Monetary and Capital Markets Department

Technical Assistance Annual Report 2015

I N T E R N A T I O N A L   M O N E T A R Y   F U N D

"MCM TA aims to support macrofinancial stability and financial sector development by promoting sound and efficient financial systems, and effective monetary and foreign exchange operating frameworks."

Preface

I am pleased to present the 2015 Annual Report on Technical Assistance (TA) provided by the Monetary and Capital Markets Department (MCM).[2] TA is a core activity of MCM, and is critical in strengthening IMF member countries' institutional frameworks and capacity for promoting financial stability and economic growth. This report provides a snapshot of the intensive efforts of MCM staff, external experts, other IMF departments, donors, collaborating institutions, and development partners to support country authorities in making measurable progress. It incorporates a rich set of country cases that highlight the impact of our advice on a wide range of topics.

Over the past decade, MCM's areas of work have evolved in response to the emerging needs of the IMF's membership and the changing landscape of increasingly globalized and sophisticated financial sectors, which amplify both opportunities as well as risks. MCM has concentrated its expertise and resources on developing cutting edge solutions to relatively new areas of TA, including risk-based supervision, Basel II/III implementation, financial stability frameworks, macroprudential policies, debut international bond issuances, and central bank governance, while continuing to respond to high demand in traditional areas, such as financial regulation and supervision, central bank operations, and crisis management.

Guided by the MCM TA Strategy Update for 2014–17, our advice has continued to be impactful and highly appreciated by the Fund's membership. To achieve this, it has been essential to maintain MCM's keen attention to results and quality, thought leadership, collaborative work with internal and external partners, and synergies with the IMF's surveillance and lending activities.

I would like to express my thanks to all MCM staff who have contributed to these TA successes; to recipient countries for their commitment and cooperation; to donors for their support and partnership; to our experts for drawing on their years of experience; to other IMF departments that have guided and supported TA delivery; and to collaborating institutions who have shared their expertise. I hope this report will contribute to our joint efforts, and enrich our communication and dialogue with stakeholders. We look forward to our continued collaboration and serving our member countries with well-targeted TA that generates value and lasting benefits.

José Viñals
Financial Counsellor and Director
Monetary and Capital Markets Department
September 2015

[1] The 2015 MCM TA Annual Report was prepared by a staff team in MCM's Technical Assistance Division comprising Hunter Monroe, Dilek Goncalves, and Jahanara Zaman. Viktoriya Zotova, Maria de Mesa, and Madeline Britvec provided support. Dhanu Ponnamperuma, Ava Ayrton, and Claudia Jadrijevic in MCM's Resource Management Division also contributed to the report. The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its management.

Contents

Selected Acronyms

ABP	Annual Borrowing Plan
AFRITAC East	Africa Regional Technical Assistance Center in East Africa
AFRITAC South	Africa Regional Technical Assistance Center in South-East Africa
BSi	Bank of Slovenia
BSS	Bank of South Sudan
CAPTAC-DR	Central America, Panama, and Dominican Republic Technical Assistance Center
CBJ	Central Bank of Jordan
CBK	Central Bank of Kenya
CBSL	Central Bank of Sri Lanka
DFID	Department for International Development
DMF	Debt Management Facility
ECCB	Eastern Caribbean Central Bank
EMDEs	Emerging Markets and Developing Economies
EU	European Union
FfD	Financing for Development
FIRST	Financial Sector Reform and Strengthening Initiative
FSAP	Financial Sector Assessment Program
FTE	Full Time Equivalent
FY	Fiscal Year
GFSR	Global Financial Stability Report
GMM	Global Markets Monitor
ICD	Institute for Capacity Development
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IsDB	Islamic Development Bank
IT	Inflation Targeting
JSA	Japan Administered Account for Selected IMF Activities
JVI	Joint Vienna Institute
KE	Knowledge Exchange
LCR	Liquidity Coverage Ratio
LIC	Low-Income Country
LOLR	Lender of Last Resort
LTX	Long-Term Expert
MCM	Monetary and Capital Markets Department of the IMF
MNRW	Managing Natural Resource Wealth Trust Fund
MTDS	Medium-Term Debt Management Strategy
NAV	Net Asset Value
NBFI	Nonbank Financial Institution
NBG	National Bank of Georgia
NBU	National Bank of Ukraine
NPL	Nonperforming Loan
PDMO	Public Debt Management Office
RBM	Results-Based Management
ROSC	Review of Standards and Codes
RTAC	Regional Technical Assistance Center
SECO	State Secretariat for Economic Affairs of Switzerland
STX	Short-Term Expert
TA	Technical Assistance
T-bill	Treasury Bill
TTF	Topical Trust Fund

MCM TA aims to support macrofinancial stability and financial sector development by promoting sound and efficient financial systems, and effective monetary and foreign exchange operating frameworks.

Supporting robust, resilient, and well-functioning monetary and financial systems in member countries is at the heart of MCM's TA. In response to the recent financial crisis, MCM has extended the reach and scope of its TA, and it has become a popular and tested vehicle for strengthening financial systems and monetary and foreign exchange operating frameworks. Going forward, MCM TA will also focus on promoting financial sector development in line with the Fund's new initiatives[2] to contribute to the international development agenda[3] through strengthening capacity building efforts.

MCM is committed to the provision of high-quality TA. Significant human resources are invested with a dedicated TA division and six functional divisions delivering advice in their areas of technical expertise as well as managing projects globally. MCM allocates one-quarter of its staff resources to TA.

This work is enforced by a Medium-Term TA Strategy developed in 2011 and updated for the period 2014-2017. Meeting new and increased TA needs while maintaining high quality and effective delivery of advice and hands-on implementation assistance is central to the strategy. To this end, MCM strives for better prioritization and increased synergies with other Fund programs and donor initiatives. The strategy also aims to further strengthen quality assurance mechanisms and select TA delivery modalities that yield results.

In line with the Fund's TA priorities, particular emphasis has been given to supporting crisis countries, transition and fragile states, and low-income countries (LICs), and to improving financial sector oversight.[4] In Europe, Ukraine received extensive MCM TA. This program aims to help restore macroeconomic stability and lay the foundation for robust and balanced economic growth. Assistance to fragile and post-conflict countries was provided in the Democratic Republic of Congo, South Sudan,[5] Somalia, and Tunisia. LICs received more than half of the MCM TA. Myanmar received the highest share of MCM's country-specific TA, with three resident long-term experts (LTX) in central banking and financial supervision. TA to Europe tapered as countries gradually recovered from the financial crisis.

MCM has responded flexibly to demand for TA on new topics. In response to changing international standards and best practices,[6] countries have expressed increased interest in more advanced TA to assist in their implementation, in addition to traditional areas of TA that include banking regulation and supervision, monetary frameworks, central bank operations, and systemic issues and crisis management. Other growth areas included financial stability frameworks, stress testing, macroprudential policy, and debut international bond issuances.

Capacity building through specialized training has also been given increased emphasis. In addition to hands-on training inbuilt in TA programs, MCM ramped up the delivery of formal classroom training programs in collaboration with the IMF's Institute for Capacity Development (ICD). In FY 2015, over 15 specialized training workshops reached multi-country audiences in

[2] These initiatives were endorsed by the IMF Executive Board in early July 2015 and elaborated in the Financing for Development (FfD) papers—"Financing for Development: Enhancing the Financial Safety Net for Developing Countries", IMF Policy Paper, June 2015a; and "Financing For Development: Revisiting The Monterrey Consensus", IMF Policy Paper, June 2015b, International Monetary Fund, Washington DC.

[3] The international community (including the IMF and World Bank) formally adopted the new Sustainable Development Goals following the September 2014 UN Summit in New York and the July 2015 FfD conference at Addis Ababa.

[4] MCM's TA strategy is consistent with Fund-wide priorities, among which financial sector oversight is key. The IMF's Executive Board and the Committee on Capacity Building endorsed Fund-wide capacity development priorities for the period FY 2015-17 as follows: (i) crisis countries in Europe; (ii) Arab countries in transition and fragile states; (iii) low-income countries and smaller states; and (iv) financial sector oversight.

[5] See the case study in this report "*South Sudan: In Pursuit of a Modern Central Bank*".

[6] These include the 2012 update to the Basel Core Principles, Basel III, the Key Attributes of Effective Resolution Regimes, and the Core Principles for Effective Deposit Insurance Systems.

training institutes.[7] The training covered bank restructuring and resolution, risk-based banking supervision, systemic risks and macro-stress testing, public debt management strategies, accounting based on International Financial Reporting Standards, financial stability and macroprudential policy, and sovereign asset and reserve management. Box 1 describes how a recent MCM course on public debt management successfully pioneered peer-to-peer learning methods, and piloted the integration of a country's medium-term debt management strategy (MTDS) and annual borrowing plan (ABP).

Regional TA initiatives have continued to increase in importance. Regional Technical Assistance Centers (RTACs) have been instrumental in providing direct and longer-term support and operational guidance to country authorities in a range of financial sector areas, including banking regulation and supervision, monetary and foreign exchange operations, and debt management. Despite the outbreak of Ebola in West Africa and security challenges encountered in the Middle East, MCM's TA through RTACs remained high in FY 2015, with 25 resident advisors delivering or backstopping[8] around 500 TA missions. In addition, MCM provided regional TA to the East African Community towards harmonization of their monetary policies and financial stability frameworks, and to the Eastern Caribbean to strengthen financial systems and debt management.

In FY 2015, MCM continued to progress with the implementation of a results-based management (RBM) approach to TA delivery. To sustain implementation, the majority of TA was delivered through medium-term programs that typically range between one to three years. During the fiscal year, TA delivery progressed smoothly for over 55 individual country projects across regions, mainly in Asia, Africa and the Eastern Caribbean. TA achievements and implementation were closely monitored and documented by MCM staff and technical backstoppers to keep the focus on desired results.

Partnerships with donor agencies, cooperating official institutions and other TA-providing institutions remained a principal element of MCM's technical assistance. Donor support enabled responses to higher volumes of TA needs. Cooperating official institutions extended to MCM their wealth of expertise in delivering TA.[9] The World Bank continued to be a key partner in both TA coordination and delivery, in particular of debt management and financial sector development.

BOX 1. RECENT INNOVATIONS IN PUBLIC DEBT MANAGEMENT COURSE DELIVERY AND COVERAGE

A course on "Advanced Medium-Term Debt Management Strategy and Annual Borrowing Plan" was recently held at the Joint Vienna Institute. Guided and instructed by MCM and World Bank staff, representatives from selected emerging market countries and LICs prepared and delivered presentations on MTDS and ABP issues, based on their respective country data. The course was innovative in that it:

- Integrated the MTDS and ABP. Participants were able to use the outputs from the medium-term analysis to develop an annual debt auction calendar;
- Used country data. Rather than fictional data, country representatives brought their own data and worked on their respective country cases; and
- Invited teams from a limited number of countries. Four debt management specialists from each of seven countries were invited (Armenia, Georgia, Ghana, India, the Kyrgyz Republic, Moldova, and Tanzania).

This positive experience suggests that this format for course delivery should be used more often. Feedback from participants suggests the pilot course was a success because of its practical orientation; focus on relatively advanced issues; and in particular the peer-to-peer interchange based on a diverse mix of countries and experiences.

Prepared by Eriko Togo and Miriam Tamene.

[7] Specialized IMF training workshops are delivered at IMF headquarters and through the Joint Vienna Institute (JVI), Singapore Training Institute, Kuwait Training Center, Africa Training Institute, and training courses in Brazil, China, Cote d'Ivoire, and Georgia.

[8] Backstopping refers to technical supervision and overall management of the work of experts hired on a consultancy basis.

[9] These included the central banks of France, Belgium, Brazil, Chile, Colombia, Mexico, and Peru; the Australian Prudential Regulation Authority; and the Superintendency of Banking, Insurance and Private Pension Funds Administration of Peru.

Operational Overview

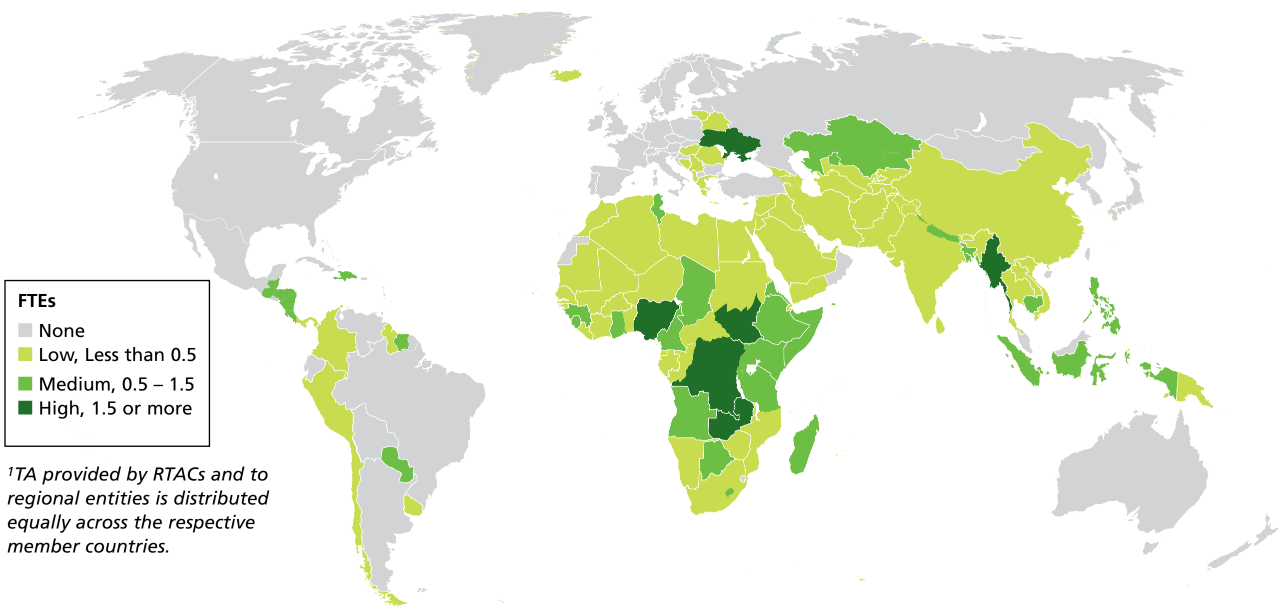
MCM's track record of quiet and effective delivery has generated increasing demand from member countries. In FY 2015 alone, MCM TA reached 136 member countries, up from 126 in the previous year, with a global reach that is evident from Figure 1. This coverage expanded from the conventional TA recipient countries in low- and middle-income countries to new recipients in high-income countries including crisis countries in Europe and emerging market countries like China and India. In response to this strong demand and thanks to the availability of donor funding, the overall TA delivery increased from 70 full-time equivalent (FTEs) person years in FY 2014 to 73 FTEs in FY 2015.[10]

As a key priority area, TA delivery accounts for one quarter of MCM staff resources, up by nearly 5 percentage points from the previous year (Figure 2). MCM fielded nearly 1,000 missions during the year. This high volume of TA was only possible through effective deployment of MCM staff, experts and financial resources. MCM staff took the lead in defining operational approaches to policy frameworks, and their direct participation in missions accounted for 8 percent of total MCM FTEs. Delivering high quality and volumes of TA was feasible by leveraging resources along multiple dimensions (Figures 3 and 4):

- MCM deployed 37 LTXs globally, accounting for 34 percent of the TA delivery in the fiscal year (Box 2). Within this group, 21 LTXs focused on individual countries, while the remainder were based in RTACs covering country groups. This modality of TA was closely backstopped by MCM staff to ensure advice delivered was in alignment with Fund policies, international standards, and the MCM TA Strategy Update.
- Donor funding made the high volume of TA possible. In FY 2015, 73 percent of MCM TA was externally financed.
- One third of MCM TA was delivered through RTACs, through LTXs based in the RTACs and through STX visits within the RTACs' work programs. MCM staff provided technical and policy guidance, reviewed all TA outputs, and contributed to the design of RTAC work programs.
- MCM staff directly managed the work of STXs by including them in MCM-led missions and also by fielding expert-led visits with the expert visits often following up on the TA programs developed by the staff-led missions.

[10] An "FTE" is a unit of measurement equivalent to the work of one person for a year.

FIGURE 1. GLOBAL INTENSITY OF MCM TA DELIVERY, FY 2015 (IN FTEs)[1]



[1]TA provided by RTACs and to regional entities is distributed equally across the respective member countries.

FIGURE 2. MCM CORE FUNCTIONS, FY 2015 (IN PERCENT OF TOTAL STAFF FTEs)

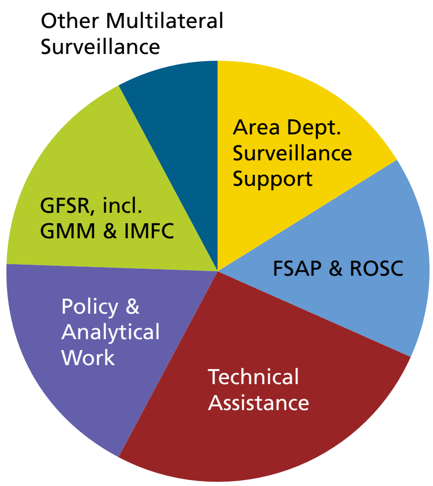


FIGURE 3. MCM TA DELIVERY BY STAFFING, FY 2010–15 (IN FTEs)

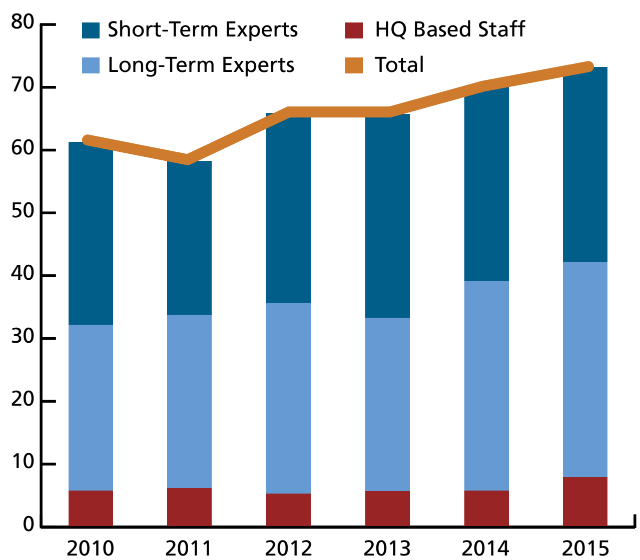


FIGURE 4. TA BY FUNDING TYPE, FY 2010–15 (IN FTEs)

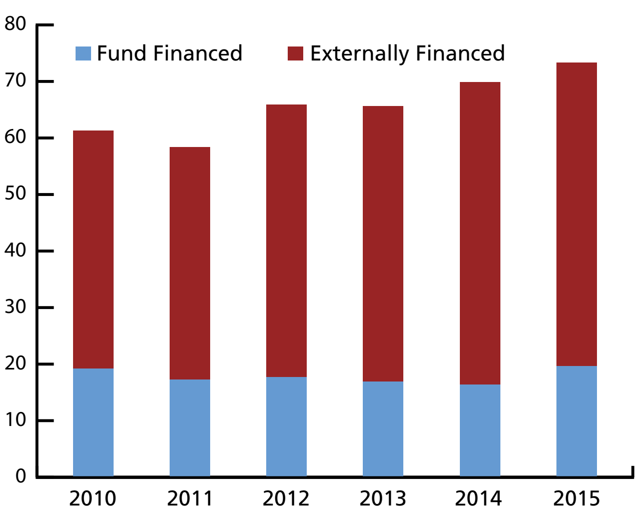
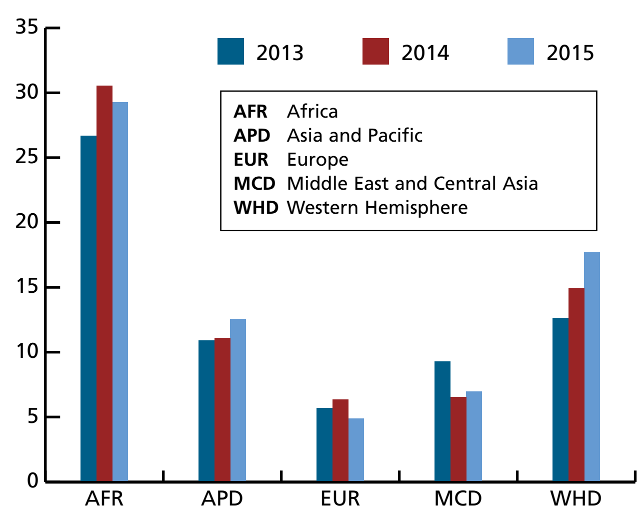


FIGURE 5. TA OPERATIONS BY REGION, FY 2013–15 (IN FTEs)



In line with previous years' trends for the regional distribution of TA, Africa received the highest share followed by the Western Hemisphere, Asia, Middle East and Central Asia, and Europe (Figure 5). TA delivery to Africa declined by two FTEs in FY 2015, in part due to the Ebola crisis. Africa received approximately 40 percent of MCM TA. Also, TA to Europe decreased from 6.3 FTEs in FY 2014 to 4.9 FTEs in FY 2015 as countries gradually recovered from the financial crisis. On the other hand, overall TA operations in Asia, the Middle East, and Latin America increased during FY 2015 compared with FY 2014 levels.

BOX 2. LONG-TERM EXPERT INITIATIVES

Over the years, MCM has relied increasingly on LTXs for its TA delivery. LTXs in national central banks and supervisory agencies have become an integral component of the programmatic approach to TA delivery and have been particularly successful in addressing the TA needs of recipient countries with significant capacity constraints. Such LTX TA provides hands-on training and technical advice over extended periods of time and is usually complemented with periodic STX visits to cover areas of specialized expertise. In addition, MCM LTXs located in the Fund's RTACs manage ambitious TA work programs.

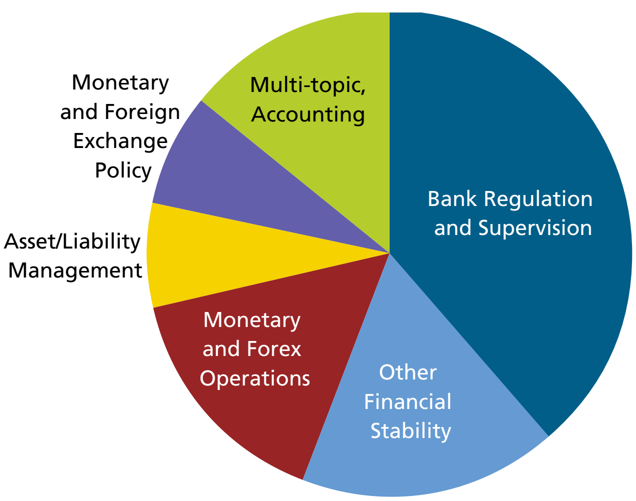
Given the important role played by LTXs in MCM TA delivery, MCM has paid particular attention to the management and backstopping of LTXs. There is a thorough recruitment process, and selected candidates typically join an MCM staff-led TA mission before a final offer is made. In addition, the LTXs receive an extended pre-assignment orientation at IMF headquarters (HQ).

In April 2015, a workshop for all MCM LTXs was held at IMF HQ. In total, 33 (out of 37) LTXs participated in the workshop, 15 from RTACs and 18 from national central banks. Their work spanned many topics, in particular financial sector regulation and supervision, central bank operations, debt management, reserve management, and accounting.

The workshop served several purposes. It helped foster team building and strengthen communication channels, provided an overview of technical and administrative issues facing MCM LTXs, and served as an opportunity to update and develop consensus on key topical issues facing staff and LTXs alike. A Fund-wide MCM TA Forum took place during the workshop, where four LTXs working in very different environments in different parts of the world shared their experiences. The workshop received strong positive feedback from the participants, who supported making this a regular event.

Prepared by Ann-Margret Westin.

FIGURE 6. MCM TA BY TOPIC, FY 2015 (IN PERCENT OF FTEs)



The main areas of MCM's TA provision were: bank regulation and supervision, monetary and foreign exchange operations and policies, crisis prevention and management,[11] public debt management, and other aspects of financial stability[12] (Figure 6). As in previous years, financial regulation and supervision, including supervision of non-bank financial institutions,[13] continued to represent the lion's share of delivered TA. Strengthening risk-based,[14] cross-border, and consolidated supervision[15] and helping countries adopt enhanced regulatory standards, including Basel II/III,[16] were at the core of this work. Demand for TA in the traditional areas of central banking operations and monetary policy also remained strong. More recently, MCM expanded its efforts to address increased demand for macroprudential frameworks based on the Staff

[11] See the case study in this report *"Slovenia: Strengthening the Crisis Management Framework"*.

[12] Including TA on non-bank sector such as securities and insurance supervision.

[13] See the case study *"Albania: Strengthening the Regulatory Framework for Investment Funds"*.

[14] See the case study *"Central America: Coaching for Risk-Based and Consolidated Supervision"*.

[15] See the case study *"East African Community: Cross-Border and Consolidated Supervision"*.

[16] See the case study *"Jordan: Basel III Implementation"*.

Guidance Note on Macroprudential Policy.[17] Another key area of involvement was financial stability TA in its various aspects, including institutional arrangements, systemic risk analysis and reporting, stress testing and crisis preparedness and management.[18] MCM's TA on public debt management also grew, particularly in LICs supported by a donor-funded trust fund jointly implemented with the World Bank (Box 3).[19] Other themes were monetary policy modernization in LICs and improving monetary transmission mechanisms.[20]

[17] See the case study *"Namibia: Establishing an Effective Macroprudential Policy Framework"*. Other countries that received TA in this area include Morocco, Trinidad and Tobago, and the Seychelles.

[18] See the case study *"El Salvador and Sri Lanka: Financial Stability Strategy Missions"*.

[19] See the case studies *"Cyprus: Public Debt Management"* and *"Nicaragua: International Bond Issuance"*.

[20] See the case study *"Low-Income Countries: Monetary Policy Modernization"*.

BOX 3. THE DEBT MANAGEMENT FACILITY (DMF) TRUST FUND

Demand for TA on debt management has increased in response to the challenges faced by many countries. The IMF partnered with the World Bank within the framework of the DMF multi-donor trust fund to provide TA on financing strategies and managing debt portfolio risk. The DMF Trust Fund was established as a joint IMF-World Bank multi-donor initiative in April 2014, with a term of five years (2014-2018).

The DMF is a global program that supports the 84 countries that are eligible for concessional loans from the IMF and the World Bank. The trust fund leverages the IMF's proven technical expertise and high traction of TA delivery, while directly supporting:

- Provision of analyses and methodologies needed to strengthen debt management strategies and sustainability;
- Development of better debt portfolio risk analytic and mitigation frameworks;
- Development and deepening of domestic public debt markets that support debt sustainability; and,
- Facilitation of the issuance of debut bonds and access to international capital markets.

In FY 2015, MCM launched 10 country projects and 4 workshops, mainly on MTDS.

Prepared by Thordur Jonasson.

Partners Make It Happen

MCM highly values its partnerships with external donors. Donors' generous support allows greater TA delivery than would be possible from internal resources alone: externally funded TA comprises approximately three quarters of MCM's TA delivery. Donors finance a number of bilateral projects, multi-donor arrangements, and RTACs, and in particular MCM LTXs. This support is particularly important for sustainable long-term assistance to LICs. In addition to facilitating expanded TA, donor partnerships also fuel greater collaboration and coordination among TA providers that help catalyze TA on financial sector development.

Over the years, MCM has established important bilateral partnerships with several key donor countries and institutions for the implementation of TA projects. These include: Belgium, Canada, the Islamic Development Bank (IsDB), Japan, Norway, Switzerland (State Secretariat for Economic Affairs of Switzerland – SECO), and the United Kingdom (Department for International Development – DFID) (Figures 7 and 8). In addition to bilateral partnerships, multi-donor arrangements made a difference in the level and reach of the IMF TA globally. Donors such as the European Union (EU), Germany, the Netherlands, Luxembourg, and Saudi Arabia in addition to the bilateral donors mentioned above, contribute to trust funds that target topical areas or specific countries. Chief among them are: the Debt Management Facility, the Financial Sector Reform and Strengthening Initiative (FIRST), a multi-donor fund housed at the World Bank, the South Sudan Trust Fund, the Managing Natural Resource Wealth (MNRW) Trust Fund, and the Somalia Trust Fund.

Donor support has also financed RTACs—an important vehicle for MCM TA delivery as noted above. Key donors that support RTACs are Canada, DFID, the EU, and Switzerland. In addition, Mexico contributed to the financing of the Central America, Panama, and Dominican Republic Technical Assistance Center (CAPTAC-DR) in Guatemala.

Donor-funded TA helped make significant contributions to results in FY 2015. The following examples highlight the effective use that has been made of donor resources.

- In Africa, donor financing supported TA to fragile and post-conflict countries as well as other developing jurisdictions. In South Sudan, MCM has been implementing a five-year multi-donor trust fund program aimed at supporting financial and macroeconomic stability through strengthening the Bank of South Sudan's (BSS) institutional capacity and frameworks; this is financed by DFID, the EU, and Norway. In the Democratic Republic of Congo, a Belgium-funded multi-year TA program continued to make progress in strengthening financial sector supervision and regulation and in implementing the central bank's modernization program. DFID's long-term support to Ghana and Nigeria helped make possible significant advances in monetary and foreign exchange market development in the former and bank resolution and supervision in the latter.

- In Asia, Japan's funding supported multi-year TA programs in a number of critical areas. Banking supervision TA in the Philippines, Cambodia, Indonesia, Nepal, and Myanmar is helping establish the fundamental regulatory framework and supervisory skills for safeguarding financial stability. The TA engagement in Myanmar has progressively deepened while giving careful consideration to the authorities' absorption capacity and prioritization to ensure sustainability. Myanmar also received support in monetary and foreign exchange market operations. In addition, the FIRST Initiative is helping to support Myanmar in strengthening central bank financial management. Another important multi-year TA initiative in the region is provided to India with funding from the FIRST Initiative and Japan to support the government's reform program in establishing systemic risk moni-

FIGURE 7. DONOR-FUNDED ACTIVE TA PROJECTS BY DONOR AND MULTI-DONOR TRUST FUNDS, END-APRIL 2015 (IN NUMBER OF PROJECTS)

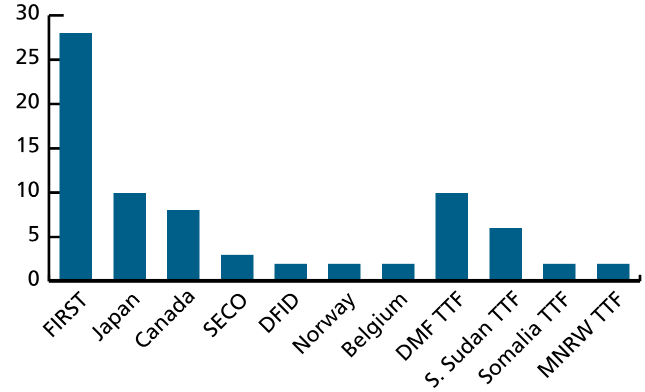
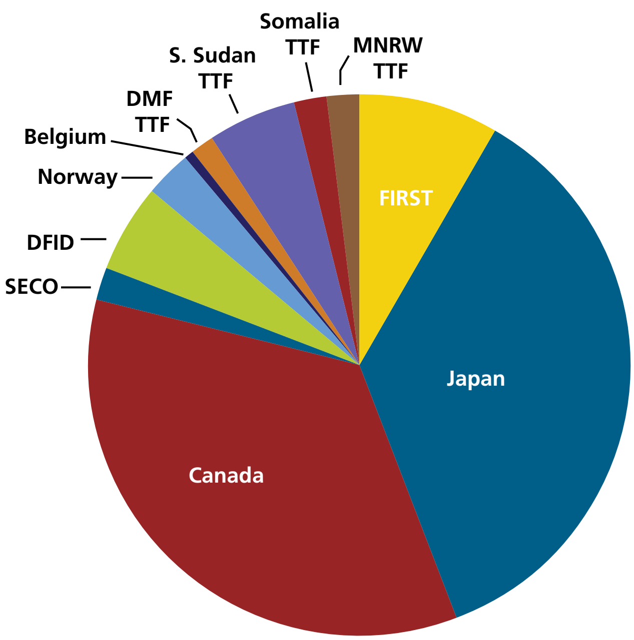


FIGURE 8. DONOR-FUNDED ACTIVE TA, END-APRIL 2015 (IN U.S. DOLLARS)



toring and oversight. The TA is intended to help establish a financial data management center to facilitate coordination and data management across the Indian regulatory architecture.

- In the Western Hemisphere, MCM provided extensive TA to the Caribbean with funding support from Canada. The eight jurisdictions of the Eastern Caribbean Central Union (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines) have been receiving TA in the area of banking supervision and bank resolution, with the Eastern Caribbean Central Bank (ECCB) as the counterpart. In addition, these jurisdictions, as well as Barbados, Belize, and Jamaica, have received assistance in improving the functioning of their domestic debt markets. Canadian support has also enabled assistance to Suriname in central bank modernization, financial stability, monetary policies and operations, and central bank accounting.

- In Europe, Canada, through its funding of TA to the National Bank of Ukraine (NBU), has made a significant contribution to the implementation of Ukraine's economic and financial sector stability reform program and to the building of longer-term capacity at the NBU. The assistance has been instrumental in helping Ukraine deal with its ongoing banking system difficulties, address deficiencies in the foreign exchange market, lay the groundwork for the move to an inflation targeting regime, and undertake a comprehensive organizational reform of the NBU. Notable progress that has been made so far includes improvements to the monetary policy decision-making processes; strengthening of monetary policy communication; rationalizing and phasing out of some of the most stringent foreign exchange restrictions; improving the NBU's monetary operations; and developing the domestic money market.

- In Middle East and Central Asia, SECO funding has aimed at strengthening bank supervision in the Kyrgyz Republic and modernizing the central bank's analysis and research in Turkmenistan. Canada's support has helped improve bank supervision in Tunisia, and IMF training activities were supported generously by Kuwait through the Kuwait training center.

MCM has also responded to demand in target areas by partnering with key institutions. The FIRST Initiative has been a critical partner in the implementation of short-term TA to follow-up on FSAP recommendations. With a global reach to low- and middle-income countries, FIRST financing enabled a significant number of projects that aimed to fill gaps in the implementation of reform programs. In FY 2015, MCM had 28 FIRST projects in financial sector development with a view to enhance stability frameworks.

MCM has partnered with the IsDB to respond to the rise in demand for TA in Islamic finance. In light of the systemic importance of Islamic banking in several countries, TA in this area emerged as a priority due to the need to adapt the regulatory frameworks. In FY 2015, the IMF and IsDB conceptualized a TA program, which will be rolled out in the next year with a focus on assisting authorities to establish or improve the governance, regulatory and oversight arrangements for Islamic finance.

Eyes on Results

MCM delivers high quality TA that aims to trigger results on the ground. TA is implemented using an RBM approach—that is, with the focus on measurable changes in, and benefits to, the recipient institution to help reach their reform objectives.

RBM is a management tool that offers a strategic approach to the planning and monitoring of TA with an emphasis on results and accountability. It has been widely adopted by development agencies and donors around the world. The Fund adopted an RBM framework for its capacity development activities in June 2011. The implementation of this framework is being rolled out in phases with the objective of informing management decisions and communicating results to internal and external stakeholders.

MCM is contributing to the Fund-wide implementation of the RBM framework. As part of the high-level interdepartmental working group, MCM contributes to the development of the framework and systems that support RBM implementation. The management reporting system currently under development aims to aggregate consistent and reliable TA results across multiple variables including regions, countries, and topics. It will also provide improved project management tools to help with TA design and delivery.

In FY 2015, a landmark toward implementing RBM was the development of standard result indicators. MCM engaged its functional divisions in defining topical areas of TA and developed a catalog of standard indicators that can be used to measure results in those areas. This extensive effort resulted in the development of over 20 results-based frameworks across six overarching areas of TA.[21] Given the wide spectrum of areas covered by MCM, this work was crucial in enabling design consistency for TA with results that can be compared and aggregated. Although this is a considerable achievement, the work on catalog development and its refinement will need to continue to take account of the ever evolving nature of MCM's TA products.

While the Fund-wide implementation of RBM is being rolled out, MCM continues to integrate RBM principles into new TA initiatives. This requires, to the extent possible, designing TA as medium-term programs with well-established results frameworks. In addition to the implementation of existing programs and trust funds, recently launched TA programs have been conceptualized and the essential ground work prepared with eyes on results in countries such as the Democratic Republic of Congo, Ghana, India, Jamaica, Myanmar, Sudan, Turkmenistan, and Ukraine.

[21] These areas are: central bank operations, debt and capital market instruments, financial crisis preparedness and management (however, it should be noted that TA in this area often responds to an emergency situation and is of a short-term nature), financial sector assessment and policies, financial supervision and regulation, and monetary and macroprudential policies.

A key objective identified in MCM's TA Strategy is to foster learning from experience, by distilling lessons gained from our work and enhancing the sharing of knowledge among staff.

Evaluating Results

In 2011, MCM began an evaluation program to assess the overall performance of TA both for quality assurance and results measurement based on three-year cycles. This incorporates ex-post project evaluations, client surveys, and reviews of project completion assessments. The findings of the evaluation program provide feedback to operations and help strengthen further the planning and delivery of MCM TA.

In FY 2015, MCM launched a comprehensive evaluation of inflation targeting (IT) TA to emerging Europe, where a series of projects were implemented. The evaluation covers six countries: Albania, Armenia, Hungary, Moldova, Russia, and Serbia. The selected countries provide valuable case studies given their range of financial sector development. The evaluation team is examining several aspects of the TA including: (i) contributions to the development of an IT framework; (ii) main effects on monetary policy formulation and implementation, and on overall macroeconomic performance; (iii) changes in the understanding and support for IT by the different stakeholders since the adoption of the framework; and (iv) sustainability—whether the central bank was able to strengthen or adapt the framework on its own since the TA concluded. The evaluation report providing lessons and recommendations will be issued in FY 2016.

In addition, MCM conducts assessments of all externally financed TA projects. The results of these evaluations have been instrumental in improving topical approaches and delivery modalities in similar areas of TA.

Knowledge Management

MCM has improved its capacity to harness knowledge produced in TA activities in four main areas: the development of a new TA monitoring and document management system; the development of internal document management procedures and governance practices; active participation in the Fund-wide Knowledge Exchange (KE) initiative; and promoting and facilitating collaboration on specific TA areas of expertise. These initiatives have helped identify key knowledge useful for future work and have facilitated knowledge sharing among teams.

In the area of TA monitoring, MCM has developed a system that would ensure knowledge is effectively captured and shared within the department. A TA Tracking System on MCM's internal web page integrates TA mission information with key documents in a flexible and simple platform. MCM also contributed to the improvement of Fund-wide expert roster application. In addition, MCM has established document management procedures and is making progress in this area.

MCM has strongly supported the Fund's KE initiative by managing topical websites (KE Topics) covering key areas of TA delivery, such as: Macroprudential Policies, Debt Management, Financial Crises, Financial Regulation and Supervision, Central Banking and Monetary Issues, and Stress Testing. These websites contain useful documents, data sources, external publications, names of key contacts with specific areas of expertise, and links to TA mission documents. MCM also shares with the rest of the Fund approximately 6,000 documents on TA relevant topics (KE Documents).

Finally, MCM has facilitated and promoted collaboration between country teams and other departments by establishing online collaboration platforms on a variety of topics such as Macroprudential Policies, Islamic Banking, and Shadow Banking. Similarly, in June 2013 MCM launched a quarterly Fund-wide TA Forum to facilitate knowledge sharing, distill valuable lessons, and explore different approaches to similar problems.

I. El Salvador and Sri Lanka: Financial Stability Strategy Missions

By Hunter Monroe

El Salvador

A January 2014 TA mission to El Salvador assessed progress with 2010 Financial Sector Assessment Program (FSAP) recommendations and worked with counterparts to develop a strategy to strengthen financial stability over the next three years.

Main Elements of the Program

This mission noted significant progress on the 2010 FSAP recommendations, and identified key measures needed in the areas of bank regulation and supervision, liquidity backstops, resolution and crisis management, and the securities market including:

- Integrating risk-based supervision into mainstream bank supervision, building on the existing regulatory framework; extending the regulatory perimeter; and amending the Bank Law to improve the definition of capital and protect former (and not only current) supervisors;
- Funding the lender of last resort (LOLR) facility based upon a defined multi-year strategy, activating the pooled liquidity fund, and implementing updated liquidity requirements;
- Enacting comprehensive resolution and crisis management legislation following a thorough diagnostic review; creating a permanent Financial Sector Stability Committee with clearer authority to decide systemic cases, issue specific prudential norms for systemic institutions, and require recovery and resolution plans even in "normal" times; and addressing serious remaining flaws in the general banking resolution framework; and
- Overhauling the legal framework for securities markets to provide fundamental elements of corporate governance, transparency and enforcement; allowing the creation of mutual funds and removing the requirement to relist foreign securities domestically; linking the payments and settlements systems to allow Delivery versus Payment; reducing the overwhelming dominance of government debt in financial assets; and relaxing limits on pension portfolios.

"The technical assistance provided by IMF/MCM to the Central Reserve Bank of El Salvador has been important to reaffirm our efforts and commitment to inclusive economic growth, financial inclusion and a sound financial system."

Dr. Oscar Cabrera Melgar
President
Central Reserve Bank of El Salvador

Outcomes

Following the mission, the authorities convened a National Forum on Financial Stability in November 2014, with MCM support. The Forum was highly successful in focusing attention of key players and the public on key flagged challenges over the course of four days. MCM experts led sessions on developing LOLR facilities, improving the crisis prevention and management framework, and overhauling securities markets. Buoyed by the Forum's success, the authorities have moved quickly to implement recommendations and have received follow up TA from MCM and CAPTAC-DR on drafting a Crisis Management and Prevention Strategy within the existing legal framework, which they are working to bolster, and on provisioning norms.

Sri Lanka

At the time of an April 2015 financial stability strategy mission, the Central Bank of Sri Lanka (CBSL) had taken important steps since the 2012 FSAP to strengthen its financial stability framework. Improvements had been made to financial regulation and supervision and to macroprudential oversight.

Main Elements of the Program

The MCM mission proposed measures to build on the progress made to improve the identification, prevention, and management of systemic risks. With a view to supporting efforts by the authorities to build resilience in their financial stability framework, the mission recommended improving the following:

- **Organizational framework for financial stability:** create a high-level Council on Financial Stability to monitor financial stability and to serve as a coordinating committee in times of crisis; and refocus the role and membership of the Financial Stability Committee to make it an effective vehicle for information sharing, identifying financial vulnerabilities, and recommending any required actions.

- **Financial regulation and supervision:** develop and implement an effective framework for conducting consolidated supervision; introduce fit and proper assessments for owners of non-bank deposit taking financial institutions; improve capacity to evaluate banks' individual capital adequacy assessments and establish a robust framework to set appropriate minimum capital adequacy requirements for individual banks that reflect their risk profiles; and amend the rotation policy for supervisors in the CBSL to promote staff retention and the accumulation of experience.

- **Macroprudential surveillance:** develop consensus on sources of risks to the financial systems; identify the macroprudential tools that can be used to mitigate these risks; continue to build capacity for stress testing; and increase staffing in the area of macroprudential surveillance.

- **Crisis preparedness and management:** amend the legal framework to allow for a more comprehensive and efficient resolution regime; ensure that problem bank supervision is more proactive in early intervention and provide for timely and orderly resolution; modify the deposit insurance scheme regulations and develop medium-term plans to ensure that it is an effective and credible depositor protection system; endow the high level Council on Financial Stability with responsibility for crisis preparedness strategies, contingency planning, and information sharing; and establish a framework to enable extraordinary actions in times of crisis.

"The mission team had very useful interactions with the authorities and also on-the job training session on stress testing for staff members. The CBSL finds that the proposed set of recommendations by the mission team complements the efforts by the CBSL to build resiliency in our financial stability framework for the identification, prevention, and management of systemic risks. The CBSL wishes to place on record its appreciation to the mission team for their generous effort to help the CBSL to further strengthen the financial stability framework and related technical expertise."

Dr. Nandalal Weerasinghe
Deputy Governor
Central Bank of Sri Lanka

Outcomes

The CBSL indicated that it would limit the practice of rotating financial supervisors into unrelated work and would seek to fill empty positions. In addition, training on scenario-based stress testing and on network analysis was incorporated into the CBSL's financial stability analysis. Other recommendations, on improving consolidated supervision, tightening single borrower and related party lending limits, and implementing formal frameworks for macro-prudential policies and crisis prevention and management, were received well.

II. Georgia: Central Bank Governance

By Ashraf Khan

Central bank governance encompasses both a central bank's internal organization and the way it conducts its relationships with key stakeholders. It incorporates elements of independence, transparency, and accountability, as well as board decision-making, risk management, internal audit, and accounting and reporting. Since the global financial crisis, central banks have been paying even more attention to their own governance, not only to manage their own risks, but also to set a good example for commercial financial institutions.

The National Bank of Georgia (NBG) has made good progress in its governance over the past years, drawing upon advice from other central banks, including De Nederlandsche Bank. The TA project, in cooperation with the Fund's Legal and Finance Departments, was designed to strengthen the NBG's financial reporting and risk management. Both departments have contributed to advice on central bank governance, and MCM has built upon their past work.

Main Elements of the Program

The project focused on three main areas:

- **Three Lines of Defense model:** Clarification of the different roles. Making business departments aware that they are the risk owners, but also realizing the added value of the Risk Management Department for their own risk practices. A strong and clear NBG Risk Management policy, in line with international standards and best practices, was initiated by the NBG.
- **Financial reporting:** Helping to (i) develop a Management Information System, and (ii) integrate strategic considerations into the yearly budget process.
- **Risk management:** Guiding the NBG to (i) improve risk culture by raising risk awareness throughout the organization, (ii) develop further risk appetite analysis, policy, and framework, and (iii) finalize current work on tools, such as the risk taxonomy and registry, and a centralized incident register.

"Training through practical policy-oriented courses, specialized workshops and recommendations delivered throughout TA mission were designed to increase both human and institutional capacity within the National Bank of Georgia. Proposed solutions to the key issues identified within the financial reporting and risk management processes are aimed to enhance the quality and effectiveness of internal processes and policies."

Archil Mestvirishvili
Vice Governor
National Bank of Georgia

The modalities for developing and delivering these recommendations were interviews with management and staff, presentations on theory, and in-depth interactive workshops with operational staff.

Outcomes

The technical cooperation was successful in the following respects:

- The NBG joined the International Operational Risk Working Group—a group of more than 60 central banks sharing best practices on risk management.
- A sound three-way dialogue was established with the central bank of the Netherlands, which is providing follow-up TA.
- It enhanced the NBG's role as an example of good governance for central banks in and outside of the region, both in financial reporting and risk management. Discussions with interested central banks have been taking place.

III. Jordan: Basel III Implementation

By Christopher Wilson

This TA program has been designed to strengthen the regulatory framework of the Central Bank of Jordan (CBJ) by enhancing supervision processes under Basel II and by adopting Basel III reforms. The hands-on practical advice provided to the CBJ on Basel III issues was intended to serve as a template for advice on this topic to other countries at similar stages of financial sector development.

In 2013, TA on Basel III was delivered to help the CBJ articulate a medium-term strategic plan integrating regulatory and supervisory priorities while taking into account the need for enhancements to the existing prudential regime.

A follow-up TA program in 2015 has focused on preparing implementation of the Basel III liquidity reforms. While the liquidity coverage ratio (LCR) has several benefits, design complexity and calibration create several policy issues that need to be addressed for effective implementation in Jordan as well as in other emerging markets and developing economies (EMDEs). For example, the scarcity of eligible financial assets is typically more acute in EMDEs than in advanced economies due to less developed debt and capital markets, which constrains the range of instruments eligible as high quality liquid assets.

Main Elements of the Program

- **Capital:** The definitions and regulatory adjustments proposed under Basel III are already part of the CBJ capital requirements. Accordingly, the TA program has recommended implementing the Basel III capital requirements as soon as the relevant regulations are drafted.
- **Liquidity:** Banks are highly liquid with healthy buffers above the legal liquidity ratio, thus facilitating transition to the LCR. However, the CBJ will need to modify some aspects of the LCR framework to account for local conditions. With regard to estimating stressed outflows of liabilities, the TA has provided guidance to help banks classify and segment customer deposits that align with the definitions in the LCR framework. The TA has also recommended performing a follow-up impact study and has noted that embedding the LCR will require a long lead-time and strong engagement with industry, from rule-making to implementation.

"The Technical Assistance provided to the CBJ by the IMF concerning the Implementation of Basel III was beneficial in that a roadmap was provided. The team provided CBJ with thorough definitions of certain items in the LCR, which enhanced its understanding of the LCR. Also, they assisted the CBJ in assessing the available data that will be used in developing the LCR template that will be sent to banks in Jordan. A draft of LCR template was provided by the team and CBJ is currently reviewing it and plans to further develop on it. This draft provided CBJ with the main features of an LCR."

Waleed Qasrawi
Assistant Executive Manager
Financial Stability Department
Central Bank of Jordan

Outcomes

To date, the CBJ has made steady progress developing its approach to the Basel III reforms. Thanks to a quantitative impact study conducted by the CBJ in 2013, it was concluded that the sector was well placed to implement the Basel III capital requirements because: (i) the quality of capital was high with a high proportion of banks' capital base comprised of common equity and retained earnings; and (ii) the minimum capital requirements is set at 12 percent by the CBJ, above the 8 percent set by the Basel Committee. In terms of the changes to the capital adequacy standards, the CBJ is about to complete draft rules and is expected to publish them shortly after. As a next step in this process, the CBJ is planning to further assess the policy issues associated with the LCR and, at a later stage, the Net Stable Funding Ratio.

IV. Central America: Preparing for Risk-Based and Consolidated Supervision

By Fabiana Melo

This TA program, benefiting Costa Rica, Nicaragua and El Salvador, was designed to enhance the capacity of supervisors to assess the risk profile and risk management practices of banks and banking groups. The TA largely consisted of coaching supervisors on real banks' supervision cases and included reviewing and improving the prudential regulatory framework and examination practices and methodologies (on-site and off-site) as well as reformulating risk management assessment guidance.

TA originated from the regional aspiration towards convergence in bank supervisory practices among Central American authorities, and was based on FSAP recommendations to strengthen risk-based supervision. During the second stage of a Fund TA project entitled "Consolidated Supervision in Central America," agreement was reached with regional authorities that the review and redesign of bank classification systems would be included in the component on convergence of regional supervisory practices. The Fund sent TA missions to Nicaragua, El Salvador, and Costa Rica between 2009 and 2015.[22]

Main Elements of the Program

The general design of the TA program was the same for the three countries, with work plans tailored to reflect specific country needs (e.g., the review of the prudential regulatory framework in all cases, but with different scope depending on the country). The main focus of the TA was to build supervisory capacity to use expert judgment in risk-based supervision, and the program therefore was mostly based on coaching sessions in pilot assessments of risk in banks. From inception, the programs were designed to complement technical TA provided by CAPTAC-DR and other TA providers. While CAPTAC-DR provided specific technical training on various risks, this TA program worked with supervisors in pilot assessments of banks for each type of risk. The concept of the TA was "learning-by-doing" where experts provided useful practical advice on real supervisory work within small groups to ensure interaction and absorption.

Outcomes

This TA program has successfully helped to strengthen local capacity to draw up bank-specific risk maps and started to change the supervisory culture from compliance-based to risk-based supervision. With the assisted pilots, supervisors began to recognize the complexity and benefits of performing risk-based supervision and, as a result, gained recognition from the assessed banks as the main findings were shared with them. Additional efforts towards full implementation of risk-based supervision will be important to bring it in line with best practices and further buttress the soundness of the financial system.

[22] The program in Costa Rica and El Salvador was finalized in 2013 and 2014, respectively, and is still ongoing in Nicaragua.

V. East African Community: Cross-Border and Consolidated Supervision

By Dirk Jan Grolleman

Pan-African banks have significantly expanded in recent years.[23] In particular, Kenyan banks have been expanding rapidly within the East Africa region and beyond, with larger banks in neighboring countries also expected to expand regionally. In addition, banking groups from outside East Africa have established subsidiaries in Burundi, Kenya, Rwanda, Tanzania, and Uganda. In view of the increasing importance of Pan-African banks and the need to address the changed risk profile of the industry, the Central Bank of Kenya (CBK), with assistance from the Africa Regional Technical Assistance Center in East Africa (AFRITAC East), has embarked since 2006 on implementing the standards relevant for consolidated supervision as laid out in the Basel Core Principles and the Joint Forum. Currently, the East African Community Member States are in the process of rolling out the consolidated supervision framework developed on a regional level.[24]

Main Elements of the Program

This multi-year TA program aimed at:

- Reviewing regulatory frameworks related to consolidated supervision;
- Advising on changes to the licensing regulation (and where needed on information sharing);
- Developing a framework for on- and off-site consolidated supervision and incorporating it into the existing risk-based supervision framework;
- Building capacity through continuing training of supervisory staff;
- Undertaking pilot examinations related to cross-border and consolidated supervision;
- Rolling out supervisory colleges;
- Developing a framework for the assessment of host supervisors; and
- Developing regional standards for consolidated supervision

[23] See the IMF staff paper "Pan African Banks: Opportunities and Challenges for Cross-Border Oversight" http://www.imf.org/external/np/pp/eng/2014/121814.pdf.

[24] The members are the Republics of Burundi, Kenya, Rwanda, the United Republic of Tanzania, and the Republic of Uganda.

"The IMF's AFRITAC East TA on consolidated supervision is credited for contributing to the strengthening of Kenya's banking sector legal and regulatory framework. CBK's supervisory capacity to oversee the ever-evolving operations and practices of the players in the domestic and cross-border markets has been enhanced. As a result, the CBK is now a point of reference in the East African Community region and beyond in implementation of consolidated supervision."

Mr. Matu Mugo
Assistant Director
Bank Supervision Department
Central Bank of Kenya

Outcomes

While changing the regulatory framework took longer than anticipated, the legal framework for consolidated supervision is now in place, and the CBK issued a Prudential Guideline on Consolidated Supervision, which became effective from January 1, 2013. On-site supervision procedures addressing group structures and risks have been adopted, and group issues are now incorporated into off-site analysis of banks that are members of banking groups. Supervisory colleges have been established for six Kenya-headquartered banks. The CBK plans to have colleges in place by 2016 for all Kenyan banks with significant cross-border operations. Currently, the CBK is in the process of implementing a framework for assessing the quality of regulation and supervision of host supervisors. Although rigorous implementation will need continuing attention, the CBK has made significant progress over the past few years. With the support of AFRITAC East, Rwanda has also started the implementation process. Uganda and Tanzania are ahead in implementing a framework similar to that of the CBK, with pilot examinations (supported by AFRITAC East) being planned for the second half of 2015. Currently, the East African Community countries are working on harmonizing their supervisory frameworks with the aim of establishing and implementing regional standards for consolidated supervision by the end of 2018.

VI. Albania: Strengthening the Regulatory Framework for Investment Funds

By Cristina Cuervo

Albania's 2013 FSAP stressed the need to strengthen liquidity management, capital standards of funds management companies, disclosure requirements, and the valuation of investment fund's assets. MCM has delivered TA on the review of the existing system for valuation of funds' assets and on the transition to a mark-to-model methodology approach.

The investment fund industry in Albania is three years old and comprises only two funds. However, the steady increase of the unit Net Asset Value (NAV) of the largest fund and a yield that is much higher than that of deposits in an environment that does not offer a variety of investment products have made this product very popular among Albanian investors.

In contrast to international practice, which provides for the pricing of assets at fair value, Albanian legislation permits investment funds to classify their assets as held-to-maturity and to value them at amortized cost. Accordingly, the existing funds value more than half of their portfolios at amortized cost, causing the NAV of the units not to reflect the fair value of the assets of the funds. The market for Albanian government securities is highly illiquid, which makes fair value pricing of the assets in the funds challenging. In the absence of a market, mark-to-model valuation of the funds' portfolios comes closest to providing a fair value of the assets.

Main Elements of the Program

TA aimed at supporting the reforms and focused on:

- Reviewing existing regulatory requirements for the valuation of investment funds' assets and evaluating the amendments needed to ensure that funds use a fair value approach;
- Assessing, together with the authorities and fund managers, the portfolio situation of the funds and the most appropriate timing to transition to a fair value model for investment funds' assets without compromising stability;
- Advising the authorities on how to properly communicate the changes in the framework to the public and investors; and
- Doing a high-level analysis of the supervisory practices used in the surveillance of investment funds and providing advice on its improvement, in the short and long term.

"The TA provided to Albanian Financial Services Authority was important and timely. Given the newly developed investment funds market, the Albanian FSA was in need of support to gear its function with the supervision and regulation of this sector. In addition, the TA provided a broader perspective on how to approach the issues related to a fast growing industry as well as to improve the current practices as per international ones. The TA induced a process of intensive interaction between the regulator and the industry, including other relevant players, such as the Ministry of Finance, the Bank of Albania, the auditing companies and the National Committee on Accounting, a process that proved beneficial to us all in terms of understanding of the problem and finding a solution."

Enkeleda Shehi
Chairperson
Albanian Financial Services Authority

Outcomes

The Board of the Albanian Financial Services Commission approved a new regulation in June 2015 that introduces fair value pricing for investment funds' assets and agrees with the existing funds' managers on a phased implementation. Any newly registered investment fund will have to value its assets at fair value, and existing funds will transition to a full fair value approach over a period of two years. With the approval of the regulation, the authorities have complied with the program benchmark on the valuation of investment funds' assets.

VII. Cyprus: Public Debt Management

By Thordur Jonasson

During FY 2015, MCM provided TA to the Ministry of Finance in Cyprus in the context of the Economic Stabilization Program. The TA aimed to assist the Public Debt Management Office (PDMO) in formulating an MTDS, improving their domestic market access, and developing their investor relations function. The TA was closely coordinated with ongoing efforts provided by other departments of the IMF and with the EU to ensure effectiveness and good sequencing of reforms.

Preparing an MTDS

As a result of the financial crisis, public debt increased significantly and access to the international financial markets was lost, following significant government borrowing to support private sector financial institutions and a subsequent drop in output. As the Economic Stabilization Program progressed, preparing for market access became a greater priority but required taking clear steps to prepare a MTDS and to strengthen debt management capacity to implement the borrowing program, engage investors, and to move towards strategic debt management that weighs debt-servicing costs against portfolio risks.

Main Elements of the Program

The main elements were:

- Modeling of borrowing strategies and stress testing using the MTDS Analytical Tool;
- Risk analysis of the debt portfolio;
- Assessment of the investor base;
- Cost and risk analysis of different borrowing strategies;
- Support with preparing a debt management strategy document and an ABP; and
- Capacity building of staff.

Outcomes

The PDMO prepared an MTDS for 2015–19, which encompasses all central government debt and takes account of contingent liabilities. The MTDS was approved by the Council of Ministers in December 2014 and published on the PDMO's website. An ABP, which sets out PDMO's mandate to implement the MTDS, was then approved by the Minister of Finance.

> *"TA has played a catalytic role in improving public debt management in Cyprus, by making it a highly visible element within the overall economic policy framework, with ownership at the highest level, anchored in a transparent MTDS with sequenced actions to achieve reliable market access at a fiscally sustainable cost and appropriate degree of risk. We have subsequently undertaken successful international issuances in 2014–15 and restored the orderly functioning of the domestic T-Bills market."*
>
> ***Phaedon Kalozois***
> Director, PDMO

Debt Market Development and Investor Relations

To prepare to access the market again, it was important to reduce risks in the debt portfolio by adjusting its structure, for example by improving the maturity profile and diversifying the investor base. As stated in the MTDS, Cyprus decided to diversify its investor base gradually and to improve the structure of its debt portfolio using Liability Management Operations. This involved strengthening investor relations as well as taking steps to introduce a market-based approach to domestic borrowing by establishing regular auctions of government securities.

Main Elements of the Program

The main elements were:

- Assessment and a development strategy for the domestic government securities market;
- Recommendations on appropriate transparency and a phased approach for introducing Treasury bills (T-bills) and Treasury bonds through auctions over a set time period; and

- Measures to improve transparency, such as regular sharing of information with investors, responding to investor queries, and maintaining a contact database of investors.

Outcomes

The PDMO undertook a road show and entered the Eurobond market by issuing a 7-year benchmark. The proceeds were used for Liability Management Operations that improved the maturity profile and reduced debt servicing costs by pre-paying more expensive debt. The PDMO re-activated the T-bill market by auctioning 13-week T-bills that establishes a market reference for short-term debt instruments.

VIII. Nicaragua: International Bond Market

By Guilherme Pedras

Nicaragua requested TA to help authorities assess the advantages and disadvantages of an international bond issue. Although Nicaragua's macroeconomic performance has improved in the recent years, the total public sector debt was estimated at 54 percent of GDP in 2012 (before pending debt relief). In addition, the shallowness of the domestic market hindered the funding capacity of the government. Under these circumstances, the authorities were exploring options to diversify their funding sources, including through the debut issuance of a bond in the international markets.

"As a result of the TA, the authorities acquired a better understanding on a number of strategic and operational issues to be considered before a first-time bond issuance in the international markets. The TA was also useful to prepare the country´s strategy for engaging with the rating agencies."

Carlos G. Sequeira
Gerente División Internacional
Banco Central de Nicaragua

Main Elements of the Program

The objectives of this project were threefold: (i) to provide authorities with initial recommendations on the necessary steps to issue bonds in the international market; (ii) to help authorities better define whether an international bond issue represents a good funding alternative, and the debt management objectives; and (iii) to assess the status of the domestic market and identify potential hindrances to obtain local funding, as well as to help authorities improve their investor relation practices.

The TA missions noted that issuing international bonds is a complex and costly process, which should be the result of careful analysis. It highlighted that the deepening of local debt markets should be pursued regardless of the decision to issue an international bond. It also laid out the necessary steps to be taken before a decision is made on international bond issuance. It noted that while there are merits to issuing bonds in the international market, a few important aspects should be carefully evaluated, including the cost of issuance, required funding needs, operational readiness to issue, the externalities involved in the process, and the existence of funding alternatives—including access to the domestic market.

Outcomes

The authorities were receptive of the message that a debut issuance by Nicaragua would greatly benefit from a deeper analysis of the matter, as well as some additional preparatory work and opted to work on these prior to any possible issuance. In this regard, the authorities identified a series of operational, institutional, and technical steps they consider necessary for the issuance to succeed. In addition, the authorities fleshed out their strategy for engaging with rating agencies and hired a financial advisor to assist in the process.

IX. South Sudan: In Pursuit of a Modern Central Bank

By Judit Vadasz and Brenda Sylvester

As the newest member of the IMF, South Sudan celebrated four years of independence in July 2015. The country's TA needs are massive and are being tackled by a concerted effort from several TA providers, including the Fund, the U.S. Agency for International Development, and the World Bank. In 2012, the IMF initiated the creation of the South Sudan Trust Fund for Capacity Building (Trust Fund), which has been generously financed by the EU, DFID, and Norway; MCM has been the primary Fund department to draw on its resources.[25]

Main Elements of the Program

MCM's primary focus has been working with the BSS to help them build a modern central bank. The department has provided TA in the areas of monetary and foreign exchange operations, banking supervision, accounting, reserves management, and payment systems, and previously provided TA on central bank modernization. Currently, MCM has four resident advisors covering all of the above areas except payment systems, which is addressed through peripatetic expert visits.

Outcomes

MCM TA recommendations have been well received overall, and, while the pace of implementation is slow due to the factors mentioned above, notable progress has been made in certain technical areas:

- **Monetary and Foreign Exchange Operations:** BSS staff received training on how to conduct a foreign exchange auction system, and a new regulatory framework for foreign exchange buying and selling and reporting among banks has been developed.
- **Banking Supervision:** Organization and coordination of work for both on-site and off-site supervisory staff have improved. Communication between teams and the quality and format of on-site reports have improved; and regular reporting to BSS management has been enhanced.
- **Accounting:** After independence, the internal audit and accounting areas in the BSS were very underdeveloped. With assistance from the resident advisor, an overwhelming majority of the domestic currency accounts from the 2007-12 manual ledger records have been reconciled with the BSS system ledgers; a work plan is in place with clear designation of responsibilities and deadlines for handling tasks emanating from the 2012 external audit; and BSS staff is receiving on-the-job training on IFRS and accounting practices.
- **Payment Systems:** A stocktaking report, which laid the foundation for the crafting of a national vision for the modernization of the payment system, was drafted, finalized, and is now awaiting BSS management approval; and regulations for mobile payments and banking are being drafted.
- **Reserves Management:** BSS staff has increased their level of transparency and accountability of the management of foreign reserves and mineral resources.
- **Investment Guidelines for Reserves:** Guidelines were prepared and adopted, and accounts were opened at central banks to channel foreign reserves and increase their safety. In addition, roles and responsibilities of various institutions involved in managing the reserves of the country were clearly defined. On an operational level, front- and back office teams at the BSS are better trained on the organizational setup for portfolio management of foreign exchange reserves.
- **Central Bank Modernization:** This area has seen the least progress, although a draft organizational framework that outlined the structure, mandates, and responsibilities for departments, as well as a medium-term strategic plan, were presented to the BSS management.

[25] Prior to the establishment of the Trust Fund, MCM provided TA using its own resources and also resources provided by Norway, which financed two projects (central bank modernization and monetary operations).

X. Low-Income Countries: Monetary Policy Modernization

By Carlos Serrão

A joint AFRITAC South-MCM TA program was designed to modernize monetary frameworks in selected countries of Sub-Saharan African through a series of TA missions to Angola, Mozambique, Zambia, Madagascar, Mauritius, and the Seychelles.

Countries with evolving monetary regimes and aspiring to move away from fixed exchange rate or monetary targeting regimes are modernizing monetary policy along the path adopted in more advanced economies toward IT regimes. There is a rich literature providing guidance on adopting IT in countries that have developed financial markets and where monetary transmission is either robust or can be strengthened within a predictable horizon. However, there has been less guidance for LICs where financial markets are embryonic and transmission mechanism is weak due to an unfavorable environment. The IMF Working Paper "The Journey to Inflation Targeting" provides a conceptual framework to guide policy makers based on a careful assessment of the country's economic and financial environment as well as the analytical and operational capacity of the central bank. MCM and AFRITAC South staff worked with authorities to offer options for developing forward-looking and interest-rate focused operating frameworks in ways that are aligned with existing capacities at the central bank as well as the country's enabling environment.

Main Elements of the Program

Although this type of program cannot have a single configuration that fits all countries, the elements are based on a broad consensus that has emerged among academics and central bankers and include: the primacy of price stability as the key objective of monetary policy; the need for flexibility with regards to monetary targets in countries that continue to rely on them; the benefits of forward-looking monetary policy; the importance of developing the in-house capacity for forecasting and policy analysis; and the importance of the central bank's control over short-term interest rates for monetary policy transmission.

Outcomes

The program has registered a number of successes:

- The National Bank of Angola has made a significant improvement in its in-house forecasting analysis.
- The Bank of Zambia has strengthened its forecasting and policy analysis capacity, and is implementing operational frameworks that enable central bank's control over short-term interest rates.
- The Central Bank of Seychelles is anchoring its monetary policy framework through a reserve money target, and has moved to a quarterly average reserve money target, surrounded by a target corridor, calibrating its monetary stance by targeting surplus liquidity. The IMF has had an extensive TA program to also develop their forecasting skills and ability to analyze the economic development in a more structural way.
- Support to the Bank of Mauritius staff has allowed them to further improve the forecasting model and to prepare for the presentations for the next monetary policy committee meeting.
- Two missions were organized to support the efforts of the Central Bank of Mozambique in macroeconomic modeling and model-based forecasting, and TA missions supported the modernization process in liquidity management and operations.
- Several missions were arranged to support the efforts of the Central Bank of Madagascar in the modernization of its legal framework and in strengthening its liquidity and inflation forecasting framework and internal control systems.

The management and staff of all central banks have now a greater awareness and understanding of the challenges involved in the transition to monetary frameworks firmly anchored in the building blocks for effective monetary policy, and the authorities have taken concrete steps to implement the key elements of the program.

XI. Namibia: Establishing an Effective Macroprudential Policy Framework

By Hideyuki Tanimoto

The Namibian authorities requested MCM assistance in establishing an effective macroprudential policy framework. The case represents an example of the growing TA provided by Fund staff in the area of macroprudential policy, drawing on the insights and guidance collected in the "Staff Guidance Note on Macroprudential Policy." The program also supports efforts to mainstream macrofinancial linkages in Fund surveillance, as Namibia is one of the 23 pilot countries in the Fund-wide initiative. The specific objectives of the TA were to:

- Assess key sources of systemic risk in the financial system;
- Advise on possible policy options to address identified risks; and
- Suggest ways to strengthen the institutional framework to implement macroprudential policy, and improve data access and analytical capacities of the relevant authorities.

Over the past few years, Namibia experienced rapid growth of private credit against the backdrop of relatively strong economic performance. Growing household and corporate indebtedness and rising house prices have increasingly raised concerns about a potential buildup of macrofinancial risks. Moreover, the financial system is characterized by an unusually large share of nonbank financial institutions (NBFIs) with close linkages with the banking sector, NBFIs' deposits being a main source of funding for banks, and significant data and information gaps, which could potentially hamper the authorities' ability to assess and contain systemic risks. In addition, there are close links with the South African financial system, as three large commercial banks are subsidiaries of South African banks and make up 70 percent of the banking system.

Main Elements of the Program

The TA helped the authorities identify and assess the main sources of systemic risk facing Namibia, and suggested a set of policy options to address risks from rising house prices and household indebtedness, which were tailored to the characteristics of the Namibian financial system. It also stressed that while putting in place macroprudential tools is important to enhance the resilience of the financial system, reducing systemic risk associated with the housing price boom also required addressing the acute supply shortages and speculative housing demand through other policies, including structural reforms and fiscal incentives.

With the vast nonbank sector and its close interlinkages with the banking system being a key source of systemic risk, the TA team emphasized the importance of strengthening the supervision of the NBFIs, and the need to address the significant data, skill, and resource gaps that make close monitoring of these institutions, their activities, and contribution to systemic risk very challenging. Effective cooperation between the supervisory authorities for banks and nonbanks as well as with foreign authorities is essential to monitor intragroup transactions and exposures and the associated risks. The TA recommended ways to address identified gaps in information and data to assess risks and calibrate policy tools, to improve the authorities' capacity to monitor and assess systemic risks, and to formalize the institutional framework by establishing an explicit macroprudential mandate and supportive arrangements to pursue this mandate effectively.

Outcomes

The TA provided a holistic assessment of the financial system as permitted by the available data and information and recommended the key ingredients for an overall framework for effective implementation of macroprudential policy. The proposed framework, once fully adopted, should help the authorities manage emerging risks in the financial system and, ultimately, enhance the resilience and stability of the financial system.

XII. Slovenia: Strengthening the Crisis Management Framework

By Alvaro Piris

Based on lessons learned from recent bank interventions, the Slovene authorities are reforming their bank resolution and crisis preparedness frameworks. Technical assistance has been provided to help the authorities improve their capacity to deal effectively with banks in severe difficulties or bank failures, while protecting financial stability and minimizing costs for the state.

Slovenia has a track record of several bank interventions. In recent years, four banks, including the largest Slovene banks, have been restructured, and two smaller institutions wound down. While financial stability and confidence in the banking system was successfully preserved through the turmoil, the interventions resulted in costly nationalizations, contributing to a sizeable increase in public debt. Meanwhile, as an EU member, Slovenia is also reforming its laws in this area to conform to the EU's Bank Recovery and Resolution Directive. These developments made it a propitious time to bring international experience to bear on how to best organize and implement reformed bank resolution and crisis management functions in the Bank of Slovenia (BSi).

Main Elements of the Program

IMF staff advised the authorities in three key areas: bank resolution, deposit insurance, and crisis preparedness and management. Maintaining a clear distinction between bank resolution (which involves dealing efficiently with any problem bank), and crisis preparedness and management (which is concerned with containing the effects of acute stress in a major part of the financial system, from any source) was an important condition for success in strengthening the framework. Also, a well-defined role for the deposit insurance scheme (an instrument to protect small depositors and help in resolution) is a key feature to ensure that the bank resolution framework is well-designed and functional, minimizing chances that a bank resolution case results in a wider crisis. With this background, the analysis and advice focused on operational and managerial issues in the BSi, proposing specific actions that the authorities could implement.

"We sincerely thank MCM for the excellent Assistance and very productive support. The cooperation with the IMF is and has been of outmost importance to us."

Vida Šeme Hočevar
Secretary General
Banka Slovenije

Outcomes

Progress has been made across most of the fourteen recommendations made by the mission:

- **Bank resolution.** The BSi has established a Resolution Unit, with a reporting line directly to the Governing Board, separate from supervisory functions, which will be responsible for policy and preparatory work in resolution. An ad hoc resolution team drawing on several different departments across the BSi was also created, as a "pop-up" or stand-by operational unit that will be activated in case of need in an actual resolution. Preparatory work on developing manuals and procedures, and planning data and information gathering is also well underway.
- **Deposit insurance scheme.** Legal changes are planned for the last quarter of 2015 that would give the deposit insurance scheme legal personality and an organic law, while it will remain structurally within the BSi. Assuming this proposal is adopted by the Parliament, a reserves target range will be set, for an *ex ante* funded scheme, with adequate start-up funds.
- **Crisis preparedness and management.** The key recommendations focused on arrangements for organizing the work across institutions through revival of coordinating bodies. In particular, the authorities plan to revive work on crisis management and contingency planning at the national level through a Crisis Management Group, with representation from the Ministry of Finance and other supervisory agencies. BSi has also opened a debate on where responsibility for this function should reside, and the scope to eliminate redundancies across a number of bodies with roles in inter-agency coordination or systemic risk assessment and prevention.

Looking Forward

Looking ahead, MCM will retain its focus on building the Fund's member countries' institutional capacity with a view to strengthening financial stability frameworks, monetary operations, and financial development. Within this overarching goal, the growing global demand for MCM's technical expertise highlights the importance of careful prioritization in line with the MCM TA Strategy 2014-2017, which is grounded in Fund-wide TA priorities. MCM will continue to prioritize support to crisis countries, transition and fragile states, and LICs, while improving financial sector oversight globally and seeking synergies between TA and other Fund activities.

MCM has developed substantial momentum during the past year in implementing the TA Strategy, and the focus going forward will be to sustain this momentum. TA work over the next year will involve:

- Moving forward with the implementation of RBM, building on recent progress in developing supporting systems and the catalogues of standard result indicators;
- Emphasizing programmatic approaches to TA with their emphasis on prioritized, comprehensive and sustainable capacity building;

Reaping the benefits of regional approaches and joint work with RTACs;

- Expanding the delivery of financial stability TA missions, drawing on diagnostic tools used in the FSAP;
- Developing and deploying methodologies to better assist in cutting edge areas, as has been done with Basel II/III implementation;
- Streamlining TA reports to enhance quality and content in a standard form;[26] and
- Promoting financial sector development in line with the Fund's new initiatives[27] in this area, including through capacity building efforts for strengthening financial markets.[28]

MCM remains committed to working with its internal and external partners to rise up to the challenges of continually evolving TA needs and help member countries successfully carry out their reform agendas towards more sound and efficient financial systems.

[26] MCM has developed guidelines and initiated work for streamlining TA reports in standard form in terms of glossary, executive summary, recommendations, sections, clear message, and length of the reports (not exceeding 20 pages, excluding executive summary, charts/tables, and appendices).

[27] These initiatives are outlined in the FfD papers: IMF, 2015a and 2015b.

[28] In this context, MCM plans to enhance its TA program (particularly for developing countries) for sustainable financial sector development by building capacity to balance financial market deepening with financial stability and improving data collection and dissemination for better macrofinancial policy decision making.

Table 1. MCM Mission Activity By Region and Core Functions, FY2015 (In FTEs)

Areas	AFR	APD	EUR	IMF	MCD	WHD	Total
Surveillance	1.8	0.8	3.3	0.6	1.8	2.5	10.9
Art IV	0.2	0.3	0.4		0.1	1.8	8.0
FSAP	1.5	0.4	0.2		1.7	1.9	7.6
Other Surveillance	0.1	0.1	0.7	0.6	0.0	0.1	1.7
TA	***29.3***	***12.6***	***4.9***	***1.9***	***7.0***	***17.7***	***73.3***
Expert	27.6	10.9	3.4	1.4	5.8	16.2	65.4
Staff	1.7	1.7	1.5	0.4	1.1	1.5	7.9
UFR	0.0	0.0	1.1	0.0	0.5	0.1	1.8
Other	0.3	0.1	0.2	2.6	0.0	0.0	3.3
Grand Total	**31.3**	**13.3**	**9.5**	**5.1**	**9.3**	**20.4**	**89.2**

Table 2. Trends in TA Delivery by Regions, FY 2010-15 (In FTEs)

Regions	2010	2011	2012	2013	2014	2015
AFR	22.4	20.7	25.9	26.7	30.6	29.3
APD	10.6	9.7	11.2	10.9	11.1	12.6
EUR	8.5	6.5	6.1	5.7	6.3	4.9
IMF	0.1	0.1	0.1	0.4	0.5	1.9
MCD	10.2	11.3	9.3	9.3	6.5	7.0
WHD	9.5	10.1	13.2	12.7	15.0	17.7
Grand Total	**61.3**	**58.4**	**65.9**	**65.7**	**70.0**	**73.3**

Table 3. Mode of TA Delivery by Region, FY 2015 (In FTEs)

Modes	AFR	APD	EUR	IMF	MCD	WHD	Total
HQ Staff	1.7	1.7	1.5	0.4	1.1	1.5	7.9
Short-term experts	5.9	3.9	2.7	1.4	2.9	4.9	21.7
Long-term experts	16.8	6.8	0.7	0.0	2.1	7.9	34.3
RTACs	4.9	0.2	0.0	0.0	0.9	3.4	9.3
Grand Total	**29.3**	**12.6**	**4.9**	**1.9**	**7.0**	**17.7**	**73.3**

Table 4. MCM's Long-Term Resident Experts (as of April 30, 2015)

Country	Affiliation	Topic	Funding Source
Gabon	AFRITAC Central	Banking Regulation & Supervision	AFRITAC Central
Gabon	AFRITAC Central	Public Debt Management	AFRITAC Central
Tanzania	AFRITAC East	Banking Supervision	AFRITAC East
Tanzania	AFRITAC East	Monetary Operations	AFRITAC East
Mauritius	AFRITAC South	Banking Supervision	AFRITAC South
Mauritius	AFRITAC South	Monetary Operations	AFRITAC South
Cote d'Ivoire	AFRITAC West	Debt Management	AFRITAC West
Cote d'Ivoire	AFRITAC West	Banking Supervision	AFRITAC West
Ghana	AFRITAC West II	Banking Supervision	AFRITAC West II
Ghana	AFRITAC West II	Monetary Systems and Payments	AFRITAC West II
Cameroon	BEAC	Monetary Operations	Japan TA Subaccount
Cambodia	National Bank of Cambodia	Banking Supervision	Japan TA Subaccount
Guatemala	CAPTAC	Monetary Operations	CAPTAC
Guatemala	CAPTAC	Financial Supervision	CAPTAC
Barbados	CARTAC	Financial Supervision Resident	CARTAC
Barbados	CARTAC	Financial Stability Resident	CARTAC
Antigua and Barbuda	ECCB	Debt Management	Canadian TA Subaccount
St. Kitts & Nevis	ECCU/ECCB	Asset Management Corporation	Canadian Bilateral
St. Kitts & Nevis	ECCU/ECCB	Banking Supervision	Canadian Bilateral
Ghana	Central Bank of Ghana	Monetary and Foreign Exchange	DFID Ghana
India	Reserve Bank of India	Systemic Risk Analysis	FIRST
Jamaica	Bank of Jamaica	Nonbank Financial Supervision	Canada Bilateral
Lao, PDR/Myanmar	Central Bank of Lao and Central Bank of Myanmar	Financial System Modernization	Japan TA Subaccount
Lebanon	METAC	Banking Supervision	METAC Phase III
Myanmar	Central Bank of Myanmar	Central Banking	Japan TA Subaccount
Myanmar	Central Bank of Myanmar	Banking Supervision	Japan TA Subaccount
Nepal	Nepal Rastra Bank	Banking Supervision	Japan TA Subaccount
Nigeria	Central Bank of Nigeria	Banking Supervision	UK DFID Nigeria TA
Indonesia	Otoritas Jasa Keuangan	Banking Supervision	Japan TA Subaccount
Fiji	PFTAC	Financial Sector Supervision	PFTAC
South Sudan	Bank of South Sudan	Banking Supervision	South Sudan Trust Fund
South Sudan	Bank of South Sudan	Monetary Operations	South Sudan Trust Fund
South Sudan	Bank of South Sudan	Reserves Management	South Sudan Trust Fund
South Sudan	Bank of South Sudan	Accounting	South Sudan Trust Fund
Suriname	Central Bank of Suriname	Central Bank Modernization	Canada Bilateral
Tunisia	Central Bank of Tunisia	Banking Supervision	Canada Bilateral
Zambia	Bank of Zambia	Central Banking	Norway TA Subaccounts

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