the perspectives about the reasons for particular TA recommendations not being followed.

Better tailoring and modernization of CD delivery with a focus on implementation

Effective implementation of a well-defined CD strategy in countries with limited capacity to implement TA recommendations may require a more hands-on approach and increased on the ground presence. As noted in the staff report, despite the authorities' concurrence with TA advice, reforms in some countries could not be initiated because of lack of a clear implementation path or insufficient human resources to translate the recommendations into actionable steps. In this regard, we welcome the suggestion of provision of a

roadmap in addition to (or, in certain circumstances, instead of) a detailed report.

The increase in long-distance CD (especially, training) delivery is commendable and particularly important for settings where health and/or fragility and violence limit the Fund's presence on the ground. We wonder however how the Fund is addressing other infrastructure problems such as limited access to electricity, IT hardware and communication platforms, which often coincides with situations of fragility?

Greater internal consultation and sharing of CD information, and
Further progress in external coordination, communication and
dissemination of information

We see merit in disseminating lessons learnt and best practices as well as making CD messages more accessible to policymakers, including by simplifying the language. Sharing information among donors will also reduce the likelihood of overlapping or duplicating TAs from different sources. In addition, greater coordination particularly under the leadership of country authorities should lead to efficiency gains. However, the Fund should not shy away in playing an enhanced role in coordinating donor activities when a country requests its support due to resource constraints.

Caution is warranted when it comes to disseminating information that could be politically sensitive. In this regard the Fund may need to trust the authorities' judgement as the degree of sensitivity of an issue even if purely technical may be elusive to staff. This is particularly true in a context of fragility. The Fund's increased information dissemination efforts should not thwart the authorities' capacity to implement reforms and to decide on their comprehensiveness, sequencing and timing. Hence, careful weighing of the potential impact on the Fund's role as trusted advisor is warranted while addressing the low rate of publication of TA reports. In this regard, we trust that the "open by default" approach whereby it would be required to make a case for not sharing documents or data is only applicable internally.

The resource implications of Fund staff recommendations are not clearly laid out. The growing reliance on funding from external sources should not preclude the Fund's participation in CD financing at an adequate level and its readiness to cover gaps from donor's withdrawals and provide contingency funding when needed. Given the importance of CD within the Fund's mandate, and the value attached to it by a large share of the membership, allocating about a third of the Fund's budget to CD activities seem adequate.

While we look forward to specific estimates of the tradeoffs within the resource constrained environment, we would also like to have an indication of where difficulties meeting targets and current objectives have already been identified. In our region for example we know that continuous financing of CARTAC is an issue, even though its services have been very useful and sometimes instrumental in institution building and strengthening.

Finally, we welcome the presentation of the results of the survey which shows a wide array of views on several issues. These results are evidence that more effective dialogue is needed to enhance ownership and traction.

Ms. Pollard and Ms. Crane submitted the following statement:

We welcome this opportunity to reflect on, and provide guidance to, the IMF's valuable capacity development (CD) work. We are glad to see this work receive equal billing alongside the IMF's lending and surveillance roles. We thank staff for the informative, extensive set of papers and for the bilateral engagement. Our broad view is that, following several years of rapid growth, the IMF needs to focus on consolidation and qualitative improvements in CD engagement. We agree that there is room to build on the progress achieved since the 2013 Review to address issues around fragmentation, prioritization, tailoring, and internal and external communication. Staff need to level up to best practice in each of these areas to make the quality, coordination and fit of CD more consistent. We call for greater visibility of CD work for the Board in Article IVs, relevant policy reviews and thematic/regional CD evaluations. We support the proposed recommendations and limit our comments to a few areas.

Clarity of Roles and Responsibilities. We underscore the need for area departments to play a consistently strong role in shaping medium-term CD frameworks. Area departments should seek to enable country authorities to take the lead in setting CD priorities where possible. We see medium-term CD frameworks as central to the country strategies for fragile states which staff will be developing in line with IEO recommendations.

Prioritization and Monitoring. We welcome ongoing efforts to strengthen the prioritization process, with stronger emphasis on policy implementation support and institutional strengthening, in addition to policy formulation. We recognize progress toward results-based management, encourage persistence in implementation and look forward to greater visibility of this work at the aggregate level including in evaluations. We welcome the

reference in Box 1 to “future updates and strategic reviews ... expected to incorporate high-level results based on RBM and related evaluations.” We would have found it useful to see some concrete country examples of RBM frameworks. Country ownership is critical for CD to gain traction. We would like to see staff more consistently differentiate between countries with strong ownership and those which may be equally (or even more) in need of CD but with weak ownership. We recognize the need for patient support, particularly in fragile states, but in the context of scarce resources, the IMF needs to be prepared to downshift its CD engagement in certain circumstances, focusing on maintaining relationships and preparing the ground for upshifting if/when conditions improve. This type of differentiation should be reflected in country strategies.

Role of the Board. One area where the review did not go far enough is in exploring how the Board could more effectively engage on CD, while avoiding micromanaging. Presently, Board engagement is too infrequent and high-level, and the annual GPA and budget processes are not sufficient, at least as currently framed. While the series of presentations from CD departments over the past year were helpful in the lead up to this review, this appears to be a labor-intensive effort that is likely not feasible to do frequently. In our view several steps can be taken to enhance Board engagement.

Increase the visibility of CD in country Article IV reports, building on good practice (e.g. the annex on Surveillance Priorities and Capacity Development in the Myanmar Article IV), and preferably going somewhat deeper by including summaries of country strategies in fragile states where CD should feature prominently.

Improve the sharing of information on higher-level outcomes from CD by regular circulation to the Board for information of existing evaluations of CD by region (RTACs) and themes (Thematic Trust Funds). The Board’s Evaluation Committee could potentially review lessons from select CD related evaluations, perhaps once a year.

Given the important role that RTACs and Thematic Trust Funds play in supporting implementation of IMF CD overall, their guidance and accountability structures need to include the Board in some capacity, not just contributing donors.

Staff comments are welcome on how to improve visibility for the Board of medium-term country CD objectives, and priorities/results of RTACs and Thematic TFs.

Strategic Priorities for CD. We are broadly comfortable with the allocation of CD shown in the FY2018 snapshot in Figure 4. Going forward, we see debt management as a key priority given rising debt vulnerabilities and look forward to the possible expansion of IMF CD to support macro-critical work on governance and anti-corruption. We agree with Messrs. Meyer, Merk, and Braeuer that the Board needs to have adequate information to weigh in on the strategic direction of CD. There has been a rich set of information in the lead up to this review. Nonetheless, forward-looking rough plans of CD level of effort by theme and priority area, along with IMF staff's commentary on what is expected to drive broad trends, could help inform Board guidance on relative priorities. That said, we do not believe CD allocation should be predominantly a top-down exercise and Board guidance can be most constructive if it leaves plenty of room for an iterative prioritization process that builds on bottom-up country demand and country-owned priorities, as well as top-down institutional priorities.

Mr. Obiora and Mr. Jappah submitted the following statement:

We welcome the 2018 Review of the Fund's Capacity Development Strategy and appreciate staff's outreach, which provided a platform to better understand the main elements of the CD Strategy as well as current refinements aimed at strengthening inter-departmental coordination, improving the technology architecture, and deepening engagement with country authorities. We support these objectives and have the following comments.

Prioritization of CD Delivery

Although the overview paper recognizes differences in the institutional advancements of member countries, it is not clear that the proposed strategies takes this into consideration. We believe that the design and delivery of CD to countries with low-absorptive capacities and weak institutions should be sequenced in an incremental manner, with initial focus on strengthening the fundamental building blocks of targeted institutions. In line with the 2018 IEO Report on The IMF and Fragile States, we support the deployment of long-term advisors to assist such countries to develop effective and sustainable implementation systems and modalities for key recommendations from TA reports. We note that contrary to IEO recommendations, Figure 5

(Page 24) of the overview paper, reflects a declining trend of TA Delivery to highly vulnerable countries, for the period FY15-FY18. Can staff comment on the reason(s) for this downward trend?

Since CD delivery should be targeted at helping countries deal with both actual and potential macroeconomic issues, we wonder whether the delivery strategy being proposed reflects this sentiment across member countries. For example, Sub-Saharan Africa's rising public debt was a central theme in the October 2018 REO. Considering this, we believe that a significant portion of TA to these countries should be aimed, amongst other priorities, at strengthening fiscal frameworks and managing debt vulnerabilities. We also see merit in assigning more CD resources to governance and financial integrity issues considering their growing macro-criticality and importance in recent years. Can staff comment on how the current CD review would directly impact the SSA region, especially in terms of prioritization and vulnerabilities?

Leveraging Regional Technical Assistance Centers (RTACs)

Despite increased donor financing, demand for CD continues to exceed available resources. This outcome presents an opportunity to put RTACs to more effective and flexible use. RTACs can best deliver on-the-ground, tailored, cost-effective training to a wider group of policy-makers and technicians from countries sharing similar thematic challenges within a given region. Their modalities are generally accommodative to peer-to-peer learning and workshops, and better coordinated at local level, which could improve traction in CD delivery. We believe that RTACs could be steered towards better coordination with like-minded regional and local institutions. Such coordination/collaboration could include mainstreaming and incorporating Fund courses into the local curriculum of those institutions. We encourage staff to fully explore this option.

Reflecting slowing growth and tightening government finances, weaknesses in economic governance systems and implementation practices are becoming more evident in many member countries. In response, RTACs and regular online sessions could be used to provide corrective and proactive CD that addresses system weaknesses and deviations from best practice identified in surveillance and TA missions to such countries. We would value staff thoughts on this.

External Financing and Resource Implication

While external financing is crucial to CD delivery, we recognize efforts to deploy Fund resources in instances where such financing arrangements do not overlap with Fund priorities. Against this premise, we strongly support steps taken by the Fund to fully align new externally-financed CD initiatives with Fund's strategic medium-term planning and priorities, and address fragmentation. We urge management to carefully consider the need for deploying additional resources to CD during the next budget discussions, as the current flat budget format may present some challenges in the near future.

Monitoring and Evaluation

Designing a common evaluation framework for measuring progress in CD activities to improve CD planning and design is a welcome development. In this regard, we support the strengthening of the results-based management (RBM) framework to provide a platform that will monitor outcomes, make corrections to interventions and improve delivery of CD. We however hope that more timely progress can be made on the implementation of the M&E framework. We also support the proposed use of CD impact evaluations to transparently verify the impact of CD delivery to member countries. Member countries' inputs should be seriously considered when developing the "SMART" CD evaluation indicators, to encourage ownership and set realistic expectations. On the same note, we strongly advise against the temptation to use the results of the evaluation framework to scale back CD delivery to certain member countries. Rather, we see merit in the results serving as a basis for lessons learned and re-calibrating the mode of CD delivery to specific country circumstances with a view to ensure effectiveness and impact. Can staff comment on how soon they expect to complete the TA database?

Mr. De Lannoy and Mr. Etkes submitted the following statement:

We thank staff for their outreach and the well-documented and detailed papers that have been provided for this discussion.

Our Constituency members strongly value the Fund's capacity development, both those contributing to its financing, and the ones calling on the Fund to provide training and technical assistance. Periodic reviews are important to ensure that the Fund's capacity development strategy continues to meet the demands of the membership and yield the anticipated results.

Results-based, well-targeted, and efficient capacity development enhances the Fund's impact and reputation.

Board Engagement

Individual countries' capacity development strategies should be developed based on the respective members' needs and priorities. At the same time, engaging the Board regularly as well as keeping Directors informed of all relevant developments is crucial for allowing the Board to execute its role fully in providing strategic guidance. Like Messrs. Meyer, Merk and Braeuer, we feel that the information provided in this report is not sufficient for giving such strategic guidance on prioritization. We would also have appreciated additional information in the current set of papers on the outcomes of the capacity development initiatives that were adopted after the last capacity development review in 2013.

Integration of Surveillance and Capacity Development

We welcome staff's intention to take a more holistic approach and develop a longer-term capacity development strategy for individual members. As such we support their recommendation to give a greater role to area departments in identifying the capacity development needs of individual members and integrate capacity development better in surveillance. Surveillance and capacity development can enrich one another by strengthening policy advice ownership or by identifying areas where capacity development is needed. These synergies should also be taken into account in the Comprehensive Surveillance Review that will take place in 2020.

One suggestion would be to better integrate capacity development strategies, needs and outcomes in Article IV reports and program documents. It would enhance the visibility of capacity development needs and outcomes, and better inform country authorities and donors.

We also encourage staff to continue enhancing the coordination of capacity development with other international partners that provide capacity development such as the World Bank, the European Union, and others. Coordination of capacity development based on a holistic analysis is key for improving effectiveness and efficiency, and to avoid a duplication of work.

Capacity Development Outcomes

We welcome the focus on governance and institutional capacity, as governance issues and the lack of sufficient institutional capacity is one of the main reasons why capacity development results have been disappointing in some cases. Ownership, commitment, and sufficient institutional capacity in recipient countries are key for success. Recipient countries should prioritize capacity development to make optimal use of the Fund's expertise. This requires early engagement with the Fund, and continued implementation and follow-up after the training or technical assistance has taken place. What is staff's strategy to ensure this can be achieved? Do staff e.g. see merit in using conditionality in program countries to strengthen implementation, and could post training and technical assistance follow-up support enhance ownership and implementation? Finally, could a symbolic participation of the recipient country in the cost of capacity development enhance country ownership and prioritization?

We strongly support staff's recommendation to publish more topical notes, preferably in a harmonized way. We also see merit in making available interesting capacity development documents and analytical tools, not just internally, but also to the wider membership. Such documents and tools may help members with strong capacity and other capacity development providers. One of our Constituency members self-assessed its fiscal transparency based on the Fund's publications.

Regional Capacity Development Centers

We strongly value the role of the Regional Capacity Development Centers, given their proximity to the members requesting capacity development from the Fund. Box 7 gives a clear overview of the benefits of a regional presence in terms responsiveness, agility, and coordination with other stakeholders. There is, however, an important gap in the regional presence of RCDCs, namely in the Caucasus and Central Asia region (CCA). The CCA is a strategic region, facing specific challenges that are not covered by other RCDCs, e.g. in the Middle East or Asia. We would appreciate it if staff could provide an update on the status of plans to open a RCDC in the CCA.

Financing Capacity Development

Capacity development benefits the membership as a whole by strengthening countries' institutions and policies. Demand for capacity development will only grow as the membership increasingly faces new,

macro-critical challenges stemming from inter alia climate change and cyber security, in addition to the traditional fields covered by the Fund's capacity development. We see merit in a higher leverage of the Fund's internal resources by reviewing the ratio of internal and external financing. At the same time, we hope that more members, and in particular those that do not contribute yet, will step up their contributions to the Fund's capacity development, in light of the benefits for the entire membership.

Mr. Virolainen and Ms. Gunnarsdottir submitted the following statement:

We thank staff for the set of reports and extensive background work. We broadly support the proposed recommendations of the 2018 Capacity development (CD) review with the aim of strengthening ownership, efficiency, and impact of CD activities. Countries in the Nordic-Baltic Constituency both contribute to and receive Fund technical assistance and training, and we continue to be at the Fund's service for participation in these activities. Capacity development is a core function for the IMF to help fulfill its mandate by assisting countries to build the necessary institutions and capacity to conduct sound economic policies. The fact that demand exceeds supply of CD activities can be taken as a sign of its general attractiveness for recipient countries, while at the same time highlighting the need for prioritization and improved efficiency given constrained resources.

The success of CD efforts, as well as the traction of Fund policy advice in general, is highly dependent on strong and continuous ownership by country authorities and institutions. In this respect, we strongly support the proposed deepened engagement with authorities, including the development of national CD plans.

As results from the recipient survey show, it is important for the Fund to understand the absorption capacity and resource constraints in countries for improved CD impact. Also, the roles and responsibilities of all participants on the donor and recipient side should be clearly determined, and agreed upon, before the implementation of CD projects. We support the notion expressed in the External Commentary, that in countries where the authorities show weak commitment, CD has limited prospects for success, and Fund efforts should focus on building relationships and creating trust.

We fully support the ambition to strengthen integration and to apply best practices more consistently. We note that integration of CD with surveillance and program activities is currently uneven. Area departments, country desks, and authorities should ideally see CD as a potential tool to

support the implementation of policy recommendations identified under e.g. Article IV and FSAP consultations. CD results can also provide valuable input to surveillance.

In this light, we support the suggestion that area departments and country desks should be in the leading role on country engagement, as well as in CD activities, while maintaining a close cooperation with functional departments. Country desks are well positioned to understand the needs and institutional setting of member countries, to give informed guidance on tailoring CD projects, and to build long-term relationships with the authorities for sustained impact. Needless to say, a clear delineation of responsibility must be established, and resource implications of strengthening integration will need to be carefully assessed and managed.

It is our experience from participating in CD activities that a sufficient degree of flexibility is essential in the agreement between the Fund and the recipient country to be able to fine-tune and, if necessary, re-design the project elements during the implementation phase. For example, literature supports the need for flexibility in the provision of CD support in politically sensitive reform areas, e.g. to respond to variations in strength of country commitment. When commitment is wavering, changing the configuration of Fund assistance in a more technocratic direction can still produce results while ensuring a degree of continuity in contacts with authorities.

The development of a systematic approach for the integration of lessons-learned into new activities is crucial to improve quality, not least since over 40 percent CD activities are delivered by regional centers that have developed independently, and CD activities rely heavily on contractual appointments which often undermine “institutional memory”. The implementation of the CDMAP to ensure timely and efficient knowledge-sharing is promising in this regard. Could staff elaborate further on how sufficient integration of regional CD centers with general Fund CD policies and processes can be ensured?

We welcome the Results-Based Management framework under implementation and look forward to receiving an update once it has been fully rolled out. We believe it will lead to better quality CD as the focus will move from input to outcome. At the same time, we recognize that in some cases it may be difficult to measure outcomes and a certain amount of flexibility needs to be applied. In this context, we also believe that enhanced transparency of the Fund’s CD activities is important for IMF member countries and other stakeholders. Wider communication activities and greater public

dissemination of CD reports, with a focus on more accessible messages, would be a step in this direction.

The possibility of increased burden on staff, at headquarters and in the field, of increased reporting and monitoring must also be recognized. A well-informed balance between these activities and efficiency of field delivery, is thus crucial.

Enhanced results monitoring will be a good basis for more regular involvement of the Board in CD discussions for strategic guidance. A stronger link between CD, surveillance, and program activities may create a more policy-oriented context for strategic discussions in the Board and increase the Board's interest in and ownership of the CD process. We would also support the recommendation to continue the practice of informal Board briefings on CD activities.

We believe that the risks associated with the large share of externally funded CD need to be closely monitored, both from a governance and absorption capacity perspective and as regards the consistency of funds provided. We also believe that more transparency could be provided on CD availability and charging policy. For example, are there specific regions or areas where it is more difficult to ensure adequate financing because donors' priorities are focused on other areas and/or regions?

Finally, we agree that coordination with other CD providers (international organisations, regional institutions, and other member countries) is key to improve efficiency, coordination, and consistency in policy advice. Particularly in countries with significant capacity constraints, coordination with other providers (in particular the MDBs) is vital to enhance the impact and sustainability of the provided support. Where relevant, we believe that existing forums for donor and recipient country coordination could be used rather than creating new parallel forums. We would appreciate if staff could elaborate a little bit more on which concrete actions and initiatives are under way to ensure sufficient coordination.

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

We welcome this opportunity to review the Fund's Capacity Development (CD) Strategy. We thank staff for their thorough work and extensive outreach. We also thank the members of the External Advisory Group as well as the other external experts for their helpful contributions.

There is no doubt that the membership continues to appreciate Fund's CD and its contribution to strengthen institutional capacity to help the member implement sound policies. As a donor and recipient of CD, our authorities support this core function of the Fund and any efforts and initiatives that could help to further enhance its effectiveness and impact. We are encouraged by staff's focus on providing country-tailored CD, especially for fragile states, where CD needs are high.

We welcome the progress made in the implementations of the recommendations of the 2013 CD strategy recommendations. We appreciate, in particular, the efforts to strengthen the governance structure, integrate CD into Fund strategic planning, improve prioritization, monitoring and evaluation, and leverage new technologies in the delivery of CD and outreach.

Despite this progress, the review points to areas where improvement is required. These include the need to enhance the authorities' ownership through closer involvement in the prioritization of CD and in the design and implementation of policy advice. Among other challenges, we also note the uneven progress in integrating CD and surveillance, and the mixed views on coordination, communication, and sharing of information.

Against this background, we broadly support the recommendations of the 2018 CD strategy review. We support the two objectives set by the review to increase the impact of CD and improve its efficiency and consider that the five specific areas of recommendations are also appropriate. We take note of the indication that staff will consider concrete steps to advance the report's recommendations. To this end, and to ensure greater Board involvement, we suggest a follow-up Board meeting to review how Board-endorsed recommendations will be prioritized and implemented. At that time, staff could also brief the Board on how to integrate the new interesting concept of behavioral insights in implementation. This meeting would also offer the opportunity to consider any update to the 2014 Statement on IMF Policies and Practices on CD. Staff elaborations on this suggestion would be welcome.

Before offering our preliminary views on staff recommendations, we would appreciate some elaborations on the following risk management-related issues.

First, how risk management considerations have been integrated in this review, and to what extent Departments are incorporating risk considerations in Country Strategy Notes (CSNs) and Regional Strategy Notes (RSNs)?

Second, the 2018 Risk Report concludes that CD appears generally aligned with Fund strategic priorities. However, reference is made in ¶35 of that report to data weaknesses that makes assessment of risk difficult. How the Capacity Development Management and Administration Program (CDMAP) could help mitigate these data gaps, in particular, and improve CD processes and systems, more generally?

The External Advisory Group rightly concludes that “one of the challenges for the Fund is its success”. This success may lead the institution to move from “policy formulation” to “policy implementation” or continue focusing on building expertise at the individual level rather than strengthening the capability of institutions. As organizational change is more than just increased individual capacities, could staff clarify how the review recommendations would strengthen the institutional aspect of CD?

We support any initiative to enhance the Board involvement in CD. Contrary to surveillance and lending, where the Board exercises a key role, CD is discussed by the Board in an ad-hoc manner, outside the quinquennial review. While we appreciate the increasing coverage of CD in the budget document, we suggest an enhanced involvement of the Board in the setting of priorities for CD activities. We note for example, that Box 4 of SM/18/233 provides more details on priorities for CD activities in FY2019-21, compared to the broad list in the budget document (EBAP/18/26). We also take note of the concerns about the lengthy list of priorities and of the recommendation to narrow it. The IEO itself pointed out that there is “a weak link between technical assistance priorities and key policies issues identified in Article IV consultations”. In our view an informal Board meeting to engage on the priorities for CD activities over the medium-term will be helpful to ensure that CD priorities are aligned with the broader Fund priorities in surveillance and lending and, therefore, with members’ needs and priorities. We would appreciate staff elaborations on this suggestion.

Ownership is critical to improve traction and the effectiveness of CD. The review points to the importance of aligning CD with the country’ strategies and priorities and of taking into consideration country capacity to implement CD recommendations. These are important points and we hope that the recommendations to clarify roles and responsibilities would be helpful to deepen engagement with country authorities, promote area Departments’ role in CD and, more importantly, shift to results on the ground rather than to the Fund’s own outputs.

We support the initiatives to address the uneven practices of integrating CD and surveillance. There is a clear recognition, including in the 2018 Interim Surveillance Review that limited progress has been achieved in integrating CD with bilateral surveillance and in leveraging knowledge from cross-country experiences. The background study “Is IMF Work on Capacity Development Sufficiently Demand-Driven?” confirms staff findings that the integration of CD with lending is typically good, contrary to surveillance where much needs to be done. The CD review recommends that Area Departments will be in the leading role on overall country engagement and we support this recommendation. The background study raises, however, important points in ¶35 about how mission chiefs operates mostly on a personal, rather than on an institutional basis in dealing with CD issues in Article IV consultation. In addition, it points out in ¶54 and ¶57 to divergence of agendas between area and CD departments. These are important impediments to a better integration of CD and surveillance and we would appreciate some elaborations from staff on how the proposed recommendations will address these concerns.

We would like to underline the importance of collaboration with other TA providers. We note that the review is not making specific recommendations to improve collaboration and suggest better leveraging of exiting good practices. We are not sure, however, about asking mission chiefs to play a role in improving coordination.

On communication, we encourage greater reliance on innovative approaches and media support to raise awareness about the work of the Fund in CD. On the dissemination of CD reports, we continue to emphasize the importance of striking the right balance between allowing access to CD documents to promote cross-country comparisons and the need to preserve the confidentiality of the information provided by the authorities. We would also like to stress the importance of increasing the coverage of languages used in CD to enhance Fund’s engagement and TA usefulness.

We support strengthening of evaluation of CD. We welcome the adoption in 2016 of the Common Evaluation Framework (CEF) but note that most of the evaluations reports are donor-mandated evaluations (26 out of 36 reports since 2013). Could staff elaborate on how the CEF will contribute to increasing CD department-led evaluations?

Mr. Agung, Mr. Tan, Mr. Abenoja and Mr. Pham submitted the following statement:

We thank staff for a comprehensive set of documents for the 2018 Capacity Development (CD) Strategy Review and the informative outreach meeting during the course of this review.

The CD function remains a core pillar of the Fund's work, in addition to its surveillance and lending functions, as it supports member countries' efforts to design and implement sound policies and purposeful reforms. We therefore appreciate the Fund's efforts to invigorate its CD strategy through this latest review. This is an excellent opportunity to critically evaluate the progress of CD processes and build on the lessons learnt in the last five years toward making CD more relevant, focused, and effective in meeting the needs of member countries. Notwithstanding that much progress has been made in implementing the 2013 recommendations in terms of improving CD effectiveness, and enhancing delivery mechanisms and outreach programs, there is still more room to enhance the practical impact and efficiency of CD activities. We broadly agree with the main findings and key themes emerging from the review and endorse the strategic objectives for the next five years set out in the staff report. We would take this opportunity to emphasize a few key areas where more attention is warranted.

CD activities should be better integrated with that of surveillance and lending at the Fund level on one hand, and within the CD function itself on the other, particularly between TA programs and training requirements. The three key functions of CD, surveillance and lending are intricately related to one another. Policy advice achieves meaningful outcomes when it explicitly recognizes institutional constraints in formulating and implementing policies. While much effort has been made on integrating activities within the Fund since 2013, we note that the practices have remained uneven. A more strategic, well thought-out approach toward a consistent integration of CD into surveillance and program activities will further reduce fragmentation. Various departmental initiatives including the adoption of the Result-based Management (RBM) framework are welcome steps and their effective implementation should be managed closely. In this regard, we share staff's view that an important undertaking for the future is the building of a comprehensive information system to help analyze when and where CD are most effective. The system will be a key mechanism to better support stakeholder interaction and capture surveillance and CD priorities, types of CD activities deployed, country-specific context and cross-country experiences. Specific considerations should be given to expand the system design and to also enhance the Board's role in strategic CD discussion as well

as support CD monitoring in their own constituencies. Timely provision of information to the Board will provide the basis for in-depth engagements with staff and well-considered strategic decisions for the Fund. We welcome staff's comments on this, including the potential to leverage the RBM to enhance strategic discussions at the Board.

We also note with interest the recent initiative of the APD to strengthen integration through the “mapping” of CD activities against current surveillance priorities. Can staff elaborate on how the “mapping” works and the nature of involvement of stakeholders? As highlighted in the External Advisory Group report that the Fund operates in countries with a wide array of governmental capabilities, we would appreciate staff's reassurance on avoiding a one-size-fits-all approach to integrating CD issues into the Fund's surveillance work so that CD remains country-specific and fit for purpose for recipient countries?

Clearer roles and responsibilities of all stakeholders in the CD process is critical to improving CD performance and efficiency. In theory, we understand that recipient countries should play a leading role throughout the CD process. In reality, this country-centered approach will not be an easy process as it depends in large part on the “timeliness, readiness and willingness” of the recipient countries. In addressing this issue, we see merit in staff's recommendations that further efforts are needed to deepen strategic country engagement in the CD process, with a greater role for the country team including resident representatives and mission chiefs of the area departments. Staff may provide further clarification on the Fund's efforts to evaluate the capacity and to prepare mission chiefs and resident representative offices to take on this expanded role.

An effective governance and an appropriate prioritization framework will promote the efficient allocation of scarce resources to the most critical functions of the Fund, while balancing the needs of recipient countries. On governance, we encourage staff to continue their efforts to step up engagement with the Board on CD issues. CD activities should center around the needs of recipient countries with greater involvement and direction from the Board. We also support staff's call for the full implementation of the 2017 RAP reforms for a more effective integration of the Fund's three core functions and continued refinement of the prioritization process. The success of the former (integration) will rest heavily on the success of the latter (prioritization) in marrying country demands and the Fund's overall strategic objectives. To manage the trade-offs and calibrate the medium-term equilibrium, we will require better information access, including a

demand-side database, a clear governance framework for RBM and the adoption of the Common Evaluation Framework. We understand that reconciling the demands from all stakeholders, including donors, in the prioritization process is a complicated and difficult process. This underscores the importance of a stronger governance framework and staff's comments on how to address this issue are welcome. In this regard, we agree with the views of Messrs. Meyer, Merk and Braeuer that the existing reports do not provide sufficient information to allow the Board to give strategic guidance on prioritization and the need for "more, candid and transparent information to the Board about different options for providing CD to enable the Board to engage in an in-depth discussion and come to a well-founded decision about prioritization of CD provision".

Flexible and country-tailored modalities for CD delivery and knowledge sharing are important to optimize impact of the CD process. Given differing institutional capacity among countries, we strongly support the view that greater emphasis should be given to the integration of technical assistances and training with flexibility in the design and delivery as requested by different recipient countries. In this regard, we support the efforts to enhance better country-tailored delivery by facilitating "communities of practice", using new technologies and regional or topical peer – to – peer learning workshops. It is also equally important that the high-quality staffing and operational support from the Headquarters for the RTACs, RTC and other bilateral projects are further strengthened to allow them to fully familiarize with the context and the needs of their stakeholder countries.

Last but not least, a formal arrangement for information dissemination, communication and coordination among CD providers is central to promoting a well-sequenced, consistent and complementary CD process that minimizes duplication. Effective coordination requires significant resources and works best when tailored to the individual country and thematic areas. We therefore support staff's recommendation on better leveraging existing good practices on coordination in collaboration with other providers. At the same time, a concerted effort on improving communication and information dissemination would help minimize duplication and ensure the sustainability and fungibility of external financing. In this connection, we note from the Gray statement from Mr. Kaizuka, Mr. Ozaki and Ms. Mori that "donors have to be accountable to their tax payers", therefore we would welcome staff's further comments on how to address the flexibility in reallocating resources across topical areas and workstream, particularly for externally funded TA?

Mr. Inderbinen and Mr. Heim submitted the following statement:

Capacity Development (CD) is an integral part of the IMF's mandate. We welcome the thorough assessment of the Fund's CD Strategy and thank staff for the very comprehensive set of documents. We agree with most of the review's main findings and with the two key objectives of the new CD strategy. We also support the stronger focus on country ownership and implementation, as well as the more strategic medium-term orientation in CD planning. Looking ahead, we see the following main challenges: to strengthen the involvement of the Board; to institutionalize the Fund-wide CD approach; and to further improve the dissemination of information.

The role of the Executive Board needs to be strengthened. While the review recognizes the need for intensified and more consistent Board involvement, it lacks concrete recommendations. The recent series of informal Board briefings has been a valuable exercise. Nevertheless, there is still much need for improvement. Strategic decisions and priority setting require Board involvement to safeguard consistency with key Fund policies. Enhanced Board involvement is also needed to ensure that externally funded CD remains complementary to, and is consistent with, the Fund's core tasks. This, in turn, will help allay concerns regarding the increase of external financing of CD.

We welcome the country-centered approach. Given the proximity to its members, the Regional Capacity Development Centers (RCDC) play a pivotal role in bringing CD closer to recipients. We concur with staff that RCDCs are an increasingly important modality for CD delivery and that they are well-positioned to extend the Fund's role as a knowledge hub, as well as to foster hands-on peer-to-peer learning. The only region that does not yet have the benefit of an RCDC, but where the need for technical assistance is high, is the Caucasus and Central Asia (CCA) region. We urge staff and management to address this important gap, and to finalize the work that has been underway for some time already. Could staff provide an update on the status of these plans and current discussions?

Closer coordination between CD, surveillance and lending would allow an enhanced use of synergies. The staff background study on the integration of capacity development and surveillance lays out various measures how to improve the integration between CD and surveillance. We agree that a more prominent role of area departments in identifying and prioritizing CD interventions could contribute to a better alignment with other activities and stronger oversight. Area departments are also well-positioned to

guide the overall country engagement and administrate the medium-term country strategy notes. At the same time, it is important to keep in mind the different objectives of the Fund's activities. For instance, CD activities tend to focus on institution building and hence on longer-term interventions compared to surveillance and lending. An increased integration should therefore allow for sufficient flexibility when designing CD interventions, in particular in the context of LICs and fragile states.

We see scope to further institutionalize the Fund's approach to CD. We welcome the report's suggestion to move from providing technical advice toward concrete implementation support. While the CD departments play a key role in initiating the shift to a more comprehensive view, we encourage ICD to strengthen its role in promoting a Fund-wide CD approach and further mainstreaming CD across departments.

Country ownership is paramount. CD activities still tend to rely on staff leadership, despite efforts to promote ownership of country authorities. There is strong evidence that country ownership is one of the most important factors for efficient CD and sustainable outcomes. Thus, the engagement of country authorities is important throughout the whole project management cycle. Particularly in the initial planning phase, the design of interventions should take into account the absorption and implementing capacities of individual countries to ensure better ownership. In addition, we find the suggestion to make country engagement more integral to the RBM-process particularly interesting. Agreement of country authorities and staff on RBM result chains could have an important effect on ownership. Could staff elaborate on experience in engaging country authorities in the RBM process, and any further initiatives in this regard?

Dissemination both inside and outside the Fund needs to be improved. Improved access to CD information and dissemination of TA work and results is needed: (i) to better integrate CD into the policy dialogue with Fund members, (ii) to facilitate smooth cooperation between departments, and (iii) to improve the cooperation and coordination with other TA providers. The current dissemination practice should be changed in such a way that information can be shared more effectively. In particular, the dissemination to donors and other TA providers should be further improved and simplified. With regard to the publication of TA reports, it is striking that only 5 percent of the reports are published. We understand that an interdepartmental working group is examining ways to increase the amount of reports to be published. Could staff provide an update on the work and results of this working group so far?

Mr. Johnston and Mr. David submitted the following statement:

We thank staff for a comprehensive review of the capacity development (CD) strategy and agree with its main findings and key themes. CD is a very important part of the Fund's work and is indeed the main point of engagement with the IMF for many country authorities. Strong demand for TA and training is a sign of how much countries value it. It also comprises, as the review informs us, around a third of the Fund's spending. Yet, of the three core activities, CD is by far the most opaque and has by far the lowest profile. It is not easy, for example, to find information about how much TA a country is receiving, and what the country and regional strategies are. The Board has very little visibility of CD, especially compared with Article IVs, programs and flagship reports, and therefore cannot provide much strategic guidance. We suggest, as a first step, the importance of getting a clearer understanding of what CD is provided, where, and how effective this is. We therefore support the measures set out in parts D and E of the overview paper, for example, to have more discussion of a country's CD use in Article IV reports, better information sharing within the Fund, and more effective communication of CD activities.

We agree with Mr. Meyer and colleagues that the test of CD activity should be whether its delivery meets the needs of countries and results in capacity improvements to strengthen institutions and policy frameworks—bearing in mind that progress is not necessarily linear or easy to measure. We therefore welcome work to strengthen monitoring and evaluation within the CD framework, including through the rollout of the RBM. At the same time, this focus on results—like the consideration of traction in surveillance—needs to recognize that not all recommendations are created equal and that countries have legitimate reasons for disagreeing with, or being unable to implement, Fund advice.

There are many constructive suggestions for improvement in this review that marry with what our constituency countries tell us about their CD experiences. The countries we represent don't typically draw a distinction between TA and training, for example, and appreciate flexibility in delivery. What is valuable is not just a report with recommendations, but also someone to sit beside the relevant officials and help them understand how to implement the recommendations and provide them with some tools to do so. A better translation of technical advice for policy-makers would also be useful, especially when finance ministers or senior officials need to win the support of their colleagues in implementing recommendations. Co-ordination within

the IMF is key. Authorities know that missions come from different IMF departments, but assume they all they talk to each other and coordinate closely. We therefore strongly support moves to better share information and to ensure that mission chiefs control the timing and scope of TA missions. This will help more than anything to strengthen integration with the Fund's policy advice and lending operations. However, while we agree with the way forward indicated in the review, the goals and actions set out there seem in some places vague and unstructured, and not part of a workplan with observable timelines. Will there be another document that helps operationalize the key recommendations and allows for monitoring of their progress?

Mr. Jin, Ms. Liu and Ms. Cai submitted the following statement:

The Fund's capacity development (CD) is one of the three core activities and accounts for a significant share of the Fund's costs. It is important to ensure that CD activities are effective, efficient, and valued by stakeholders. We thank staff for their comprehensive papers, particularly their efforts to seek advices through survey and consultation with external experts. We broadly concur with staff's suggestions and would like to limit our comments to the following.

The IMF's CD plays an important role in helping member countries improve their capabilities to achieve economic development and maintain financial stability. We are glad to see that substantial progress has been made in addressing the 2013 recommendations. We encourage the Fund to further strengthen support for low-income countries and fragile countries and improve CD's effectiveness and efficiency. Through the platform of the China-IMF Capacity Development Center, China is also willing to work closely with the Fund to provide training for developing countries and low-income countries, support their capacity development, and promote idea exchange and peer learning.

We welcome the IMF's member-centered capacity-building strategy and support area departments to play a leading role on overall country engagement. Prioritization of CD activities has been strengthened under a reinforced interdepartmental resource allocation process. We encourage area departments to further strengthen communication with member countries when scoping and prioritizing CD needs.

The focus on implementation of recommendations is warranted. Assessment of the effectiveness of CD should be further strengthened. Area departments should play a more important role in this regard. At the same

time, we see merit in introducing a third-party evaluation mechanism, which will improve the objectivity of the evaluation results. The results-based management framework helps to improve the efficiency and effectiveness of CD. We encourage staff to further clarify the methodology, including the selection of key indicators and its standards to improve the transparency of the framework.

We feel regretful that the financing issue is not reviewed in this report. External fund contributions provide important support and complement to the Fund's resources. At the same time, there are some limitations of external financing, including its sustainability. The areas that the external financing could be used are also constrained by the preferences of donor countries. Therefore, we think the Fund should mobilize more internal financing while attracting external financing. CD contributions should be treated as a quota-based obligation, and a cost-sharing mechanism is warranted. For example, the costs could be proportionally shouldered by middle-income countries and above, while the poorest countries could be exempted. Staff's comments are welcome.

With the economic landscape changing rapidly over time, it is important to maintain flexibility, so that any desired and necessary CD activity can still be provided in a timely manner to meet unbudgeted but critical capacity development needs. We encourage the Fund to continue enhancing internal consultation and information sharing, as well as external coordination, communication, and information dissemination.

Mr. de Villeroché, Ms. Riach, Mr. Castets, Mr. Hemingway, and Mr. Sode submitted the following joint statement:

We thank staff for a good set of papers that highlight the comprehensive preparatory work for the Review of the Fund's Capacity Development (CD) Strategy. The increase in CD activities over the last 10 years is welcome and reflects the value donor and recipient countries place on Fund technical support. This is also shown by the high satisfaction among recipient countries and the widely recognized Fund expertise. We welcome the move to a regular review cycle and increased engagement with the board, reflecting the central role CD in the Fund delivering its mandate. We broadly endorse the recommendations set out in the overview paper and emphasize the importance we place on implementing the country centered approach set out, noting it will require a significant change in culture and approach across departments in the Fund.

While welcoming the findings, we think that the review could have provided more quantitative information on CD efficiency and could have better fleshed out the underlying trade-offs of the proposed CD strategy. Though we agree that the proposed recommendations will enhance the effectiveness, coordination and accountability of CD, as pointed Mr. Meyer, Mr. Merk, and Mr. Braeuer gray, we also think that quantitative evaluations of the cost efficiency of CD delivery - differentiating between the various thematic areas, type of countries of intervention, and CD modalities - is needed for the Board to provide strategic guidance. We would be interested to have staff comments on whether the available tools would have allowed for a more developed quantitative analysis in the review and how they could improve this aspect going forward. Similarly, we believe staff could have more clearly fleshed out the different tradeoffs the strategy entails going forward, notably concerning the allocation of CD (between thematic areas and type of countries) in a context of constrained resources and its various modalities of delivery. For instance, better information on the cost of various CD modalities (e.g. short-term mission vs resident advisor) would be needed for the Board to provide fully-informed guidance. We encourage staff to provide in the next review more candid and transparent information to the Executive Board about different options for providing CD to enable the Board to engage in an in-depth discussion and come to a well-founded decision about prioritization of CD provision. In this context, we feel that Box 1 does not appropriately reflect the central role of the Executive Board in the governance of Fund CD.

Moreover, we believe the success of the strategy spelled out by staff in the review will crucially depend on the priority given by management to key human resource (HR) issues and on a thorough implementation of the recommendations across departments. This in turn is likely to depend on changing the culture of the institution towards CD, something the External Advisory Group pick up in their report. Like them, we see organizational change as key, and something that should be reflected in updated HR and management practices, including recruitment and promotion incentives. In line with these comments, we believe the recommendations highlight several processes that will support effective and impactful CD if implemented well. For example, the results-based management (RBM) system is a useful tool, but to maximize effectiveness, a shift in mindset is required. Moreover, we strongly support the principle of knowledge sharing, including through the proposal that CD reports be “open by default”. Concrete proposals on how to increase sharing of best practice and increase the rate of CD report publication would be useful. In this sense we strongly support the effort to design the CD

Information and Management Program and expect its implementation will measure up with our expectations.

Going forward, we believe CD activity should be prioritized further towards fragile states and countries with low level of administrative capacity. Given the high demand for Fund TA and limited resources, prioritization is necessary and is not always easy. In this context, we fear that CD could be excessively prioritized to countries where there is political traction and that already have an intermediate-to-good level of administrative capacity. In countries with lower level of administrative capacity, technical assistance of the Fund is often a necessary condition for progress in several fronts. This is even more so for the low income and fragile countries benefiting from the Fund's assistance and which have to implement simultaneously a significant range of reforms while capacity is often limited. This is notably the case for the implementation of macrostructural reforms that are key for the success of the Fund's supported programs, such as efforts to enhance domestic resource mobilization and improve public financial management. In line with previous Fund and IEO reports on engagement in Fragile States, we see the assertion that the Fund must "move decisively from mainly providing technical advice ("what to do") to assistance with implementation ("how to do it")" as particularly appropriate for CD delivery in fragile states. In particular, we see a longer-term, multipronged and programmatic approach to CD as critical. In doing this, we see it as important to focus on what is politically feasible, implementable with capacity constraints and ensuring there is sufficient support throughout implementation. Country Strategy Notes (CSNs) could play a valuable role articulating the multi-year approach and help coordination between internal and external stakeholders. We see value in the recommendation to explore the possibility of introducing training focused on building leadership, management and organizational skills in CD interventions, as such skills are essential for reform implementation, and we would appreciate staff elaboration on this point.

Relatedly, we believe that the modalities in CD delivery deserve further reflections. Staff papers rightly identify scope for better integration of Fund activities (CD with surveillance and lending) and we support their recommendations, notably regarding the key role of mission chiefs and of the CSNs. We agree the Fund should tailor its CD modalities to the need and absorptive capacity of receiving countries. To us, this means using more extensively longer-term, multipronged and programmatic approach to CD in the countries with the weakest administrative capacity while favoring the use of short-term advisory missions for countries with better administrative capacity. In this context, we would have appreciated a more detailed

discussion about how the Fund could move from its traditional HQ based short-term stand-alone missions to a continued and followed-up presence on the ground. Staff comments are welcome.

We also believe there is scope for significantly improving coordination of Fund CD activities with other international institutions and donors. We see the World Bank as a key partner for the Fund as it could benefit from the World Bank's large presence in the field and its historical expertise on reform implementation and public governance. While recognizing the existing coordination challenges and the fact that informal coordination channels already exist, we think it is essential to formalize and systematize further coordination arrangements with development partners. Did staff engage with the World Bank, regional development banks and bilateral development agencies to prepare this review? In this context, we note the very positive impact resident CD coordinators have had in aiding coordination between the Fund, the World Bank and other institutions. As a result, we would welcome the increased use of this approach in countries with large and complex CD agendas. We are also aware of the positive role RTACs can play. Progress in using technology to deliver training is also welcome, though we remain convinced that staff in country is the most effective way to deliver CD, especially for LICs and fragile countries. As a result, we emphasize that online training and remote support could hardly be a replacement for missions on the ground, but could be a complement to them.

Ms. Levonian, Ms. McKiernan and Mr. Hart submitted the following statement:

Our constituency members value Fund capacity development (CD), as donors and as recipients. For our Caribbean members, for example, Fund CD is both highly visible and highly appreciated, and it's an integral part of the Fund's relationship with members in the region. Since CD has grown in size and profile within the Fund over the past few years, this review offers a timely opportunity to take stock of progress and outline next steps. We thank staff for an informative report and supporting documents, as well as their outreach efforts throughout this process.

We see evidence of considerable progress since the 2013 review. However, there is still a lot of work to be done. We support management and staff's efforts to continue to make progress towards CD that – in addition to being of a high technical quality – is targeted, integrated, and member-focused. We support the CD strategy's main objectives and recommendations. Our Gray will focus first on broader governance and

accountability issues, before turning to some of the report's specific recommendations.

Governance and Accountability

We broadly support following through on the report's recommendations. However, the follow-through could be strengthened with a clear workplan and accountability framework. This is largely absent from the report. While we would seek to avoid being overly-prescriptive ex ante, we are unclear how this work will be taken forward, by whom, and over what time horizon. Staff comments would be welcome.

To support the delivery of priority CD work, appropriate governance and incentive structures need to be in place. We welcome the recent internal reforms to this effect, recognizing that they are still in their early stages. These should be strengthened and adjusted as additional experience is gained. Similarly, human resources policies (i.e., recruitment, training, and career progression) should reflect both CD priorities and the importance of CD for the membership. We look forward to discussing this further as part of the review of the HR Strategy.

Relatedly, we see scope to strengthen Board engagement on CD priority-setting. Taking note of the various ways in which the Board already provides guidance, we suggest there would be value in the Board discussing CD-related priorities and trade-offs more explicitly and holistically. We are open to discussing ways to achieve this. One approach could be a more structured engagement with the Board on CD ahead of, or as part of, discussions over the Medium-Term Budget. Of course, making an effective judgement around trade-offs should be based upon an evaluation of performance and outcomes, a point we return to below.

The report could also have benefited from a deeper discussion of risks. For example, we note that issues related to the CD funding model are not addressed head-on in this report. While we appreciate the reasons for limiting the scope of the review, this remains a risk consideration that could impact the rollout of the CD Strategy. Can staff comment on when the Board will have the opportunity to revisit the CD funding model risks in a more comprehensive way?

Specific Priorities & Recommendations

Ownership is fundamental to achieving traction and better CD outcomes. We support the strategy's emphasis on country-centered approach and developing clearer roles and responsibilities among stakeholders. We see more scope for active dialogue with country authorities on TA priorities and capacity constraints in the context of surveillance and program missions. Likewise, we support the proposals to shift the Fund towards being a "trusted partner," with a greater emphasis on implementation over a medium-term horizon. Doing so would likely foster greater awareness of country-specific circumstances.

Stronger ownership would benefit from better integration of CD across the Fund's other business lines. This reflects our own constituency's experience as well as the conclusions from Interim Surveillance Review. We agree that area departments should play more of a coordinating role. We note progress is being made on this front, but more work is needed to make this practice more consistent across the Fund. For instance, integrating CD into program discussions appears more advanced than for surveillance. Raising the visibility of a country's CD strategy in AIV reports could support integration efforts, particularly for heavy CD users.

Stronger monitoring and evaluation would inform CD prioritization, support traction, and facilitate fundraising. This Chair continues to champion Results Based Management (RBM) as a way to shift the focus from outputs to outcomes. We recognize that implementing RBM is challenging and that it will take time to produce results. It also requires establishing the right accountability and incentives, as noted above. We look forward to seeing the fruits of this labor. A greater emphasis on country-ownership and incentivizing medium-term implementation will also help. In the meantime, staff should look for opportunities to draw lessons from both CD successes and failures, and find ways to share these lessons internally.

Regarding communication and information sharing, we would emphasize a focus on quality over quantity. We see more value for recipients and donors in Fund communications products that present recommendations in concise, non-technical language. Moreover, in our experience, technical advice gains greater traction when supported by cross-country learning and case studies. Along these lines, we welcome the work underway to unlock the potential of the archive of Fund CD reports through enhanced internal knowledge management practices and facilitating better access to data.

With demand for CD outpacing supply, more effective coordination with donors and external TA delivery partners is needed. The Fund does not

necessarily need to provide more TA if it can leverage working partnerships more effectively. Moreover, managing relationships with multiple CD partners can be a challenge for members with limited capacity. Different approaches to coordination are required for different circumstances, and we note that balancing competing priorities is not easy. Therefore, as with monitoring and evaluation, staff should explore how to establish governance systems that incentivize coordination. These could build upon the positive examples that are highlighted in the report.

Finally, we see value in continuing to explore how technology can enhance the effectiveness and reach of the Fund's CD. This should be geared towards supporting, rather than replacing, the Fund's valuable face-to-face CD work.

Mr. Raghani, Mr. Razafindramanana and Mr. Alle submitted the following statement:

We thank staff for a comprehensive set of reports which testify to the hard work they have undertaken thus far to prepare this review on the Fund's Capacity Development Strategy. We also appreciate their bilateral engagement with our Office. Capacity development forms with surveillance and lending, the three pillars of Fund activities. By strengthening human capacity and institutions, CD helps enhance macroeconomic management which is at the core of the two other activities. For countries in our constituency, some of which are in early stages of institution-building or in fragile situations, CD is of the utmost importance. We therefore welcome every effort aimed at improving its delivery for actual results on the ground.

We appreciate the multi-pronged approach adopted by staff whereby their own study-backed assessment is complemented and enriched with views and analyses from CD users and outside experts. Taking stock of achievements and shortcomings of the 2013 strategy as a basis for elaborating the new strategy is also well taken. We broadly agree with the main findings and key themes emerging from this effort.

Progress Since 2013 and Opportunities for Improvement

The review has underscored the need to improve the CD process both internally and externally. We support efforts being made to put area departments at the center of the internal process of initiating CD projects and missions. Their permanent policy dialogue with countries make area departments' mission chiefs and country teams the best placed to identify priority areas for CD, together with the authorities. For countries under

programs, reform recommendations and fiscal targets could be better achieved, and risks and vulnerabilities better addressed if accompanied by concrete CD missions that are directly derived from the authorities-staff discussions and reform packages.

On the external side, we would like to stress the demand-driven nature of CD and the need to involve country authorities at an early stage of CD missions. The leading role of the authorities in identifying CD projects is paramount as it ensures ownership and paves the way for an effective implementation of recommendations. In the same vein, the external commentary group argues that authorities' ownership of CD strengthens the likelihood that IMF advice will be absorbed and implemented.

Our Chair attaches a high importance to tailoring CD to country needs. For the review's "vision for country-centered CD" to materialize, the Fund should remain attentive to countries' evolving needs in terms of priority areas, types of CD and flexibility in delivery. CD should be ready to help the authorities develop their policy responses in case of unforeseen economic conditions including shocks. In terms of types of CD, there is a growing appetite among our countries for peer learning and success stories to be emulated. Yet, Regional Technical Assistance Centers (RTACs) are providing some peer learning experience but it needs to be a more explicit part of CD and should include greater engagement from headquarters to provide a global perspective. Countries value the concrete solutions embedded in peer learning. When faced with the challenge of broadening the tax base for example, they would be interested in learning from a peer which has succeeded in implementing an effective property tax or in reducing informality. To meet this demand and consistent with the review's vision of "working closely with member countries and other partners to extend the Fund's role as a knowledge hub", do staff consider elaborating a catalog of best practices/success stories and external experts to be rolled over when needed?

We share external commentators' view that fragile states require a fundamentally different approach for meeting the goal of country-centered CD. The effort should be on building institutional capacity and legitimacy, focusing on basic building blocks that require little implementation capacity and avoiding addressing too many challenges at once. In this effort, the Fund should identify local leaders that can be champions for reforms and assist them in developing a basic CD strategy. We are concerned that fragile states are allocated limited resources despite their large needs in terms of CD, as highlighted by the 2017 IEO report on fragile states as well as the coming 2018 Risk report. We would welcome staff comments.

Efforts to enhance monitoring and evaluation should be sustained, notably through the enhancing of the Result-Based Management (RBM) and the Common Evaluation Framework (CEF). As regards RBM, we are concerned by staff establishing in Box 2, p.15, “causal relationships between the resources committed to a project and the expected results as the basis for monitoring and evaluation” of all CD projects; especially when it is mentioned later on P. 17, that there is a “need to continue to shift focus to results on the ground rather than the Fund’s own outputs.” We would appreciate staff’s clarification on whether or not actual results of CD on the ground are the basis for monitoring and evaluation under the RBM framework.

CD Strategy for Next Five Years

We agree with the strategic objectives and specific operational recommendations set out in the main report and would like to emphasize the following elements for increasing the impact and the efficiency of Fund CD.

We concur with staff that organizational and cultural change will need leadership and grassroots efforts within the Fund and encourage Management and leaders at all levels to make good use of the principles of behavioral insight laid out in Box 3 in this regard.

On role and responsibilities, we welcome the emphasis put on the need to enhance the integration of CD with surveillance and lending activities while stressing the leading role that area departments’ mission chiefs and country authorities should play in this new setting. We also look forward to the 2020 Comprehensive Surveillance Review, which is expected to explore further how to better integrate CD and surveillance. Could Staff share early lessons learned from enhancing the role of area departments, particularly through their mission chiefs and resident representatives to prioritize CD activities and integrate them in surveillance?

We sympathize with the idea of the authorities developing their own CD strategy when capacity is available. Such a home-grown strategy would enhance ownership and favor the country-centered approach. We appreciate the reference to Rwanda as a successful experience of the authorities playing the leading role in organizing the CD agenda based on their needs and priorities and coordinating among CD providers.

A more active role of Executive Directors in internal consultation could also help enhance the CD process. In addition to existing practices and staff recommendations, we suggest that mission chiefs engage more and bilaterally EDs representing heavy CD users on countries' priorities and CD projects. Such regular consultations could help lift bottlenecks in CD delivery and facilitate the implementation of recommendations on the ground.

On country-tailored delivery focused on implementation, we support the new approach that “moves decisively from the former model based on mainly providing technical advice (“what to do”) to assistance with implementation (“how to do it”)”. This is consistent with our call for putting actual results on the ground at the center of the CD strategy. We also encourage the experiment with new technologies and a greater modernization of CD delivery that can increase the number of beneficiaries.

On coordination, communication and dissemination, we note that successful coordination stories including with donor partners covered by staff are associated with leading roles assumed by authorities and area departments' mission chiefs. Such experiences should be shared Fund-wide as best practices.

As regards resource implications, we support actions underway to address funding risks including by diversifying partners and promoting multi-partner and umbrella agreements. The Fund should continue to allocate internal budget resources for CD while stepping up effort to increase the sustainability and fungibility of external financing. We also encourage reprioritization within departments to make resources available for the review's key operational recommendations such as better integrating CD with surveillance and lending.

Mr. Gokarn and Mrs. Dhillon submitted the following statement:

We thank staff for the excellent and comprehensive reports on Capacity Development (CD) and their outreach. CD is the third pillar of Funds core activities. This review contributes to strengthening the Fund's role as a trusted advisor, addresses challenges from the experiences so far and provides more operative synchronization with its mandate of surveillance and lending. We welcome the substantial progress made in advancing the agenda set out in the 2013 CD review. The CD strategy needs to mirror changes in a rapidly evolving world economy and we commend this review for achieving this. We broadly agree with the overall strategy in the paper and would like to

emphasize the following points for increasing the impact and efficiency of CD.

We believe that capacity development activities of the Fund should be driven by the members' demands within the fundamentals of absorption capacity, country ownership, need and delivery. Therefore, we welcome the country-centric approach, with area departments in leading roles on overall country engagement and in collaboration with CD departments. At times though, this would also involve taking a step back since CD execution tailored to balance capacities of departments would not do justice to the above notion of demand-driven CD. Further, we consider it vital that member countries also not remain over-reliant on CD services and enhance their own capacities. More generally, integration of well synergized CD and surveillance and iterative adaptations offer a more flexible and effective mechanism and we support this Staff approach from the standpoint of a contained resource envelope.

A well-managed balance between the Fund's strategic priorities and member countries demands and a result-based approach with quality rather than quantity should remain the Funds priority. Therefore, we see merit in the staff narrowing the list of priorities, building on better information systems and taking further steps to operationalize a clear governance framework for Results Based Management (RBM). RBM framework has offered a comparator on the progress of CD initiatives. But, it would be interesting to use these evaluations and get a more nuanced analysis of the successes and failures. Data offered by Figures 4 to 7 provide illuminating facts on CD delivery and spending. We also note that CD departments spending on emerging issues remains modest and the growth in governance and anti-corruption work is not currently programmed. Going forward, the Fund will need to build expertise on emerging issues in collaboration with other groups. In this context, we would like more details on the likely resource allocation for these issues as well as the potential to develop cost sharing mechanisms for the CD delivery.

As our own experience with SARTTAC has revealed, the RCDCs represents an important paradigm shift for CD, from a mere 'trainer' and 'trainee' model to a more cooperative and collaborative framework among the stakeholders. Improved accomplishments are ensured with a more tailored, quicker approach and with continued access for sharing of cross-country experiences and peer-to- peer learning. Therefore, we highly welcome staff's recommendation for strengthening the operational support to RCDCs and see this as Fund's leadership in developing a sustainable model to build regional co-operation and capacities. In the same vein, the effective use of information

technology is a valuable way to improve the impact of the Fund CD products, improve outreach and create a more accessible global platform for building institutional capacities. However, we would like to emphasize the importance of face-to-face engagement, which should remain an imperative element of CD services.

There is no doubt that CD offers opportunities for enhancing the effectiveness of the Fund's policy advice and raise the awareness of Funds work. We appreciate the initiative to develop a digital workplace for staff on data and analytical tools and strengthen internal access to Fund documents through a data management system. In recent times, ICD has been more actively engaged with the Board on CD updates. With the data management system and CDMAP, we are confident of wider dissemination of CD activities amongst the membership and of Board offering more informed insights to guide action. Likewise, we agree that close cooperation and coordination with other CD providers and member countries is of paramount importance, especially to avoid duplication. However, as recognized by the staff, coordination may present challenges. Could staff offer more details on the strategy envisaged for co-ordination with external CD providers?

Finally, we note that with limited scope for additional resources to support CD-related activities, efforts to strengthen Fund CD will likely need to be accommodated within the existing budget envelope. It is difficult to envision the tradeoffs planned without a more granular analysis and we would be more comfortable with the exact budget implications and comparison CD activity-wise to offer our views on the matter. We invite staff comments on the proposed timelines for this information. Further, with the Fund's internal resources being limited, leveraging on external financing for CD activities is dominating the funding model. Rapid growth (FY 11-18) of 172 percent of externally financed CD as compared to the 39 percent growth for Fund financed CD stands out. While we agree that donor funding is inevitable, we would encourage developing a clear set of principles that can guide the Fund's cooperation with donors, including a full integration with the Funds' Budget.

Mr. Villar, Mrs. Del Cid-Bonilla and Mr. Guerra submitted the following statement:

We welcome this Capacity Development Strategy review and support the two key objectives proposed for guiding capacity development (CD) in the coming period: Increasing the impact and efficiency of Fund CD. We agree that to increase this impact it is important to further strengthening integration with surveillance and lending activities and to continue advancing in tailoring comprehensive CD strategies to each member's needs and specific

circumstances, focusing on implementation and outcomes. To achieve this objective stronger coordination between CD and other core functions of the Fund is essential. To increase CD efficiency, improving processes and systems is crucial. We concur, as other Chairs, with Messrs. Meyer, Merk and Braeuer that an effective and in-depth Board engagement in the strategic guidance of CD is of the essence, and we coincide with the need to strengthen monitoring and more frequent evaluation in this area. An effective Board engagement should be based on a wide range of relevant information, including for budgetary purposes.

The five specific recommendations to support the strategy proposed by staff seem in the right direction. Clearer roles and responsibilities in the CD process, continue strengthening prioritization and monitoring, better tailoring and modernization of the CD delivery with a focus on implementation of TA recommendations, greater internal consultation and sharing of CD information and further progress in coordination, communication and dissemination of information.

Internal Consultation and sharing of CD Information. An important aspect to improve CD efficiency is by strengthening information sharing systems across Fund's departments, including Regional Capacity Development Centers (RCDCs). Currently, weak information systems and fragmented processes are one of the biggest impediments to achieve more efficient CD. Accessing TA documents and using CD information continues to be difficult for staff; this complicates internal coordination and integration and, as rightly pointed in the paper, leads to sizeable inefficiencies and limits strategic analysis of activities. All this result in lowering quality and effectiveness of the CD provided. Improving cooperation between CD and area departments and between HQ and field-based operations is urgently needed. We support the recommendations for enhancing the Knowledge Management Unit and for the improvement of internal access data, analytical tools and productivity tools and would like staff to comment if there is any progress in this regard. We also support the implementation of a CDMAP that captures and disseminate data on CD delivery and results, risks and opportunities for all participants in the process, helping to improve planning monitoring and reporting of activities. We would like to hear from staff what the timeline for these projects is and who are the responsible team/manager/staff.

On Roles and responsibilities. We share that country authorities must play a leading role through the CD process since project ownership is one of the most relevant elements in having successful results. Given that area

departments have a leading role on overall country engagement, integrating CD with surveillance could significantly increase the quality of CD results; not only because country's priorities, needs and institutional or capacity weaknesses could be addressed more efficiently if integrated in surveillance, but also because targeting and monitoring could be easier. Strengthening evaluation and monitoring is also crucial; we support the efforts in the implementation of a RBM approach and consider that periodic reports to the Board on progress and results is warranted.

RCDCs. Box 7 illustrates how, through the RCDCs, CD can be brought closer to countries. RCDCs are becoming an increasingly important modality for delivery accounting currently for about half of external support for CD activities and about a quarter of all CD spending. Proximity to members, gives RCDCs an important advantage to design more customized and flexible delivery, to address countries' special challenges and needs, to achieve greater integration of TA and training and to facilitate stronger linkages between surveillance and CD. Of course, there are still important challenges that remain, such as to better integrate CD delivery with HQ. However, while some RCDCs benefit from large amounts of external resources because their country members are within priority regions for some donors, some others are struggling with finding resources to survive; this uncertainty can compromise these centers' ability to putting in place the comprehensive multiyear CD strategies being recommended putting at risk the quality of results. We are interested to hear how staff perceives this situation, and which actions are being contemplated if in the end external resources do not materialize for these regional centers.

Mr. Di Tata and Ms. Moreno submitted the following statement:

We thank staff for the comprehensive set of reports to assess the Fund's Capacity Development (CD) strategy and commend the efforts that have been made to address the 2013 recommendations. As a general point, the surveys and interviews conducted for the review suggest that almost 80 percent of CD recipients strongly agree or tend to agree that CD continues to contribute effectively to the implementation of policy advice.

Among other things, the 2013 Board discussion on CD underscored prioritization as a key element in the CD strategy. It was stressed that while CD activities needed to be demand driven, the allocation of CD resources across regions and topics had to take into account the Fund's overall strategic priorities and topics, as elaborated in the context of the Global Policy Agenda (GPA). With this in mind, the Board emphasized the principle of two-level

prioritization to reflect both individual country demands and the Fund's overall objectives. The Board also called for strengthening the monitoring and evaluation framework for CD activities. In this regard, there was support for continuing with the implementation of results-based management, with increasing emphasis on outcomes and clear objectives.

The 2018 review points to improvements in several areas discussed in 2013, including in the CD governance structure, prioritization, the integration of technical assistance with training, clarification of the funding model, enhanced monitoring, and improvements in CD delivery and outreach. However, the review recognizes that substantial efforts are still required in these and other areas to further strengthen resource allocation and CD delivery.

Regarding prioritization, we support Mr. Meyer, Mr. Merk, and Mr. Braeuer's view that the next review should include more information for the Board to be able to provide strategic guidance on prioritization and the allocation of CD resources. In this connection, we welcome the report's recommendations to focus on a more streamlined set of priorities to improve targeting and determine where the share of CD needs to be increased, as well as to monitor a broader range of topics and country types to develop a better picture of trends. We also agree with the report on the need to engage the Board more regularly on CD, including through informal Board briefings and more prominent reporting in the context of the medium-term budget discussions. As noted in the report, CD should respond flexibly to new issues that over time become more relevant for the institution, such as good governance, anti-corruption, and cybersecurity, to name a few. This will require flexibility in the allocation of limited resources, particularly given the projected stabilization of CD spending.

We fully agree with staff on the importance of a country-centered approach and a greater role for area departments in CD prioritization by leveraging synergies with surveillance and lending. Country engagement and ownership are key issues for the success of this process, and area departments are the natural link between the authorities and the Fund for these purposes. As noted in the report, area departments now prepare regional strategies in consultation with CD departments, which are to be complemented by country-strategy notes for heavy CD users, including fragile states. Could staff elaborate on other specific steps under consideration to coordinate CD delivery with area departments in a more systematic manner? Should Resident Representative Offices assume a more prominent role in this respect, including through the appointment of resident coordinators in charge of

monitoring CD engagements and fostering a closer dialogue with other CD providers? Could staff also elaborate on the lessons from the more integrated approach to CD and surveillance in AFR?

Full implementation of the common evaluation framework and a standardized Results-Based Management (RBM) framework for all operations would be crucial to allow for regular assessments of progress and to introduce mid-course corrections when necessary. These processes will also permit incorporating feedback from evaluation results to better inform prioritization and delivery of CD. The report indicates that the RBM is being rolled out on a Fund-wide basis, but that building a database of adequate quality is taking time and effective application of the framework is difficult. Could staff comment on the sequencing and timing currently envisaged for full implementation of the RBM?

We agree on the importance of increasing the focus on institutions and human capacity in designing and implementing CD projects. Inadequate resources and insufficient training in implementing institutions represent serious constraints to the effective delivery of CD. This is particularly relevant given the significant projected increase in CD delivery to fragile states in the coming years (Figure 7). Addressing institutional capacity also has implications for the type of experts the Fund would need to recruit in the future. Additionally, there will be a need to coordinate closely with other donors with more expertise than the Fund on certain institutional issues. In this regard, the results of the surveys on coordination with other technical assistance (TA) providers are somewhat disappointing.

Emerging topics also raise important challenges. To ensure that adequate advice is provided, the Fund should be conscious of the need to build sufficient expertise and of developing partnerships with other institutions that have more specialized knowledge in certain areas.

Better internal access to TA reports will help staff connect various streams of work. Could staff comment on the progress that has been made so far through the “Digital Workplace” project? We also support the report’s call for a wider dissemination of information to spread best practices. In this regard, we regret that only less than 5 percent of TA reports are currently published and look forward to the conclusions of the interdepartmental working group that is examining ways to encourage publication.

Regarding the CD funding model, we would be interested in learning more from staff on the efforts underway to expand and diversify the donor base.

We also share the report's recommendations to continue experimenting with new technologies to support more flexible delivery of CD, as well as to strengthen operational support for Regional Capacity Development Centers.

Mr. Mozhin and Mr. Tolstikov submitted the following statement:

We thank staff for the well-written papers and for the helpful bilateral outreach. Overall, we are impressed by the presented materials, which reflect the wide scope and complexity of work in the Capacity Development (CD) area. We also appreciate staff's efforts to develop the capacity of the Executive Board to better understand the Fund's CD, including by several informal Board meetings in the first half of 2018.

The Fund's work in developing members' institutional capacity is highly appreciated in all countries, including Russia. We agree that CD is very important for the success of the Fund's mission – and should remain one of the Fund's core activities, complementing the Fund's surveillance and lending mandate. We fully share the vision of country-tailored CD that is well-integrated with other Fund core activities and is highly effective.

Substantial progress has been achieved since the adoption in 2013 of the previous CD strategy in increasing the CD impact on member countries and improving efficiency of its delivery. Governance structure has been strengthened. Integration of CD and surveillance has deepened, including greater coordination between CD departments and area departments in determining CD priorities. The launch of online training programs and a wider use of videoconferencing have improved access to TA and its efficiency in LICs. Visibility of the Fund's CD has also improved substantially, including through better access to information via CD page on the Fund's external website and wider publication of CD-related information. However, despite these positive developments, a lot remains to be done in addressing old and emerging challenges.

The last five years have seen a rapid expansion of the scale of the Fund's CD. In terms of financing it has grown by almost 50 percent to more than US\$ 300 million in FY2018. It was mainly underpinned by a sharp increase in the share of external financing, which reached 55 percent of

overall CD financing in FY 2018. It is difficult to sustain such a high rate of growth without some loss of efficiency. Indeed, as indicated in the overview paper, “processes and systems have not kept pace with the expansion of CD activities and increased complexity, associated with the expansion of regional centers and greater use of external funding”. It is critical to ensure maintaining the top-level quality of the Fund’s CD.

As the pace of CD expansion is flattening and the scope of CD activities is stabilizing, the issues of quality and efficiency are coming to the forefront. Two key objectives should guide CD strategy – increasing its impact and increasing its efficiency.

We commend the Strategy’s deepening focus on final results. While it is easy to define CD outcomes by the number of training courses and participants, the ultimate objective of the Fund’s CD is the improvement of the institutional capacity of member countries. In this regard, we welcome the recent full-scale adoption of the Result Based Management framework (RBM) for all CD operations. We recognize the challenges associated with effective application of the RBM described in Box 2 of the overview paper. At the same time, the introduction of the RMD should have obvious positive effect, changing the CD providers’ way of thinking, compelling them to focus on the ultimate goals for the country rather than on their intermediate objectives (outputs).

Another key factor for achieving a lasting impact of the CD efforts is the recipients’ ownership. The Fund should prioritize CD delivery to countries and TA areas where the recipients’ ownership and engagement is the strongest. The CD should be driven by members’ demand and not by the Fund’s or donors’ priorities. In this respect, we wonder, for example, about the prospects of CD in the so-called emerging issues. What are the areas with the strongest interest from the member countries? Is there a substantial demand for TA in the Fintech area? Is the work on governance/anti-corruption issues driven by members’ requests or by donors’ priorities? Staff comments are welcome.

We welcome the increased emphasis on the integration of CD and surveillance, which becomes more and more systemic. We agree that the area departments should play the leading role in overall country engagement, coordinating all CD work according to country priorities and capacity constraints. This would require leadership of a country mission chief in developing CD strategies. The development of the Country Strategy Notes for heavy CD users may further facilitate the coordination and prioritization.

We look forward to further discussion of integration of CD and surveillance in the context of the 2020 Comprehensive Surveillance Review.

Better integration of the TA and training would further increase the impact of the CD. We note that 41 percent of CD recipients indicated that insufficient resources hamper TA advice implementation. The most important resource constraint is the lack of well-trained and competent staff in key institutions. The use of follow-up training, including online courses, could facilitate effective implementation of the TA advice.

We note the growing importance of the Fund's Regional Capacity Development Centers (RCDC) in the Fund's CD framework. Since the previous Strategy Review, six new RCDCs have been opened. RCDCs now account for about a quarter of all CD spending. Their proximity to members allows them to provide customized TA and training, facilitating flexible response to members' needs. The expertise accumulated in the RCDCs should be fully used in the design of the country-centered CD strategies. Despite deployment of the Fund's RCDCs all over the globe, one important region is left behind – namely, the Central Asia and the Caucasus. However, we were recently informed about plans to close this gap. We would welcome staff's update on the latest developments on this project.

In addition to opening CD centers closer to the target audience, the Fund should expand delivery of CD in languages other than English. We note that in FY 2018 about 10 percent of all courses were delivered in non-English languages. Could staff provide the information about the trends in this area – whether the use of such courses has been growing or declining, how do staff assess the demand and what are the resource constraints? We note that in the online training the participation in the non-English courses is much higher (about 21 percent) than in the classroom training, which may indicate strong demand. We, therefore, encourage further development of online courses in languages other than English.

Turning to the issues of efficiency of CD work in the Fund, we agree that the focus should be on strengthening information sharing, harmonizing processes, and reducing administrative complexity. We note substantial progress achieved in these areas and welcome the ambitious goals articulated in the Strategy.

Significant increase in the scope and complexity of the CD work in the Fund brought the issues of strengthened information sharing to the forefront. It is difficult to achieve the goals of improved cooperation between the area

departments and CD departments, between HQ and RCDCs without improving the organization of information flows. We assume that the main hopes for improvements in this area are placed at the ambitious CDMAP initiative. This project will address the existing weaknesses in inter-departmental CD coordination, improve planning, managing, monitoring and reporting of the CD activities. Taking into account the importance of the project for improving the CD work, we would welcome additional information on its execution.

We support the focus on better utilization of new technologies to support more flexible and cost-efficient TA delivery. The Fund's CD departments should continue to adopt modern communication and data-sharing technologies, including online courses and video conferencing, in order to leverage the Fund's TA capacity and expertise, and reduce costs for the Fund and the recipient members.

Finally, we would like to underscore the importance of human resources dimension for the implementation of the CD strategy. The motivation and incentives for CD-providing staff should be improved. The work on CD is often associated with lower prospects of career development and mobility, which creates disincentives for young staff to be involved in this area. We hope that these issues will be thoroughly addressed in the upcoming HR Strategy Review.

Mr. Mojarrad and Mr. Osei Yeboah submitted the following statement:

We thank staff for an informative set of papers and welcome the Board's review of the 2018 capacity development (CD) strategy by examining progress under the Fund's 2013 CD strategy and proposing a CD strategy for the next five years. The Fund's CD, as one of its three core activities, has been instrumental in building human and institutional capacity of its membership to support the formulation and implementation of sustainable economic policies. We appreciate the interdepartmental and cross-agency collaboration in undertaking the review and proposing a better aligned strategy that builds on past successes while addressing shortfalls. We concur with the thrust of staff analysis and recommendations, and offer the following remarks:

We take positive note of the substantial progress made in advancing the agenda set out in the 2013 CD review, including in strengthening CD governance under the management-led committee on capacity building (CCB), better prioritizing CD activities under a reinforced interdepartmental resource allocation process, and rolling out a unified results-based

management (RBM) framework. We commend the broader outreach during the review process, and note important strengths in the Fund's CD as well as areas for improvement highlighted in surveys and interviews with key stakeholders.

The future of the Fund CD lies in its better integration with surveillance and lending functions. To that end, better information sharing and synchronization of processes that take into consideration country-specific, institutional capabilities, strength of absorption, and ownership in design and implementation of programs are important. Greater integration of technical assistance and training will sustain the durability of capacity building.

The institutional risk associated with co-funding involving external entities needs to be evaluated carefully. The likelihood of donor-driven CD priorities not aligning with those of the Fund will have detrimental effect in ensuring evenhandedness in Fund activities. Given risks stemming from increased reliance on external funding and its concentration, we welcome measures taken to ensure alignment of donor-funded initiatives with the Fund's CD priorities, including diversifying the donor base, and seeking greater funding certainty and flexibility by promoting multi-partner and umbrella agreements.

We welcome the recommendations that call for clearly defined roles and responsibilities for the Fund and country authorities throughout the CD process. The Fund has largely played a supportive role while ultimate responsibility on economic decisions lies with the authorities, making ownership of CD programs indispensable. We agree that area departments should be in the leading role in overall country engagement and work in collaboration with CD departments. In advancing country ownership of CDs, the absorption capacity must be evaluated and taken into account. The trust the authorities have in the superior technical capacities of the Fund is generally without question, but ownership of CD programs will engender more traction when seen to be country-led. There is the need for regular discussion and concurrence on project objectives and milestones under the RBM framework. We appreciate staff comments on collaboration with the local CD institutions to incorporate the CD models in their curriculum to ensure durability, given the Fund's resource limitations. Stakeholder conferences with senior HR representatives of membership at the early stages of implementing CD programs will help with the consultation process and support country ownership further.

While we agree with the recommendations on prioritizing and monitoring CD delivery and aligning it with both surveillance and lending activities to better utilize Fund scarce resources, we have concerns on evenhandedness. Given the declining trend in CD spending seen in the review for highly vulnerable countries (FY16–FY18), could staff comment on how the most at risk would be better served in the context of the envisaged prioritization framework? An assessment of impact, both at human capacity levels and surveillance and lending will serve as a good guide for prioritization in view of the ever-increasing demand for CD amid projected leveling-off of CD's spending share. We welcome the ongoing work to strengthen the monitoring and evaluation framework, are mindful of the challenges associated with measuring the success of CD programs, and see the RBM approach situated within country context as appropriate.

The reputation of the Fund as a knowledge hub and a supportive advisor to membership is well established and highly valued, but translating that into sustainable human capacity, especially for vulnerable countries remains a challenge. We support the recommendations on country-tailored delivery focused on implementation of CD programs, including greater modernization, modularity, flexibility, and agility in CD provision. The delivery of CD programs through regional capacity development centers (RCDCs) and using languages other than English have been helpful and we encourage expanding on it. We equally support experimenting with new technologies and the use of online portal in CD delivery to facilitate iterative engagement and reduce the administrative burden of hosting frequent visits. Peer-to-peer workshops by leveraging the network of RCDCs and attachments have proven useful in knowledge sharing and should be enhanced.

Internal consultation and sharing of CD Information remain necessary in transforming the Fund's CD operations. Given the need to enhance cooperation between CD and area departments and between HQ and field-based operations, we welcome the ongoing initiatives of the knowledge management unit (KMU), the Digital Workplace, and the CDMAP to strengthen internal access to Fund documents. Regular engagement with the Board on CD will aid decision making process, and we see merit in using Article IV Board meetings on heavy CD users to reflect on the CD strategy for those countries.

To enhance the efficiency gains of the Fund CD programs, building on coordination and communication with various stakeholders will continue to play an important role, as will wider dissemination of CD information. Concerted efforts are needed by Fund staff to support the inherently

challenging coordination, given weak cross-agency information systems, different procedures, and misaligned incentives. Better coordination with other providers will help avoid duplication, focus CD provision on each provider's comparative advantage, and promote more efficient use of scarce resources. We agree on the merits of assigning a greater role to area department mission chiefs and field-based staff in coordinating overall engagement with a country. We also welcome continued efforts to enhance CD communication with diverse audience on various occasions using different platforms. Leveraging CD as outreach and regular stakeholder consultations through seminars and other fora will help improve buy-in and overall traction of Fund advice. Given that the publication of TA reports remains limited at less than 5 percent despite a longstanding policy to encourage publication, more needs to be done to achieve wider external dissemination of CD information. However, explicit consent of the country authorities should be obtained before TA reports are published to ensure confidentiality of sensitive information and facilitate candor in staff discussions with the authorities.

The Acting Chair (Ms. Grasso) made the following statement:

This morning we will discuss the findings of the 2018 Capacity Development (CD) Strategy Review. Capacity development is very important for our membership. The CD Strategy Review is one of the Fund's major reviews of its core activities, done every five years, along with those for surveillance and lending. The last discussion of the CD strategy was in 2013.

This review reflects substantial analysis and engagement with many stakeholders, including the Board. We discussed the Concept Note in February 2017, followed by a discussion of preliminary findings in June 2018. We also reviewed work of individual CD departments and discussed the external funding model in informal briefings from November 2017 through July of this year.

Let me start by saying that the review has, overall, been very positive. The response, especially from recipients, has underscored the value that the Fund provides to its members through its trusted adviser role. Importantly, the review has also been informative in highlighting areas where we can still do better.

Directors have all issued comprehensive and thoughtful gray statements. Before I turn the floor over to the Board for any additional comments, I want to emphasize that I heard the message regarding a desire for

a higher level of engagement of the Board on CD issues, generally, and specifically, on strategic prioritization. I fully agree that the Board has a critical role to play in the strategic direction of CD, and we must make sure Directors have the information to exercise this role.

Ms. Crane made the following statement:

We thank the staff for the extensive papers and helpful bilateral engagement, as well as the many presentations from CD departments leading up to this review. We are generally supportive of the findings of the review and the plans for ongoing work. This includes, for example, spreading of best practice to make CD more consistent, development of the results-based management system, greater attention to policy implementation, and consideration of placing long-term advisers and a greater continuity of short-term advisers in fragile states.

Regarding strategic priorities for CD, we see debt management and the recording of comprehensive debt data as an important area requiring additional attention. We welcome the Fund's plans to support anti-corruption-related capacity and institutional strengthening, and we continue to highly value the Fund's technical assistance (TA) in support of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). We look forward to the opportunity to discuss strategic priorities for CD in the budget process.

We would like to highlight two key points from our gray statement: First, how to more effectively engage the Board while avoiding micromanaging; and second, how to handle situations where needs are great but political ownership may be weak.

On Board engagement, we thank the staff for the answer to question No. 46, which we had asked, on how to increase the visibility of CD for the Board. We look forward to greater attention on CD in Article IV reviews. We would like to routinely see information on medium-term CD frameworks in Article IV consultations. In fragile states, we want information on country strategies in which CD should feature prominently.

The technical answer did not address our call for greater visibility to the Board of high-level priorities and results of thematic funds in regional technical assistance centers (RTACs). We would see value in circulating to the Board for information high-level evaluations of CD, as well as key reports of thematic funds in RTACs; for example, the final reports at the end of the

funding period of some of these. They are available, but they are not circulated to the Board, and we have to dig to find them.

While the intended audience for these documents is donors, the Board has an equal stake in the success of this work and the lessons being learned. Such material could potentially form the basis of occasional Board or Evaluation Committee discussions. Could the staff please comment on this idea or put forward an alternative, if this one is not workable?

Finally, on handling countries with high needs but weak ownership, this is not just a matter of conserving scarce CD resources but also of the appropriate tailoring of CD to country circumstances. Area departments, which should be in the lead in shaping overall CD in the country, need to more consistently differentiate between countries with strong ownership and those where ownership is lacking.

For those who drive a stick shift car, sometimes one needs to downshift into a lower gear in order to gain traction. This does not mean closing off CD but refocusing it on maintaining relationships and preparing the ground for upshifting, if and when conditions improve. This type of differentiation should be reflected in country strategies.

Mr. Mouminah made the following statement:

We welcome this opportunity to review the Fund's CD Strategy. I thank the staff for its thorough work and extensive outreach over the last period and the answers that they provided.

We have issued a comprehensive gray statement and would like to focus on a few important issues, namely, on the role of the Board in CD strategy.

Like many other Directors in their gray statements, we support an enhanced role of the Board beyond what is indicated in Box 1. Contrary to surveillance and lending, where the Board exercises a key role, CD is discussed by the Board in an ad hoc manner at the occasion of the five-year reviews and during the Board meetings on the budget. To this end, we have a few suggestions.

We suggest enhancing the involvement of the Board in setting the priorities for the CD activity, specifically, in the run-up to the Board meeting on the medium-term budget.

We propose to have an informal Board meeting to engage on the priorities for CD activities over the medium term. Such a meeting would allow the Board to ensure that the CD priorities are aligned with the broader Fund priorities in surveillance and lending and, therefore, with members' needs and priorities.

Second, building on the experience of the Interim Surveillance Review, we suggest conducting an interim review for the CD strategy in a few years, focusing on the progress of the implementation of the Board-endorsed recommendations of the current strategy.

Finally, we suggested in our gray statement a follow-up Board meeting to consider any updates to the 2014 statement on IMF Policies and Practices on Capacity Development. We note with satisfaction that such a meeting has already been planned for June 2019 in the Work Program of the Board.

We are encouraged by the Fund's work on fragile states, which is mentioned in Box 5 and which provides specific examples of CD efforts in fragile states. That being said, we encourage the staff to step up their engagement with these countries.

On resource implications, we welcome the staff's indication in Paragraph 30 of the Overview Paper for the meeting that efforts have been strengthened. The Fund's CD will likely need to be accommodated within the existing budget envelope. Being clear on what CD offers is important. More importantly, what they do not offer is extremely important. One can actually prioritize better.

We urge the Fund to focus its CD efforts on areas where the Fund has a comparative advantage and to continue building the network of trusted external partners that the Fund can work with, based on their areas of expertise, who then can guide the authorities to go and work with them directly.

Finally, we would like to emphasize the importance of CD in other languages, including Arabic. That will maximize the benefits from CD, especially for some countries that probably they do not have the same level of English fluency as others.

We also encourage the transparency and robust disclosure of the financing provided from private foundations.

Mr. Raghani made the following statement:

We thank the staff again for the amount of work they have put into this review. We issued a gray statement, and I would like to stress a few points.

First, we welcome the comprehensiveness of the review that resulted in recommendations along the whole chain to increase the impact and the efficiency of Fund CD. Like Mr. Kaya, Mr. Just, Mr. Mehmedi, and others, we underscore that the Fund's CD activities should be measured against the objective of meeting a country's needs and assessed on whether a CD project helps in this regard.

Second, we welcome the review's recommendation aimed at putting more emphasis on the central roles and responsibilities of country authorities as a condition to better identify a country's strategic priorities and to ensure the full implementation and the actual results of CD.

Third, in our gray statement, we supported the recommendation to give a leading role to area departments, mission chiefs, and teams for ensuring a country-centered approach. In this regard, the staff assessed that country teams, including Resident Representatives, are in a unique position to engage with the authorities and the CD departments to draw strategic priorities for CD delivery. We would like to stress that many of the countries in our constituency that are heavy CD users, including some fragile states, still do not have a Resident Representative, although they meet the criteria despite our repeated requests. Once again, we would like to draw the attention of management and area departments to this situation, which may hamper the implementation of the CD strategy in countries that need it the most.

Fourth, on funding, we would like to stress the need for the Fund to make every effort to ensure the availability and sustainability of resources for the continuous delivery of CD. In this regard, while we thank the partners for their support over the years, our chair has continuously pled for allocating sufficient and permanent internal budget resources for CD. As emphasized by Mr. Tombini, Mr. Saraiva, and Ms. Florestal, the growing reliance on external funding should not preclude the Fund's participation in CD financing at its adequate level. The review rightly recalled that CD is an integral part of the Fund's three-pillar activities. We should, therefore, develop strategies to fund it on a sustainable basis, as we do for our lending and surveillance activities.

Lastly, regarding coordination, the Fund's catalytic role should also be a factor in coordinating CD from other partners. The Fund mission chief's

unique position should be leveraged to identify with authorities, countries, capacity challenges, and to bring onboard the institution's best equipment to deliver CD accordingly.

Mr. Guerra made the following statement:

We want to thank the Institute for Capacity Development (ICD) team, and all departments for their comprehensive set of papers, their answers to our questions, and, more importantly, for their diligent and energetic work on CD.

Some 10 years ago, we took the strategic decision to boost the role of CD, and these efforts have paid off with more effective Fund engagement and supervision in the CD strategy of building, ex ante, institutional resilience that shows off in stronger policy frameworks and more effective and frank engagement with our membership.

In addition to our gray statement, there are four topics we want to briefly highlight.

First, we confirm and support other Directors in that there is the need to increase the resources required for the effective use of RTACs, including addressing the gaps in the regional CD centers in the Central Asia and Caucasus region. We regard RTACs as a key and necessary component in the overall CD strategy. They are cost-effective not only for the Fund but also from the perspective of the membership, and they are the most productive element of the overall capacity building strategy. This should be reflected in our budget priorities and CD framework.

Second, we stress the importance of addressing the risks related to the current funding. This model has its own risks and we see merit in higher leveraging of the Fund's internal resources for CD and the importance of diversifying the donor base.

Third, we also support deepening a strategic engagement with country authorities and assigning the lead role in overall country engagement to area departments and mission chiefs.

Last but not least, we concur with other Directors on the need for greater internal consultation and sharing of information to support effective resource management and strategic planning. In this regard, we also concur with Mr. Tombini, Mr. Saraiva, and Ms. Florestal, on the point they make in their gray statement related to the publication of TA. We believe that they find

the right balance. While taking into consideration that there is ample room for increasing publication, we must be cautious that dissemination efforts should not restrict the authorities' capacity to implement reforms and to have a frank and open dialogue with the Fund.

Ms. Levonian made the following statement:

We thank the staff for their comprehensive report, for the helpful outreach as part of the development of the review, and for the answers to the many questions.

We are supportive of the proposed strategy and the priorities that are outlined in the paper. We would generally echo other Directors on the need for a deeper integration of CD into the Fund's surveillance and lending: clearer roles and responsibilities, more Board engagement on CD priorities, and better coordination and communication.

I will focus my remarks on a few points that are more on the forward-looking implementation side.

First, it will be important to establish clearly who is accountable for delivering on the recommendations and how progress will be monitored. That means continuing to develop the internal governance framework that embeds the recommendations from this review firmly into the Fund's internal processes. We found the report to be a bit light on forward-looking accountability, yet this is crucial if we are to make progress on this ambitious agenda.

Second, on a related point, there needs to be the right incentive from a human resource perspective. We understand that the high value that is placed on CD by the membership is not necessarily matched by the internal value placed on CD work when it comes to recruitment and promotions. I understand we will discuss this as part of the HR Strategy, but it is important to not lose sight of this in our discussion today.

Third, we need to strengthen the measurement of capacity development outcomes so that we can better inform our decisions about where to allocate resources. We appreciate that rolling out the results and evaluation measures will take time and that it may require corrections as we move forward. But without a better sense of what works and what does not, it is difficult to properly assess tradeoffs among CD priorities or whether we have the balance right across the Fund's various business lines. Stronger results

reporting is also critical for the Fund's communication with donors and other external stakeholders.

Finally, taking a more client-focused approach will support the goal of higher traction and will, ultimately, lead to better outcomes. We, therefore, welcome the review's emphasis on a country-centered approach and encourage the staff to work on translating best practices into a best fit for particular members' needs and circumstances. This should be an iterative process, one that involves an ongoing dialogue with country authorities and strong stakeholder engagement, supported by effective evaluation.

Mr. Inderbinen made the following statement:

We are grateful to the staff for the comprehensive documentation and also the fact that it was circulated at an early date, also for the outreach they provided and the written responses to the questions that they gave to us.

Capacity development is one of the Fund's key tasks, and it is highly valued by the constituent members of this chair, both the longstanding recipients of TA and also the longstanding contributors to its funding. We welcome this review and support the main directions it provides, including on the further progress needed in integrating risk-based management (RBM) and the efforts to increase dissemination of outputs, both internally and externally. External publication, in particular, needs to be increased from the current low levels, and the efforts of the working group that are currently underway will be important in that regard.

We issued a gray statement, so I would like to highlight two points. The first is on the governance of CD activity. Like Mr. Merk, Mr. Kaizuka, Ms. Pollard, Ms. Crane, and others we are of the view that strategic decisions and priority setting do require increased Board involvement. Currently, the involvement is insufficient, and it should go beyond information sharing. This being said, we greatly appreciate the efforts that have been undertaken in this regard over the last six months. We also take good note of the Chair's introductory remarks that she had heard this message. We will be looking forward to concrete proposals. We were surprised that in this review, the issue of Board involvement is not addressed in any depth. This is despite the fact that many chairs had already raised this in the informal session in June and also in the scoping note that we discussed 18 months ago for this review.

Looking ahead, we found that some of the practical steps on how to enhance Board engagement that are outlined in Ms. Pollard's and Ms. Crane's

gray statement and that were reiterated this morning are valuable, as are the suggestions made by Mr. Mouminah. We are looking forward to the comments that the staff will be giving on that later this morning.

Second, on the delivery channels of CD, as brought up in the gray statements of Mr. Jin, Mr. Villar, Mr. Guerra, Mr. De Lannoy, Mr. Doornbosch, and Mr. Mozhin, RTACs centers have become an increasingly important channel for delivery of the Fund's TA and training. But given the proximity to its members, these centers play a pivotal role in bringing CD closer to recipients who cover a country's special challenges or needs. As has been mentioned by Mr. Guerra, one region stands out that does not yet benefit from a regional TA center, and that is the Caucasus and Central Asia. This stands out also because the dynamics in Central Asia, in terms of structural reforms and regional integration, are larger than they probably have been for the last 25 years. This would be a unique opportunity to support these reforms.

We were rather taken aback by the staff's written response to the questions that Mr. De Lannoy, Mr. Mozhin, and we had on where activity stands on launching and establishing such a center. The staff essentially said that it was still considering the business case for such a center. In our view, the area department has long provided such a business case. We would urge management to provide leadership in switching from a contemplative mode to one of action and establish this center soon. Otherwise, we will risk losing donor financing for the center and also the interest of hosting countries if it takes too long.

Mr. Kaizuka made the following statement:

I thank the staff for the comprehensive papers, which provide ample information on the Fund's CD work. We welcome this opportunity to review the CD strategy, which is one of the three major missions of the Fund.

I would also like to thank ICD for its continuous dialogue and communications with my authorities, which have contributed greatly to integrating the IMF's priorities into our own CD strategies. I basically agree with the main direction of the CD strategy articulated in the paper. I would like to highlight a few points.

First, it is true that the ownership of the recipient countries is key. The question is how to ensure ownership, as it is difficult sometimes for certain countries to identify their own gaps and priorities. In this regard, surveillance

work is an important vehicle. Mission chiefs should play a core role in collaboration with the authorities to recognize the policy priorities and then identify the specific needs of CD and the sequencing of CD delivery. Once such priorities are identified, functional departments can come in and play a role in properly designing the CD and the TA work in relevant sectors. There should be a proper collaboration and coordination mechanism in place among area departments, functional departments, and ICD, with a governance structure in which the mission chief is sufficiently empowered. In relation to this, it is important to incorporate the CD strategy of the country systematically into the main text of the Article IV report, not only in the annex. By this, surveillance work and capacity development integration could be strengthened.

As to the role of the functional departments, we appreciated last year's Board briefing by all the relevant functional departments on their CD work. We believe ICD could be more involved in these exercises in the future briefings of functional departments, as ICD should play a role in coordinating Fund-wide CD work.

Second, we take positive note of the paper, advocating the merits of taking a medium-term approach. Taking up the example of medium-term revenue strategy (MTRS) in revenue mobilization, such an approach could ensure ownership, identify the CD gap, and lead to proper mapping exercises by identifying the role of the relevant donors and international organizations. It is also crucial to make the RBM really function. We fully agree with the concept of RBM and keep asking the staff to provide us with some concrete examples of RBM. We understand RBM is still an ongoing exercise and evolutionary in nature, but such concrete examples will help us understand how RBM is working in practice. Additionally, we are curious to know how the RBM will be applied to training, especially online training, as it is challenging and may take time to identify the real impacts and fruits of such training.

Third, on Board engagement, I am encouraged by the opening statement from the Chair. Proper and timely Board engagement is necessary for the proper governance of CD work. Here, I would like to raise two issues.

First, it seems that the Committee on Capacity Building (CCB) is playing a pivotal role in the CD strategy and prioritization. We would like to know more about the discussions of the CCB and are hopeful to engage in such a discussion in a timely manner.

Second, I echo Ms. Crane. Onsite follow-up is essential for the success of the CD work. In this regard, regional capacity development centers (RCDCs) are playing a key role, and we would like to more systematically know about the RCDCs' work. I understand there was an annual gathering of all RCDCs last week, and we were invited to the reception. But we need a forum where we can, as a Board, discuss with all the representatives from the RCDCs. It would be more productive than a mere reception.

Mr. Psalidopoulos made the following statement:

I thank the staff for the high-quality papers. In our gray statement, we emphasized the scope for CD should better support surveillance and lending and, more generally, the need for more effectively integrating these three core functions. We agree that members view the Fund as one institution, not a collection of separate business lines. The staff's expertise is the most powerful vehicle for improving the impact and traction of its policy advice, including through closer engagement with senior policymakers. Coordination is critical in this regard. Area departments must play a key role, and CD departments must ensure better coordination and consistency. The suggestions in the Staff Background Studies and Short Notes are relevant and should be heeded appropriately.

On the role of the Board, we support the views expressed by Mr. Meyer, Mr. Merk, and Mr. Braeuer, that the Board needs to have adequate information to effectively play its role of contributing to the strategic directions of CD. At the same time, as underscored in our gray statement, to ensure ownership, country authorities should usually lead the CD process. This balancing act has been successfully captured by Ms. Pollard and Ms. Crane in their comments, which we share with. Prioritization should be seen as the outcome of optimizing bottom-up, country-owned priorities, and top-down institutional priorities.

On the transparency of TA reports, the Report of the External Advisory Group provides relevant insights on the difficult balancing act that is needed to address the disappointingly low number of less than 5 percent of the TA reports being published, which prevents these reports from playing the role of potential global public goods in building up capacity.

On the potential resource implications of the proposed CD strategy, we note that the HR Strategy is expected to play a relevant role in helping advance the goals of the CD strategy. As noted in the Staff Background Studies and Short Notes, achieving the CD strategy's objectives rests on the

ability of mission chiefs, country teams, and the institution as a whole to undergo a cultural shift, which, in turn, requires incentives, including career-related ones, to change the existing norms.

Finally, for the sake of institutional consistency and avoiding confusion, at the first available occasion, we should just rename the Committee on Capacity Building as the “committee on capacity development.”

Mr. Merk made the following statement:

We thank the staff for this comprehensive set of reports. Capacity development is at the core of the Fund’s mandate and is an essential element to achieve its purpose, as defined under the Articles of Agreement.

The five-yearly review provides an opportunity for the Board to consider the fundamental framework of Fund CD and to set strategic priorities for CD. Unfortunately, and like many other Directors who have also pointed out, the information provided in this report is not sufficient for the Board to give strategic guidance. We would have expected more candid and transparent information to enable the Board to engage in an in-depth discussion. Like Mr. de Villeroché and Ms. Riach, I believe that this would have required quantitative evaluations of cost efficiency and staff fleshing out the tradeoffs this strategy entails.

Along the same lines, we feel that the important role of the Board in the governance of Fund CD has not been correctly described in the report, which will be published. In particular, we believe that the description in Box 1, titled “CD and the Executive Board,” is unfortunate. It provides the reader with a misleading picture of how the Board provides strategic guidance on CD activities. We are disappointed that the staff did not correct Box 1 to address this point. We expect that the role of the Board, as defined in the 2014 CD policy statement, will be adequately reflected in the summing up.

Given all that, we welcome the Chair’s introductory remarks, supporting the strategic role of the Board.

We fully support that the 2018 CD Strategy Review builds upon the existing CD strategy and focuses on strengthening the efficiency, the impact, and the effectiveness of CD. The guiding question of any CD activity should be whether the delivered actions are meeting the specific needs of countries and are resulting in capacity improvements in member countries that

sufficiently strengthen their institutions and policy frameworks. Against this background, we especially support the better integration of CD with surveillance and lending and a greater focus on capacity and ownership. We consider the requirement of an explicit signoff by area departments on the timing and scope of missions appropriate.

Concerning the risks of CD engagement, we would like to reiterate the need to continuously and carefully monitor the risks that were flagged by the Risk Report and the envisioned mitigation.

Mr. Obiora made the following statement:

We always begin these comments by thanking the staff, but my gratitude to the staff this morning really comes from two main points.

First, the comprehensive coverage of CD activities over the past five years is very important for me. It is not just the amount of work done but also the approach they used, the fact that they brought in relevant stakeholders so that these reviews are not just a staff assessment or a self-assessment, but relevant stakeholders were also brought in to do the assessment. Second, I am also grateful that the staff consulted widely with Directors' offices, including ours. This should be a blueprint for reviews of a similar nature.

On the substance of the review, there are two points that I would like to highlight in addition to the gray statement that we submitted. The first is country-specific prioritization. Although the Overview Paper does recognize differences in the institutional advancement of member countries, it is not clear that the proposed strategy takes this into consideration. We believe that the design and delivery of CD to countries, especially with low absorptive capacity, should be sequenced in an incremental manner, with the initial focus on strengthening the fundamental building blocks of targeted institutions.

Related to this point is our observation in Figure 5 "Delivery Against Priorities" on Page 24, of the overview paper, which showed a declining trend in TA delivery to highly vulnerable countries. It is quite surprising because these countries might actually need TA the most.

On funding, we are gratified that the Fund is making efforts to deploy Fund resources in instances where financing arrangements do not overlap with Fund priorities. We strongly support the steps taken by the Fund to fully align the new externally financed CD initiatives with the Fund's strategic medium-term planning. On this, we urge management to carefully consider

the need for deploying additional resources to CD during the next budget discussions, as the current flat budget misrepresents the challenges in the near future.

Mr. Kaya made the following statement:

We thank the staff for the well-written Overview Paper and supplementary reports on the Review of the Fund's CD Strategy, answers to our technical questions, as well as the outreach with our office and other key stakeholders. The review of the Fund's CD strategic comes at the right juncture, considering that CD has grown significantly in size and in profile within the Fund over the past few years.

We have issued our gray statement, and we would like to provide the following comments for emphasis.

As we pointed out in our gray statement, and as also underscored by Mr. Meyer and others, we regret that the reports do not provide sufficient information regarding the provision and prioritization of CD, the sustainability of the current funding model, including tradeoffs and possible modifications to the current framework, so that the Board could have provided strategic direction and oversight for CD through this review.

Contrary to surveillance and lending, where the Board exercises a key role, we feel that the current Board engagement on CD activities is too infrequent and at a high level, and the annual Global Policy Agenda (GPA) and budget processes are not sufficient mechanisms to ensure the Board's adequate and proper involvement so that we can provide strategic direction and oversight for CD through this review.

Like many other Directors, we call for greater, enhanced, and formal Board engagement regarding CD priorities and activities. We also agree with Ms. Pollard that Board engagement on CD could be enhanced through increasing the visibility of CD in country Article IV reports and regular circulation to the Board for information of existing evaluations of CD by region and themes.

We regret that the report lacks a holistic discussion of the actual and full cost of the Fund's CD activities, as well as the sustainability of the CD funding model, including risks pertaining to external funding. Growth in spending on CD activities seems to be almost linear.

Against the background of a flat real budget, we are concerned that there could be a crowding out of the Fund's core CD activities, especially once emerging issues become more concrete or external funding will finance an ever-increasing share of CD activities.

We agree with Ms. Levonian that risks arising from the funding model could impact the rollout of the CD strategy and are wondering when the Board will have an opportunity to revisit the CD funding model risks in a more comprehensive manner.

We support the recommendation that departments and country desks should be in a leading role on country engagement, as well as on CD activities. However, we caution that this will require the prompt establishment of a clear delineation of responsibilities. We also believe that the drafting of country strategy notes (CSNs) and their inclusion in the Article IV reports will ensure better planning of CD, while controlling costs and ensuring that accountability could be improved by including, for example, estimates of the U.S. dollar costs of CD in the CSNs.

Strengthening the information sharing system across the Fund's departments, including regional capacity development centers, is essential in improving CD efficiency, while enhancing coordination and integration. We are concerned about the rather slow progress in this area. Prompt configuration of the program to strengthen internal access to Fund documents remains essential. We agree with Mr. Beblawi that the Offices of Executive Directors should have access to this information sharing system for the group of countries that they represent.

We note that there is significant scope to improve cooperation and coordination with development partners, particularly on efforts to support efficiency gains and avoid duplication. In this context, we agree with Mr. de Villeroché and Ms. Riach that it is essential to formalize and systematize further coordination arrangements with development partners, specifically, the World Bank.

Mr. Agung made the following statement:

We join other Directors in thanking the staff for the informative and comprehensive set of reports, as well as for their engagement with our office prior to the Board meeting.

We issued our gray statement, and I would like to take this opportunity to raise some key points for emphasis.

First, on the Board's engagement, we consider today's discussion as being of the utmost importance in allowing the Board to opine on the medium-term direction of the Fund's CD strategy. Our constituency is one of the many beneficiaries of the Fund's CD program in recent years; and drawing from our experience to date, we broadly support the staff's findings and recommendations, as contained in the report. Having said that, we associate ourselves with the points raised by Mr. Meyer and Mr. Merk, Ms. Pollard and Ms. Crane, and other Directors, on the need to collect, synthesize, and disseminate adequate and measurable information so that the Board is in a position to better perform its strategic role and have a more constructive dialogue with the staff.

Second, on CD's impact and efficiency, I would like to stress that strong ownership by recipient countries will be the key. In this regard, we support the staff's proposal to have a country-centered approach to increase CD's impact and efficiency. But as we highlighted in our gray statement, this entails execution risks that should be addressed. The success of the enhanced country-tailored CD delivery will depend largely on three things: first, timeliness in meeting country demand; second, the readiness of the institution and the capacity of the recipient countries; and third, the willingness of the recipient countries to implement TA from the Fund.

Third, on CD coordination with other donors and external funding, we reiterate the importance of maintaining close coordination with other CD providers to exploit the comparative advantage and unlock collective synergies.

Mr. Doornbosch made the following statement:

I thank the staff very much for this very good review and also for the informal engagement in the run-up to this meeting.

We strongly support the conclusions of this review. In particular, we share the ambition to better integrate surveillance with CD. CD is perhaps the best way for the Fund to assist member countries in avoiding and mitigating crises. It is the most appreciated part of the Fund's work in member countries. Wherever I go in my constituency, the respect and the appreciation for our colleagues from the Monetary and Capital Markets Department (MCM), the

Fiscal Affairs Department (FAD), and the Legal Department (LEG) is always extremely high.

CD should be tailored to countries' needs. If I could paraphrase Tolstoy, every unhappy country is unhappy in its own way. Therefore, area departments could and should play a pivotal role in devising country and regional capacity development strategies.

We strongly support the point made by Ms. Crane about routinely integrating CD into surveillance. In that context, we also thought the experimentation by the Asia and Pacific Department (APD) was interesting, and we would like to see whether other departments are taking similar steps.

As stated in our gray statement, we strongly agree with Mr. Villar on the importance of the RTACs. Despite the success of the RCDCs, one important region is missing from the map, and that is the Central Asia and Caucasus. We are pleased that this gap could soon be closed; though like Mr. Inderbinen and other Directors, we were slightly surprised by the lukewarm response in the written responses, which said that the business case is under consideration.

I am slightly skeptical about business cases under consideration in big bureaucracies. They tend to go in whatever direction one wants them to go. I would like to note that if the business case for the whole world is positive, I cannot imagine that the only region in the world in which it is not the Central Asia and Caucasus.

On the external funding model, we believe that the Fund's budget may be further leveraged by external funding. This could have been more comprehensively discussed in the review. It seems that the staff is quite hesitant to go further, and I will be looking forward to the staff's further comments on this.

Finally, the report highlights the importance of country ownership and prioritization for effective and efficient CD. The report provides rather few details on actual steps for enhancing this kind of ownership and prioritization. One option mentioned was asking for a small membership fee. However, the written responses to technical questions suggest that the staff does not see this as a way forward. Ms. Crane suggested shifting to a lower gear, and I can see the sense of it. But on the other hand, Mr. Obiora rightly pointed out that sometimes the absorption capacity is very limited in a country. Then shifting to a lower gear does not help.

If I think about the capacity development of the Fund, there needs to be some minimum capacity in a country to make this effective. In countries with very little absorption capacity, I do not believe the Fund has the tools to work in these countries and to build up capacity from scratch. I would be interested to hear more from the staff on this issue.

Mr. Johnston made the following statement:

I want to start by thanking the staff. Obviously, there has been a huge amount of work put into preparing this review. It was a huge amount of work just reading it. We definitely appreciate the effort that has gone into producing an impressive set of documents. We support the conclusions of the review.

In our part of the world, in the Pacific, they are not big on programs at all. In fact, they try to avoid them. Many countries only have Article IV consultations every few years. Actually, capacity development is the greatest exposure that countries in the Pacific have to the Fund.

I am working on the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) review as well. I asked one of the advisers in our office if he could find out which countries in our constituency have had TA on AML/CFT issues. He came back to me and said: How would I do that? I had to respond that I have no idea. It is not in the Annual Reports of the Pacific Financial Technical Assistance Center (PFTAC), because I do not think it delivers AML/CFT TA. We went back to look at Article IV reports, but they are brief and somewhat out of date. I do not want to read the reports just to know what is being delivered and perhaps we could have a quick summary or key recommendations.

It is useful for us to represent our countries but also for countries to know what their neighbors are doing. There are some shared issues across the Pacific. It would be useful for the Solomon Islands to know what had gone on in Papua New Guinea, and vice versa.

In a more general sense, this review has brought that out. It is a little curious that, while the Fund's big-ticket products are so prominent—if we think of programs or Article IV consultations, the Annual Meetings, or the World Economic Outlook (WEO)—yet CD, which is a third of the IMF's key roles and a third of its spending, is strangely inconspicuous.

We support the direction identified in the review, toward more openness and sharing of information on CD. It is not necessarily the publication of full reports. For example, I agree with Ms. Crane and others on increasing the visibility of CD in Article IV consultations, and with Mr. Inderbinen on better integrating CD into the policy dialogue with members.

I am not sure if any countries in our constituency have a country strategy. But I would like to know whether they did or not, and if they did, I would like to be able to see it.

At the Annual Meetings in Bali, we used our constituency meeting to ask countries for feedback on CD, because we knew this review was coming up. I am happy to say, the main point everyone made was that they valued the Fund's TA very highly. I was happy to see that the main points they made actually appeared in the review. There was a consistent message from our countries that they do not just want to get a report with recommendations. They want someone to sit down with them and help them understand what to do with it, how to implement them, and what tools to use. I was pleased to see that that was one of the features in the report in terms of moving toward more flexibility in delivery and a more country-centered approach.

We also strongly support the central role of area departments and mission chiefs in country engagement because we see that as the key way to strengthen integration of TA with surveillance and lending.

Mr. Hemingway made the following statement:

I will echo my colleagues in thanking the staff for the excellent work in preparing this review and their prior outreach.

I also thank the Chair for her opening statement. This is now a regular review cycle for CD. Frankly, I am slightly surprised as it did not happen a bit earlier, given how central CD is to the work of the Fund. It is clearly appropriate, as it is one of the three main pillars of Fund activity.

Our key concern when considering this review is about improving outcomes. That is not to say that the Fund has not been successful over the last decade. The expansion of CD, much of it funded externally from bodies that could have directed these resources elsewhere, and the respect with which Fund staff are held, as well as what we have heard from colleagues in terms of the country experiences, highlights what a good job the Fund does in CD. But

our view is that there remain areas where more could be done to increase the impact and efficiency of Fund's CD, as well as ensuring that the same high-quality engagement takes place in all countries, including the most vulnerable. We believe that taking a country-centered approach would improve outcomes in this way, as it should ensure that the CD strategy is underpinned by a realistic assessment of the institutional capacity and political economy in those countries.

Where institutional capacity is low or undermines the effectiveness of CD, the Fund, working with others, should have a strategy to improve institutions, rather than just not to engage. Mr. Obiora's made this point well. The papers recognize the issue, but it is not that clear how the strategy actually deals with it to ensure that it is tackled. Put another way, the Fund should not treat this as exogenous to its support, but should build on the issues and try to make sure the capacity is there to absorb the CD that is provided.

Many colleagues have already said this, but tackling these underlying issues requires a medium-term strategy, country ownership, and coordination with other bodies. This already happens in the best cases, but the CD strategy should aim to ensure the Fund does it systematically. We believe CSNs are a useful tool to achieve this. As a result, we would like to see them cover multiple years—we would suggest three years, although others will have different views—and we would make them compulsory for heavy users. We would like to see CSNs include: honest assessments of current capacity, scope to increase it technically and institutionally, as well as recognition of the political constraints. This would help shift the Fund away from simplistic, best practice recommendations in all cases, since these are simply not realistic and do not affect country contexts. However, as our gray statement notes, CSNs are only a tool, while changing the culture is the key. That is reflected in the fact that some countries already do this well. It is about making it systematic across the Fund.

I will take on four slightly more specific points to finish. First, given that many Directors engaged on the current funding model's sustainability, I wanted to set out the position. In essence, we agree with Mr. Kaizuka's gray statement. We agree with the direction that Fund staff has set out, but it must be recognized that donors need to be accountable to their taxpayers for the financing of CD. That will ultimately put a limit on how fungible resources can be.

Second, on the prioritization of CD, we broadly agree with the staff and would emphasize fragile states, as we do in our gray statement.

Third, to reiterate the point we and others make in our gray statement, we see the time spent in a member country as critical to determining the country strategy and ensuring the effective delivery of support. We are a bit concerned about the findings in the Risk Report that show little increase in CD in fragile states and the highly vulnerable, in 2017, despite the substantial increase across low-income countries (LICs). As the report says, it risks leaving some vulnerable countries behind.

Fourth, on Board engagement, we welcome the Chair's opening statement on this and the specific suggestions from Directors. We need a bit more information about exactly how this will be taken forward. We all believe it is an important issue.

Overall, though, we believe this review highlights the significant changes in recent years and sets out welcomed reforms to build on this progress. As many gray statements note, more frequent Board engagement is needed, and we look forward to further updates on the implementation of these proposals and providing the additional information that we and others called for.

Mr. Saraiva made the following statement:

I would like to express this office's great appreciation for the excellent quality of the reports. It is not surprising. We had a thorough process of discussions throughout this year, with several informal meetings. On the other hand, I do understand the call for more granular data and information that is critical for the Board to exert its guidance role on CD. We have a much clearer role in terms of lending and surveillance; but if we look at Box 1—as Mr. Merk mentioned—it does not reflect the role that the Board should have played. Maybe it reflects what we unfortunately have now, but not what we should have in terms of ongoing guidance to CD activity, as we have on those other pillars of the Fund's mandate.

But in this specific process, the results of the work that was done during the review show clearly that the process counted on the inputs from the Board and reflected those inputs during the whole discussion. If we look at the main recommendations, they are sensible. The main tenets that will guide CD activity, like the country-centered approach, we talk not only about keeping the authorities in the driver's seat that is key for ensuring ownership, but also about the full engagement of mission chiefs and country teams that is also

important for another tenet and is integrated with the other two pillars-- surveillance and lending.

In this respect, I want to raise a caveat because it is important as this integration does not take out a wider degree of freedom that the CD activity must have. It is important that CD is perceived by the countries as an activity that will not necessarily result in program conditionality or that will not necessarily be an irritant in surveillance activity. We should carry out CD activities with more flexibility and with a broader approach.

The other thing is to enhance and support peer-to-peer CD, including through the knowledge sharing communities, with the focus on results and RBM. In this regard, the longer-term engagement or, as Ms. Crane and Mr. Kaizuka have emphasized, onsite follow-up are important, because the focus here is not only on providing the advice, but as the report clearly noted, on supporting implementation.

With respect to countries in fragile situations, it is basically the same principles but handled with extra care. The recent IEO evaluation on fragile countries provided good and useful inputs in this respect.

Implementation is not only a must for CD activities, but I understand that the success of the CD strategy itself, which I deem to be a very good one, relies on its implementation. It is a work in reach. As Mr. Hemingway noted, we should change the culture within the Fund to make the approach that was designed to be one that effectively guides CD activities. As was also mentioned, we should set the right career incentives for staff to value CD activity as they should be valued.

The other part of the implementation is the funding model. I am aligning myself with those who believe we should think of other ways to ensure funding continuity in the event that donor resources do not come in at the current level. The current funding scheme was instrumental for CD to become as important as it is now within the Fund's activities. We have to make sure that this level of CD activity is maintained, even if it requires even more of our own resources from the Fund.

Finally, I join myself with those who think that an RTAC in the Central Asia and Caucasus region should be seriously considered.

Mr. Castets made the following statement:

From the outset, I thank the staff for this review and for the quality of the documents that have been presented to us, and also for the engagement with our office prior to this meeting.

As we stated in our joint gray statement with the U.K. chair, we believe that TA and training are essential tools for the Fund to deliver on its mandate. But over time, and as highlighted in staff's report, the Fund's activities in that field have significantly increased. Like most Directors before me, we feel that the main recommendations from the review are the right ones to respond to the challenges linked to this significant increase in the magnitude of our engagement in that field. I will not repeat it in detail, but we strongly support better integration of CD with surveillance and lending, increased focus on reform implementation, and improving the existing information systems.

That being said, and as recalled by Mr. Merk, to get a better and more granular view of the Fund's CD activity, we need to have a more quantitative evaluation of the cost efficiency of CD delivery. That is why, like most Directors who have spoken this morning, we also see a case for stronger Board engagement on this issue. Some good ideas have been put forward. The Chair's introductory remarks confirm that management is ready to have a look at it. Ms. Crane mentioned the further integration with Article IV consultation. We believe it is paramount. I would add better integration when we discuss Fund-supported programs, since TA is key to the success of many programs. Mr. Mouminah also mentioned a Board meeting on the strategic guidance. That is something we would also support.

I would like to turn to three more specific comments. The first one regards CD activities in fragile states. On this issue, like Mr. Hemingway, we were a bit concerned by the decrease in CD activities in the most vulnerable states, but more globally, we wonder whether having 20 percent of our TA in fragile states is sufficiently ambitious. We would tend to say "no" for the simple reason that those countries need more of our support, given their weak capacity. In that regard, I would appreciate if the staff could elaborate on the possible tradeoffs between our stronger focus on outcomes—notably, through RBM, which we strongly support and which is welcome, and this ambition to get more TA in fragile states, given that we could end up focusing our support in the countries that have the best performance, and maybe less of a need.

On macro structural reforms, we see the CD activities as key in fragile states. Domestic resource mobilization is one field where the Fund's engagement is particularly important. In that regard, also related to Mr. Doornbosch's comment on the fact that in some geographies, there is such weak capacity that TA could not be delivered, we feel that we should have a discussion on the modalities. The RTACs' role has been mentioned. We would like to better understand how the staff see short-term missions versus permanent advisers and if other TA modalities could be considered.

Third, on our coordination with other international institutions and TA providers, we would like to strongly call the staff's attention to this aspect. We thank the staff for the developments in the report. Yesterday, when we discussed Belize, Ms. Levonian mentioned the fact that there is probably a need to focus more on implementation, rather than on pure recommendations. In our view, there is a strong need for more coordination with the World Bank, particularly because the World Bank has the capacity to provide concrete support on the ground—for example, the development of IT systems, where our capacities are limited. It is just an example, but IT is key to develop customs or tax administration.

Finally, we ask the staff to respond to Mr. Raghani's comment on our presence on the ground and the key role of permanent representatives to coordinate TA, specifically in countries where capacity is limited.

Mr. Gokarn made the following statement:

We join others in thanking the staff for a comprehensive and educated set of reports, for their extensive outreach, and also their answers to the questions that were raised.

We welcome the Review of the Fund's CD Strategy. It is an issue in which our constituency has great interest. We believe that there has been considerable progress in the implementation of this relatively new component of the Fund's engagement with its membership. With its focus on efficiency and effectiveness, we broadly support the 2018 CD strategy, the principles on which it is founded, and many of the proposals in the report.

We have issued a gray statement, but we would like to make a few points for emphasis.

First, like some Directors, we also support the country-centric approach to CD. This is the most effective way of meeting members'

requirements. It places CD initiatives in the context of the country's institutional structure and its particular macroeconomic situation. It is in that context that the traction, the effectiveness criterion is most likely to be met.

We are sensitive to the concerns about absorption capacity and so on, but this is a challenge that the strategy has to find ways to deal with. Ultimately, the country is the recipient, and it is in the best position to judge what is needed and how effectively it can be placed in that larger context. The emphasis is on efficiency from the Fund's side and effectiveness from the recipient's side.

Particular attention should be paid to RCDCs. India has been a recent beneficiary of this model, with the setting up of its RTAC last year. We believe that this is effective due to the fact that it is able to bring together neighboring countries, similar institutional contexts, similar problems, and allow them to exchange views with each other, apart from benefitting from the Fund's expertise. Mr. Johnston's point about learning from neighbors is critical. It is these centers that allow this and that to add a significant new dimension to the CD process.

The second issue that is important is the integration of the training and TA, and this is the first institution that has this integrated strategy. That is very significant. That has to be the new focus or the new approach to CD, for training and technical assistance to correlate and to come together for maximum effectiveness. Studying the RTAC—its effectiveness, its successes, and what challenges it is facing—is an important input for models of new regional centers, including the Central Asia and Caucasus region.

My second point relates to information. Many people have raised issues about the inadequate information. I find that every time I have to submit a report to my authorities, I struggle to get information on what is going on and what has gone on. From the Board engagement perspective, we have been making this point in our interventions repeatedly, that unless we have a sense of what are members asking for and how effectively have they been implemented, the Board's input into strategic prioritization is simply going to be inadequate. Until we have this exhaustive database, engagement will be limited. That is a fundamental principle for increasing Board engagement and also the effectiveness of this engagement. I am happy to see this initiative in place, that the comprehensive database is being built, and I hope that it is placed before us as soon as possible.

The third point, on financing, we recognize the tradeoff, the donor and internal resources combination, which impose limitations. There are two issues that I would like to emphasize. One is, what are the tradeoffs actually going to be like? Are we trading off knowledge management with reduced production of CD to certain categories of countries: small states, fragile states, and so on? Are there going to be priorities on AML/CFT but a deprioritization of others? Strategic prioritization is critical. It is for the Board to lay down these priorities, and input from the database will be absolutely critical.

Finally, on the donor issue, we need to have a strategy more explicitly laid out that aligns the Fund priorities with donor priorities. Mr. Hemingway referred to taxpayer accountability, which defines donor engagement. Surely there is enough room for an effective alignment between the two. Let us lay it out as explicitly as possible.

Mr. Virolainen made the following statement:

I join Directors in thanking the staff for the set of comprehensive reports. We broadly support the recommendations of the review, with the aim of strengthening ownership, efficiency, and the impact of CD activities.

We issued an extensive gray statement, but let me make a few points for emphasis.

We fully support the ambition to strengthen the integration of CD with surveillance and program activities and that best practices need to be applied more consistently throughout the Fund. Capacity development can greatly support the implementation of the policy recommendations identified in Article IV and FSAP consultations, and vice versa.

We agree with the suggestion that country teams should play the leading role on country engagement in CD activities. Country desks are best positioned to understand the needs and the institutional setting of member countries, give informed guidance on tailoring CD projects, and build long-term relationships with the authorities for sustained impact. For this to function, a clear definition of responsibilities must be established, and the resource implications of strengthening integration will need to be carefully assessed and managed. Better involvement of the authorities in the policy discussions helps enhance the traction of the Fund's policy advice by increasing country ownership.

We welcome the ongoing work to strengthen the information systems on CD activities. With better information systems, there will be a better basis for more regular and in-depth involvement of the Board to give strategic guidance and to discuss prioritization. In this regard, we support Mr. Meyer and Mr. Merk's request, echoed by several Directors, for the staff to provide more information in the next rounds of discussions to enable the Board to better exercise its central role in the governance of Fund CD.

Finally, while we fully appreciate the large amount of donor funding involved in the Fund's CD, we underline that the risks associated with externally-funded CD need to be closely monitored, both from a governance and absorption capacity perspective and from a prioritization and consistency perspective.

Mr. Beblawi made the following statement:

We issued a gray statement in which we supported the review's vision for country-centered CD that is well-integrated with the Fund's policy advice and is highly effective. We supported the suggestion that area departments should be more consistently active in their leading role on overall country engagement, including CD activities. We also called for adequate and timely engagement with the Board.

We would like to add the following comments. Like Mr. Meyer, Mr. Kaya, and other colleagues, we note that previous Risk Reports recognize that the generous donor funding of CD has clear benefits. However, its high share in the IMF's overall funding carries risks, including rollover risks, prioritization issues, and reputational risks. Therefore, like Ms. Levonian, we welcome the staff's comments on when the Board will have an opportunity to revisit the CD funding model risks in a more comprehensive way.

The 2018 Risk Report also indicated that the delivery of CD within key groups remains skewed toward a small number of recipients, which risks leaving some countries behind. Could the staff comment on the way they envisage addressing this risk?

Mr. Jin made the following statement:

I thank the staff for the comprehensive report. We support the member-centered, implementation-focused, and results-based strategy. Since we have already issued a gray statement, I want to make some additional comments.

When setting priorities for CD, the Fund needs to be adaptive to a changing environment. Three areas deserve more attention. One is fintech-related courses, which will help increase member countries' awareness of the new trends and the associated challenges and potential. The second is to put more emphasis on balance sheet analyses in the Debt Sustainability Framework or Debt Sustainability Analysis in public debt-related issues. The third one is to increase courses and TA on trade-related issues to help member countries better manage the macroeconomic impacts of either trade liberalization or trade protection.

We regret that the financing issue has not been reviewed in this report. We thank the donors for their generous support, but external financing sometimes has its own limitations. The Fund should mobilize more internal financing. Capacity development contributions should be treated as a quota-based obligation. Therefore, a cost-sharing mechanism is warranted. For example, the costs could be proportionally shouldered by countries that are middle income and above, while the poorest and low-income countries could be exempted.

We understand this issue needs cooperation among different departments in the Fund; given its importance, it should be discussed without further delay. We hope some progress could be made before the engagement in the revised IMF policies and practices on CD next June.

Mr. Mozhin made the following statement:

My immediate purpose for taking the floor is to share the concerns expressed by Mr. Inderbinen and Mr. Doornbosch regarding the seemingly slow pace of action regarding the establishment of the TA center for the Caucasus and Central Asian countries. The fact that this is the only region where there is no TA center makes the business case for its creation very clear.

The reason why there is no such center in this region is not because of a lack of the Fund's efforts in the past, but because of the regional circumstances, the situation when countries were not in a position to cooperate in this region. But at least in the case of the Central Asian region, what we witness now is a big change and a rapidly developing cooperation between regional countries. Unfortunately, I cannot say that about the Caucasus region.

Now that I have the floor, I would also want to make a couple of other points. I like to be a little contrarian, so I will try to enhance this reputation.

Several Directors complained about not having enough information. We have received four volumes. This is so much more than anybody can digest. I cannot physically digest information in four volumes of reports. Perhaps we could ask for a different type of information. If anything, I would want to get less information than what we have received.

Many Directors mentioned that we would want to enhance Board engagement, while at the same time avoiding micromanagement. That is a tough call. How do we enhance the Board engagement and then avoid micromanagement? It is not easy.

When I hear people speaking about the need to increase the strategic guidance, I am not sure that I understand what people are talking about. The word “strategy” and all the derivatives from this word is perhaps the most misused, overused, and abused word not only in this building but in the wider world as well. We speak about the need for a better alignment between CD provision, on the one hand, and surveillance and lending activity. Is it not strategic guidance? We speak about the need to increase the role of mission chiefs and country teams. That is what I understand as the strategic guidance provided by the Fund. We call for more emphasis on fragile states. That is strategic guidance. Apart from the budgetary issues, which we will discuss elsewhere, everything has been provided in this meeting. I do not see any lack of strategic guidance.

The Director of the Institute for Capacity Development (Ms. Coorey), in response to questions and comments from Executive Directors, made the following statement: ³

We hear Directors’ demands for greater Board engagement on CD. We will consider how best to do that, taking into account resource constraints. Let me pick up on three points that Directors have made: prioritization, external financing, and post-review implementation plans.

On the Board’s role in the prioritization of CD, we agree the Board has a key role to play in prioritization, especially given the need to allocate finite resources against a strong and evolving demand for CD. The staff’s background paper set out the reforms that we have made to improve the

³ Prior to the Board meeting, SEC circulated the staff’s additional responses by email. For information, these are included in an annex to these minutes.

prioritization process for CD. I will focus on how the Board's views are built into this process.

The Fund's CD priorities are set at the start of the annual cycle in November/December in the Committee on Capacity Building (CCB) round. We thank Directors for the inputs provided today, which will be an important input into this upcoming round this year. As explained in the background paper, these priorities feed into the planning cycle in two important ways: first, in prioritizing country demand for CD during the interdepartmental resource allocation planning (RAP) process; second, in the CCB's approval of new external funding initiatives. That is the basis for our fundraising efforts. This is where the Board's views are taken into account, and we do so quite seriously.

On the RAP process, we recognize it is critical to ensure that our prioritization framework focuses on areas of high priority and high impact. We agree with Directors that it is important that we take into account country ownership and country demand—in other words, the country-centered approach. The central process to balance this is the RAP. It is a detailed process, where we balance the demand we get from countries with the Fund's CD priorities, in which the Board's guidance certainly feeds in.

Perhaps, as Mr. Mozhin suggested, this is a very micro-level process, but we do look at the outcomes at the macro-level at the end of it. We do take that into account.

As noted in the paper, we are presently reviewing this framework, including to identify more clearly areas for relatively growth in CD, that is, where the share of CD needs to be increased. Sharpening our focus is all the more important in this period of stabilization, following several years of rapid growth in CD.

The updated priorities from this upcoming round will be reported to the Board in the March 2019 medium-term budget paper, as it was last year. Given the comments that Directors have made today, we will follow up with more information on CD prioritization and activities in that paper and also when CD delivery is reported against priorities in the July 19 budget outturn paper.

Turning to the issue of the external funding model and the related risks raised by several Directors, we hear your concerns, and we will continue to take steps to mitigate these risks. I want to point out that we are approaching

the limit of the external financing envelope, so raising more money is less of an issue at this stage.

Having said that, let me emphasize three aspects of our funding model that help to mitigate risk. First, as I noted before when talking about prioritization, our policies allow us only to accept external funding where the donors' interests are consistent with the Fund priorities and objectives.

Second, in terms of financing risks, we are focusing purposefully and increasingly on raising external funding through more flexible CD vehicles—that is, multi-partner, thematic, or regional funds. These funds are financed by a less concentrated partnership. As a result, the share of the top five partners has declined from about 68 percent of total funding to 50 percent during the last eight years. We are also increasingly seeking umbrella arrangements, for instance, funding that can be used across several regional CD centers. This gives us the flexibility to direct funding to centers that may be less funded.

Third, CD activities are authorized to begin only when financing is secured. As a result, we have considerable financing buffers for externally funded CD.

Fourth, we structure our externally financed activities in such a way that they can be adjusted to potential funding shortfalls. For example, work programs in the outer years of a vehicle can be adjusted downward ahead of time, depending on the funding outlook. Along the same lines, we limit the length of contracts for experts in our RCDCs and in the field.

In sum, we recognize the inherent risks posed by the current funding model. However, on the question of the Board's role, I want to emphasize that what we are doing is in response to the guidance that was provided by the Board, approved in 2008-09, to rely more on external funding, and the scale of that funding is covered during the medium-term budget exercise. That might be an opportunity to look at all the risks, taking into account what we are doing to mitigate the risks that I just described, which we can elaborate further on, and then balancing it against the fact that the external financing has allowed us to address high-priority CD demand from member countries that would, otherwise, have remained unmet. I want to assure the Board that we are taking measures to mitigate those risks very actively.

I would like to comment on the implementation plans following this review. We have an ambitious, forward-looking agenda, and I will highlight some main elements.

First, we are taking steps to improve and sharpen the focus of CD prioritization in a flat budget environment.

Second, on better integrating surveillance and CD, our challenge is to mainstream existing best practices across the Fund. The upcoming 2020 Comprehensive Surveillance Review provides an additional opportunity to review the integration. In the meantime, we are working with area departments and CD departments to see how we can systematically implement best practices, recognizing individual country circumstances and resource constraints. We are aiming to see that in cases where CD and institutional capacity considerations are important for implementing key policies, individual Article IV staff reports that come up for Board discussion will cover CD issues as part of the surveillance discussion.

Third, we have a work agenda to advance RBM and evaluation frameworks. Some key steps include working out the governance and policies around RBM. We agree, and we take on board Directors' points that the reports and outcome data need to be fed into the results, and the outcome data need to be fed into the prioritization process. That is something we certainly intend to do going forward. While we do not yet have a long enough track record of data to draw meaningful conclusions, in the spirit of keeping the Board informed, we would be happy to do an informal briefing and a demonstration of the RBM system and how it works and what data it can yield, if Directors find that useful.

Fourth, on the work agenda, the development of CDMAP—this is the capital project that is associated with the management and administration of CD—is well underway and will support better intervention systems over time. Many Directors asked for more systematic data across various types of CD activities and modalities to inform the Board better in providing strategic guidance. Unfortunately, such data are extremely difficult to assemble on a Fund-wide basis, and this is a reflection of the fact that we have grown very rapidly. We are now putting in the capital projects to bring out that data in a more systematic way. We expect that the completion of CDMAP will allow us to inform the Board better in the future.

Fifth, we are actively working on options to improve the dissemination of TA advice. The Knowledge Management Unit is spearheading an initiative to ensure that all TA reports are properly cataloged and available to relevant parties. At the same time, an interdepartmental working group is looking at ways to increase the publication of TA reports.

Let me conclude by emphasizing that we are committed to leveraging the opportunities to ensure the Board has timely and appropriate information to inform its strategic guidance on CD activities.

The Deputy Director of the Institute for Capacity Development (Ms. Shannon), in response to questions and comments from Executive Directors, made the following statement:

First, let me expand on Ms. Coorey's remarks. In terms of the availability of information and the availability of documents, the excellent work that our colleagues in the delivery departments are doing remains a little hidden from view. There has already been a significant amount of work to increase the availability of information through the Communications Department (COM) and our work to expand outreach; but we have much more work to do. We hear the point, that the work under way at the RTACs and at the trust funds, much of the information is publicly available, but it is very hard to find. We will be working with our colleagues in the Communications Department (COM) to make sure that the searchability of that information on our public website is easier, but we will also work with the Secretary's Department (SEC) to find a way to bring the available information to Directors in a way that is most useful to the Board.

Let me also address a question that was raised related to whether the Fund is well positioned to support countries with low capacity. There were several points raised about our work with fragile states. There were questions raised about the concentration of delivery in some cases; in many of those cases, it is fragile states. These issues are very much connected. The Fund has an essential role to play in these countries. It has been stressed in many gray statements and I hope we were clear in the Board papers that we recognized fully that the nature of our capacity building support needs to be best fit for the members given their current state and that work on implementation and not just the technical content of advice is essential. In our work with our many colleagues in the delivery departments, this is not a controversial point. This is well recognized, and work is underway to more systematically engage with our member countries in this way. This is why we are emphasizing a country-centered approach. This is why we are emphasizing a programmatic approach. This is why we are emphasizing that RBM is not one-size-fits-all but has to be designed with milestones and outcomes that reflect the country's own circumstance. This is why it is so important that we link our work at the policy level with our work at the technical level. We fully agree with the cautions and the points that are raised. We recognize that we are still on the

journey to do this, but the staff who are working on TA in the field are working to do this as well.

We have talked about some of the good examples underway in the Asia and Pacific Department and in the African Department to ensure that CD is more fully integrated in the day-to-day work of our policy advice. As Ms. Coorey said, that is something we are going to follow up on.

In terms of the concentration, that goes to a country-centered approach. We need to make sure that we are thoughtful about the implementation capacity and the design of our CD at a country level. With better information systems, with better sharing of that information within the Fund and more broadly, that will be one of the things that we can focus on and do better.

Finally, there were several points raised about the RCDCs and the work that they do and we agree that they have a high impact. I would just note, importantly, that the work of the regional centers would not be possible without the support of the staff here at headquarters, the technical experts at headquarters that backstop them. I would caution against looking at it as an either/or. The work that we do in the field is both headquarters- and field-based, and we need to look at it that way. We are also working as part of this broader process to improve information on strengthening the ability of our staff here at headquarters and in the field and area departments and CD departments to ensure that they have the tools they need to have an effective and real-time dialogue on the work that is underway.

The staff representative from the Institute for Capacity Development (Mr. Powell), in response to questions and comments from Executive Directors, made the following statement:

It might be helpful if I could walk through the technical process regarding the new initiative that a number of Directors have raised, on the new center based in the Central Asia and Caucasus region, which is currently under consideration.

New externally financed initiatives such as this are assessed through an interdepartmental review process to establish whether they are consistent with the Fund-wide priorities and whether there is room for them under the overall limit agreed for externally financed spending, which is something approved by the Board. In this case, it will be important to assess the extent to which this proposal would involve additional CD spending on this group of

countries beyond what is currently provided through headquarter-based CD, and whether a CD center is the best of the available delivery options.

With strong growth in externally financed spending in recent years, prioritization among competing new externally financed initiatives is critical. The November CCB meeting, which has not yet taken place, will update the Fund-wide priorities, likely narrowing the list of Fund-wide priorities. The meeting will also consider the merits of this initiative, alongside a number of other potential initiatives, and subsequently make recommendations to management at that point. That is just a technical response to demonstrate that there is a process ongoing to look at this.

Second, there was concern expressed about the CD for vulnerable countries going down. Actually, the series is volatile. This is because the vulnerable countries are those that are identified in the SPR-led vulnerability exercise. That includes both LICs and middle-income countries, and CD delivered to this group is volatile, reflecting patterns of delivery and program engagement and individual large cases. Several of these countries have concluded their programs with the Fund in this period. That can be quite a volatile series.

Mr. Kaizuka asked the staff when it might be able to provide a demonstration of RBM in practice.

Mr. Castets made the following statement:

I thank the staff for the detailed answers to our questions and the quite convincing one regarding the fact that the RBM will provide us with more granular data and help us to better understand the choices that are made.

In a context where demand will be inherently higher than what we can offer, it is important that we get a more granular idea of who decides what the priorities are and how this is implemented on the ground.

This brings me to a point I did not touch upon, and I would like to react to the staff's answer on the funding model.

There has been a very good argument on both sides. Mr. Hemingway makes a good point that the authorities must also explain to taxpayers about how their money is spent. At the same time, I would like to emphasize the fact that this chair has, several times, raised a concern regarding the possible fragmentation of the Fund's activities in that field. We also pointed out

several times the fact that at the World Bank, there is a strong effort now to try to rationalize. When I hear the answer to the fact that there is more demand than what we can answer to will be developing specific vehicles, it means we will need to have an in-depth discussion on what the meaning is and not to reproduce some difficulties we are experiencing in some other institutions.

Mr. Inderbinen made the following statement:

We are grateful to staff for these comprehensive responses they have given us. On the question of the coverage of the regional centers, I am grateful to Mr. Powell for those elaborations, and we will be eager to see what comes out of this process.

There is one aspect I would like to emphasize, and it builds on what Mr. Mozhin was saying earlier about the dynamic in the region and the reforms underway in Central Asia. The timeline is critical. The time element is there. These discussions have been ongoing for some time already internally among staff, and we have not quite gotten to the concrete results that we and others are waiting for. I would just like to impress upon management and the staff that the timing is of the essence.

Mr. Gokarn appreciated the significant role that headquarters staff were playing in the RCDCs, but noted that one metric for evaluating the performance was how effectively the RCDCs were drawing on local expertise, on people who had dealt with the situations that the recipient countries were facing. He remarked that it should be an important component of how the centers were resourced and how effectively they were able to communicate with the client countries. He noted that it should be an explicit part of the strategy.

The Director of the Institute for Capacity Development (Ms. Coorey), in response to further questions and comments from Executive Directors, made the following additional statement:

On Mr. Kaizuka's point, the staff will work with SEC to find a suitable time for that, but we can do it quite soon. We are ready. We will find time in the schedule.

On the point on the trust funds and external financing, I take the point that we do need to keep track of how many vehicles are being created. We watch that very closely. That is why it goes through a centralized process. There is a centralized fundraising arm for the Fund that rests with ICD. Management approves every single vehicle.

The number of trust funds we have is on the order of about 20. I believe that in the World Bank, it is on the order of close to 1,000. We believe it will never get much bigger than it currently is, partly because we are at the limit of our external funding.

The following summing up was issued:

Executive Directors broadly supported the main conclusions and recommendations of the 2018 Review of the Fund's Capacity Development (CD) Strategy. They commended the substantial progress made in implementing the 2013 CD Strategy, and noted the widespread appreciation for the Fund's CD, which plays a key role in supporting member countries' efforts to build institutions and capacity necessary to formulate and implement sound economic and financial policies. They emphasized that the Fund's CD Strategy should continue to serve the membership's current and evolving needs, and welcomed the inclusion of risk considerations in the strategy.

Directors supported the focus on two mutually reinforcing objectives of enhancing the impact and efficiency of CD. They agreed that the impact of CD needs to be increased by further strengthening integration with the Fund's policy advice and lending operations and by tailoring strategies to each country's institutional capacity and specific needs, while focusing on implementation and outcomes. Directors also underscored the need to increase the efficiency of CD by improving processes and systems, aimed at enhancing transparency and accountability, and strengthening the basis for strategic decision-making, including by the Board.

Directors supported the five specific areas of recommendations that underpin the Fund's CD Strategy:

Roles and responsibilities. Directors emphasized the importance of country authorities playing a leading role throughout the CD process, with due consideration to institutional and capacity constraints. Such a country-centered approach requires area departments to be in the leading role on the Fund's overall country engagement, including establishing country strategies and priorities for CD, taking into account the country's own strategy and working in collaboration with CD departments. Directors encouraged staff to learn more systematically from best practices in integrating CD and surveillance and looked forward to exploring further how to better integrate CD and surveillance, following on findings of this review and experience from mainstreaming best practice in the context of the 2020 Comprehensive Surveillance Review.

Prioritization and monitoring. Directors considered that, with CD spending projected to stabilize, effective prioritization is critical. They welcomed the move to a medium-term orientation of CD planning, which will help increase the flexibility of resource allocation across departments and topics. They also agreed on the need to further strengthen overall monitoring of activities and narrowing the list of priorities, building on better information systems. In this regard, Directors looked forward to further steps to operationalize Results-Based Management and the Common Evaluation Framework.

Country-tailored delivery focused on implementation. Directors agreed that departments will need to build on existing strategies to move toward greater modernization and agility in CD delivery. They called for continued experimentation with innovative technologies to support more flexible delivery of CD and encouraged cost-efficiency evaluation of the different modalities of delivery. They also supported further work on strengthening the operational support for Regional Capacity Development Centers (RCDCs). Directors underlined the importance of Fund CD activities in Fragile States, with some calling for further prioritization for these countries. More generally, Directors looked forward to the follow-up work on the IEO report on IMF and Fragile States. A number of Directors supported further improvement in CD delivery in the Caucasus and Central Asia, including through a possible RCDC in the region.

Internal consultation and information sharing. Directors called for further efforts to strengthen information sharing on CD activities within the Fund. They noted the Fund's capital investments, including in establishing the Digital Workplace, investment in Knowledge Management, and the CD Management and Administration Program (CDMAP), which will help address critical gaps and support the harmonization of CD processes across departments.

Coordination, communication, and dissemination. Directors encouraged staff to better systematize existing good practices on coordination with other CD providers, notably with the World Bank, and to pursue innovative approaches to raise awareness of the Fund's CD work. Highlighting the benefits of sharing best practices, they saw merit in improving the presentation of recommendations in TA reports and publishing more topical notes and TA reports while preserving confidentiality and client trust.

In light of the significant growth of the Fund's CD activities in recent years, Directors emphasized the need to strengthen the sustainability and fungibility of external financing and to closely monitor and manage related risks. They asked for more comprehensive information about the funding model, with a few Directors noting the need to discuss the funding issue in future updates. Directors acknowledged that the review takes place in a resource-constrained environment. While some key reforms are already in train, many recommendations will likely need to be accommodated through reprioritization within departments, and others will require targeting and prioritization of CD more rigorously to focus on impact. Directors also noted the importance of strengthening HR practices and better incentivizing the work on CD.

Directors emphasized that, in accordance with the 2014 CD policy statement, which remains in place, the Board should provide strategic direction and oversight through (i) regular reviews of, and policy guidance for, the Fund's CD policies and activities; and (ii) the budget process. While respecting the demand-driven nature of CD activities, they stressed the importance of more information sharing to better inform their views on broad priorities for CD and to strengthen the strategic role of the Board. In this regard, they encouraged staff to continue the practice of informal Board briefings on CD activities and to engage the Board on strategic direction and priority-setting on a more regular basis going forward.

It is expected that the next review of the Fund's CD strategy will be completed no later than November 2023.

APPROVAL: April 8, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Overall Strategy

1. *As organizational change is more than just increased individual capacities, could staff clarify how the review recommendations would strengthen the institutional aspect of CD?*
 - To increase the impact of CD, the Fund must take into consideration not just the technical aspects of its advice, but also the strength of institutions it is supporting and readiness to implement technical advice. This means consistently considering organizational and decision-making aspects, leadership and management commitment, resistance to change from different stakeholders, resource constraints, limitations on human capacity, and political instability among other factors. Structuring CD interventions based on overall country strategies and medium-term projects allows for more space to consider implementation challenges. Bringing these issues more squarely into the policy dialogue will also provide needed support for these objectives. Some aspects of these questions go beyond the Fund's expertise and addressing them will require working with other organizations with relevant expertise.
2. *The External Advisory Group proposes having a more concrete plan for implementation while stressing that it is difficult to change organizational practices. In this regard, how does staff plan to address this issue, and is a guidance note for the Fund's CD strategy envisaged?*
3. *Will there be another document that helps operationalize the key recommendations and allows for monitoring of their progress?*
4. *While we would seek to avoid being overly-prescriptive ex ante, we are unclear how this work will be taken forward, by whom, and over what time horizon. Staff comments would be welcome.*
 - (Response to questions 2–4) At the policy level, the recommendations of the CD Strategy Review will be reflected in an updated CD Policies and Practices Statement, which will be discussed at an informal Executive Board meeting and subsequently presented for approval in summer 2019. At the operational level, work will continue to bring to completion the pending initiative to improve the CD management system (CDMAP), which together with other Fund-wide initiatives (Digital Workplace and

Knowledge Management) hold the promise of transforming the CD operations through strengthened information sharing and support for the effective rollout of the Results-Based Management (RBM) and Common Evaluation Framework (CEF). On better integrating surveillance and CD our challenge will be to mainstream best practices across the Fund. Work on prioritization will be take on board strategic guidance from the Board and move forward in the context of the Committee on Capacity Building (CCB) and annual Resource Allocation Plan (RAP), with reporting to the Board in the context of the Medium-term Budget.

5. *We would be interested to have staff comments on whether the available tools would have allowed for a more developed quantitative analysis in the review and how they could improve this aspect going forward.*

- The quantitative analysis presented in the review was based on current systems and available data. The report recognizes the need to improve systems and the availability of CD data. The CDMAP project will address critical gaps and support much needed harmonization of CD processes across departments. The project will improve the planning, managing, monitoring and reporting of CD activities, and increase transparency. Most fundamentally, it will provide a clearer picture to all participants in the CD process of CD operations, allowing for more nimble and responsive planning.

Roles and Responsibilities

6. *Staff's comments on the metrics used to define "heavy CD user" are welcome.*

- A common metric for defining heavy CD users has not been defined yet but will likely take into account considerations related to volume of CD received, current and envisaged (i.e., based on capacity development needs, participation in or proximity to a Fund program).

7. *Could staff elaborate more on what is envisaged as a broader role for the mission chiefs, and country teams in general?*

- Mission chiefs are expected to be in the leading role on overall country engagement, including establishing country strategies and priorities for CD, working in collaboration with CD departments. Mission chiefs would be expected to engage with CD departments and authorities to identify CD priorities and formulate CD strategies that complement broader country engagement through surveillance or lending; recognize CD as an integral component of the engagement with country authorities and maintain a close dialogue with CD departments, before and after both CD and surveillance missions; give increased visibility of CD in surveillance documents,

particularly in cases involving heavy use of CD; and work closely with CD departments in monitoring the implementation of key CD recommendations.

8. *Staff may provide further clarification on the Fund's efforts to evaluate the capacity and to prepare mission chiefs and resident representative offices to take on this expanded role.*
9. *The background study raises, however, important points in ¶35 about how mission chiefs operates mostly on a personal, rather than on an institutional basis in dealing with CD issues in Article IV consultation. In addition, it points out in ¶54 and ¶57 to divergence of agendas between area and CD departments. These are important impediments to a better integration of CD and surveillance and we would appreciate some elaborations from staff on how the proposed recommendations will address these concerns.*
 - (Response to questions 8–9) Staff considers that a process of experimentation and knowledge/experience sharing across departments will help distill best practices in surveillance and CD integration and will clarify the roles and responsibilities of mission chiefs and resident representatives in this regard (See Annex II of the Background Study on Integration of CD and Surveillance, page 22). Work will continue on how best to leverage these best practices to better support the interactions among the various internal and external stakeholders. At the same time, ongoing work to support greater information sharing through the Digital Workplace, strengthened Knowledge Management systems, and CDMAP, will also facilitate such collaboration.
10. *Could Staff share early lessons learned from enhancing the role of area departments, particularly through their mission chiefs and resident representatives to prioritize CD activities and integrate them in surveillance?*
11. *Could staff elaborate on other specific steps under consideration to coordinate CD delivery with area departments in a more systematic manner? Should Resident Representative Offices assume a more prominent role in this respect, including through the appointment of resident coordinators in charge of monitoring CD engagements and fostering a closer dialogue with other CD providers? Could staff also elaborate on the lessons from the more integrated approach to CD and surveillance in AFR?*
12. *What is the experience with the new 3-year RAP cycle in facilitating a closer involvement of area departments in CD projects? To what extent the good practices for integration of CD with surveillance developed by the African Department are shared with/endorsed by other area departments?*

- (Response to questions 10–12) Early lessons and good practices from an increased engagement of area departments in CD issues have been provided as part of the Staff Background Study on the “Integration of Capacity Development and Surveillance.” As noted above, next steps include continued experimentation and experience sharing to help leverage best practices.
 - The RAP reforms have facilitated a closer involvement and coordination of area departments, including resident representatives and RTAC coordinators, and CD-delivery departments in several ways. Semi-annual management meetings with department heads and a move from an annual to a three-year RAP cycle supports closer involvement of area departments in multi-year CD projects. RSNs and CSNs (for heavy users of CD) are drafted by area departments through a structured dialogue with CD-delivery departments. As part of the reforms, area department mission chiefs also review all briefs for planned CD missions indicating, in writing, that they agree on the timing and scope of the missions before they proceed, while RTAC coordinators endorse mission briefs for RTAC experts.
- 13. *We also note with interest the recent initiative of the APD to strengthen integration through the “mapping” of CD activities against current surveillance priorities. Can staff elaborate on how the “mapping” works and the nature of involvement of stakeholders? As highlighted in the External Advisory Group report that the Fund operates in countries with a wide array of governmental capabilities, we would appreciate staff’s reassurance on avoiding a one-size-fits-all approach to integrating CD issues into the Fund’s surveillance work so that CD remains country-specific and fit for purpose for recipient countries?***
- The CD-surveillance matrix that APD has implemented aims to prioritize and align CD activities with surveillance policy priorities identified during Article IV and other discussions with country authorities, and to do this in a cost-effective manner. To complement this matrix, APD has initiated other measures to deepen the integration between CD and surveillance, notably strengthening the interaction between country teams, functional departments and RCDCs to enhance the authorities’ capacity to implement surveillance policy advice. APD’s RCDCs and resident representatives are in close dialogue with various stakeholders including country authorities and CD donors.

Prioritization and Monitoring

- 14. *We understand that reconciling the demands from all stakeholders, including donors, in the prioritization process is a complicated and difficult process. This***

underscores the importance of a stronger governance framework and staff's comments on how to address this issue are welcome.

- As the overall level of CD activity levels off after a period of rapid growth, prioritization becomes even more critical. As noted in the background paper on prioritization, recent reforms have aimed to increase transparency and efficiency by promoting a better exchange of information among departments and by requiring explicit management approval of a strategic summary of the proposed interdepartmental resource allocation. The new approach requires allocation of resources by project, rather than by mission, seeks a more strategic assessment of country demand, and focuses on medium-term CD delivery estimated by region and topic.
- 15. *Going forward, the Fund will need to build expertise on emerging issues in collaboration with other groups. In this context, we would like more details on the likely resource allocation for these issues as well as the potential to develop cost sharing mechanisms for the CD delivery.***
- 16. *We wonder how the envisaged developments and coverage of emerging issues will affect the current financing envelope under the flat budget and constrained staffing environment.***
- (Response to questions 15–16) These issues are relevant to the Fund's surveillance, as well as CD, activities. CD delivery in emerging areas remains very modest, as the Fund continues to focus on building out its expertise. Looking forward, CD in these areas would take into account demand from member countries, macro-criticality, the degree of in-house expertise in the area, cost, synergies with surveillance and UFR, and collaboration and partnerships with other providers.
 - To date, targeted courses, workshops and TA have covered issues related to Fintech, energy, inequality, gender, and climate changes, in the context of core areas of expertise (e.g., financial supervision, taxation, budgeting, and macro-economic management). The overall amount of resources dedicated to the new issues remains small (e.g., FAD estimated that about ½ FTE was devoted on emerging issues, or less than \$0.5 million; ICD estimates that about 3 percent of all courses delivery have been allocated to emerging areas). As mentioned above, the provision of CD in the emerging areas will be considered in the context of the broader Fund-wide framework on CD prioritization.
- 17. *It is difficult to envision the tradeoffs planned without a more granular analysis and we would be more comfortable with the exact budget implications and***

comparison CD activity-wise to offer our views on the matter. We invite staff comments on the proposed timelines for this information.

- The review takes place in a resource constrained environment within the Fund. With limited scope for additional resources to support CD-related activities, efforts to strengthen Fund CD will likely need to be accommodated within the existing budget envelope. In the absence of additional resources, this likely implies reduced CD delivery, but greater effectiveness in those CD engagements that are pursued. The strengthened role of area departments will require careful consideration of resources for both area and CD departments. In addition, to strengthen tailored delivery, including by enhancing the assessment of institution-specific capabilities within countries, strengthening coordination, and addressing the currently low rate of publication of TA reports, departments will need to consider how best to allocate resources among competing needs.
- 18. *While we look forward to specific estimates of the tradeoffs within the resource constrained environment, we would also like to have an indication of where difficulties meeting targets and current objectives have already been identified.***
- Current priorities, covering the bulk of CD delivery, recognize that in a resource constrained environment with excess demand, all CD delivery should focus on high priority, high impact uses. It also means that growth in priority areas has not always translated into increased shares of CD delivered. In some topics (e.g., fragile states) achieving targeted growth rates for CD delivery remains challenging in part due to absorption capacity and, on occasion, security conditions. That said, delivery to fragile states increased substantially in 2018 (12.6 percent growth rate of CD spending).
- 19. *We recall that the 2014 Review of the Debt Limit Policy introduced an exemption for countries with weak capacity to monitor the contracting of debt with the presumption that these countries would benefit from increased capacity-building efforts. Has this presumption materialized in the form of expanded IMF CD activities aimed at improving debt monitoring?***
- The Fund provides extensive CD related to government debt management to support the strengthening of mechanisms for tracking the level and composition of debt and to adjust policies accordingly. This CD takes the form mainly of bilateral advice and multilateral training conducted by MCM, FAD, and SPR, in cooperation with the World Bank. It has been ramped up since the Fund joined the Debt Management Facility topical trust fund in 2014 and with the development of online courses. STA has also been providing CD to low and lower-middle income countries to strengthen capacity for public sector debt statistics reporting and monitoring. In the recent past,

STA CD on debt statistics has expanded from 7 missions in FY 2017, to 12 missions in FY 2018 and 16 missions in FY2019. In FY 2020, CD on debt statistics is expected to expand further to 31 missions, a large part of which is funded the new D4D Fund.

- There is evidence that programs have also placed more importance on building capacity in debt management. Adoption of debt management laws has been a frequent structural benchmark, which is critical to ensure transparency requirements are enshrined in the legal framework. There is less evidence of benchmarks relating to debt recording and systems issues, which probably reflects the fact that the IMF and WB are not the primary providers in this area (UNCTAD and COMSEC are), and thus the Fund is less well-placed to design and monitor such conditions. Finally, and possibly also as a result of these efforts, since 2015, eight countries have been added to the list of adequate capacity for program monitoring purposes.
20. *Against the backdrop of a looming debt crisis, we see specific need to prioritize work on Domestic Resource Mobilization in that region. As Figure 7 of the overview paper projects some growth in CD on Domestic Resource Mobilization going forward, we would be very much interested to learn about the underlying assumptions of that projection, especially with a view to expected demand and geographical distribution of that growth.*
- Africa is the region that receives the largest amount of revenue mobilization CD. Its share in revenue mobilization CD is growing and is expected to reach around 37 percent by FY21. This growth is expected to be underpinned by development of Medium Term Revenue Strategies and associated policy, legal and administrative reforms, including through support by the expanded Revenue Mobilization Thematic Fund.
21. *We note that contrary to IEO recommendations, Figure 5 (Page 24) of the overview paper, reflects a declining trend of TA Delivery to highly vulnerable countries, for the period FY15–FY18. Can staff comment on the reason(s) for this downward trend?*
- Which countries are highly vulnerable at any given moment is determined by exogenous developments that the VE exercise captures. The exercise is conducted twice each year, so changes can sometimes be frequent. In this chart, we used the latest iteration of the exercise and kept the specific countries considered highly vulnerable there constant to generate a series of delivery from FY15–18. The CD delivered to this group is volatile, however, reflecting patterns of delivery and program engagement in individual large cases (several of these countries concluded their programs with the Fund in this period). While the share of TA delivery to this

group declined over this period, it increased in nominal terms from about 66 FTEs in FY15 to 69 FTEs in FY18.

22. *Given the declining trend in CD spending seen in the review for highly vulnerable countries (FY16–FY18), could staff comment on how the most at risk would be better served in the context of the envisaged prioritization framework?*

- See previous answer. As highly vulnerable countries have been identified as a CD priority group, staff aim to increase the share of CD to this group to the extent possible, subject to demand, absorptive capacity, and available experts in the requested topics.

23. *Can staff comment on how the current CD review would directly impact the SSA region, especially in terms of prioritization and vulnerabilities?*

- SSA receives the largest share of the Fund’s CD, and this is projected to continue. The recommendations of the CD review aim to ensure that resources allocated to SSA as a region are well targeted, achieve high impact, and are based on a prioritization process that reflects country strategies developed in close cooperation with beneficiary countries. Country strategy notes have been prepared for almost all countries in the region and will be updated regularly based on discussions with the authorities, CD departments, and regional RCDCs. In its prioritization, AFR is working to taking into account unmet and emerging demand areas. While a focus on CD delivery to fragile countries will continue, the pace of delivery will be adjusted in line with the recipients’ absorption capacity, not to overwhelm the authorities and to improve efficiency. Increased focus will be placed on modes of delivery that boost absorption capacity, like peer-to-peer events and customized training. It will be important that established milestones and targets under RBM reflect a common understanding between the Fund and the beneficiary member.

24. *Could staff elaborate on experience in engaging country authorities in the RBM process, and any further initiatives in this regard?*

- The scope and quality of engagement with country authorities in the RBM process will continue to evolve. In best practice cases, CD delivery units and country authorities have been successfully interacting on the development of project log-frames, particularly with regards to project milestones and the establishment of a baseline for expected outcomes, as well as the analysis of underlying risks. These interactions happen not only during the project design but also during project implementation, often triggering corrective measures to make CD activities more effective. As a significant number of the first wave of covered projects approach completion, staff will expand the engagement with authorities on the assessment of

results. Better information systems are vital to ensuring that mission chiefs and other area department representatives also have access to and can support implementation of the RBM framework.

25. ***What accounts for the long lag between the Board endorsement of the RBM framework in 2013 and its becoming a requirement for all CD operations since May 2017?***
 - RBM is challenging. It took time to develop systems and guidance materials to support the framework deployment. This included the development of: a methodology for implementation, harmonized across the Fund; a catalog of standardized log-frame entries for technical assistance; and, a development of initial software (CDPORT) for the recording and subsequent monitoring of project log-frames. The process also entailed the training of the extensive number of users in CD delivery departments and capacity development centers, the envisaged phased introduction of the framework (starting with all donor-financed projects from May 2016), by financing source, and the discussion with relevant stakeholders about the conversion of existing projects to the new framework.
26. ***We would appreciate staff's clarification on whether or not actual results of CD on the ground are the basis for monitoring and evaluation under the RBM framework.***
27. ***Could staff comment on the sequencing and timing currently envisaged for full implementation of the RBM?***
28. ***Considering that a unified RBM framework is now being rolled out Fund-wide, and information is being gathered and monitored since May 2017, we would like staff to comment on their initial insights from the use of the RBM and how the Board will be informed about the results of RBM going forward.***
 - (Responses to questions 26–28) Where these data exist, they are already taken into account in monitoring and evaluation of individual projects and departmental CD portfolios. At this stage, information on performance against milestones is emerging—while information on outcomes—which can take much more time—is limited.
 - The improvement of the RBM database is ongoing, with a current focus on addressing consistency and quality issues as early information becomes available. Results data will increasingly be incorporated into evaluation and project reporting as additional data become available.

- The use of RBM for strategic decision making at Fund-wide level, including high-level information to the Board and subsequent related discussions, will require additional time. As noted above, the availability of results data is still limited.
- 29. *Could staff elaborate on how the CEF will contribute to increasing CD department-led evaluations?***
- 30. *Can staff comment on how soon they expect to complete the TA database?***
- (Response to questions 29–30) The CEF introduced a CD evaluation work plan with a rolling three-year horizon, revised annually by the CCB (See Background Study on Monitoring and Evaluation). The purpose of the review is to develop a medium-term evaluation plan that is driven by both internal strategic considerations and donor accountability needs. As broader results data become available, CD delivery departments will incorporate its findings on it in subsequent annual reviews of CEF's evaluation workplan.

Country-Tailored Delivery Focused on Implementation

- 31. *Considering that the top 10 CD users averaged about 60 missions each from the Fund along in FY18, we wonder to what degree the CD is demand-driven and tailored to countries' absorption capacities?***
- Recent reforms have shifted from a mission focus to an outcome (i.e., strategic objective) focus. The number of missions for a given outcome will typically be higher for more complex, country-tailored approaches.
 - The top 10 CD users in FY18 were largely fragile states, program countries, or low-income countries with considerable and complex capacity building needs. Delivery on overarching strategic objectives would require a series of sequenced TA and training missions.
 - Absorption capacity is nevertheless an important consideration in allocating finite CD resources and will require continuous efforts to fine-tune the Fund's approach. RBM and CDMAP should increasingly better inform deliberations on country strategies, including on how to better tailor CD where limited capacity exists given the high needs and demands in these countries.
- 32. *What are the areas with the strongest interest from the member countries? Is there a substantial demand for TA in the Fintech area? Is the work on governance/anti-corruption issues driven by members' requests or by donors' priorities? Staff comments are welcome.***

- Following the launch of the Bali Fintech Agenda, MCM is rolling out five regional workshops/conferences on the Fintech, in addition to targeted TA.
 - Following the adoption of the framework for enhanced Fund engagement on governance and corruption issues in April 2018, it is expected that CD will play an important role as part of the broader strategy. CD provision governance/anti-corruption is currently under discussion and will be considered in the context of the broader Fund-wide framework on CD prioritization, recognizing that all CD is voluntary and requires a formal request from the member government.
33. *Recipient countries should prioritize capacity development to make optimal use of the Fund's expertise. This requires early engagement with the Fund, and continued implementation and follow-up after the training or technical assistance has taken place. What is staff's strategy to ensure this can be achieved? Do staff e.g., see merit in using conditionality in program countries to strengthen implementation, and could post training and technical assistance follow-up support enhance ownership and implementation? Finally, could a symbolic participation of the recipient country in the cost of capacity development enhance country ownership and prioritization?*
- To strengthen implementation, staff considers that it will be important to enhance engagement with country authorities throughout the CD process (scoping-initiation-design-delivery-monitoring), having a more consistent follow-up on macro-critical CD recommendations in surveillance missions, and taking measures to ensure that CD advice and delivery is more tailored to the country circumstances, especially in countries with severe capacity constraints. CD also continues to play a supportive role in assisting countries to implement objectives under their Fund-supported programs.
 - On the question on symbolic participation of the recipient country, the Fund introduced a policy for charging recipients for TA in 2009 (endorsed by the Board in 2008) aimed at rationalizing demand for IMF TA and training, enhancing ownership by recipients, and creating incentives to allocate and use the IMF's resources more efficiently while, at the same time, increasing accountability for resource use within the IMF. However, implementation of this policy was postponed due to the global financial crisis, which made more apparent the public good nature of the Fund's technical assistance, then repealed in 2011 as part of the FY2012-FY2014 Medium-Term Budget discussions, recognizing that charging small, symbolic amounts would complicate CD management and introduce substantial administrative costs. In 2015, the Fund implemented a policy where Fund resources for CD to

advanced economies is limited to critical needs (e.g., crisis cases), where no external funding can be found or below a threshold of US\$250,000.

34. *Assessing the effectiveness of training, especially online training, is very challenging and it takes time for training to realize ultimate impacts on policy formulation of recipients countries. And it is also difficult to single out the effect of training in the longer horizon. Staff's views are welcome.*
- In the area of training evaluation, course follow-up surveys inquire about the usage of skills on the job and sharing of knowledge with colleagues as a way to understand impact beyond individual skill levels. While the ultimate impact of training on policy formulation hard to measure, staff has found it helpful to link training with TA (e.g., making online training a prerequisite to TA delivery, for example TA on Fiscal Analysis of Resource Industries and the online Macroeconomic Management in Resource-Rich Countries course).
 - Going further, as indicated in the Short Note on Integrating TA and Training, in select high-priority cases, ICD delivers customized training (CT)—country-specific training to teams of officials in their institutional context to support policymaking. In these cases, extended projects clearly aim at institutional change by helping organizations build specific capacities that feed directly into the policymaking process. Online and classroom training may also be used to lay the groundwork for the CT engagement.
35. *We see value in the recommendation to explore the possibility of introducing training focused on building leadership, management and organizational skills in CD interventions, as such skills are essential for reform implementation, and we would appreciate staff elaboration on this point.*
- The Fund's training activities have focused on macroeconomic skills where it has the expertise and comparative advantage. Staff agrees nevertheless that capacities such as leadership, managerial, and organizational skills are essential for reform implementation. Stronger engagement on CD issues in policy dialogue of country authorities is one way that such weaknesses can be identified, and CD activities are better tailored to such constraints. The increase in customized training and in TA focused on implementation can also help. Furthermore, improved coordination with other CD providers who are better equipped to deliver such training could play an important role in addressing such issues.
36. *To meet this demand and consistent with the review's vision of "working closely with member countries and other partners to extend the Fund's role as a knowledge hub", do staff consider elaborating a catalog of best practices/success stories and external experts to be rolled over when needed?*

- As mentioned in the review, staff is considering options to increase the dissemination of best practices and success stories, including through a greater public dissemination of TA reports and topical notes (“How-To” Notes and Technical Notes and Manuals currently produced by CD departments) in specialized areas of interest to policy makers. Furthermore, the Fund is also considering steps to inform and engage more closely with local stakeholders on key TA recommendations and to make progress on CD external communications.
37. ***We are concerned that fragile states are allocated limited resources despite their large needs in terms of CD, as highlighted by the 2017 IEO report on fragile states as well as the coming 2018 Risk report. We would welcome staff comments.***
- Fragile states is a CD priority group, and staff considers this group of countries as a critical area to provide Fund support. There are, however, some challenges to delivering CD to fragile states, including security issues and absorptive capacity. From FY2015 to FY2018, direct CD spending on CD for fragile states increased from about US\$53 million to about \$66 million (an increase of about 25 percent), and accounts for about 22 percent of the Fund’s CD spending.
38. ***We wonder however how the Fund is addressing other infrastructure problems such as limited access to electricity, IT hardware and communication platforms, which often coincides with situations of fragility?***
- The Fund recognizes that infrastructure investment – including in areas such as electricity, IT and communications platforms - can help secure faster and more durable growth. The Fund coordinates closely with other key stakeholders such as the World Bank and regional development banks which are actively engaged in addressing these critical bottlenecks at a more granular level. For many countries, this also requires improving the quality of spending and, where appropriate, also the quantity. Toward this end, the Fund engages on these issues through the infrastructure policy support initiative, which is a demand driven, consolidation of efforts to help members (i) increase the efficiency of public investment in all countries, and (ii) explore ways to sustainably scale-up such spending in countries where an increase is warranted. Public Investment Management Assessments (PIMAs), introduced in 2015, help countries improve their infrastructure governance. PIMAs have been applied in more than 45 countries so far, including 10 fragile states.
39. ***RTACs and regular online sessions could be used to provide corrective and proactive CD that addresses system weaknesses and deviations from best practice identified in surveillance and TA missions to such countries. We would value staff thoughts on this.***

- As outlined in the review, measures will be taken to strengthen the flexibility in CD delivery, including by focusing more on assisting with CD implementation and related training for officials. RCDCs remain well-positioned to support a more flexible, needs-based model in collaboration with headquarters. Staff will also continue to experiment with web-based approaches to follow-up on TA missions (e.g., through emails and video communications rather than missions), which will also support more iterative engagement with the country authorities.
- 40. *Could staff elaborate further on how sufficient integration of regional CD centers with general Fund CD policies and processes can be ensured?***
- Staff continues to work to establish consistent policies across area and CD departments for interacting with RCDCs and ensuring that RCDCs are fully integrated into the CD planning and monitoring processes (e.g., RSNs CSNs and RAP process). CDMAP will help considerably in this effort by making information more readily accessible to RCDC coordinators, as well as Area and CD departments, thus facilitating coordination.
- 41. *We would appreciate it if staff could provide an update on the status of plans to open a RCDC in the CCA.***
- 42. *The only region that does not yet have the benefit of an RCDC, but where the need for technical assistance is high, is the Caucasus and Central Asia (CCA) region. We urge staff and management to address this important gap, and to finalize the work that has been underway for some time already. Could staff provide an update on the status of these plans and current discussions?***
- 43. *Despite deployment of the Fund's RCDCs all over the globe, one important region is left behind—namely, the Central Asia and the Caucasus. However, we were recently informed about plans to close this gap. We would welcome staff's update on the latest developments on this project.***
- (Response to questions 41–43) The business case for a new center is under consideration as part of the broader review of priorities and how best to ensure that the capacity development needs of the CCA region are met effectively and efficiently.
- 44. *We would have appreciated a more detailed discussion about how the Fund could move from its traditional HQ based short-term stand-alone missions to a continued and followed-up presence on the ground. Staff comments are welcome.***

- Closer engagement with country authorities goes hand in hand with ongoing efforts to strengthen the flexibility in delivery modalities, with greater emphasis on assisting with implementation measures, as well as adjusting the mix of technical support by combining field-based experts and HQ-based missions. Given their proximity to members, RCDCs are expected to continue to play a strong role in supporting a more flexible, needs-based model in cooperation with headquarters.
45. *We note that in FY 2018 about 10 percent of all courses were delivered in non-English languages. Could staff provide the information about the trends in this area—whether the use of such courses has been growing or declining, how do staff assess the demand and what are the resource constraints?*
- In the area of face-to-face training, 88 courses (2620 officials) have been taught in FY18 in languages other than English (main language or interpretation), which account for 34 percent of total courses. In the area of online training, in FY18, 1034 government officials were trained in languages other than English, accounting for 21 percent of total participants (compared to 742 officials trained in FY17). Almost all ICD courses at the African Training Institute (ATI) are offered with simultaneous interpretation in French. To cater to the Portuguese speakers, two courses a year are offered at ATI. Staff notes that a growing number of participants from non-Anglophone countries are able to join English-speaking courses, while demand remains high for all courses (both English and non-English).

Internal Consultation and Sharing of CD Information

46. *Staff comments are welcome on how to improve visibility for the Board of medium-term country CD objectives, and priorities/results of RTACs and Thematic TFs.*
47. *To this end, and to ensure greater Board involvement, we suggest a follow-up Board meeting to review how Board-endorsed recommendations will be prioritized and implemented. At that time, staff could also brief the Board on how to integrate the new interesting concept of behavioral insights in implementation. This meeting would also offer the opportunity to consider any update to the 2014 Statement on IMF Policies and Practices on CD. Staff elaborations on this suggestion would be welcome.*
48. *Timely provision of information to the Board will provide the basis for in-depth engagements with staff and well-considered strategic decisions for the Fund. We welcome staff's comments on this, including the potential to leverage the RBM to enhance strategic discussions at the Board.*

49. *In our view an informal Board meeting to engage on the priorities for CD activities over the medium-term will be helpful to ensure that CD priorities are aligned with the broader Fund priorities in surveillance and lending and, therefore, with members' needs and priorities. We would appreciate staff elaborations on this suggestion.*
- (Response to questions 46–49) The Board provides strategic direction and oversight of CD through (i) regular reviews of, and policy guidance for, the Fund's CD policies and activities; and (ii) the budget process, as set out in the 2014 IMF Policies and Practices on Capacity Development. Efforts have been made, particularly over the past year, to provide greater information to the Board on CD activities to inform its strategic guidance.
 - The current review is of course important in this regard. In addition, recent policy papers on core Fund topics (e.g., data, fragile states, and governance) have increasingly integrated CD considerations, while the Board also received informal briefings from all CD delivery departments, as well as a dedicated discussion on external financing.
 - More systematic and well-integrated coverage of CD activities at the country level in Article IVs, particularly for heavy users, can be an important way to improve visibility for the Board while also strengthening the integration of surveillance and CD activities. Progress on increasing the publication of CD reports and other CD products such as “how to” and best-practice notes will also improve visibility.
 - Staff will continue the practice of informal Board briefings on CD activities and find other opportunities to inform and engage the Board more regularly on CD. The Board will also discuss an update to the 2014 IMF Policies and Practices on CD in the next Work Program.
50. *Regarding CDMAP, the envisioned impact on the CD process sounds promising, but we would be interested in more detailed information on how CDMAP will actually achieve the expected improvements.*
51. *We would appreciate if staff could present some of the examples of how the internal consultation within the Fund has been improved with the CDMAP.*
52. *We would like to hear from staff what the timeline for these (CDMAP) projects is and who are the responsible team/manager/staff.*
53. *We assume that the main hopes for improvements in this area are placed at the ambitious CDMAP initiative. This project will address the existing weaknesses in*

inter-departmental CD coordination, improve planning, managing, monitoring and reporting of the CD activities. Taking into account the importance of the project for improving the CD work, we would welcome additional information on its execution.

- (Response to questions 50–53) CDMAP is a multi-year program focusing on the modernization, harmonization, and streamlining of CD processes, and the capture and dissemination of data on CD delivery and results. The program aims to break down silos across CD and area departments, support better management and prioritization of CD resources, establish more effective coordination between CD and surveillance/program work, and enable more informed strategic decision-making and governance. It will provide comprehensive, country focused views of CD delivery. Initial scoping work commenced in April 2018 to establish a governance and organizational framework and a detailed implementation plan. Next steps include fleshing out the IT solution and continuing to harmonize processes under a comprehensive change management plan. Implementation under a new IT solution will commence in mid-2019 and encompass both business process changes and systems development following selection of the IT solution.
 - CDMAP’s design takes into account good practice in designing similarly complex programs in other organizations and in the Fund. CDMAP is strategically overseen by a senior-level Steering Committee (departmental Director level) and managed by a program manager who reports directly to the Steering Committee and leads the program execution, supported by a project management office. This work is also being aligned with other major capital projects underway in the Fund to ensure dependencies are taken into account, while avoiding both duplication of effort and gaps in coverage.
54. *We are surprised to learn that critical tools such as CDMAP, Digital Workplace and a KMU project are being rolled out only recently as part of the Big 5 Updates and remain far from the implementation phase. These weaknesses clash with the goal of reinforcing the Fund’s role as a knowledge hub. Staff’s comments are welcome.*
55. *We note that the implementation of the “Digital Workplace” and CDMAP present an opportunity to address these deficiencies but regret that these initiatives were not taken earlier. Staff’s comments on the completion timeline of these two projects are welcome. We would be equally interested whether the Knowledge Management Unit has a role in creating a central platform in this context.*
56. *We support the recommendations for enhancing the Knowledge Management Unit and for the improvement of internal access data, analytical tools and productivity tools and would like staff to comment if there is any progress in this regard.*

57. *Could staff comment on the progress that has been made so far through the “Digital Workplace” project?*

- (Response to questions 54–57) CDMAP, the Digital Workplace and the Knowledge Management program constitute three of the so called “Big 5” capital programs that are currently underway in the Fund. These programs are all critically linked, requiring regular coordination and collaboration between the program managers and the operational teams involved in design and implementation. The preliminary time frames for completion of each of these programs differs, but it is expected that rollout of significant functionality for all three will take place over the course of the next two years. These systems will be expected to communicate with each other.
- The KMU work agenda is focused on improving the Fund’s knowledge management as an institutional capability. Given the early stages of this effort at the Fund, the work is currently focused on building foundational capabilities related to improving document management systems and processes, the quality of the Fund’s vocabularies and the related tagging of documents and content, and improvements to search systems and general findability. A more comprehensive update to the Board will be provided separately by the KMU in May.
- The Digital Workplace will provide the central platform that integrates the delivery of certain knowledge assets to Fund work processes, leveraging the KMU’s work on business vocabularies, auto-tagging, document management, and enterprise search. Initial work is underway to address internal availability of TA.

Coordination, Communication, and Dissemination

58. *Did staff engage with the World Bank, regional development banks and bilateral development agencies to prepare this review?*

- Staff sought views from bilateral CD partners in the context of the stakeholder survey. It has looked into relevant best practices developed in peer multilateral institutions. For example, staff has considered the World Bank’s experience with Results-Based Management, as described in Annex III “RBM at Peer/Partner Institutions” of the Background Study on Monitoring and Evaluation.

59. *It is not clear what will be done in practice to enhance this coordination. Chapter V of the background report: Staff Background Studies and Short Notes provides helpful specific recommendations and we wonder if staff is considering adopting them.*

60. *Where relevant, we believe that existing forums for donor and recipient country coordination could be used rather than creating new parallel forums. We would appreciate if staff could elaborate a little bit more on which concrete actions and initiatives are under way to ensure sufficient coordination.*
61. *Could staff offer more details on the strategy envisaged for co-ordination with external CD providers?*
62. *We appreciate staff comments on collaboration with the local CD institutions to incorporate the CD models in their curriculum to ensure durability, given the Fund's resource limitations.*
- (Response to questions 59–62) Effective coordination requires significant resources and tailored approaches to the peculiarities of individual countries. The short note on coordination details work underway, both at headquarters and in the field to support such coordination and also outlines how these efforts can be further improved. For example:
 - In countries with large CD needs, a regular forum to communicate and share information among various CD providers (e.g., annual coordination committees), preferably with country authorities in the lead, would be desirable.
 - In countries with severe capacity constraints in the face of multiple CD projects, a greater Fund presence on the ground would be necessary (e.g., through a more active role of the resident representatives, RCDCs coordinators, or through an in-country CD coordinator, based on resource considerations).
 - A stronger role of the area department mission chief in coordinating overall country engagement can also support coordination with other CD providers
63. *We note that EAG proposes that two-to-three page precis of "lessons learned from the engagement" be considered. Staff's views are appreciated.*
- The EAG proposal for short strategic summaries has merit and will be considered among various options to improve the dissemination of TA information, recognizing the importance of confidentiality issues and resource implications.
64. *As noted in the 2018 Mid-Year Risk Update – Risk Mitigation, while generous donor funding of CD has clear benefits, its high share in the IMF's overall funding carries risks, including rollover risks, prioritization issues, and reputational risks. Against this backdrop, the Report should have discussed in greater detail the risks pertaining to the continued growth and the share of external funding, the sustainability of the financing model, and whether the risk mitigation framework in place remains appropriate. Staff's comments are welcome.*

- As set out in the Short Note on CD Partnerships and discussed during the Informal Briefing to the Board on July 23 on the external financing of the Fund's CD work, staff takes measures to mitigate funding risks. These steps include developing broader and more sustained partnerships and putting more emphasis on flexible funding vehicles. The former resulted in the share of the top 5 partners to decline from around 68 percent in FY2010 to 50 percent in FY2018. In addition, the IMF's CD funding model is based on up-front financing, which means that no work is undertaken if the financing is not available, and work programs can be adjusted in the infrequent cases where funding for a given vehicle proves difficult.
65. *We are interested to hear how staff perceives this situation, and which actions are being contemplated if in the end external resources do not materialize for these regional centers.*
- Staff always strive to meet the funding requirements to implement regional centers' original program document budgets in full. However, in the case that resources do not materialize, staff stands ready to adjust workplans and prioritize further, in consultation with members and partners.
66. *Regarding the CD funding model, we would be interested in learning more from staff on the efforts underway to expand and diversify the donor base.*
- ICD's Global Partnerships division has been reaching out to a number of potential partners over the last two years who have not traditionally contributed to IMF CD. Since the beginning of October 2018, a CD representative has been placed in Brussels, which allows for a more frequent and closer contact with current and potential new partners in the region. These efforts are gradually bearing fruit. Efforts are also ongoing in other regions with awareness and fundraising missions ongoing. As a result of these efforts, the share of the top five CD donors has started declining.
67. *We think the Fund should mobilize more internal financing while attracting external financing. CD contributions should be treated as a quota-based obligation, and a cost-sharing mechanism is warranted. For example, the costs could be proportionally shouldered by middle-income countries and above, while the poorest countries could be exempted. Staff's comments are welcome.*
- Quota-based obligations and a cost sharing mechanism to Fund CD activities for members would need to be considered in the context of a wider discussion of the Fund's overall financing model.

68. *We would like to know more details about the approval process for new donor initiatives.*

- New donor-financed initiatives, regardless of funding vehicle, and the renewal of existing multi-donor initiatives are subject to consultation among relevant Fund departments and management approval to ensure consistency with the Fund's institutional and budget objectives. Elements for management's consideration are (i) key features of the initiative; (ii) how the specific initiative fits with country and Fund-wide CD priorities; and (iii) funding implications. The renewal of bilateral donor-funded initiatives currently goes through the approval process only when there is a significant change in the size or scope (e.g., topical or regional focus), while small donor-financed initiatives are subject to a simplified process. The Board approves on a lapse of time basis the opening of new subaccounts (e.g., D4D, FSSF).

69. *Can staff indicate when member-financed CD will be reviewed?*

- See question 33, second bullet.

70. *We also believe that more transparency could be provided on CD availability and charging policy. For example, are there specific regions or areas where it is more difficult to ensure adequate financing because donors' priorities are focused on other areas and/or regions?*

- Overall CD priorities are determined by the IMF, based on country demand. External financing is sought based on these priorities. At a given point in time, this may affect the ease of fund-raising some IMF CD initiatives. But over time, the matrix structure of externally-financed vehicles, with both thematic and regional funds, has proven successful in raising sufficient financing. Moreover, about half of IMF CD is financed on its own budget, which has ensured adequate financing of all topics and regions.

71. *We would welcome staff's further comments on how to address the flexibility in reallocating resources across topical areas and workstream, particularly for externally funded TA?*

- The allocation of finite CD resources against a backdrop of strong and evolving demand will be an ongoing challenge for the Fund. The Fund has taken steps to strengthen the prioritization process, including through a reinforced interdepartmental reallocation process, with emphasis on country needs and the Fund's priorities. It will be important that external financing supports a demand-driven governance framework that is aligned with institutional priorities. In this regard, clear principles guide the use of external financing, including alignment with Fund priorities, an ability of the Fund to ensure high quality delivery, and additionality.

- Ensuring sufficient flexibility for the reallocation of resources across activities will also be important, while recognizing that the longer-term nature of CD activities, particularly in fragile states, requires stability and predictability in engagement. Area and CD departments consult on an ongoing basis on reallocation as demand evolves. Current reforms to the prioritization framework are targeted at strengthening processes and information that will support effective reallocation across CD departments, guided by a narrower set of institutional priorities.
72. *We understand that an interdepartmental working group is examining ways to increase the amount of reports to be published. Could staff provide an update on the work and results of this working group so far?*
73. *Concrete proposals on how to increase sharing of best practice and increase the rate of CD report publication would be useful.*
- (Responses to questions 72–73) The share of TA reports published remains extremely low. Reports and broader CD information that are published have not been easy to find on the Fund’s external website as there is no dedicated section for TA information. COM is currently working to introduce such a section on the Fund’s CD page for reports, along with other relevant CD documents, including Technical Notes and CD evaluations. The interdepartmental working group is examining additional ways to boost publication, consistent with the Fund’s voluntary framework which recognizes that there will be circumstances where the member may wish to maintain confidentiality. There are challenges in this work, reflecting the relatively large number of TA reports prepared both at HQ and in RCDCs, the lack of a single point of contact for this work in each member country, and the additional costs associated with the need for TA reports in languages other than English to be translated prior to circulation to the Executive Board. The working group is looking for ways to facilitate publication in those cases where members wish to do so.

Risks and Other Issues

74. *How have risk management considerations been integrated in this review, and to what extent Departments are incorporating risk considerations in Country Strategy Notes (CSNs) and Regional Strategy Notes (RSNs)?*
- The review team has consulted closely with ORM throughout the review process and has included information throughout the overview report on risk mitigation. For example, the report outlines measures that are being taken by staff to mitigate the external funding risks and to ensure consistency of the Fund’s policy advice and increase traction thereof through measures to increase integration between

surveillance and CD. The latter aspects are typically considered in the design of country strategy notes (CSNs). Work to address data weaknesses are also a priority, as highlighted above.

75. *The 2018 Risk Report concludes that CD appears generally aligned with Fund strategic priorities. However, reference is made in ¶35 of that report to data weaknesses that makes assessment of risk difficult. How the Capacity Development Management and Administration Program (CDMAP) could help mitigate these data gaps, in particular, and improve CD processes and systems, more generally?*

- CDMAP is a multi-year program which will focus on modernization, harmonization, and streamlining of CD processes, and the capture and dissemination of data on CD delivery and results. The program also aims to break down silos across CD and area departments, support better management and prioritization of CD resources, establish more effective coordination between CD and surveillance/program work, and enable more informed strategic decision-making and governance.

76. *Can staff comment on when the Board will have the opportunity to revisit the CD funding model risks in a more comprehensive way?*

- The CD funding model, and its incorporation of external financing, was approved by the Board in 2008-09, and the scale of foreign financing is determined in the annual and medium-term budget exercises. This would be the appropriate time to reflect on the risks, bearing in mind that external financing also has significant benefits, not least by providing the Fund with the ability to respond to members' demand for capacity development support. Having said that, staff will continue to take steps to mitigate funding risks, including through broader and more sustained partnerships and more emphasis on flexible funding vehicles. The upfront financing also ensures that no work is undertaken if the financing is not available.

77. *Is an assessment of the adequacy of backstopping from headquarters planned in the future?*

- Backstopping is a process that is closely supervised and assessed by functional departments both informally, on a continuous basis, and formally, through the review procedures and internal evaluations. The impact of backstopping is evident through internal and external evaluations of Fund CD. The Office of Internal Audit is also currently conducting work on quality control in CD.