What Is IMF Technical Assistance?

Managing an economy is a difficult business. Designing and implementing economic policy require know-how and effective institutions of government. Many developing countries, in particular, need help to build up expertise in economic management, and advice about what policies, reforms, and institutional arrangements are appropriate and have worked well elsewhere in the world. Help of this kind is provided by the International Monetary Fund (IMF) through technical assistance.

Of course, technical assistance is just one way that the IMF—as the center of expertise and research about the global economy—shares its knowledge with member countries. For one thing, it provides advice when it lends to countries in times of economic crisis. For another, it conducts surveillance of (keeps an eye on) economic policies in its 184 member countries, individually and collectively, on a continuous basis. These activities allow the IMF to signal when economic dangers are looming and to give the world community a voice in policy advice at the national level.

But apart from offering advice in the contexts of lending and surveillance, the IMF responds to requests from individual members for help on individual policy issues and on institutional arrangements for policymaking, and for training of officials. This transfer of knowledge is what is meant by technical assistance. Typical activities include advice on particular macroeconomic policy issues, technical advice on practices and institution-building in the IMF's core areas of responsibility—mainly central banking, monetary and exchange rate policies, public finances and budgeting, tax policy and administration, and statistics—the promotion of international standards and codes of good policy making, and training provided to government and central bank officials to strengthen skills in the institutions responsible for policymaking, such as finance ministries and central banks.

The IMF's technical assistance partly aims to help countries *strengthen their policymaking capacity*—both human skills, and institutional organization and procedures (for more on capacity building, see page 9)—and partly to help with the *design of particular policies*, including reforms. Macroeconomic policy reform may involve reform of public expenditure, overhaul of the budget and tax systems, improvements to the management of money and credit, or a change in the exchange rate regime.

The IMF's membership attaches great importance to the role of technical assistance in reinforcing the effectiveness of its work both in surveillance and crisis prevention, and in crisis

Box 1

Main Areas of IMF Technical Assistance

The IMF provides technical assistance and training mainly in six areas:

- Macroeconomic policy design and implementation;
- Banking and financial system reform: strengthening banking and financial systems to promote financial and economic stability through advice on banking system regulation, supervision, and restructuring; foreign exchange and monetary management and operations; clearing and settlement systems for payments; central bank legislation; and the structure and development of central banks;
- Fiscal reform: supporting effective fiscal policies and management through advice on tax and customs policies and administration; budget formulation; public expenditure management and reform; fiscal decentralization; design of social safety nets; and public debt management;
- Statistical reform: compiling, managing, and disseminating economic data and improving data quality;
- Legal reform: drafting and reviewing economic and financial legislation based on international best practice; and
- Standards and codes: helping countries meet international standards in the areas of statistical data, fiscal transparency, and monetary and financial policy transparency, as well as other benchmarks developed by standard-setting bodies.

An IMF and World Bank team prepares to cross Mount Igman to assess reconstruction needs in Bosnia after a cease-fire in 1995.

management and resolution, including its lending operations. For example, many governments in low-income countries are developing poverty reduction strategies but need technical assistance to draw up an operational plan and put it into effect. Such strategies provide a helpful framework for identifying capacity-building needs and for mobilizing adequate technical assistance. And crucial for lasting poverty reduction is the development of local expertise, especially in the management of public resources.

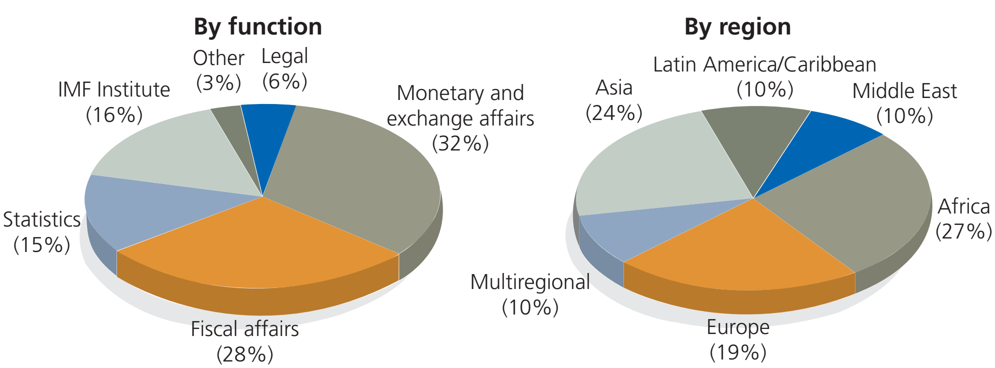
The IMF has also given considerable technical assistance to countries and territories that have had to reestablish government institutions following severe civil unrest or war, for example, in Afghanistan, Albania, Bosnia and Herzegovina, Kosovo, and Timor Leste (East Timor).

Who Receives Help?

The IMF provides technical assistance, including training, to the governments and central banks of member countries and, in some cases, nonmembers and international organizations. Much of this assistance is given to countries implementing IMF-supported adjustment and reform programs—more specifically, to their main economic ministries, such as the finance and planning ministries, and the central bank.

In its first two decades, the IMF occasionally supplemented its standard country consultations with technical assistance on such matters as exchange rate management and the conduct of monetary and fiscal policies. But it was in the mid-1960s, when many newly independent countries asked for help in setting up their central banks and finance ministries, that the practice was formalized, with three new organizational units established primarily to provide specific types of technical assistance: the Fiscal Affairs Department, the Central Banking Service (now the Monetary and Financial Systems Department), and the IMF Institute. The technical assistance provided increased steadily over the following quarter-century, but in

Technical Assistance, FY2003 (As a percent of total resources, in effective person-years)[1]



[1]An effective person-year of technical assistance is 260 days. For the IMF Institute, figure excludes training provided or coordinated by the Institute at headquarters.

the early 1990s requests for such assistance surged when countries in central and eastern Europe and the former Soviet Union began their shift from centrally planned to market-based economies. Later in that decade, to improve crisis prevention and resolution following the Mexican crisis of 1994–95 and the Asian crises of 1997–98, the IMF further stepped up its technical assistance as part of its efforts to strengthen the architecture of the international financial system. More recently, as part of the international community's drive to combat money laundering and the financing of terrorism, the IMF took the lead in the design of a comprehensive assessment process to spot problems and began to provide technical assistance for remedial measures.

In recent years, the regional distribution of IMF technical assistance has gradually shifted from the transition economies to Africa, which now receives almost a third of the total. This is part of the increased efforts of the international community to reduce poverty in low-income countries, including by helping countries improve governance through capacity building.

What Is Capacity Building?

Developing and transition countries often lack enough skilled personnel to collect and analyze economic information, to formulate or carry out needed policies, including reforms, and to make the best use of foreign assistance. In fact, it is often such lack of capacity for policy design and implementation that hinders good policies, rather than lack of political will. The IMF has also found that such capacity is critical for ensuring full national ownership of reforms, which is a prerequisite for their effectiveness.

The term "capacity" can refer to both *institutional capacity* and *human capacity*. Poor institutional capacity (inadequate institutional structures and arrangements) or inadequate human capacity (lack of the needed skills among officials) can hamper the ability of government agencies to:

- collect reliable statistics and other information needed for good policy formulation;
- plan government spending and deliver public services effectively at the central and local government levels;
- fight corruption, improve governance, and use external assistance well;
- set up and operate appropriate regulatory, supervisory, and prudential frameworks for companies and financial institutions; and
- design and enforce rules and laws, including applying tax laws fairly and effectively to generate resources for needed government services.

Where capacity is weak—where a government is unable to develop and successfully carry out its own policies—the consequences for society can be costly. For example, the inability of a government to make reasonably accurate budget projections will mean that it will be unable to make the best decisions on how to spend scarce public money. An inability to disburse funds as planned can also have serious consequences.

Who Pays?

Technical assistance is an important benefit of IMF membership that is generally free of charge. The exception relates to the assignment of long-term experts (defined as experts residing in a country for six months or more) for middle- and upper-income countries, which are asked to make a specified financial contribution to the IMF. (Currently, middle-income countries are expected to make a partial cash contribution and upper-income countries are expected to reimburse the full cost of long-term resident experts.) As a cooperative undertaking between the IMF and the recipient country, IMF technical assistance requires careful preparation and commitment of resources to succeed. Important in this regard are the assignment by the recipient authorities of counterpart staff and such complementary resources as office space and equipment, administrative support staff, communications facilities, material supplies, and utilities. These costs to the recipient government are over and above whatever charges may be levied by the IMF.

Flags of the IMF membership.

Although the IMF finances its technical assistance mainly from its own resources, member governments and other international organizations are important sources of additional financing. In the IMF's financial year ending April 2003, such external support—provided in the form of grants—financed a quarter of the IMF's total technical assistance (including training) activities. This type of cooperation not only increases the resources available for technical assistance, but also helps avoid duplication of effort. Bilateral donors include Australia, Canada, Denmark, France, Germany, Ireland, Italy, Japan (the largest donor), the Netherlands, New Zealand, Norway, Russia, Sweden, Switzerland, the United Kingdom, and the United States. Multilateral donors include the African Development Bank, the Asian Development Bank, the European Union, the Inter-American Development Bank, United Nations agencies, and the World Bank.

How Is Assistance Provided?

The IMF delivers technical assistance in several ways. First, there is work done in the countries concerned. IMF staff can make short visits—usually of two to three weeks—to a country, or experts can be assigned to a country for periods ranging from a few weeks to several years. These missions and expert assignments provide countries with advice and hands-on support. Their scope can range from small missions responding at short notice to emergency requests, to large-scale, integrated, multiyear technical assistance programs cofinanced with other donors.

Instructors from the IMF Institute discuss lecture topics.

Second, from its headquarters in Washington, D.C. the IMF provides technical and diagnostic reports, training courses, seminars, workshops, and on-line advice and support through the Internet. At headquarters, the IMF's area departments—the African, Asia and Pacific, European I, European II, Middle Eastern, and Western Hemisphere Departments—which are responsible for country-level and regional surveillance, and lending operations—collaborate closely with the functional departments that provide the bulk of technical assistance—the Fiscal Affairs, Monetary and Financial Systems, Statistics, and Legal Departments, as well as the IMF Institute—in the planning, implementation, monitoring, and follow-up of technical assistance.

In recent years, the IMF has stepped up the regional delivery of some of its technical assistance, including training. It operates two regional technical assistance centers in the Pacific and the Caribbean, and also runs two centers in Africa. In the Pacific, the center has made significant contributions to the regional policy debate and agenda, and helped set up the Association of Financial Supervisors of Pacific Countries, for which it serves as the Secretariat. In addition to training offered at headquarters, the IMF Institute offers courses and seminars through a network of six regional training institutes and programs, established in collaboration with regional training partners (see page 49).

Collaboration with other technical assistance providers. The IMF cooperates with other providers of technical assistance such as the United Nations Development Program (UNDP), the World Bank, regional development banks, the African Capacity Building Foundation (ACBF), and other agencies. The high demand for, and costs of, technical assistance underscore the need to ensure that duplication and overlap are avoided, that help comes from the most appropriate source, and that operations are carefully coordinated. Collaboration with the World Bank has grown in areas where both institutions are active, such as strengthening financial sectors, fighting poverty in low-income countries, curbing money laundering, strengthening public sector management, and improving data collection and dissemination. The two institutions are also intensifying efforts to help countries mobilize their domestic resources and improve the quality of public expenditure.

To support trade liberalization through World Trade Organization negotiations, the IMF, with other international organizations, is helping low-income countries prepare for greater integration into the world trading system, both through diagnostic studies and on-the-spot assistance.

Measuring success. The success of technical assistance varies and depends on many factors, and many lessons are learned in the process of providing help. The IMF regularly evaluates the quality and results of its technical assistance.

Caribbean Regional Technical Assistance Center

An example of the regional approach to technical assistance is the Caribbean Regional Technical Assistance Center (CARTAC)—a joint initiative of 20 Caribbean countries and 10 donor agencies—set up in November 2001. The center provides hands-on technical assistance and training to central banks, ministries of finance, tax and customs services, and national statistical agencies.

The main goal of the center is to help members improve their economic and financial management, particularly of budget and treasury operations and tax and customs administration; of domestic and offshore financial sector supervision and regulation; and of economic and financial statistics. The center coordinates its activities with other bilateral and multilateral agencies active in similar areas.

CARTAC delivers assistance through a team of resident experts, supplemented by short-term specialists, as well as through in-country workshops and seminars, training attachments, and regional training courses. Member countries and donors guide the center's work plan and operational strategy through a Steering Committee, which meets twice a year.

CARTAC's operations are implemented as a UNDP regional program, with the IMF serving as the executing agency. Within

A cargo ship enters port in the Dominican Republic.

this framework, UNDP provides financial services support, while the IMF is responsible for managing the activities of the center, including the provision of the program coordinator and the recruitment and supervision of the resident experts. Canada has been a major force behind the creation of the center and finances more than 50 percent of its program activities. Other donors include Ireland, the United Kingdom, and the United States. Agencies involved in the financing of the center include the Inter-American Development Bank, the Caribbean Development Bank, and the World Bank.

> **"CARTAC has brought a new level of energy to the delivery of technical assistance in the Caribbean—embodying high quality, speed of implementation, and sense of ownership."**
> *Governor Marion Williams, Central Bank of Barbados*

CARTAC's activities have included:

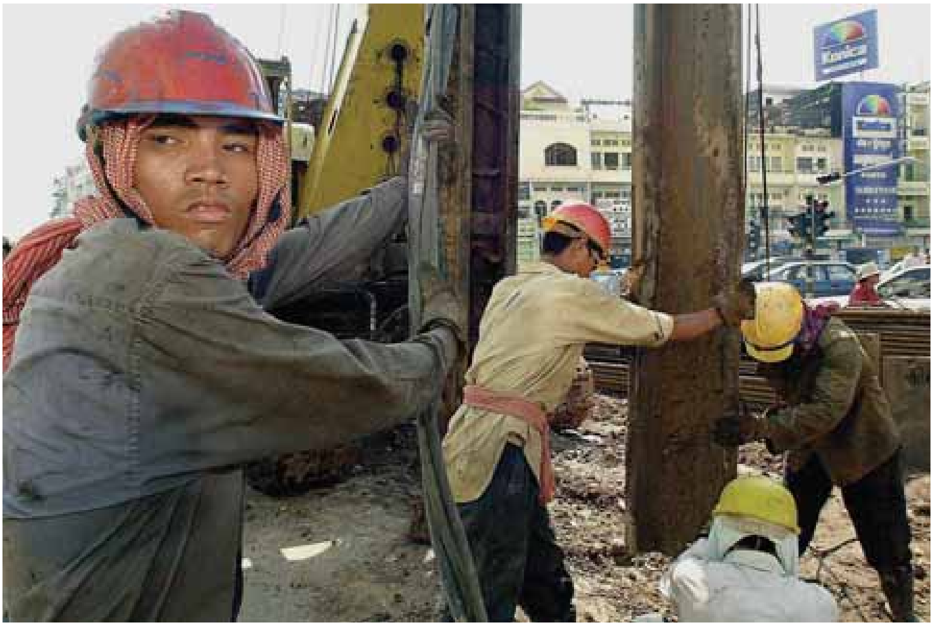
- **Helping develop an integrated regulatory framework for the Eastern Caribbean financial sector.** CARTAC, working closely with the Eastern Caribbean Central Bank (ECCB), has helped develop a strategy to strengthen the supervision and regulation of banks and nonbank financial institutions in the Eastern Caribbean.
- **Strengthening the financial sector in Guyana.** This includes a major project to reorganize and upgrade the banking supervision department of the Bank of Guyana.
- **Fiscal reform in the Eastern Caribbean.** The IMF has helped governments address weaknesses in government tax, spending, and budgetary processes.
- **Expanding statistical capacity.** CARTAC is providing hands-on assistance to help improve statistical operations.

A Coordinated Approach in Cambodia

In Cambodia, technical assistance during 2001–03 was coordinated through a Technical Cooperation Action Plan (TCAP) and implemented as a joint IMF-UNDP technical assistance project, cofinanced by Japan, the Netherlands, the United Kingdom, and the Asian Development Bank.

Donors wanted to assist the government in strengthening its overall capacity to formulate and carry out sound economic policies that promoted growth, stability, and poverty reduction, with an emphasis on better management of public finances. Through advisory services, training, and introduction of automation and management information systems, the project was designed to strengthen the institutional capacities of key departments in the Ministry of Economy and Finance—the Treasury, the tax, customs and excise, and the budget departments—as well as the National Bank of Cambodia and the National Institute of Statistics. The project also promoted linkages between macroeconomic policies and poverty

Work on a Phnom Penh street.



reduction. Improved capacities in these areas enable the government to better monitor and accomplish its poverty reduction strategy.

The Action Plan had four main components:

1. *Fiscal Sector Reform.* To improve tax policy and administration, customs administration, and overall budget management.

2. *Banking System Reform.* To strengthen the financial system through bank restructuring and improvement of regulatory and supervisory functions.

3. *Economic Statistics.* To enhance the government's capacity to collect, compile, analyze, and disseminate basic economic statistics through reform of the statistical institutional framework.

4. *Legal Reform.* To assist the government in the formulation and implementation of laws and regulations in the area of corporate insolvency, as part of its overall legal reform.

Four additional components were financed and carried out directly by other participating agencies: a public finance management component financed and implemented by the Asian Development Bank; a health sector public expenditure management component financed by the Netherlands and implemented by the World Health Organization; a governance studies program financed and implemented by the United Kingdom's Department for International Development; and a policy study and research component on how to help the poor more effectively, financed and implemented by the UNDP.

"TCAP has been very important for Cambodia in achieving the goals of its economic reform program. Building capacity through training and transferring knowledge and increasing ownership are the keys for success of the TCAP program. Distinguishing between short-term and long-term goals is very important in evaluating success."

H.E. Keat Chhon,
Senior Minister and
Minister of Economy
and Finance, Cambodia

How Are Projects Chosen?

A number of recent initiatives have boosted demand for IMF technical assistance. These include a joint program with the World Bank to assess and help strengthen the financial sectors of member countries, and programs to encourage the adoption of international standards and codes related to the government, financial, and corporate sectors (see page 27); to track public spending and other measures for the Heavily Indebted Poor Countries (HIPC) Initiative; and to combat money laundering and the financing of terrorism (see page 30). Against this background, the IMF's Executive Board has stressed linking IMF technical assistance to the institution's priorities; focusing it more sharply on the core areas of the IMF's responsibilities and expertise; improving the delivery of technical assistance; and mobilizing more outside funding. In addition, countries requesting technical assistance must be fully committed, both at the

IMF Board members discuss the IMF's technical assistance priorities.

political level and within the institutions involved, not only to supporting the IMF's assistance effort, but also to making use of the assistance received.

Because of competing demands for its technical assistance resources, the IMF has put in place a formal framework for selecting projects, which uses a set of "filters" to assess requests and to help in allocation decisions. The first category of filters divides requests into seven *main program areas* or *key policy initiatives* covering crisis prevention, poverty reduction, crisis management and resolution, post-conflict/post-isolation cases, regional/multilateral arrangements, promotion of international standards and codes, and financial sector assessment programs. These program areas are complemented by three further categories of filters, as follows:

Training government officials in Iran.

- *Target filters*: the technical assistance must fall within the IMF's core areas of responsibility, support key program areas, or address policy priorities.
- *Effectiveness filters*: the technical assistance must be deemed likely to be effectively supported and implemented by the recipient country, and to bring a substantial and lasting benefit. It also should be sustainable in terms of financing.
- *Partnership filters*: technical assistance requests have preference when they are delivered regionally, benefit several recipients, draw on multiple financial sources, or complement third-party assistance.

The Role of Recipient Governments

To ensure that the IMF's technical assistance is effective and brings lasting benefits, it is planned and carried out with the full involvement of the authorities of the recipient country at each stage of the process—from the identification of needs, through discussion and agreement on terms of reference and project goals, to implementation and then monitoring progress. The degree of country ownership has a direct bearing on the effectiveness of the technical assistance.

"IMF technical assistance has not only helped strengthen China's capacity building (in human capital and institutional resources) but also provided help in formulating the proper macroeconomic policy and carrying out structural adjustment."

Li Ruogu, Assistant Governor of the People's Bank of China and Alternate Governor for China at the IMF

Assisting China's Reform Program

China is a good example of a technical assistance program that has benefited from strong country ownership. Since the 1980s, the government has introduced sweeping economic reforms, and the IMF has played a substantial role in helping China design and implement them. The reform program has entailed far-reaching legal and other changes that have created a need for officials to be trained in a variety of fields. The major government agencies—the People's Bank of China, the State Administration of Taxation, the Ministry of Finance, and the National Statistical Bureau—have all been recipients of IMF technical assistance.

Technical assistance contributed to the creation of a two-tier banking system; the development of indirect monetary controls; the rationalization of the foreign exchange market; the reform of the fiscal system (for example, improvement of the tax administration, reform of the tax system, introduction of the budget law, and strengthening of public expenditure management); the improvement of economic and financial statistics; and the training of officials.

In particular, the IMF has provided extensive technical assistance related to the financial sector and financial markets, in the form of training workshops and seminars on banking regulation, capital account liberalization, and foreign exchange market infrastructure. Efforts to speed up China’s movement toward international best practices in banking supervision and prudential regulation are being supported

by regular visits by a banking supervision expert from the IMF's Monetary and Financial Systems Department.

The IMF has also collaborated closely, particularly with the State Administration of Taxation, on a number of tax reform projects. The aim has been to modernize tax administration partly by adapting the international policies and practices best suited to the unique characteristics of China's economy. The IMF has advised on tax laws, held seminars and workshops, and arranged study tours abroad for Chinese officials. Improvements in the overall legal framework of the tax system have also been supported by IMF technical assistance, including training.

In 2000, the IMF and the People's Bank of China established the Joint China-IMF Training Program to train officials involved in devising and implementing macroeconomic and financial policies and in compiling and analyzing statistics. The program includes several training events each year.