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**EVALUATION OF THE TECHNICAL ASSISTANCE  
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### Abbreviations and Acronyms

AFR	African Department (IMF)
AFRISTAT	Economic and Statistical Observatory for Sub-Saharan Africa
AFRITAC	Africa Regional Technical Assistance Center
AML/CFT	Anti-money laundering and combating the financing of terrorism
APD	Asia and Pacific Department (IMF)
APR	Annual progress report
BRS	Budget Reporting System
CARTAC	Caribbean Regional Technical Assistance Centre
D+A	Direct plus allocated cost
DQAF	Data Quality Assessment Framework
EFF	Extended Fund Facility (IMF)
EU1	European I Department (IMF)
EU2	European II Department (IMF)
EUR	European Department (IMF)
FAD	Fiscal Affairs Department (IMF)
FSAP	Financial Sector Assessment Program
GDDS	General Data Dissemination Standard
GDP	Gross domestic product
GST	General sales tax
HIPC	Heavily Indebted Poor Country
IEO	Independent Evaluation Office
IMF	International Monetary Fund
INS	IMF Institute
I-PRSP	Interim Poverty Reduction Strategy Paper
KPIC	Key Policy Initiative and Concern
LEG	Legal Department (IMF)
LTE	Long-term resident expert
MAE	Monetary and Exchange Affairs Department (IMF)
MATTS	MAE/MFD Technical Assistance Tracking System
MED	Middle East and Central Asia Department (IMF)
MEF	Ministry of Economy and Finance of Cambodia
MFD	Monetary and Financial Systems Department (IMF)
NBC	National Bank of Cambodia
NIS	National Institute of Statistics of Cambodia
OFC	Offshore financial center
OTM	Office of Technical Assistance Management (IMF)
PEM	Public expenditure management
PFTAC	Pacific Financial Technical Assistance Centre
PMS	Project Monitoring System
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
RAP	Resource Allocation Plan

ROSC	Report on the Observance of Standards and Codes
RTC	Regional technical center
SBA	Stand-By Arrangement
STA	Statistics Department (IMF)
TA	Technical assistance
TAIMS	Technical Assistance Information and Management System
TC	Technical Assistance Consultation
TCAP	Technical Cooperation Action Plan
TIMS	Travel Information Management System
TOR	Terms of reference
TSA	Treasury Single Account
VAT	Value-added tax
WHD	Western Hemisphere Department (IMF)

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

This evaluation examines the technical assistance (TA) provided by the International Monetary Fund (IMF) to its member countries. The evaluation is based on desk reviews of a broad sample of countries, analyses of cross-country data on TA, six in-depth country case studies (including field visits and interviews with counterparts, authorities, and donors), reviews of past evaluations, and interviews with IMF staff and other stakeholders.<sup>1</sup>

The objective of IMF TA was defined in the most recent policy statement on the subject: “The objective of the IMF TA is to contribute to the development of the productive resources of member countries by enhancing the effectiveness of economic policy and financial management. The IMF TA works to achieve this objective in two ways. First, much of the IMF’s TA seeks to support the efforts of members to *strengthen their capacity*—in both human and institutional resources—to formulate and implement sustainable, growth-oriented and poverty-reducing macroeconomic, financial, and structural policies. Second, the IMF assists countries in the *design* of appropriate macroeconomic and structural policy reforms, taking account of the lessons learned by other countries in addressing similar economic policy concerns.”<sup>2</sup>

The above objective encompasses a very diverse and broad range of TA activities. It includes not only support for long-term institution building in the countries themselves, but also fact-finding and analytical activities that allow the IMF to advise countries on specific policies or in the design of IMF-supported programs. This very wide definition presents special analytical challenges, both in identifying TA priorities as well as in evaluating the effectiveness of TA.

With this in mind, and in an effort to derive operational lessons to enhance the effectiveness of IMF TA, this evaluation unbundles the TA process into three stages—prioritization, delivery, and monitoring and evaluation of impact—and asks three sets of questions:

- **Prioritization and resource allocation.** How are countries’ TA needs identified? Are they derived from a process able to compare short- and medium-term needs or priorities across sectors and reallocate resources effectively, taking account of evidence on outcomes? What can be done to make the process more strategic so as to increase the relevance of the TA program?

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<sup>1</sup> The case studies comprise Cambodia, Honduras, Niger, Ukraine, Yemen, and Zambia, representing countries with regional and institutional diversity. Except for Ukraine, all countries are eligible for loans from the IMF’s Poverty Reduction and Growth Facility (PRGF). About 65 percent of IMF TA is provided to PRGF-eligible countries.

<sup>2</sup> IMF (2001b).



- **The delivery process.** How effective is the delivery of TA? What factors influence the effectiveness of the various modalities of delivery, including the country-specificity of the diagnosis and proposed solutions, as well as domestic ownership of the recommendations?
- **Monitoring progress and evaluating impact.** How is progress being tracked and what factors contribute to the impact of TA? What factors are under the control of the IMF or outside it? What can be learned to improve the IMF's own monitoring and evaluation activities so that lessons from past TA can be a guide for future allocations and design of TA?

In trying to assess the effectiveness of technical assistance, we distinguish between the impact at different stages of the results chain—the immediate improvements in the technical capabilities of agencies receiving TA, the ability of agencies to then apply and enforce that increased capability; and whenever possible, ultimate outcomes on the ground. Attribution of results to the effects of TA clearly becomes more difficult the further out the results chain we go. While such assessments inevitably rely heavily upon qualitative judgments, we have drawn upon various performance indicators and benchmarks wherever possible. (These issues are discussed in greater detail in Chapter 6.)

The first section of this summary presents the main findings. The second section summarizes the major recommendations.

## 1. MAJOR FINDINGS<sup>3</sup>

### Resources devoted to TA (Chapter 3)

- The IMF provides annually about 300 person-years of direct TA services, amounting to \$80 million and equivalent to about 10 percent of the gross administrative budget of the institution.<sup>4</sup> About 30 percent of it is financed externally. Taking account of indirect support activities and other allocated fixed costs, total expenditure on TA and related activities amounts to about \$190 million, or about 23 percent of the gross

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<sup>3</sup> This evaluation does not assess the role of the new Regional Technical Assistance Centers (RTCs) because their experience is too recent for an effective evaluation. A review of preliminary experiences is currently being undertaken by the Office of Technical Assistance Management (OTM).

<sup>4</sup> This concept of TA services includes field activities and travel and TA-related activities at headquarters by the IMF departments providing TA. This figure excludes IMF Institute (INS) activities. Including the INS, the total direct costs are about \$98 million, or 12 percent of the administrative budget.

administrative budget.<sup>5</sup> Whatever definition is used, the volume of IMF TA is quite small relative to efforts by bilateral donors.<sup>6</sup>

- About 70 percent of IMF TA is directed to countries with per capita income below \$1,000. TA seems to be well targeted toward the low-income countries. In fact, we found that the less the per capita income of a country the more the TA provided by the IMF (corrected by population and other factors). The volume of IMF TA provided to countries also seems to be positively associated with the country having a program supported by the PRGF or the Extended Fund Facility (EFF), the amount of external financing available, and whether the country is a post-conflict economy.

#### **How TA priorities are being set (Chapter 4)**

- At present, TA activities seem to be driven, in large part, by the specific needs of IMF-supported programs and by the new Fund-wide initiatives, such as Reports on the Observance of Standards and Codes (ROSCs), Financial Sector Assessment Programs (FSAPs), and anti-money laundering and combating the financing of terrorism (AML/CFT) assessments. These initiatives have become more important drivers of TA activities than the country-specific policy directions and priorities that emanate from Article IV consultations or the Poverty Reduction Strategy (PRS) process.
- We found a weak link between TA priorities and Poverty Reduction Strategy Papers (PRSPs) or with key policy issues identified in Article IV consultations. In most cases, the PRS process has still not been able to clearly identify major capacity-building needs that could then be taken up by TA. This is a major shortcoming because the PRSP was expected to become the vehicle to provide guidance on broad priorities for the IMF in low-income countries.
- TA activities do not appear to be guided by a medium-term country-based policy framework that would set TA priorities in the IMF areas of expertise *across* sectors, program needs and institutional initiatives, and that would be able to *balance* TA demands stemming from short-term policy needs with medium-term capacity-

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<sup>5</sup> This figure includes INS.

<sup>6</sup> As reported by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD), the aggregate level of technical cooperation in areas related to IMF's technical assistance amounted to about \$3.5 billion in 2003. This figure includes assistance to strengthen the administrative apparatus in government planning and to promote good governance, assistance to finance and banking in both formal and informal sectors, and assistance to trade policy and planning. Training is included in these figures.

building needs. This also reduces the possibility of a demand-driven reallocation of TA resources across areas of expertise within the institution.

- That said, individual functional departments have taken a number of important initiatives to be more strategic in setting intra-sector TA priorities and looking at track records in implementation. For example, the preparation of country strategy briefs, departmental assessment missions, and a more country-centered system for evaluating TA requests are facilitating a more coherent process to identify priorities within functional departments. However, they are not a substitute for a medium-term policy framework that can compare a country's TA needs *across* departmental lines or institutional initiatives.
- Several initiatives were introduced in 2001 in an effort to provide more strategic coherence to setting TA priorities. These included a system of prioritization filters for TA requests and a pilot initiative to incorporate technical assistance consultations (TCs) into Article IV consultations. The latter were discontinued because staff concluded they were not helpful in identifying TA priorities, while they unduly overloaded Article IV consultations. This evaluation believes the TC initiative was appropriate in spirit but flawed in implementation. There were few incentives for staff and the authorities to take the exercise seriously, since there was no clear link to actual allocation decisions. It was probably also excessive to attempt such an exercise every year. In any event, most of the TC exercises became pro forma, with no serious assessments of how well previous TA had worked or attempts to identify priorities for future TA linked to the country's overall strategy.
- The TA filters, as currently formulated, are a poor vehicle to provide a meaningful and strategic basis for TA prioritization within and among countries. Some are too broad, hence they do not provide sufficient selectivity (for example, no theme is excluded from the "key policy initiative" filter); some inadvertently exclude areas where there is currently a significant amount of TA being provided (for example, the "main program areas" filter excludes middle-income countries with IMF-supported programs); while some can even give inappropriate signals if followed too mechanically (such as, "a priori" bias in favor of short-term TA missions independently of country context). Taken together, the system of filters appears to be "over determined."
- What is needed is a prioritization of TA based on a shared vision with the authorities on a medium-term (multiyear) policy framework. This would allow the IMF and the authorities to compare TA priorities across demands emerging from programs, institutional and departmental initiatives, policy directions emanating from Article IV consultations, and (when applicable) the PRS process. It would also put into perspective short-term TA needs (associated with policy advice) with longer-term institutional building, and prevent short-term demands from dominating the TA program.

- Deriving TA priorities in the context of a medium-term framework would also help early on the discussion with other TA providers on an appropriate division of labor. This is a critical first step to improve the coordination of TA with other providers—an area where both IMF staff and donors felt improvements were needed.
- For this process to be successful, area departments must play a leading role. While initiatives taken by the functional departments permit a better prioritization within a particular sector, only the area departments are in a position to set priorities across department lines and between short-term and medium-term needs. Resident representatives should play a key role in this area given their in-depth country knowledge and links with the authorities.
- This evaluation finds that the short-term focus of the current budgeting and TA Resource Allocation Plan (RAP) processes within the IMF hampers medium-term planning for TA. Moreover, without a mechanism to enhance predictability in the provision of IMF TA over the medium-term, it will be more difficult for the IMF to coordinate and leverage its TA efforts with those of other TA providers.

### **The process of TA delivery (Chapter 5)**

- Counterparts in member countries have generally been satisfied with the resident experts provided by the IMF, particularly their hands-on role in training and coaching, accessibility, and emphasis on team work. These attributes were highly valued by counterparts.
- The evaluation does not support the findings of the 1999 internal IMF evaluation that TA provided by short-term missions is a priori more cost effective than that provided by resident experts. The relative merits of missions versus resident experts depend heavily on country-specific circumstances, particularly the degree of institutional development.
- The evaluation finds the involvement of the authorities in the preparation of terms of reference (TOR), particularly for long-term experts, to be generally passive. In fact, these are usually prepared by staff for approval by the authorities, frequently without significant engagement by the relevant local officials. This tends to reduce the ownership of the activity and often masks important differences in expectations about final objectives between the authorities and staff, as well as specific policy commitments that are necessary to assure the success of the TA activity. This is a particular problem when the officials in the agencies directly receiving TA, and in charge of implementation, are not sufficiently involved in the formulation process. The case studies suggest that greater upfront involvement by local officials was generally associated with better results.
- Often, TA effectiveness has been undermined by a lack of awareness of institutional, organizational, or managerial features of the recipient country. An unclear

distribution of decision-making authority and accountability may constrain implementation. More fundamentally, a dysfunctional civil service is a major obstacle to sustaining capacity-building efforts. Progress in civil service reform is, therefore, essential to enhance the effectiveness of TA. While such progress takes time and is generally beyond the IMF's control, a good understanding of the institutional context and absorptive capacity can be especially important in cases where there is a sudden and sharp increase in TA activity in new environments with which IMF staff is less familiar.

- Country officials suggested that more informal and iterative discussions on a broader set of options before the wrap-up meetings at the end of a TA mission would contribute to enhancing ownership of recommendations. A more interactive approach during the drafting of recommendations would help to ensure that constraints on the ground are fully taken into account. Again, this becomes more serious in short-term missions where less time is available for such interaction prior to the final drafting of recommendations.
- Inadequate dissemination of TA reports within and across agencies in the country is a major problem in environments where bureaucratic and institutional practices limit the free flow of information. This reduces the externalities of the TA activity—which is an especially serious shortcoming in environments with a significant rotation of personnel and hence weak institutional memory. The problem of dissemination is compounded by the fact that many TA reports are classified as confidential by the authorities.
- This evaluation found many instances of weak coordination between the IMF and donors working in similar areas. Coordination failures occurred even under the umbrella of the Technical Cooperation Action Plans (TCAPs). Communication with the World Bank is much better than with other donors, but coordination can still be hampered by differences in objectives, and organizational approach, which can result in various principle-agent problems in the absence of an overall coordinating framework. While coordination with donors should ultimately be the authorities' responsibility, this is often not the case owing to weak institutional capacity and the fact that the PRSP is not yet sufficiently operational to play such a role in most low-income countries. As a result, the burden of coordinating donors' efforts often falls to a major single donor or multilateral institution. When the overall involvement of donors is strong in a particular country, and the IMF provides a relatively small fraction of TA, it is not always possible or even appropriate for the IMF to provide leadership in coordinating overall TA efforts. However, it should still seek to coordinate better with donors working in similar areas and, in low-income countries, should help governments make the PRS an effective coordinating vehicle on which it can align its own efforts.

## **Monitoring the impact of TA and evaluating factors influencing it (Chapter 6)**

- The case studies show that, as far as institution building is concerned, progress has generally been achieved in enhancing the technical capabilities of the agencies that the IMF typically supports. Significant variability was found, however, on whether agencies have been able to make full use of those increased capabilities in order to have an impact on the ground or on the ultimate objectives of TA. It is critical that the IMF should understand fully what prevents agencies from doing so.
- Part of the problem is that the present IMF documentation and reporting does not clearly unbundle and track the different stages of TA progress toward its final objectives. Specifically, this documentation is weak in:
  - defining at the outset what are the indicators (benchmarks) that will be monitored to judge whether or not progress is occurring, and how explicitly these indicators have been discussed with the authorities, for example, are these mutually agreed indicators;
  - differentiating between the outcomes of pointed policy advice type of TA (for example, how to restructure or close a specific state bank) and outcomes linked to longer-term capacity building in the same area (such as the ability of agencies to supervise the banking sector and improve their asset position); and
  - unbundling between short- and medium-term indicators that capture different stages of the results chain, for example (a) indicators that track the improved technical abilities of agencies receiving TA; (b) indicators that show whether these agencies are actually enforcing that increased know-how, for example, whether they are performing their final responsibilities; and (c) indicators that track the economic outcomes of that enforcement.
- The absence of a clear unbundling of these stages, and the factors influencing the lack of progress, limits the ability to use past track record in implementing TA in making decisions about future TA. This is critical because there may be good reasons why TA recommendations have not been implemented. An understanding of these constraints and what can or should be done to overcome them is crucial to setting future priorities.
- Frequently, political interference or lack of support by the authorities prevent agencies from using effectively the new knowledge transmitted by TA. Indeed, the case studies suggest that such resistance by vested interests may mount as these agencies increase their know-how and improve their potential to act. The evaluation found that in these cases the reporting from the field on constraints to progress has often not been candid enough, so that the ways to address such obstacles were generally not discussed frankly with the authorities.

- An understanding of such obstacles and what the authorities can do about them in the future is critical when discussing future TA activities. Upfront commitments to facilitate the effective use of the new knowledge by agencies provide a critical signal of the authorities' commitment and ownership.
- Tensions among government agencies, a high rotation of officials, and a weak judicial framework are major constraints to the effectiveness of TA. The weak judicial system often limits the ability of agencies to enforce the new knowledge created by TA activities. This constraint is particularly serious in the areas of banking supervision, tax administration, and customs.
- Establishing cash charges for the provision of IMF TA has been suggested as a rationing device that would simultaneously identify high priority TA needs, reduce any presumed excess demand for TA, and help the IMF finance the cost of TA. The evidence collected does not allow us to reach definite conclusions on these issues—because we do not have a sufficient basis to compare the present situation with an alternative counterfactual.
- However, we are skeptical that cash charges would be a sufficient screening device to help signal ownership and commitment and identify high-priority TA needs. Furthermore, a cash charge policy needs to take into account that two-third of IMF-financed TA is directed to countries below \$1,000 per capita income. Thus, significant cost recovery will involve charging countries in this income range.
- This evaluation believes that stronger involvement by the authorities in designing TA activities and early commitments to better empower the agencies receiving TA (to implement their new knowledge) are alternative screening vehicles to signal ownership and commitment, with the greatest potential for enhancing the probability of success of the TA activity.

## 2. RECOMMENDATIONS

We make six broad recommendations designed to improve priority setting, delivery, tracking, and evaluation. They assume—in line with the current policy statement on TA—that “capacity building” in the IMF’s primary areas of responsibility continues to be a major objective of the IMF’s technical cooperation activities. This requires more effective mechanisms than exist at present for meshing the IMF’s overall strategic objectives with a system for allocating TA resources within a country-driven framework.

### **1. The IMF should develop a medium-term country policy framework for setting TA priorities, incorporating country-specific strategic directions and linked to more systematic assessments of factors underlying past performance.**

A number of managerial approaches to establishing such a framework are possible, but the following suggestions could be considered:

- In low-income member countries, the PRS process provides the natural vehicle to identify TA capacity-building priorities in the core areas of expertise of the IMF, although it has typically not yet been used effectively for this purpose. The PRSP should form the basis for a dialogue between the IMF and the authorities on TA priorities for the medium term, with a clear indication of what is expected from each side in order to improve accountability. It should provide the vehicle for collaboration and division of labor with other donors and hence help the overall coordination of TA. The IMF needs to engage countries to help them articulate their medium-term capacity-building needs in its areas of responsibility, in accordance with the PRSP.
- For other member countries, the institutional framework for deriving medium-term strategic priorities is less clear-cut, and a variety of approaches may work best, depending on country circumstances and the intensity of the members' demand for IMF TA. In cases where there is a relatively high provision of IMF TA, the framework may require periodic in-depth TA consultations with the authorities (possibly every three years) comprising a retrospective analysis of past progress and a forward-looking exercise to identify priorities. To avoid the lack of incentives of the past TC initiative, the resulting TA priorities need to feed more directly into the IMF's own mechanisms for committing its TA resources. For other countries, a less comprehensive approach, possibly built around Article IV consultations, may suffice.
- Resident representatives could play a greater role in developing these frameworks and this role should be explicitly acknowledged in the TOR for these positions.
- The RAP process should continue as the main annual interaction between the area and functional departments for determining TA activities. In addition to incorporating TA activities stemming from the medium-term framework, it will also incorporate new TA activities that may emerge from the needs of programs or from unexpected new demands from the authorities. This will prevent TA activities from being preempted by short-term needs while at the same time recognizing the need of flexibility to accommodate these types of demands.
- As the IMF moves into a multiyear budget framework, the RAP could also evolve toward a multiyear RAP helping reallocate TA resources within the institution over a longer horizon. For this process to work, each area department would need to spell out their proposed TA country priorities (based on each country policy framework and with the authorities, as discussed earlier), including ranking of priorities across countries in the departments, the list being more notional for the outer years. This approach would allow a comparison between demands from the area departments in the outer years and the existing supply and composition of skills in the functional departments; it would help identify pressure points in the future that would call for a gradual reallocation of resources within and across functional departments. This multiyear budget process and the associated multiyear RAP would make the allocation of TA resources more responsive to demand as time passes.



- This strengthened role of area departments in preparing a multiyear plan of TA priorities (including prioritization across countries) will require both incentives and resources. Senior management in the area departments should ensure that staff considers TA as an integral part of the assistance strategy to countries, with due recognition in staff performance assessments.
- 2. The IMF should develop more systematic approaches to track progress on major TA activities and to identify reasons behind major shortfalls.**
- At the outset of major TA activities, the IMF staff and the authorities should agree on how progress and success of the TA activity will be measured. Suitable indicators or markers of progress over time should be identified. This will avoid the emergence of divergent expectations and provide incentives for more timely reassessments if progress is seriously off track.
  - To assist in this process, the IMF staff should unbundle much more clearly the different stages (of the results chain) through which TA may have a final impact, and then explicitly monitor these stages (examples of this approach are provided in Chapter 6). Specifically, it should differentiate between:
    - progress in improving the technical capacities of agencies receiving TA;
    - whether agencies are making effective use of that increased technical capacity; as well as reasons on why this is not happening; and
    - the impact on the ground in terms of relevant economic outcomes.
  - Resident experts and headquarters staff in charge of backstopping activities should be candid in reporting obstacles to progress, including political interference or lack of support from the authorities that prevent agencies from making effective use of their improved technical capacity.
  - A clearer articulation of benchmarks for measuring progress and the factors behind shortfalls is critical if past track records in implementing TA are to be a useful guide for future TA allocations. To have reallocations of TA across countries based on track records, these monitoring practices will have to be comparable and transparent across countries. The new Technical Assistance Information and Management System (TAIMS) could be the vehicle through which enhanced monitoring practices become unified and more transparent across the institution.
- 3. Greater involvement by the authorities and counterparts in the design of TA activities and arrangements for follow-up should be emphasized as a signal of ownership and commitment.**
- We recommend that IMF staff request the authorities and specialized counterparts to fully participate in the preparation of the TORs and devote sufficient time to help

design the activity. Willingness to do so should be one of the factors taken into account in decisions on TA resource allocation.

- For more complex multiyear TA activities, a letter of agreement between the authorities and the IMF could specify commitment and resources including (a) mutually agreed milestones of progress, (b) resource commitments by both the IMF and the authorities—the authorities’ commitment is important to assure sustainability beyond the life of the IMF TA activity; and (c) the critical policy steps that are required from the authorities to ensure necessary institutional changes, such as decrees or the preparation of legislation that complement the TA activity. Early on, staff should help authorities identify the critical legislation or judicial reforms necessary for agencies receiving TA to make the most effective use of it.
- 4. Stronger efforts should be made by TA experts to identify options and discuss alternatives with local officials prior to drafting TA recommendations.**
- The receptivity of TA recommendations seems to be enhanced greatly when IMF experts engage counterparts early on in the design of the activity, explain its motivation, and try to assess the institutional subtleties of the specific environment. A major feedback received in the field concerned the need to allow enough time for informal discussions prior to issuing recommendations and the wider consideration of options. TA missions should allow enough time to incorporate these factors even if the result is somewhat longer missions and correspondingly fewer TA activities.
- 5. The program of ex post evaluations of TA should be widened and more systematic procedures for disseminating lessons put in place.**

Recent initiatives have already moved in the direction of more systematic monitoring and assessment, and should be continued and strengthened.

- The Office of Technical Assistance Management (OTM), in collaboration with other departments, should continue to prepare and update a program of ex post evaluations of TA, including broad TA topics, subregions, or countries that have been heavy users of TA.
- While the TA-providing departments themselves should undertake self-assessments, there would be merit in continuing to undertake selected ex post evaluations by units not directly involved in providing TA, in order to enhance accountability and give a fresh perspective.
- The findings of these evaluations should be made more widely available within the IMF to maximize their potential benefits and avoid the loss of institutional memory. A stock-taking exercise of past and ongoing evaluations throughout the IMF should take place periodically and be made available to management and the Executive Board.

- OTM should also prepare regular reviews assessing shifts in the demand for TA across subject areas that may entail the need to reallocate resources across the functional departments that provide TA.
- 6. The prioritization filters should be discontinued or replaced by ones that would more effectively guide TA allocation. Either course of action involves strategic decisions on trade-offs that need to be taken explicitly.**
- An effective priority-setting process needs two key components: (1) strategic direction by the Executive Board and management on those areas where the IMF will seek to maintain or develop “core competencies” in its TA activities; and (2) an internal resource allocation system that allocates effectively between competing demands, guided by these overall strategic objectives.
  - Different approaches to balancing these two components are possible—essentially involving a decision on how decentralized the process should be. Whatever the choice made on this balance, within the IMF’s core competencies, priority setting should be derived from each country’s own strategy with a heavy involvement of area departments (Recommendation 1), according to modalities that select activities with stronger ownership and country commitment (Recommendations 3 and 4), and greater selectivity linked to a more systematic assessment of where TA is being used effectively (Recommendations 2 and 5). Typical dilemmas, such as the balance between short-term/policy advice TA and institution building, between “upstream” and “downstream” approaches to TA, and between TA associated with the IMF global initiatives and country-driven needs, would be resolved on a country-by-country basis.
  - The advantage of a more decentralized approach is that TA can be closely aligned with specific country needs and circumstances—which is important given the large variation in country circumstances within the IMF membership. However, given that the TA resources of the IMF are small relative to global efforts, such approach has the risk of spreading the expertise of the IMF too thinly—even within the areas of mandate of the institution. Institution-building activities with long-term experts and strong external financing may lock resources and direct technical staff to backstopping activities—reducing the ability to respond to crisis. If Board and management give significant weight to these dangers, more specific guidelines may need to be issued circumscribing the coverage of the IMF TA program. For example, the IMF may like to think about how much it should get involved in institution building, in downstream approaches to TA, and how much importance should be given to the new institutional initiatives as prime drivers of TA. Providing guidance in these directions may help build a critical mass of expertise, but it may do so at the expense of adaptability to country circumstances. These are the key trade-offs that should be decided as part of the overall TA strategy.

## **Final observations**

- Many of the previous recommendations will entail more staff-intensive approaches to providing TA—from prioritization, to delivery, to monitoring and evaluation. Moreover, if the choice made on strategic priorities is that the IMF should continue to be engaged in medium-term capacity-building efforts, this will call for an even closer collaboration with donors, including in the context of the PRS framework for low-income countries.
- On the assumption that the present resource envelope for TA would not be significantly expanded, the above recommendations would probably result in fewer and more selective TA activities to be provided by the IMF. Doing fewer activities, but improving their relevance and probability of success, would, in our view, be an acceptable trade-off that can be made within the current resource envelope. Moreover, requiring more substantive and active involvement by the authorities in articulating priorities, formulating TA requests, drafting TOR, and providing adequate support throughout (and perhaps beyond) the life of the TA activity will also help self-regulate demand and result in fewer but more clearly-owned TA requests.

## 1. INTRODUCTION

1. The purpose of this evaluation is to examine technical assistance (TA) provided by the IMF to its member countries and to derive operational recommendations that can enhance the contribution of TA to the overall IMF mandate.

2. The stated objectives of IMF TA were defined in the most recent policy statement on the subject. “In accord with the IMF's first Article of Agreement, the objective of the IMF's TA program is to contribute to the development of the productive resources of member countries by enhancing the effectiveness of economic policy and financial management. The IMF's TA program works to achieve this objective in two ways. First, much of the IMF's TA seeks to support the efforts of members to *strengthen their capacity*—in both human and institutional resources—to formulate and implement sustainable, growth-oriented and poverty-reducing macroeconomic, financial, and structural policies. Second, the IMF assists countries in the *design* of appropriate macroeconomic and structural policy reforms, taking account of the lessons learned by other countries in addressing similar economic policy concerns.”<sup>7</sup>

3. Thus, the definition of TA used within the IMF is quite wide. In practice, it includes not only activities to support long-term institution building in countries themselves, but also fact-finding and analytical activities that allow the IMF to advise countries on specific policies and in the design of IMF-supported programs. This wide definition presents special analytical challenges, both to identifying TA priorities as well as to evaluating its impact.

4. The IMF devoted about \$80 million of direct resources to TA in FY2004 (excluding training), which is about 10 percent of the total administrative budget.<sup>8</sup> The pattern of IMF TA activities has evolved considerably over time. In the early 1990s, a significant share of TA resources was allocated to the transition countries to help develop the policies and institutions for a market economy. Since the late 1990s, a greater share has focused on countries receiving assistance under the PRGF, including for improving governance and for capacity building. Crisis prevention and resolution, TA to post-conflict countries, and TA in connection with regional arrangements (such as the new TA regional centers), have also received increased attention.

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<sup>7</sup> IMF (2001b).

<sup>8</sup> Direct cost of TA includes (1) all missions headed by TA departments, except missions in connection with ROSCs, FSAPs, etc.; (2) follow-up TA missions to implement the recommendations of these surveillance activities; (3) resident experts hired by the TA departments; and (4) TA activities undertaken at headquarters by TA departments.

### A. Issues to Be Addressed

5. To assess whether IMF TA is achieving its stated objectives and, if necessary, to identify corrective steps, it is useful to unbundle the TA process into three stages:

- **Resource allocation.** What are the factors determining the allocation of TA resources among countries? How are TA priorities selected at the country level and how well are they related to broader development strategies in the country to assure relevance? How is the balance between short-term TA (often to support the policy advice of the IMF) and TA to support (long-term) institution building established?
- **TA delivery.** What can be learned about specific modalities of TA delivery and ways to interact with authorities during the implementation period so as to increase the effectiveness of TA?
- **Impact and evaluation.** What has been the impact of TA and how is it tracked and monitored, including through ex post evaluation? What are the key factors that contribute to TA effectiveness?

#### **How is TA allocated among countries and priorities identified within countries?**

6. What patterns can be found in the allocation of IMF TA resources among countries? Are they responsive to indicators of low institutional capacity? How sensitive is the level of TA to different types of financial arrangements with the IMF? Are TA allocations to countries dominated by the level of external financing from donors (for example, trust funds)? The answers to these questions will help identify the major forces shaping cross-country allocations of TA.

7. Any process for allocating TA resources across competing uses will need to decide how priorities are set between and within countries and how resources are reallocated on the basis of evidence on outcomes (track records). The process would need the following two components:

- An identification of the broad areas where the IMF would seek to maintain or develop “core competencies” in TA in the light of its small size relative to global TA efforts and the need to closely complement its other instruments, namely, lending in support of adjustment, surveillance, and related diagnostic activities, such as ROSCs and FSAPs.
- A mechanism for prioritizing TA activities within these broad areas. Since the IMF’s definition of TA includes both short-term diagnostic activities and longer-term institution building, a major challenge will be to decide on the appropriate mix between the two types of activity in each country, and how they interact over time with each other and with other IMF instruments.

8. A key question to be addressed is how well this process is working today. Is TA provided to a country anchored in a medium-term strategy from which TA priorities can be coherently derived? Are Article IV consultations and the PRS process (in the case of low-income countries) providing such an integrated view? Or is TA the result of a process driven by the separate needs of programs, ROSCs and FSAPs? Given budget constraints, how are trade-offs managed in practice? How well are the authorities involved in the process?

### **How effective has been the process of TA delivery?**

9. Achieving the final objectives of TA will also depend on the effectiveness of the means of delivery. Several questions can be raised: (1) How clear are the initial TORs and how involved are the authorities in their preparation? (2) Is there clarity at the outset regarding how progress will be measured? (3) What are the features for a successful resident expert? (4) Is the mixture between short-term missions and long-term resident experts (LTEs) appropriate given country circumstances? Should LTEs be in charge of monitoring program conditionality in their areas of expertise? (5) How effective has been the dialogue with the authorities during the delivery period in enhancing the ownership of TA recommendations?

### **What was the impact of TA and what factors contributed to its effectiveness? How was this tracked?**

10. An assessment of the impact of TA and the factors influencing it—both country factors and those under the control of the IMF—is critical in allocating TA in the future and improving its design. Several questions emerge: (1) What was the impact of TA and what are the key factors determining impact? (2) How well is the IMF tracking intermediate and final outputs? (3) Does the IMF distinguish between the improved technical know-how of agencies receiving TA and their subsequent ability to apply that knowledge by carrying out their duties—the latter requiring political support from the authorities? and (4) How candid is the reporting to headquarters when effectiveness is impaired by political interference?

## **B. Methodology and Empirical Basis**

11. The evaluation is organized around the three set of questions raised above—which also defines three consecutive stages of the result chain determining the impact of TA. They are addressed in this evaluation by using different types of empirical evidence, namely:

- Internal IMF cross-country data on TA field activities (derived from the Travel Information Management System (TIMS)) to examine trends and patterns in the allocation of TA among countries and identify the forces behind these patterns.
- A sample of 10 low-income countries to study the link between the PRSP and the identification of TA needs.
- A sample of 18 countries to assess the link between Article IV surveillance documentation and TA activities.

- A sample of 12 Technical Assistance Consultation exercises (TCs) which were piloted in an effort to enhance the link between Article IV surveillance and TA activities in a country.
- In-depth analysis of 6 countries, including field visits to elicit views from local counterparts and authorities (Cambodia, Honduras, Niger, Ukraine, Yemen, and Zambia).
- Interviews with IMF staff, including TA and training coordinators in both functional and area departments, as well as staff and consultants involved in TA activities in the countries above in the period examined.
- A review of findings of 11 internal and external evaluations of thematic or regional TA provided by the IMF.<sup>9</sup>

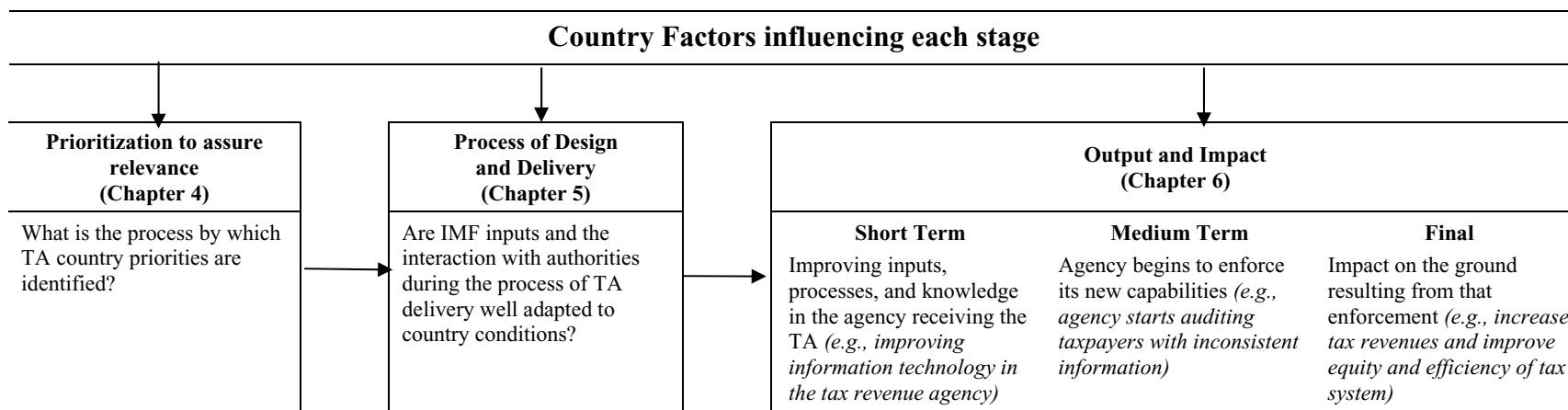
12. Figure 1.1 describes how this evidence is used throughout the different stages of the evaluation. As we move to understand the impact of specific TA activities and its determinants, the evaluation relies on the in-depth case studies and qualitative evidence drawn from interviews. The measures used to assess impact, and their limitations, are discussed in more detail in Chapter 6.

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<sup>9</sup> These evaluations include: “External Evaluation of Technical Assistance Provided by the IMF’s Monetary and Exchange Affairs Department” (1996); “Fiscal and Monetary Management Reform and Statistical Improvement: Pacific Financial Technical Assistance Centre, Report of the Evaluation Team” (1997); “Review of Technical Assistance Provided by the Revenue Administration Division of the Fiscal Affairs Department in Fiscal Year 2000” (2000); “An Assessment of FAD Technical Assistance in Establishing the Treasuries in the Baltic Countries, Russia, and Other Countries of the Former Soviet Union” (2000); “Review of the Technical Assistance by the Legal Department” (2001); “Report of the Task Force on the Review of the Monetary and Exchange Affairs Department” (2002); “External Evaluation of Technical Assistance in PEM in Francophone African Countries” (2003); “Statistical Capacity Building: Case Studies and Lessons Learned” (2003); “Public Expenditure Management Reform in Anglophone African Countries: An Assessment of FAD Technical Assistance” (2003); “Mid-Term Review of Caribbean Regional Technical Assistance Centre” (2003); and “Internal Assessment of FAD’s TA in Public Expenditure Management: The Mainly Anglophone African Countries” (2003).



Figure 1.1. Stages and Result Chains of TA Activities Supporting Institution Building



*Evidence*

- *Sample to study links between TA and*  
— *Article IV staff reports*  
— *PRSP documentation*
- *Sample of TC initiatives to assess why they failed*

- *Analysis of Cross-country and time series data of TA*

- *Interviews with TA coordinators and staff and experts working in the countries studied.*
- *A review of 11 sectoral and thematic evaluations of past IMF TA undertaken by departments and external evaluations.*
- *In-depth case studies in six countries, including field visits to elicit views from local counterparts, authorities, and other TA providers.*

13. The report is organized as follows: Chapter 2 reviews briefly the results of, and follow-up to, the 1999 Fund-wide TA evaluation. Chapter 3 examines trends and patterns in the allocation of TA resources across subjects and countries; Chapter 4 examines how well the identification of TA priorities at the country level is working; Chapter 5 examines the process and modalities of TA delivery; and Chapter 6 examines the impact of TA, how progress is being tracked, and factors that may impair progress. At the end of each chapter, recommendations are presented.

14. This evaluation does not assess the role of the new RTCs because their experience is too recent for an effective evaluation. A review of preliminary experiences is at present being undertaken by OTM.

## 2. THE 1999 FUND-WIDE TA EVALUATION

15. In 1999, the IMF's Office of Internal Audit and Inspection (OIA) carried out a comprehensive evaluation of IMF TA covering the Fiscal Affairs Department (FAD), the Monetary and Exchange Affairs Department (MAE, now Monetary and Financial Systems Department (MFD)), and the Statistics Department (STA). Several issues raised in Chapter 1 were addressed by this evaluation.

### Major findings and recommendations from the 1999 evaluation<sup>10</sup>

16. The major findings were

- IMF TA is highly appreciated by members who want more of it.
- While IMF TA is rated highly for its advice and recommendations, obtaining country commitment and follow-up seem to be the weakest parts of the IMF's advisory process; partly as a result, the impact of TA projects was less than satisfactory in about one-third of projects.

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<sup>10</sup> The 1999 TA evaluation was based on 100 randomly selected technical assistance projects implemented during FY1996-97. The study used the implementation record as a measure of impact and employed a questionnaire to measure it. The questionnaires were independently filled out by the functional departments, area departments, and recipient countries. The results showed generally a poor record of implementation, although different respondents had very different answers. While 54 percent of respondents in recipient countries thought that at least a significant number of recommendations had been fully implemented, only 22 percent of IMF respondents shared this view. In contrast, 52 percent of IMF respondents thought that at least a significant number of recommendations had been partially implemented, while only 33 percent of respondents in recipient countries shared this view. When asked to cite an example of a specific technical assistance project that had a major and sustained impact in the recipient country, only 55 percent of all respondents provided that information.

- In general, TA provided by staff missions appears more likely to be successful than that provided by LTEs.
- While implementation of advice and the impact of TA depend most importantly on the commitment of the recipient country, the probability of achieving high impact can be improved by actions within the control of the IMF.
- There is only a weak link between IMF surveillance and IMF TA, the orientation of which is generally reactive rather than proactive.
- There is no explicit IMF policy on TA, little evaluation, little reporting on results to management and the Executive Board, and little public dissemination of the lessons learned.

17. The evaluation suggested that those TA tasks with the greatest impact were characterized by strong government involvement and ownership, excellent communications between TA providers and recipients, placement of the activity in a broader policy framework, well-prepared expert focus and specific project preparation and recommendations, and attention to follow-up. Neither the existence of an IMF-supported program nor having an IMF resident representative in place appeared to make a statistically significant difference with respect to impact.

18. The major recommendations emerging from the 1999 evaluation were

- Link the assessment of TA priorities and allocation decisions more closely to IMF Article IV consultations. This would require a change in the orientation of the IMF's TA from being largely curative to being more preventive.
- IMF staff should conduct specific TCs as part of Article IV consultations in order to assess progress in implementing past technical advice and discuss future needs. For countries requesting significant volumes of TA, a Technical Cooperation Action Plan (TCAP) would be drawn up that would place cooperation in a medium-term framework.
- TA should be limited to those subject areas for which the IMF has a comparative advantage.
- Successful implementation can be improved by better cooperation practices including a much closer involvement of national authorities.
- Future requests for the assignment of LTEs need to be more closely scrutinized. Experts should have not only the required technical skills but also teaching, communications, and language skills and experience in working with countries at similar stages of development.

- Greater emphasis should be placed on the use of short-term and peripatetic experts.

19. Directors supported the recommendations but cautioned against overburdening Article IV consultations. Furthermore, they were concerned that commitments to medium-term programs of TA should not undermine the IMF's ability to respond flexibly to changing circumstances.

### **Follow-Up: 2001 Policy Statement on TA and OTM Reviews**

20. Several initiatives were taken in response to the recommendations of the 1999 evaluation. First, the IMF adopted a policy statement on TA in April 2001.<sup>11</sup> This highlighted the importance of country ownership of TA and called for a review of past and current TA efforts, including a country's track record in implementing TA.

21. Second, as part of the policy statement, a set of prioritization filters and guidelines were introduced to align TA with the IMF's main core areas of specialization, main program areas, and key policy initiatives.<sup>12</sup>

22. Third, in order to integrate TA better with surveillance, the IMF carried out pilot TCs in the context of Article IV consultations, including a review of past TA and agreement on future priorities. For countries with extensive TA needs, the IMF undertook (also on a pilot basis) comprehensive medium-term TCAPs.

23. Fourth, because TA provided by the Legal Department (LEG) was not included in the 1999 evaluation, a special evaluation was carried out thereafter. The main conclusion was similar to the 1999 evaluation. Notwithstanding the generally high quality of the advice provided, implementation of the advice and hence overall impact was only moderate owing to the authorities' often weak ownership.

24. Fifth, in recognition of the importance of TA in pursuing the IMF's core mandate, IMF management upgraded the former Technical Assistance Secretariat to a separate office under the Office of the Managing Director. This unit was expanded and renamed the OTM.

25. OTM started several activities to standardize monitoring and evaluation activities across the IMF as well as a future program for ex post evaluation in specific TA areas/initiatives. In June 2002, OTM prepared a Board paper on "Review of Technical Assistance Policy and Experience," (IMF, 2002c), which reviewed progress since the 1999 evaluation, followed by "Review of Technical Assistance" (IMF, 2004d) in February 2004. The main findings and recommendations were

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<sup>11</sup> IMF (2001b).

<sup>12</sup> These filters are described in more detail in Chapter 4.

- Prioritization filters have enhanced transparency in the allocation of TA resources.
- A review of TCs showed disappointing results. Functional departments<sup>13</sup> argued that TCs did not yield sufficient value-added to their own planning process. Area departments found the exchange of views with the authorities less informative than expected. In view of these findings—and the apparent overloading of Article IV consultations—the OTM report recommended discontinuing the TC initiative.
- The “country focus” objective of TCs was to be addressed through the new prioritization filters and country-specific discussions between the area and functional departments in the formulation of annual TA RAPs—the main vehicle to allocate resources at the country level.
- Reflecting the increased emphasis on monitoring and evaluation, TA departments have strengthened their efforts and started to carry out thematic, regional and country-specific evaluations.<sup>14</sup> Furthermore, a TA information management system (TAIMS) is being developed to provide TA departments with the tools to monitor and manage TA more efficiently (to be discussed further in Chapter 6).
- To support institution building in low-income countries, the IMF needs to look beyond the pressure to show short-term results and to position its TA in a longer-term horizon that would rely on complementary support from other providers. The challenge is to coordinate smaller, more focused TA interventions by the IMF, with the large-scale projects funded by international donors.
- Countries should be encouraged to publish their TA reports on the IMF’s external website, to foster transparency and to share the lessons learned.

26. At the Board discussion, Directors requested a more formal assessment of TA effectiveness through a medium-term program of ex post evaluations. To address this request, OTM and the different functional departments prepared a three-year program of evaluation.<sup>15</sup> This program includes a mix of topics ranging from comprehensive evaluation covering large country samples, focused policy area studies with small country samples, evaluation of regional TA centers and country or sector case studies. Specific topics include TA in public expenditure management (PEM) in sub-Saharan African countries, evaluation

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<sup>13</sup> Throughout this evaluation, “functional departments” refer to those IMF departments with responsibility for delivering TA, primarily FAD, LEG, MFD, and STA.

<sup>14</sup> Some of these evaluations were described in Chapter 1, paragraph 11.

<sup>15</sup> IMF (2004g).

of TA provided through regional TA centers, TA in AML/CFT, and TA in support of countries undergoing trade reform.

27. A series of initiatives have been taken individually by functional departments (Appendix 1, Tables A1.1—A1.4) to make the process of departmental TA allocation more strategic and to improve tracking during delivery. Various functional departments created department-specific monitoring systems, undertook a number of in-depth evaluations, produced numerous country strategy papers or briefs, and adopted more systematic internal procedures to identify TA needs and allocate TA resources.

### **3. TRENDS AND PATTERNS IN THE ALLOCATION OF TA RESOURCES**

28. In this chapter, we analyze major trends and patterns in the allocation of TA resources as defined by different accounting systems and definitions within the institution. We look at the FY1998–2004 period, for which consistent and comparable data on TA inputs can be obtained. We examine first the evolution of aggregate TA resources, and then identify patterns according to functional departments, regional groupings, and policy initiatives (as defined by the IMF’s TA Policy Statement). We also explore the factors that determine the allocation of TA among and within countries.

#### **A. TA Resources at the Aggregate Level**

29. How many resources (both external and internal) have been devoted to TA as a share of the IMF’s total administrative expenditures? To address this question we looked at alternative measures of TA resources.

30. The narrowest definition focuses exclusively on time spent in the field (in the respective country) by functional department TA missions, by TA resident experts, and by experts working from regional TA centers. This is based on the TIMS database.

31. A broader definition also includes time at headquarters devoted to backstopping resident experts, to preparing TA missions, papers, and reports, as well as the direct administrative and management time to support TA activities. This is the Budget Reporting System (BRS) concept of resource costs, or the direct cost of TA activities.

32. Finally, the broadest definition includes also a pro rata allocation of the fixed costs of the administrative and management departments of the IMF, other than those providing TA. We refer to this as the “direct plus allocated fixed cost” definition.

33. Table 1 shows the resources devoted to TA in FY2004 using these three definitions, including the external training activities of the INS. Under the broadest definition, TA amounts to 23 percent of the total IMF administrative budget, compared with 12 percent if the fixed costs of the rest of the institution are not included. Field work resources are equal to 7 percent of the budget.

34. How have these magnitudes evolved over time? Figure 3.1 shows trends from FY1998 for which comparable data are available. After peaking in FY1999, resources devoted to TA stabilized as a share of the total budget during the last four years. The FY1999 peak is largely explained by a significant increase in TA activities associated with IMF-supported programs in the context of the 1997–99 capital account crises.

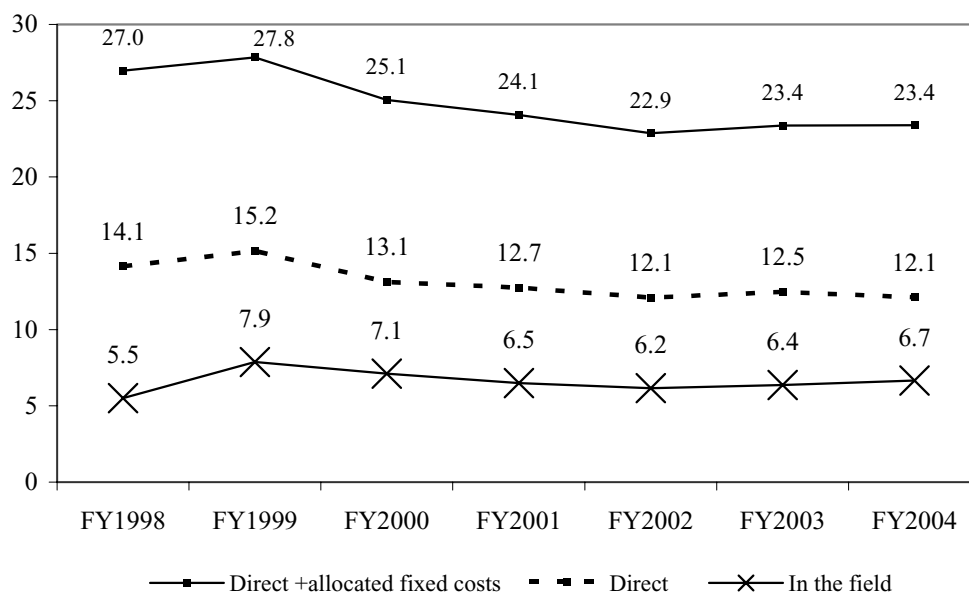
Table 3.1. TA Budget in FY2004 1/

	Person-Years	In Millions of U.S. Dollars	Percent of IMF Administrative Budget
Broadest definition (direct plus allocated fixed costs)	709	189	23
Direct costs (BRS)	367	98	12
Field activity only (TIMS)	201	54	7
Memorandum item:			
Total gross administrative budget	3,032	806	100

Sources: OTM and BRS.

1/ INS is included. Without the INS, the BRS and TIMS dollar amounts are equivalent to \$80 million and \$49 million, respectively.

Figure 3.1. TA Budget  
(In percent of total Fund's gross administrative budget)

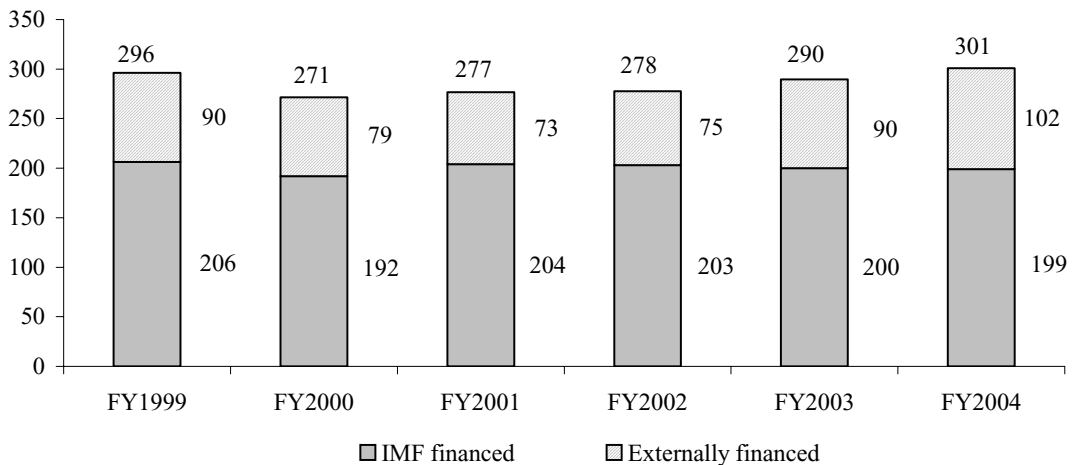


Sources: OTM and BRS.

## B. Overall Resources Used by the Functional Departments

35. Figure 3.2 shows that after a temporary decline, the volume of direct TA services measured in staff years has increased. This is largely explained by an increase in externally-financed TA, which today represents over 30 percent of total TA resources (BRS definition). IMF-financed TA in these departments has declined slightly due to a shift in resources toward surveillance activities, such as ROSCs and FSAPs (not included in the definition of TA), but this decline has been more than offset by the increase in externally-financed TA.<sup>16</sup>

Figure 3.2. Direct TA Services Delivered by Source of Funding, Excluding INS (BRS Concept) (In person-years)



Source: OTM.

## C. Distribution of TA by Per Capita Income Level and Region

36. Overall IMF TA is concentrated in low-income countries (Table 3.2).<sup>17</sup> About 90 percent of TA is provided to countries with less than \$3,000 per capita income. About 71 percent is allocated to countries with less than \$1,000 per capita income, and about 65 percent goes to PRGF-eligible countries.

<sup>16</sup> International Monetary Fund, "Supplement to the Review of Technical Assistance," (2004f).

<sup>17</sup> Table 3.2 shows the distribution of TA field activities to countries by per capita income groups. If the functional departments' TA activities in headquarters are distributed to countries in proportion to TA field activities (not an unreasonable assumption), the table would also show the distribution of the direct cost of the TA (or the BRS concept, defined above).



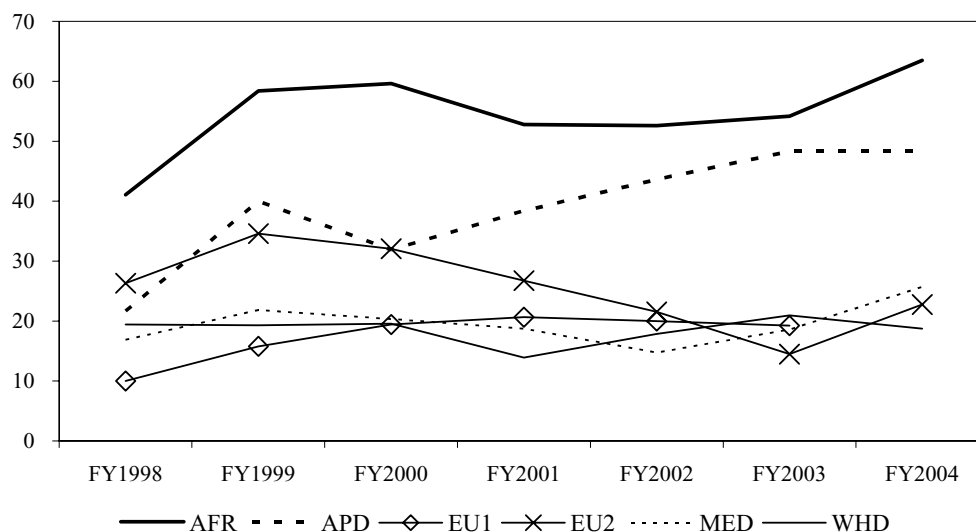
Table 3.2. Allocation of TA by Country Grouping According to Per Capita Income (FY2002–03 average)

Per Capita Income Groups (GNI Per Capita 2002, Atlas Method World Bank)	Percentage Distribution of TA in the Field 1/
Less than \$1,000	70.9
\$1,000–\$2,000	13.8
\$2,001–\$3,000	5.5
\$3,001–\$4,000	1.5
\$4,001–\$5,000	2.3
\$5,001–\$7,000	1.0
\$7,001–\$9,000	1.3
More than \$9,000	3.7
Total	100.0
<i>Memorandum item:</i>	
Share of TA to PRGF-eligible countries	65.0

1/ TA delivered to the regional technical centers, regional organizations (including regional central banks in Africa), and countries without GNI figures (such as post-conflict economies), is included in the less than \$1,000 group.

37. Figures 3.3 and 3.4 show regional trends and the concentration of TA field activities. Africa and Asia Pacific are the regions receiving most TA, accounting for about 60 percent of the total TA. Not surprisingly, 9 out of the 14 largest TA recipients were located in these two regions.

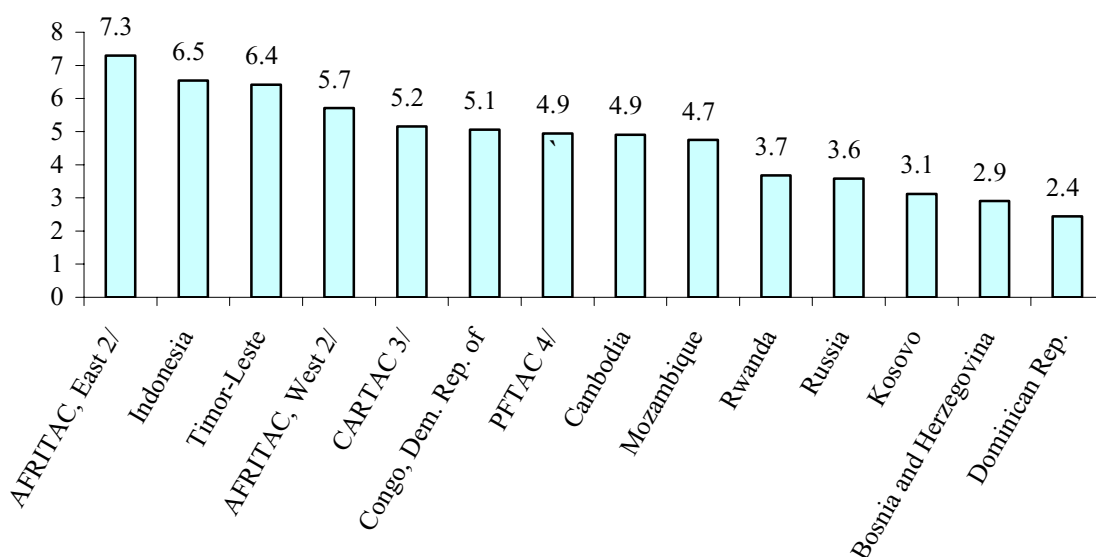
Figure 3.3. TA by Regions, Excluding INS 1/  
(In person-years)



Source: OTM.

1/ TA delivered in the field including regional centers.

Figure 3.4. Main Recipients of TA in FY2004, Excluding INS 1/  
(In person-years)



Source: OTM.

1/ TA delivered in the field.

2/ African Regional Technical Assistance Center.

3/ Caribbean Regional Technical Assistance Center.

4/ Pacific Financial Technical Assistance Center.

*Africa (AFR)*. TA has increased over time, with a mild decline toward FY2001–03, mainly because of instability in some of the largest beneficiaries and slow economic reform in others.<sup>18</sup>

*Asia and Pacific (APD)*. TA provided to this region increased sharply starting in FY1998, mostly as a result of the emphasis in MFD on capacity building in post-crisis South-East Asia. It is also explained by sharp increases in TA to Timor-Leste and Cambodia, and a more general increase in the availability of external financing.<sup>19</sup>

*Europe I (EUI)*. TA to this regional grouping, which encompasses the transition countries of Central Europe and the Balkans, has remained relatively constant, with most of it being provided to post-conflict economies such as Bosnia and Herzegovina, Serbia and Montenegro, and Kosovo.

<sup>18</sup> IMF (2004f).

<sup>19</sup> Asia-Pacific is the region that has benefited the most from the TA financed by the Government of Japan.

*Europe II (EU2)*.<sup>20</sup> TA to this regional grouping, which originally covered most of the transition countries, has been reduced by half since its peak in FY1999, driven by a sharp reduction of TA provided to Ukraine, Georgia, Tajikistan, Azerbaijan, and the Baltic countries. A more active role by other TA providers, particularly the European Union, is an important cause of this decline.<sup>21</sup>

*Middle East and Central Asia (MED)*. TA provided to this region has also remained fairly constant, with Afghanistan, Kuwait, Yemen, and the West Bank accounting for most of it.

*Western Hemisphere (WHD)*. TA provided to this region has remained relatively constant. The most noticeable development has been the creation of the Caribbean Regional TA Centre (CARTAC), which accounts for about 25 percent of total TA to this region.

#### **D. Trends by Functional Departments and Policy Initiatives**

38. Two functional departments, FAD and MFD, are the largest providers of TA, accounting for over 70 percent of total TA delivery over the years. However, this share has declined slightly since FY2000, mostly as a result of a reduction in TA provided by FAD to the transition economies, and sharp increases in TA by the Statistics (STA) and Legal (LEG) Departments (Figure 3.5). The main underlying factors explaining these trends are:<sup>22</sup>

- TA provided by STA has almost doubled during the last four years driven by a sharp increase in externally financed TA. Donors—mostly Japan and the United Kingdom—have supported the movement toward participation in the General Data Dissemination Standard (GDSD) as a mechanism to strengthen countries' statistical capacity.
- Provision of TA by LEG has also doubled from FY2001, although from a low base. This increase reflects work on AML/CFT activities, which were initiated in FY2002 and expanded rapidly thereafter.
- MFD's TA reached its peak in the aftermath of the Asian crisis and then declined in FY2001 as a result of new resource demands imposed by FSAPs. Since then, TA delivery has recovered as a result of an increase in follow up TA activities associated

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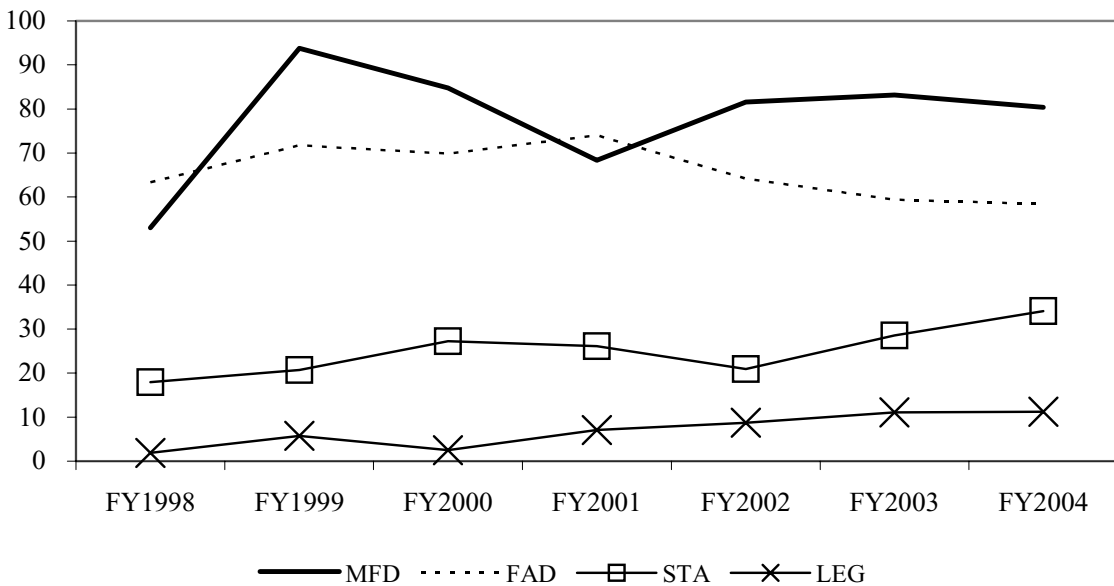
<sup>20</sup> On November 1, 2003, the European Department (EUR) was created by merging the former European I Department (EUI) with seven countries of the dissolved European II Department (EU2).

<sup>21</sup> IMF (2004f).

<sup>22</sup> IMF (2004d).

with FSAP and other surveillance initiatives such as AML/CFT and offshore financial center (OFC) assessments.<sup>23</sup>

Figure 3.5. TA by Functional Departments 1/  
(In person-years)



Source: OTM.

1/ TA delivered in the field.

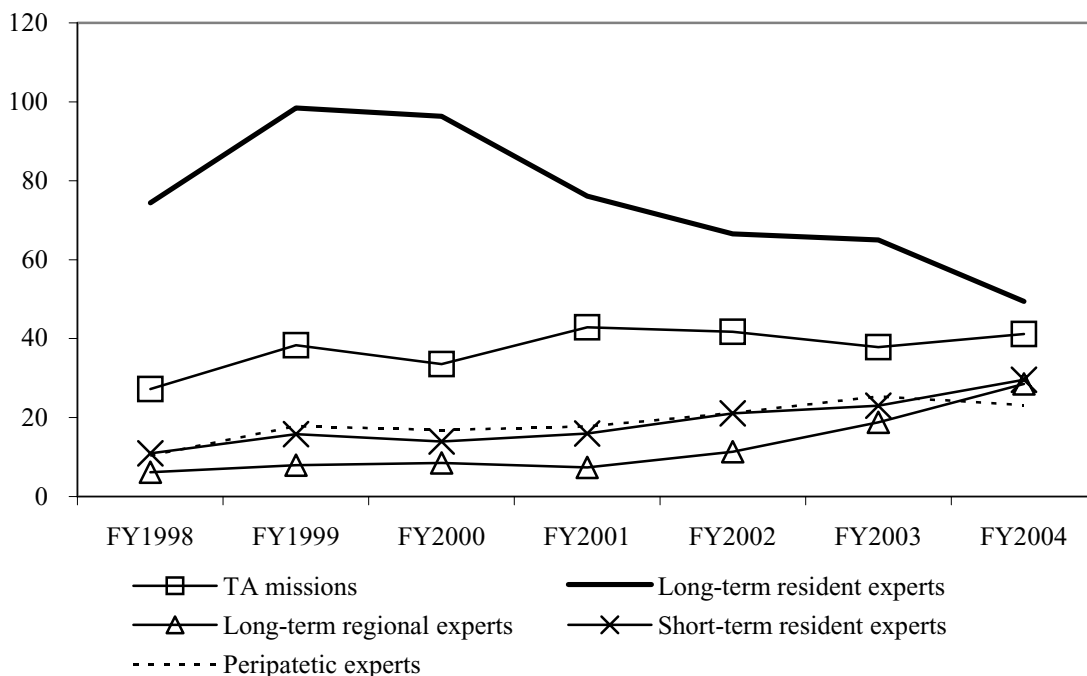
### E. Modes of Delivery

39. A persistent theme addressed by different TA evaluations has been the relative effectiveness of alternative means of providing TA, in particular between the use of long-term resident experts versus short-term experts' visits or peripatetic modalities.

40. Figure 3.6 shows trends in these modalities. The most salient feature has been the sharp reduction in the use of resident experts and the growing reliance on regional experts associated with RTCs. Up to FY2001, long-term experts were by far the major component, accounting for half of total field TA. By FY2004, this share had fallen to around 40 percent. Since FY2001, the share of TA delivered by regional, peripatetic, and short-term experts has grown rapidly, while TA missions have remained relatively stable. The substitution of resident experts by regional experts is the result of the increasing importance of regional centers (Table 3.3).

<sup>23</sup> IMF (2004f).

Figure 3.6. TA by Modes of Delivery, Excluding INS 1/  
(In person-years)



Source: OTM.

1/ Resident experts are those residing in a country for six months or longer. Peripatetic experts are experts who visit the same country in a series of short-term missions. Long-term regional experts are based in the region and divide their time between a group of countries.

Table 3.3. TA Delivered by Regional Centers  
(Sum of person-years)

TA Regional Centers	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
East Africa Regional Technical Assistance Center (East AFRITAC)	0.0	0.0	0.0	0.0	0.0	2.8	7.2
West AFRITAC	0.0	0.0	0.0	0.0	0.0	0.1	5.7
CARTAC	0.0	0.0	0.0	0.0	2.6	6.7	5.1
Pacific Financial TA Centre (PFTAC)	3.7	4.2	4.0	4.2	4.6	4.4	4.9
Grand total	3.7	4.2	4.0	4.2	7.2	14.0	23.1
(Percent of total TA in the field)	2.7	2.2	2.2	2.4	4.1	7.7	12.5

Source: OTM.

## F. Variables Influencing the Allocation of TA to Countries

41. What makes a country more likely to receive IMF TA? We explore different country features that may affect how TA is allocated, such as country size, per capita income, and the presence of an IMF-supported program. Lower-income countries generally have more severe capacity constraints and one might expect that the IMF would incorporate this factor in TA allocation decisions. A common claim is that the presence of an IMF-supported program increases the likelihood that a country will receive TA. The existence of a program may call for additional TA to support the policy dialogue and program design, as well as medium-term institutional developments necessary to implement the program.

42. To examine these hypotheses, we use a panel of 150 non-industrial economies between FY1998 and FY2004 where the dependent variable is the annual volume of TA received in the field by the country (Table 3.4).<sup>24</sup> The first regression combines both cross-section and time series analysis. The second focuses on the variability observed within a country over the period studied. The third regression is a variant of the second incorporating further statistical corrections. Most of the results are similar and stable in different specifications.

- *Gross domestic product (GDP) per capita.* We found a negative association with the amount of TA provided. A doubling of per capita income reduces the yearly level of TA between 0.20 and 0.65 person-years. This is magnified by the indirect effects of per capita income as explained below.
- *Population.*<sup>25</sup> Larger countries receive more TA—a doubling of population size increases TA by about 0.06 person-years. While statistically significant, the sensitivity of TA to population is very small.
- *Existence of a program.* The volume of TA is significantly associated with the presence of PRGF- or EFF-supported programs. The direct effect of having a PRGF-supported program is an increase in the yearly volume of TA by two or three person-years. Similarly, having an EFF increases yearly TA by one person-year. In contrast, Stand-By Arrangements (SBAs) are not significantly associated with the volume of TA. It is likely that medium-term programs incorporating more structural reforms may require more extensive TA to support the policy dialogue, program design, and the institutional capacity needed for implementation.

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<sup>24</sup> This panel does not include TA delivered by regional centers since information on the country allocation of this TA was not available.

<sup>25</sup> Since population is a variable that changes slowly across time, its impact in the fixed-effect specification is absorbed by the inclusion of country dummy variables. Hence, the impact of population is assessed making use of robust ordinary least squares.

- *The stronger impact of a PRGF-supported program on the volume of TA* is consistent with the notion that the IMF is devoting greater TA resources to strengthening institutional capacity in PRGF countries than in non-PRGF countries. In addition, we found the effect on the level of TA provided under a PRGF-supported program becomes stronger when per capita income (a proxy for institutional capacity) is lower, as shown by a negative coefficient for the interaction term between having a PRGF-supported program and the level of per capita income (PRGF\*per capita GDP).
- *Regional Central Bank.* Countries that are members of regional monetary unions and do not have a separate central bank appear to receive less TA from the IMF because most of that TA tends to be provided directly to the regional central bank.

Table 3.4. Summary of Panel Data Regression Results 1/

	Robust OLS (1)	Robust Fixed Effects (2)	Fixed Effects AR (3)
Constant	2.1581 3/	3.8311 3/	5.5590 3/
Per capita GDP	-0.1975 3/	-0.4218 2/	-0.6590 3/
PRGF	2.1588 2/	3.1849 3/	1.9512 2/
PRGF* per capita GDP	-0.3002 2/	-0.4985 3/	-0.3057 2/
EFF	1.2430 3/	0.9499 3/	1.0335 3/
SBA	0.16 28	-0.0445	0.0347
FY1999	0.2598 2/	0.2349 3/	0.2048 3/
Regional central bank	-0.6738 3/		
Ln population	0.0592 3/		
N	1,049	1,049	1,049
Prob > F	0.0000	0.0000	0.0000

Source: TIMS.

1/ Robust OLS (1) is an ordinary least squares regression with robust standard errors. Robust fixed effects (2) is equivalent to adding a dummy variable for each country in the panel, and then using robust standard errors to correct for the presence of heteroskedasticity. As a result, the fixed-effects specification captures the variation “within” countries, and controls for most time-invariant country heterogeneity. The cost of this specification is that the impact of variables that change slowly across time, that is, population, is absorbed by the country dummies. Fixed effects auto regressive (3) corrects for the presence of serial correlation of order 1.

2/ Significant at a 95 percent level of confidence.

3/ Significant at a 99 percent level of confidence.

## G. Countries Above and Below the Estimated Regression

43. As shown in Table 3.5, there are some countries that received significantly more (less) TA than predicted, suggesting the need to explore additional factors that may influence the amount of TA received. Thus, we examine countries exhibiting the largest absolute deviations from their predicted values to identify additional factors that may influence the

allocation of TA among countries. This is done for two periods, FY1998–2000 (closer to the East Asia crisis) and FY2001–04.

Table 3.5. Countries Ranked by Their Absolute Deviation from Predicted Annual Values of TA 1/

	Period FY1998–2000 (Average annual person-years)				Period FY2001–04 (Average annual person-years)		
	Actual TA	Predicted TA	Absolute deviation		Actual TA	Predicted TA	Absolute deviation
Indonesia	6.48	2.82	3.66	Indonesia	6.97	1.93	5.04
Haiti	4.73	1.15	3.57	Cambodia	5.35	1.46	3.89
Russia	4.32	1.15	3.17	Bosnia and Herzegovina	3.50	0.79	2.70
Yemen	6.28	3.44	2.84	Russia	3.24	0.98	2.27
Ukraine	5.05	2.53	2.52	Congo, Dem. Rep. of	3.14	1.22	1.91
Georgia	3.53	1.08	2.46	Rwanda	3.54	1.69	1.84
Thailand	3.05	0.89	2.16	Azerbaijan	2.69	1.05	1.64
Angola	3.19	1.15	2.03	Mongolia	2.64	1.25	1.39
Lesotho	2.84	1.15	1.68	Botswana	1.96	0.60	1.36
Moldova	2.83	1.15	1.68	Mozambique	2.49	1.24	1.24
Nepal	0.36	1.40	-1.04	Guinea-Bissau	0.14	1.05	-0.92
India	0.17	1.39	-1.22	Burkina Faso	0.06	1.00	-0.95
Sierra Leone	0.13	1.40	-1.28	Pakistan	0.68	1.64	-0.96
Gambia, The	0.28	1.60	-1.32	Peru	0.38	1.35	-0.98
Burundi	0.01	1.44	-1.43	Madagascar	0.57	1.58	-1.01
Myanmar	0.04	1.53	-1.49	Kazakhstan	0.48	1.63	-1.16
Argentina	0.52	2.27	-1.75	India	0.10	1.39	-1.30
Panama	0.29	2.14	-1.85	Myanmar	0.01	1.34	-1.33
Pakistan	0.57	3.37	-2.80	Colombia	0.30	1.66	-1.36

Source: IMF.

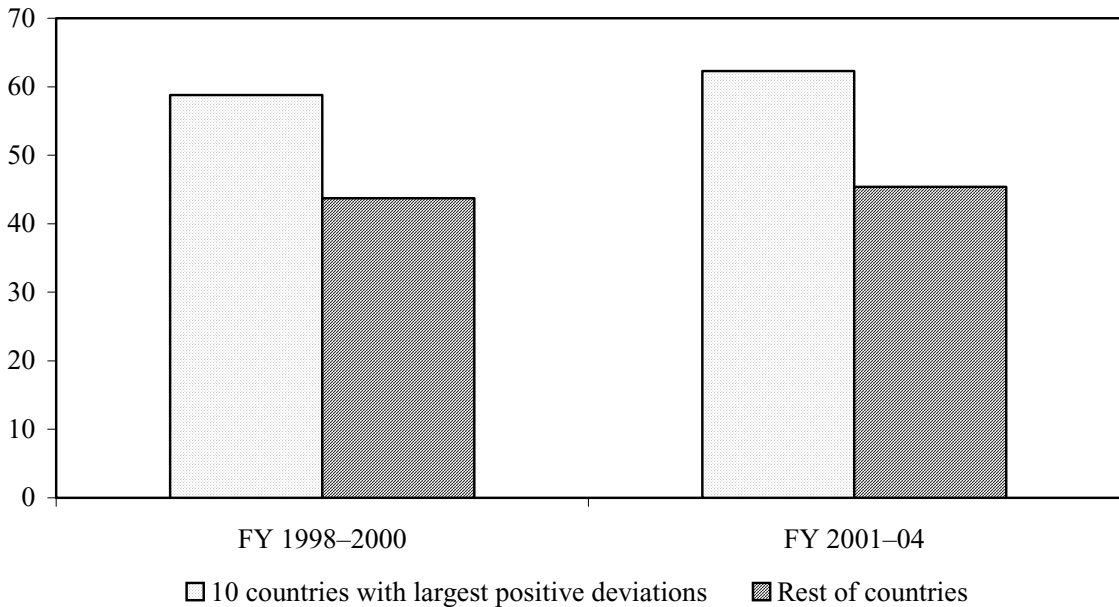
1/ Predicted values using the robust OLS specification as defined in Table 3.4. There are economies, such as Afghanistan, Timor-Leste, or the West Bank and Gaza Strip that received high volumes of TA but are not included in this table because of the lack of per capita GDP figures to obtain predicted values.

44. Countries overcoming years of civil war or political instability have particularly acute TA needs. Frequently, the most basic functions of government need to be rebuilt in the context of very low human capital and/or profound economic and institutional dislocations. The IMF has often been called upon to provide quick and significant volumes of TA in these circumstances. For instance, this explains the high and volatile level of TA received by Angola, Bosnia, Cambodia, the Democratic Republic of Congo, Haiti, Herzegovina, and Rwanda during the period under study.

45. The most salient common factor among countries with the largest positive deviations is the relative abundance of externally-financed TA. As shown in Figure 3.7, in these countries, around 60 percent of total TA was externally financed, whereas in the remaining countries around 44 percent of total TA was financed by external donors.



Figure 3.7. Externally Financed TA as a Percentage of Total TA 1/



Source: OTM.

1/ These calculations are based on TA in the field only.

46. While Japan has been the largest donor, there are other external donors that have also played a key role in financing IMF TA in particular countries: The United Nations Development Program (UNDP) in Yemen, Denmark in Mozambique, the Netherlands in Indonesia, and the United Kingdom in Cambodia,<sup>26</sup> all of which had a clear impact on the amount of the TA provided by the IMF to these countries. Access to externally-financed TA interacts with other factors—such as capital account crisis, or being a post conflict country—and may explain why some countries obtain significantly more TA than predicted by our simple model.

47. One factor that explains why some countries apparently received less TA than predicted is the growing relevance of regional TA centers. In 2002, the West AFRITAC was opened with the objective of strengthening capacity building in several West African countries, including Guinea-Bissau and Burkina Faso. As a result, TA destined for these two countries was delivered mostly via West AFRITAC and not directly to them. Therefore, direct TA figures underestimate the overall TA efforts.

<sup>26</sup> While some donors have demonstrated a preference for delivering much of their TA through the IMF (e.g., Japan), others have tended to provide their TA directly. In this regard, we would expect to see an emphasis on IMF TA to countries of greater interest to the former group. This does not, in itself, imply that other countries are neglected as TA recipients.

## Summary

48. The following conclusions can be derived from the earlier analysis:

- After a temporary decline in early 2000, the resources devoted to TA and training stabilized during FY2003–04, largely as a result of an increase in externally financed TA. IMF-financed TA has remained basically constant.
- IMF TA seems to be well targeted toward the low-income countries in the membership. About 70 percent of TA field activities are provided to countries with per capita income below \$1,000.
- The Africa and Asia-Pacific regions received most TA—accounting for 60 percent of total TA and an even higher share of externally financed TA. TA to the transition countries of Europe and Central Asia has sharply declined from its peak in FY1999.
- FAD TA has gradually declined during the last four years, while TA provided by STA and LEG has increased.
- The trends show a decline in the TA provided through long-term experts. This may be explained by the increased importance of regional TA centers becoming a hub for shorter missions, the adoption of the priority filters that encourage use of less expensive short-term TA (to be discussed later), and the growing relevance of new IMF initiatives described above (e.g., FSAPs, ROSCs), which may call for more focused and specialized TA provided by shorter missions.
- The statistical results show that lower per capita income influences positively the amount of TA. They also show a significant positive impact of having a PRGF or an EFF arrangement. In contrast, there is no evidence that countries with SBAs receive more TA. Thus—whether the focus of IMF TA is on shorter-term diagnostics or on longer-term capacity building—it does seem to be concentrated on poorer countries and on those judged to have longer-term structural adjustment needs.
- Not surprisingly, the examination of countries that are significantly above the (regression) norm suggests that economies where donors tend to finance a significant amount of TA provided by the IMF receive larger volumes of TA from the institution.<sup>27</sup>
- There is evidence that the volume of IMF TA fluctuates sharply in response to crises (e.g., capital account crises or countries emerging from conflict). This suggests

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<sup>27</sup> There is also evidence that IMF-financed TA is positively correlated with externally financed TA, although the regression results suggest the effects are small.

significant flexibility, but also raises questions about whether the conditions that will determine the success of such rapidly expanding TA can be assessed adequately—an issue to which we will return.

#### **4. IDENTIFYING TA NEEDS AND THE ALLOCATION OF TA RESOURCES**

##### **A. What Is Classified as TA?**

49. As noted, the stated objective of IMF TA is to (a) assist countries in the design of appropriate macroeconomic and structural reforms, and (b) to strengthen members' capacity to formulate and implement growth-oriented and poverty reducing policies. These are broad objectives, which in turn have been used to define a wide set of TA activities, including fact finding and analytical work to enhance the IMF's knowledge in its policy dialogue and program design. These activities may include short-term TA to advise on particular policy issues or crisis situations. At the other end of the spectrum—and depending on the degree of institutional development—they may comprise longer-term TA using resident experts to improve a country's capacity to diagnose problems and design and implement policies.

50. Present budgetary classifications tend to mask these distinctions, limiting the ability of management and the Board to assess the true effort of the IMF in medium-term institution building. This becomes important because—as discussed later in the report—there may be some factors that tend to bias the identification of TA needs toward short-term TA.

51. We recognize that these short-term activities are critical for the functioning of the IMF and for its capacity to advise and to design programs. In fact, the World Bank explicitly recognizes this through a special budget item called “Country Economic and Sector Work.” However, it is important to recognize that many of these activities are different from those aimed at improving countries' own institutional capacities to diagnose problems and design, and implement policies. It is not easy to derive the total amount of IMF TA devoted to these short-term diagnostic activities relative to institutional capacity building. Our best estimate is that about one-third of TA may consist of short-term diagnostic or policy advice activities.<sup>28</sup>

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<sup>28</sup> This is an indicative figure and is calculated as follows: about 46 percent of TA is accounted for by regional and resident experts providing TA; this can be classified as being predominantly institution building. About 18 percent of TA is short-term missions, which we classify as providing policy advice. There are two budgetary items that must be allocated, namely, peripatetic experts (a set of several visits by a particular expert), and TA work at headquarters. Each of these amounts to 10 percent and 27 percent of TA activities, respectively. If we allocate half of the total to short-term TA and half to long-term capacity-building TA, we arrive at an estimate of 36 percent of total TA being associated with short-term and policy advice activities.

## **B. Identifying TA Needs at the Country Level—Attempts to Make the Process More Strategic**

52. The fact that TA is called to address such a broad set of objectives makes the process of identifying priorities at the country level particularly complex—especially under tight budgets. It requires identifying the appropriate balance and sequencing between short-term and longer-term activities, and how these interact with each other and with other IMF instruments. It requires a shared vision with the authorities on a medium-term policy framework that would allow prioritization among short- and medium-term TA needs as well as across sectors, departments, and IMF institutional initiatives. It will also require decisions on how IMF TA fits within a broader framework of capacity-building efforts by other donors.

53. Whether present practices of TA prioritization provide such a framework remains a question. In fact, one of the major findings of the 1999 IMF TA evaluation was the need for a more strategic orientation for TA and the need to make TA more proactive and preventive rather than reactive. As a response to the 1999 evaluation, Executive Directors supported recommendations to integrate TA better into a country's overall policy framework as set out in Article IV consultations. Several Fund-wide and departmental specific initiatives were taken, including:

- (a) To integrate TA better with Article IV consultations, staff piloted a series of TCs incorporating explicit TA discussions with the authorities—reviewing past experience and future needs. As mentioned earlier, neither area nor functional departments found the initiative cost effective as implemented. It has since been discontinued.
- (b) To assure that TA priorities were simultaneously aligned with core areas of IMF expertise and new institutional mandates, a set of filters was introduced to provide criteria for the prioritization of TA activities.
- (c) Functional departments have tried to sharpen their own strategic country focus (see Appendix 1, Tables A1.1—A1.4). Diagnostic instruments, such as ROSCs and FSAPs, are now being used to identify country TA priorities and these instruments are now reaching a larger share of the membership. FAD has developed fiscal strategy briefs that review progress on structural reforms in fiscal systems and identify the remaining agenda for the future.<sup>29</sup> MFD has been experimenting with assessment missions in order to engage the authorities on specific TA needs in the financial and banking sector. STA has recently introduced a country-centered approach to TA allocation based on country strategy notes.

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<sup>29</sup> Fiscal strategy briefs have been completed for about 50 countries.

54. The purpose of this chapter is to examine how these initiatives have influenced the process of TA prioritization in the post-1999 period and what lessons can be drawn. Specifically, it addresses the following questions:

- What is the degree of alignment of IMF TA provided to a country with the key issues emerging from Article IV consultations?
- Does the PRS process help identify capacity-building priorities in low-income countries?
- How is TA responding to the new surveillance and thematic initiatives (such as the GDDS, ROSCs, and FSAPs), and new institutional mandates (AML/CFT and OFC assessments).
- Why did the experiment with TCs not succeed and are there lessons for the future?
- Do the new prioritization filters introduced in 2001 contribute to a more strategic focus for TA?
- How are countries' TA needs translated into final resource allocations?

### **C. Links Between TA Provided by the IMF and Article IV Surveillance**

55. As mentioned, one of the conclusions of the 1999 internal evaluation was the weak link between Article IV consultations and IMF TA. The expectation of a link is reflected in the 2001 TA policy statement which says that “it is often during discussions with country authorities during Article IV consultations...that the needs for capacity building and policy strengthening are mutually recognized and the concomitant requirements for technical assistance clearly identified.”

56. We, therefore, examined the extent of alignment for a recent period by comparing the main policy challenges identified in Article IV consultation reports with the subsequent amount and composition of IMF TA in a sample of 18 countries (Table 4.1).<sup>30</sup> To assess the strength of the link (defined as the extent to which the TA provided by the IMF reflected the broad policy priorities identified in Article IV surveillance), we drew on at least three Article IV staff reports spread out over the period 1998 to 2003 to identify the major policy challenges facing each country. This was compared with the subsequent allocation of TA resources across five areas: PEM and budget management, revenue, monetary and exchange

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<sup>30</sup> These countries were chosen to reflect a wide spectrum of consumers of IMF TA, including with respect to region, size, level of economic development, amount of TA provided by the IMF, and program experience.

rate policy, banking supervision and restructuring, and statistics. Scores were assigned to reflect the degree of alignment.<sup>31</sup>

Table 4.1. Strength of the Link Between Article IV Consultations and IMF TA

	PEM and Budget	Revenue (Tax and Customs)	Monetary and Exchange Rate Policy	Banking Supervision and Restructuring	Statistics	Average Score
Bangladesh	1	2	3	1	2	1.8
Belarus	2	2	1	2	1	1.6
Bulgaria	2	3	3	2	2	2.4
Burkina Faso	3	1	n.a.	n.a.	1	1.7
<b>Cambodia</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2.8</b>
Cameroon	3	3	n.a.	n.a.	1	2.3
Ecuador	2	2	1	3	2	2.0
Ethiopia	1	3	2	3	3	2.4
<b>Honduras</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>2.0</b>
Jamaica	3	1	1	3	2	2.0
Morocco	3	3	2	2	2	2.4
<b>Niger</b>	<b>3</b>	<b>3</b>	<b>n.a.</b>	<b>n.a.</b>	<b>1</b>	<b>2.3</b>
Tonga	2	1	3	3	2	2.2
Turkey	2	3	3	2	2	2.4
<b>Ukraine</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3.0</b>
Vietnam	1	1	2	3	2	1.8
<b>Yemen</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2.6</b>
<b>Zambia</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2.6</b>
Average score	2.2	2.3	2.2	2.6	2.0	2.3

Source: IMF documents.

1 = weak or no apparent link; 2 = partial link; 3 = close link between surveillance and TA from IMF; n.a = not applicable (for these countries, responsibility for subject area rests with the regional central bank (Banque Centrale des Etats d’Afrique de l’Oeust)). Countries in bold are those six chosen for in-depth field work.

<sup>31</sup> An exercise of this nature involves considerable subjectivity. We adopted a simple three-point scale with “1 representing the absence of an apparent link between policy priorities identified in Article IV consultations and TA” and “3 representing a significant link.” A score of “2 was given to intermediate situations where a link existed but it was not considered to be very strong (long delays in delivering TA after the identification of a need for TA).” “Significant link” refers to situations where the identification of major policy challenges for which TA could make a meaningful contribution (e.g., a call to tighten monetary policy would not likely require TA unless it called for the development of instruments of monetary management) was followed in a timely manner by an increase in TA delivered by the IMF. It also refers to situations where few or no TA resources were allocated to areas in which no serious problems were identified by surveillance. “Weak or no link” refers to situations where large amounts of TA were allocated to areas not identified by Article IV surveillance as policy priorities or to situations in which areas of major policy concern (and for which TA could have made a meaningful contribution) received little or no TA from the IMF.

57. Of course, there may be good reasons why the link between TA and Article IV surveillance is not strong. Other factors, some of which are embodied in the allocation filters contained in the 2001 Policy Statement (discussed below), may dominate resource allocation decisions. For example, a country's track record of implementing reforms identified in previous surveillance or in making use of previous TA may be poor suggesting that future TA may not be used effectively (e.g., Yemen). Other TA providers may already be active in support of TA needs identified by IMF surveillance (e.g., statistics in Yemen, tax and customs administration in Zambia, and banking in Ukraine).

58. Not surprisingly, the results vary considerably across countries and subject areas. However, on average they imply only modest progress since the conclusion of the 1999 IMF evaluation that the link between surveillance and TA was weak. There are some interesting patterns among the group of countries, a number of which are consistent with information gathered during interviews with staff and our case study evidence:<sup>32</sup>

- The strongest link was seen for Cambodia, Ukraine, Yemen, and Zambia, all of which were among the heaviest users of IMF TA in our sample. It is noteworthy that Cambodia and Yemen were the only two countries in the sample to have Technical Cooperation Action Plans (TCAPs), which were to serve as medium-term frameworks for delivering TA. The weakest links were seen for Bangladesh, Belarus, Burkina Faso, and Vietnam—a diverse group, with no apparent commonality, except perhaps the absence of an IMF-supported program for all or much of the period under consideration (FY1999–2003).
- On average, there was no major difference in the strength of the link between low-income and medium-income countries, or between those countries defined as Heavily Indebted Poor Countries (HIPCs) and non-HIPCs. However, HIPCs showed a somewhat stronger link than non-HIPCs with respect to TA in PEM and budget management.<sup>33</sup> This is not surprising given the emphasis placed on PEM and budget management for countries participating in the HIPC Initiative stemming from the desire to ensure that resources released from debt service were used for productive purposes.

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<sup>32</sup> It should be acknowledged at the outset that our sample was small (only 18 countries). That said, sample composition reflected broad country diversity and experience with the IMF.

<sup>33</sup> Among the HIPCs in our case studies, this tendency was clearly evident in Niger and Zambia but not in Honduras, which received only modest amounts of TA in budget and PEM.

- The link between TA and Article IV surveillance appears—on average—strongest in the area of banking supervision and restructuring, and lowest in statistics. One possible explanation is that some banking problems flagged during Article IV consultations may require more timely action to address situations with the potential to spill over to other parts of the economy (although much of the TA in banking has been of a preventive nature and might therefore not be so time sensitive). On the other hand, problems related to quality of data rarely imply such urgency. That said, one would still expect a relatively timely response to serious shortcomings in a member’s statistical capacity.<sup>34</sup>
- The weakest alignment with TA on statistics occurred for the three French-speaking African countries in the sample, while TA on statistics to the Anglophone African countries was closely aligned. This is consistent with views expressed by some staff that—at least until recently—STA did not have sufficient French-speaking experts, which undermined their ability to respond to needs in West Africa. Among our case studies, Niger provides a good example of this phenomenon.
- This exercise was only able to look at average patterns within a broad period—particularly because some of the links between the Article IV consultations and TA occur with a lag. But there are also important yearly fluctuations in the volume of TA that cast doubts whether (at least in the case of non-PRGF countries) Article IV consultations either develop a long-term view, or if they do, whether they effectively guide TA allocations. A good case is Ukraine which received a yearly volume of TA in the range of 1000–1700 person-days in the period FY1995–2002. That volume collapsed to about 100 person-days in the FY2003–04 period, when most IMF resident experts were phased out, owing to a better economic environment that improved the fiscal and banking sector situation, no new financial arrangements, and increased reliance on other TA providers. As we have seen elsewhere, the existence of a program seems to have been a major determinant of the large volume of TA. It is unlikely that institution-building needs of Ukraine or changes in the track record of implementation alone can explain such a wide fluctuation.

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<sup>34</sup> This was not the case, for example, in Niger where despite real sector data quality concerns raised in Article IV reports over a prolonged period beginning in the mid-1990s, no direct TA was provided by the IMF between 1996 and 2003. The IMF did engage the services of a regional TA provider (Economic and Statistical Observatory for Sub-Saharan Africa (AFRISTAT)), but this was not until FY2003. Possible explanations for the weak link are discussed in the country case study report prepared as background to this evaluation. They include competing resource demands in STA and a lack of priority given by the area department to rectifying problems with real sector data in Niger.



#### **D. How Well Are TA Priorities Linked to the PRS Process?**

59. Do PRSPs, which were introduced in December 1999, provide a suitable diagnosis of the capacity constraints faced by low-income countries in designing, implementing, and monitoring poverty reduction and growth strategies? One would expect the PRSP and subsequent annual progress reports (APRs) to identify key bottlenecks in technical and institutional capacity and indicate how TA could contribute to their amelioration. To the extent that this is the case, one would also expect significant alignment between capacity-building priorities set out in PRSPs and the composition of TA delivered by the IMF in its areas of expertise. To address this question, we conducted a panel data analysis of 48 PRSP countries, and then reviewed PRSPs and APRs for a sample of 10 countries drawing on evidence presented in the recent IEO evaluation of PRSPs and the PRGF as well as on the case studies included in this evaluation.

##### **Are PRSPs good diagnostic instruments for TA needs?**

60. The overall documentation prepared as part of the PRS process was of only limited value in diagnosing capacity-building needs in a way that would constitute a sound basis for planning TA activities (Table 4.2). Many PRSPs provide general indications of areas where there is a need for capacity building—especially tax administration, public expenditure, and the payments system. Some do not go this far and only outline broad directions for policy change, such as “improving macroeconomic management.” About half of the PRSPs we examined identified capacity-building needs in a way that is specific enough to give some indication of the issues that need to be addressed and thereby offer a partial basis on which TA providers and recipients could build a detailed assessment of TA needs. This general assessment hides significant variation across countries: in a few “good practice” cases (Ethiopia, Niger, and Mozambique), there is an explicit focus on capacity building in the PRSP, and, therefore, broad TA needs are clearly identified. The diagnosis offered in APRs is typically less extensive than in PRSPs, although one might expect experience gained in implementing the PRSP to help countries identify capacity bottlenecks and prioritize their needs.

61. These results are consistent with those of other evaluations. The World Bank OED’s evaluation of the PRS process finds that, although capacity constraints were frequently mentioned, there was little effort to address them as part of the ongoing dialogue with the authorities. As a result, the PRSP has had a limited impact in identifying initiatives supporting capacity enhancement.<sup>35</sup> In a similar vein, a recent FAD assessment of TA in PEM in Anglophone African countries finds that for the most part PEM issues were not addressed in countries’ PRSPs.<sup>36</sup> The study suggests that PEM issues could be integrated into

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<sup>35</sup> Kavalsky (2004).

<sup>36</sup> Diamond and others (2004).

national Poverty Reduction Strategies as a way to give more consideration to the institutional and governance environment, and promote ownership.

Table 4.2 Extensiveness of Diagnostic of Capacity-Building Needs in PRSPs 1/

	PRSP	APR1	APR2
Cambodia	3	...	...
Ethiopia	4	4	...
Honduras	2	1	...
Mozambique	4	2	...
Nicaragua	3	2	2
Niger	3	4	...
Tanzania	1	2	1
Vietnam	2	2	...
Yemen	1	...	...
Zambia	3	1	...
Average	2.6	2.3	1.5

Source: IMF documents.

1/ The higher the “score,” the more the PRSP helped set out priorities for TA needs. The detailed “coding” that was used to attribute scores is as follows: 1=PRS document does not go beyond acknowledging TA received or promised by the Bretton Woods institutions or other partners; 2=PRS document identifies capacity-building needs only in very general terms, without clear linkage to TA needs; 3=PRS document identifies clearly specific capacity-building needs, wherefrom TA needs can easily be derived; and 4=PRS document contains or builds upon full-fledged capacity-building strategy with clearly identified TA needs.

### Is the volume of TA provided by the IMF influenced by having a PRSP?

62. To examine whether there is a relationship between the PRSPs and the *volume* of TA provided by the IMF, we use a panel of 48 PRSP countries between FY1998 and FY2004, where the variable to be explained is the annual volume of TA received. As shown in Table 4.3, equations 1 and 2 analyze the impact of the Interim Poverty Reduction Strategy Papers (I-PRSPs) and PRSPs on the total volume of TA, and equations 3 and 4 show the impact of the I-PRSPs and PRSPs on the volume of TA in the fiscal area (FAD).<sup>37</sup> These four equations are consistent in showing that there is no evidence of a significant impact of the I-PRSPs or PRSPs on the volume of TA, once we control for other factors such as the presence of a PRGF-supported or an EFF-supported program. In other words, the average volume of TA provided by the IMF *after the PRSP was put in place* (controlling for the income level and the presence of IMF-supported programs) was not significantly different

<sup>37</sup> PRSPs place particular emphasis on mobilizing both domestic and external resources for poverty-reduction efforts and on improving the effectiveness and efficiency of such spending. We would, therefore, expect to see a greater link between PRSPs and the volume of TA provided in the fiscal area.

from the average volume of TA provided by the IMF prior to the PRSP exercise. These equations also suggest that IMF-supported programs, not the PRSP, are the major driving force behind TA provision, confirming the results of Chapter 3.

Table 4.3. Panel Data Regression Results 1/

	Total TA		FAD TA	
	1	2	3	4
Constant	-3.964	-3.963	0.286	0.188
In per capita GDP	0.865	0.861	0.095	0.066
PRGF	4.636 3/	4.540 3/	2.208 2/	2.137 2/
PRGF*Ln per capita GDP	-0.732 3/	-0.729 3/	-0.350 2/	-0.345 2/
EFF	1.579 3/	1.644 3/	0.727 2/	0.767 2/
SBA	-0.119	-0.156	-0.144	-0.169
<b>PRSP</b>	...	<b>-0.145</b>	...	<b>-0.034</b>
<b>I-PRSP</b>	<b>-0.170</b>	...	<b>-0.083</b>	...
N	335	335	335	335
Adjusted R-squared	0.496	0.495	0.364	0.362

Source: IMF.

1/ Robust fixed effects.

2/ Significant at a 95 percent level of confidence.

3/ Significant at a 99 percent level of confidence.

63. The evidence found in our country case studies is for the most part consistent with this regression analysis. For example, in both Niger and Yemen, total TA fell off dramatically in the period following the adoption of the PRSP. A longer-term view of institution-building needs and absorptive constraints might have prevented the very large swings in the volume of TA provided to Yemen. In Niger, however, the decline appears to have been motivated by a shift in the burden of TA delivery from FAD to the newly established regional TA center (West AFRITAC), which had competing regional priorities and fewer resources to allocate. In Zambia, neither the level nor the composition of TA appeared to respond to the PRSP but rather was motivated by the need to address implementation problems in the PRGF arrangement. A similar phenomenon was evident in Ethiopia, although, in this case, TA allocation appeared to be driven by the country's medium-term development strategy that preceded the PRSP. In the case of Honduras the PRGF—which was not based on the framework of the PRSP<sup>38</sup>—was the umbrella under

<sup>38</sup> IMF (2004a).

which most TA activities were aligned. In Cambodia the TCAP, and not the PRSP, has been the driving force behind TA provision.<sup>39</sup>

64. The inability of most PRSPs to influence the level and composition of IMF TA was also confirmed by discussions with a number of IMF staff, including departmental TA coordinators. They argued that PRSPs did not provide an adequate basis for articulating TA needs or setting TA priorities for individual countries. In fact, interviews with TA coordinators in area departments revealed that only in the African Department (AFR) was the PRSP looked to as a *potential* significant driver of decisions on the allocation of TA resources. The disconnect between TA resource allocation decisions and PRSPs was further reflected in the fact that the PRS process is barely mentioned in the IMF's Policy Statement on TA adopted in April 2001.<sup>40</sup>

65. An additional factor hindering the link between the PRSP and TA allocation is that commitments to TA activities tend to be made for a relatively short time horizon—usually one fiscal year—which may not mesh easily with the longer-term perspective of PRSPs. However, the significance of this factor should not be overstated because it appears to have been less of a problem for IMF-supported programs that extend over a similar period (PRGF and EFF programs) and for which links with TA appear to have been considerably stronger. Thus, while the short-term budgetary framework presents some challenges to using the PRSP to guide TA allocation, there is still scope for TA allocation to better reflect PRSP priorities.

66. While PRSPs seem to have had a weak direct impact on TA, there is potential for an indirect impact by way of PRGF-supported programs that are themselves intended to be aligned on PRSP priorities. However, as discussed in the IEO's evaluation of PRSPs and the PRGF, the degree of alignment between PRSPs and PRGF-supported programs is very uneven in large part because most PRSPs do not yet provide an effective strategic roadmap (IEO, 2004). The result is that any observed alignment between IMF TA and PRGF-supported programs does not (at least at this point in time) necessary translate into a link between IMF TA and any capacity-building priorities articulated in PRSPs.

67. The creation of regional technical assistance centers, for example, in the Africa region (AFRITACs) may present an opportunity for change. These centers' explicit aim is to assist countries to address the capacity-building needs identified by the PRS process. However, as

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<sup>39</sup> In Cambodia, the launch of the TCAP preceded the PRSP by about one and a half years. However, there is no evidence that the preparation of the PRSP at the end of 2002 influenced changes in the TCAP.

<sup>40</sup> The closest link between the PRSP and TA is reflected in one of five subcomponents of the second of nine allocation "filters" calling for TA to be clearly directed toward, among other things, "implementing sustainable debt relief and poverty reduction programs for low-income countries."

noted, their ability to do this is influenced by the fact that PRSPs typically did not offer a suitable diagnosis of TA needs or capacity constraints. At this stage, it is too early to judge whether the regional centers are having a substantial impact on alignment of IMF TA with PRS priorities. In our case studies, only Niger was served by an IMF regional TA center, and there is insufficient evidence to assess the extent to which the PRSP has had an impact on TA delivery from West AFRITAC.

### **E. Inputs of Other Surveillance-Related Activities on TA Allocation**

68. As part of a wider strategy for strengthening the international financial system, the IMF has embarked in recent years on a series of new surveillance-related initiatives such as FSAPs and ROSCs, and assessments of AML/CFTs and OFCs.

69. These initiatives are intended to encourage good practices, identify potential weaknesses in domestic institutions and policies, improve transparency, and broaden IMF surveillance efforts through more in-depth analysis in those areas within the IMF's expertise. The number of countries taking part in these initiatives has increased sharply since their inception in FY2000, and as of the end of FY2004, more than 100 economies were covered by over 500 ROSC modules and 58 FSAPs. The majority of the ROSC modules—64 percent—covered financial sector standards and were derived from FSAPs. Fiscal transparency and data ROSC modules accounted for 13 percent and 10 percent of the total, respectively.<sup>41</sup>

70. The evolution of TA has mirrored to a large extent the emphasis the IMF has placed on these initiatives.<sup>42</sup> Follow-up activities—beyond the original diagnostic mission—frequently require an expanded set of TA activities from functional departments. Table 4.4 shows the composition of TA between that associated with regular policy reform and capacity-building activities and those specifically associated with the follow-up of these new surveillance activities.<sup>43</sup> It shows a sharp increase in the TA associated with these new initiatives at the expense of the regular TA supporting policy reform and capacity building.<sup>44</sup>

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<sup>41</sup> A list of completed ROSC modules, as of March 2004, is available at <http://www-int.imf.org/depts/pdr/Strengthening/Standards/ROSCmodTBL.pdf>.

<sup>42</sup> For budgetary classification purposes, activities to prepare and discuss these documents with authorities are considered to be surveillance activities, while “follow-up” work is classified as TA.

<sup>43</sup> The classification follows what is called Key Policy Initiatives and Concerns (KPICs), in the language of the 2001 Policy Statement.

<sup>44</sup> Prior to the establishment of these new surveillance tools, TA in related areas would have been subsumed by policy reform or capacity building. Therefore, not all of the activities associated with the new surveillance initiatives are additional and could instead represent reclassification from earlier reporting systems.

The growing significance of these follow-up TA activities is even more evident when we look at each functional department. For example, follow-up TA in MFD went from around 1 percent of its total TA delivery in FY2001 to 27 percent in FY2004 (Figure 4.1). Similarly, follow-up TA in LEG went from less than 1 percent of its total TA delivery to around 20 percent over the same period, and in STA, the share doubled to 61 percent.<sup>45</sup>

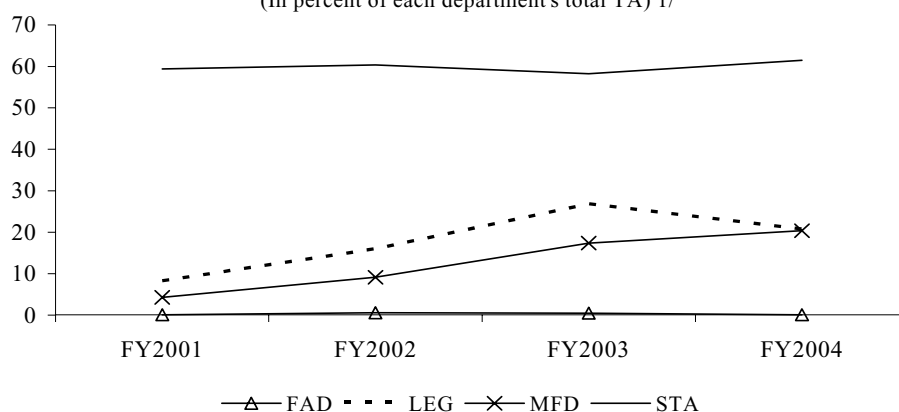
Table 4.4. TA Delivery by Key Policy Initiatives and Concerns, Excluding INS 1/  
(In person-years)

KPICs Description	FY2001	FY2002	FY2003	FY2004
1. Policy reform and capacity building	142	132	131	132
2. HIPC associated	14	21	17	11
3. Follow-up TA for FSAP	2	3	6	10
4. Follow-up TA for Standards and Codes	15	13	18	21
5. OFC and AML/CFT	2	5	10	9
6. Other	1	1	1	1
Total TA related to new initiatives = (3)+(4)+(5)	19	22	34	40
Grand Total	176	175	182	184

Source: OTM.

1/ TA delivered in the field.

Figure 4.1. Follow-Up TA of ROSCs, FSAPs, AML/CFTs, and  
OFCs by Functional Departments  
(In percent of each department's total TA) 1/



Source: OTM.

1/ TA delivered in the field only.

<sup>45</sup> The fact that for FAD the volume of TA associated with these surveillance activities appears low and constant over time is due to classification issues. These activities are classified as TA associated with specific subjects included under the policy reform or capacity-building category. This means that the total level of TA associated with these surveillance activities shown in Table 4.4 and Figure 4.1 is probably strongly underestimated.

71. At the country level, our case studies provide additional evidence on the impact of these initiatives. In Zambia, TA priorities and the design of interventions have started to reflect the findings of the FSAPs, and the HIPC Initiative's expenditure-tracking exercise. For instance, TA was provided to help the country develop a comprehensive development plan for the financial sector as recommended by the FSAP. TA was also provided to improve Zambia's own assessment of current statistical practices under the GDDS framework. In the case of Ukraine, the 2003 FSAP identified a number of vulnerabilities in the banking sector which motivated further TA activity in banking supervision in late FY2004.

72. In Honduras, based on the FSAP, the government has embarked on a financial-system reform that aims at strengthening the regulatory framework and ongoing supervision, in addition to improving mechanisms for AML/CFT.<sup>46</sup> In Yemen, substantial TA resources were devoted to banking supervision and reserve management following the FSAP.

73. In sum, the aggregate numbers along with the case studies suggest that the IMF's new surveillance initiatives and institutional mandates are increasingly influencing the direction of TA. This trend was also confirmed by our discussions with IMF staff, including TA coordinators. In their view, these new initiatives have now become more important drivers of TA needs than Article IV surveillance.

74. This is not necessarily an undesirable development—if it were to reflect a strategic decision by the IMF that provision of TA in these areas is an overarching priority (e.g., because of the global public goods they involve and the comparative advantage of the IMF in providing them). However, it does raise the question of how priorities suggested by the more “global” Fund-wide initiatives are meshed with TA priorities derived from a policy framework driven by the country itself. Without such a framework, there is a danger that these new surveillance instruments and departmental initiatives may become ad hoc individual drivers of TA, without a coherent process to weigh priorities that may emerge from discussions with the authorities.

## **F. The Experience with the Technical Consultations Initiative**

75. Technical assistance consultations (TCs) were supposed to have encouraged a more strategic outlook for TA by creating a country-centered approach to IMF TA delivery, providing better information to help review TA effectiveness and country's commitment to making effective use of such assistance. The TC would comprise an assessment of past IMF TA, particularly implementation, and a forward-looking discussion of TA needs. The TC initiative was meant to lead to more consistent planning, improved follow-up, better coordination with other TA providers, and stronger country ownership. We have, therefore, examined this initiative in some depth.

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<sup>46</sup> IMF (2004b).

76. TCs were to be implemented gradually through a series of pilot studies and then reviewed after a period of time. A procedure guidance note was issued in October 1999 to guide the pilot studies.

77. During 2002, OTM conducted a comprehensive review of 29 pilot cases and concluded that TCs have not proven as useful as expected and suggested that they be discontinued.<sup>47</sup> It concluded that “TC notes ... have tended to focus on a factual description of past TA activities, without much added insight on key issues, underlying policy factors, and future direction,” resulting in less informative discussions with country authorities. Some functional departments also noted the duplication of efforts with other staff reports. These disappointing results were attributed to the multiple objectives envisioned for the TCs and the choice of an already overloaded vehicle, the Article IV consultation, to implement them. Executive Directors, while acknowledging that TCs have not been entirely effective, added that, “continuing efforts to enhance the effectiveness of TCs as originally envisaged also should not be ruled out.”<sup>48</sup>

78. Although TCs have been discontinued, we took a second look at the pilot cases and made an assessment of what happened and what could be learned for the future. For this purpose, we examined in detail a diverse subgroup of 12 TCs among the 29 pilot cases, about half of which are PRGF-eligible countries. We divided the analysis between (a) an evaluation of the TC note contained in the Article IV staff report appendix, and (b) how well the main text of the Article IV report summarized the main thrust of TA discussions and the identification of priority needs. The following questions guided the analysis:

### ***1. Evaluation of the TC in the Article IV staff report appendix***

*Q1: How clearly were past TA activities described?*

*Q2: How well was past TA effectiveness being assessed? How clearly was effectiveness defined (e.g., implementation record of recommendations, impact on ultimate objectives). Were these views shared by the authorities?*

*Q3: How well are the key factors that may have affected effectiveness discussed?*

*Q4: How clear was the identification of future TA needs, irrespective of who may be able to deliver the TA (either the IMF or other donors)?*

*Q5: Was the link between TA needs and key policy and institutional issues raised in the context of program and surveillance work clearly explained, e.g., the rationale behind these needs?*

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<sup>47</sup> IMF (2002c).

<sup>48</sup> IMF (2002d).



## 2. Evaluation of the main text of the Article IV staff report

*Q6: How well does the staff report summarize past TA effectiveness?*

*Q7: How clearly are future TA needs presented?*

*Q8: How well does it summarize the rationale for the needs, e.g., their link to the future policy agenda?*

79. Answers to these questions were rated between 0 and 3, where 0 refers to a case where the questions are not addressed; 1 = when these were addressed in a perfunctory way; 2 = they were addressed, but not in any significant depth; and 3 = they were addressed with good efforts at deriving strategic conclusions. Table 4.5 summarizes the results.

Table 4.5. Experience with the TC Initiative 1/

	Backward Looking			Forward Looking		Main Report		
	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Angola	3.0	1.5	2.0	2.0	0.0	1.0	0.0	0.0
Bangladesh	3.0	1.0	0.5	0.5	0.0	0.0	0.0	0.0
Belarus	3.0	1.0	0.0	2.0	0.0	0.0	0.0	0.0
Bolivia	3.0	1.0	1.0	1.5	0.0	2.0	2.0	0.0
Costa Rica	3.0	2.0	1.0	2.5	2.5	1.0	2.5	2.5
Gambia, The	0.0	1.0	0.0	0.0	0.0	1.0	0.0	0.0
Honduras	3.0	0.5	1.5	2.0	0.0	0.0	2.0	0.0
Islamic Republic of Iran 2/	3.0	1.5	0.0	1.5	1.5	2.0	1.5	1.5
Macedonia, FYR	3.0	2.0	1.0	2.0	0.0	2.0	2.5	0.0
Mongolia	3.0	2.0	2.0	2.0	1.0	2.0	2.0	0.0
Papua New Guinea	3.0	2.0	1.5	2.0	0.0	0.0	1.0	1.0
Slovenia	3.0	2.0	1.0	2.5	0.5	2.0	2.0	0.0
Average	2.8	1.5	1.0	1.7	0.5	1.1	1.3	0.4

Source: IEO staff.

1/ Scores represent average across all TA areas.

2/ Although there is no separate TCs annex, the evaluation was based on the content of the main report's section on TA matters.

80. The results are not encouraging. The pattern that emerges is that at best TCs did a good job in listing past TA activities, a rather mechanical exercise (Q1). However, they did not contribute much in assessing past effectiveness and its determinants, and the rationale for future priorities—which would have called for links to the overall policy framework. It is not surprising that the documents did not elicit much interest from the Board—the depth of analysis that would have stimulated a discussion was in general absent.

81. An in-depth examination of the 2001 Honduras TC, one of our country case studies, sheds further light on why this exercise was not particularly useful. It reads as a mechanical

and proforma exercise. It describes past TA activities and lists current requests from the authorities, sector by sector. This information could have been derived directly from functional departments' documents. It does not reflect a process of analysis and substantive discussion with the authorities on longer-term TA needs and priorities. The TC does not convey a sense that area departments have an overall TA strategy emanating from a medium-term policy framework that would allow a comparison of TA priorities across functional department lines. Consequently, it is not surprising that the exercise was not found useful.

82. Part of the problem may have been related to the specific implementation guidelines for the TCs, which called for staff to reach a broad understanding with the authorities on future TA priorities but not to “precommit the IMF to any particular course of TA action.” This qualification appears to have reduced the incentives for both staff and the authorities to devote sufficient effort to TA discussions, particularly in the face of other demands on their time during Article IV consultations.

83. We believe the basic idea and objectives behind the TC remain valid, in spite of their potential being far from realized in the pilot cases. Paraphrasing the findings in one of the TCs reviewed, there is a need to move from ad hoc TA requests to TA provided strategically to support economic policies and economic reforms. However, for the TC to play this role it requires more careful preparation, better supporting incentives, and more intense involvement of both the authorities and the area departments. If implemented in the PRGF-eligible countries, such an exercise should be clearly linked to the PRS process.

### **G. The Experience with Prioritization “Filters”**

84. As part of the “Policy Statement on IMF Technical Assistance” adopted in April 2001, the Executive Board endorsed a set of nine “filters” intended to guide priorities for the allocation of TA resources (Box 4.1). To some extent, this action was a remedial response to the inability of Article IV surveillance to guide meaningfully the allocation of TA resources.

85. In the view of this evaluation, the system of “filters” as currently formulated is not helpful as a means to strategically prioritize TA. A number of filters were found to be too general and all-encompassing to be operationally meaningful, while others could result in unintended biases if followed mechanically. There are also some inconsistencies among the filters and other objectives being pursued within the IMF. Taken together, we found the system of filters to be “overdetermined,” implying little de facto guidance for priority setting. As is, they cannot compensate for the failure of other initiatives such as the TCs or the lack of a country-centered process to set TA priorities.

86. *Filter 1* calls for TA to fall within the IMF’s core areas of specialization. These areas are listed in an annex to the TA Policy Statement and cover a wide range of topics related to policy advice and institution building. For the most part, the TA activities reviewed for this evaluation have fallen clearly within these areas of specialization. There have been a few exceptions (such as micro-financing and fiscal decentralization) for which the extent of the

IMF's mandate and expertise vis-à-vis the World Bank is somewhat ambiguous. On balance, however, IMF TA has been generally consistent with this filter.

#### **Box 4.1. Prioritization Criteria for Technical Assistance 1/**

In light of demand pressures and competing needs for limited IMF TA resources, a new process of prioritization was adopted in 2001. This process consisting of nine criteria was created to assist staff in allocating resources, and link TA more explicitly to the IMF's key policy initiatives. The weight given to each of these factors would shift depending on management's perception of the IMF's changing priorities.

*Filter 1: Core specialization of the IMF.* Assistance provided must fall within areas recognized as being within the IMF's core areas of specialization.

*Filter 2: Main program areas.* TA must be clearly directed toward (1) preventing or containing crises and their contagion effects in nonprogram countries; (2) implementing sustainable debt relief and poverty reduction programs for low income countries; (3) fostering and maintaining macroeconomic and financial sector stability in countries not currently using IMF resources; (4) promoting regional capacity building and integration initiatives; and (5) rehabilitating basic economic and financial institutions in post-conflict situations.

*Filter 3: Key policy initiatives.* TA should be focused on supporting the IMF's key policy priorities and initiatives. While these will vary over time, at present they are (1) standards and codes; (2) FSAP; (3) HIPC programs; (4) safeguarding IMF resources; (5) OFC assessments; and (6) policy reforms/institutional capacity building in support of achieving macroeconomic viability.

*Filter 4: Impact and commitment.* A country's track record and degree of ownership and commitment should receive a large weight in appraising requests for TA. These factors could be offset by other considerations such as dealing with systemic countries, crisis situations, or when there has been a significant change in country leadership.

*Filter 5: Regional diversity.* The principle of uniformity of treatment of members requires some diversity in TA resource allocation and small countries' needs—where TA can often have high impact and where other sources of assistance may be unavailable—are not ignored.

*Filter 6: Availability of external financing.* Although availability of external financing should normally not be a decisive factor, cooperation with other donors providing funding for IMF TA and/or to support other elements of assistance which the IMF cannot easily provide should be positively taken into account when appraising requests for TA.

*Filter 7: Nature of the request.* Requests for a policy or diagnostic mission, or short-term expert, are less costly than requests for a resident expert and can often be met without placing a significant burden on TA resources.

*Filter 8: Regional approach.* The IMF will actively seek opportunities for using regionally based approaches to providing TA.

*Filter 9: Presence of other TA providers.* In deciding whether to provide assistance, the IMF will consider whether other providers are actively engaged in similar efforts. Duplication should be avoided and all efforts at coordination will be made.

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1/ IMF (2000b).

87. Filter 2 requires that TA *must* be clearly directed toward supporting one of five main program areas. These are defined to be (1) crisis prevention or containment in nonprogram countries (principally systemically important nonindustrial and emerging market economies); (2) implementing sustainable debt relief and poverty reduction programs for low-income countries; (3) fostering and maintaining macroeconomic and financial sector stability in

countries not currently using IMF resources (largely middle-income and transition economies); (4) promoting regional capacity-building initiatives, including training; and (5) rehabilitating basic economic and financial institutions in post-conflict situations.

88. With respect to low-income countries, program areas (2) and (5) are sufficiently broad as to encompass virtually all aspects of Filter 1. Consistent with the criticism of the 1999 TA evaluation, the emphasis implied by (1) and (3) is on preventive (rather than reactive) TA, as suggested by their applicability to nonprogram countries. What is less clear, however, is the role of IMF TA in middle-income countries making use of IMF resources (and not emerging from conflict). This group seems to be excluded from all but program area (4), which deals only with TA at the regional level. This is clearly neither the case in practice, nor likely in intent. Finally, program area (4) is essentially not a substantive program area but focuses on promoting efficiency through seeking economies of scale in TA delivery or in promoting regional integration. Were these to be seen as worthwhile objectives, they might best be contained elsewhere among the filters. On balance, there are shortcomings in the coherence and value added of this filter that should be addressed.

89. *Filter 3*, which calls for TA to be focused on supporting the IMF's "key policy priorities and initiatives," includes an extensive list of policy initiatives including the residual category of "policy reform/institutional capacity building in support of achieving macroeconomic viability." This category alone is so broad that almost any activity can be classified under it. Thus, although the intention may have been to give priority to TA that supported several global initiatives (see preceding section) as formulated, the filter is too broad to serve such a purpose.

90. *Filter 4* calls for a country's past track record and its degree of "ownership and commitment" to be given more weight in setting priorities for future TA. Track record should be taken into account when functional departments discuss individual requests.

91. The challenge is how to implement these criteria in a consistent and transparent fashion. We find a variety of experience in our case studies. A weak track record in the implementation of TA in the period examined has constrained TA allocations in the areas of tax administration in Ukraine and statistics in the case of Yemen. On the other hand, in spite of the weak track record in the area of PEM in Zambia and customs administration in Cambodia, these countries kept receiving significant amounts of TA.

92. Linking past track records in the implementation of TA to future TA requires some analysis of the reasons for weak implementation as well as how to generalize judgments across TA activities within the country. (This issue is addressed in Chapter 6.) First, there are different types of track records that are relevant for different decisions regarding future TA. For example, the reluctance of the authorities to follow up on a specific piece of policy advice may not be relevant to guide future TA decisions in the area of long-term institutional support. Second, there may have been good reasons why implementation was slow. The case studies show that some implementation problems may have resulted because the recommendations were not convincing, were premature, or were not well adapted to the

characteristics of the country, rather than a clear lack of commitment by the authorities. The implementation of a single treasury account in Ukraine, and TA in the area of monetary policy and government securities in Zambia are some examples.

93. Likewise, in order for a track record to influence TA allocations *across* countries, the process through which these decisions are made must be coherently analyzed and recorded across the institution. Only then can a filter of this type be applied more objectively and consistently. The implementation of a monitoring module of the TAIMS system could eventually allow such progress. (This is discussed further in Chapter 6.)

94. *Filter 5* calls for diversity in the allocation of TA resources, including ensuring that the needs of small countries are not ignored. We found in Chapter 3 that the allocation of TA does conform to this criterion and that consumers of IMF TA have very diverse characteristics. As a matter of fact, many small countries receive large amounts of TA relative to the size of their economy.

95. *Filter 6* indicates that—while not normally a decisive factor—the availability of external financing should be positively taken into account when appraising requests for TA. The findings of Chapter 3 (e.g., Figure 3.7) are consistent with this filter: countries receiving larger volumes of IMF TA relative to the regression norm often are those also receiving higher volumes of external financing. This is to be expected—it is part of the agreement with donors.

96. A more relevant question is what happens to the allocation of IMF-financed TA in response to external financing allocated to specific countries or subregions. Our estimate—using field data on TA—is that an increase of 10 person-days of externally financed TA is associated with an increase in IMF-financed TA of 1 person-day.<sup>49</sup> These results suggest that some IMF-financed TA does get diverted from countries that are not receiving externally financed TA to those that do. Whether this is a concern depends critically on what factors drive this reallocation. If it reflects a situation where the IMF increases its own financed TA to particular countries when TA becomes highly productive—and as a result it also mobilizes additional external TA resources—that diversion could be welcomed. It would have been a part of the IMF reassessing priorities across countries, independently of having received extra external financing. On the other hand, if the above association reflects simply a reactive role of the IMF—more IMF-financed TA because donors increase their financial support—the implications are worrisome. It will signal a “procyclical behavior” under which IMF-financed TA responds to the priorities as seen by donors and may generate a misallocation of the IMF’s own TA resources.

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<sup>49</sup> This is probably an underestimate because a large part of the IMF resources complementing externally financed TA are backstopping activities in headquarters and are not included in the field data. These results are based on the regressions used in Chapter 3.

97. In any event, this filter cannot substitute for the requirement that the IMF needs to develop a coherent country-centered policy framework from which to derive TA priorities—and in that context interact with donors as far as financing is concerned.

98. *Filter 7*, which has its origins in the 1999 evaluation of IMF TA, calls for priority to be given to short-term (or less resource intensive) requests for TA relative to requests for longer-term (resident) experts. Consistent with this emphasis, we see a shift beginning in FY2000 in the composition of TA away from long-term TA toward short-term missions (Figure 4.2). However, as discussed later in Chapter 5, a blanket assertion of the greater effectiveness of short-term missions is not consistent with our findings. Rather, we conclude that there is no a priori superior modality, and the most effective modality for TA delivery will depend heavily on individual country circumstances, particularly the level of institutional development.<sup>50</sup> We, therefore, question the appropriateness of Filter 7, which imparts an a priori bias that may not be based on strong evidence.

99. *Filter 8*, which encourages the IMF to respond to cost pressures by using regionally based approaches to TA delivery (including regional TA centers like PFTAC, CARTAC, and the AFRITACs), is consistent with the trends shown in Figure 4.2. There does appear to have been a shift toward delivering TA through these regional centers (see Table 3.3).

100. *Filter 9* calls for the IMF to take into account whether other providers are actively engaged in TA activities when it decides to provide its own TA. The intention is to avoid duplication given the limited resources at the IMF's disposal. The filter recommends that, in such situations, all efforts at coordination will be made. However, as discussed in the next chapter, for such coordination and the associated division of labor to be effective, it should be considered at an early stage. And this requires that TA priorities be selected from an overall policy framework with participation of the authorities and interested donors.

101. To summarize, we have not found that the system of filters provides a meaningful or coherent basis from which to guide TA resource allocation. We, therefore, recommend either discontinuing these filters or revising them significantly to remove inconsistencies and instead encourage more flexible approaches adapted to individual country needs and circumstances.

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<sup>50</sup> A particularly good illustration of this is Niger where resident experts had a clear and positive impact on capacity building in their respective areas (PEM and tax administration) while short term missions (for example, in statistics and customs administration)—which were not seen to have a sufficiently deep understanding of country-specific capacity constraints—were less successful.

## **H. How Are Countries' TA Needs Translated into Final Resource Allocations?**

### **How does the process work today?**

102. The process of allocating resources to TA has many levels and participants and differs across departments. The global allocation of resources to the various functional departments emanates from the budget approved by the Executive Board. Each functional department allocates its resources to its different mandates, such as diagnostic programs (FSAPs or ROSCs), institutional initiatives (AML/CFT or OFC assessments), program support, Article IV consultations, and TA. Based on the projected resources allocated to TA, an iterative process between the functional and area departments, with occasional intervention from OTM, takes place to assign resources to regions, countries, and specific TA activities. The process culminates in the preparation of a yearly Regional Allocation Plan (RAP).

103. It should be noted that there is no global TA budget allocated to each functional department. There is also no multiyear budgetary process—a fact that impairs considering TA in a medium-term framework and the possibility of reallocating TA resources across functional departments. Rather, a de facto TA budget emanates from a decentralized process. At the same time, the increasing institutional demands on the functional departments—as new initiatives are launched without corresponding funding—may crowd out TA activities.

### **The RAP process**

104. In December and January of each year, the discussion of the next financial year's RAP begins with each functional department eliciting views about TA priorities from both their own department and from area departments through a series of bilateral meetings and informal consultations. These TA demands are driven by the needs of institutional mandates, program and surveillance activities of the area departments, and direct requests from country authorities.<sup>51</sup>

105. The preparation of the first draft of a RAP starts around late January, when functional departments send area departments their proposals for the allocation of TA resources to countries in their regions, specifying the topics to be covered. For a request to be included in the RAP it is expected to have passed through the filters described earlier. The area departments provide feedback on the draft RAP and suggest new missions or changes to the proposed timing. Typically, these responses combine feedback from heads of mission for each country in the department, with little explicit or systematic effort to sort out departmental priorities (either within or across countries) or contain the aggregate request within a preestablished resource limit. The staff of some area departments have argued that they are in no position to establish such priorities or to assess the relative urgency of need at

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<sup>51</sup> Whatever the process is, eventually all TA requests have to be formally requested by the authorities.

this stage of the process. As a result, it falls to the functional departments to sort out and prioritize which requests to accept, which to put on reserve, and which to drop. The fact that area departments do not provide enough guidance on TA priorities across their own countries is a weakness in the present system.

106. The second round of consultations between area and functional departments is concluded by end-March and is then sent for final approval to management in April. In preparing a revised RAP, the functional departments try to ensure some flexibility to deal with unforeseen requests after the RAP has been finalized. During the year, area and functional departments have regular reviews of the implementation of the RAP to discuss unforeseen requests, timing of missions, or possible reallocations (Box 4.2).

#### **Box 4.2. FAD's Regional Committee Information System**

A good example of making the process of allocating TA resources more transparent is the current practice in FAD. Since mid-2002, FAD has made available on the IMF's internal website the deliberations of its regional committee. This committee usually meets once a month under the chairmanship of the Deputy Director or a Senior Advisor, and is in charge of assessing the merits of all TA requests submitted to FAD in order to make a recommendation to the Director to approve or reject these requests. The summaries of these deliberations include a list of all requests, divisional assessments of each request, a summary of the committee's discussions, and the justification for the final decision. As a result, the logic for FAD's decisions has become clearer and more transparent. For example, a poor track record, a lack of clear commitment from the authorities, or the request not being within the area of FAD expertise have often been mentioned as key factors behind TA rejections. Similarly, the systemic importance of a country, the good performance of a resident advisor, or the support of the area departments for the request, are mentioned as important factors influencing the approval of some requests. Overall, FAD is enhancing accountability by making more transparent the process of allocating TA resources.

107. In the view of TA coordinators, the RAP process is working well as a clearing house for TA requests. It has allowed systematic interaction and feedback among departments and enough flexibility after resources have been allocated to deal with unexpected requests and shocks. However, in our view, the key limitation is not the RAP as a clearinghouse, but the lack of a process to identify TA country priorities from a coherent medium-term framework that meshes Fund-wide and country-driven priorities (a function that was to have been served by the TCs) and the weak role of area departments in identifying priorities across countries.

#### **The impact of budgetary constraints on TA priority setting over the medium term**

108. A critical constraint on TA priority setting and resource allocation in the context of a coherent medium-term strategy is the absence of a multiyear budgetary process within the IMF.<sup>52</sup> This, in effect, makes it difficult for functional departments to make TA commitments to member countries beyond a single financial year, potentially generating a bias in favor of

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<sup>52</sup> The IMF's Managing Director recently indicated his intention to adopt a medium-term budget framework in an effort to enhance the IMF's efficiency and financial integrity.



short-time TA activities. Moreover, TA is financed—not by a separate budget item—but out of departmental budgets, decisions on which are not usually made until just prior to the new financial year. While, to a large extent, the size of overall departmental budgets is predictable, there are uncertainties, particularly because of the budget constraint under which the IMF has been operating in recent years. Parallel to decisions on the overall administrative resource envelope are departmental decisions on resource allocation between activities (of which TA is only one) and among countries served by each department. The latter is further complicated by unexpected TA demands or changing priorities during the fiscal year.

109. The net effect of all this has made IMF TA less predictable to country authorities, including with respect to the IMF’s longer-term strategy to wean countries off some of the more intensive forms of TA as administrative and institutional capacity is developed. (This problem is identified in some of our case studies, such as Niger.) Effective coordination with other TA providers—who might be able to address gaps in IMF TA—is also undermined, particularly given the lags in their own resource allocation processes. These drawbacks to the present system are of greater consequence for the “capacity-building” aspects of TA, where coordination with other stakeholders within a medium-term framework is more important than for short-term policy advice and “firefighting” types of TA activities. This suggests the need to consider administrative mechanisms that would permit staff to make commitments at the country level within a medium-term framework.

110. The absence of a multiyear budgetary framework—and an associated RAP process that identifies TA priorities over a longer horizon—also reduces the possibility of identifying early on the need to gradually reallocate TA resources across areas of expertise and across functional departments.

## **I. Conclusions and Recommendations**

111. The major conclusions from the earlier analysis are

- The follow-up to surveillance-related institutional initiatives, such as ROSCs, FSAPs, and AML/CFT assessments has become an important driver of TA. These initiatives appear to have become more significant in identifying TA priorities than those emanating from Article IV surveillance or the PRS process.
- Functional departments have taken a number of important initiatives to be more strategic in making intra-sector choices of TA priorities and looking at track records in implementation. The preparation of country strategy briefs in each sector, assessment missions, and a more country-centered system for evaluating TA requests have the potential to improve the resource allocation within departmental lines. However, these are not a substitute for a broad country policy framework that would be able to compare countries’ TA needs across departmental lines.

- The PRS process was expected to be a key vehicle to identify capacity-building needs in low-income countries. This has not happened yet, not least because of shortcomings in PRSPs themselves.
- According to staff, the RAP process is working well as a clearinghouse of TA requests. What is lacking is a medium-term priority-setting mechanism through which country TA priorities as well as priorities across countries can be established. To do this area departments need to play a more active role.
- The present system of TA filters is not a substitute for the lack of such framework. The filters are at best ineffective since they are overdetermined. They should be either revised or discontinued.
- To an important degree, the short-term focus of the current budgeting and RAP processes within the IMF works against medium-term planning for TA. Without a mechanism to enhance predictability in the provision of IMF TA over the medium term, it will be difficult for the IMF to coordinate and leverage its TA efforts with those of donors and other providers of TA as well as to identify the need to reallocate TA resources over time. This is likely to be more of a problem for TA focused on capacity building than for TA oriented toward short-term policy advice.
- There is no mechanism through which medium-term TA resource allocation among countries and topics can be critically assessed by the IMF. While OTM prepares regular reviews of TA, these are essentially backward-looking documents. What is missing is a forward-looking and strategic discussion of whether or not the allocation resulting from decentralized decision making adequately reflects the medium-term capacity needs of countries as seen by both the IMF and the authorities.

112. Together with the authorities, the IMF should derive TA priorities out of a medium-term policy framework that takes into account country-specific strategic directions. A number of managerial approaches to establishing such a framework are possible, but the following suggestions could be considered.

- In low-income member countries, the PRS process provides the natural vehicle to identify TA capacity-building priorities in the core areas of expertise of the IMF, although it has typically not yet been used effectively for this purpose. The PRSP should form the basis for a dialogue between the IMF and the authorities on TA priorities for the medium term, with as clear an indication as possible of what is expected from each side in order to improve accountability. It should also provide the vehicle for collaboration and division of labor with other donors and hence help the overall coordination of TA. The IMF needs to engage countries to help them articulate their medium-term capacity-building needs in its areas of responsibility, in accordance with the PRSP.

- For other member countries, the institutional framework for deriving medium-term strategic priorities is less clear-cut, and a variety of approaches may work best, depending on country circumstances and the intensity of the members' demand for IMF TA. In cases where there is a relatively high provision of IMF TA, the framework may require periodic in-depth TA consultations with the authorities (possibly every three years) comprising a retrospective analysis of past progress and a forward-looking exercise to identify priorities. To avoid the lack of incentives of the past TC initiative, the resulting TA priorities need to feed more directly into the IMF's own mechanisms for committing its TA resources. For other countries, a less comprehensive approach, possibly built around Article IV consultations, may suffice.
- Resident representatives could play a greater role in developing these frameworks and this role should be explicitly acknowledged in the TORs for these positions.
- The RAP process should continue as the main annual interaction between the area and functional departments for determining TA activities. In addition to incorporating TA activities stemming from the medium-term framework, it will also incorporate new TA activities that may emerge from the needs of programs or from unexpected new demands from the authorities. This will prevent the TA program from being preempted by short-term needs while at the same time it will recognize the need to accommodate these types of demands.
- As the IMF moves into a multiyear budget framework, the RAP could also evolve toward a multiyear RAP helping reallocate TA resources within the institution over a longer horizon. For this process to work, each area department would need to spell out their proposed TA country priorities (based on each country policy framework and with the authorities, as discussed earlier), including ranking of priorities across countries in the departments, the list being more notional for the outer years. This approach would allow a comparison between demands from the area departments in the outer years and the existing supply and composition of skills in the functional departments; it would help identify pressure points in the future that would call for a gradual reallocation of resources within and across functional departments. This multiyear budget process and the associated multiyear RAP would make the allocation of TA resources more responsive to demand as time passes.
- This strengthened role of area departments in preparing a multiyear plan of TA priorities (including prioritization across countries) will require both incentives and resources. Senior management in the area departments should ensure that staff considers TA as an integral part of the assistance strategy to countries, with due recognition in staff performance assessments.

## **5. THE PROCESS OF TA DELIVERY**

113. This chapter examines the process of TA delivery—ranging from the design of TOR, the formulation of recommendations, the selection of modalities for providing TA, to the articulation of a dissemination strategy. We also look at how IMF experts interact with local counterparts and authorities. The discussion is based on the field work of the six country studies. A summary of major findings by country may be found in Table 5.1.

Table 5.1. Summary of Major Findings During the Process of Delivering TA

	Banking Supervision and Bank Restructuring	Tax and Customs Administration	Budget, Treasury, and Public Expenditure	Multisector Statistics
<b>lia</b>	<ul style="list-style-type: none"> <li>• Officials at the National Bank deemed that the process worked efficiently combining short-term peripatetic missions and the LTE. Whenever problems were encountered in implementation (in between missions), officials could consult with the LTE.</li> <li>• Authorities expressed their strong preference for hands-on experts.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of funding constrained the follow-up of TA recommendations. In tax and customs departments the ability to satisfy their computerization needs, in terms of hardware and software, is limited or nonexistent.</li> </ul>	<ul style="list-style-type: none"> <li>• Contrasting performances of the different LTEs.</li> <li>• The initial design did not fully identify the nature and dimension of the payment arrears problem.</li> <li>• Officials in charge of TA implementation were not included in the design of the reforms, which undermined ownership.</li> <li>• Poor coordination with other donors.</li> </ul>	<ul style="list-style-type: none"> <li>• As acknowledged by the authorities and donors, an LTE proved to be the adequate mode of TA delivery given the low capacity of the civil service.</li> <li>• TA recommendations in statistics are usually not very controversial politically, and thus are more likely to be implemented.</li> <li>• LTE praised for leadership and hands-on approach.</li> </ul>
<b>as</b>	<ul style="list-style-type: none"> <li>• Short-term missions often did not take sufficiently into account the inputs of the authorities.</li> <li>• The LTE made an outstanding contribution, characterized by a strong leadership, hands-on style, and accessibility.</li> <li>• More candid and timely report—by experts and back stoppers—on the lack of commitment by senior staff, would have been beneficial particularly when decisions regarding the yearly renewal of TA had to be made.</li> <li>• There was not enough dissemination of the TA reports</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive background work and analysis by staff prior to the start of the resident expert.</li> <li>• LTE was praised for his leadership and hands-on style.</li> <li>• Good tracking of progress, except in auditing taxpayers.</li> <li>• Poor coordination with the Inter-American Development Bank.</li> </ul>		<ul style="list-style-type: none"> <li>• TA recommendations were the product of a close consultation process with the authorities.</li> <li>• Country counterparts stressed that follow-up often requires additional resources which are not available.</li> </ul>

Table 5.1. Summary of Major Findings During the Process of Delivering TA (continued)

y	Banking Supervision and Bank Restructuring	Tax and Customs Administration	Budget, Treasury and Public Expenditure	Multisector Statistics
		<ul style="list-style-type: none"> <li>• Resident expert assigned to Niger in light of delay in establishing West AFRITAC; would likely not have received LTE otherwise.</li> <li>• Authorities closely involved in drafting of TORs for LTE.</li> <li>• Regular reporting by LTE to IMF staff and head of Tax Authority.</li> <li>• Accessible and effective expert; appropriate modality for Niger.</li> <li>• Heavy emphasis on training and hands-on support.</li> <li>• Unclear division of responsibility between West AFRITAC and headquarters staff for providing TA.</li> </ul>	<ul style="list-style-type: none"> <li>• Authorities actively involved in formulating TORs for at least some short term missions.</li> <li>• Authorities regretted lack of time to discuss recommendations during short-term missions.</li> <li>• TORs for LTE refocused at time of inspection mission to assessing need to extend contract.</li> <li>• Very accessible expert; appropriate modality for Niger.</li> <li>• Heavy emphasis on training and teaching; used team approach.</li> <li>• Division of responsibility between West AFRITAC and headquarters staff for providing TA unclear.</li> </ul>	<ul style="list-style-type: none"> <li>• Very little TA provided by IMF staff between 1996 and 2003; problems with GDP data series not addressed by TA.</li> <li>• initial shortage of French-speaking experts.</li> <li>• STA contracted AFRISTAT to provide real sector TA; however, ability to monitor progress undermined by little detailed reporting back to headquarters and almost no oversight or backstopping of expert.</li> <li>• TA in government financial statistics delivered through regional advisor.</li> <li>• Reluctance of staff to change GDP data in midst of program.</li> <li>• Relatively few training opportunities for staff of statistical agency.</li> </ul>
	<ul style="list-style-type: none"> <li>• Tensions between officials and resident experts, particularly in restructuring and closure of banks.</li> <li>• Work of experts in this area became less welcomed, and they were diverted to the area of laws and regulations.</li> <li>• Some of the tensions occurred because actions were part of program conditionality.</li> </ul>	<ul style="list-style-type: none"> <li>• Design based on initial pilot approach, which was then generalized. Some observers felt approach was too ambitious given initial conditions, and that a less ambitious program could have been explored.</li> <li>• LTEs judged well by authorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Progress was slow at beginning and generated tension between the IMF and authorities.</li> <li>• Officials are of the view that the purpose of the Treasury Single Account was not well-explained and different options should have been put forward.</li> <li>• Officials thought that Ukraine had appropriate arrangements in place that were not fully appreciated by the staff.</li> </ul>	<ul style="list-style-type: none"> <li>• Officials extremely happy with technical expertise and collegial approaches of resident experts and ability to establish links and help cooperation across agencies.</li> <li>• Translation of documents and reports a problem.</li> </ul>

Table 5.1. Summary of Major Findings During the Process of Delivering TA (concluded)

y	Banking Supervision and Bank Restructuring	Tax and Customs Administration	Budget, Treasury and Public Expenditure	Multisector Statistics
	<ul style="list-style-type: none"> <li>• Central Bank of Yemen (CBY) designated counterparts to expert to ensure continuity.</li> <li>• Efforts were made to send counterparts on courses to enhance ability to absorb TA and disseminate it within CBY.</li> <li>• Continuity between missions facilitated though maintenance of communications with peripatetic expert.</li> <li>• Expert focused on knowledge transfer; emphasized classroom and on-the-job training and helping draft supervision manuals; also provided recommendations for a long-range career development curriculum for banking supervisors.</li> <li>• Difficulties in translating many of the materials developed by expert.</li> <li>• Assignment of responsibilities to specific individuals encouraged accountability and “ownership.”</li> </ul>	<ul style="list-style-type: none"> <li>• Weak up-front effort to assess ownership and extent to which authorities were prepared to commit their own resources to making effective use of TA; lack of detail in requests often masked weak commitment to effective use of TA.</li> <li>• Little direct assessment by IMF of likelihood of parliamentary passage of general sales tax legislation before commitment of significant TA resources.</li> <li>• Recipient agency (i.e., Tax Authority) not involved in formulating TORs.</li> </ul>	<ul style="list-style-type: none"> <li>• Authorities did not clearly or substantively justify requests for TA thereby masking lack of commitment to making effective use of TA.</li> <li>• Lack of specificity in TORs, including with respect to expectations of coordination with other TA providers.</li> <li>• No up-front agreement with authorities on role of training.</li> <li>• Inability to speak Arabic undermined effectiveness of one LTE.</li> <li>• Little feedback of experience to subsequent activities.</li> <li>• Coordination problems between World Bank and IMF.</li> </ul>	
	<ul style="list-style-type: none"> <li>• TA focused on major concerns of PRGF-supported program.</li> <li>• Peripatetic modality a good fit for Bank of Zambia’s institutional capacity.</li> <li>• Although expressing reservations with some TA recommendations, authorities commended experts and quality of discussions.</li> </ul>		<ul style="list-style-type: none"> <li>• Not much involvement of the authorities in design of the early TA interventions, thus undermining ownership; later corrected.</li> <li>• TA interventions too short-term focused on supporting IMF program, including decisions to renew TA.</li> <li>• Weak coordination with other donors in related areas.</li> <li>• Some advisors were not effective in relating with the authorities.</li> </ul>	<ul style="list-style-type: none"> <li>• TA guided by a preliminary diagnostic work under the GDDS. TORs anchored to this diagnosis.</li> <li>• TA reports and recommendations prepared in a collaborative fashion.</li> </ul>

### **A. Formulating Requests for TA and Drafting the Associated Terms of Reference**

114. Although we find some variability, the case studies generally showed a passive involvement of the authorities in preparing TA requests and in drafting the TOR for specific TA activities. The TORs were usually prepared by IMF staff and approved by the authorities with little discussion, which tended to reduce the authorities' ownership of the activity and frequently masked important differences in expectations between staff and the authorities on the speed and direction of reform. This was particularly problematic when the officials in the agencies directly receiving the TA were not involved in the process.

115. For example, in Yemen, a number of officials, particularly those outside the central agencies, expressed concern that they were not adequately involved in drafting the TOR for activities in which they were directly involved. As a result, they felt that the TOR did not reflect their specific needs and priorities. These officials suggested that greater ownership could have been achieved if the authorities were asked to prepare the initial draft TOR on which the IMF would then comment. In their opinion, this would have increased the likelihood that the direct recipients of the TA were consulted.

116. This was also the case in Cambodia, where senior officials in the Budget department—in charge of implementing TA recommendations—were not involved in setting the reform agenda being supported by IMF TA. This not only reflected weak communications within the Ministry of Finance, but also insufficient efforts by IMF staff to interact with officials in the budget areas other than the most senior officials. Several past internal and external evaluations of IMF TA have detected similar problems.

117. We also found cases where weaknesses in institutional capacity were a serious handicap to putting together concrete requests for TA. This was the case for the central statistical office in Zambia, where there was a dearth of resources (both human and financial). The problems appear to have been mitigated by a two-stage approach using a diagnostic mission in the context of the GDDS initiative to help the authorities define more precisely TA needs in various areas.

118. In Niger, on the other hand, the drafting of the TOR for the advisor in tax administration was interactive, and based on the results of a workshop that was organized with senior officials in the tax department during the mission to install the expert. The authorities participated actively in these deliberations and agreements were reached on ways to track progress, with reports to be submitted both to the IMF and the authorities. Partly as a result of this, the work of the expert had a significant positive impact.

119. We found improvements in the extent of the authorities' involvement in the preparation of TORs over the course of successive TA interventions. For example, in the case of TA on PEM in Zambia, the authorities were little involved in setting the initial agenda for the first resident expert in October 1997. In contrast, subsequently they were active participants in setting and agreeing to a detailed action plan, from which the TOR for the



most recent resident expert was derived. FAD made determined efforts to have high- and middle-level officials actively involved in the discussions to increase ownership and establish clear understandings concerning the expectations of both the authorities and the resident expert.

120. Terms of reference for TA activities should also be based on previous diagnostic work. This was the case for TA on tax administration in Honduras. The TOR for the long-term expert was anchored in the findings of a previous mission that issued a major report on reforms in tax systems and tax administration with specific and clearly prioritized actions. A similar experience was seen in Zambia, where the TA in statistics was guided by a preliminary diagnostic work under the GDDS initiative. To be sure, having diagnostic material as a stepping stone for preparing TORs should not be construed as removing the need to consult with the authorities on the TOR. This is particularly the case if the extent of the authorities' agreement with the findings and recommendations of the diagnostic mission is not clear.

### **Early assessment of institutional weaknesses that undermine the effectiveness of TA**

121. A consistent theme in many of our case studies is the extent to which the effectiveness of IMF TA is undermined by a lack of awareness of institutional, organizational or managerial particularities in recipient countries. This can take the form of a lack of clarity on decision-making authority and accountability (e.g., Yemen) or difficulties in generating ownership in one part of a government department of work done elsewhere in the department (e.g., Ukraine), or in different parts of the government (e.g., Zambia).

122. It is difficult, if not unrealistic, to expect each IMF TA intervention (particularly short-term missions) to understand and anticipate such obstacles. However, failure to do so can diminish greatly the benefit from IMF TA. This can be particularly important when there is a sudden increase in TA activities in a new environment, as happened with respect to PEM in Cambodia, Yemen, and Zambia.

123. In the case of Cambodia, the effectiveness of TA in budget execution and treasury was initially undermined because the design did not fully identify the nature and dimension of the payment arrears problem. In Zambia, some government institutions were deliberately entering into arrears to obtain resources beyond their budgetary allocation. An awareness of this behavior was key to the assessment of the expenditure control problem and to making recommendations.

124. In the case of Ukraine—a country with good levels of education and well-established institutions, albeit still geared to the previous centralized system—the challenge was to explain the reasons why specific TA and institutional changes were needed. In our discussions, Ukrainian counterparts thought that the tensions that emerged with the IMF in the area of treasury systems could have been avoided if more time had been taken at the start to explain why and what was required. This is consistent with the findings of an FAD assessment of the TA experience in introducing treasuries in the Baltic countries and other

countries of the former Soviet Union. It is candidly acknowledged in that assessment that more time should have been spent in explaining to the authorities and officials the merits of introducing such a system.

125. One possible way to address this problem would be for IMF staff periodically to prepare an internal assessment of the managerial and organizational challenges in key government departments and agencies in a particular country.<sup>53</sup> In addition to identifying these challenges, staff could draw on past experience to suggest proactive strategies for dealing with many of these problems. Given the rotation of IMF staff among countries and the use of outside experts, this could help ensure that the particularities of working in one part of a government administration are well understood and integrated into TA. For such an effort to be worthwhile, these assessments would need to be frank and clear and should—where warranted—draw on input from other major TA providers in a particular country. We do not have in mind a complex system of guidelines requiring detailed formal reports and clearance procedures, but rather a greater emphasis on asking upfront, what are likely to be the main obstacles to progress and how can they be tackled. Such efforts could focus on selected countries that are expected to receive large amounts of TA from the IMF over a given period of time and where the IMF is less familiar with the institutional environment of the country (e.g., in post-conflict economies). Resident representatives should play a key role in preparing such assessments.

### **B. Short-Term Versus Long-Term Modalities for Providing TA**

126. The 1999 Fund-wide evaluation suggested that greater emphasis should be given to shorter-term modalities for providing TA rather than to resident experts. It was thought that the former were a more cost effective means of providing TA. This principle was therefore integrated into the filters contained in the 2001 TA policy statement.

127. The evidence from our case studies does not support such a definitive conclusion. Our case studies showed that where institutional capacity was particularly weak, long-term experts (LTEs) could sometimes play a critical role, suggesting that the most effective modality depended on the particular circumstances.

128. In Niger, the impact of the resident tax advisor was judged positively by local officials—one senior official even directly attributed the increased tax collection from large enterprises to his work. Government officials noted his significant contribution to capacity building through his “hands-on” approach and emphasis on training which could not easily be provided by short-term missions. There was a general sense that the “hands-on” approach

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<sup>53</sup> An interesting and (very) recent example is the review by FAD and MFD on their experience in providing TA in post-conflict countries. An important part of the review is to derive lessons on sequencing TA activities in the respective areas of responsibility. (IMF, 2004j and 2004K).

taken by resident experts was particularly valuable for Niger, where weak capacity often meant that it was difficult for the authorities to spare qualified staff to attend courses abroad. Obviously, this modality must evolve as institutional capacity improves. In contrast, TA on customs administration delivered through short-term missions was significantly less effective. Most recommendations were not endorsed by officials, because they considered that these recommendations were either based on an inadequate understanding of Niger's context or were unrealistic.

129. A similar situation was found in Cambodia. Resident experts were involved not only in basic training, but also played a key role in coordinating efforts within and among ministries. Because of the low level of counterpart skills, experts had to follow up closely the progress in implementation and improvement in the learning process. Sometimes, these experts played a key role in adapting TA recommendations left by short-term missions. For example, in the area of budget execution, the dimension and nature of the payment arrears problem became clear only after the TA resident advisor had spent some time there. A somewhat similar role was played by resident experts in statistics and at the Central Bank. TA was being delivered by peripatetic missions and specific tasks were left to be implemented by the authorities between missions. Whenever they ran into trouble, the timely support of the resident expert allowed the authorities to continue to progress more quickly than otherwise.

130. In Honduras, many officials expressed strong preferences for having LTEs at the first stage of building institutional capacity.<sup>54</sup> It was felt that these experts had more time to adapt their recommendations to the country's reality and then to follow up on implementation. The officials recognized that once a minimum institutional capacity had been reached, the ideal course was to have more short-term TA missions. This conclusion is supported by the experience of IMF TA to the Bank of Zambia. In the mid-1990s, the IMF provided intensive capacity-building TA through a series of resident experts. Once the institutional foundation was laid, missions and peripatetic experts provided subsequent TA. These means of delivery were considered appropriate to the level of institutional development of the bank by Zambian officials and experts interviewed in the field.

131. Even in Ukraine, officials recognized the important contribution that LTEs made to the transfer of knowledge. In particular, they helped in collaboration and dialogue across agencies, a challenging task during periods of radical redefinition in the relative role of agencies. This was particularly true of TA in the areas of fiscal management and statistics.

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<sup>54</sup> Clearly, such expressions of preferences are not based on specific cost comparisons and should not be regarded as providing a definitive conclusion on cost-benefit comparisons. Many authorities would probably opt for a more expensive LTE. However, in many cases, those interviewed pointed to specific contributions that could not have been made easily by short-term missions, whatever the cost.

132. Our conclusion is that the most effective mix between resident experts and short-term missions depends on the level of institutional capacity. Moreover, appropriate modalities for TA delivery should follow a sequence adapted to the evolving level of institutional development (Box 5.1). Neither modality is inherently better than the other. Rather, the most effective modality will largely depend on the specific country context and the IMF should be prepared to adapt the delivery mode to that which appears to work best in each case.

### **Box 5.1. A “Life-Cycle Model” of Capacity Building?**

The May 1999 Review of IMF Technical Assistance concluded that “in general, TA provided by staff missions appears more likely to be successful than that provided by LTEs” and called for “greater emphasis [to] be placed on the assignment of short-term and peripatetic experts.” However, that evaluation did not clearly link the duration and modality of TA with country characteristics like the stage of development.

At the same time, there has been an acknowledgement within the IMF that—particularly in low-income countries—TA in support of capacity building is best provided in the context of a longer-term framework. 1/ Where a sustained effort is required, IMF staff have called for a careful assessment of the magnitude and types of TA inputs to ensure meaningful and lasting results. Such an approach would need to manage what the staff refers to as the “tensions between the need to show short-term results in the context of a IMF-supported program and the need to provide sufficient time for institution building to take root.”

As a general principle, countries and institutions in the earlier stages of development might benefit from a more intensive approach, with a particular emphasis on “hands-on” training. Among the evaluation’s case studies, Niger, Honduras, and Cambodia provide good examples of countries that have benefited from such an approach. This has implications for the evolution of regional TA centers like the AFRITACs, which provide TA to low-income countries but that may not currently be equipped to provide more than a few weeks of TA to individual countries in a particular area during the course of a year.

Our case studies suggest that as institutional and civil service capacities develop, the approach to delivering TA should also evolve, with less need for an intensive, day-to-day, interaction between TA provider and recipient. But since overall capacity would likely still have significant weaknesses, perhaps exacerbated by high turnover of civil servants, a more selective use of LTEs rather than an abrupt shift to short-term missions might still be appropriate.

The recent reviews by FAD and MFD on TA experiences in post-conflict countries also recognize that the first phases of assistance may have to rely heavily on LTE. As time passes, and local capacities increase, these modalities can evolve toward short-term missions or peripatetic visits. 2/

For countries with relatively well-educated civil services and easy access to a range of technical expertise, IMF TA could be considerably more targeted, drawing to the extent possible on the emerging expertise of local officials, including in the formulation of recommendations. Greater use of short-term activities like seminars and workshops might also be appropriate. This suggests that any strategy to have countries “exit” from IMF TA (as suggested by Executive Directors during the March 2004 Board discussion of the IMF’s TA program) may require a coherent evolution of TA modalities, something which is not often made explicit in discussions between staff and the authorities.

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1/ IMF (2004d).

2/ IMF (2004j and 2004k).

### **C. Attributes of a Good Long-Term Expert**

133. Generally, local counterparts and officials were satisfied with the majority of resident experts. In Niger, LTEs in revenue and in PEM were considered particularly effective because of their accessibility, their emphasis on training and teaching, their good communications skills, and their highly interactive, team-based approach to working with officials. Similarly, Cambodian officials from diverse agencies and ministries consistently praised most LTEs, particularly because of their hands-on approach that facilitated knowledge transfer. It was found that when these experts had civil service experience, they were more successful in conveying their messages to local authorities.

134. In the case of Honduras, there was a unanimous view among officials that the LTEs in banking supervision and tax administration had made critical contributions in their areas of expertise. They were praised for their hands-on approach, their leadership qualities, and their ability to coach and explain. Many examples were given of the experts going well beyond their terms of reference in order to respond to unforeseen problems.

135. In the case of Ukraine, feedback was more varied. Some LTEs were praised because they were able to improve collaboration across agencies when the relative roles of agencies were being redefined. However, there were differences on how the same resident experts were judged by different officials. One gains the impression that these differences were associated with how politically and bureaucratically sensitive were the recommendations of the specific TA, particularly in the areas of banking supervision and bank restructuring, tax administration, and treasury reforms. Tensions in the area of banking may have been compounded because the same resident expert was in charge of both, providing advice on capacity building as well as following up on program conditionality (Box 5.2).

136. In the case of Zambia, the authorities' appraisal of LTEs varied significantly. They were positive when these experts made special efforts to provide training and hands-on involvement in solving problems. In contrast, they were critical when experts were reluctant to go beyond mere criticisms of existing practices.

137. A good resident expert seems to be the one able to adapt to the environment of the country in question. Where institutional capacity is particularly weak, the LTE may need to perform the role of coach and teacher. When skills and institutions are more developed, the LTE should be able to explain clearly the rationale for the recommendations and its link to the state of the art on the subject. The ability of the expert to gain and maintain the trust of the authorities is a key quality for effectiveness; for example, the authorities need to feel that the LTE is a "partner" and not a "task master" or a headquarters' "spy." However, in seeking to build such a relationship, LTEs need to straddle a fine line and not become too involved in day-to-day operations that will distract them from their ultimate TA responsibilities.

### **Box 5.2. Involvement of LTEs in Monitoring Conditionality**

A question arises whether it is advisable for resident TA experts—whose focus is usually on strengthening institutional capacity—to be in charge of following up and monitoring conditionality of programs in their specific areas.

This was the case in Ukraine in the area of treasury management and banking sector restructuring, where specific actions were part of the 1998 EFF. Indeed, the terms of reference for the resident expert in banking explicitly refer to his responsibilities in assisting the authorities in meeting their commitments to the 1998 EFF program. Some officials in Kiev were of the opinion that such a role was not useful in developing trust in the resident expert. Sometimes, the perception arose that these experts were assigned to a specific agency not because of the needs of the authorities, but as a response to the IMF's drive for more and better information of what was happening in that agency and how it might affect the fulfillment of conditionality.

A similar case seems to have emerged in the area of PEM in Zambia. As felt by donors and some staff, the involvement of a resident expert in monitoring conditionality may have reduced the authorities' trust in the expert, thereby undermining his effectiveness in the capacity-building area.

In assessing the appropriateness of having LTEs monitor compliance with IMF conditionality, it should be kept in mind that—from a legal standpoint—only certain categories of experts can serve this function. In particular, LTEs placed by the IMF in central banks are normally considered employees of the central banks themselves. For reasons related to central bank rules on confidentiality of information or conflict of interest, it may not, therefore, be possible for these LTEs to assist the IMF in monitoring the observance of conditionality.

138. The success of a TA activity delivered through a resident expert depends also on the quality of oversight by the relevant staff at IMF headquarters. Failure to consistently “backstop” an expert—particularly one engaged from outside the IMF—can undermine the effectiveness of TA.<sup>55</sup> A number of suggestions have been made to explain why backstopping from IMF headquarters has sometimes fallen short. First, the rotation of staff among tasks and country assignments can undermine the consistency of the oversight of experts in the field. Second, backstoppers generally have their own TA assignments that have tended to take priority in their work since these tasks are seen to contribute more to professional growth and individual performance appraisals. As such, backstopping can easily be neglected because of other pressures on staff time. Related to this, a number of staff with whom we met suggested that the management in functional departments assigns a greater priority to TA delivery than to management and oversight of TA activities in the field.

139. The relevance of backstopping activities is likely to grow if the IMF becomes more actively involved in capacity building in low-income countries. It is, therefore, important that departmental planning makes provision for sufficient backstopping resources and adequate incentives are given to headquarters staff to better manage TA in the field.

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<sup>55</sup> Yemen presents one such example. It was found after three years that the first budget expert had deviated significantly from his terms of reference. Similarly, the failure to adequately supervise AFRISTAT's assistance to Niger likely resulted in inadequate coordination with the area department and inadequate attention from the regional expert to particular capacity-building priorities.

#### **D. Enhancing Ownership of TA Recommendations**

140. A critical step in TA delivery is the formulating of recommendations. A key challenge is to balance technical soundness with implementability while ensuring a high degree of country ownership. Country officials and counterparts suggested that more informal and iterative discussions on a broader set of options prior to the wrap-up meeting at the end of the TA mission would contribute significantly to enhancing ownership.

141. In Ukraine, counterparts suggested that a range of “models” and alternatives be put on the table prior to deciding on a specific modality or course of action. A similar reaction was seen in Yemen in the area of tax administration, where options based on regional experiences closer to those of Yemen were viewed as useful. In the context of a tax policy mission in Zambia, the authorities felt that some of the recommendations should have been supported with reference to success stories of countries in the region.

142. A consistent comment from all countries was the need for a more interactive approach, prior to the drafting of recommendations. Many officials suggested that local experts should work closely with IMF experts as recommendations were being formulated which would provide the authorities with the opportunity to discuss and consider alternatives. For example, this would have improved the recommendations in the area of customs administration in Niger, where officials in the customs department argued that TA recommendations did not take sufficient account of constraints on the ground. Cambodian officials felt that short missions did not give them enough opportunity to discuss the appropriateness or practicality of the recommendations before they were finalized. They suggested a better result would have been achieved if the mission had remained in the country longer to allow for more detailed discussions of specific recommendations. Similar concerns were expressed by officials in Honduras and Zambia. The latter pointed to IMF-supported programs that attached conditionality based on TA recommendations that had not been sufficiently discussed at the technical level.

143. A review of other external and internal evaluations of IMF TA (referred to in Chapter 1, “Methodology and Empirical Basis”) yielded similar findings. Several of these evaluations found that a diagnostic mission of a few weeks was too short to grasp fully all the important institutional nuances and constraints. Implementation difficulties may be underestimated. When the missions are short, very little time is left for the authorities to comment on the recommendations prior to the departure of the mission. TA recommendations need to be discussed extensively and early on to avoid unexpected surprises at the last minute. While the benefits from following the recommendations may seem obvious to the TA experts, they may seem less clear to the country counterpart. Such discussion is critical if broader institutional resistance to the reforms is expected.

### **E. Efforts at a Wider Dissemination of TA Recommendations**

144. The evaluation found wide variations in the extent to which the results of TA activities were made available within governments. For example, in Yemen, the dissemination of IMF TA reports within and across relevant agencies appears to have been quite limited. Many interlocutors within the government were unaware of the results of IMF TA activities in areas of relevance to their work. In the case of Zambia, the end-1996 mission report on treasury management, which laid the broad outlines of future TA on PEM, had very restrictive circulation even though its implementation would eventually have involved various departments and administrative levels within the government.

145. These problems of dissemination were compounded by the fact that many TA reports produced by the IMF were classified as either confidential or strictly confidential, which complicated sharing the reports with development partners. This evaluation finds that the current policy of treating TA reports as confidential and limiting their distribution both within governments and among partner agencies providing assistance in similar areas should be relaxed wherever possible.<sup>56</sup> If publication is not possible, at least there should be some upfront agreement with the authorities that direct beneficiaries of TA (within government and relevant partners) be provided with TA reports unless there is a compelling reason for confidentiality (such as assessments of the soundness of individual banks).<sup>57</sup>

### **F. Coordination with Other Providers of TA**

146. Given the scarcity of IMF TA resources and the IMF's limited expertise in many areas critical to capacity building, coordination with other TA providers (including the World Bank) is important for enhancing the effectiveness of IMF TA. That said, we found many instances in our case studies of weak coordination between IMF and other TA providers working in similar areas. Shortcomings took various forms, including a lack of systematic information sharing and/or communication between the IMF and other TA providers, vague guidance to IMF resident experts and representatives on the parameters of donor relations, and a lack of clarity on the role IMF TA was to play relative to that of other TA providers. These weaknesses were evident even in Cambodia and Yemen, where the existence of TCAPs should have promoted better coordination. A list of examples of these and other coordination problems from our case studies includes:

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<sup>56</sup> It is the responsibility of the respective government, not the IMF, to decide on the appropriate distribution of a TA report.

<sup>57</sup> STA has been particularly proactive in this regard, routinely requesting the authorities to agree to the dissemination of TA reports to other relevant government agencies and TA providers. This approach could be adopted as a "best practice."



- Yemen, where the TORs for IMF resident experts were not explicit on the extent of, or modalities for, coordination with other TA providers. Reference to coordination rarely went beyond exhortations to “closely coordinate with other donors” but no clear guidance was given on what this entailed. In the absence of an explicit requirement for substantive outreach and communication, the extent of coordination was left to individual experts. A review of reports to headquarters by LTEs showed little discussion of the activities of other providers.
- Cambodia, where the lack of coordination among TA providers was frequently noted by local authorities as an obstacle to implementation. The lack of coordination sometimes produced contradictory advice that confused the authorities—and provided the authorities with an opportunity to play the advice of one expert off against the other.
- Honduras, where stronger coordination from the start would have increased the complementarity of the activities of the Inter-American Development Bank and the IMF in the area of tax administration.
- Niger, where communication between West AFRITAC and donors on the ground was weak, resulting in considerable confusion about the nature of, and expectations for, West AFRITAC’s efforts in the country.
- Zambia, where donors, government officials, and experts voiced concern over poor coordination of TA on PEM, including on information sharing with donors working on closely related topics. There was also a lack of agreement as to the extent of IMF’s leadership in shaping a strategic vision for the overhaul of PEM.

147. Experience in coordinating TA between the IMF and World Bank suggests an important qualification to the above discussion. In our case studies, we generally found better communication between IMF TA providers and the World Bank, with frequent meetings between IMF experts and World Bank staff before and during TA missions. That said, this relatively good communication did not always lead to effective coordination.<sup>58</sup> There could be several reasons for this, but particularly notable are differences in mandate, staff incentives, and institutional priorities between the IMF and World Bank that were difficult to overcome in the absence of a clear overall framework on which both institutions would align.

148. It is widely acknowledged that coordination of aid (including TA) is ultimately the responsibility of the authorities. However, in practice, capacity constraints and scarce human

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<sup>58</sup> TA in PEM in Yemen provides a particularly good example of this phenomenon. Here, IMF and Bank approaches and objectives were not well integrated at the outset. This led IMF staff to express concern with the Bank approach in internal communications and resulted in each institution working relatively independently of each other.

resources often mean that the authorities are not always able to assume this role. (Similar problems were identified in several of the TA evaluation studies mentioned in Chapter 2). As a result, and particularly in the least developed countries, the burden of donor coordination frequently falls to a single major donor or multilateral institution, with a leading role for the authorities being a somewhat longer-term goal.

149. This leads to the question of what model should guide IMF staff in coordinating with other TA providers, including the World Bank. For low-income countries, one would expect that the PRS process would provide the appropriate framework, with TA providers, including the IMF, aligning their comparative advantages to the needs emerging from the PRSP. However, as discussed in Chapter 4, there is strong evidence that in most cases the PRS process does not yet provide the necessary information, given its lack of specificity on country-specific capacity-building priorities.<sup>59</sup> Indeed, discussions with IMF staff during the course of the evaluation made clear that there is still considerable doubt within some parts of the IMF that the PRS process could or should play such a role.<sup>60</sup> At the very least, this suggests that much clearer guidance from management and the Board is needed on what the PRS process implies for the IMF to better align its TA to country needs.

150. A second possible model would build on the distinction between “upstream” and “downstream” TA. “Upstream” TA is that which sets out a strategic framework which would then guide “downstream” TA (i.e., “projectize” the framework, focusing on specific capacity-building activities necessary for implementation of the framework). Among functional departments within the IMF, FAD adopted three years ago an explicit strategy of focusing its TA resources on “upstream” activities.

151. At a conceptual level, the IMF’s widely acknowledged expertise in its core areas of specialization makes it a logical leader in setting the “upstream” (macroeconomic) agenda for more operational, “downstream” TA. However, in practice, the upstream/downstream distinction can be problematic and, in any event, can only complement, not substitute for a country-driven approach. Our case studies revealed a wide range of country situations, where

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<sup>59</sup> The question of alignment between IMF activities and the PRSP is discussed more extensively in IEO (2004).

<sup>60</sup> For example, a common argument we heard from some functional departments was that, since the PRSP is meant to be a country-authored document and many authorities lack the necessary technical expertise to articulate a specific TA strategy in support of their policy priorities, it is not realistic to expect the PRSP to play such a coordinating role. In our view, these arguments miss one of the central points of the PRS initiative—namely that it was designed precisely to improve the effectiveness of aid delivery by putting a country-driven process at the center of decisions on priorities, with the expectation that donors would align on those priorities. Technical expertise from the BWIs or other donors was meant to help inform, but not substitute for, that domestic process.

different configurations of TA providers, with different levels of engagement, led to differing expectations of what the IMF should deliver in terms of TA. While virtually all TA providers with whom we met appreciated the IMF's involvement in capacity building efforts, they have not always been willing to cede the role of "agenda setter" to the IMF, even in areas where the IMF has significant expertise. There have also been situations where major donors have significantly different objectives or motivations from the IMF in providing TA to a particular country. While many of these providers were open to the IMF playing more of an "upstream" role, they expected to be meaningfully involved in the formulation of the overall framework. They often saw value in having some of the "downstream" TA provided directly by the IMF.<sup>61</sup> In effect, while there appeared to be an openness to coordination *with* the IMF, there was often resistance to being coordinated *by* the IMF (either explicitly or implicitly).

152. These experiences suggest that a pragmatic approach is needed, recognizing that coordination itself is not without costs and that its potential benefits will depend on the extent and complexity of IMF TA and the degree to which its effectiveness depends on complementary capacity-building efforts. This suggests that the most effective model for guiding TA coordination will depend heavily on country-specific circumstances, including pre-existing donor relationships in areas of mutual interest. In any event, effective coordination would require upfront agreement, or at least clarity, on IMF's role vis-à-vis other providers. We believe that our earlier suggestion of deriving TA priorities in the context of a medium-term policy framework, with the participation of the authorities and donors, could help early on to guide the discussion with other providers on an appropriate division of labor.

153. How proactive should the IMF be with respect to donor coordination when there is not yet an overall country-driven framework in place? At a minimum, we see value in routinely providing timely information to donors on TA mission schedules and on the purpose of each mission. This would give interested donors sufficient opportunity to signal to IMF experts their interest in the work of the mission and, if warranted, to prepare meaningful input for the TA mission. Our case studies suggest that while donors were routinely informed of area department missions, they were infrequently aware of visits by TA experts or missions in areas of relevance to their work. TOR for TA activities should, therefore, provide clear guidance on what is expected from IMF experts in this regard.

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<sup>61</sup> IMF involvement in these TA activities was often welcomed by government officials who saw the IMF as playing more of an honest broker during the operationalization of overall reform agendas.

## G. Conclusions and Recommendations

154. The major conclusions and recommendations from the earlier analysis are as follows:

- Generally, local counterparts in the country have been satisfied with the majority of resident experts and valued particularly their hands-on role in training, coaching, and emphasis on team work.
- The evidence does not support the conclusion of the 1999 evaluation that TA provided by short-term staff missions is a priori likely to be more effective than that provided by resident experts. The effectiveness of different delivery modalities depends on country circumstances, including a country's stage of institutional development.
- For large multiyear TA activities, and particularly in countries where the IMF is less familiar with the overall institutional environment, we recommend that the IMF spends more time upfront learning about the political and institutional environment. The IMF should avoid rushing into a massive TA program—for example, as a response to the sudden availability of externally financed TA—where there are serious doubts about the political and/or administrative absorptive capacity of the country in question.
- It is recommended that the authorities and officials of the agencies involved be required to invest more of their own time and effort in articulating requests and formulating TOR, particularly for resource-intensive TA. This would signal their ownership and commitment to making effective use of the TA. IMF staff also needs to spend enough time interacting with the authorities early on to explain the rationale for the TA recommendations.
- It is recommended that, for these large activities, the authorities be required to commit resources to sustain the activity after the financing by the IMF (and other donors participating) ceases. This is critical to encourage sustainability. Depending on the specific TA activity, the IMF staff may also request the authorities' commitment to prepare critical legislation needed to implement the TA, some assurances of employment stability for key counterparts, and other measures.
- We recommend that the IMF allow more time for TA experts to interact with authorities during missions including in formulating recommendations. This may require reassessing the adequacy of the time that the mission stays in the field, even if it results in fewer individual TA activities.
- We recommend that IMF staff make more deliberate efforts to disseminate the recommendations of TA within relevant government departments and among development partners. This is important in order to maximize the potential benefit of their work, overcome poor internal communications, and counteract the loss of

institutional memory because of high turnover of local counterparts. This will likely require permitting more liberal access to IMF reports within the government.

- We suggest that the functional departments review the adequacy of staff resources dedicated to backstopping experts in the field and that they provide headquarters staff with sufficient incentives to ensure that actual time spent backstopping is consistent with resource needs.

## **6. MEASURING THE EFFECTIVENESS OF TA: TRACKING IMPLEMENTATION AND FACTORS INFLUENCING PROGRESS AND IMPLEMENTATION**

155. This chapter presents an assessment of the impact of the main TA interventions in the six country cases. This was not a simple task. Even in the best of circumstances, the way TA interacts with other types of assistance is complex, and its impact becomes evident only with long and unpredictable lags. For this reason, the effectiveness of TA is also linked to the effectiveness of other modes of engagement. Nevertheless, we attempted to come up with a view on the effectiveness of TA in the case studies, drawing upon a series of questions and indicators about different stages of the results chain. This exercise may also generate lessons that are useful for the IMF's efforts to improve its own monitoring and assessment of TA.

156. Our efforts to assess impact have revealed shortcomings in documentation and processes that limit the extent to which one can evaluate outcomes. This, in turn, undermines accountability and the potential for the IMF's evaluations to be used as learning tools and mechanisms to allocate future TA. Furthermore, we have identified some common factors that are significant in influencing the impact of TA. We examine the critical role of country ownership and commitment in implementing TA and the role that financial charges or other investments by the countries concerned could play in signaling that commitment. Finally, we examine ways to enhance the synergy between training and TA provided by the IMF.

### **A. Methodological Limitations in Defining and Measuring Progress and Impact**

157. It is not easy, either analytically or empirically, to measure the impact of TA or to identify intermediate indicators of progress. First, as mentioned earlier, TA encompasses a wide range of activities whose potential impact works through different channels. Second, there is an issue of attribution. Since TA interacts with other IMF instruments such as surveillance and programs, and the assistance provided by other donors, the impact cannot be easily isolated.

158. TA can be used to inform the advice of the IMF on specific policy issues. These are usually focused activities, such as missions to advise on how to deal with crisis banks, or how to shape a new piece of legislation regarding the financial sector. Or it can be a mission or a set of missions to advise on reforming tax policy. Such activities can be delivered in the context of surveillance or in support of programs. The authorities may accept or not accept the specific advice, or they may modify it. The reaction of the authorities to advice may be influenced by how it is packaged or sequenced relative to other reforms identified by

surveillance or under programs. Thus, the acceptability of such advice is influenced by the interaction of the authorities and the IMF in the context of a broader set of IMF instruments.

159. TA activities aimed at institution building have a different objective: to assist government agencies improve their capacity to discharge their fiduciary obligations. A typical example is TA to assist supervisory agencies in the banking sector to enforce an improved regulatory framework. The same can be said of agencies tasked with tax collection. The final impact of this type of TA can be broken down into two stages: (a) enhancing the technical ability of agencies to (potentially) discharge their mandate (by providing critical know how), and (b) applying and enforcing that knowledge on the ground. Fulfilling (a) is a necessary, but not sufficient, condition for achieving the ultimate objective. For example, these agencies may not be able to use their new knowledge because of political interference (Table 6.1).

Table 6.1. Challenges in Measuring TA Impact and Reasons for Lack of Progress in Implementation

Types of TA	How to Measure Progress in Implementation and Impact of TA	Possible Reasons for Lack of Progress
TA to allow the IMF to advise on specific IMF policy issues	<ul style="list-style-type: none"> <li>• Was the advice taken or modified?</li> <li>• What does “taken” mean:               <ul style="list-style-type: none"> <li>— Accepted by the executive?</li> <li>— Passed by legislature?</li> </ul> </li> <li>• Implemented on the ground?</li> <li>• Economic effects observed?               <ul style="list-style-type: none"> <li>— With what time lag?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Advice not well explained.</li> <li>• Analytically correct, but not appropriate to local circumstances.</li> <li>• Too ambitious time tables.</li> <li>• Lack of human capital and resources to implement recommendations.</li> </ul>
TA to enhance countries’ institutional capacity	<ul style="list-style-type: none"> <li>• Proxies for enhancing technical capacity of agencies:               <ul style="list-style-type: none"> <li>— Better trained personnel.</li> <li>— Better information systems.</li> <li>— Up-to-date methodologies and manuals.</li> </ul> </li> <li>• Proxies for the agencies’ ability to carry out their work and enforce new capabilities (e.g., improve tax collections, reduce tax arrears, and better enforce penalties; enforce prudential regulations in banks, including closures and penalties if needed.)</li> <li>• Impact on relevant final outcomes (e.g., tax/GDP, measures of strength of the financial sector).</li> </ul>	<ul style="list-style-type: none"> <li>• Advice not sequenced or implemented with other measures included in surveillance or programs.</li> <li>• Unexpected lack of commitment at the country level:               <ul style="list-style-type: none"> <li>— executive</li> <li>— legislature</li> <li>— bureaucratic infighting</li> <li>— opposition of interest groups affected by the measure</li> </ul> </li> <li>• Lack of a judicial framework to enforce new capabilities.</li> </ul>

160. There are several trade-offs in the choice of intermediate and final indicators for assessing impact. Shorter-term (“technical”) outcomes are easier to identify and quantify, but they are partial and less revealing regarding their ultimate impact.<sup>62</sup> On the other hand, the longer the horizon over which impact is measured, the more the measure will be influenced by other country or “environmental” factors beyond the control of the IMF. This calls for a more qualitative assessment. Although these environmental factors make isolating the pure impact (or value-added) of the TA more difficult, they are critical to answering some important policy dilemmas: should TA be adapted to take into account these environmental factors, or should the IMF wait to provide TA until some minimum amount of progress (minimum preconditions) has been made?

161. Finally, TA may have an impact with significant lags and have benefits over very long periods of time and in ways not initially foreseen. For example, young officials exposed to the new knowledge and training may emerge as policy leaders and implement reforms that were not possible at the time TA was delivered. Measuring impact is, therefore, as much an art as a science. Henceforth, alternative measures that track progress at different stages of the results chain must be used and discussed, *the reasons why progress is not achieved being as important as the indicators themselves*.<sup>63</sup>

### **B. Progress in Implementing TA in the Case Studies**

162. Having in mind these limitations, we attempted to evaluate the effectiveness of TA delivered in the case study countries as well as the factors that may have influenced the results. The evidence on impact draws upon a variety of indicators from various sources, including IMF documentation; interviews in the field with local counterparts and government authorities, and discussions with experts, other providers of TA, and IMF staff. The country-specific analyses are summarized in Tables 6.2 to 6.7 and are based on the detailed country studies presented in the companion volume of this study available via the internet at [www.imf.org/ieo](http://www.imf.org/ieo). In each case, a variety of indicators were used to measure the degree of progress and these are flagged in the detailed bullet points in the first column of each table.

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<sup>62</sup> For example, we can easily measure the number of officials who have been trained or information systems that have been deployed, but these outputs say little about final outcomes.

<sup>63</sup> A good example of the need to consider carefully any quantitative indicator of impact is that these indicators may be heavily influenced by better transparency and information systems resulting from the TA itself. For example, TA may increase the ability of the respective agencies to document and measure tax evasion, tax arrears, or the volume of problem assets in banks. In these cases, a “deterioration” in indicators may be welcomed, and it should not automatically be interpreted as arising from ineffective TA.

## **Cambodia**

163. TA efforts in Cambodia had divergent results (Table 6.2). TA in banking and statistics was relatively successful, as measured by progress vis à vis data standards, whereas TA to the fiscal sector encountered more difficulties, as reflected by the fact that problems with cash shortfalls, arrears, and so on continued. A wide array of factors influenced these different outcomes, such as weak political will, a dysfunctional civil service, and the lack of resources to implement TA recommendations.

164. Domestic ownership and commitment were probably the most important factors in determining the impact of TA, as the contrasting experiences of banking and customs reform suggest. In spite of being a politically sensitive issue, the relicensing and downsizing in the number of banks was successful largely due to the strong leadership of senior officials at the National Bank of Cambodia (NBC), who forcefully made the case for reform to other authorities and parliamentarians. In contrast, efforts to reform customs were hampered by strong interest groups, organized smuggling, and side payments to inspection officials. There has been little determination from the highest authorities to support the reform actions of the customs department.

165. The quality of the civil service is another factor that affected the impact of TA, as illustrated by the contrasting experiences of three agencies to which STA provided TA: the NBC, the Ministry of Economy and Finance (MEF), and the National Institute of Statistics (NIS). The NBC has better qualified staff with well-established career paths and a low turnover rate, while MEF has a much less functional civil service, characterized by low salaries and appointments driven by political motivations. An intermediate case was found in the NIS. The impact of TA mirrors the quality of each agency's civil service. The NBC and the NIS made significant progress in the number and quality of the statistics they produce; by contrast, progress has been the weakest in the compilation of government finance statistics at the MEF. The poor quality of the civil service at the MEF, also hampered the impact of TA in tax administration, customs administration, budget execution, and the treasury.

166. This evaluation found a strong variability in the impact of TA in the area of budget management and treasury operations during the period 2001–03. In the early stages, the impact of TA was weak, partly because the initial diagnosis did not fully identify the dimension and nature of the payment arrears problem in budget execution and cash management. This may have been the unavoidable result of the short time available to the diagnosis missions to fully grasp the institutional nuances in the budgetary area. The impact of TA in this early period was also affected by weaknesses in the initial resident advisory activities in the field. In the latter period, significant improvements were made in understanding the dimension and roots of the arrears problem, and the implications for the overall budget system. As a result, new budget execution procedures were implemented and treasury reforms further refined. During the entire period, the lack of cooperation and poor communication among ministries hampered the impact of TA in this area.



167. An issue frequently raised by the authorities was the lack of resources to implement TA recommendations. The best example of this was the scarcity of computers in the tax and customs departments. In these departments, both hardware and software were inadequate or nonexistent. As a result, recommendations that required computing systems, but which did not provide funding to that effect, to a large extent, proved impossible to implement.

Table 6.2. Cambodia: Assessment of Impact of the Main Areas of TA, 1999–2003

Main TA activities	What Was the Impact of TA	Country Factors Influencing Impact	Sustainability Issues
<p><b>Budget system management and treasury operations</b></p> <p>. of 644 person-days in 1999–2003.</p>	<p><i>Little progress</i></p> <ul style="list-style-type: none"> <li>Budget execution continues to be characterized by endemic cash shortages, delays in spending approvals, and accumulation of arrears.</li> </ul>	<ul style="list-style-type: none"> <li>Weakness in civil service. IMF experts rarely have full-time counterparts, with appropriate skills.</li> <li>Poor cooperation and communication among ministries.</li> </ul>	<ul style="list-style-type: none"> <li>Need to address the problem of a dysfunctional civil service.</li> </ul>
<p><b>Banking sector</b></p> <p>. of 1,679 person-days FY1999–2003.</p>	<p><i>Good progress</i></p> <ul style="list-style-type: none"> <li>The banking sector reform was largely successful. Relicensing program cut number of banks from 31 to 17. In response, confidence in the banking system has improved as reflected in a 22 percent increase in the deposit base in 2002 and further gains in 2003.</li> <li>Strengthening regulations has forced commercial banks to increase capital and improve accounting standards.</li> <li>The privatization of Foreign Trade Bank is progressing slowly.</li> </ul>	<ul style="list-style-type: none"> <li>Strong leadership exercised by the head of the NBC, who pushed for the reforms at the highest levels.</li> <li>Qualified staff in the NBC, with higher salaries paid on time; established career paths and a known system of rewards. As a result, turnover is very low and officials work full time.</li> </ul>	<ul style="list-style-type: none"> <li>The NBC has become TA “addict.” In spite of their growing capacity, officials at the NBC seem reluctant to adventure into any new task without the guidance of IMF’s TA.</li> </ul>
<p><b>Statistical infrastructure and data capacity</b></p> <p>. of 793 person-days in 1999–2003.</p>	<p><i>Good progress</i></p> <ul style="list-style-type: none"> <li>Reform in economic statistics has shown significant progress. Cambodia satisfies most of the basic requirements of the “Data Dimension” of the GDDS. There have also been observable improvements in the data coverage, periodicity, and timeliness, particularly in the real, financial, and external sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Strong support for TA recommendations from high-level officials in NIS, Ministry of Planning, and NBC.</li> <li>The impact of TA has been higher in the NBC, which is characterized by the best civil service in Cambodia, and weaker in the MEF, where the quality of the civil service is low.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of financing.</li> <li>There are no regular budgetary allocations for periodic data collection; reliance on donor financing.</li> </ul>
<p><b>Tax and customs administration</b></p> <p>. of 1611 person-days FY1999–2003.</p>	<p><i>Little Progress</i></p> <ul style="list-style-type: none"> <li>Tax revenue as percentage of GDP was 7.3 percent in 2003, among the lowest in the world and below 7.8 percent in 2001. Performance reflected decline in value-added tax (VAT) and trade tax revenue.</li> <li>In customs, efforts to streamline operations have had a limited progress; smuggling continues to be a serious problem with significant fiscal losses.</li> <li>Progress in processes and procedures in tax and customs administration.</li> </ul>	<ul style="list-style-type: none"> <li>Governance problems and corruption partly due to poor pay have impeded enforcement of tax laws and eroded tax base through nontransparent ad hoc exemptions granted to corporate sector.</li> <li>Attempts to streamline customs operations diluted by reliance of staff on “unofficial fees” charged for processing documents and clearance of cargo. Efforts to address problems undermined by the opposition of powerful and highly organized interest groups.</li> <li>Dysfunctional civil service. Civil servants paid poorly without clear career prospects, posts are granted according to political considerations.</li> </ul>	<ul style="list-style-type: none"> <li>Need to address the issue of a dysfunctional civil service.</li> <li>Need to address the problem of corruption.</li> </ul>

## Honduras

168. The impact of TA in Honduras followed a similar pattern to that in other countries (Table 6.3). TA in the area of statistics seems to have been more successful than in areas where follow-up and implementation required difficult political decisions.

169. The effectiveness of TA was largely influenced by the arrival of a new administration in early 2002, as the experience of TA on banking supervision and tax administration clearly exemplifies. In banking supervision, the new management of the National Commission of Banks and Insurance Companies took forceful steps to accelerate improvements in supervision and compliance, including establishing specific timetables for banks' compliance. It also took some critical initiatives to facilitate enforcement that were consistent with TA recommendations, including drafting financial and banking sector and deposit insurance laws. These measures have recently been approved by Congress. In contrast, under the previous administration many of the key TA recommendations were not implemented owing to a lack of ownership and commitment by parts of senior management. This lack of progress was not reported candidly and forcefully at the time by IMF staff either in the field or at headquarters.

170. Similarly, the new administration made progress in controlling large taxpayers' compliance, modernizing tax collections through banks, and implementing electronic payments and tax return filing. An exception was the lack of progress in customs administration. Whether the TA provided will achieve its ultimate objectives will depend heavily on the tax agency enforcing its new technical capabilities on the ground. Systems and technical know-how are now in place—what is now crucial is to enforce these systems, a step that requires some politically difficult decisions, such as accelerating the use of cross checks, the auditing of taxpayers, and enforcement of payments.

171. Two additional factors that have clearly influenced the impact of TA are a weak civil service and the lack of a functional judicial system. Public officials repeatedly mentioned how the low level of salaries and constant rotation of personnel because of the electoral cycle prevented building up a stable critical mass of professionals in public agencies. Furthermore, weaknesses in the judicial system and legal framework undermined the enforcement of sanctions in banking and tax administration, thereby lessening the impact of TA.

Table 6.3. Honduras: Assessment of Impact of the Main Areas of TA, 1999–2003

Main TA Activities	What Was the Impact of TA?	Country Factors Influencing Impact	Sustainability Issues
<p>Banking supervision</p> <p>TA of 884 person-days in FY1999–2003.</p>	<p><i>Moderate progress</i></p> <ul style="list-style-type: none"> <li>Banking indicators improved or remained stable: nonperforming loans remained constant, provisioning increased, and return to equity rose.</li> <li>Key reforms approved by Congress: Central Bank Law, Supervisory Authority Law, Deposit Insurance Law, and Banking Institutions Law.</li> <li>However, according to a recent MFD report, banking sector continues to be fragile (low profit margins, poor asset quality, and insufficient capitalization).</li> </ul>	<ul style="list-style-type: none"> <li>Political will—lack of cooperation by supervisory authority before 2002. New authorities have renewed interest in following up on TA.</li> <li>Civil service—low salaries and high rotation of personnel due to electoral cycle prevents buildup of professional capacity in public agencies.</li> </ul>	<ul style="list-style-type: none"> <li>Need to address constraints imposed by judicial framework, which limit enforcement.</li> <li>Need to address the lack of a functional civil service.</li> <li>Sustained political will to enforce recently approved laws is key to a continued improvement of the financial system.</li> </ul>
<p>Tax administration</p> <p>TA of 567 person-days in FY1999–2003.</p>	<p><i>Moderate progress</i></p> <ul style="list-style-type: none"> <li>Tax revenues expected to rise in 2004 to 18.3 percent of GDP from 16.8 percent in 2001.</li> <li>Most TA activities aimed at enhancing institutional capabilities of the Internal Revenue Department have been implemented, except in customs.</li> <li>Enforcement hampered by an inadequate legal framework.</li> </ul>	<ul style="list-style-type: none"> <li>Speed and intensity with which new systems will be used for cross-checking returns and auditing will depend on politically difficult decisions.</li> <li>Weak civil service prevents building critical mass of professionals in public agencies.</li> <li>Lack of an effective judicial system is a serious impediment to collection of fiscal arrears over the last years. Trials usually last several years without any decision.</li> </ul>	<ul style="list-style-type: none"> <li>Need to address the ineffectiveness of the judicial system.</li> <li>Need to address the lack of a functional civil service.</li> <li>A key sustainability issue is whether the Internal Revenue Department will enforce the new systems and capabilities that it has in place.</li> </ul>
<p>Money and banking statistics</p> <p>TA of 111 person-days in FY1999–2003.</p>	<p><i>Good progress</i></p> <ul style="list-style-type: none"> <li>Central Bank of Honduras has made progress in following TA recommendations in the area of money and banking. However, slow progress in having a fully disaggregated set of balance sheets for depository corporations, which hampers information on public sector.</li> </ul>	<ul style="list-style-type: none"> <li>Low salaries and high staff turnover are impediments to effective capacity building.</li> </ul>	<ul style="list-style-type: none"> <li>Need to address weaknesses in the civil service.</li> </ul>

## Niger

172. Between FY1999–2003, TA in Niger focused on tax and customs administration, budget, and PEM, and, to a lesser extent, statistics (Table 6.4). TA was heavily concentrated in the last two of these years owing to the presence of two resident advisors.

173. Several indicators suggest that TA in tax administration was largely effective, but that momentum was not sustained. Government officials appreciated the resident advisor's contribution and a number of them attributed the increased tax collection from the enterprise sector directly to the expert's work. While attribution is always problematic, tax revenues collected by the tax department increased by  $\frac{1}{2}$  of 1 percentage point of GDP between 2000 and 2002. Sustainability, however, remains a problem. Following the departure of the expert, his main counterparts left their jobs and revenue performance lost momentum. The authorities acknowledge that administrative capacity and broader civil service reform remain a major impediment.

174. In contrast, IMF TA for customs administration, which was delivered entirely through a couple of short-term missions, appears to have had limited impact. Most recommendations were not endorsed by officials as they were deemed to be either based on a misunderstanding of the Nigerien context or were seen as unrealistic.

175. Budget preparation and execution has been an area of major weakness in Niger. TA in this area started with three short missions between 1999 and 2001, followed by the posting of a resident expert. Prior to arrival of the expert, little progress had been achieved and TA recommendations were generally not implemented. Following the placement of the expert, an inspection mission in 2002 and a joint IMF–World Bank exercise to benchmark the quality of public expenditure management (Assessment and Action Plan) in July 2004 showed significant progress. During interviews with the IEO team, virtually all officials at the Ministry of Finance and donor representatives spoke highly of the resident advisor's contribution due in large part to her accessibility, experience, and emphasis on training and teaching.

176. One area in which the impact of TA has been either unclear or inadequate is in real sector statistics. There was no TA from IMF headquarters between 1996 and 2003. During the later part of that period, TA was contracted out to the regionally based AFRISTAT but there was very little monitoring or oversight of performance by headquarters staff. One of the more important objectives of TA in statistics was the reconciliation of competing GDP series. This problem was consistently identified by IMF staff, but remained outstanding into 2004 despite the efforts mentioned above.

Table 6.4. Niger: Assessment of Impact of the Main Areas of TA, 1999–2003

Main TA Activities	What Was the Impact of TA?	Country Factors Influencing Impact	Sustainability Issues
<p><b>TA Administration</b></p> <p>• of over 450 person-days, mostly by a resident expert in FY2001–03.</p>	<p><i>Good progress</i></p> <ul style="list-style-type: none"> <li>• Recommendations implemented.</li> <li>• Tax collection by the tax department increased by ½ of 1 percent of GDP between 2000 and 2002.</li> </ul>	<ul style="list-style-type: none"> <li>• Very weak administrative capacity.</li> <li>• Inability to hire new staff due to ceiling on wage bill.</li> <li>• Large informal and rural sector.</li> <li>• Some concerns about political commitment to tax some individuals and businesses; authorities attributed this to capacity shortcomings.</li> </ul>	<ul style="list-style-type: none"> <li>• Counterparts to the LTE moved out of their positions shortly after departure of the LTE and were replaced by less-experienced staff, resulting in a leveling off of revenue performance.</li> <li>• Removal of the LTE underlines importance of better and long-term collaboration with other TA providers.</li> <li>• Broader dissemination of lessons from TA to promote sustainability.</li> </ul>
<p><b>Budget and PEM</b></p> <p>• of over 500 person-days FY2001–03—one resident expert and four short-term missions.</p>	<p><i>Good progress</i></p> <ul style="list-style-type: none"> <li>• Resident expert more effective than short-term missions.</li> <li>• Marked improvement in performance between September 2001 and 2004, as measured by the Bank-IMF PEM benchmarking exercise.</li> </ul>	<ul style="list-style-type: none"> <li>• Bureaucratic resistance to change.</li> <li>• Poor data quality.</li> <li>• Inability to hire new staff due to ceiling on wage bill.</li> <li>• Shortage and high turn over of qualified staff.</li> <li>• Many tasks associated with achieving conformity with WAEMU guidelines which may have required more advanced administrative capacity than existed in Niger.</li> </ul>	<ul style="list-style-type: none"> <li>• IMF and authorities need to agree on medium-term strategy for TA, in which modalities evolve to reflect capacity improvements.</li> <li>• Improve predictability of IMF's TA plans beyond short term.</li> <li>• Coordinate with other TA providers more explicitly and interactively.</li> <li>• Removal of LTE underlines importance of better and long-term collaboration with other providers.</li> <li>• Broader dissemination of lessons from TA to promote sustainability</li> </ul>
<p><b>Statistics</b></p> <p>• of around 100 person-days in FY1999–2003.</p>	<p><i>Little progress, particularly with respect to real sector statistics</i></p> <ul style="list-style-type: none"> <li>• July 2003 TA mission concluded that real sector statistics were insufficient for effective economic analysis.</li> </ul>	<ul style="list-style-type: none"> <li>• Staff reluctance to change GDP series in midst of IMF-supported program.</li> <li>• Inadequate cooperation within statistical agency.</li> <li>• Poor data compilation practices</li> <li>• Statistical agency lacked resources.</li> <li>• Inefficient legislative framework for statistical agency.</li> </ul>	<ul style="list-style-type: none"> <li>• Need to enhance resources available to statistical agency.</li> <li>• Better coordinated effort between donors supporting statistical agency.</li> <li>• Need for clearer TORs for AFRISTAT and closer monitoring of progress.</li> </ul>

## Ukraine

177. Unlike other countries reviewed, Ukraine has well-developed human capital and established institutions of public sector governance—albeit originally geared to the requirements of the previous centralized Soviet system. Hence, the challenge of TA was to support changes in deeply ingrained habits and institutions. This called for major realignment of activities and relative powers of government agencies.

178. The experience with TA during FY1999–2003 was quite mixed (Table 6.5). Progress was better in the area of statistics than in the more politically difficult areas of tax collection and banking restructuring. Progress was slower at the beginning of the period studied, although it improved toward the end, and depended heavily on the particular individuals in charge of the respective agencies and their commitment to reform. Progress was often impaired by the rotation of key senior officials or by tensions between agencies as they saw their responsibilities change. A further complication was that the same TA activity covered simultaneously policy advice in areas calling for difficult policy decisions (reducing tax amnesties and tax preferences, collecting tax arrears, bank restructuring, and other measures, many of them linked to an IMF-supported program) as well as longer-term institution-building objectives—many of these activities being carried out by the same expert.

179. Lack of ownership or commitment to reform by senior officials at the start of the process slowed down progress in the area of tax administration. Enforcement of tax collection was impaired by resistance from large state-owned enterprises, but toward the end of the period there was progress in expanding large taxpayer offices and tax holidays and preferences were cut significantly. However, continued use of tax amnesties and expectations of future amnesties, and limited accountability and external oversight of the state tax agency (which only reports to the President) all contributed to impair the effectiveness and transparency of tax collections.

180. A Treasury Single Account system (TSA) was finally implemented, but the process was slow and generated considerable tension between the IMF and Ukrainian officials. Those interviewed by the evaluation team had different views of why this happened, with some emphasizing the reluctance of the previous agency to loosing discretionary controls, while others considered the IMF advice as too rigid (e.g., there were alternative systems and the reasons for the IMF's choice were not well explained).

181. Progress in banking reform varied, depending largely on the authorities at the Central Bank. There were periods conducive to good progress and others when the advisors' work was directed away from the most urgent topics of assisting in implementing banks' restructuring plans and toward organizational issues. Progress in improving laws and regulations to strengthen the framework for supervision advanced more rapidly than the more politically difficult tasks of actually supervising banks. Tensions between the authorities and the advisors may have also been compounded because TA was closely linked to program conditionality. As seen today, the National Bank of Ukraine has clearly improved the supervision of the largest private banks, which have experienced improvements in their

capital adequacy ratios. However, the banking system is still riddled with a large number of smaller pocket banks that are not fully subject to supervisory rules and regulations. The Savings Bank has improved its portfolio but remains undercapitalized.

182. Ukraine was a case where views and judgments regarding the effectiveness of IMF TA varied significantly, both among IMF staff and among observers in the field, including Ukrainian counterparts and experts. Some IMF staff held the view that important progress was achieved given the difficult initial conditions. Others were of the opposite view, arguing that lack of ownership and commitment from the authorities hindered the progress in most areas at the beginning of the period studied and that much more could have been achieved. The high turnover of agency heads and mid-level personnel as a result of the political cycle was singled out as a major problem by almost everybody.

183. What seems clear is that in several areas of TA—most notably in tax policy and administration, and banking supervision—progress in implementation was difficult, depending heavily on the authorities in charge. During some periods, significant tension emerged between heads of agencies and resident experts regarding the policy steps expected from the authorities. This was probably exacerbated by not having had at the outset clarity on mutually agreed indicators of progress during TA implementation, and the specific steps that were required from the authorities. This ambiguity generated a wide divergence of expectations—reducing the possibility of clear accountability. This suggests the need, especially for more complex and multiyear TA activities in an environment of significant political instability, to incorporate in the TORs clear and mutually agreed indicators of progress in TA implementation including understanding on what is to be delivered by both the IMF and the authorities.



Table 6.5. Ukraine: Assessment of Impact of the Main Areas of TA, 1999–2003

Main TA Activities	What Was the Impact of TA?	Country Factors Influencing Impact	Sustainability Issues
<b>tax policy and tax administration</b> . of 454 person- /s in FY1999–2003.	<i>Moderate progress</i> <ul style="list-style-type: none"> <li>• Expanded large taxpayer office</li> <li>• Tax holidays and preferences cut significantly.</li> <li>• New law on collection enforcement has reduced arrears; improvements in national audit plans.</li> <li>• Use of tax amnesties and expectations of future amnesties reduces payoff to improvements administration.</li> <li>• Limited accountability and oversight of tax agency.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of interest from senior officials at start of TA activity.</li> <li>• Enforcement impaired the resistance from large state-owned enterprises.</li> </ul>	<ul style="list-style-type: none"> <li>• To sustain and enhance progress, accountability and external oversight of state tax agency should be addressed.</li> <li>• Tax collection should be responsibility of Ministry of Finance, not Presidency.</li> </ul>
<b>Single Treasury account system</b> . of 988 person- /s in FY1999–2003.	<i>Good progress</i> <ul style="list-style-type: none"> <li>• TSA was implemented.</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate collaboration among budget agencies.</li> </ul>	
<b>budget management</b> . of 946 person- /s in FY1999–2003.	<i>Moderate progress</i> <ul style="list-style-type: none"> <li>• Macro-Fiscal unit issued budget execution and analysis notes for wide circulation</li> <li>• Prepared forecasting reports and initiated seminars with wide audiences.</li> </ul>	<ul style="list-style-type: none"> <li>• Progress impaired by tensions between the Ministry of Finance and other departments; unit located too low in structure.</li> </ul>	<ul style="list-style-type: none"> <li>• Frequent changes in cabinet and senior staff reduce impact.</li> </ul>
<b>banking supervision and restructuring</b> . of 1,061 person- /s in FY1999–2003.	<i>Mixed progress</i> <ul style="list-style-type: none"> <li>• Progress in improving laws and regulations advanced faster than politically difficult bank restructuring.</li> <li>• Smaller banks improved; Bank Ukraina liquidated.</li> <li>• Training of counterparts had important externalities.</li> <li>• Nonperforming loans in banking sector remain a matter of concern.</li> </ul>	<ul style="list-style-type: none"> <li>• Progress depended on individuals at central bank.</li> <li>• In some instances, experts caught in bureaucratic tensions that reduce their effectiveness.</li> </ul>	<ul style="list-style-type: none"> <li>• Improvements in independence of the central bank and improved transparency and disclosure of its operations would improve sustainability.</li> </ul>
<b>multi-sector statistics</b> . of 1,171 person- /s in FY1999–2003.	<i>Good progress</i> <ul style="list-style-type: none"> <li>• New statistics law put in place; subscribed to Special Data Dissemination Standard in January 2003.</li> <li>• Macroeconomic statistics consistent with international standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Rotation of personnel and ability to reallocate resources across units was major problem in Statistics Office.</li> <li>• Units reluctant to work together.</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainability could be enhanced by increasing stability of employment.</li> </ul>

## Yemen

184. Despite significant TA provided by the IMF to Yemen between FY1999 and FY2001, the results were disappointing (Table 6.6). (Yemen was the fifth largest recipient of IMF TA over this period.) The reasons for this outcome are varied and include: (1) overly general terms of reference for some LTEs (making tracking of performance difficult), combined with insufficient backstopping from headquarters; (2) inadequate dissemination of the lessons from TA to relevant officials and agencies; (3) passive involvement by the authorities in articulating and justifying TA needs, which frequently masked an absence of commitment to reform; (4) inadequate commitment to maximizing the benefit of training opportunities; (5) language barriers and the scarcity of good translation and interpretation skills in Yemen; (6) lack of incentives within the civil service to make effective use of TA; and (7) failure to tailor in a timely manner the volume of TA in light of the government's commitment and track record.

185. Inadequate ownership and commitment to reform (including opposition from vested interests) was a major factor explaining the poor track record. This was compounded by a lack of emphasis placed on the design of TA activities in obtaining clear and upfront agreement from the authorities on their expectations and the extent to which they were prepared to support capacity-building efforts. A partial exception was the introduction of the general sales tax (GST), which was prepared with IMF TA. It had clear support from the Ministry of Finance, but was eventually undermined by vested interests.

186. The most successful TA was in banking supervision. While the banking sector as a whole remains weak, progress was made in improving compliance with Basel Core Principles. This success appears to have been largely due to the emphasis placed by the LTE on knowledge transfer to, and personal accountability within, the Central Bank. However, the effectiveness of these efforts was undermined somewhat by shortcomings in the legal and judicial framework.

187. Given the widely held perception that Yemen's track record in making effective use of IMF TA was poor, our evaluation concluded that Yemen probably received in a relatively short period of time considerably more TA than it could absorb politically and administratively. Fewer, but better designed and supported, TA activities might have been a more effective and efficient use of scarce IMF TA resources.

Table 6.6. Yemen: Assessment of Impact of the Main Areas of TA, 1999–2003

Main TA Activities	What Was the Impact of TA?	Country Factors Influencing Impact	Sustainability Issues
<p><b>Policy and Administration</b></p> <p>more than 1,000 person-days of TA in FY1999–2003.</p>	<p><i>Little progress</i></p> <ul style="list-style-type: none"> <li>• Virtually no change in non-oil revenue as share of GDP between 1999 and 2003.</li> <li>• Failure to pass viable general sales tax (GST) legislation.</li> <li>• Serious weaknesses in organization and operations of Large Taxpayers' Office.</li> </ul>	<ul style="list-style-type: none"> <li>• Opposition from business interests in parliament to introduction of GST.</li> <li>• Inability or unwillingness of Government to bring to bear its parliamentary majority in support of GST legislation.</li> <li>• Constraints to dissemination of TA reports within and among government agencies and departments.</li> <li>• Language barriers are a problem with some experts.</li> </ul>	<ul style="list-style-type: none"> <li>• Need to overcome vested interests within parliament for GST to pass.</li> <li>• In formulating recommendations, TA providers need to be aware of constraints imposed by bureaucratic culture.</li> </ul>
<p><b>Budget and PEM</b></p> <p>more than 1,200 person-days of TA in FY1999–2003, including two resident experts and a series of short-term missions.</p>	<p><i>Little progress</i></p> <ul style="list-style-type: none"> <li>• July 2002 report on budget process found progress to have been disappointing;</li> <li>• Tight control of expenditure commitments but significant accumulation of arrears; insufficient safeguards against fraudulent withdrawal of public funds.</li> <li>• Reporting from line ministries neither timely nor consolidated, undermining ability of authorities to assess performance relative to expectations.</li> </ul>	<ul style="list-style-type: none"> <li>• Little ownership of reform initiative.</li> <li>• Lack of coordination within government in making use of medium-term macro-fiscal projections and establishing modern system of budget formulation, cash management, and expenditure control.</li> <li>• Poor flow of information between and within government departments and agencies.</li> <li>• Lack of progress on civil service reform.</li> </ul>	<ul style="list-style-type: none"> <li>• Need to change civil service culture.</li> <li>• Enhance incentives for civil servants to obtain training.</li> <li>• Adopt strategy to enhance the dissemination of TA lessons.</li> </ul>
<p><b>Banking Supervision</b></p> <p>more than 800 person-days in FY1999–2001, mostly through regular visits from long term but resident expert.</p>	<p><i>Good progress in some areas</i></p> <ul style="list-style-type: none"> <li>• Regulatory framework now generally consistent with international standards (e.g., compliance with Basel Core Principles documented by 2001 FSAP from 1999 World Bank assessment).</li> <li>• But considerable need to improve legal and judicial framework in support of supervisory activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Problems of communication within Central Bank of Yemen (CBY) and between CBY and MOF.</li> <li>• No legal protection against lawsuits for bank supervisors for actions taken in discharging duties.</li> <li>• Facility in English in CBY better than elsewhere in government.</li> </ul>	<ul style="list-style-type: none"> <li>• To ensure continuity, and given staff turnover, IMF staff should send a list of relevant documents to TA counterparts prior to their arrival to facilitate adequate preparation for TA missions.</li> <li>• Dissemination of TA lessons could be enhanced if the IMF were to assist the authorities in putting together a glossary of the most relevant terms for CBY.</li> </ul>

## Zambia

188. In Zambia, the impact of TA varied across sectors of the economy (Table 6.7). The most successful interventions were TA to establish an interbank foreign exchange market, which started operations in July 2003, and to reform the tax system—with most of the recommendations of the 2001 mission being adopted in the 2004 budget. TA to deal with insolvent banks and the privatization of a large state-owned commercial bank showed more mixed results; privatization has not taken place yet. TA in statistics showed great variation depending on initial capacity and resources of the respective agency. By contrast, TA in PEM (where Zambia was the largest recipient of IMF TA among HIPC countries) and policy advice in monetary and government securities operations have shown little progress to date. On PEM, there was very little improvement between 2001 and 2003 according to the results of the benchmarking exercises conducted as part of the HIPC Assessment and Action Plans.<sup>64</sup>

189. The lack of political commitment to enforce sanctions for breaches of established procedures was a major factor explaining the weak impact of TA in PEM. Frequent changes in leadership and staff turnover undermined the continuity of capacity-building reforms. Weak coordination between donors and the IMF was also a problem.

190. The impact of TA on monetary policy continues to be adversely affected by inadequate consolidation of the fiscal position and lack of progress in public debt management. TA recommendations on monetary policy may have been premature relative to the pace of progress in those two related areas. In the event, the effectiveness of TA in the monetary area was undermined by the absence of an appropriate sequencing of reforms between the monetary and fiscal sectors.

191. Implementation of the TA recommendations in the banking sector brought to the fore the issue of the appropriate distribution of powers between the supervisory institutions and the Ministry of Finance. The effectiveness with which the former could discharge their responsibilities (after having upgraded their capacity), was limited by the legal powers given to the ministry on supervisory decisions and the consequent potential for political interference.

192. Finally, the very protracted process of privatizing a state-owned commercial bank points to the complexities associated with privatizing financial institutions with conflicting mandates (e.g., to ensure provision of financial services in remote areas vis-à-vis profitability). TA should have been better integrated with a broader policy framework incorporating a proper sequencing of actions.

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<sup>64</sup> The 2003 HIPC Assessment and Action Plan (April 2004 draft report) concluded that “Overall, Zambia’s PEM system still requires substantial upgrading in the areas of budget formulation and execution in order to make the budget a functioning tool for implementing fiscal policy.”

Table 6.7. Zambia: Assessment of Impact of the Main Areas of TA, 1999–2003

Main TA Areas	What Was the Impact of TA?	Country Factors Influencing Impact	Issues in Assuring Sustainability
<p><b>Bank restructuring and privatization of ZNCB</b></p> <p>About 120 person-days by five missions in Nov. 2000–Sept. 2003.</p>	<p><i>Good progress</i></p> <ul style="list-style-type: none"> <li>• Most objectives achieved:</li> <li>• Insolvent private banks resolved; improved banking soundness indicators.</li> <li>• Zambia National Commercial Bank more stable, but privatization delayed.</li> </ul>	<p>Multiple factors affected privatization including:</p> <ul style="list-style-type: none"> <li>• service access and fiscal impact;</li> <li>• need for public debate;</li> <li>• institutional coordination;</li> <li>• Implementation of supervisory actions constrained by Ministry of Finance and National Planning.</li> </ul>	<ul style="list-style-type: none"> <li>• Refrain from political interference in supervisory matters, facilitated by legislative changes removing Ministry of Finance and National Planning from supervisory decisions.</li> <li>• Continue providing better working conditions to attract and retain qualified personnel.</li> </ul>
<p><b>Monetary policy and development of government securities markets and operations</b></p> <p>About 80 person-days by three missions in FY2001–03.</p>	<p><i>Little progress</i></p> <ul style="list-style-type: none"> <li>• Money market rates still highly volatile.</li> <li>• Changes in monetary policy stance still affected by changes in the cash reserve requirement and minimum liquid asset ratio.</li> <li>• Some recommendations implemented, including drafting of public debt strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• Need for fiscal consolidation.</li> <li>• Without progress in public debt management and market development, implementation of monetary policy will continue to struggle.</li> <li>• Bank of Zambia coordination with Ministry of Finance and National Planning made difficult by high turnover of Bank staff.</li> <li>• Significant market power of key participants.</li> </ul>	<ul style="list-style-type: none"> <li>• Sustained strengthening of fiscal position.</li> <li>• Foster integrity of public debt management to develop money markets and create conditions for systematic use of repo operations.</li> <li>• Strengthen coordination and flow of information between Ministry of Finance and National Planning and BOZ.</li> </ul>
<p><b>Interbank foreign exchange market development</b></p> <p>About 60 person-days by three missions in late 2002–03.</p>	<p><i>Good progress</i></p> <ul style="list-style-type: none"> <li>• New system operating in effective manner, with lower exchange rate volatility.</li> <li>• Key market participants indicated improvements in market operation.</li> </ul>	<ul style="list-style-type: none"> <li>• Strong leadership was in place to carry forward the reforms in difficult circumstances.</li> </ul>	
<p><b>PEM</b></p> <p>About 1,034 person-days, combination of three LTEs and missions.</p>	<p><i>Little progress</i></p> <ul style="list-style-type: none"> <li>• Persistent weaknesses in PEM reflected in continued arrears and priority spending compression; findings confirmed by HIPC expenditure tracking country Assessment and Action Plan of 2001 and 2003.</li> <li>• Progress undermined by weak expenditure management and enforcement of sanctions.</li> </ul>	<ul style="list-style-type: none"> <li>• Weak political support.</li> <li>• High turnover of key counterparts in Ministry of Finance and National Planning.</li> <li>• Unsupportive expenditure policies.</li> <li>• Delays in deploying supporting tools.</li> <li>• Low institutional and absorptive capacity.</li> </ul>	<ul style="list-style-type: none"> <li>• Strong political commitment to abide by procedures and sanction breaches.</li> <li>• Progress in civil service and pay reform to lessen expenditure pressures and create conditions to attract and retain qualified personnel.</li> <li>• Strengthen implementation of medium-term expenditure framework, activity based budgeting, and integrated financial management information system.</li> </ul>

### **C. Emerging Messages from the Case Studies**

193. This section summarizes key findings from our efforts to measure impact in our case studies that may be useful for the IMF's own efforts at improving its self-assessment of TA effectiveness. Many of the difficulties found by the IEO team in coming to clear judgments reflect the methodological difficulties discussed in the section "Methodological Limitations in Defining and Measuring Progress and Impact." Nevertheless, the difficulties in assessing impact were compounded by weaknesses in IMF documentation in defining at the outset the indicators of success and the benchmarks against which progress in TA implementation would be measured.

194. Overall, the case studies tend to show that, as far as capacity-building TA is concerned, progress has generally been achieved in improving the technical capabilities of the typical agencies the IMF tends to support. However, significant variability is found on whether agencies have then been able to start using or enforcing the new technical knowledge and whether, as a result of these actions, there is a final impact on the ground. For example, some of the case studies show that in several instances banking sector supervisory agencies have been prevented or have not been sufficiently supported by the higher authorities when their actions begin to affect some strong vested interests. In tax administration, the improvement in the capacity of agencies to monitor and identify cases of tax evasion and tax arrears and enforce payments and penalties has been resisted and often these agencies have not received the necessary support of the authorities. This has tended to demoralize the staff of these agencies. Furthermore, the degree of resistance seems to have been "endogenous," it tends to increase as TA enables these agencies to discover new facts and move into an enforcement role (see Box 6.1). The "endogeneity" of the resistance means that political support for the work of these agencies becomes even more critical to success as their enforcement efforts increase.

#### **Box 6.1. Enhancing the Institutional Capacity of Agencies Often Triggers Increased Resistance**

Improving the capability of agencies in charge of banking supervision and agencies in charge of tax administration and collection are important areas of TA provided by the IMF. Some of the country case studies show that as soon as these agencies begin to enforce these new capabilities, a significant opposition begins to mount by groups adversely affected by that enforcement. In Honduras, some private banks sued the banking commission when the commission tried to enforce some of the supervisory regulations. A somewhat similar experience took place in Zambia in PEM. The deployment of a commitment control system had reached a point where it was identifying instances where procedures were being breached, seriously undermining fiscal policy discipline. Among the beneficiaries of these breaches were politically powerful ministries. Although budgetary regulations provided for the imposition of sanctions, they were not imposed.

Enhanced institutional capacity means that supervisory agencies will increasingly be able to detect problem banks and the need of corrective actions. Tax administration agencies will begin to document tax evasion and tax arrears by individuals and corporations. Because the groups adversely affected by these actions are often highly concentrated and politically well connected, these agencies can quickly come under attack as they move into the enforcement area. Thus, achieving the ultimate objective of TA will depend critically on the support being received from the highest authorities. That support will become increasingly important as their technical capability increases.

195. The resistance to agencies using their new knowledge has influenced what types of TA activities tended to have better results. Generally, the most successful area of TA implementation was in statistics. This area is less contentious because this sector does not usually impinge on decisions involving the management of fiscal resources or reallocations of incomes and rents, hence is less subject to political pressures. On the other hand, one of the most difficult areas in this respect has been implementing TA in the area of customs administration. The findings in Cambodia, Honduras, and Niger suggest that implementation of TA recommendations in this area faces strong opposition from many quarters. Powerful importers benefited from the undervaluation of imports and organized smuggling. Side payments to poorly paid customs officials compounded the problems.

196. In several of the case studies (Cambodia, Ukraine, Yemen, and Zambia), tensions and lack of collaboration among agencies have been stumbling blocks to the implementation of TA. This has been particularly evident in the budgetary area. Many of the recommendations of TA in institution building called for the realignment of responsibilities among agencies. These provoked resistance from those agencies who saw their power reduced. Many times, resident experts were caught in the midst of such tensions.

197. In the low-income countries studied—Cambodia, Honduras, Niger, Yemen, and Zambia—the absence of sufficiently skilled counterparts as well as the low pay of relevant officials was a major hindrance to the efficacy of TA. This also explained why TA to central banks has in general been more successful than TA to other agencies. Providers of TA can do little in the short run in this area other than lower their expectations about the speed with which TA can have an impact. One possible course of action is to avoid major spurts of TA efforts until a minimum progress has been made in civil service reform and compensation. For some specific TA activities of high priority by the authorities, the IMF could request the authorities to provide incentives to reduce the turnover of critical counterpart staff. The challenge is to develop such incentives without introducing parallel pay scales within the civil service.

198. The final impact of TA will depend on whether government agencies that have received TA can enforce their improved technical capabilities. The cases of Honduras and Ukraine, among others, show that in the area of banking supervision and tax administration, weaknesses in the judicial framework can significantly limit the effectiveness of these agencies. This suggests that, whenever possible, TA interventions should be complemented with agreements to address these issues early on, possibly including the passage of necessary legislation. In this respect, the IMF/Netherlands Program of Legal and Judicial Reform in Indonesia offers a valuable experience on the potential benefits and challenges to be faced by judicial reform efforts.<sup>65</sup>

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<sup>65</sup> Harkristuti Harkisnowo and others (2004).

### D. Improving the IMF’s Ability to Track Progress and Measure TA Impact

199. The main lesson from the case studies is that distinguishing between progress in enhancing the technical capabilities of agencies receiving TA from their ability to then apply and enforce those capabilities is a useful methodological device that helps identify critical factors influencing the final impact of TA. Drawing upon the case studies, Table 6.8 suggests ways to unbundle these stages in future tracking efforts, using as examples banking supervision and tax administration, two major areas of TA provided by the IMF.

200. Table 6.8 describes a number of benchmarks that might be used to track progress. The challenge is not only to document progress at the earlier “technical” stage of TA impact (Stage A), but also to assess intermediate stages that test the ability of agencies to use their new knowledge (Stage B), prior to the final impact on the ground that eventually should also be measured (Stage C).

Table 6.8. Stages in the Tracking of Progress and Impact of TA for Capacity Building in Selected Areas

TA Area	Stage A: Near-Term Outputs (Indicators of upgraded technical capacity in agencies)	Stage B: Intermediate Outcome (Indicators measuring the ability of agencies to use the new knowledge)	Stage C: Outcome Indicators Linked to Final Objectives (Indicators measuring impact on the ground)
Banking Supervision	<ul style="list-style-type: none"> <li>• Introduction and improvements in procedures, manuals, and workflow.</li> <li>• Upgrading of information systems and other management and customer support service technology.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved risk assessment of banks (e.g., introduction of CAMEL rating system).</li> <li>• Monthly publication of banking system information.</li> <li>• Adoption and implementation of a regular schedule of on-site inspections.</li> <li>• Measures of improvements in off-site surveillance.</li> <li>• Improved enforcement of regulations and application of sanctions.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved reliability of banking sector performance indicators.</li> <li>• Timely and efficient resolution of distressed banks.</li> <li>• Improvement in compliance with Basel Core Principles.</li> </ul>
Tax Administration	<ul style="list-style-type: none"> <li>• Training of personnel and adoption of human resource policy.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly reports of performance indicators for tax administration.</li> <li>• Electronic filing by large taxpayers.</li> <li>• Increased compliance with return filing obligations.</li> <li>• Increased effectiveness of tax auditing activities, particularly of large taxpayers.</li> <li>• Administrative and judicial prosecution of tax evaders and progress reports on ongoing cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased tax revenue mobilization measured in relation to the appropriate tax base and adjusted for any changes in rates.</li> <li>• Reduction in tax evasion.</li> </ul>



201. As far as capacity-building activities are concerned, current IMF internal documentation focus largely on the input side—organization of missions, logistics, preparation of analytical reports, and the particular tasks that resident experts need to undertake during the delivery stage—and the near-term outputs (Stage A), including advice, training of personnel, preparation of manuals, exposure to state of the art practices, and improvements in information systems. There is less effort to identify indicators that track the enforcement of the new technical know-how by the agencies that have received TA (Stage B), and even less effort to track final impact on the ground (Stage C).

202. Upfront efforts to define how progress will be measured over time should involve the authorities. Otherwise, there is a risk that expectations will diverge—a potential source of tension during TA delivery and a limitation to reach a common understanding on why the impact of TA may have been below expectations. It is critical to assess whether there are justifiable reasons behind a poor track record in implementation. Such tensions were evident in many of the case studies. Often, country officials referred to TA recommendations as being either too ambitious or not taking enough account of local conditions and political constraints. In contrast, staff often viewed such explanations as masking a lack of commitment from the authorities to the overall reform agenda, or a reluctance of agencies to lose power. In most cases, IMF documentation (back to office reports, progress reports from resident experts and backstoppers, and other material) does not explicitly confront and discuss these differences with the clarity one would require in order to deal with the problem. Greater upfront discussion of how progress will be measured could help ease some of these tensions. We do not have in mind complex bureaucratic exercises with an excessively large number of indicators, but a process that encourages both the country and the IMF to discuss more systematically what can be reasonably expected and how progress will be assessed.

203. A major conclusion of this evaluation is that the IMF needs, first, to improve significantly the tracking of progress. This would involve at the outset a much clearer definition and unbundling of short- and medium-term objectives and a determination of how success will be measured in practice. The new TAIMS initiative may present an opportunity to systematically improve tracking and monitoring on a Fund-wide basis (Box 6.2). Second, a much more explicit discussion of factors behind the lack of progress and a more candid reporting of the tensions that may emerge on the ground is needed.

#### **Extent of commitment and ownership—how to track it?**

204. The extent of ownership and domestic commitment is a critical factor in explaining the success or failure of TA. According to the existing prioritization filters, country track record should be an important factor in determining future TA allocations. This requires a concept of a track record that is operational and transparent, and that is well understood by the authorities. The case studies provide some ideas in this direction.

### **Box 6.2. The Technical Assistance Information and Management System (TAIMS) Initiative**

In July 2002, the Executive Board stressed the need for greater standardization and coherence in approaches used by departments for planning, monitoring, and evaluating TA. In this context, an intradepartmental Working Group on TA Monitoring and Evaluation was set up in 2002 to establish a Fund-wide methodology for monitoring projects and ex post TA evaluations.

Against this background, a TAIMS is being developed by OTM with collaboration from functional departments. TAIMS records a TA project's description, objectives, outputs, activities, missions tasks, expected results, verifiable indicators of progress, underlying assumptions, external influencing factors, and monitoring of events, and relates project objectives to inputs and costs. TAIMS will be deployed in three phases:

Phase I, currently being piloted in several TA departments, will deploy a Fund-wide standard computer-supported system to follow TA through a "project cycle" framework. The system consolidates TA project information from existing databases, such as Electronic Document Management System, PeopleSoft/Financials, Human Resources, Projects, and TIMS. Areas where additional input is required are a general description of the project, definition of objectives, outputs, activities, and scheduled monitoring events and their results. Phase I is currently active in the Legal, International Capital Markets, and Technology and General Services Departments, and is scheduled for Fund-wide deployment in May 2005.

Phase II will incorporate future TA activities to allow TAIMS the capability to support a more forward assessment of TA programs. It will also introduce ways to aggregate individual projects into country or regional programs that would allow TAIMS to be embedded in the RAP process.

Phase III's ultimate objective is eventually to incorporate ex post evaluation information on individual TA activities as well as to use the information of the earlier stages to identify key factors that may influence the impact of TA. This phase is yet to be designed.

TAIMS is designed to be an important tool to enhance the impact and efficiency of the IMF's TA activities by increasing the transparency and availability of TA-related information Fund-wide. It may also help TA departments to think more strategically about the entire TA process. The potential value of this approach was demonstrated, for instance, by the TAIMS pilot in LEG, where staff acknowledged that they were not used to defining project objectives and outputs systematically; however, as they progressed through the pilot, TAIMS caused them to think about TA differently, moving from a "mission horizon" to a longer-term capacity-building perspective.

205. First, and as discussed earlier, TA can involve both focused policy advice and institution-building activities both in the same subject area (TA in banking in Honduras, Ukraine, and Zambia, and on taxation in Honduras, Ukraine, and Yemen). Indicators of progress in both types of TA need to be separated, as well as the factors influencing progress. There may have been good progress on the policy advice front but poor results on TA supporting capacity building, or vice versa. They have different implications for measuring the track record to be used to allocate future TA. Decisions on how much future TA should be given for institution building should be guided by the track record in implementing TA in that area—not on whether the country has accepted or not the advice of the IMF (as part of TA activities) on very specific policy issues (Box 6.3). Second, to document clearly the absence of a track record resulting from lack of political commitment, it is necessary to identify the different stages in the result chain, as described in Table 6.8.

### **Box 6.3. What Type of Track Record Should Be Looked at?**

TA covers a wide range of activities, ranging from (a) analytical work to allow the IMF to provide advice on a specific policy issue to (b) medium-term capacity building to enhance the ability of country institutions to formulate and implement policies.

If decisions regarding future TA are to be informed by how effectively a country has used past TA, it is important to distinguish clearly between these two set of activities. Decisions regarding how much should be provided for capacity building should be informed by how well the country has used this type of TA in the past and not by how much the authorities have decided to accept the policy advice provided by IMF TA experts. There may be good reasons why authorities may differ with the IMF on that advice. More relevant is the extent to which, in spite of past efforts at increasing institutional capacity (or the potential of specific agencies to formulate and implement policies), this capacity has not been effectively used because of excessive interference in the work of these agencies.

Some examples may be useful. Often the IMF has provided TA in the area of both tax policy and tax administration. In the former, TA has often focused on documenting the scale of tax exemptions and has come out with policy proposals on how and at what pace to reduce them. On the latter, the IMF has often provided medium-term TA to enhance the capacity of tax administration offices to increase tax collection and reduce tax arrears. For this purpose, it has provided training, computerization, organizational changes, and advice on changes in legislation.

A poor track record in implementing the first set of advice should not automatically preclude the IMF from providing further support in the area of tax administration. However, if in spite of an increase in the technical capability of the tax office to collect taxes it is prevented from doing so by political interference, an argument could be made that further TA in such areas is unlikely to yield significant gains unless the authorities take action to address the problems of such interference.

206. To clearly document a track record, it is necessary to have candid reporting of the type of problems described above. The evaluation found that the reporting of these problems by resident experts was sometimes not candid enough or came too late. These experts were reluctant to raise with IMF staff (resident representative or staff in charge of backstopping TA in headquarters) situations where a lack of determination by top authorities or heads of agencies were preventing such agencies from enforcing their mandate. This is a delicate issue insofar as resident experts need the goodwill of the authorities to perform their jobs. Again, a clearer specification of benchmarks of progress would help to identify such problems. Such specification would encourage more comprehensive discussions at an earlier stage of why greater progress was not being achieved.

#### **E. Signaling Ownership: Cash Charges Versus Other Approaches to Signaling Country Commitment**

207. At present, upfront cash charges or country contributions for IMF TA are linked to a country's per capita income (Table 6.9). Countries below \$3,035 in annual per capita income provide in-kind contributions for the administrative support of LTEs. However, no other charges are made. Hence, for these countries, which receive the bulk of IMF TA, this service is basically provided free.

Table 6.9. Country Contribution for TA Provided by the IMF

	Gross National Income Per Capita 1/ (2002)	Contributions for LTE Assignments 2/		Contributions for Short-Term Assignments 3/
		In kind	Cash	In kind or cash
Group I	Below \$3,035 a year (low- and lower-middle- income countries).	Office space and supplies, telecommunications facilities, and administrative support.	No charges.	No charges.
Group II	\$3,036–\$9,385 a year (upper middle-income countries).	As above.	\$30,000 per expert year when financed by the IMF. 4/, 5/	No charges.
Group III	Above \$9,386 (high income countries).	As above.	Full cost of the assignment at a standard rate when financed by the IMF, including 30 percent to cover the IMF's overhead costs. 3/	No charges.

Source: IMF documents.

1/ Gross national income per capita, calculated using the World Bank Atlas method. (World Bank, July 2004).

2/ Defined as experts residing in a country for six months or longer.

3/ Defined as experts residing in a country for less than six months or short-term TA missions.

4/ Countries in Groups II and III have the option to discharge part of their obligation in the form of eligible in-kind contributions at a standard rate. In-kind contributions may take the form of acceptable housing (furnished or unfurnished) or the use of a car for official business.

5/ The cash contribution requirement for Group II countries is equivalent to about 10 percent of the cost of the assignment, including the estimated IMF overhead costs.

208. Establishing cash charges for the provision of IMF TA has sometimes been suggested for two reasons: (1) as a rationing device whereby a willingness to pay would signal country commitment and hence channel TA resources to the highest priority needs while simultaneously addressing any presumed excess demand for TA;<sup>66</sup> and (2) as a means of helping to resolve the current situation whereby the provision of IMF TA is financed primarily through the “spread” on the interest rates charged for IMF lending—with the burden thereby falling unequally across the IMF membership.

<sup>66</sup> There are no good measures of unmet demand for IMF TA. The only indicator available is the share of formal TA requests by the authorities (submitted to the functional departments) that were not met. In both, FY2002 and FY2003, this excess demand was about 20 percent and 8 percent for FAD and MFD, respectively.

209. The evidence collected as part of the evaluation does not allow us to reach definitive conclusions on these issues. Since such a small proportion of IMF TA has been subject to charges (and the countries paying charges face a very different economic situation from those that receive free TA), there is no effective counterfactual with which to compare the present situation to judge whether unsubsidized TA is more effective.

210. Nevertheless, we are skeptical that adjusting the pricing system for TA would have a major impact on strengthening and signaling country commitment to use TA effectively. It is not clear that governments composed of heterogeneous agencies, often headed by officials with different allegiances and motivations, will respond as expected to such price signals. We believe that if the internal consensus process in choosing critical TA needs was working well prior to the charges, the introduction of upfront pricing will not make much difference to the process. On the other hand, if the TA requests were determined by the central agencies close to the center of power and with little consultation, very little will be achieved by the introduction of pricing. Indeed, unexpected consequences could result—for example, if central agencies have to bear the upfront budgetary cost of the charges and thereby have increased power in making TA decisions, resulting in a neglect of less powerful ministries or subagencies. In any event, while our evaluation evidence can say little about the potential impact of cash charges on TA effectiveness, it does suggest that alternative screening devices for testing country commitment to the implementation of TA are worth pursuing.

### **Alternative signaling devices of commitment**

211. The willingness of the authorities to invest more effort in articulating the rationale for their TA requests, helping prepare TOR, and assigning their best staff from the relevant agencies to work with TA providers can be a clear sign of ownership and commitment to that activity. In effect, it can provide a signaling role similar to the pricing of TA, which would allow the IMF to better screen TA requests and those activities that the authorities consider to be a priority. Our case studies show that such early involvement is not generally taking place today, but when it does, it is typically associated with better TA outcomes.

212. Such a screening role can be provided by having the TOR specify mutually agreed indicators that will be used to assess the effectiveness of TA, and clearly articulate the obligations of both the IMF and the authorities. This may be particularly important for complex multiyear TA activities. If needed, the authorities could be asked to make future financial and institutional commitments to the activity to assure its sustainability, particularly after the IMF and donor financing of the activity ends. This was a major feedback received from counterparts interviewed in our country visits, who suggested that the TOR should include upfront commitments and obligations from the authorities for an active plan of follow-up after the formal involvement of the IMF has ended. This was felt to be particularly important where a significant participation of senior- and medium-level personnel was expected beyond the period of formal IMF involvement.

213. Similar conclusions were reached in past evaluations of IMF TA, such as the evaluation of TA on PEM in sub-Saharan francophone countries and the assessment of TA in

establishing treasury systems in the transition countries. These evaluations concluded that agreements on specific action plans and some credible guarantees (such as public policy commitments, steering committees, availability of skills) could enhance follow-up and protect the agencies receiving TA from undue political interference.

214. Typical commitments could include:

- The timetable of actions under the control of the executive, such as the issuance of decrees and submission of legislation that are considered crucial for the success of the TA activity.
- The assurance of a minimum level of stability in the employment of critical counterparts in the specific agencies receiving TA.
- Assurances that agencies receiving TA obtain the necessary cooperation from other agencies that are critical to their operations.
- A minimum amount of funding after financing by the IMF or other donors has ceased.

215. For large multiyear TA activities, letters of agreements could be signed, where mutually agreed indicators of progress would be identified as well as policy and resource needs that are necessary for the success of the project. In summary, what is needed for large and more complex activities is both a longer period of informal discussion prior to drawing up a project's terms of reference (as suggested in Chapter 5) followed by more formal understanding on benchmarks and accountability during and after the project.

### **Charging for the TA financed by IMF's own resources—how much could be raised?**

216. The broader issue of how the IMF finances its activities goes well beyond the scope of this evaluation. It involves issues of how to finance the provision of global public goods and the extent to which the IMF should be involved in providing subsidized services to its low-income member countries. However, we did examine the potential revenue impact of different cost-recovery schemes.

217. To define the volume of IMF-financed TA we use the direct cost of TA services (BRS concept, as discussed in Chapter 3), namely, the TA field work *financed by* the IMF as well as the TA activities from headquarters in the functional departments. This is equivalent to about 200 person-years of TA, or about 70 percent of the direct cost of the total TA

provided—the rest being financed externally.<sup>67</sup> This 70 percent is equivalent to about \$55 million in terms of the FY2004 budget.<sup>68</sup>

218. Table 6.10 shows the distribution of this IMF-financed TA going to countries with different levels of per capita income.<sup>69</sup> With this information, we can examine how much could be recovered by alternative charging strategies:

Table 6.10. Allocation of IMF-Financed TA by Country Grouping 1/  
(FY2002–03 average)

GNI Per Capita 2002 (Atlas Method, World Bank)	Person-Years	Percentage
Less than \$1,000	134.4	67.3
\$1,000–\$2,000	31.6	15.8
\$2,001–\$3,000	11.7	5.8
\$3,001–\$4,000	3.5	1.7
\$4,001–\$5,000	5.9	2.9
\$5,001–\$7,000	2.2	1.1
\$7,001–\$9,000	2.8	1.4
More than \$9,000	7.7	3.8
Total	199.7	100.0

Source: Appendix 2, Table A2.1.

1/ Includes TA field work financed by the IMF as well as TA activities by the functional departments at headquarters (columns (a) and (c) of Appendix 2, Table A2.1). Excludes INS.

- IMF-financed TA is relatively well targeted to the Group I countries with per capita income below \$3,000 a year. About 89 percent is allocated to this group, and about two-third is allocated to countries below \$1,000 per capita income.
- Fully charging the cost of IMF-financed TA to countries in Groups II and III would recover about 11 percent of the \$55 million mentioned above, approximately \$6 million.

<sup>67</sup> See Figure 3.2 and Chapter 3, “Overall Resources Used by the Functional Departments.”

<sup>68</sup> Excludes the INS and OTM, which accounted for 67 person-years on average during this period.

<sup>69</sup> Field work TA for different countries financed by the IMF is readily available. Headquarters TA resources of the functional departments were allocated in proportion to the total field work (IMF and externally financed) in the different countries (Appendix 2).

- To significantly raise total cost recovery, the IMF would need to fully charge some of the countries in Group I.
  - Fully charging all countries with per capita incomes above \$2,000 would recover about \$9 million dollars (16.8 percent of \$55 million).
  - Fully charging all countries with per capita incomes over \$1,000 would recover about \$18 million (one-third of \$55 million).
- The above results show that significantly recovering the \$55 million of direct TA costs financed by the IMF would call for significant charges to countries in the lowest income group. This reflects the concentration of TA on this group.

#### **F. Strengthening the Synergy Between Training and TA**

219. The low level of skills in some agencies receiving TA—particularly those other than central banks—has been a constraint to its effectiveness, particularly in low-income countries. While we have not studied these issues systematically across a large number of countries, discussions with department training coordinators and interviews with donors and officials in the field suggest that there is scope to strengthen the complementarity between the IMF training efforts and its TA activities.

220. The IMF provides training as part of a broader mission to enhance capacity building and improve overall policymaking. It is delivered through various channels such as courses and seminars offered by (or through) the INS, or directly by functional departments or the new regional TA centers (RTCs). There are differences in emphasis in these training efforts, reflecting different mandates and objectives. Courses by the INS are more analytical and policy-oriented trying to expose a relatively large group of country participants to the diversity of country and policy experiences. Courses sponsored by functional departments (directly or through INS) are more targeted and operational and sometimes more relevant to officials in specialized agencies.

221. There are two specific areas where we see scope for improvement:

- First, providing key government counterparts in specific agencies with relevant training in advance of the delivery of major TA activities. This could enhance the effectiveness of resident experts by increasing the absorptive capacity of agencies and helping retain the content of TA once the expert has left the country—a point noted by a number of officials with whom we met during our case studies. If these courses are available, it is important for the IMF to assure that counterparts in agencies about to receive TA, and for whom these courses are relevant, are identified in a timely manner to participate.
- Second, making sure potential candidates from noncentral agencies are well represented in training courses, particularly those that tend to be more specialized and hence of particular relevance to those agencies. Because central banks and ministries



of finance—who are the regular counterparts of the area departments—are usually the contact point in the candidates’ nomination process, it is important that these agencies take into account the needs of specialized agencies.

222. We would make a number of suggestions to address these issues:

- Raise awareness within relevant noncentral agencies of upcoming IMF training opportunities. Resident representatives, resident experts, and IMF missions could make extra efforts at identifying the best candidates in these agencies.
- On the basis of their prospective TA work program, functional departments could identify major thematic areas and relevant country groupings for which training courses could be offered ahead of the TA to be delivered, either directly or through the INS.
- Adapt the annual INS/functional department review of course offerings and content to involve area departments and regional TA centers more directly, to ensure consistency between the full envelop of IMF training activities with institutional objectives on capacity building. This should include a periodic assessment of the balance between general macroeconomic and analytical training and more operational courses, between broad subject area, and with respect to language of delivery.

### **G. Conclusions and Recommendations**

223. Our major conclusions and recommendations are as follows:

- The case studies show that, as far as institution building is concerned, progress has generally been achieved in improving the technical capabilities of the agencies the IMF tends to support. However, significant variability is found on whether agencies have been able to use that knowledge to have an impact on the ground.
- When local agencies have been more directly involved in the initial design of the TA activity, outcomes have been better. More generally, domestic ownership and commitment has been critical to longer-term success, particularly in the later stages of the “results chain” and for activities where political support is necessary to allow agencies to apply effectively their enhanced capacity.
- The current documentation for TA activities (such as TOR, back-to-office reports, and progress reports from resident experts and backstoppers) does not allow for a clear and consistent tracking of progress toward final objectives and thereby undermines institutional accountability. We recommend:
  - A much clearer definition at the outset of the indicators that will be monitored to judge whether or not progress is occurring.

- These must be unbundled between short-term and medium-term indicators. In the case of capacity building, they need to differentiate between (a) indicators that show the improved technical capacity of agencies receiving TA and (b) indicators that show that these agencies are actually applying that increased know-how and are performing their final responsibilities.
- Reporting documentation should, using the unbundling suggested in this chapter, clearly identify and report candidly constraints on progress. This is particularly important when the authorities and staff have differences of opinion on the reasons for recommendations not being implemented. Senior management should make clear that such candid assessments are expected and welcomed.
- We recommend that staff identify early on the necessary legislation and judicial reform required to empower the agencies receiving TA to carry out their responsibilities.
- We recommend that staff requests the authorities and specialized counterparts to participate fully in the preparation of TORs and in the overall design of the activity. For larger multiyear TA activities, the authorities should be asked to commit to making some minimum financial contributions to assure the future sustainability of the activity after financing from donors and the IMF ceases. It may also be important to assure some minimum employment stability for counterparts in the agency receiving TA. For these larger TA activities, we recommend that letters of agreements are prepared spelling out the obligations of both the authorities and the IMF.
- We suggest the institution examines ways to increase the synergy between the provision of TA and IMF training activities. This should—at the very least—involve a comprehensive stock-taking of IMF training through various channels, and a more proactive and forward-looking approach to training staff of agencies that will receive TA in the future.
- In July 2002, the IMF’s Board endorsed a staff proposal for a Fund-wide program of evaluation for TA. This was organized as a three-year rolling work program organized jointly by OTM and different TA departments.<sup>70</sup> This program complements a series of similar initiatives by functional departments. For these efforts to be successful there are least two conditions that need to be fulfilled:
  - The findings of internal IMF evaluations should be made more widely available within the IMF to maximize the potential benefit of their lessons and to avoid the loss of institutional memory. In addition, a stock taking exercise of past and

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<sup>70</sup> IMF (2004g).

ongoing evaluations throughout the IMF should take place periodically and be made available to management and the board.

- While the TA-providing departments themselves should undertake self-assessments, there would be merit in undertaking selected ex post evaluations by units not directly involved in providing TA, in order to enhance accountability and give a fresh perspective.
- We recommend that OTM continues to prepare and update—in collaboration with functional and area departments—a balanced program (portfolio) of evaluations that would incorporate the dimensions discussed above. It could also prepare stocktaking exercises of past evaluations that would distill the major lessons that can be derived from such evaluations. We also recommend that OTM prepare regular reviews to assess shifts in the demand for TA across subjects that may entail the need to reallocate resources across functional departments providing IMF TA.
- To the extent that many of these (and previous recommendations) entail more staff-intensive approaches to providing TA, we believe that greater selectivity and fewer TA activities (but with greater staff involvement at all stages of the activity) would contribute in the long run to a more effective and sustainable IMF TA program.

Table A1.1. New Initiatives: Monetary and Financial Systems Department

Toward a More Strategic Process to Identify TA Needs	Tracking of Progress During the Project	Enhancing Impact and Evaluating Final Effects
<p>Aligned MFD priorities with Board paper, “Ensuring Alignment of TA with the IMF’s Policy Priorities” (SM/00/284), and updated priorities based on Board guidance (e.g., adding AML/CFT).</p> <p>Introduced pre-TOR meetings, interested departments and MFD divisions are invited.</p> <p>Introduced MAE/MFD TA Tracking System (MATTS), which helps to more clearly define a project and identify its objectives, track its progress, and evaluate its outcomes, thus providing lessons for future TA delivery.</p> <p>MAE/MFD reorganization led to creation of a TA Wing and provided more resources for TA oversight and management. This has also helped strengthen TA prioritization, tracking, and evaluation. (Note: TAIMS will replace MATTS.)</p> <p>Six-monthly meetings with area departments.</p>	<p>MATTS and MFD reorganization (see column 1).</p> <p>Missions place increased emphasis on developing detailed, time bound action plans.</p> <p>Greater use of TA evaluation visits, which also check progress in projects.</p> <p>Detailed monthly reports to Area Chiefs on progress of RAP, and regular meetings of Area Chiefs and TA Wing.</p> <p>TA Request Log introduced to record ad hoc requests that are not included in the RAP or introduced during the annual meetings, and MFD’s response.</p>	<p>MATTS and MFD reorganization (see column 1).</p> <p>Greater use of TA evaluation visits, with questionnaires on impact and sustainability distributed to country authorities and area departments.</p> <p>Conducted user survey to evaluate overall satisfaction with MFD TA.</p>

Table A1.2. New Initiatives: Fiscal Affairs Department

Toward a More Strategic Process to Identify TA Needs	Tracking of Progress During the Project	Enhancing Impact and Evaluating Final Effects
<p>System of Regional Committees.</p> <p>Reorganization of TA divisions along regional lines.</p> <p>Fiscal Strategy Briefs.</p> <p>Standard assessment process for all TA requests.</p> <p>Enhanced coordination process with area departments in formulation of the RAP.</p>	<p>Regional Committee review of the effectiveness of ongoing TA activities.</p> <p>Regular updates of Fiscal Strategy Briefs.</p> <p>Annual evaluations of experts managed by TA divisions.</p>	<p>Adoption of upstream approach in revenue administration area.</p> <p>Survey of countries (shortly to be disseminated).</p> <p>Series of thematic evaluations (tax and customs reforms, PEM in Africa, VAT implementation).</p>

Table A1.3. New Initiatives: Legal Department

Toward a More Strategic Process to Identify TA Needs	Tracking of Progress During the Project	Enhancing Impact and Evaluating Final Effects
<p>Integration of TA into country operations and review work. All country lawyers are to be familiar with the TA that is being delivered to their assigned countries by LEG. Where appropriate, actual TA delivery should be done by the country lawyer himself. These measures serve not only to promote better linkages between country review and TA work, but also to enable the TA needs of a country to be addressed, where necessary and applicable, in the context of program design, or surveillance.</p>	<p>All TA to be organized as “projects,” with each project having predefined objectives, outputs, and associated deadlines. Progress is tracked and monitored against these predefined indicators.</p>	<p>TA project outcome is evaluated against the project’s predefined objectives by the respective TA manager.</p>

Table A1.4. New Initiatives (Since 1999): Statistics Department

Toward a More Strategic Process to Identify TA Needs	Tracking of Progress During the Project	Enhancing Impact and Evaluating Final Effects
<p>Project Monitoring System (PMS) introduced to underpin the design, delivery, evaluation, and monitoring of TA in STA. It consists of a project framework summary, a statement of mission tasks, an end-of-mission evaluation report, a project evaluation report, and a progress report by the authorities.</p>	<p>Sequence of matrices used to track project implementation. The PMS process has become more streamlined and focused, making the tracking of progress a more effective component of TA delivery.</p>	<p>End-of-project evaluation reports are an integral component of the PMS. Formal procedures have been introduced to elicit feedback from the authorities on the effectiveness of TA delivery.</p>
<p>Needs assessment; plans for improvement based on GDDS and ROSC; greater reliance on multisector missions to provide comprehensive assessments of countries’ statistical systems, generally linked to the GDDS; and development and widespread use of the Data Quality Assessment Framework as an assessment tool.</p>	<p>Dissemination Standards Bulletin Board continuously updated. GDDS participants undertake an annual update of their plans for improvement, together with the identification of associated TA needs. The DQAF provides important elements for prioritization in the department’s TA program.</p>	<p>The introduction of the various data standards initiatives has led to the consistent application and implementation of internationally accepted standards with respect to the compilation of macroeconomic statistics of relevance to the IMF. More systematic dissemination of TA reports and recommendations introduced.</p>
<p>Geographic orientation introduced in STA involving the preparation of country strategy papers and closer coordination of TA with area departments.</p>	<p>Process introduced to ensure that country strategy papers are updated on a regular basis based on inputs from the area departments and member countries.</p>	<p>Based on a study of users’ reactions to TA reports, procedures have been adapted to increase responsiveness to users’ needs. A more integrated regional approach to TA prioritization is now embedded in the TA formulation process.</p>

Table A2.1. Allocation of TA Resources By Country Grouping and Source of Funding,  
FY2002–03 Average 1/  
(In person-years)

GNI Per Capita 2002 (Atlas Method, World Bank) 2/	Field Work (TIMS)		Headquarters Resources 3/ (Pro rata) 4/ (c)	Estimated IMF-Financed TA	
	IMF-financed (a)	Externally financed (b)		(a+c)	(In percent)
Less than \$1,000	60.1	66.7	74.4	134.4	67.3
\$1,000–\$2,000	17.2	7.5	14.5	31.6	15.8
\$2,001–\$3,000	5.9	3.9	5.8	11.7	5.8
\$3,001–\$4,000	1.9	0.8	1.6	3.5	1.7
\$4,001–\$5,000	3.4	0.7	2.4	5.9	2.9
\$5,001–\$7,000	1.2	0.5	1.0	2.2	1.1
\$7,001–\$9,000	1.4	1.0	1.4	2.8	1.4
More than \$9,000	3.8	2.9	3.9	7.7	3.8
Total	94.8	84.0	104.9	199.7	100.0

Sources: OTM and World Development Indicators.

1/ Excluding the IMF Institute.

2/ TA delivered to the regional technical centers, regional organizations (including regional central banks in Africa), and countries without GNI figures (such as post-conflict economies), is included in the less than \$1,000 group.

3/ Time at headquarters devoted by the functional departments to backstopping resident experts; to preparing TA missions, TA papers, and formal reports, as well as the direct administrative and management time to support TA activities (see Chapter 3, “TA Resources at the Aggregate Level”).

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