Building Capacity

The Japan-IMF Partnership

Country Success Stories
In 1990, the Japanese government began providing financial support for technical assistance conducted by the International Monetary Fund (IMF) to help IMF member countries build their capacity. Since that time, Japan has contributed over US$430 million (approx. ¥34.4 billion) and has been the largest donor, among external donors, to IMF technical assistance activities.

Through this financial support, Japan has supported many low- and lower-middle-income countries, including those facing difficulties, such as Myanmar, Cambodia, Timor-Leste, Liberia and Kosovo. I am very proud of Japan’s contribution as such to improving people’s lives in developing countries as well as to their efforts of building nations through IMF technical assistance.

The IMF is one of the international organizations that have the greatest knowledge and highest expertise in the field of macroeconomic policy, such as tax, revenue and expenditure management, and monetary and foreign exchange policies, and that is the reason why the Japanese government has been supporting poor countries in the world through the IMF. I also hope that the effectiveness of the IMF’s support through surveillance and lending programs will be further enhanced by their strengthened capacity in recipient countries as a result of IMF technical assistance.

Sustainable growth and poverty reduction in low- and lower middle-income countries are indispensable for the stability and prosperity of the global economy. Japan will continue to strongly support developing countries including those in Asia and Africa in a close partnership with the IMF.

Jun Azumi
Minister of Finance, Japan
Japan is the biggest and longest-standing donor to capacity building for IMF members. Partnering with donors such as Japan has helped IMF deliver more specialized technical assistance to meet rising demand from a growing membership. Since 1990, Japan has contributed over US$430 million—close to 50 percent of all donor financing for IMF technical assistance—and has supported programs and projects that cover the full range of IMF assistance across 125 countries in Africa, Asia, the Pacific, Europe, the Middle East, Central Asia, and the Western Hemisphere.

Providing capacity development (technical assistance and training) to help countries design and implement economic policy is one of the IMF’s primary functions. Throughout my personal life and professional career, I have witnessed how crucial institutional and human capacity is to enabling economic development and ensuring opportunities for all people. Over 75 percent of IMF technical assistance goes to low- and lower-middle-income countries, particularly in sub-Saharan Africa and Asia. Enabling recipient countries to design and implement policies that reduce their vulnerabilities contributes to a more robust and stable global economy for all.

The IMF provides capacity development support in areas of its core expertise: tax policy and administration, expenditure management, monetary policy, the exchange rate system, financial sector stability, debt management, legislative frameworks for macroeconomic policy, and macroeconomic and financial statistics.

Christine Lagarde
Managing Director, IMF
Japan’s support for IMF capacity development has grown steadily since 1990.
Countries with technical assistance financed by Japan
assistance financed by Japan
Strengthening Statistical Capacity

• Afghanistan now publishes data in the IMF's International Financial Statistics.

• Afghanistan now reports monetary and financial data and monthly government finance statistics.

• Officials of the Ministry of Finance and the Central Statistics Office have been trained.

Afghanistan

After more than two decades of conflict, capacity for compiling statistics was virtually nonexistent. The commercial banks used an outdated accounting system, which made it very difficult to prepare balance sheets and compile monetary statistics. Commercial banks were not required by law to report data to the central bank, Da Afghanistan Bank.

IMF technical assistance has helped Afghanistan to:

• Compile standardized report forms that conform to the format of the IMF Monetary and Financial Statistics Manual.

• Incorporate its information into the International Financial Statistics database (since March 2008).

• Improve the source data, with all banks now submitting timely data using the report form.

• Produce monthly government finance statistics, and report them to the IMF.

The Afghan authorities are now working on improving data sources for other sectors of the government.
Bangladesh

Since May 2011, an IMF resident banking supervision advisor has been guiding the supervisory departments of Bangladesh Bank as it tightens prudential requirements on the capital and risk exposures of banks and moves to more risk-based supervision.

The IMF advisor has helped Bangladesh Bank to:

- Prepare the Financial Stability Report, create the Financial Stability Department, and introduce macroprudential surveillance to Bangladesh.
- Collect banking sector data to monitor the liquidity coverage and net stable funds ratios, as defined under Basel III.
- Tighten the criteria for licensing new banks as well as train bank examiners to conduct pre-opening inspection of new banks.
- Amend the regulations on loan classification, provisioning, and rescheduling; resulting in earlier recognition of credit losses.
- Issue Risk Management Guidelines for Banks.

Successful technical assistance in the financial sector enhances the capacity of the central bank and promotes a sound and efficient banking and financial system, in keeping with commitments made under Bangladesh’s current Extended Credit Facility arrangement.

Financial Sector Technical Assistance

- A resident banking supervision advisor is working with the supervisory departments of Bangladesh Bank to tighten prudential regulation.
- The advisor has helped the Bank prepare the Financial Stability Report.
Cambodia is the top recipient of JSA-financed IMF technical assistance, and has received assistance in a wide-range of areas.

Through IMF TA, Cambodia has

- Modernized its customs administrations, including regulatory framework, new procedures and techniques.
- Strengthened macro-fiscal and budgetary planning and modernized treasury management.
- Strengthened large tax payer administration.
- Built capacity in compilation and dissemination of annual and subannual Government Financial Statistics (GFS), National Accounts, and CPI data.

Renewed Confidence in the Banking System

The economy of Cambodia has been recovering rapidly after decades of devastating civil war in the late 1970s (the Khmer Rouge), during which nearly all economic activities were suspended and financial institutions and service providers such as banks, schools, and hospitals ceased to function.

Since the restoration of basic freedoms and democracy in the 1990s, capacity building, funded by Japan, has played a vital role in assisting Cambodia to rebuild its financial sector and gain financial stability. While the National Bank of Cambodia (NBC) was re-established within a year, it has taken much longer for the restoration of confidence in the banking system.

Recent progress in the financial sector has been notable, providing business owners and general customers better access to credit and other financial services and contributing to renewed confidence in the banking system.

With the help of the long-term resident expert in banking supervision—stationed at the NBC—the country has moved forward to mitigate risks and vulnerabilities to its financial system by reforming and strengthening banking supervision. In particular, progress has been achieved in developing risk-based supervision and strengthening prudential regulations for banks. Additional reforms to make financial system supervision more forward-looking and comprehensive are now underway. Further expansion of financial services to rural areas will ultimately help raise living standards throughout the country.
For the past decade, the Cambodian economy has experienced healthy growth, led by textile and garment, agriculture, construction, and tourism sectors. The country also benefits from foreign investment and thriving international trade. Stepping up with the development of skills in the banking sector is now critical to safeguard the stability of the financial sector and support sustainable economic recovery.

Further progress in improving the business environment, upgrading infrastructure, and developing human capital would help Cambodia fulfill its vast potential.

“Under the Khmer Rouge, there weren’t any banks. During the uprising, we did not have any money to spend. We could only trade rice, fish we caught, or whatever we had. We could only barter because there was no currency.”

—Chan Sim, Retired Art Professor

“The banking system is the heart of the economy—it is pumping blood to every sector of the economy. But you need a doctor to monitor that this heart is working well. And this is our role as banking supervisors, to make sure the heart is functioning well. And if there is a need, we prescribe the medication to make sure it’s pumping blood—capital—to the part where the body needs it most.”

—Chea Serey, Deputy Director, Banking Supervision Directorate
National Bank of Cambodia

Cambodia is the third largest recipient of Japan-IMF Scholarship Program for Asia, with 46 recipients (9 percent of the total). Two Cambodian scholars have also been awarded the Japan-IMF Scholarship Program for Advanced Studies.
Enhancing Bank Supervision and Regulation

- Regimes for banking supervision in the Association of Southeast Asian Nations region are being harmonized.

- The project facilitated self-assessment on the Basel Core Principles for Effective Banking Supervision.

Indonesia

To support the convergence of supervisory practices with internationally recognized norms and to facilitate financial integration, the IMF is helping the Association of Southeast Asian Nations (ASEAN) countries to harmonize their regimes for banking supervision, using a risk-based approach.

**IMF technical assistance has helped Indonesia to:**

- Prepare for self-assessment on the Basel Core Principles for Effective Banking Supervision.
- Organize supervisory strategies to address recommendations in the Financial Sector Assessment Program.
- Design a comprehensive risk-based supervision program that significantly modifies the architecture for rating individual banks by:
  - updating the supervisory methodology;
  - introducing new analytical tools for micro-prudential supervision; and
  - adopting a new rating system and methodology for frontline supervisors.

The new program is being implemented in two phases:

- upgrading the curriculum of the Bank of Indonesia’s in-house school for supervisors; and
- using a train-the-trainers format to apply expertise acquired from on-the-job training.

The project is helping Indonesia and other ASEAN countries to align their regulatory and supervisory systems with international standards.
Kosovo

MF assistance has been provided to the Central Bank of Kosovo since its inception. Initially, external experts selected by the IMF held top management positions at the central bank. More recently, a resident advisor has been assisting the central bank to enhance the stability, soundness, solvency, and efficiency of the financial system.

The ongoing efforts have helped the Central Bank of Kosovo to:

• Develop technical and management skills and one of the two deputy governors was promoted as the Governor.
• Monitor and manage the impact of the global financial crisis on local financial institutions.
• Revise banking regulations in line with the new banking and microfinance law.
• Create capacity for reserves management.

Macroeconomic statistics in post-conflict countries are very poor, and there is an urgent need to produce statistics to support policymaking. With IMF technical assistance, Kosovo has also made significant progress in compiling real sector statistics, including:

• GDP at constant prices.
• Household consumption expenditures.
• Government consumption expenditure.
• Gross fixed capital formation.
• Net exports.
• Foreign trade and price statistics.
• Monthly import and export price indices.
• Participation in the IMF’s General Data Dissemination System in April 2011.

Supporting the Central Bank and Building Statistical Capacity

The project has

• Trained staff at the central bank.
• Helped monitor and manage the impact of the global financial crisis on local financial institutions.
• Assisted in compilation of key real sector statistics.
Modernizing Customs Administration

Lao PDR has

• Modernized its customs law and regulations.

• Developed a five-year plan for critical reforms.

• Adopted new procedures and techniques based on international practices.

Lao PDR

The customs department in Lao PDR is responsible for collecting close to 50 percent of government revenues. IMF support, with that of other development partners, aims to improve revenue collection efficiency and streamline procedures affecting import and export trade.

IMF technical assistance has helped Lao PDR to:

• Modernize the customs law, regulations, and operating instructions to enable wide-ranging reforms.

• Develop a five-year reform plan and action plans for implementation.

• Upgrade its procedures prior to introducing a new computer system.

• Adopt new procedures and techniques based on the international standards of the World Customs Organization.

The Customs modernization program aims to improve administrative efficiency and taxpayer compliance, while also reducing the costs to legitimate traders that result from delays and inefficiencies in customs procedures.
Liberia

When Liberia emerged from years of civil conflict, it urgently needed to rebuild its government institutions and infrastructure.

IMF technical assistance, especially the advice of resident and regional advisors who worked closely with the Ministry of Finance, has helped Liberia to:

- Draft a new Public Financial Management (PFM) law and regulations to implement the new law.
- Design and implement a direct payment system of salaries through bank accounts for teachers and health workers posted in remote areas.
- Formulate a framework for improving cash management and treasury operations.
- Formulate a framework for strengthening oversight over State Owned Enterprises financial reporting.

Concerted technical assistance is helping post-conflict Liberia to reestablish order in its public financial management system.

Reforming Public Financial Management

Supported by a regional IMF adviser, Liberia has

- Prepared a comprehensive medium-term PFM reform strategy and action plan.
- Drafted new and modern PFM legislation and supported its implementation.
Technical Assistance in the Financial Sector

Supported by a resident advisor, the Maldives has

- Drawn up a plan for annual risk-based on-site examination of banks.
- Set regulatory policies and standards for the banking system.
- Put in place crisis preparedness and contingency plans.

An IMF resident banking supervision advisor has guided the Maldives Monetary Authority (MMA), as it builds capacity for supervising banks.

The resident advisor has also supported several activities the MMA has identified as priorities, such as:

- Executing the annual plan for conducting risk-based on-site examinations of banks.
- Ensuring that examination reports are released promptly and are supported by thorough off-site analysis of each bank, as well as the entire banking system.
- Using information from off-site surveillance as the basis for policies and standards for regulating the banking system.
- Preparing and applying corrective measures and enforcement actions promptly when problems are identified, and assessing when to provide emergency liquidity assistance.
- Putting in place a crisis preparedness plan for identifying systemic risks and designing any needed contingency or remedial action plans.
- Assessing the reliability of risk monitoring methods and reviewing the reasonableness of contingency plans.

Successful financial sector technical assistance builds the capacity of the monetary authorities and promotes sound and efficient banking and financial systems.
Moldova

With IMF assistance, the authorities adopted a new inflation targeting regime in early 2010. The National Bank of Moldova (NBM) made price stability the primary objective of monetary policy, and base rate became the main policy instrument. The new regime superseded the monetary targeting framework, which was initially helpful in stabilizing Moldova’s economy, but suffered from difficulties in controlling monetary aggregates.

**IMF technical assistance has helped Moldova to:**

- Put in place the new monetary policy framework by assigning long-term technical advisors to the NBM.
- Enhance forecasting and analytical capacities by building a structural macroeconomic model to provide robust medium-term forecasts and several short-term econometric models to analyze the current situation and provide near-term forecasts.
- Promote transparency by adopting monetary policy changes in pre-announced regular meetings, publishing press releases on policy decisions and the quarterly Inflation Reports.

The new inflation targeting regime has served the country well. It helped reduce both the level and volatility of inflation despite relatively weak transmission mechanism and destabilizing impact of volatile food and energy prices. Also, the new regime has contributed to taming inflation expectations and building public trust in NBM and monetary policy.
Reforming Revenue Administration

The Mongolian authorities have

- Implemented strategies to reform tax administration.
- Strengthened the large taxpayer office and improved tax compliance.

The IMF has been supporting Mongolia in designing and implementing its strategies for improving tax administration. The primary focus has been on strengthening the large taxpayer office, which administers a relatively small number of large businesses (particularly mining companies) that account for more than half of Mongolia’s tax revenue and a large share of the country’s investment.

The main goal is to assist the authorities to ensure that large taxpayers comply with the tax laws and reduce their compliance costs, thereby promoting the investment climate and economic growth.

To support these goals, IMF technical assistance is helping Mongolia to:

- Reorganize the large taxpayer office into units based on tax administration function, with a special organizational focus for the mining sector.
- Improve key provisions in the tax laws.
- Simplify the processes for filing and paying taxes.
- Enhance taxpayer services and enforcement programs, with tailored administrative programs for mining companies.
- Improve information systems and the exchange of information with other government agencies.

Noteworthy achievements have been made across all areas of the reform program, which has increased the effectiveness of tax administration. Building on the progress achieved to date, additional measures for strengthening the large taxpayer office have been identified and will be implemented in the period ahead.
Montenegro

Until 2003, statistics were produced in the Federal Statistical Office of what was then Serbia and Montenegro. After the two countries separated, Montenegro, the smaller partner, lacked resources and trained staff to compile its own statistics. With IMF technical assistance, including substantial on-the-job training from both a long-term advisor and short-term experts, the Statistics Office of Montenegro (MONSTAT) has adopted the 1993 System of National Accounts and started to produce data relevant to policymaking, analysis, and monitoring.

IMF technical assistance has helped Montenegro to:

- Build data sources and arrange for government units (MONSTAT, Ministry of Finance, Customs Office, and other agencies) to share data.
- Improve the accuracy and consistency of national accounts estimates by compiling GDP, incorporating results of the annual survey of nonfinancial enterprises, GDP from the production side, and GDP at constant prices.
- Improve foreign trade and price statistics.
- Start participation in the IMF's General Data Dissemination System in December 2011.
- Strengthen data sharing by agencies that compile statistics.

Strengthening Statistical Capacity

With on-the-job training by a long-term advisor and short-term experts, Montenegro has

- More accurate and consistent data.
- Data shared by different Agencies.
- Improved foreign trade and price statistics.
Reforming Customs Administration and Supporting Banking Supervision

With support from IMF experts, Nepal has

- Adopted a comprehensive plan for modernizing the Department of Customs.
- Training and building bank supervision capacity to conduct on-site inspections.

Nepal

From 2008, IMF customs experts have provided an extended program of technical assistance to the Department of Customs in Nepal. A comprehensive modernization plan was adopted as the blueprint for improving efficiency and performance over the medium term, and subsequent assistance has developed planning and management skills and built capacity.

**IMF technical assistance has helped Nepal to:**

- Implement a modernization plan to address seven critical reforms for the Department of Customs to be completed by 2013.
- Adopt a structured project management methodology to manage the reforms.
- Build planning and project management skills through a close team relationship with local counterparts.
- Build technical capacity in key customs functions.

Close cooperation between IMF experts and Customs staff has built a shared understanding of the most important issues and the necessary actions, and reinforced Customs’ ownership of the reform program.

The IMF also provided technical assistance through a resident banking supervision advisor, who participated in on-site inspections to help train and build the capacity of banking supervisory staff.
Pacific Islands

An IMF technical assistance advisor helped Pacific Island countries to advance in important areas of macroeconomic statistics, despite limited financial and human resources. Countries benefitting from this assistance were the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu, and Vanuatu. In 2011 and 2012, the Solomon Islands and Papua New Guinea joined the group of Pacific Island countries (Fiji, Kiribati, Tonga, and Vanuatu), which are already participating in the IMF’s General Data Dissemination System.

Improved coverage and compilation methods were incorporated in data series for:

- Current-price GDP estimates.
- Constant-price GDP estimates.
- Consumer price and producer price indexes.
- Balance of payments estimates.
- Monetary and financial statistics.
- Government finance statistics.

While the work is ongoing, the authorities are able to use data in formulating policy and in analysis and monitoring.
Peru

The authorities have approved a risk-based national strategy (the National Plan) that addresses Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) policies, which was drafted with IMF advice.

**IMF technical assistance also helped Peru to:**

- Identify and assess the money laundering and terrorist financing threats and vulnerabilities to which the country is exposed.
- Define the priority goals and objectives of the National Plan, set deadlines for accomplishing key objectives through concrete actions, assign responsibilities, and determine the most optimal allocation of resources.
- Strengthen inter-institutional coordination and cooperation mechanisms in the AML/CFT area, both at the policy development and operational levels.
- Recognize the urgency of putting in place an effective AML/CFT supervisory framework for the Superintendence of the Securities Market.

The National Plan is a major milestone for executing the strategy of safeguarding the sustained growth of the economy by strengthening the country’s ability to combat money laundering and the financing of terrorism. It will reduce the influence of the proceeds of crime on the relatively small but growing financial sector.

Peru has

- Adopted a risk-based National Plan to address AML/CFT.
- Set up an executive commission to monitor progress on the plan.
- Identified the need to enhance AML/CFT supervision in the securities sector.
The overarching technical assistance objective in the Philippines is to promote financial stability through strengthened risk-based supervision. To support convergence of supervisory practices with internationally recognized norms and to facilitate regional financial integration, the IMF is assisting the ASEAN countries in harmonizing their regimes for banking supervision, using a risk-based supervisory approach.

As part of this process, IMF technical assistance has helped the Philippines to:

- Conduct self-assessment on the Basel Core Principles for effective banking supervision.
- Adopt a risk-based approach to supervision; improve risk assessment and reporting infrastructure.
- Enhance the capacity to identify and monitor risks associated with complex conglomerate structures.
- Implement new prudential requirements.
- Enhance enforcement and clear a backlog of problematic institutions.
- Build supervisory capacity moving towards a fully sustainable training program.

The project has been very effective. As a result, risk-based supervision was adopted and capital needs assessments based on risk was initiated; a policy and procedural guidance on enforcement tools was approved; and a supervisory core training program was established.
Senegal

Despite encouraging revenue performance relative to other West African countries, the tax authorities sought further improvements to help reduce the fiscal deficit.

**The IMF has advised Senegal on its Strategic Development Plan for modernization of tax administration to:**

- Improve taxpayer services.
- Modernize tax administration organization and operations.
- Increase revenue.
- Organize the headquarters and regional offices.
- Establish offices for large and medium taxpayers.
- Design small business taxation system.
- Develop of Research Intelligence Unit.
- Address weakness in computer systems, such as reengineering outdated procedures, and cleaning and updating the taxpayer master file, with the help of a tax administration information technology expert.

Progress to date on tax administration reform can be directly attributed to the perseverance and vision of the authorities, who are fully committed to implementing the strategic plan designed with IMF assistance.
For the past decade, the IMF has provided technical assistance to Timor-Leste in a number of areas, most prominently in establishing and operationalizing the Treasury, adopting a framework for governance of the petroleum sector, and building capacity to produce the macroeconomic statistics needed for policymaking.

This IMF technical assistance in the fiscal area has helped Timor-Leste to:

- Improve Treasury operations by modernizing its public financial management law, rules, systems, and procedures.
- Formulate a medium-term strategic plan for the Treasury.
- Develop and review the petroleum fiscal regime, forecast petroleum revenue, and refine existing macroeconomic forecasting tools.

Domestic spending and revenues are now channeled through the Treasury’s main account in the central bank. This has improved the quality and timeliness of expenditure control and fiscal reporting and brought about better use of government funds and improved data integrity as accounts can be reconciled.

This IMF technical assistance in the statistics area has helped the authorities to:

- Disseminate balance of payments data.
- Compile annual International Investment Position estimates.
- Collect foreign direct investment data for the largest oil exploration company operating in the Timor Sea Exclusive Territory.
- Build capacity for in-house preparation of external sector statistics.
Revenue Administration and Banking Supervision

With the help of IMF advice on reforms in tax policy and administration, Vietnam

• Increased tax yields substantially.
• Is preparing a risk based approach to banking supervision.

Vietnam

The authorities have introduced sweeping reforms in tax policy and administration. These reforms have been guided by a five-year Tax Reform Plan developed with IMF support, whose central objective has been to create a tax system that is appropriate to Vietnam’s changing economic conditions.

**IMF technical assistance has helped Vietnam to:**

- Increase tax yields from an average of 19.6 percent for 2001–04 to an average of 23.7 percent for 2008–11.
- Reform the tax system to be increasingly integrated with a highly competitive global economy.

Beyond the growth in tax revenues, the tax policy reforms have been instrumental in building a modern taxation system that achieves a socially acceptable degree of equity.

IMF technical assistance on **banking supervision** has helped Vietnam to prepare for self-assessments of Basel Core Principles for effective banking supervision and to organize better supervisory strategies. The IMF has helped the authorities identify weaknesses and implement recommendations to better adjust the work program to the country’s circumstances.