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BACKGROUND PAPER

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# The IMF and Capacity Development—Case Studies for Europe

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# The IMF and Capacity Development—Case Studies for Europe

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The views expressed in this Background Paper are those of the author and do not necessarily represent those of the IEO, the IMF, or IMF policy. Background Papers report analyses related to the work of the IEO and are published to elicit comments and to further debate.

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## ABBREVIATIONS

| | |
|---|---|
| ACES | Analytical Cost Estimation System |
| AD | Area Department |
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| BOA | Bank of Albania |
| CD | Capacity Development |
| CDD | Capacity Development Department |
| CSD | Central Securities Depository |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| ECF | Extended Credit Facility |
| EFF | Extended Fund Facility |
| EU | European Union |
| FSAP | Financial Sector Assessment Program |
| FSSR | Financial Sector Stability Review |
| FTE | Full-Time Equivalent |
| GDP | Gross Domestic Product |
| HQ | IMF Headquarters |
| HR | Human Resources |
| ICD | Institute for Capacity Development (IMF) |
| IFI | International Financial Institution |
| JVI | Joint Vienna Institute |
| LEG | Legal Department (IMF) |
| LTX | Long-Term Expert |
| MCM | Monetary and Capital Markets Department (IMF) |
| MTRS | Medium-term Revenue Strategy |
| NABU | National Anti-Corruption Bureau of Ukraine |
| NBM | National Bank of Moldova |
| NBU | National Bank of Ukraine |
| NPL | Non-Performing Loan |
| PA | Prior Action |
| PATS | Participant and Applicant Tracking System |
| PFM | Public Financial Management |
| PIM | Public Investment Management |
| PIMA | Public Investment Management Assessment |
| PPP | Public-Private Partnership |
| RBM | Results-Based Management |
| RCF | Rapid Credit Facility |
| RFI | Rapid Financing Instrument |
| SB | Structural Benchmark |
| SBA | Stand-By Arrangement |

| | |
|---|---|
| SECO | Swiss State Secretariat for Economic Affair |
| SOE | State-Owned Enterprises |
| STA | Statistics Department (IMF) |
| STX | Short-Term Expert |
| TA | Technical Assistance |
| TADAT | Tax Administration Diagnostic Assessment Tool |
| TIMS | Travel Information Management System |
| USAID | United States Agency for International Development |
| VAT | Value-Added Tax |
| WB | World Bank |
| WEO | World Economic Outlook |

## Overview

These country case studies provide evidence and analyze the relevance, coherence and effectiveness of IMF engagement via capacity development (CD). The selected countries—Albania, Moldova, and Ukraine—used a significant amount of IMF CD during the period under study (2012–2020). IMF-wide, Albania and Ukraine were considered high-intensity CD users and Moldova a medium-intensity user. The countries were also high users of training, especially during reform periods (Table 1).

**Table 1. Albania, Moldova, and Ukraine: Overview Indicators**

| | Albania | Moldova | Ukraine |
|---|---|---|---|
| CD Missions (Total, 2012-20, TIMS) | 232 | 157 | 377 |
| CD in FTE/Year (FY2012–21, TIMS) | 2.6 | 2.1 | 5.8 |
| CD FTE (percentage of EUR FTEs, FY2012–21, TIMS) | 8.3 | 6.7 | 18.2 |
| CD intensity rank (compared to other EUR FY2012-21, ACES) | 3 | 4 | 1 |
| CD intensity rank (compared to all recipients, FY2012-21, ACES) | 45 | 49 | 2 |
| Training participant weeks/yr (FY2012–21, PATS) | 91.6 | 145.1 | 194.2 |
| GDP per capita PPP (USD, 2019, WEO) | 14,534.1 | 13,440.5 | 13,442.1 |
| Rank GDP per capita (2019, WEO) | 93 | 99 | 98 |
| Population (million, 2019, WEO) | 2.9 | 2.7 | 41.7 |
| UN Human Development Index (rank, 2020, UN) | 69 | 90 | 74 |
| Government Effectiveness Indicator (rank, 2019, WB) | 104 | 130 | 126 |

Source: IEO staff calculations.

The countries are diverse in terms of size, type and intensity of use of IMF resources during the decade under review, with Ukraine in continuous program mode (much of which with exceptional access), Moldova an intermittent borrower with eligibility for concessional IMF financing, and Albania having a single Extended Fund Facility (EFF). Albania and Moldova recently benefitted from emergency support under the Rapid Financing Instrument/Rapid Credit Facility (RFI/RCF). The counties exhibited significant differences in economic challenges, political and security environments, and absorptive capacity. The selection of countries avoids overlaps with country cases studied in the context of other IEO evaluations that included CD assessments during the period under review (findings from these studies are summarized in Appendix I).

The case studies are based on interviews of stakeholders (including, current and former country officials, Executive Directors, IMF staff, other CD providers, donors) and review of documents (IMF staff reports, CD reports, and relevant non-IMF documents) and relevant databases (Results-Based Management (RBM), Travel Information Management System (TIMS), Analytical Cost Estimation System (ACES), Participant and Applicant Tracking System (PATS)).

Each country case study includes an overview of the country's main economic developments, policy challenges, and CD provided by the IMF during the period under review; a holistic review of the IMF's engagement in the key areas of the evaluation (CD strategy, prioritization and allocation; delivery; partnership coordination and dissemination; effectiveness and impact), with examples that are of particular relevance to support broad findings; and an overall assessment of the relevance, coherence, effectiveness, impact, and sustainability of IMF CD for the country.

## Common Findings

Overall, IMF CD contributed substantially to improving policy frameworks and policymaking in the three countries during the period studied, and was essential to help overcome economic and financial shocks and crises. The extent of the contribution depended on the starting point for each country in terms of policymaking capacity, the incidence and intensity of economic and financial vulnerabilities, the reform-mindedness of the authorities, and the absorptive capacity of recipient institutions. For Albania, the main challenge for IMF CD was to further strengthen policy-making frameworks to reduce vulnerabilities from policy indiscipline, amid some governance weaknesses and against the background of comparatively stronger commitment to reform motivated by the ambition of European Union (EU) accession. In Moldova, the challenge was to establish basic institutions and policy-making frameworks in an environment that was not receptive to reform and rife with governance problems, amid low absorptive capacity. In Ukraine, CD faced daunting challenges from an unsettled economic, political and security situation and strong vested interests against reform, amid severe weaknesses in rule of law. IMF CD by and large optimized various modes of delivery according to project needs and country preferences and leveraged its high quality and responsiveness. Areas for improvement included advice on how to enact change, and ensure follow-up, coordination among recipient institutions and CD providers, and information dissemination. To differing degrees across the three countries, weaknesses in rule of law, corruption, and entrenched anti-reform interests challenged CD work, especially in terms of impact and sustainability. While this factor cannot be addressed exclusively within the IMF CD toolkit, a more strategic approach to the issues surrounding governance could be beneficial.

## Relevance

IMF CD was generally highly relevant, of high quality, and well-tailored to country circumstances, scoring very highly in comparison to other providers along these dimensions, but with some scope for improvement. Informed by program and surveillance considerations and often backed by standard assessments and tools (e.g., Financial Sector Assessment Program (FSAP), Financial Sector Stability Review (FSSR), Tax Administration Diagnostic Assessment (TADAT), Public Investment Management Assessment (PIMA)), it was well aligned with country needs and largely but not always fully overlapped with the authorities' priorities. Differences between IMF and authorities' priorities were justified when the latter attempted to avoid reforms that would diminish excessive politicization of decision making (e.g., central bank independence in Ukraine), but less so when the IMF suggested areas for CD which, while aligned with IMF institutional priorities, were premature from the countries' perspective (e.g., financial inclusion in Moldova, advanced supervisory techniques in Ukraine). Earlier use of broad assessment tools would have been beneficial to help identify relevant interventions (e.g., FSSR for Moldova) while regular discussion of a comprehensive country CD strategy with the authorities could have helped align priorities and foster ownership. In this context, the IMF could have helped apply more widely lessons from exemplary initiatives by some other institutions in the region (e.g., National Bank of Ukraine in 2014–2016) and leveraged approaches by other CD providers (EU reform architecture in Ukraine, EU Public Financial Management (PFM) reform agreement in Albania).

Governance weaknesses were obstacles to effective reforms, with macro-financial ramifications to different degrees in all countries and could have been addressed earlier and in a more comprehensive manner. IMF CD tackled governance issues on an institution-by-institution basis in its core competency areas. While this led to improvements in governance of central banks and the banking system as well as in several aspects of fiscal management, the effectiveness and impact of such reforms was cast in doubt when the judiciary was (ab-)used to put pressure on decision makers in favor of vested anti-reform interests (e.g., against supervisors in Moldova and Ukraine) or political interference was brought to bear to override built-in safeguards (e.g., managerial appointments in Ukraine). This experience raises the question of whether IMF CD should have pushed more strongly for a more holistic approach on anti-corruption (in all three countries), going beyond advocating standard/best international practice in its core areas of expertise to safeguard the governance reforms, including by extending the reach of IMF CD to some key judicial reforms (in both Moldova and Ukraine).

IMF CD adjusted well to country circumstances and took into account limits to absorptive capacity, although some further fine-tuning would have been desirable, in particular by focusing advice on the "how" of implementation and tackling common reform needs across the public sector, such as public sector human resource management. The IMF understood the need to staff its CD teams with experts who had the relevant expertise and country experience to be effective, though there were some occasions where long-term resident experts could have been matched better, more resident experts could have been deployed, and short-term experts could have been made available more continuously to assist in the implementation of their projects. More generally, while IMF CD was excellent in terms of conceptualization and analysis, some more attention to hands-on implementation would have been desirable, especially in view of limited absorptive capacity (e.g., Moldova). Constraints on capacity persisted as a result of common HR management issues across the public administration, causing high staff turnover and skill deficiencies (though less so for central banks). While the IMF provided copious amounts of training despite significant leakage of trained staff to the private sector, more attention to reform of HR policies to promote staff retention and job satisfaction could have been beneficial. IMF CD should consider assessing the country's training needs, and propose training policies in the context of improved HR policies.

## Coherence

IMF CD was closely aligned with program needs and surveillance messages, with programs being primary drivers of priorities, volume and timing of CD. Mutual support between IMF CD and IMF programs reinforced the impact of IMF engagement, especially when reform-minded governments were in office. This link waned as time elapsed following successful program completion (e.g., Albania). When programs went off course and the authorities were not interested in corrective policies (e.g., pre-2014 Ukraine), IMF CD could not benefit from program support and required a different approach. During those episodes, IMF CD adapted to provide assistance more on technical matters than on reforms requiring political capital and continued long-standing engagements, strategies that paid off when reform momentum returned (e.g., adoption of inflation targeting in Ukraine).

The association of IMF CD with programs needs to be managed carefully. Programs tend to focus on resolving immediate needs, leading program-related CD to concentrate on near-term issues (e.g., finding revenue to close budget gaps), with proposed solutions often not fully congruent with medium-term policy goals, which were seen not to be achievable in the time frame of the program (e.g., creating an efficient and more equitable tax structure). Programs should attempt to balance both by including some meaningful progress on CD reforms with long gestation periods. Programs in cases where the window for reform opportunity was thought to be limited (e.g., Moldova and Ukraine) often specified an ambitious number of prior actions and front-loaded structural benchmarks to achieve critical mass. However, experience showed that such an approach tended to overstretch implementation capacity, leading to programs going off track relatively quickly, thereby negatively impacting the authorities' reputation and track record. In addition, the link of CD with programs does not guarantee sustainability of CD backed reforms: in some cases, during the program period, reforms were adopted pro forma, with reversals or backtracking evident once programs were completed or off track for unrelated reasons (e.g., aspects of fiscal management in Albania, appointment criteria for key officials in Ukraine). CD for necessary follow-up reforms was not always requested. Finally, it may be important to clarify with the authorities ex ante which CD projects might become embedded in programs with some form of conditionality to avoid blurring the distinction between CD and programs. In some cases (e.g., Moldova), incorporation of CD recommendations in program conditionality after CD had been delivered frustrated the authorities and prompted them to adopt a negotiation stance for all subsequent CD, for which CD teams were not well equipped.

The amount of CD was tapered once a country achieved a level of policymaking capacity judged by IMF staff to be broadly self-sustainable (Albania). To guide this process, it would have been useful to elaborate an explicit country strategy, determining levels, time path and criteria for further CD engagement in agreement with the authorities and ideally coordinated with other CD providers. Strengthening coherence of CD with surveillance might require stronger messaging in the context of Article IV consultations and other public communications about the country.

The relationship between the IMF and the EU needs to be clarified in the context of IMF CD to the countries covered in this background paper. The EU provides considerable funding for IMF CD while at the same time negotiating high-level agreements with prospective members on reforms to policy frameworks to align them with EU regulations and rules. The EU's motivation includes political considerations and its time horizon is often longer than that of IMF CD provided in the context of programs. At the same time, countries are increasingly motivated by the potential for EU accession and association given their perceived benefits. The EU and IMF need to clearly define their respective roles on CD to avoid tensions on substance and to benefit from synergies, including in terms of leverage.

## Effectiveness

Overall, IMF CD was broadly effective (i.e., it met its stated objectives), benefitting from the IMF staff's ability to optimize amid constraints. Features that were particularly helpful were CD's responsiveness and adaptability to changing needs and circumstances, in particular the ability of the IMF to quickly ramp up CD delivery during windows of opportunity for reform (e.g., after the Revolution of Dignity in Ukraine). Effectiveness was positively related to the quality and continuity of engagements of experts, the use of resident advisors, the realism of recommendations in light of country circumstances and the accommodation of political economy considerations. Effectiveness of CD seemed consistently the highest in the area of central banking because of strong ownership from the institution (e.g., Bank of Albania (BOA), National Bank of Ukraine (NBU)) and capacity to retain skilled staff. Other institutions (e.g., Revenue Administrations, Ministries of Finance) were more affected by political developments, capacity constraints or lack of quality of staff. The experience of remote delivery triggered by the COVID-pandemic showed the way for better coordination, more flexible and faster delivery and more peer-to-peer learning, elements which could usefully become part of the permanent CD toolkit.

More attention to advice on how to implement reforms, follow-up and coordinate across recipients and with other CD providers could raise effectiveness of IMF CD. Constraints on absorptive capacity and shifts in political priorities in many cases hampered the authorities' ability to drive implementation. Follow-up worked well under programs and when the authorities had strong ownership, but less so in other cases. IMF CD could consider assisting country authorities in setting up structures that would help sustain reform progress, extending approaches of some central banks which seemed to work comparatively well (e.g., the transformation of the NBU), and joining efforts with other CD providers for high-level reforms requiring political engagement (e.g., with the EU on judicial reforms in Moldova and Ukraine). Similarly, a more formal structure to coordinate within and among a large number of CD providers would benefit effectiveness, not just by avoiding overlaps, but also by actively assigning responsibilities based on comparative advantages and speaking to the authorities in one voice (e.g., along the lines of the EU's reform architecture put in place for Ukraine). Use of in-country IMF CD coordinators (observed in Ukraine) appeared to have had distinct benefits. In this context, and more broadly for transparency and efficiency reasons, more information about IMF CD could be made publicly available and disseminated to relevant stakeholders.

## Impact and Sustainability

IMF CD contributed to sustained reforms and institution building and hence the improvement of macroeconomic and financial conditions in the three countries covered in this study. The central banks and the banking systems were strengthened and parts of the fiscal administration reformed. Without IMF CD it would have been difficult if not impossible to achieve these milestones. However, definite judgments about the long-term impact of IMF CD cannot yet be made. While the path to the EU may provide an anchor for preserving some of the gains, as clearly demonstrated in the case of Albania, there were signs of continued policy indiscipline in all three countries and instances of reversals and backtracking on essential reforms, more so in Moldova and Ukraine. Factors affecting impact overlapped with those determining effectiveness. Limited resources and lack of motivated counterparts due to inadequate human resources (HR) polices in the public administration (especially in Moldova) and political interference (notably in Ukraine) sometimes led to "evaporation" of CD-supported reforms. Training, while beneficial for capacity development, faced challenges to achieve lasting impact as trained staff often left the public administration.

Entrenched anti-reform interests aided by weakness in the judicial system and rule of law were the most significant obstacles to IMF CD achieving sustainable impact, more so in Moldova and Ukraine than in Albania, but were difficult to handle within the CD toolkit. The IMF's standard approach, which improved governance of institutions when there were reform-minded authorities, had durable results if done comprehensively to build critical mass throughout the public sector and if it was accompanied by reforms outside the traditional expertise of the IMF, such as judicial and state-owned enterprise (SOE) reforms. Windows of opportunity for reform were seen to close quickly when such critical mass was not achieved (Ukraine), thus requiring a rapid surge in CD when they occurred, with leverage from programs. One option to achieve critical mass would be to start with a governance assessment (as was done in Ukraine in 2014 and, somewhat belatedly in Moldova in 2020), adopt a change management approach (the success of which was demonstrated by NBU management in 2014–2016), leverage other stakeholders to cover CD outside the IMF's core areas (which happened to some extent with the EU in Moldova and Ukraine to enact judicial reforms), and include political economy considerations to provide some payoff to vested interests in exchange for their support (which remains to be tried in earnest). This is a tall order, likely requiring additional resources for IMF CD to prepare for such comprehensive reforms and harvest synergies with other engagements. Nonetheless, the alternative of IMF CD maintaining a narrower focus on the IMF's core expertise implies the likelihood of policy reversals and setbacks and the need to "rinse and repeat" CD delivery (as for example seen on supervision in Ukraine and some fiscal reforms in Moldova), which is likely to be resource intensive as well.

# ALBANIA: ACHIEVING IMPACT

## I. INTRODUCTION AND COUNTRY OVERVIEW[1]

1. Albania is a small middle-income emerging market economy, which retained market access throughout 2012–2020.[2] Following nearly continuous program engagement with the IMF from 1991 (when it became a member of the IMF) through 2009, it benefitted from one 3-year IMF program (Extended Fund Facility (EFF) 2014–2017) during the period under study. The EFF aimed at: (i) reversing the upward trend in public debt; (ii) restoring domestic banks' lending capacity by bringing down non-performing loans (NPLs); and (iii) easing constraints on growth by undertaking ambitious structural reforms. The EFF was successfully completed, albeit with some delays and some shortfalls in structural reforms. In the context of the COVID-19 pandemic, Albania benefitted from the IMF's rapid financing instrument (RFI) in 2020.

2. Following a strong start in the period under review, Albania's economic performance was challenged by a bout of policy indiscipline and, more recently, significant shocks to the economy beyond the authorities' control (Figure 1):

- A comparatively favorable macroeconomic performance in the aftermath of the global financial and euro area crises was adversely affected by policy indiscipline, which led to a deterioration in public finances, threats to financial stability from NPLs, and flagging growth because of slow progress with structural reforms. Discussions on European Union (EU) accessions were postponed owing to delays in tackling governance and rule of law issues.

- With 2013 elections delivering a strong majority, reform momentum returned, allowing Albania to reduce imbalances, strengthen the financial system and raise medium-term growth. Inflation stayed mostly under control, but unemployment remained chronically high, and weaknesses in governance and institutions persisted.

- The country was hit by a major earthquake in November 2019 followed by the COVID-19 pandemic, causing a sharp decline in output and straining public finances and the external accounts. The authorities responded promptly, but the economic situation remained difficult.

3. Albania's reforms over the past decade were significantly influenced by the prospect of European Union (EU) accession. EU accession discussions restarted in 2014 leading to Albania being awarded candidate status by the EU in June 2014 and a decision to open negotiations was adopted in 2020. As a result, the EU became an important partner and guiding beacon for reforms. The World Bank (WB) and European Bank for Reconstruction and Development (EBRD)

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[1] The material included in this study was drawn from interviews with country officials, staff from the IMF, WB, European Commission (EC), the Slovenia Center for Excellence in Finance, former IMF experts, and bilateral donors, and from documents from the IMF and other IFIs.

[2] In 2019, Albania ranked 118th in the world on the basis of overall PPP-GDP at current prices and 94th on the basis of per capita PPP-GDP constant prices (IMF, WEO October 2021 database).

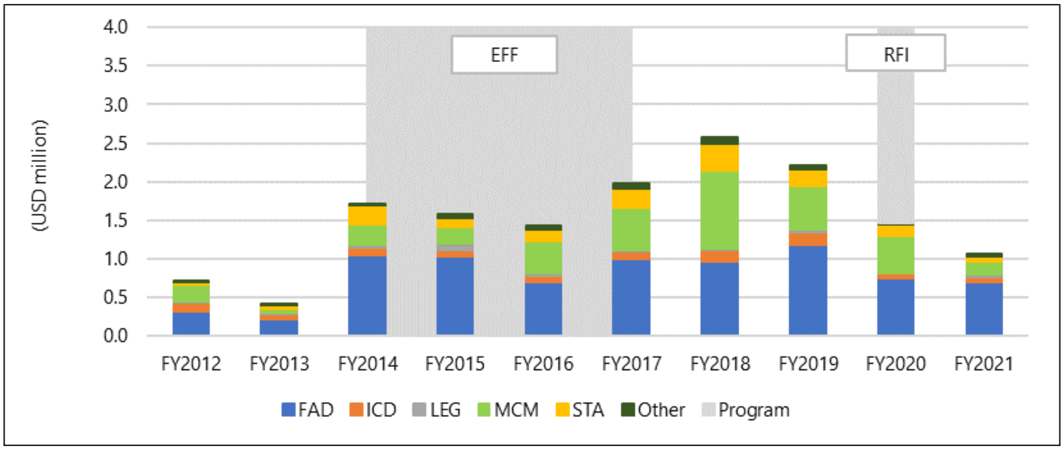
were actively supporting Albania. Switzerland has been an important donor, including for IMF capacity development (CD).

**Figure 1. Selected Indicators for Albania, 2010–2020**


Sources: IMF, WEO database; World Bank database; IEO staff calculations.

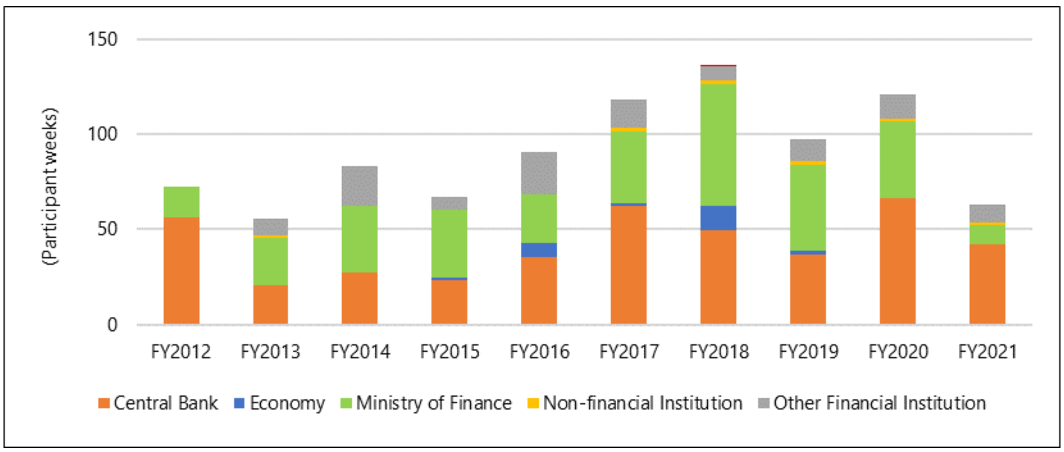
4. During 2012–2020, Albania was a high intensity user of IMF CD, with a surge in delivery in 2016–2019. In total over the period under review, there were with more than 60 technical assistance (TA) reports provided to the authorities, about 230 missions conducted, and 13 long-term resident experts involved in advising the authorities on a day-to-day basis (see Annex I). The volume of CD provided to Albania was stepped up at the start of the EFF and continued at a high level (Figure 2). Albania is a moderate user of training, with participation in courses averaging about 110 participant weeks/year during 2012–2020 (Figure 3).

**Figure 2. Albania—IMF CD Spending by Department and IMF Programs, FY2012–2021**




Sources: IMF, ACES data; IEO staff calculations.
Note: IMF program: EFF (2014–2017), RFI (2020).

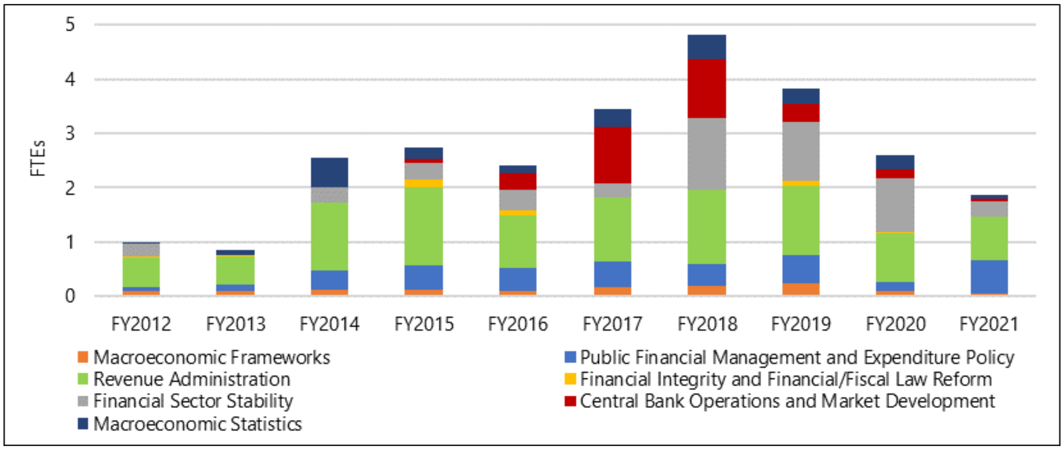
**Figure 3. Albania—IMF Training by Recipient Agency, FY2012–2021**




Sources: IMF, PATS data; IEO staff calculations.

5. Throughout the period under review, a significant amount of IMF CD work pertained to public finances, as achieving fiscal sustainability was an important objective, while the authorities also sought advice on specific tax policy reforms (Figures 2 and 4). With the banking system facing nonperforming loans constraining their ability to lend, financial sector issues became more prominent at the time of the EFF. Subsequently, improving banking supervision absorbed a large amount of IMF CD (Figure 4). There was also a moderate amount of CD on statistics, inter alia to support upgrading to meet EU requirements. Following completion of the EFF in 2017, the IMF's resident representative was withdrawn in 2018 and the local office since the fall of 2019 placed under oversight of the regional resident representative for the Western Balkans stationed in Vienna.

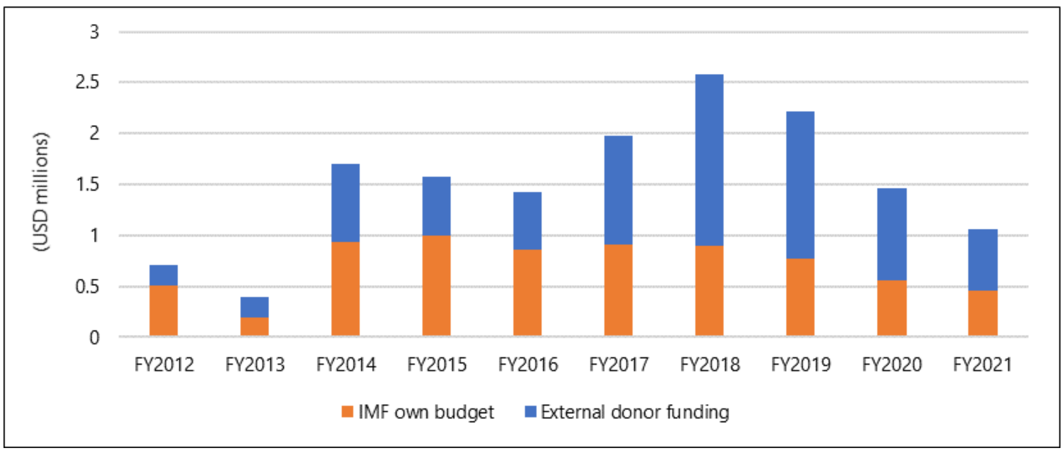
**Figure 4. Albania—IMF CD by Workstream, FY2012–2021**




Sources: IMF, TIMS data; IEO staff calculations.

6. To some extent the evolution of CD over time reflected the availability of external funding, which in turn affected modes of delivery. Most of the increase in CD in 2016–2019 following the agreement on the EFF was externally funded, with Switzerland taking a keen interest in supporting Albania as well as the EU (Figure 5).

**Figure 5. Albania—IMF Spending on CD by Funding Source, FY2012–2021**



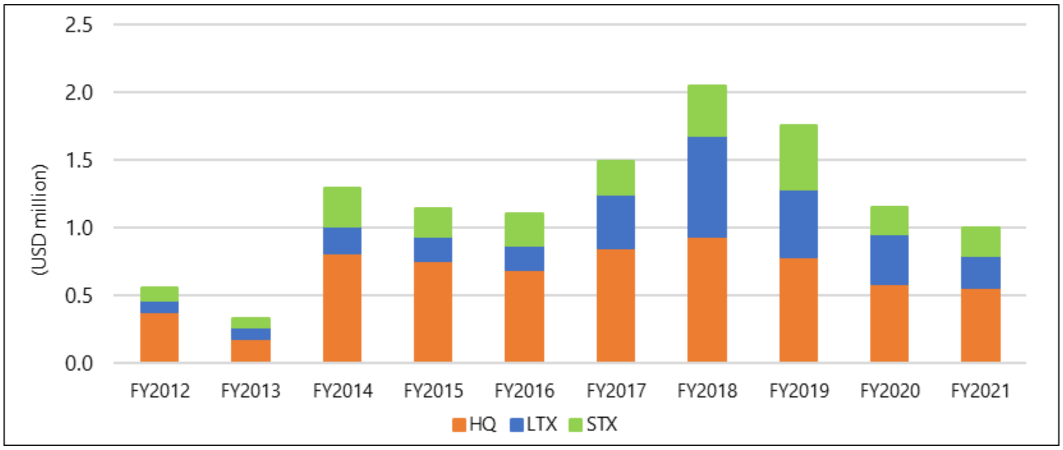

Sources: IMF, ACES data; IEO staff calculations.

7. In parallel, there was an increase in delivery through long-term resident advisors (LTX), which allowed a modest reduction in headquarters (HQ)-based delivery (Figure 6). The most recent LTX assignment ended in 2020. Short-term experts (STXs) were used continuously throughout the period at a stable level, with the association of Albania with the Slovenia Center of Excellence in Finance[3] playing an important role. Albania continued to use a steady amount of

[3] The Center of Excellence in Finance based in Slovenia is an international organization supporting CD of public officials and their institutions in South East Europe through learning and knowledge sharing in the fields of public

training, which rose slightly during the second half of the period covered, with the central bank and the ministry of finance receiving around 40 percent each (Figure 3). With the onset of the COVID-19 pandemic, all delivery switched to virtual mode.

**Figure 6. Albania—IMF CD by Type of Delivery, FY2012–2021**




Sources: IMF, ACES data; IEO staff calculations.
Note: Spending data excludes non-personnel (NP) costs, which include, among others, travel expenses.

## II. CD ENGAGEMENT

8. CD delivery to Albania during 2012–2020 built on a broadly positive experience of the previous decade and focused mostly on addressing medium-term challenges. With Albania graduating from engagement with IMF programs, IMF CD faced the challenge of preserving traction in an increasingly surveillance-only context. IMF CD had helped develop substantial policymaking capacity during the previous decades, but still faced a struggle to complete the job to avoid recurrent bouts of policy indiscipline, which reflected persisting weaknesses in governance and judicial systems. Consensus on EU accession, while generally supportive of further necessary reforms, complicated the task of IMF CD, requiring closer alignment of its recommendations with the EU association *acquis* for its effectiveness and impact.

### Strategy, Prioritization, and Allocation

9. The IMF's strategy, prioritization and allocation of CD vis-a-vis Albania was generally well integrated with surveillance and program engagement, adjusting to changing priorities and evolving approaches by the authorities:

- *2012–2014 Surveillance in "program mode"*: At the beginning of the period under review, Albania was under surveillance only. However, the legacy of mutually supportive program

financial management (PFM), tax policy and administration, central banking and data and analysis. It serves Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, North Macedonia, Moldova, Montenegro, Romania, Serbia, Slovenia, and Türkiye.

and CD work from the previous decades led the authorities to continue to request and adopt CD to improve policies as if the country was in program mode. For example, the 2012 Article IV staff report noted the authorities agreeing on policies guided by stress tests for which CD was being provided and referred to the need for improved public financial management (PFM) in a number of areas supported by ongoing CD. It also contained a recommendation to the authorities to make adequate resources available to ensure effective use of Fund CD to improve statistics.

- *Return to program with the 2014–2017 EFF*: More acute fiscal and financial vulnerabilities led to agreed policy reforms, which required CD support. The EFF contained a number of prior actions and structural benchmarks related to past and ongoing CD. "Strengthening Public Financial Management (PFM), notably related to arrears clearance and prevention would be prominent in conditionality in the first year of the program. Structural benchmarks include the contracting of an external auditor to conduct risk–based audit of arrears payments, publication of a report on arrears payments, quarterly surveys on new arrears accumulation in key ministries, and introduction of multi-year commitment limits. Financial sector measures will address the NPL problem and strengthen nonbank supervision (IMF, 2014a)."

- *Surveillance in the immediate EFF aftermath*: after the successful completion of the EFF, implementation of CD-supported reforms continued at a slower pace. The initial post-EFF documents noted in several direct references continuing progress in areas supported by CD (e.g., improvements in tax compliance risk management, … "with Fund assistance") while pressing for further implementation of stalling reforms (e.g., amendments to PPP legislation, and enhancement of fiscal risk assessments) and calling for reversing planned policy changes at odds with prior CD recommendations (e.g., value-added tax (VAT) exemptions and thresholds) (IMF, 2017).

- *Return of granular CD in post program monitoring*: following the financial support provided to Albania in the aftermath of the 2019 earthquake and in the context of the COVID-pandemic, surveillance under post-program monitoring, which resumed in 2020, became more granular about the promotion of CD-supported reforms. For example, "Staff stressed the importance to complete, adopt, and start implementing a sound Medium-term Revenue Strategy (MTRS) in 2021…" and "to strengthen public investment management" with specific recommendations on PPPs, government guarantees and State-Owned Enterprises (SOEs) derived from CD, notably on fiscal risks (IMF, 2020f). There were similar references to financial sector issues, including bank resolution, licensing, transfer of significant ownership and related party lending.

10. The IMF's CD strategy on Albania was made explicit in a country strategy note in 2020, which provided some lessons of the past decade and considerations for future engagement. The note acknowledged the contributions of IMF CD to Albania's economy, observing that the authorities were likely to continue to demand significant amounts of CD facilitated by available

donor funding. It indicated that implementation of CD recommendations had been uneven and suggested that future CD better take into account the limits to absorptive capacity, political constraints, and weak ownership in some areas. The note compared the authorities' priorities with those identified by the staff, which were closely tied to surveillance recommendations. It did not draw explicit consequences for the strategy and allocation from these observations other than emphasizing the need for closer dialogue between the authorities and the IMF, more explicit linking of training with gaps in absorptive capacity, and good coordination with other providers.

11. Different approaches to CD adopted by recipient institutions and variations in availability of funding led to a differentiation of the IMF's CD strategy and prioritization across areas. Overall, CD providers noted that the authorities were increasingly focused on interventions that would best contribute to the overriding objective of EU membership, without having a well-articulated, country-wide national CD strategy. The Bank of Albania (BOA) expressed broad satisfaction with the IMF's response to its requests, which stemmed from its own long-term strategy. The BOA set its own agenda and negotiated with different CD providers to achieve the best delivery, noting that IMF surveillance, programs, the 2013 Financial Sector Assessment Program (FSAP), and CD assessments in the context of donor funded projects helped the BOA in identifying and setting priorities. Generous funding from the Swiss Authorities (SECO) removed budget constraints for support to the BOA. The authorities reported also taking the initiative on some urgent and specific issues, e.g., the taxation of hydrocarbons and the supervision of non-bank financial institutions, which the IMF met. On fiscal issues, the IMF had a long-standing, structured engagement with the tax administration, appreciated by the authorities, but followed a less structured approach in other areas. With EU agreement on a broad PFM strategy in 2016, and associated funding, the IMF accepted to contribute substantial CD, supported by a regional advisor based at the Slovenia Center for Excellence in Finance. On tax policy, an area dominated by electoral politics, IMF staff noted that there was no locus to engage on a clear strategy with the authorities, even though surveillance pointed to vulnerabilities in this area. Since 2019, the MTRS has helped with prioritization of tax reform albeit amid slow implementation. On statistics, the authorities played a leading role in establishing priorities for IMF CD delivery requiring close coordination with the EU, which has taken a more prominent role.

12. There were some instances in which country authorities and IMF staff differed on CD priorities, with country interest lacking in some areas close to the IMF's core mandate. For example, on tax policy, IMF staff suggested that it would be better to deliver advice following a more holistic approach rather than in a response to specific case-by-case requests, but the authorities did not buy in to this, indicating political economy constraints. In this context, staff from the IMF and other CD providers noted that if there was no clear expression of interest from the authorities CD was unlikely to be effective. Given the importance of avoiding arrears and preserving debt sustainability, CD on debt and cash management had been suggested by the IMF on a number of occasions but did not lead to a timely request from the authorities. Similarly, with the importance of improving governance, IMF staff proposed further CD in Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) but found no traction.

13. Authorities and IMF staff concurred that there was excess demand for IMF CD, especially from the BOA and that not all requests could be met, though external funding alleviated this constraint somewhat. Discrepancies were resolved in an iterative process among authorities, CD department (CDD) and area department (AD) staff, bringing to bear the IMF's assessment of where capacity constraints were most binding and where receptiveness likely was the largest. AD staff noted that with Albania doing comparatively well on policymaking after the successful completion of the EFF and other CD providers stepping up, they felt the IMF was justified in becoming more selective in acceding to CD requests, though this was not explicitly considered in the country CD strategy notes.

14. Internal IMF decisions on prioritization and allocation of CD were reached through informal discussions, with CD departments dominating on project selection, especially during surveillance periods. AD, CDD, resident office staff, and the regional expert (on PFM) all contributed to the decision-making process and the whittling down of the authorities' long wish lists. AD staff reported that while they welcomed the AD's recent sign-off authority on CD, they felt that CDD expertise, especially when there was long-term engagement with country officials, tended to determine prioritization and allocation, as AD could not match CDD on substance. CDDs also at times rebuffed the AD seeking CD in what the AD believed to be crucial areas when CDDs felt that there was insufficient country ownership (e.g., broad tax policy reform).

## Delivery

15. All modes of CD delivery were used in Albania in line with the nature of the projects and the authorities' preferences. LTXs were deployed for projects that required long gestation and where hands-on support for implementation was an essential contribution of CD. Statistics (national accounts), monetary policy and banking supervision benefited from such engagements. On fiscal issues, preferences of IMF staff and authorities converged on sequences of missions as part of a rolling work program involving HQ staff and experts as well as peripatetic visits from LTXs associated with the Slovenia Center for Excellence in Finance (e.g., on PFM). HQ missions with HQ staff and experts took place on specific topics and a variety of subjects (e.g., tax policy, deposit insurance law, bank resolution, price statistics). Albania received copious amounts of training at the Joint Vienna Institute (JVI), HQ and some in-country training.

16. The authorities saw the quality of the IMF's CD as one of its greatest assets. Officials observed that the quality of the IMF's CD was very high and rarely rivalled by other CD providers, a view echoed by donors funding IMF CD. The authorities underscored that the IMF's recommendations were top notch and delivered in a timely manner. They appreciated that most experts had a good understanding of the cultural, institutional and social context of Albania and the region and were able to adapt their advice accordingly. The fact that IMF brought considerable international experience to bear was a further advantage.

17. Some donors felt that IMF experts should have been more involved in actual implementation of CD recommendations, while recognizing the need to balance this with

ownership. Until the closure of the office, the resident representative played an important role on fiscal matters requiring political attention, using personal relationships to secure visibility for related CD. Both authorities and other stakeholders expressed some concern about the reduction in IMF presence on the ground since the removal of the resident representative. However, for the time being the risk of losing insight on country developments that would inform CD engagements was mitigated by the maintenance of a local office in Tirana. The regional resident representative covering Albania out of Vienna was not seen as an effective substitute for a local resident representative, as on the ground presence was deemed crucial to be able to follow the CD program.

18. There was consensus among stakeholders that modalities of delivery of IMF CD were broadly appropriate, with a few possibilities for further optimization. Familiarity with the country situation and continuity of experts was by and large ensured though the use of rolling work programs, overlapping staff teams and LTXs. CD departments noted in particular the important role of the regional advisor on PFM for continuity, tracking and ownership. Nonetheless, there were some instances in which the authorities felt that a better match with Albania's situation could have been found, including concern that one LTX took too long to get acquainted with the country's situation. The BOA expressed a clear preference for LTX engagements and would have preferred to receive more support in this form and to continue the recent arrangement. Nonetheless, the BOA understood the constraints facing the IMF and managed to obtain an LTX through other means. The Ministry of Finance felt that a sequence of short-term missions, supported by a peripatetic regional advisor on PFM issues, was the optimal delivery for its needs, though some donors saw benefits in continuous on-the ground presence to help build capacity.

19. Authorities and IMF staff felt that CD delivery had adapted well during the COVID-19 pandemic, but also recognized constraints. Virtual engagement had opened up new possibilities, although remote delivery could not fully substitute for all aspects of in-person delivery. Moreover, the more pressing priorities related to pandemic limited the authorities' ability and willingness to engage on CD. IMF staff reported that time differences and issues surrounding confidentiality of information posed challenges, but that given good country infrastructure, technology was not a constraint. The authorities agreed that remote delivery heightened focus and allowed CD interventions to be reframed around specific questions rather than as part of broad mission-based projects, which tended to strain the authorities' capacity. The authorities also appreciated the new ways (e.g., webinars, policy notes, more online training) in which the IMF provided CD. Among drawbacks of remote delivery, there was consensus among all providers and authorities that starting up new projects had proven to be difficult while the effectiveness of LTXs had diminished. IMF staff and other CD providers also noted that implementation by authorities had displayed some gaps and longer delays, to some extent reflecting the human and logistical challenges posed by the COVID-19 pandemic.

20. The experience of the use of technology for effective virtual interaction during the COVID-19 pandemic suggested a path to more effective CD delivery. Some CD staff felt that the constraining standard two-week mission format with report writing could be replaced with a

broader mix of engagements, including shorter and more targeted interactions with specific experts (hours or days) or longer-term continuous engagements on an as-needed basis. On training, while adoption of new technology predated the pandemic, its increased use contributed to training institutions being able to reach counterpart staff more directly, to allow participants to complete training at their own pace, to update course material continuously and to reach a much broader audience. Course organizers observed that counterparts participating in on-line courses appeared on balance better motivated than in-person participants, as there seemed to be less engagement in general training compared to partaking in courses in which the acquired learning was immediately relevant for participants' jobs.

21. Follow-up to IMF CD worked well when there was urgency, a program, a long-term engagement, or motivated counterparts, but less so in other instances. IMF and BOA staff concurred that in matters under the control of the BOA, there was a structured approach to follow up, with the BOA in the driver's seat in terms of keeping track of implementation as part of its official work plan and good communication with AD and CD departments on progress. The Fund's Monetary and Capital Markets Department (MCM) noted the usually enthusiastic buy-in from the BOA; recipient staff resources had been somewhat of a constraint given the multitude of programs, alleviated until recently by the LTX keeping track of implementation and coordination of work plans with the IMF. The EFF was effective in securing immediate implementation of several CD-supported reforms (e.g., Public Investment Management, PIM; Public-Private Partnerships, PPPs), assisted by follow up from the resident representative on key reforms, but after the program ended a number of these reforms were undone as political priorities shifted and follow up through surveillance was less effective. Outside the BOA, the authorities did not have a dedicated structure for follow-up and with shifting priorities and frequent staff turnover hampering institutional memory, follow up relied heavily on the IMF, with the IMF's local office becoming somewhat of an institutional repository of CD. However, except in areas where there was a regional advisor or a series of CD engagements, follow-up by the Fund was not that effective mainly for lack of expertise: missions from the same CD department in other fields and local staff could do some follow up but they did not have sufficiently detailed knowledge. There was more traction in the area of statistics, given external pressure from the EU, and the usually detailed action plans and timelines agreed with the authorities at the end of Statistics Department (STA) missions.

22. The Results-Based Management (RBM) framework was used actively in a limited number of cases, during part of the review period and with some involvement of the authorities. RBM frameworks have been used since late 2016. In the area of statistics, objectives and milestones were shared and discussed with the authorities and regularly reported in briefing papers and back-to-office reports. Similarly, the regional LTXs on PFM and revenue administration consistently applied an RBM framework to track implementation and follow up with the authorities and CD in supervision is set in an RBM framework. In other areas, initial work plans were coordinated with the authorities, but not as an explicit discussion of an RBM approach. The authorities reported that there was no joint follow-up on RBM milestones and that they were not

involved in IMF assessment of progress. In a number of cases, RBM indicators have not been updated for some time, leaving it unclear whether milestones and outcomes have been achieved.

## Partnerships, Coordination, and Dissemination

23. Albania is a prolific user of CD from a multitude of sources, with the WB, the EU and bilateral donors constituting key partners for the IMF. Prior to the EU's acceptance of Albania as an accession candidate in 2014, the WB and the IMF were the main providers, cooperating in a number of areas with the main objective to be complementary and to avoid overlaps. After 2014, the EU became a more important partner, negotiating a PFM reform plan in 2016 and promoting the alignment of Albania with key EU rules and regulations. With respect to statistics, Eurostat and STA agreed on a cooperation plan, with STA focusing on areas where there was a need for frequent support and where the IMF had a comparative advantage (e.g., International Investment Position, portfolio survey, international reserves). The EU and SECO funded the regional LTXs working for the IMF out of the Slovenia Center for Excellence in Finance. SECO took a keen interest in promoting financial sector reform, funding a significant amount of MCM CD, including IMF experts and resident advisors, and in supporting CD for the improvement of Government Finance Statistics. There was also involvement from other bilateral donors (e.g., Italy) and European institutions (e.g., European Central Bank). The EU and the United States were closely involved on issues of judicial reform and governance, using the IMF mainly as joint leverage in the context of its programs.

24. Coordination among authorities and CD providers worked relatively well but several areas for improvement were flagged during interviews:

- CD providers noted risks stemming from the largely informal nature of coordination among them, based on legacy of contacts established mostly in the field. From this perspective, coordination depended to a large extent on personalities while the closure of the resident representative position in 2018 had reduced scope for coordination with the IMF, with the regional representative not effective in this area. More use of remote technology since the beginning of the COVID-19 pandemic had improved coordination, though not to the fullest extent possible.

- The BOA noted that its internal coordination efforts to absorb CD from different providers worked well, with the assistance of the IMF LTXs. It also praised the IMF for engaging effectively with partners and generally pushing inter-institutional dialogue in the country. However, IMF staff reported that coordinating three advisors on banking supervision from different providers was resource intensive, requiring more than the usual amount of the LTX's time to coordinate and organize the work, including to avoid overburdening limited recipient capacity. Moreover, the IMF's LTX was not always kept in the loop and surprised by the start of a new, significantly overlapping project from another provider, requiring intense discussions to establish a division of labor. Since the end of the IMF LTX's term, coordination with the IMF has weakened.

- EU-IMF coordination in the area of public finances was judged to be generally good by IMF and European Commission (EC) staff, though it was noted by EC staff that the IMF advice did not always lead to outcomes in line with the *acquis* (e.g., VAT thresholds ended up much higher than desired by the EC, and exemptions much longer duration). It was recognized that the economics were not necessarily incorrect but that EU objectives including alignment with the acquis as well which involved political compromises.

- Staff from the IMF and WB noted that while there were many examples of good coordination between the two institutions (e.g., NPL clean-up, energy sector reform), there were instances where it was difficult to find the locus for coordination in the WB and conversely, cases where it was difficult to obtain information from the IMF on the content of its advice.

- Some staff from CD departments noted that with the multitude of donors and increased amount of donor funding, there were more instances of duplicate requests from the authorities to different providers and pressure on CD providers to demonstrate high levels of activity, which reduced the incentive for coordination.

25. There were different views on whether the limited publication and dissemination of CD reports hampered the effectiveness of CD delivery. The BOA stated it had a keen interest in publication of reports, except when they contained sensitive information. For reports deemed best not to be published, the BOA felt that it had adequate internal dissemination policies to ensure effective use of CD. For other country institutions, confidentiality of the reports was seen to be important to establish trust between the authorities and CD providers. Noting that publication would have helped foster public debate and implementation of some important reforms (e.g., MTRS, tax administration reform, tax policy, public investment management), IMF AD and CDD staff regretted that more pressure could not be brought to bear on the authorities to publish, given the prevailing publication policy. Some observers noted, however, that publication was unlikely to help push through politically sensitive reforms, especially if it created the perception that the authorities were not in the driver's seat. Some IMF staff felt that reports needed to be written more succinctly, especially if wider publication was intended. Other CD providers called for more confidential sharing of CD reports as well as mission timetables and terms of reference, to allow them to better coordinate their CD delivery.

## Effectiveness and Impact

26. IMF CD continued to contribute to the upgrading of Albania's policymaking frameworks over the period under review, though with mixed results in terms of sustainable impact on policy making in some areas of public finance. The independence of the BOA was largely achieved, and policy frameworks were put in place (i) for inflation targeting, which was adopted in 2015; (ii) for supervision, which was aligned first with Basel II and subsequently progressed toward Basel III; and (iii) for macro-prudential policies. IMF CD also contributed to upgrading modelling capacity of the BOA, strengthening foreign exchange management, and designing the approaches for the

reduction in non-performing loans and for de-euroization. In the area of statistics, there was substantial progress in upgrading the methodological basis underpinning data provided to the IMF for surveillance and in compilation of data to meet European Union requirements. On fiscal issues, IMF CD delivered capacity upgrades across the board, in terms of institutional reforms and training counterparts, but sustainable impact remained wanting. This was particularly the case for tax policy, where advice was not always followed, and on aspects of PFM (e.g., Public Investment Management, PIM; and Public-Private Partnerships, PPPs), where the frameworks put in place with help of IMF CD were not effectively activated.

27. RBM records available for a subset of projects since 2016 show mixed results for the even smaller subset of projects for which ratings were available (Figure AI.1; Annex I). Seventeen projects were included in the RBM system, with almost all of the 43 outcomes for those projects rated but objective ratings available for only 4 of the projects. The RBM records cover projects in statistics and revenue administration as well as CD to the Bank of Albania.

28. Interviewees agreed that institutional capacity constraints were a determining factor for CD effectiveness. The BOA was generally perceived as having higher capacity, driven by higher staff skills and more continuity as well as the aspiration by top management to become a best-in-class institution in the region. Nonetheless, CDD staff observed that the eagerness of the BOA to take on CD had led to less than fully effective implementation because BOA staff was stretched as a result of concurrent CD delivery from a number of providers. In the area of statistics, there was a strong commitment to implementation based on Albania's EU membership aspirations but delays due to lack of resources at the national statistics agency. In other areas, lack of staff continuity was a significant obstacle, with key staff leaving their positions close to the maturity of a project supported by a sequence of CD missions (e.g., MTRS) or being replaced frequently (e.g., head of tax administration). IMF CD staff attempted to mitigate these problems by including recommendations to improve staff retention (e.g., ways to enhance job satisfaction, ensure career progression), but existing HR policies left limited room to implement such suggestions. Indeed, country officials-managers reported that they did not have the autonomy to make adjustments to staffing to meet evolving needs and modernize their institutions or to obtain capacity in new areas where skills were scarce and staff expensive (e.g., information technology and data management). CD providers further noted that effectiveness sometimes depended heavily on personalities of counterparts in positions of authority who at times prevented CD implementation (e.g., on tax administration).

29. CD providers from institutions other than the IMF suggested a few areas for improvement of IMF CD effectiveness. They saw a need in the Albanian context to build broad domestic support for engagement related to the policy strategy and ensure a shared vision with the authorities, noting that EU membership is one consensus factor which the IMF could leverage. They observed that sustained close personal relationships with authorities mattered a lot and that continuous presence in the country was essential for new initiatives and follow-up. They also felt that the IMF could be more effective by focusing on hands-on implementation

using more expertise from countries that had recently faced similar circumstances and cover cross-cutting public administration reforms.

30. There was consensus among interviewees that political considerations constituted the main obstacle to impact and sustainability of CD in Albania. This was most noticeable in areas where upgrading policy frameworks required the curbing of excessive politicization of economic policy decisions (e.g., public investment, public private partnerships, and aspects of tax policy such as tax thresholds and tax amnesty). It also affected the timing of the adoption of new legislation to strengthen the BOA's independence and upgrade supervision. While an IMF program was in place, conditionality was used to curb political interference. However, once the program was completed, it turned out that systems that had been put in place never gained effectiveness (e.g., PFM systems on PIM and commitment controls). Subsequently, policymakers used tax policy as a political instrument leading to constant modification of the tax code for electoral purposes, while the prime minister's office has influenced decisions so as to render frameworks for policy discipline ineffective (e.g., tax compliance, guarantees). The IMF responded initially with multiple missions to influence the authorities' thinking, while on tax policy the IMF withheld follow-up CD to induce implementation of previous recommendations. Some CDD staff wondered whether a more incremental approach to reform might have worked better (e.g., by focusing tax compliance reform on a few areas rather than putting in place a comprehensive framework).

## III. OVERALL ASSESSMENT

31. IMF CD has likely contributed to some of Albania's comparatively good economic performance in recent years, but achieving impact in politically sensitive areas remained a challenge. On monetary and financial sector policies as well as in the area of statistics, IMF CD has led to sustained improvements. However, in the fiscal area, the track record is decidedly mixed with some gains on technical capacity but lack of impact in several policy areas. In terms of overall government effectiveness (measured by WB governance indicators), Albania scored just about average in 2019, doing better than other countries on regulatory quality (64$^{th}$ percentile), but less so on rule of law (below the 40$^{th}$ percentile) and control of corruption (33$^{rd}$ percentile). IMF CD contributed to a further strengthening of institutions and policy frameworks. It helped the BOA adopt inflation targeting, which established a credible monetary policy track record with inflation remaining under control. Financial stability risks appear contained, with NPLs on a downward trend, except for the recent economic shocks-induced upticks. Budget deficits were brought under control until recently, but debt remains comparatively high amid other fiscal risks and vulnerabilities. Structural indicators show mixed results, with VAT revenues in particular struggling to maintain buoyancy.

### Relevance

32. IMF CD was highly relevant and adjusted well to changing needs and evolving priorities of the country, but the IMF did not convince the authorities to request CD in some core areas, such

as tax administration reform until 2021, and struggled to deal with the political economy of reforms. IMF CD was instrumental in resolving the economic and financial difficulties of the mid-2010s and helped build sound institutions. It aligned with country needs and largely but not fully overlapped with the authorities' priorities, struggling to gain traction on tax policy and medium-term fiscal issues. While the IMF suggested the need for further CD in these areas, it shied away from pressing the authorities to accept CD in areas where they had not expressed interest, as the IMF's experience had shown that such an approach was not likely to be worthwhile.

## Coherence

33. The overall goals of IMF CD were coherent with pre-program surveillance and program requirements, but in some areas, coherence weakened in the post-EFF surveillance-only environment. For CD related to the financial sector and statistics, where country ownership was strong, country demands aligned very closely with IMF views on country priorities. However, on aspects of fiscal policy and rule of law, Fund surveillance teams struggled to engage the authorities to adopt CD recommendations. IMF CD was not effectively implemented (e.g., tax policy, tax amnesty, public investment) or proposed CD was simply rejected (e.g., AML/CFT) or significantly delayed (e.g., debt and cash management). Some choices in response to the authorities' requests may have contributed to this outcome. In the area of tax policy, for example, the IMF's overarching message was one of putting in place a robust tax system, with few rates and exemptions, but the IMF nonetheless acceded to CD requests from the authorities to look at parts of the tax code in isolation, contributing to piecemeal changes and increasing complexity. There were also examples in which IMF stepped up CD in a way that threatened to overwhelm absorption capacity, especially where other CD providers were active in the same space. Surveillance documents showed a clear focus on promoting implementation of recommendations from past CD but were less vocal on promoting new CD to address weaknesses identified by surveillance and noted in the country strategy notes.

34. The IMF faced some challenges in positioning its CD in the context of the authorities' overriding aspiration of EU membership. When objectives coincided, there were clear synergies. However, the IMF did not always fully align with EU rules and regulations, leaving the authorities to pick and choose among different options, and reducing the leverage of the IMF, especially when no IMF programs were active.

## Effectiveness, Impact, Sustainability

35. IMF CD was largely effective in achieving its objectives, with counterpart capacity the main constraining factor. From the IMF side, effectiveness was positively affected by the quality and continuity of engagement of experts, the adaptation to country circumstances, and the reflection of political economy considerations. From the recipient side, better institutional capacity and staff retention promoted effectiveness, while political sensitivity of reforms proved an obstacle. In this context, the tendency for the IMF to leave follow-up on CD recommendations

to the authorities, while suitable from the perspective of building ownership, contributed to partial or ineffective adoption of CD-supported reforms. Counterparts were hampered by insufficient autonomy for management, shifting priorities in the face of limited staff resources, or political interference, factors which IMF CD struggled to address.

36. The impact of IMF CD was generally satisfactory in central banking and the financial sector but much less so in the area of public finances. The IMF succeeded in tackling governance problems in the financial system but did not manage to overcome excessive politicization of decisions in the fiscal area, which reflected to some extent broader rule of law and corruption issues. The attendant vulnerabilities imply that sustainability of comparatively sound policymaking and good economic outcomes remains to be tested.

**Lessons (R=Relevance, C=Coherence, E=Effectiveness and Impact)**

(i) Tackle governance issues in a more comprehensive manner, in close cooperation with other CD providers. This would contribute to a better alignment of country CD demands with IMF priorities. (R, C, E)

(ii) Clarify the relationship with the EU, in terms of the volume and type of CD the IMF is best placed to deliver, as well as in terms of the possible use of compliance with EU standards as leverage for IMF CD effectiveness and impact. (R, C, E)

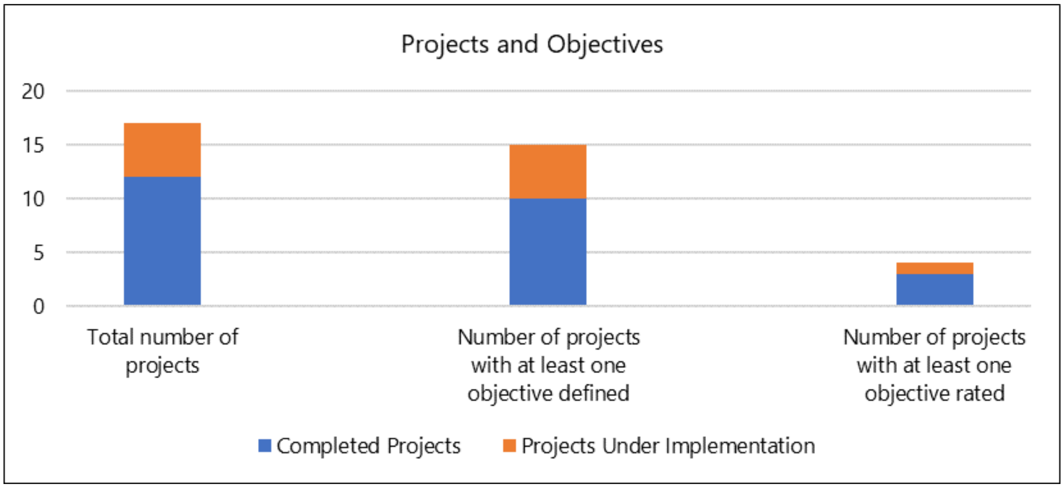
(iii) Define an explicit strategy, with the authorities, to match IMF CD with counterpart capacity and to ensure a structured and systematic follow up of CD recommendations. (C, E)

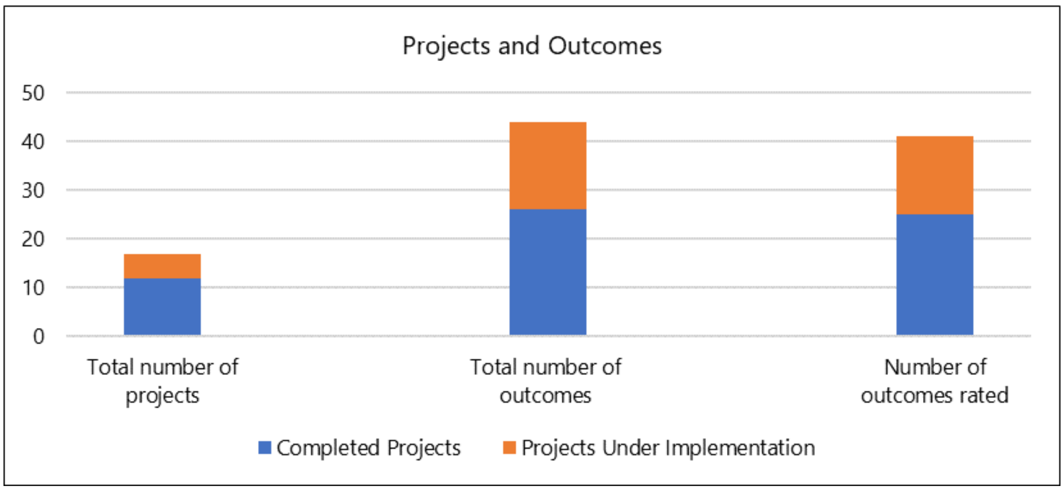
(iv) Provide stronger surveillance messages about weaknesses in policy frameworks that could be overcome with help of additional CD, while continuing to highlight relevant CD recommendations awaiting implementation. (C)

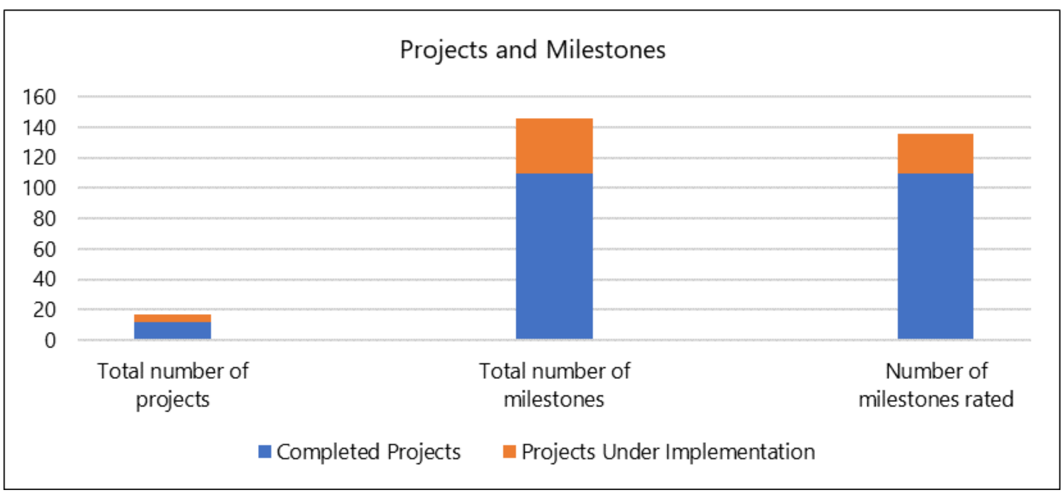
(v) Incorporate political economy considerations into CD by offering quick wins to policymakers and by addressing stakeholders' interests. This would contribute to lessening political interference in implementation. (E)

## ANNEX I. CD ACTIVITIES FOR ALBANIA

**Figure AI.1. Albania—Results-Based Management Data on Projects, Objectives, Outcomes, and Milestones**




Sources: IMF, RBM data; IEO staff calculations.

**Table AI.1. Albania—Number of Missions, 2012–2020**

| Year | FAD | ICD | LEG | MCM | RES | STA | Others | Total |
|---|---|---|---|---|---|---|---|---|
| 2012 | 9 | 0 | 1 | 5 | 0 | 0 | 0 | 15 |
| 2013 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 9 |
| 2014 | 19 | 0 | 1 | 4 | 0 | 2 | 0 | 26 |
| 2015 | 27 | 0 | 2 | 3 | 0 | 2 | 0 | 34 |
| 2016 | 21 | 0 | 2 | 4 | 0 | 4 | 0 | 31 |
| 2017 | 23 | 0 | 0 | 5 | 0 | 4 | 0 | 32 |
| 2018 | 18 | 0 | 0 | 7 | 0 | 4 | 0 | 29 |
| 2019 | 24 | 0 | 3 | 4 | 0 | 3 | 0 | 34 |
| 2020 | 15 | 0 | 1 | 1 | 0 | 5 | 0 | 22 |
| Total | 165 | 0 | 10 | 33 | 0 | 24 | 0 | 232 |

Sources: IMF, TIMS data; IEO staff calculations.

**Table AI.2. Albania—Resident Advisors, 2011–2021**

| Host Institution | CDD | CD Topic/Workstream | Start Date | End Date |
|---|---|---|---|---|
| Institute of Statistics, Albania | STA | National Accounts | August 2012 | July 2014 |
| Central Bank | MCM | Resident Advisor in Monetary Policy Implementation (Year 1) | 1/17/2016 | 1/16/2017 |
| Central Bank | MCM | Resident Advisor in Monetary Policy Implementation (2nd Year Extension) | 1/17/2017 | 1/16/2018 |
| Central Bank | MCM | Banking Supervision/Financial Stability Advisor (Year 1) | 7/2/2017 | 7/1/2018 |
| Central Bank | MCM | Resident Advisor in Monetary Policy Implementation (3rd Year Extension) | 1/17/2018 | 8/6/2018 |
| Central Bank | MCM | Banking Supervision/Financial Stability Advisor (2nd Year Extension) | 7/2/2018 | 1/1/2019 |
| Central Bank | MCM | Banking Supervision/Financial Stability Advisor (3rd Year Extension) | 1/2/2019 | 4/1/2019 |
| Central Bank | MCM | Banking Supervision/Financial Stability Advisor (3rd Year Extension) | 4/2/2019 | 4/30/2019 |
| Central Bank | MCM | Banking Supervision/Financial Stability Advisor (3rd Year Extension) | 5/1/2019 | 5/31/2019 |
| Central Bank | MCM | Bank Supervision and Regulation Advisor (3rd Year Extension) | 6/1/2019 | 7/1/2020 |
| Ministry of Finance | FAD | To conduct a number of meetings with the newly appointed Director General of the General Directorate | 8/19/2019 | 8/23/2019 |
| Ministry of Finance | FAD | To develop an MTRS | 11/4/2019 | 11/11/2019 |
| Central Bank | MCM | Bank Supervision and Regulation Advisor (1 month Extension--Year 4) | 7/2/2020 | 7/31/2020 |

Sources: IMF, Fiscal Affairs Department and Monetary and Capital Markets Department.

**Table AI.3. Albania—List of TA Reports, 2012–2020**

| | FAD | MCM | STA | LEG | Total | Of which | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Available Within IMF | Available but Confidential | Published |
| 2012 | 1 | 0 | 0 | 0 | 1 | 1 | 0 | 0 |
| 2013 | 0 | 1 | 1 | 0 | 2 | 2 | 0 | 0 |
| 2014 | 7 | 2 | 2 | 0 | 11 | 8 | 2 | 0 |
| 2015 | 2 | 3 | 1 | 1 | 7 | 4 | 1 | 0 |
| 2016 | 4 | 2 | 3 | 0 | 9 | 9 | 0 | 0 |
| 2017 | 7 | 5 | 6 | 0 | 18 | 18 | 0 | 0 |
| 2018 | 2 | 1 | 1 | 0 | 4 | 4 | 0 | 0 |
| 2019 | 2 | 1 | 1 | 0 | 4 | 4 | 0 | 2 |
| 2020 | 3 | 0 | 0 | 0 | 3 | 3 | 0 | 0 |
| Total | 28 | 15 | 15 | 1 | 59 | 53 | 3 | 2 |

Source: IMF, Institutional Repository.

# MOLDOVA: BUILDING EFFECTIVENESS

## I. INTRODUCTION AND COUNTRY OVERVIEW[1]

1. Moldova is a small low middle-income economy with limited international financial market access and eligible for access to concessional financing from the IMF.[2] The period 2012–2020 included two three-year IMF programs (Extended Fund Facility (EFF)/Extended Credit Facility (ECF) and a staff-level agreement on a third EFF/ECF in 2020, with approval delayed because of impending elections (which were finally held on July 11, 2021). In the context of the COVID-19 pandemic Moldova obtained support from the IMF under the RFI/RCF. The first of the two completed EFF/ECF programs contributed to restoring macro-financial stability in the aftermath of the global financial crisis, while the second one succeeded in rehabilitating the financial system and re-establishing credibility of macro-financial policies impacted by a notable banking fraud. The staff-negotiated 2020 EFF focused on addressing recovery from the pandemic and structural weaknesses to restore much needed medium-term growth prospects, inter alia by means of a comprehensive approach to improving governance.

2. During the review period, Moldova recovered from a massive banking fraud, which came to light in 2014, exposing weaknesses in governance and rule of law; and struggled to overcome chronic political volatility and internal divisions, which prevented sustained reform momentum from taking hold to address impediments to growth:

- While Moldova has posted comparatively good growth rates since its transition, growth has remained too low to raise living standards significantly. Growth was volatile due to the vulnerability to external shocks of the exports-and remittances-dependent economy, leading to large external current account deficits. The country experienced a major fraud-driven banking crisis in 2014 from which recovery was protracted and the COVID-19 pandemic caused a major recession. The economy experienced recurrent bouts of inflation, in part because of weaknesses in its monetary policy framework. With heavy regulation, and declining population, private investment had been chronically depressed. Public debt and deficits were comparatively low, amid financing constraints and reliance on donor funding (Figure 1).

- Reforms were gradual, upgrading policy frameworks in piecemeal fashion amid difficulties created by political turmoil and regional security challenges from the unsettled Transnistrian independence question. Entrenched interests dominated the public administration, constituting a major obstacle to reform. Reducing political uncertainty and tackling underlying governance and institutional vulnerabilities, which affected most sectors of the economy, remained outstanding challenges.

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[1] The material included in this study was drawn from interviews with country officials, staff from the IMF, WB, EC, and bilateral donors, and from documents from the IMF and other IFIs.

[2] In 2019, Moldova ranked 126$^{th}$ in the world on the basis of overall PPP-GDP at current prices, and 100$^{th}$ on the basis of per capita PPP-GDP at constant prices (IMF, WEO October 2021 database).

- Closer integration with Europe has anchored successive governments' policy reform agendas. An EU association agreement entered into force in 2016. However, implementation of related policy commitments was wanting in the context of a vulnerable political system and a polarized society. The WB, EBRD and other EU institutions were actively engaged and the country benefitted from bilateral donor support.

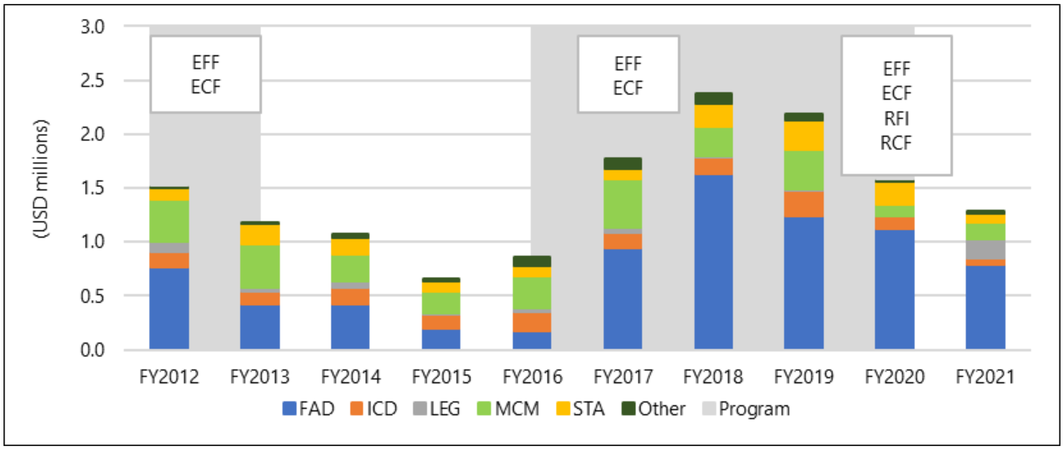
**Figure 1. Selected Indicators for Moldova, 2010–2020**


Sources: IMF, WEO database; IEO staff calculations.

3. During 2012–2020, Moldova was a medium-intensity user of IMF CD, with about 50 TA reports provided to the authorities, about 150 missions conducted, and significant support delivered to through regional and resident LTXs (Annex I). Throughout 2012–2020 an IMF resident representative was present. The volume of CD provided to Moldova took a nosedive in 2015 following the banking fraud as trust in the authorities collapsed (Figure 2). Restoring confidence took time in part due to the unwillingness to tackle the fraud head on and the inability to form a stable government. After reforms resumed and the EU association agreement

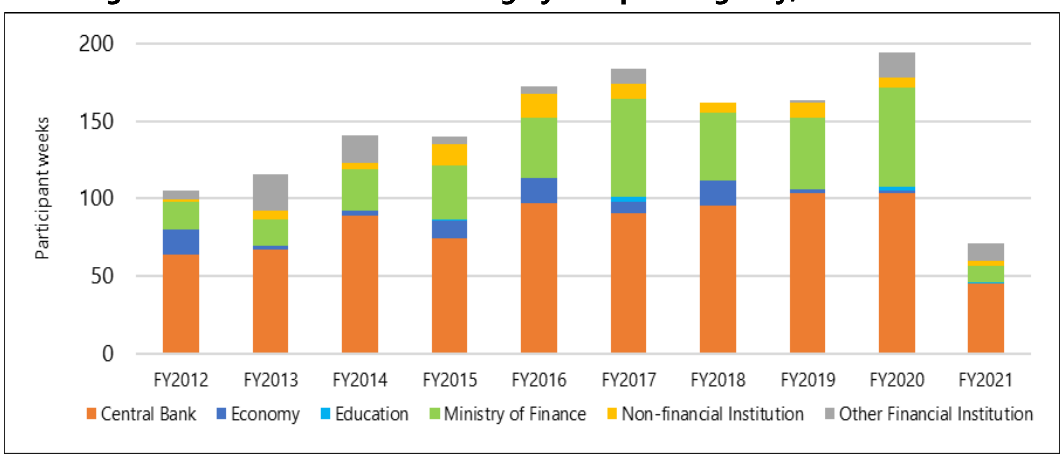
became effective in 2016, CD picked up significantly in the context of the 2016–2019 EFF/ECF, raising Moldova to a high-intensity user. CD slowed in 2020 when political turmoil prevented the adoption of a successor EFF. Moldova was a comparatively large user of training, with participation in courses averaging about 153 participant weeks/year during the review period (Figure 3).

**Figure 2. Moldova—IMF CD Spending by Department and IMF Programs, FY2012–2021**




Sources: IMF, ACES data; IEO staff calculations.
Note: IMF programs: EFF (2010–2013), ECF (2010–2013), EFF (2016–2020), ECF (2016–2020), RCF/RFI (2020).

**Figure 3. Moldova—IMF Training by Recipient Agency, FY2012–2021**

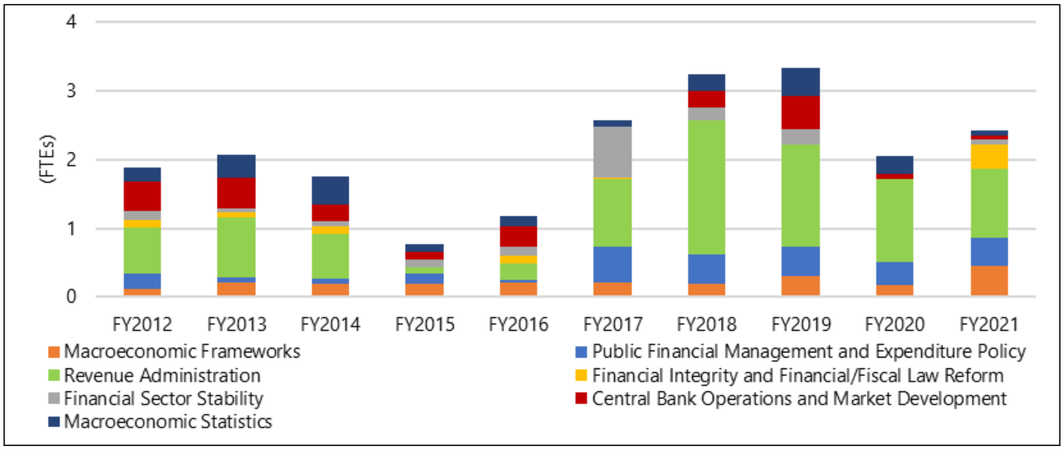



Sources: IMF, PATS data; IEO staff calculations.

4. A substantial share of CD interventions pertained to public finances, especially for revenue mobilization and more recently budget preparation, while support for improving debt management featured in the middle of the decade, in the context of establishing sustainable public finances (Figure 4). There was significant support for central bank reform, including for the adoption of inflation targeting and upgrading of supervision and several interventions to assist with bank resolution and bank governance after the banking fraud. In 2020, the IMF used CD to

conduct a governance diagnostic, which could be the basis for further CD. There was also continuous support in the area of statistics, focused mainly on real sector statistics.

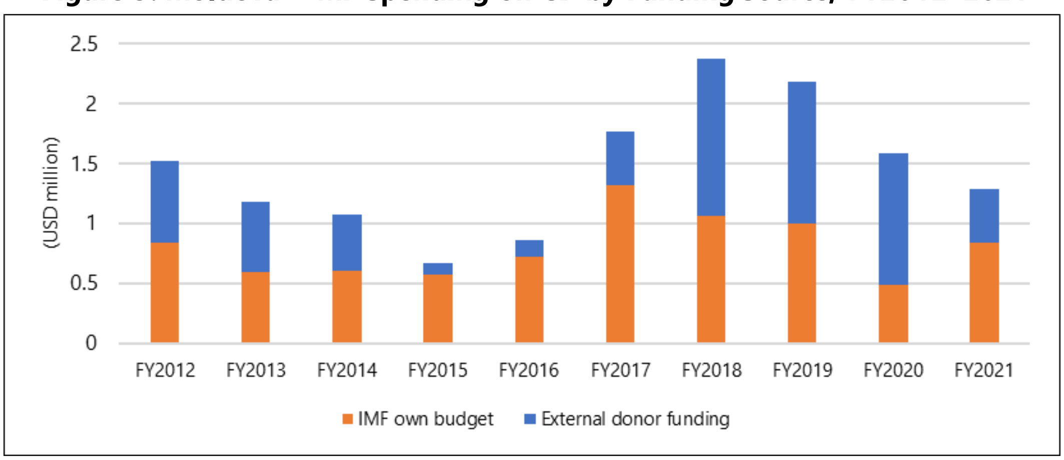
**Figure 4. Moldova—IMF CD by Workstream, FY2012–2021**




Sources: IMF, TIMS data; IEO staff calculations.

5. Changes in the sources of available funding for CD affected the evolution of CD and modes of delivery over time only in modest ways. Prior to the banking fraud, external funding dominated internal funding based on use of Japanese accounts, but it dropped sharply at the onset of the banking fraud (Figure 5). The subsequent increase in CD in the context of the 2017 EFF/ECF was at first primarily funded from internal sources, but the balance switched back to external funding once the Netherlands Partnership Program with the IMF for the Dutch constituency—to which Moldova belongs—came on stream in 2017.

**Figure 5. Moldova—IMF Spending on CD by Funding Source, FY2012–2021**

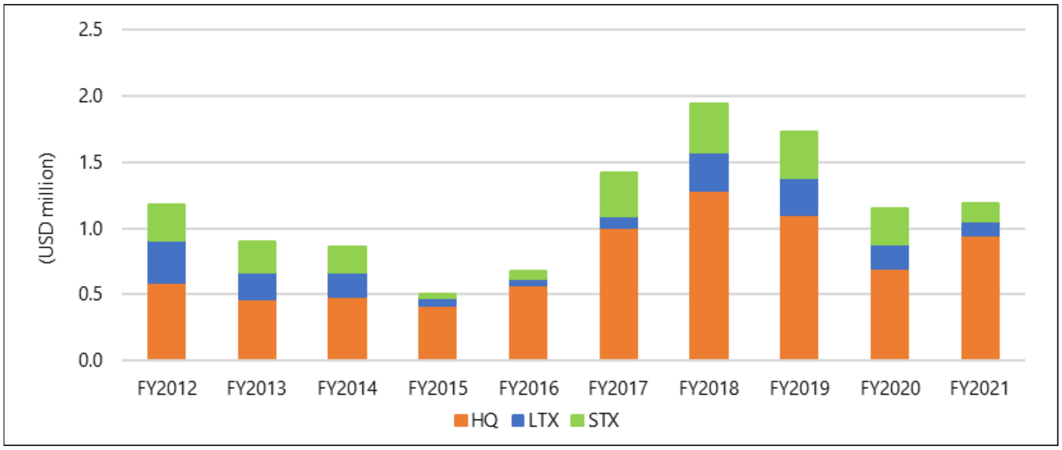



Sources: IMF, ACES data; IEO staff calculations.

6. HQ staff and short-term experts delivered the lion's share of CD (Figure 6). In the early part of the decade there was a resident advisor on statistics and during the second EFF/ECF program there was increased use of LTXs, some resident for tax administration and others in

regional centers, e.g., associated with the Slovenia Center for Excellence in Finance of which Moldova is a member (Annex I). Training received by Moldova steadily increased through 2017 (the mid-point of the second EFF) and remained broadly stable thereafter, showing limited correlation with other CD (Figure 3). Central bank staff received about 60 percent of the training, followed by the Ministry of Finance (25 percent). Shortly after the onset of the COVID-19 pandemic, all CD delivery switched to virtual mode.

**Figure 6. Moldova—IMF CD by Type of Delivery, FY2012–2021**




Sources: IMF, ACES data; IEO staff calculations.
Note: Spending data excludes non-personnel (NP) costs, which include, among others, travel expenses.

## II. CD ENGAGEMENT

7. IMF CD engagement with Moldova faced the challenge of establishing well-functioning institutions and policy frameworks in an environment of general resistance to reforms, widespread corruption, disregard for rule of law, extreme political volatility, unsettled security questions, and economic performance dependent on external factors and buffeted by adverse demographics. Misallocation of resources by entrenched interests (oligarchs and pro-Russian factions), dominating the public administration and large parts of the economy, was the main source of economic and financial vulnerability. Against this background, many young people emigrated and capital was not used productively, with adverse consequences for long-term growth. Pro-reformers did not gain sufficient political support to allow impactful reforms in critical areas.

### Strategy, Prioritization, and Allocation

8. Allocation of CD activities mainly reflected reform priorities identified in the context of program engagement. The 2014 banking fraud and the advent of a reform-minded government in its aftermath were key determinants amid attempts to address weaknesses in governance. The EFF/EFC program in place at the beginning of the period under review focused on basic stabilization: fiscal sustainability, inflation control and financial and external stability. It was supported by a significant amount of CD, including on tax compliance and administration, VAT reform, medium-term budgeting, amendments of the central bank and banking laws, modelling

and monetary policy, statistics, analysis of the finances of a systemic state-controlled bank, and clarification of beneficial ownership. The final reviews of the EFF/ECF were not completed and not all of the planned CD took place. Following an FSAP update on the eve of the discovery of the banking fraud, IMF staff expressed concern about corporate governance in the banking sector: "significant weaknesses in the legal and regulatory frameworks must be urgently addressed to ensure stability and soundness of the financial sector (IMF, 2014d)." In line with this concern, IMF CD focused on bank resolution and contingency planning, while continuing involvement on tax administration and debt management. With political volatility and absent a trustworthy government, CD was scaled back, until agreement on the 2016–2019 EFF/ECF prompted a CD surge, which contributed to program-supported reforms on bank governance, crisis management, supervision and regulation (as prior actions and structural benchmarks) and on selected fiscal issues (as structural benchmarks). By the completion of the EFF/ECF, significant progress was made in most of these areas, but the IMF flagged the need for further improvements in all policy frameworks and institutions, singling out the need to safeguard the independence of the National Bank of Moldova (NBM) and implement the MONEYVAL (Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism) recommendations regarding AML/CFT (IMF, 2020a).

9. Governance weaknesses continued to hamper the effectiveness of policy frameworks and the implementation of sound macroeconomic and financial policies, prompting the IMF to launch a Governance Assessment in 2020. Governance problems had been flagged early on. For example, in 2012 IMF staff noted: "Economic policies remain susceptible to pressures from special interest groups, as demonstrated by recent slippages and persisting sizable tax policy loopholes (IMF, 2012)." At that time, IMF CD was provided on some core areas where it saw needs and opportunities to address governance issues, e.g., related party lending, banks and SOE governance, independence of the central bank, tax compliance, and a central securities depository, but effective traction remained wanting mainly because underlying factors such as rule of law, control of corruption, and containment of vested anti-reform interests remained unsupportive. Pushed by the AD, which highlighted governance issues as background to the 2020 Article IV Consultation, the IMF conducted a Governance Diagnostic in 2020, having convinced the authorities that signaling a serious intent to tackle governance decisively was essential for the economic survival of Moldova. Pressure from potential investors and a change of guard at the political level increased the opportunity for traction on this subject. Tackling governance was expected to be the central tenet of the next EFF/ECF program on which staff-level agreement was reached in 2020 but the program was not approved, pending the clarification of the political situation. In the meantime, new CD initiatives were largely put on hold.

10. Country strategy notes for Moldova highlighted the priority to engage in the context of IMF programs and noted capacity constraints and political implementation risks. The (very similar) FY2013 and FY2014 medium-term capacity building strategy notes provided a comprehensive overview by major area (fiscal, monetary and financial, and statistics) of ongoing and planned TA,

highlighting the need to support the authorities' reform program agreed in the context of the 2010–2013 EFF/ECF arrangement and its possible successor. They noted that capacity constraints and political considerations were key factors hampering full implementation of CD recommendations but did not elaborate explicitly on how to adapt to these factors. More recently, the draft capacity development strategy note for 2021–2023 continued the focus of CD in the context of possible EFF/ECF arrangements, highlighting the need to concentrate on areas covered in the IMF's governance framework. It singled out the need to build more ownership and improve follow-up without elaborating specifics.

11. Interviewees on staff felt that the IMF's CD strategy, largely determined by program needs and coinciding with country needs, was broadly appropriate for the Moldovan context, noting that earlier comprehensive engagement on governance issues would have been beneficial. Officials conceded that even though surveillance and prior programs had indicated vulnerabilities and suggested areas where (preventive) CD was necessary, it often took an economic crisis for the country to become serious about reforms and effectively absorb (mostly curative) CD. Indeed, all interviewees agreed that CD was essential to guide the authorities toward fiscal sustainability early in the decade and crucial to deal with the consequences of the banking fraud, which the country could not solve on its own. Hence with the help of CD, the IMF designed the policies and sequencing of actions to deal with the banking fraud, in the process attempting to build implementation capacity. The banking fraud was difficult to resolve and suggestive of a pervasive problem of rule of law and abuse of the judicial system to threaten institutions and individuals in key positions in government attempting to pursue sound policies. A telling example was the judiciary's failure to pursue the perpetrators of the banking fraud. Former officials and some IMF staff noted that this issue was not identified as a major systemic problem early on, leading the IMF to tackle it on an institution-by-institution basis (NBM independence, tax compliance, AML/CFT) rather than in a comprehensive manner. The recent, if somewhat belated, shift to focus on broader governance issues was seen as the right priority by all interlocutors.

12. The responsiveness of the IMF's CD to country needs and windows of reform opportunity as well as the effective use of diagnostics and similar tools were seen as highly positive attributes of the IMF's CD strategy. The authorities appreciated the ability and willingness of the IMF to ramp up CD delivery to assist them in dealing with fiscal and financial crises. IMF staff noted that they were well aware of the limited opportunities for reform, and were ready to deliver stepped-up volumes of CD to support reform-minded governments (e.g., 2015–2016) or to prepare for a larger delivery when the possibility could arise (e.g., 2020).

13. There were several instances where use of diagnostic and similar tools helped raise awareness of the usefulness of IMF CD to address weaknesses in policy frameworks. The 2014 FSAP update provided such an input, although the acute needs of the resolution of the banking fraud required a quick shift in gears. The authorities reported that the Tax Administration Diagnostic Assessment Tool (TADAT) was particularly helpful in shaping their tax administration

reforms which relied on considerable IMF CD. Public Investment Management Assessment (PIMA) was initially less successful, but presentations about the weaknesses it had identified and possible solutions, using cross-country examples, stirred the authorities to undertake some reform. The 2020 governance assessment, which was still to mature into further CD delivery, was seen as highly useful by some officials. Similarly, the Financial Sector Stability Review (FSSR), which was ongoing in 2020–2021, showed promise as a vehicle to shape the authorities' CD absorption.

14. IMF staff noted that despite the IMF's efforts, the authorities' capacity to define a CD strategy and identify CD priorities remained work in progress in many areas, leaving strategy segmented with occasional misallocation. During the review period, the NBM gradually built up its capacity to define its own approach to CD. Officials noted that initially the NBM relied strongly on IMF staff to help it identify CD needs. However, former officials expressed some reservation about the IMF's prioritization when it proposed CD on financial inclusion (which they did not pursue) while much more pressing issues such as related party lending and non-bank financial institution supervision were still to be covered. More recently, the NBM begun to develop medium-term strategic objectives with an identification of CD needs and matching donors, selecting the IMF to cover what it saw as the most challenging areas given the IMF's favorable track record in resolving the banking crisis. The Ministry of Finance continued to rely on the IMF to help it design its CD strategy, taking the initiative to request CD in selected areas (e.g., domestic debt market development). IMF involvement on a strategy on tax policy remained elusive as tax policy continued to be a preferred tool of politicians. Spending reviews and fiscal risk analysis achieved greater success, culminating in the exemplary publication of a fiscal risk statement. The National Bureau of Statistics usually set its own strategy and priority, although the latest EFF/ECF included CD-supported actions to strengthen statistics driven by program considerations.

15. While acknowledging benefits, several concerns were expressed about the close link between most CD and programs. Authorities, IMF staff and other observers, agreed that tying CD with programs was essential to secure progress on much needed reforms, with leverage of conditionality crucial to overcome vested anti-reform interests and political stalemates. Nonetheless, the authorities emphasized that incorporating CD recommendations as program conditionality or even in the text of the Memorandum of Economic and Financial Policies (MEFPs) should be used sparingly and focused on areas that did not require adjustments with changing conditions as these adjustments risked pushing the program needlessly off track. Some officials took issue with the lack of transparency about whether CD recommendations would become program conditions, noting that at least in one instance, they would not have requested the particular CD had they known that its recommendations would become program conditions. Conversely, IMF staff observed that when CD was provided in program context on sensitive topics (e.g., related party exposure), the relevant counterpart authorities took a negotiating stance already at the stage of CD delivery, an approach for which CD experts were unprepared and which led to unproductive CD missions. In some cases, programs called for reforms in core IMF areas without associated CD lined up (e.g., non-bank financial institution supervision).

16. The authorities noted that they could have used more CD on implementation aspects of reforms (rather than on analytics, general direction, or principles). Given limited absorptive capacity and pockets of resistance to change throughout the public administration, they felt that IMF CD could have provided more advice, time and opportunities to support implementation. IMF CDD staff as well as other CD providers responded that a balance needed to be struck with ownership and with the need to avoid substituting for local capacity, which they felt was unavoidable in some cases (e.g., bank resolution).

17. IMF staff concurred that AD and CD departments worked well together in identifying priorities and allocating CD resources. During programs, priorities were clearly identified and few, if any, differences in view between AD and CDD staff occurred. IMF staff supported the ultimate sign-off authority of the AD to handle such differences, given the general overview function of the AD and its proximity to policymakers. CDD staff observed that their inputs were duly reflected in ultimate decisions. The resident representative played an important role in liaising with the authorities and provided inputs in AD and CDD positions.

18. The authorities were receptive to the needs and priorities identified by IMF staff, with the NBM becoming more proactive in suggesting priorities during the second half of the period under review, which IMF staff took into account. The authorities appreciated the opportunity to provide their views on prioritization and allocation during the spring and annual meetings with relevant departments, noting that they were mostly discussions on near term plans, with the IMF using the opportunity to confirm planned delivery or suggesting alternatives (e.g., desk review) in case CD did not fit within the IMF's resource constraints. Other CD providers noted that they were not directly involved in the overall prioritization and allocation of IMF CD, though there were interactions more downstream once actual projects were undertaken.

## Delivery

19. IMF CD used all forms of delivery and follow-up in Moldova, with adaptation to absorptive capacity and changing circumstances, switching to remote delivery soon after the onset of the COVID-19 pandemic. For specific topics (e.g., in the context of resolving the consequences of the banking fraud) and needs assessments (e.g., TADAT), one-time missions with a mix of HQ staff and experts were deployed, while for longer-term gestation projects (e.g., monetary policy, statistics, and tax administration) there was a mix of recurrent short visits and regional and resident LTXs. IMF staff attempted to ensure continuity of experts and adjusted the use of LTXs in line with their effectiveness. Budget constraints played some role in limiting the use of LTXs. A sizable amount of training was made available to the country, some custom made (e.g., for the new NBM governor) but most through participation in courses, either in person (mostly JVI) or on-line both from the standard Institute for Capacity Development (ICD) curriculum as well as specific CDD courses (e.g., on statistics). Remote delivery in the context of the COVID-19 pandemic incurred some start-up difficulties, mainly due to in-country technological and organization constraints, but a number of CD deliveries nonetheless took place.

20. Overall, the authorities were very pleased with the quality of IMF CD delivery. Echoed by other donors, they felt that the IMF's advice was always based on thorough analysis and delivered by experienced and highly qualified experts, singling out short-term experts especially. The State Fiscal Service highlighted the virtue of the patience and persistence of IMF experts in convincing the authorities of the merits of following IMF advice. As a result, a centralized independent tax administration was established, organized along functional lines and equipped with audit functions and powers to investigate and prosecute. Officials from the Ministry of Finance and NBM concurred that IMF CD was of the highest quality, productive and efficient, and the NBM governor particularly appreciated the custom-made training he received. Staff of the National Bureau of Statistics revealed that, while they had many opportunities to request CD from other providers, they insisted on IMF experts for the national accounts which they felt provided the best expertise in the field.

21. While the authorities felt that overall delivery modalities worked well, they noted some instances where timeliness and adaptation to country circumstances could have been better. The NBM felt that on some of its requests it took considerable time for the IMF to line up the needed expertise, noting their impression that, given its small size, Moldova was getting less attention compared to more important neighbors. This was particularly important when gaps were discovered during program implementation and quick answers were needed to get the program back on track. In a few cases, while the quality of the recommendations of STXs was high, the fact that the expert was not available to further nurture implementation left some gaps. Ministry of Finance officials felt that long programming periods to obtain CD at times led to planned projects becoming less relevant as circumstances had changed fast. On some tax administration issues, it was felt that advice was insufficiently country specific and that experts devoted insufficient time to design joint solutions with the authorities. In the area of statistics (e.g., prices), authorities would have preferred more use of a resident advisor to avoid long breaks between missions in the delivery of assistance and provide more hands-on training. The authorities felt that on issues touching on vested interests, they were not able to push for implementation of CD, even if required in program context. As a result, in some cases (e.g., bank resolution), CD delivery required a huge deployment of experts, which implemented the changes in lieu of local staff.

22. Experience with long-term resident CD experts was mixed. In general, the authorities expressed a preference for more face-to-face contact and more resident advisors. Some LTXs (e.g., on tax administration reform) were seen to be highly effective, significantly boosting capacity of the tax office. However, at other times, CDD staff noted that having LTX available full time to the authorities led to the LTX being considered as part of regular staff of the recipient institution, and thus less in a position to foster reforms. As an underlying factor, IMF CD staff pointed to misalignment of the authorities' expectations with their assessment of the needs of the project, which required less than full time engagement. There was also a setback when the authorities surprised an LTX by implementing policies completely at odds with the expert's advice (e.g., tax amnesty), requiring a "cooling off" period for the LTX. In other cases (e.g., the

monetary policy framework), even though IMF staff agreed that a resident LTX would be the best way of delivery, resistance and personality of the immediate counterpart made such an approach unworkable, leading to the withdrawal of one LTX and in a separate instance to cancellation of planned placement of another LTX. Other CD providers observed that using resident LTXs in program context (especially when funded by other donors and not from the IMF) tended to cause difficulties, jeopardizing their effectiveness or introducing "native" views.

23. The authorities highly appreciated the training opportunities provided by the IMF, with the NBM considering use of the ICD curriculum in a systematic manner for staff development. The authorities reiterated the training aspects of in-country delivery of CD, be it through a resident advisor or repeated visits of short-term experts, as being the most valuable contribution of CD. Nonetheless, both the NBM and the Ministry of Finance also saw JVI training as very successful, while noting that the results were difficult to measure. Other institutions (e.g., National Bureau of Statistics) would like to see more opportunities for training for their staff. The NBM praised the responsiveness of the JVI in allowing extra people to participate in capacity building for their monetary policy framework and appreciated JVI's feedback on the participants. NBM and Ministry of Finance management appreciated discussions with JVI management about JVI assistance in implementing cohort training for their staff based on ICD's structured curriculum and JVI's other relevant offerings, but final decisions on the use of the ICD curriculum were pending.

24. Most interlocutors agreed that better follow-up was important to improve CD implementation. The authorities conceded that they lacked capacity to follow-up adequately even though there had been a gradual improvement over the past decade, with especially the NBM and also the National Bureau of Statistics and State Fiscal Service building their follow-up capabilities. They appreciated the IMF staff's efforts to support follow up which worked relatively well in program context or when there was continuous engagement from CD departments. The resident representative played a crucial role by meeting frequently to identify how the IMF could further assist with implementation of CD recommendations. AD staff noted that they did not have the expertise to get into the specifics of follow up, but that most of the time they could rely on CDD staff to either join AD missions or provide desk assistance. On politically sensitive issues, staff interviewees agreed that follow-up was difficult as counterpart officials were reluctant to push with implementation and leverage was possible only in program context, but had to be used selectively. Together with high turnover of local staff this created difficulties for IMF staff to follow up effectively, especially in the area of tax policy and public expenditure. In response, IMF staff repeated CD on some topics (e.g., taxation). Some IMF CDD staff observed that, while it would be useful to have more frequent check-ins with the authorities on implementation, resources were insufficient to incorporate this consistently in CD projects. Over time, the NBM had strengthened its CD follow-up capacity, with a deputy governor in charge of overseeing the NBM CD program, putting the onus less on IMF CDD staff. Other institutions have appointed dedicated counterparts for CD coordination but they were not proactive in follow up. IMF staff

expressed concern that authorities' resources were very tight in the area of statistics with risks to the sustainability of CD on this topic.

25. Even though CD delivery had continued after the onset of the COVID-19 pandemic, authorities and staff agreed that it had on balance had an adverse impact. The authorities noted that technological constraints, time zone differences, shifting priorities, and a cultural preference for person-to-person contact as well as the need for language interpretation had hampered CD implementation during the pandemic. As a result, the authorities had scaled back their requests of CD. For existing projects, remote delivery continued to be somewhat effective as experts and counterparts had already established relationships. The authorities appreciated IMF efforts to make more training available online but noted that it could not fully substitute for face-to-face interaction.

## Partnerships, Coordination, Dissemination

26. Moldova received support from a large number of donors and CD providers, some of which worked in close partnership with the IMF. For IMF CD, the main partners were the EU, the WB and United States Agency for International Development (USAID), with some bilateral donors also playing a role (e.g., Romania and Sweden). There was very close coordination with EU institutions, with complementarity of conditionality helping to incentivize reforms and implementation of IMF CD recommendations. The IMF focused on its core competencies with engagement on some fiscal and financial matters shared with the WB, while governance issues were mainly the domain of the EU and USAID, until the 2020 IMF Governance Diagnostic. Bilateral donors were productively involved either through funding of IMF experts (e.g., TADAT) or through the Slovenian Center for Excellence in Finance. Smaller donors eagerly concentrated mostly on technical implementation in areas where they sensed there would be traction, following up and relying on high level recommendations from the IMF and WB.

27. Coordination among CD providers worked broadly well, with room for improvement. IMF staff played an important role in coordination of CD, notably through the resident representative. While coordination was to a large extent informal, through meetings in the country, the IMF resident representative established two working groups in 2015 to coordinate CD providers in the area of tax administration and financial sector reforms. Nonetheless, interviews highlighted several opportunities for improvement of coordination:

- Outside the NBM, there were few attempts by the authorities to actively facilitate coordination among providers. The NBM developed a coordination mechanism in which the IMF took active part and helped with prioritization and identification of experts. In the area of public finance, a deputy finance minister recently took the lead in coordination. However, the authorities acknowledged coordination was hampered by staff shortages and CD providers observed that the interaction was not centralized leading to instances in which authorities made similar requests to different providers.

Some CD providers felt that CD was organized too much in a sectoral manner thus preventing coordination on common issues affecting multiple recipient institutions.

- In some cases, IMF staff noted that crucial coordination both among providers and between country institutions turned out to be challenging (e.g., Central Securities Depository, CSD). The IMF and the WB, in separate CD, provided somewhat different recommendations on the CSD, which took time and effort to be resolved, a process that was further complicated by the involvement of other donors during implementation. Domestically, capacity for implementation was lacking, requiring the IMF to mediate institutional tensions and propose a (second-best) compromise solution.

- There were good synergies between the IMF and the WB in many other areas (e.g., tax administration), but reportedly also instances of coordination challenges. The authorities noted that IMF-WB coordination was at times problematic because of differences in advice (e.g., on pensions), the overburdening of recipient institutions' staff, and the absence of a clear process to resolve differences. IMF staff noted that coordination with the WB depended on personalities and that the Bank's hiring of local experts in some cases caused apparent conflicts of interests. In 2015, the IMF set up working groups involving the WB, EU, Sweden and USAID to avoid overlaps on tax administration and financial issues. Conversely, WB staff felt that ex ante information sharing with the IMF to align policy positions and leverage implementation would have helped, observing that IMF processes were not publicly transparent with very little information about IMF CD publicly available. Informal information sharing could have compensated to some extent but lacked structure. The authorities noted that the approach followed by the FSSR which has a built-in feature for coordinating with other providers could usefully be extended to all areas of CD.

- EU staff felt there was a need for substantial improvement in coordination between the EU and the IMF, although there were also cases in which coordination worked well. While they recognized that independent analysis from the IMF was well intended and well founded, it sometimes ended up at odds with the EU's alignment objectives (e.g., on fiscal rules, SOE governance). EU staff pointed to the importance for institutions to speak with one voice to the authorities and the opportunity for the EU to directly fund IMF CD, and suggested a need for a more structured dialogue between the EU and the IMF (and WB) at higher levels of decision making, to establish a shared vision in the context of a medium-term horizon, preferably also involving the authorities. IMF staff observed that it would be difficult to always accommodate the EU's objectives, which were often the result of compromise, and that the EU's need to agree in advance on medium-term objectives and plans prevented flexibility and responsiveness to changing country priorities and circumstances. Nonetheless, in the context of a new 5-year EU CD project covering also public investment management there was reportedly good coordination between the EU and the IMF.

- IMF staff noted that some projects funded by the EU and delivered by IMF experts (e.g., in statistics) were at least initially not well coordinated either within the IMF or among the authorities, leading to surprises (e.g., when key price and real sector data were revised).

- Small bilateral donor-providers, mainly providing twinning arrangements, noted that the IMF did not seem to be willing to engage with them given their small scale, in their view leading to missed opportunities.

- CD work outsourced by the authorities to the private sector (e.g., on governance in the financial system) was seen by interviewees of public CD providers to run into conflict of interest issues (for example, when advisors on state owned bank or enterprise reform were affiliated with firms with business interests, either as supplier of services or prospective owner).

28. The authorities found the IMF's publication policy on CD broadly appropriate, while some IMF staff and donors preferred to see some changes, including to allow more effective dissemination among stakeholders. The authorities felt that the publication policy met their needs, allowing full publication where they felt it important for transparency (e.g., tax administration reform and most CD addressed to the NBM), while avoiding disclosure of confidential or market sensitive information (e.g., CD involving selected financial institutions). Given the importance of transparency in the Moldovan context and civil society calling for publication of reports, IMF staff felt that their general support for publication was constrained by the consent rule, leaving publication dependent on personalities. Donors called for systematic publication of the IMF's standard assessments (as was done in the case of TADAT), given their public-good character and generally well-balanced nature. Some IMF staff noted that dissemination inside the IMF could still be further improved even if the new information systems have made access somewhat easier. Some donors felt that more flexibility in dissemination to stakeholders outside the IMF and WB would be beneficial.

## Effectiveness and Impact

29. IMF CD has contributed to helping the Moldovan economy overcome adverse economic developments, in particular the consequences of the banking fraud, and to gradually improving policy frameworks. IMF CD brought significant international expertise to bear on the resolution of the banking fraud-induced financial crisis, in the process strengthening legislation on governance and supervision of the banking system. It was also important in establishing a functioning central bank and enhancing its independence. IMF CD contributed to improvements in tax administration and some other aspects of fiscal management (e.g., fiscal risk analysis and expenditure management), but it was less effective in other areas (e.g., monetary policy and tax policy) with the authorities at times implementing reforms at odds with CD recommendations (e.g., tax amnesty). IMF CD contributed to steady improvement in statistical capacity, especially on national accounts and prices and in aligning government finance statistics with EU requirements. A considerable amount of training helped upgrade skills in public administration

and custom-made trading on monetary policy, banking supervision, and communication to the new NBM governor contributed to effective policymaking amid political pressure.

30. RBM records were available only for a subset of projects since 2015 (13), with 28 outcome ratings available from the 41 project outcomes which were defined for those 13 projects (Annex I, Figure A1). Nonetheless, IMF staff reported that in some areas such as tax administration and statistics and on some financial sector reforms, RBM components are discussed with the authorities and the agreed timelines on milestones are used to check in with the authorities on progress. Outcome objective ratings for the limited number of projects for which they are available show generally good progress.

31. Staff from IMF and other CD providers, echoed by some officials, indicated that recipient capacity constraints were a major obstacle to the effectiveness of IMF CD. Within the NBM, which overall had good capacity, deficiencies in personnel management skills and prioritization (e.g., on monetary policy making) contributed to demotivating staff and undermining progress. IMF AD and CDD staff did not see a way to correct these issues and as a result shifted resources to other areas where there was more traction. Similar difficulties emerged in the implementation of CD on tax policy, where the unwillingness of one or two influential counterparts to proceed led to poor outcomes. More broadly, lack of resources and data prevented the completion of CD supported reforms (e.g., tax expenditure, statistics for wider data collection). Some donors raised the importance for CD to include a focus on HR policies of recipient institutions to mitigate the risk of high staff turnover, especially as CD tended to raise the recipient staff skillset to levels, which commanded higher salaries outside the public sector.

32. IMF staff attempted to optimize various other aspects of delivery to boost CD effectiveness, with donors suggesting potential from more use of twinning arrangements. The authorities appreciated that the selection of expert practitioners from similar countries in similar circumstances and continuity in their deployment was a very positive attribute of IMF CD. Modes of delivery that included a sizable component of hands-on training (repeated STX visits, LTXs, courses) were also seen as beneficial. Donors observed that twinning arrangements, not used often by the IMF, had been very effective, but remained contingent on political circumstances. Their effectiveness stemmed from the usual long-term engagement of experts, mainly from neighboring countries (e.g., Croatia, Romania) and thus familiar with Moldova's circumstances and with expertise in implementing similar reforms. Use of such experts improved understanding and acceptance by Moldovan counterparts. Twinning arrangements funded by the EU also required local counterparts to prepare and meet certain criteria to receive funding related to the project, thus strengthening their motivation. Bilateral donors from EU countries further noted that good informal networks with staff of recipient institutions and support from higher-level management mattered for success of these arrangements. However, with the EU also having a broader agenda, including improvement in governance, its concerns about the authorities' wavering on combating corruption led to an interruption in such projects, with bilateral EU donors falling in line to ensure a common approach.

33. Many interviewees noted that IMF CD was comparatively effective during windows of reform opportunity—which admittedly had been few during the period under review. Staff of CD providing departments agreed about the importance of their being prepared to come in with well-considered CD proposals when suitable opportunities did arise and assist the authorities in their decision-making process so as to effectively guide efforts to obtain support from the broader community of CD providers. This would avoid instances such as in 2015 when the authorities were keen to reform SOEs but failed to coordinate well among different donors simultaneously offering the same support. The authorities acknowledged that full commitment from their side was essential for effectiveness of CD and that this was generally achieved at the time of agreement on IMF programs. Nonetheless, with reform-minded authorities usually in the minority, some interviewees noted that broader engagement with stakeholders across the political spectrum was necessary for success as well as attention to generating broader public support by ensuring inclusiveness of reforms and paying attention to job creation aspects. EU staff felt that better alignment of IMF CD recommendations with EU reform objectives might have provided more leverage.

34. There was generally consensus that impact and sustainability of CD were adversely affected by capacity constraints, the volatility of the political situation and entrenched anti-reform interest controlling the judiciary. IMF staff recognized that setting up institutions, passing legislation, adopting rules and regulations were necessary but not sufficient for impact in Moldova where human capacity in the public sector, broadly defined, was very thin. Even though volatility of the political situation was seen to be beyond control of CD providers, IMF CDD staff said that they had adapted by focusing delivery more on relatively skilled and committed mid-level counterparts, leading to some successes (e.g., on tax expenditures) but often turning into a losing battle (e.g., the adoption of a flat personal income tax after a CD project with the purpose to avoid such an outcome). IMF staff noted that, with more resources, they perhaps should have spent more time on outreach to the political level, as parliamentarians often came up with their own relatively poorly conceived ideas about taxation. IMF staff further noted that even when reforms were successfully implemented, the judicial system was used by vested interests to harass reformers (e.g., former NBM governors) even long after the fact, generally discouraging reform-minded policymakers.

## III. Overall Assessment

35. IMF CD was effective in improving policy frameworks in several areas, but did not energize broad-based reforms, leaving question marks about its impact and sustainability. Weak reform ownership by the authorities during much of the period under review proved to be a major obstacle, making it difficult to discern any sustainable impact on macroeconomic and financial outcomes. Overall government effectiveness (as defined in WB governance indicators) in 2019 remained low with Moldova in the 38$^{th}$ percentile among countries covered, though it did comparatively better on regulatory quality (56$^{th}$ percentile), than on rule of law (41$^{st}$ percentile) and control of corruption (30$^{th}$ percentile). Adoption of inflation targeting contributed to improved inflation control, but inflation remained volatile. Public debt remained low, but this was

more reflective of constraints on access to finance rather than of well-run fiscal policies. Financial vulnerabilities were reduced in the aftermath of the banking fraud, but non-performing loans continued to loom large against the background of low financial intermediation. Structural fiscal indicators (e.g., VAT and corporate income tax efficiency) showed very limited improvement.

## Relevance

36. IMF CD work was generally relevant, commensurate with making progress in areas where there was an acute need and where reform-minded governments put priorities. Domestic buy-in was greatest when there were immediate and urgent needs for stabilization, leading to full alignment of IMF CD with country needs and the authorities' priorities. At other times, the absence of a clear reform orientation from the authorities made it difficult to build domestic consensus around needed reforms. The IMF used assessment tools to help convince the authorities and the broader public to address weaknesses with support from CD. While there was some apparent success on tax administration (through TADAT), other comprehensive assessment of CD needs (e.g., PIMA, FSSR) have yet to bear fruit. The IMF's 2020 Governance Assessment was expected to be the cornerstone of an EFF aimed at addressing major stumbling blocks to significant progress (through broader governance and judicial reforms), but political turbulence delayed progress.

## Coherence

37. IMF CD was closely aligned with program needs and focused on areas with the greatest progress for traction, an approach which nonetheless give rise to some drawbacks. While this approach was broadly appropriate in the circumstances of political volatility and short-lived windows of opportunity for reform, it led to some gaps when no CD was lined up in areas where IMF programs called for reforms and to some challenges for CD from blurring the distinction between program and CD work. CD effectively became program work, having to cast a selective number of recommendations into program conditions, thus required to follow the timeline of program reviews and unable to explore alternatives. Inevitably, changing circumstances implied that some of the associated benchmarks could not be met, at times contributing to the program going off track. It also lessened the focus on deeper reforms with longer gestation periods. For areas with motivated authorities beyond immediate program objectives (e.g., inflation control, supervision), CD took a patient and persistent approach, which paid off in a number of areas, especially when recommendations were politically well calibrated.

## Effectiveness, Impact, Sustainability

38. IMF CD was broadly effective on technical matters and on crisis resolution but less so on broader policy and institutional reforms, leaving its impact and sustainability in doubt. While in a few areas (e.g., monetary policy frameworks, central bank and bank governance, statistics) IMF CD was effective and impactful, in other areas the authorities failed to implement CD recommendations in earnest or took decisions at odds with such recommendations. Effectiveness was helped by IMF CD staff's persistence, continuity of engagement, the willingness for repeat

CD delivery, the choice of experts with experience in similar country circumstances, and the responsiveness to windows of reform opportunity. It was hampered by limits to absorptive capacity (see below), political interference with persistent lack of ownership of reforms, political instability, harassment of decision makers through the judiciary, insufficient attention to follow up, and incomplete coordination among different CD providers. To be fair, achieving deeper impact and sustainability depended on a yet to be realized quantum shift in Moldova's society to overcome pervasive corruption and establish effective rule of law, issues that cannot be addressed merely with CD.

39. Limits to absorptive capacity were one of the most binding constraints on effectiveness of CD delivery, which were addressed only in piecemeal fashion. Limited capacity of recipient institutions implied that experts dealing with the resolution of the banking crisis and the improvement of governance in the financial system had to do much of the heavy lifting and found it difficult to transfer the know-how. These limits were to some extent related to entrenched anti-reform interests, and they persisted in the absence of broader reforms of the public administration and specific institutions. Efforts were made to mitigate capacity constraints in the context of specific CD projects and the IMF provided a generous amount of training to Moldovan counterparts. However, this largely segmented approach failed to address broader issues common across the public sector, such as HR policies, staff motivation and retention, and remuneration. As a result, much of the capacity that was built during IMF CD delivery dissipated over time, leading to the need for repeat delivery of CD and restarting the cycle of staff turnover and incomplete implementation of CD projects.

**Lessons (R=Relevance; C=Coherence; E=Effectiveness and Impact)**

(i) Tackle governance issues in a comprehensive manner, leveraging other partners. (R, C, E)

(ii) Address common, underlying institutional issues (e.g., HR policies) hampering absorptive capacity of the public sector. (R, C, E)

(iii) Adopt a more structured approach to CD follow-up, inter alia considering a larger share of continuous engagement and in-country presence and devoting more resources to hands-on implementation. (C, E)

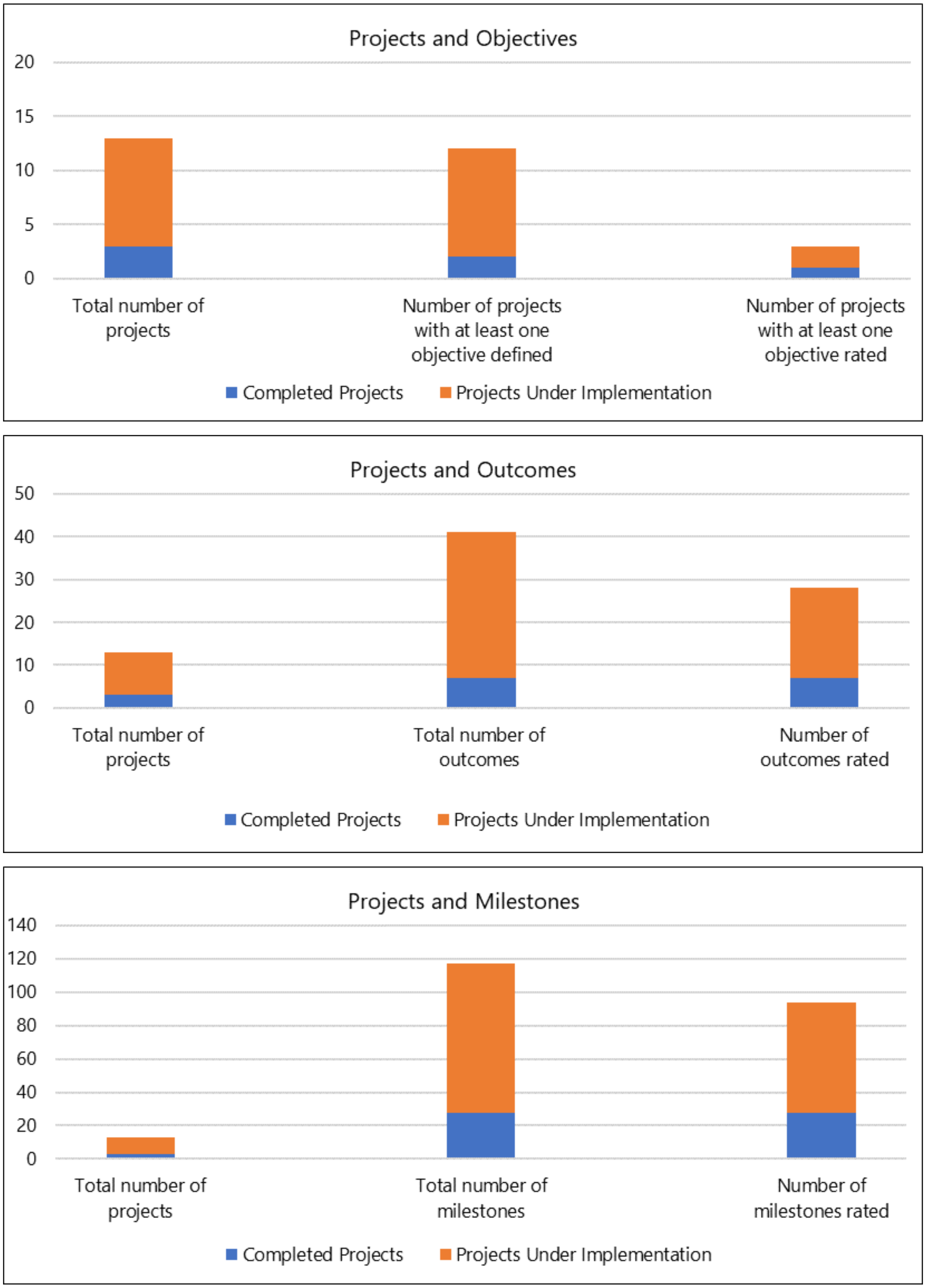
(iv) Be transparent with the authorities about which CD-supported reforms are likely to be included in programs and set realistic benchmarks. (C, E)

(v) Use broad assessment tools to help authorities identify important areas where CD could contribute to improving policy frameworks and to build awareness and consensus about the benefits of adopting sound policy frameworks. (R)

(vi) Incorporate political economy considerations into CD projects to attenuate the role of vested anti-reform interests. (E)

## ANNEX I. CD ACTIVITIES FOR MOLDOVA

**Figure AI.1. Moldova—Results-Based Management Data on Projects, Objectives, Outcomes, and Milestones**




Sources: IMF, RBM data; IEO staff calculations.

**Table AI.1. Moldova—Number of Missions, 2012–2020**

| Year | FAD | ICD | LEG | MCM | RES | STA | Others | Total |
|---|---|---|---|---|---|---|---|---|
| 2012 | 10 | 0 | 4 | 9 | 0 | 2 | 0 | 25 |
| 2013 | 5 | 0 | 1 | 11 | 0 | 2 | 0 | 19 |
| 2014 | 9 | 0 | 3 | 7 | 0 | 1 | 0 | 20 |
| 2015 | 2 | 0 | 0 | 3 | 0 | 1 | 0 | 6 |
| 2016 | 2 | 0 | 2 | 5 | 0 | 2 | 0 | 11 |
| 2017 | 7 | 0 | 1 | 6 | 0 | 0 | 0 | 14 |
| 2018 | 13 | 0 | 0 | 6 | 0 | 4 | 0 | 23 |
| 2019 | 14 | 0 | 0 | 5 | 0 | 4 | 0 | 23 |
| 2020 | 13 | 0 | 0 | 0 | 0 | 3 | 0 | 16 |
| Total | 75 | 0 | 11 | 52 | 0 | 19 | 0 | 157 |

Sources: IMF, TIMS data; IEO staff calculations.

**Table AI.2. Moldova—Resident Advisors, 2012–2019**

| Host Institution | CDD | CD Topic/Workstream | Start Date | End Date |
|---|---|---|---|---|
| National Bureau of Statistics, Moldova | STA | National Accounts | April 2012 | October 2014 |
| Ministry of Finance | FAD | Resident Revenue Administration Advisor | 1/29/2017 | 1/28/2018 |
| Ministry of Finance | FAD | Extension of RA Advisor | 1/29/2018 | 5/4/2018 |
| Ministry of Finance | FAD | Revenue Administration | 7/29/2018 | 7/28/2019 |

Sources: IMF, Fiscal Affairs Department and Statistics Department.

**Table AI.3. Moldova—List of TA Reports, 2012–2020**

| | FAD | MCM | STA | LEG | Total | Of which | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Available Within IMF | Available but Confidential | Published |
| 2012 | 2 | 0 | 2 | 0 | 4 | 3 | 0 | 1 |
| 2013 | 2 | 1 | 2 | 0 | 5 | 3 | 0 | 0 |
| 2014 | 2 | 2 | 3 | 0 | 7 | 5 | 0 | 0 |
| 2015 | 3 | 2 | 1 | 0 | 6 | 3 | 0 | 0 |
| 2016 | 2 | 1 | 1 | 1 | 5 | 4 | 0 | 0 |
| 2017 | 5 | 3 | 1 | 0 | 9 | 8 | 0 | 0 |
| 2018 | 3 | 0 | 1 | 0 | 4 | 5 | 0 | 1 |
| 2019 | 3 | 3 | 4 | 9 | 19 | 8 | 0 | 1 |
| 2020 | 2 | 1 | 3 | 0 | 6 | 6 | 0 | 2 |
| Total | 24 | 13 | 18 | 10 | 65 | 45 | 0 | 5 |

Source: IMF, Institutional Repository.

# UKRAINE: UNPRECEDENTED REFORM CHALLENGES

## I. Introduction and Country Overview

1. Ukraine is a medium-sized middle-income transition economy and was nearly continuously engaged in IMF programs during the period under review (2012–2020).[1] It benefitted from both short-term programs (four SBAs) and a long-term program (one EFF), generally with exceptionally high access to IMF financing.

2. Throughout the period under review, Ukraine faced multiple and persistent political, economic and security challenges, while attempting to undertake a major transformation of its economy and institutions:

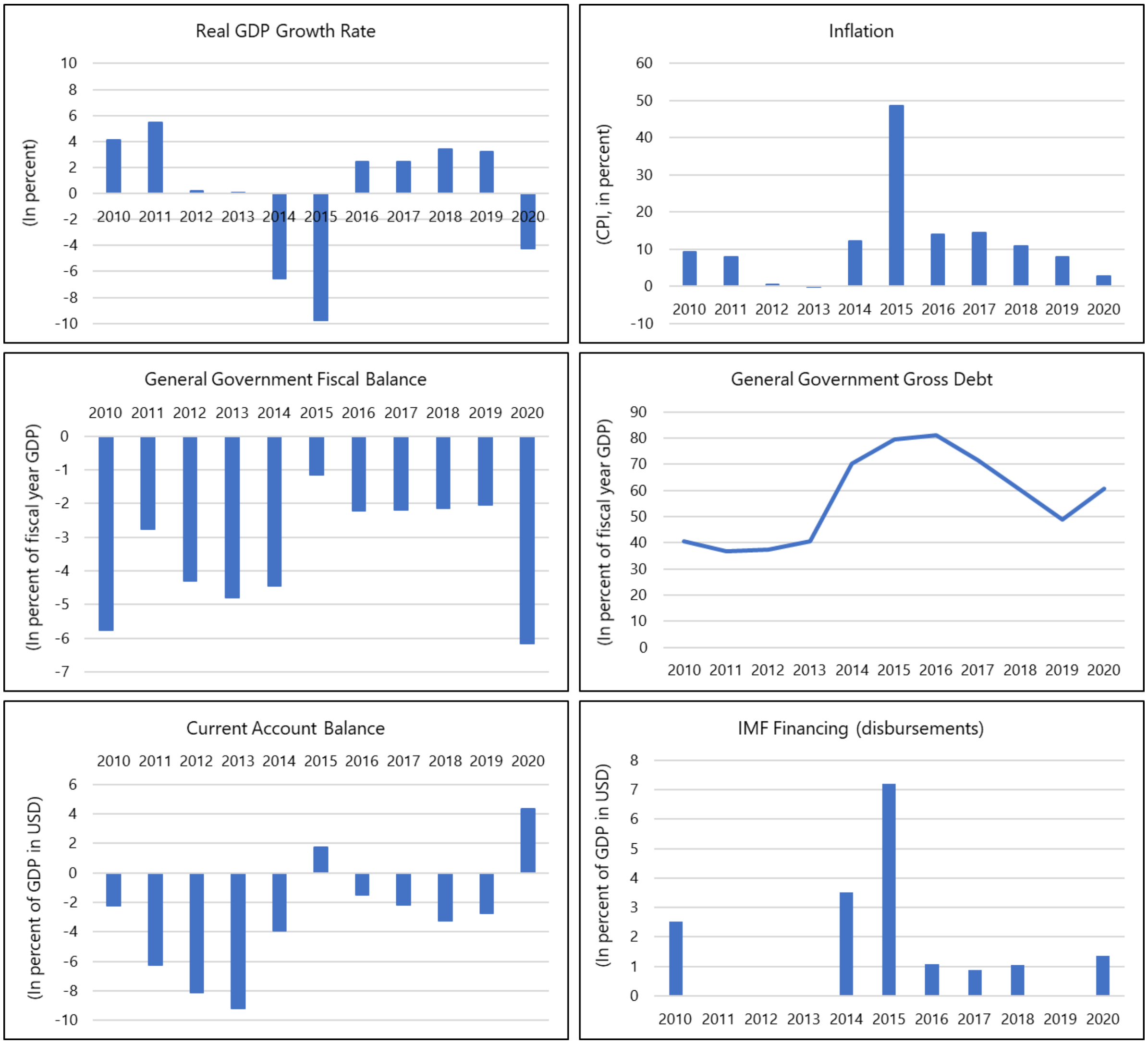
- A full-fledged macroeconomic crisis took hold during 2012–2015, with a collapse in growth, accelerating inflation, external debt servicing difficulties, and domestic bank insolvencies. The economy stabilized and growth returned subsequently, but to rates that remained too low to address unemployment and drive a broad-based increase in living standards. Inflation was too high and too volatile. The difficult political and security situation, weak rule of law, corruption, and tight financing constraints depressed investment. The COVID-19 pandemic has caused another sharp recession and humanitarian crisis (Figure 1).

- Following uneven and stagnating progress, significant reforms were implemented after the Revolution of Dignity (2013–2014) when Ukraine embarked on comprehensive political and economic reforms, underpinned by the aspiration of European Integration. With the security conflict with Russia and vested anti-reform interests from Ukraine's oligarchs domestically, the circumstances for policy implementation and reform were extremely difficult. Steadfast reform implementation to create a more dynamic and competitive economy remained a challenge, with entrenched interests and their control of legal and judicial processes and significant parts of the public administration a major obstacle. Recently, the COVID-19 pandemic drew attention away from the reform agenda.

- Ukraine's reforms were strongly supported by the international community, with sizable engagement from the EU, the WB, and other official donors (e.g., Canada, US). The association agreement with the EU entered into force in September 2017. The objective of EU integration is an important factor driving reforms and CD in all macro-financial areas.

[1] In 2019, Ukraine ranked 40th in the world on the basis of overall PPP-GDP at current prices and 102nd on the basis of per capita PPP-GDP at constant prices (IMF, WEO October 2021 Database).

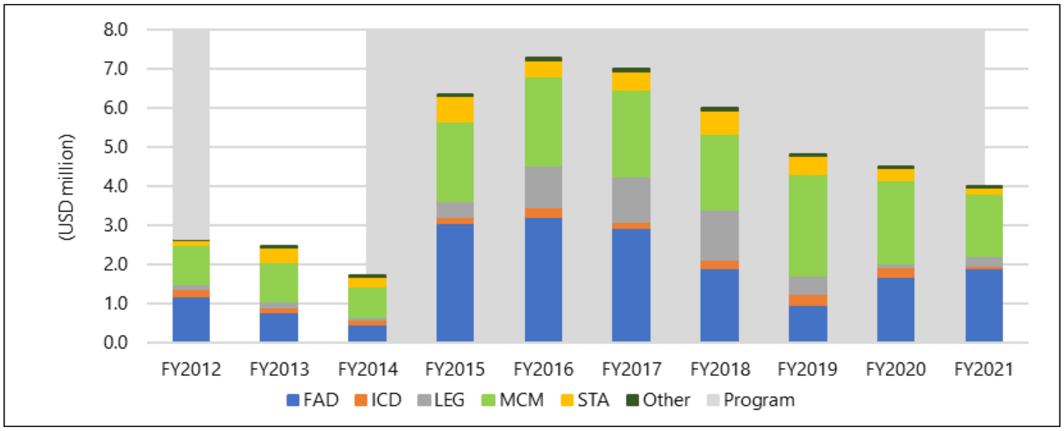
**Figure 1. Selected Indicators for Ukraine, 2010–2020**




Sources: IMF, WEO database; World Bank database; IEO staff calculations.

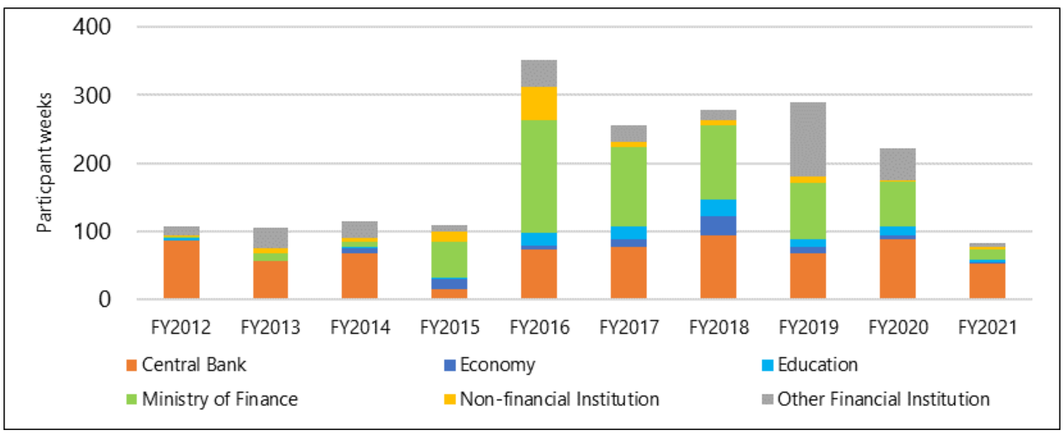
3. During 2012–2020, Ukraine was among the highest users of IMF CD, with more than 100 TA reports provided to the authorities, about 370 missions conducted, and several long-term resident experts involved in advising the authorities on a day-to-day basis (Annex I). The volume of CD provided to Ukraine (in terms of FTEs) was positively associated with the presence of an active IMF program, and rose very sharply after 2014 when a reform-minded government gained credibility (Figure 2). The volume of CD has remained high, even though reform momentum has faded since 2019 and the COVID-19 pandemic has shifted resources to crisis management. Ukraine was recently a high user of training, with participation in courses averaging about 206 participant weeks/year during the review period (Figure 3).

**Figure 2. Ukraine—IMF CD Spending by Department and IMF Programs, 2012–2021**




Sources: IMF, ACES data; IEO staff calculations.
Note: IMF programs: SBA (2010–2012, 2014–2015), EFF (2015–2018), SBA (2018–2020, 2020–2021).

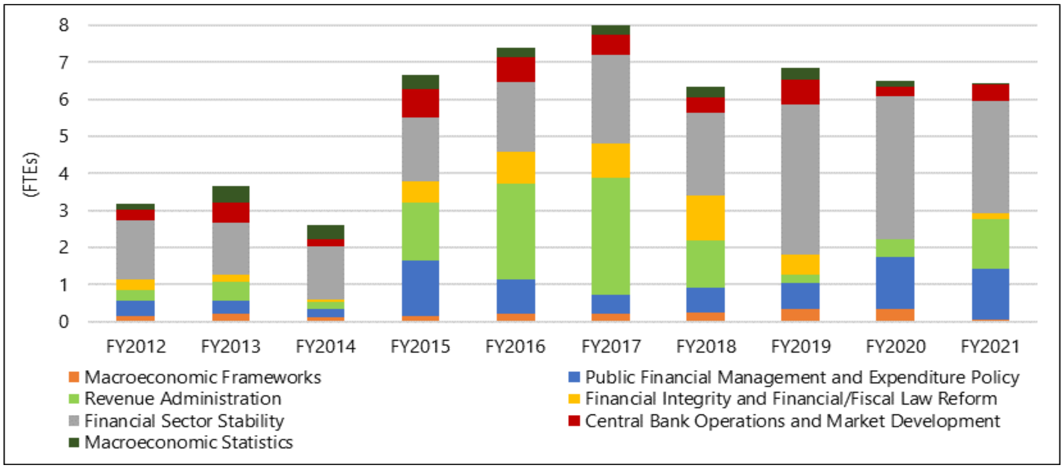
**Figure 3. Ukraine—IMF Training by Recipient Agency, FY2012–2021**




Sources: IMF, PATS data; IEO staff calculations.

4. Throughout the period under review, interventions in support of financial system reform (all of MCM and the bulk of Legal Department (LEG)-delivered CD) dominated the volume of CD (Figure 2). Financial sector reforms focused on resolving a banking crisis and transforming the National Bank of Ukraine (NBU) into a modern central bank. Building on long-standing efforts, significant support was also provided for the adoption of an inflation-targeting regime. More recently, upgrading the supervisory capacity of the NBU has been dominating this area of CD (Figure 4). In the area of public finances, IMF CD has engaged across the board, with significant resources devoted to tax and customs administration reform, tax policy, and the taxation of extractive industries. In the context of the 2015–2018 EFF program, revenue mobilization constituted a large share. There was significant CD on medium-term budgeting (including spending reviews) and SOE fiscal risk analysis. With respect to statistics, CD engagement covered multiple topics, with the real sector featuring most prominently.

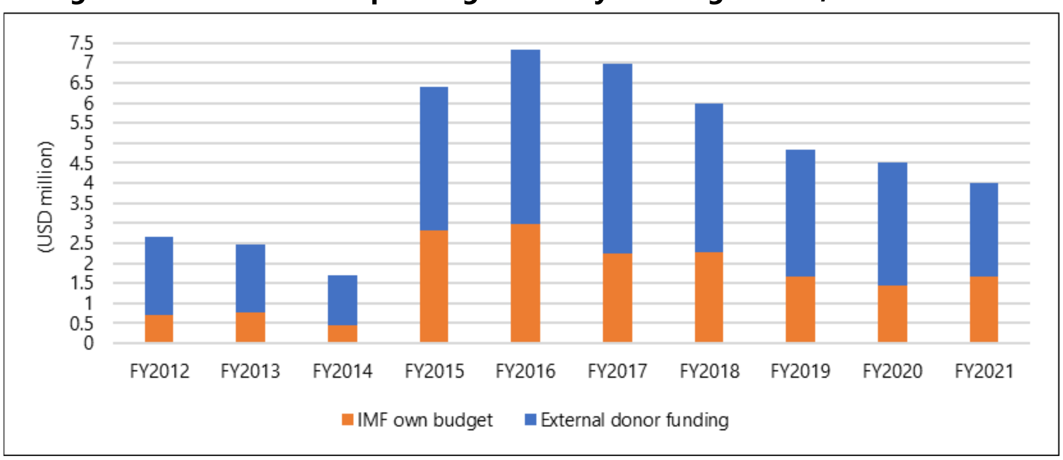
**Figure 4. Ukraine—IMF CD by Workstream, FY2012–2021**




Sources: IMF, TIMS data; IEO staff calculations.

5. To some extent the distribution of CD delivery reflected the availability of funding. The Canadian authorities had a long-standing interest in assisting financial sector reforms in the Ukraine, providing essentially unlimited resources, especially when reform-minded officials took office in 2014. As a result, they have contributed the lion's share of CD funding during 2012–2020 (Figure 5). More recently, agreements with the EU and a new partnership agreement between the Netherlands and the IMF have helped fund CD interventions in the area of public finances.

**Figure 5. Ukraine—IMF Spending on CD by Funding Source, FY2012–2021**

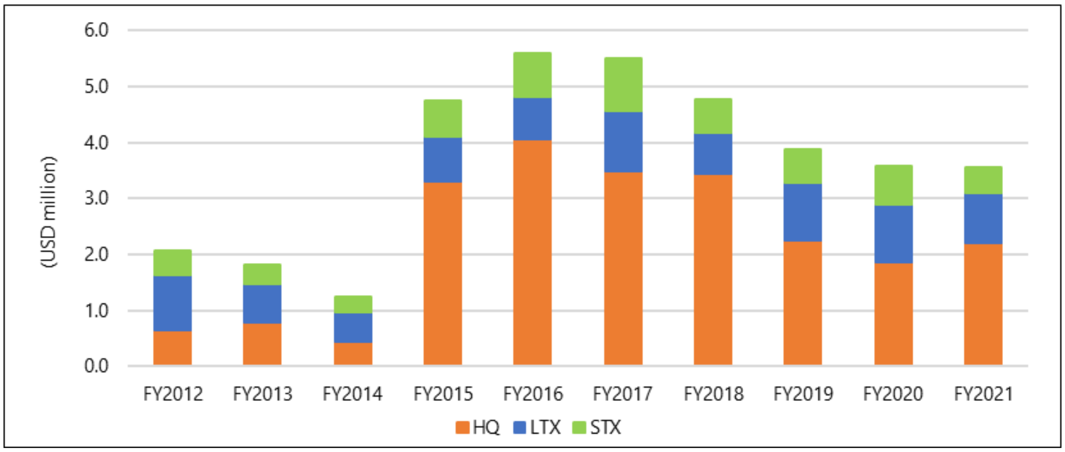



Sources: IMF, ACES data; IEO staff calculations.

6. Modes of delivery have varied, encompassing HQ-based missions, short-term expert led missions (STX) and long-term resident advisors (LTX) throughout the period (Figure 6). In addressing the economic and financial crisis after 2014, delivery was skewed more toward HQ. Subsequently more LTX have been used to support more medium-term oriented reforms, mostly related to the financial sector. In the area of statistics, all missions were either HQ or STX led. Country officials also benefitted from access to general training courses provided by ICD and the

JVI, either in person or online, with participation tripling in 2016 to more than 350 participant weeks/year and averaging around 266 weeks/year during 2017–2020 (Figure 3). The central bank and Ministry of Finance received about equal shares of training (one third each) while other financial institutions also received a significant amount, especially recently (30 percent in 2019–2020). In addition, the IMF's statistics department provided training missions for Ukrainian officials and recently stepped up the delivery of basic training through online courses. Since the onset of the COVID-19 pandemic, delivery of training has switched entirely to virtual mode.

**Figure 6. Ukraine—IMF CD by Type of Delivery, FY2012–2021**




Sources: IMF, ACES data; IEO staff calculations.
Note: Spending data excludes non-personnel (NP) costs, which include, among others, travel expenses.

## II. CD ENGAGEMENT

7. CD delivery to the Ukraine during 2012–2020 faced daunting challenges: unsettled economic circumstances and a tricky political and security situation in a geopolitically important country with strong vested interests against reform, widespread corruption, a partisan judiciary and an unmotivated civil service. On the other hand, there were domestic reform-minded forces and no shortage of willingness of the international community to assist Ukraine, especially during windows of opportunity for reform.

### Strategy, Prioritization, and Allocation

8. The IMF CD strategy was determined by broad ranging reform needs across all core areas of the IMF's mandate, identified in programs (and surveillance anticipating future program engagements) and modulated according to the degree of receptiveness of the authorities. During times of limited reform appetite (e.g., 2012–2013), the strategy focused on long-term capacity building and technical matters rather than on policy or institutional reforms. IMF CD was then seen as more "sporadic," supporting reform where possible rather than where critical. When a window for reform opened in 2014, the IMF's strategy was to ramp up CD quickly to support the reform-minded government, once a basic level of trust was established, and focus on policy

and institutional reforms as well as the immediate financial and budgetary crisis. Nearly all of the increase in CD after 2014 can be directly or indirectly attributed to needs identified in the 2014 SBA and subsequent EFF, though it is not straightforward to distinguish between these needs and increased demands because of the advent of more reform-minded authorities.

9. The IMF CD strategy responded to the preferences of recipient institutions. For its transformation, the NBU developed an in-house strategy of CD absorption, calling on the IMF where it was seen to have a comparative advantage and requesting some reforms to be included in programs, to take advantage of IMF leverage to overcome domestic reform resistance. With agreement on the direction of reform between the IMF and the NBU, the IMF adapted its CD to meet the NBU's requests, even if in some instances CD in traditional IMF core areas ended up being provided by others (e.g., deposit insurance, some elements of supervision). In areas where the authorities were not proactive, the IMF continued to be a driving force in identifying weaknesses and shaping CD strategy and priorities. The IMF's strategy also included continued long-standing engagements, less affected by economic developments, reform appetite, or program needs (e.g., NBU modelling capacity, foreign exchange operations, and statistics).

10. During parts of the review period, especially more recently, the CD strategy was elaborated in country strategy notes. Earlier in the period covered (2014), an internal medium-term strategy document included a stock-taking exercise, with achievement ratings, and a listing of planned deliveries in the near term, aligned with previously identified macro-financial reform objectives, likely to be addressed in a forthcoming program. The note described measurable objectives and outcomes for planned CD interventions and an assessment of the authorities' likely receptiveness. It highlighted high counterpart turnover, lack of ownership, and political resistance to reforms as key risk, but did not touch on governance and corruption issues. Further notes have been prepared since 2018 when ADs were tasked to draft country strategy notes for selected countries. These notes were forward-looking, containing high level principles and reform objectives and a desirable list of reforms in main areas of IMF engagement over a 3-year horizon. For example, the most recent notes emphasized that "TA should primarily be at the strategic level, and more detailed where there is adequate traction" and that coordination with the authorities and other providers needed to be deepened. The IMF did not publish its CD strategy on Ukraine, nor did it provide information on implementation progress, unlike most other providers of CD who tended to publish or make available upon request their CD strategy as well as information on the individual projects they were engaged in, including assessments and status reports on the objectives, milestones and outcomes.

11. All interlocutors agreed that the IMF's CD strategy for Ukraine largely picked the correct areas and priorities and was mainly determined by its program engagements with the country. For the most part, these priorities coincided with those of the authorities, especially when reform-minded governments were in office. Interviewees reported that invaluable progress was achieved because of the strategic leadership and expertise the IMF brought to bear in a very difficult situation.

12. Many interviewees noted that tackling the influence of oligarchs in a systematic manner and reforming law enforcement should have had a higher priority, but most conceded that this was not a task for IMF CD alone. Former officials and other CD providers recognized the speed and foresight with which the IMF widened its CD beyond its core areas to cover necessary legal reforms to help address entrenched governance problems, backed by the 2014 IMF-assisted diagnostic study of governance (IMF, 2014e). Nonetheless, former NBU officials felt that achieving a sustainable rule of law ought to have been part of the IMF's remit as it was critical for success of macro-financial reforms. To quote a former governor of the NBU "A sustainable rule of law, a reliable judicial system, and an effective and transparent law enforcement system are "musts" for sustainability of reform (Gontareva and Stepaniuk, 2020)." IMF staff commented that the IMF did not have the mandate to engage in such reforms but instead focused on key governance issues and anti-corruption, areas in which it worked closely with the EU and bilateral donors.[2] Other providers regretted that, for however understandable reasons, the IMF was unable to venture into law enforcement reforms.

13. With rapidly changing economic and political circumstances, flexibility and adaptability became hallmarks of the IMF's CD strategy, though some former officials felt that the IMF could have adapted faster to the changes after 2014. Several current and former officials appreciated the IMF's flexibility, remarking that it compared favorably to other CD providers, which cast their interventions in more rigid long-term engagements and required much more time to adapt. Many observers thought that the IMF responded very well to the crisis of 2014 and the appetite for reform of the officials that took office that year. IMF staff noted that there were many one-off interventions in response to urgent needs, which were by definition not part of a deliberate CD strategy. Former NBU officials nonetheless felt that the IMF had some difficulty in adapting swiftly to the massive institutional overhaul of the NBU undertaken by its new management in 2014–2015, which required first and foremost support for implementation and change management. In the tax policy area, the strategy included a significant component of damage control, highly appreciated by the government, which helped it avoid lawmakers adopting ill-advised changes to the tax code (e.g., exit capital tax) for political gain.

14. Prioritization and allocation of CD was significantly influenced by the Canada-IMF projects and Ukraine's evolving relationship with the EU. Already in the 2000s, Canada provided funding for financial sector and central bank reforms, which were largely executed by the IMF and involved long-term planning (e.g., for the adoption of an inflation targeting framework). After the Revolution of Dignity in 2013–2014, Canada redoubled its support with unprecedented funding for CD delivery, expanding coverage beyond the financial sector and once again asking the IMF to take the lead in providing the required CD. In parallel, and boosted by the signature

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[2] "The IMF, as a specialized technical agency dealing with economic matters has no mandate to engage in political matters such as the proper relationship between citizens and the state, the appropriate distribution of competencies among the branches of government, political party reform or the apportionment of seats in the parliament. It must thus be emphasized that the potential areas … for possible inclusion under Ukraine's IMF-supported program are focused on measures that are judged to have a direct economic impact."

of the association agreement between Ukraine and the EU in 2014, the EU became a funding partner of the IMF, particularly in the area of public finances. These developments essentially removed budget constraints for CD delivery, prompting some former officials and CD providers to observe that there may have been too much CD. In some cases, this seems to have led to the premature provision of overly sophisticated CD, including by the IMF (e.g., advanced supervisory techniques, properties of supervisory boards of banks). Some CD department staff felt that the priority given to the Ukraine at times required them to scale back or delay planned support to other countries. The association agreement with the EU also constrained some of the substance of CD given the requirements to conform to a number of EU regulations and directives, e.g., on aspects of PFM, bank supervision, and statistics. The EU's provision of macro-financial assistance and budget support, which was generally well coordinated with the IMF, provided additional leverage for implementation of IMF CD-supported reforms.

15. CD requests resulted from a collaborative effort among different IMF departments and authorities, and in some cases other CD providers. IMF staff noted that the internal process of prioritizing and allocating CD functioned well, aided by the routine inclusion of staff from CD departments in program missions. Resident representative staff and especially the resident TA coordinator for the NBU (funded by the IMF-Canada project) indicated they contributed substantially through informal channels to identifying where IMF CD would be helpful to the authorities. The Canada-IMF implementation office at the NBU and the proactive role the NBU played in organizing and soliciting CD, particularly during 2014–2018, facilitated this process for NBU and financial reforms. For CD in the fiscal area, the resident representative office was more proactive as there was no central counterpart in the administration to consolidate requests. The European Commission was also helpful in identifying requests and channeling them to the IMF, mostly for longer gestation projects. The focal points for interactions with the authorities were the annual and spring meetings where high-level contacts took place to discuss the main parameters of the IMF's CD strategy. The authorities reported that they valued these interactions while observing that they took mostly place on a sectoral basis. As a result, the authorities noted that they were not involved in the elaboration of the IMF's overall CD strategy, while conceding that they did not have such a strategy themselves.

## Delivery

16. IMF CD deployed all forms of delivery in Ukraine, with various modalities of follow up, adjusting both as needed to maintain effectiveness and moving swiftly to virtual delivery with the COVID-19 pandemic. The mix of modalities (HQ, STX, LTX, customized and course-based training) was attuned to the nature of the projects and the needs and capacity of the counterpart institutions. Customized training took place e.g., for the incoming NBU governor, taxation of extractive industries for the tax administration, and for financial market participants, statisticians and supervisors on International Financial Reporting Standards (IFRS) accounting. For many projects there was a sequence of short-term missions using HQ staff and STXs with a deliberate attempt by IMF staff to secure continuity of teams. Urgent requests were met with one-time

missions, using specific experts, or with desk reviews (e.g., for legislation). LTXs were deployed in many areas e.g., the adoption of inflation targeting, tax administration reform, coordination of CD to the NBU, and banking supervision. When capacity was built or the efficiency of the LTX diminished because of changing needs or limits to absorptive capacity, the modalities were switched to peripatetic LTX delivery to improve effectiveness. In some cases, the LTX was withdrawn because of changes in political circumstances (e.g., tax administration). With the onset of the COVID pandemic, delivery switched to online platforms. In an initial response, the IMF issued policy notes on how to respond to the pandemic (e.g., fiscal policy, supervision) and made experts available to field authorities' questions. The deployment of remote platforms led to different modes of delivery, allowing the integration of more staff and experts and the delivery of more targeted advice, spread over time.

17. On substance, former and current authorities and other CD providers uniformly praised the IMF for the top quality of its CD. They emphasized that the IMF was the best provider of CD, also giving it high marks for responsiveness and timeliness. IMF staff and authorities noted that the IMF's ability to attract the best experts in the field was one of its major assets. IMF in-country staff observed that the quality of CD had improved over the past 5–6 years as more attention was being paid to delivering hands-on expertise. Authorities expressed preference for experts who were practitioners from countries in similar economic circumstances. They observed that while IMF HQ staff was very good at conceptualization and high-level advice, it was important to bring advice on implementation and practice to the table. Some observers noted that the IMF faced the challenge of continuously upgrading its expertise in the face of rapid developments, particularly in technology. In some new areas (e.g., fintech) IMF staff was not seen by the authorities as a major CD partner.

18. Delivery modalities were judged to have been well adapted to Ukraine and adjusted to changing circumstances but with some room for further improvement:

- For many projects, the authorities concurred that a sequence of missions with short-term experts was the appropriate mode, provided that there was continuity of experts, which happened in most cases, and familiarity of experts with Ukrainian specifics. In those cases, the authorities emphasized that the ability to be in touch with experts between visits was essential.

- The authorities welcomed one-time missions to deal with very specific urgent issues but felt that one-time missions on less urgent issues that merely left a report behind without further interaction were not very useful, except on statistics where reports were used as a reference manual.

- The authorities highly valued resident IMF appointed CD coordinators, provided they had high-level expertise, thus preferring non-IMF staff.

- Echoed by other CD providers, the authorities felt that more use of local staff and LTXs could be beneficial, but IMF staff noted that recruitment of such staff was difficult and that LTXs, while good value for money, were nonetheless very expensive, thus subject to tighter constraints. LTXs reported that gaining the trust of the authorities could be time-consuming, as counterparts often perceived the LTX as having an evaluation role, observing that some reforms discussed in confidence had been elevated to program conditionality.

- Customized training was highly appreciated by the authorities which felt that an even larger training or transfer of know how component of CD would be beneficial.

- Training through standard courses, both in person and on-line was seen as highly beneficial to the authorities, not just to raise skills of younger staff but also for middle and even higher management levels as a refresher or to learn about new approaches. Some former managers noted that it was not always easy to match the course description to the level of their staff.

19. Abundant funding allowed for inefficient delivery of CD, which may nonetheless have been effective in Ukrainian circumstances according to IMF staff and CD experts. In many instances, mostly beyond the control of IMF CD providers, certain aspects of CD delivery had to be repeated. A key example was the multiple interventions to avoid the adoption of an exit capital tax proposed by certain factions in parliament catering to entrenched interests. In other cases, repeat delivery was needed because of turnover of counterparts (e.g., supervision). There were also occasions in which experts had to do the hands-on work for lack of trained counterparts.

20. Follow-up worked well when the authorities were motivated and when there was explicit support from the IMF. The authorities agreed that in principle they should have been primarily in charge of implementing CD recommendations, but they conceded that the IMF in practice played a large role. In a number of instances, CD-supported reforms were included in IMF programs, thus guaranteeing follow up.[3] Dedicated resident CD coordinators were seen to be effective and efficient for areas with large amounts of CD (e.g., NBU), as it helped to have close personal relationships and informal channels of communication. Even the physical location of the CD coordinator, e.g., inside the counterpart institution, mattered according to both authorities and staff. For CD projects requiring a sequence of interventions, follow-up also had a natural locus. However, for other interventions, IMF staff noted that there was no institutionalized procedure for follow-up and the authorities observed that IMF staff was not very active in

[3] Examples of prior actions (PAs) and structural benchmarks (SBs) related to CD are: Diagnostic study of anti-corruption framework (SB, 2014 SBA); Legislation on related party lending and the National Anti-corruption Bureau (NABU) (PAs), Amendments to the NBU law and the corporate insolvency regime, State Fiscal Service reforms, Strengthening AML, Establishment of NAB, Fiscal risk statements on State Owned Enterprises (SBs) (2015 EFF); Enactment of State Owned Bank Corporate Governance Law (PA), Tax administration reform (SB), (2019 SBA).

following up on its recommendations.[4] The authorities emphasized that faster delivery of TA reports would have been very helpful. On the authorities' side, capacity limits and changing priorities were among the factors hampering effective follow-up. The NBU was an exception, as it used a coordinated institutional approach to CD absorption and follow-up, regularly reporting progress and where needed providing explanations for non-adoption of recommendations.

21. Overall, interlocutors felt the IMF's CD had adjusted well to the COVID-19 pandemic, enhancing CD delivery compared to the pre-pandemic approach even though some adverse impact could not be avoided. IMF staff and officials noted that the pandemic had increased efficiency of some aspects of CD delivery: expert advice had been mobilized in an inexpensive manner and more quickly to address issues as they arose. Other CD providers felt that coordination with the IMF had improved. However, they also noted that the pandemic made some aspects of CD more difficult, if not infeasible. Highly customized training could not be delivered, while the effectiveness of LTXs was significantly reduced as highly valuable informal contacts ceased and counterparts became reluctant to convey critical information remotely. IMF staff noted that it was difficult to start up new CD projects without face-to-face contacts and gain the trust of counterparts needed for effective delivery.

### Partnerships, Coordination, and Dissemination

22. There were many partners involved in CD provision to Ukraine given the multitude of reforms, issues, and stakeholders involved. Main partners for the IMF were the EU institutions (Commission, Eurostat, and European Investment Bank (EIB)), the EBRD, the WB group, and USAID, complemented by standard setters (Basel Committee on Banking Supervision (BCBS), International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS)) and a myriad of bilateral donors, with the main ones being Canada, Germany, Norway, Sweden, Switzerland, and the United Kingdom. The IMF tended to be the leading provider on financial sector issues, partnering on fiscal issues with the EU and involvement from the WB, while the EU and USAID were very active in governance reforms. Issues related to the energy sector and state-owned enterprise reform involved mainly the EBRD and the WB.

23. Coordination of financial sector reforms took on a structured approach while reforms in other areas were coordinated informally. Prior to the 2014 reforms, the IMF was the main driver behind coordination of financial sector reforms, supported by the Canada-IMF project. The project included funding for an IMF-appointed resident CD coordinator located inside the NBU, an arrangement that continued through 2020, initially with an IMF staff member seconded from headquarters and subsequently with LTXs with former experience in central banking. In the course of 2014, the NBU developed a single platform for CD coordination leading it to hold formal coordinating meetings twice a year during which donors and international financial

[4] The need for clearer follow up arrangements appears to be long standing, already flagged in the Ukraine country case study of the 2005 IEO evaluation of TA (IEO, 2005).

institutions (IFIs) were informed of progress, presented with CD needs, and asked to commit support. In the early 2010s, the IMF resident representative played an important role in setting up informal channels for coordination of CD delivery and reforms more broadly. These channels have remained active, but depend on continued personal engagement. On fiscal issues, the IMF made significant efforts to promote coordination, including by installing a long-term advisor to this effect in 2015, but the authorities' buy-in could not be fully secured. Recently, the EU has increasingly taken on the task of coordination of CD, based on the reform architecture put in place by the EBRD.

24. While informal coordination reportedly worked well, it remained a complicated task, and faced increasing challenges. The NBU's approach avoided overlap and managed to exploit complementarities among CD providers, although there were some instances in which the NBU rejected support from some CD providers as it was at odds with the NBU-preferred IMF's approach. EC staff indicated that the EU deliberately avoided engagement in the financial sector so as not to create frictions with the IMF. More recently, pointing to a resurgence of vested interests, stakeholders reported in interviews that coordination weakened, with the NBU at times seeking advice from different providers and becoming less transparent about its plans. For example, IMF staff reported that it was only accidentally made aware of a twinning project with another central bank related to Supervisory Review and Evaluation Processes (SREPs) and that overlapping support was being provided on bank capital frameworks. In other areas, complications arose from differences in agendas, objectives, time horizons, and constraints among providers. The proactive, authorities-driven approach to coordination could not be extended beyond the NBU, primarily due to weakness in staffing in other agencies. For example, the Deposit Insurance Fund received CD from nine different providers but the recipients did not have the capacity to coordinate and the providers seemed reluctant to do so. In the case of some other CD providers, IMF staff felt that the locus for coordination was difficult to identify. IMF staff reported that donors, increasingly wanting more say in the design of the projects they supported, have added a layer of complexity to coordination. And despite good dialogue between all reform actors, more care was recently taken by IMF staff not to build into its programs specific time-bound deliverables by other CD providers given some poor experiences (e.g., on land reform).

25. Though only a fraction of CD reports was published, the authorities and IMF staff concurred that the IMF policy on publication was broadly appropriate, while other CD providers felt that there should be more possibilities for restricted dissemination of their content. NBU staff highlighted that the policy rightly allowed publication to be withheld when there was market sensitive or confidential content, such as in the area of banking supervision and resolution. Some former officials and other CD providers felt that there was too much room under the policy for reports to "disappear" when they were not aligned with entrenched interests controlling publication. Other CD providers expressed some frustration about the limited access they had to IMF reports which hampered efficient follow up with projects of their own. Various interlocutors remarked that highly valuable advice had been provided outside the scope of written reports

(e.g., desk reviews of legislative proposals) but that there was no obvious channel to give some public voice to this advice when needed to dispel misguided perceptions.

26. IMF staff noted that Ukrainian authorities had made astute use of the IMF's publication policy for TA reports. There were a number of instances in which the authorities had brought reports into the public domain (e.g., on the exit capital tax) to garner support for reforms or prevent the implementation of poorly conceived ideas. Publication contributed to informed debate among civil society, the legislature and the media. To underscore its commitment to transparency, the National Securities and Stock Markets Commission insisted on routine publication.

## Effectiveness and Impact

27. IMF CD, together with that of other international partners, contributed to transforming the Ukrainian economy and its policymaking landscape over the past decade (IMF, 2020e). The NBU turned into a modern inflation-targeting central bank and its supervisory capacity was upgraded. The banking landscape changed considerably, with the resolution of many insolvent banks and the successful intervention in the largest systemically important bank. IMF CD also supported reforms of public finances, including changes in tax and customs administration, the tax regime for the extractive industries, and many aspects of expenditure management. Legislation was drafted in many areas, including on essential governance issues. In the statistical area, Ukraine continued to upgrade its data provision to allow adequate surveillance, inform markets and the public in a disciplined manner, and make progress in adopting the latest statistical methodologies. Nonetheless, sustainable good economic outcomes remained lacking, as steadfast implementation of reforms remained elusive, amid some policy indiscipline and backtracking on some reforms, mainly as the result of the resurgence of vested anti-reform interests, which took advantages of weaknesses in rule of law and governance.

28. Even though it was difficult to obtain a comprehensive overview of IMF CD effectiveness, available evidence showed mixed results. The very large amount of CD delivered to Ukraine during the period under review and the evolving nature of IMF processes and information systems made documenting implementation of CD interventions challenging. For one of the largest projects, the transformation of the NBU (2015–2021), regular assessments required by donor involvement and completed by IMF staff suggested that the objectives of the project had, on balance, been largely achieved. Exceptions appeared to be related to areas where coordination among Ukrainian institutions proved difficult. The RBM database includes only a relatively small subset of projects (24) (Figure AI.1, Annex I). Of these, 20 had objectives defined, and 6 where objectives were rated; of the 37 outcomes specified for the 24 projects, 26 were rated.

29. Officials underscored that without IMF CD, the transformation of the NBU and the reform of Ukraine's financial system would not have been possible (e.g., Gontareva and Stepaniuk, 2020). These changes are seen as "unprecedented" following an approach which may provide significant lessons for CD engagement (Box 1). Motivated authorities adopting a change

management approach amid abundant donor support and well-coordinated CD and program engagement were the core ingredients for success.

30. In general, interlocutors noted that CD that required political decisions and/or new legislation (e.g., tax policy, tax amnesty, NPL clean up, legislation governing supervisory boards of banks, legislation governing access to information for statistics) had more difficulty gaining effectiveness and impact. Including such reforms as part of program conditionality had helped, but with programs often going off track, the number of CD-supported reforms that could be successfully pushed was limited. Former officials noted that front-loading of ambitious reforms, which turned out hard to meet, created a backlash against reform-minded governments. IMF staff observed that the legal technique of drafting legislation in Ukraine with its focus on defining exceptions rather than rules had confounded IMF experts. For example, delays in legal reforms required to protect supervisors from being personally accountable for professional decisions made it difficult to implement changes in the areas of supervision.

**Box 1. Ukraine: Transformation of the National Bank of Ukraine**

The transformation of the National Bank of Ukraine (NBU) during 2014–2018, most of which was initiated during the first year under new management, has been described as "unprecedented in modern central banking, especially taking into account the challenging environment the NBU operates in" (Burvall, 2019). Internally, the main challenges were the lack of focus on core functions, an unclear central bank mandate, massive overstaffing, a heavy bureaucratic staff structure, hierarchical decision making, decentralized branches mirroring the central office structure, and the absence of a structured approach to human resource management (Zhang, 2018). As soon as reforms got underway, Ukrainian oligarchs organized daily protests outside the NBU and orchestrated a massive cut in salaries of NBU staff, at odds with the formal independence of the NBU.

Against these odds, the NBU was nonetheless transformed into a modern inflation-targeting central bank (Gontareva and Stepaniuk, 2020). Streamlining included: 1) shedding of non-core activities, with an attendant reduction in staff from 11,800 to 5,300 in 18 months; 2) restructuring of the Board from 11–17 members to 6, including the governor, to align with 5 core competencies; 3) adjusting the hierarchy by slashing the number of layers by more than half; 4) introducing functional reporting of regional offices; and 5) moving nearly all decision-making to committees rather than individuals.

According to former officials, the transformation of the NBU yielded several lessons for CD delivery:

*Lesson 1: Be prepared for when windows of reform opportunity arise.* The need to transform the pre-2014 NBU was apparent to most international observers while windows of opportunity for reform arise suddenly. CD providers will be more effective if they can quickly provide blueprints for reform.

*Lesson 2: Adopt a comprehensive change management approach for institutional reforms.* Providing advice on substance is not sufficient to engineer the transformation of an institution. Almost more important is to provide advice on how to implement wholesale changes, including the setting up of reform support units, the restructuring of HR policies to allow change and meet the needs of the new institution, the re-engineering of data flow processes, and the adoption of information technology.

*Lesson 3: Use IMF conditionality to push through essential CD supported reforms against entrenched interests.* Providing the NBU and its management with the necessary autonomy and independence to perform its core functions and allow it to shed non-core activities runs counter to multiple vested interests. The IMF can provide leverage by including the reforms in its program conditionality.

*Lesson 4: Ensure close coordination of reform support.* To achieve effective CD delivery, the NBU created a single platform to organize and benefit from CD by multiple providers.

31. CD that focused on technical implementation of reforms was more consistently effective, with the support of an LTX often crucial. Examples of success include the establishment of a single account for taxpayers, the upgrading of the NBU's modeling and forecasting abilities, and the elaboration of procedures, manuals and systems in various parts of public administration. The authorities appreciated the IMF's ability to provide specific topical advice on request in a flexible and expeditious manner, e.g., on banking supervision.

32. Interlocutors agreed that even though IMF CD had contributed to a number of irreversible reforms, the impact and sustainability of IMF CD-supported reforms remained at risk. Program and CD documents and log frames highlighted political risks mainly related to entrenched anti-reform interests controlling political, legal, and judicial processes. Program documents routinely rated risks to the program as high, singling out the probability that vested interests continued to push against reforms (IMF, 2020e). Recent CD assessments by IMF staff noted that changes in administration, including at the NBU, had taken the IMF by surprise and the attendant staff turnover risked reducing the recipient institutions' capacity to perform core functions adequately.

33. IMF staff reported that CD took into account the need to build safeguards against backtracking and reversals. It focused on putting in place processes, internal guidelines, and manuals, to ensure continuity and allow new staff training and upgrading. It recognized that in the Ukrainian environment decision-making had to be taken out of the hands of individuals and moved to a collective framework (as was done at least initially successfully by the NBU). It strongly supported legislation to secure independence of key institutions and fit-and-proper tests for management and supervisory boards. However, IMF staff and many observers noted that in the end, safeguards were often circumvented as particular business interests or insiders influenced managerial decisions (e.g., by manipulating fit-and-proper criteria to dismiss and appoint managers, or by using the judicial system to put pressure on decision makers).

34. The RBM frameworks were helpful to organize CD, but not an active tool for engagement with country counterparts except in the area of statistics and to a lesser extent tax administration. IMF staff reported that it took a lot of time to get the authorities' attention to the various aspects of the RBM. More often than not, once agreement had been reached on milestones, circumstances and priorities changed and the structure provided by the RBM needed to be shifted. Other observers commented that insistence on milestones was tricky as measurable outcomes were not easy to establish in many areas and focus on quantitative indicators could have been misleading (e.g., on supervision or monetary policy). There was nonetheless general recognition among all interlocutors that it was essential to have a system of accountability for CD delivery.

## III. OVERALL ASSESSMENT

35. The IMF's CD interventions in Ukraine either made or had the potential to make sustained improvements in the country's policymaking and economic performance, echoing the findings from the study of Ukraine on growth and adjustment in IMF-supported programs (Box 2). Progress toward macroeconomic and financial stability often coincided with substantial CD delivery and the counterfactual outcomes without CD were likely to have been worse. In any case, shocks such as the changes in Ukraine's security environment and more recently the COVID-19 pandemic make analysis difficult. Overall, Ukraine's government effectiveness (WB indicator) remained low in 2019 (40th percentile), affected by particularly poor scores on rule of law and control of corruption (both 26th percentile). Inflation was put on a downward trend even though inflation volatility has recently resurfaced and concerns about the credibility of the inflation- targeting regime appeared. Financial stability risks diminished with the transformation of the NBU and the resolution of the banking crisis, two areas of focus of IMF CD. Budget deficits were contained until the pandemic hit but significant fiscal vulnerabilities remained while structural indicators (e.g., VAT efficiency) had not improved.

**Box 2. Ukraine: Growth and Adjustment in IMF-Supported Programs: Findings from Country Case Study**

In the context an IEO case study of Ukraine's adjustment programs during 2007–2019, a number of observations were made with respect to the role and effectiveness of technical assistance (Kincaid, 2021):

CD contributed substantially to the wide-ranging structural reform agendas in IMF-supported programs with Ukraine. Some 34 FTEs of TA were used during Ukraine's program periods covered by the study (2008–2012, 2014–2019), an amount substantially larger than for other IMF programs in the sample. A substantial number of CD-supported recommendations were incorporated in the programs through structural conditionality, with which Ukraine broadly complied. IMF CD contributed to restoring financial stability, reducing distortions in the natural gas sector, and establishing central bank operational independence. The study noted less success in other areas and recommended that "the traction of IMF-supported programs could benefit from greater efforts to ensure broad country ownership, more intense coordination with international partners, and less front-loading of Fund access to maintain implementation incentives."

The study documents the responsiveness of the IMF CD to program needs. For example, the 2008 SBA required bank recapitalization and other financial sector reform, prompting a surge in delivery of TA in the financial sector equivalent to 4 and 1/2 FTEs during the short span of the program.

There was evidence of important coordination of TA with other stakeholders in areas outside the core competence of the IMF, in particular related to governance reform. A diagnostic study to develop an anti-corruption framework (a structural benchmark under the 2014 SBA) involved LEG together with the WB. Implementation of its findings was supported with financial and technical assistance from the WB, EBRD, EC and the Council of Europe Anti-Corruption group. Close cooperation with these stakeholders continued in the context of the 2015 EFF with included measures to strengthen the independence and effectiveness of the judiciary, AML/CFT reforms, asset declarations, and resourcing and oversight of the National Anti-Corruption Bureau for Ukraine (NABU). However, strong opposition from vested interests prevented concrete progress in tackling corruption, leaving reforms incomplete.

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Source: Kincaid (2021).

## Relevance

36. IMF CD was highly relevant to address critical capacity gaps, broadly aligned with country needs, and, with some exceptions, adapted well to changing circumstances and priorities. CD was delivered in all core areas of the IMF's mandate, as part of the IMF's surveillance, UFR programs, a financial sector assessment program, and specific TA assessments in all core areas of the IMF's mandate. Given ample donor resources, there were some instances in which IMF CD went beyond absorptive capacity and immediate needs. Consultation with a larger set of stakeholders could have generated broader support for reforms, especially when touching on vested interests. More adaptation to country circumstances of international best or standard practices would have preserved more political capital to push through essential reforms, while a more rapid response to the needs related to the wholesale transformation of the NBU would have gathered more reform momentum, reducing the opportunity for vested interests to regain a foothold. Similarly, a more proactive approach to comprehensive civil service reform in the aftermath of the Revolution of Dignity would have had similar benefits. Limited by its mandate, the IMF was not able to directly assist in strengthening the rule of law and judicial systems and tackle widespread corruption even though improvement in these areas was essential for broader progress supported by IMF CD.

## Coherence

37. IMF CD was generally coherent with the country's economic and financial stabilization needs, its longer-term growth objectives, and the IMF's program engagement while adapting to changes in the degree of reform ownership. Mutual support between CD and program engagement was a uniquely beneficial aspect of IMF engagement when reform-minded governments were in office. It had the drawback, however, that essential reforms happened only when associated with program conditionality, which tended to be overly ambitiously front-loaded in an attempt to forestall vested anti-reform interests. Program-linked CD was concentrated more on short-term issues (e.g., closing budget gaps) than on more medium-term issues with broader benefits to society (e.g., improving the efficiency of the tax code). Conversely, there were instances when the IMF's conservative approach to programs took precedence over authorities' preferences to enact faster regime changes (e.g., the IMF's insistence on monetary aggregate targeting for some time after 2014 against authorities' and CD experts views that it was the right time to adopt inflation targeting). During episodes of limited reform ownership, the IMF continued to provide capacity development to reform-minded pockets of public institutions, but at a slower pace with deliberately limited visibility, while scaling back CD for reforms requiring political engagement. Nonetheless, this "stealth" capacity proved useful when reform opportunities arose.

38. Follow-up worked well under programs and when the authorities were driving reforms, but less so in other cases. Constraints on absorptive capacity and shifts in political priorities in many cases hampered the authorities' ability to implement CD recommendations. Without a structure to coordinate within and among a large number of CD providers, especially ex ante,

there were numerous instances of inefficiency, which became particularly onerous when different policy recommendations were provided on the same question or when donors ready to support the IMF's CD recommendations were unable to adjust their approach in a timely manner or lacked access to the latest IMF CD recommendations.

## Effectiveness, Impact, Sustainability

39. IMF CD was broadly effective in achieving its stated objectives, reflecting IMF staff's optimization amid constraints. Features that were particularly helpful in the Ukrainian context were: the willingness to repeat CD delivery in the same area to overcome absorption constraints; focus on processes, procedures, manuals, and training to make reforms less individual dependent; generous deployment of LTXs; and continuity in CD teams. Reform ownership of the authorities was clearly a key factor, allowing the IMF to ramp up CD during windows of opportunity for reform. IMF CD was comparatively more effective when it took a long-term perspective, when it adapted best international practice to Ukrainian circumstances, and brought in practitioners' expertise. The added flexibility in terms of scope, timing, and expertise of remote delivery triggered by the COVID-19 pandemic has opened up new ways to boost effectiveness of CD.

40. Yet achieving the full potential in terms of effectiveness, impact, and sustainability of IMF CD-supported reforms remained largely elusive. Given the large reform needs, with many issues cutting across the public sector, there would have been clear benefits from taking a comprehensive and change management approach to civil service reform and institution building, which the somewhat compartmentalized approach of IMF CD did not achieve. Vested anti-reform interests constituted a formidable obstacle that could not be fully addressed inside the IMF CD toolbox. Although IMF CD deliberately built-in safeguards against reform resistance from vested anti-reform interests, the latter's control over legal and judicial processes and substantial parts of the public administration seriously hampered impact and sustainability of CD. The IMF (and other CD providers) found out that establishing anti-corruption bodies (e.g., National Anti-Corruption Bureau of Ukraine (NABU)) and implementing best practices on good governance (e.g., fit-and-proper criteria) was insufficient to make reforms sustainable when courts could overturn legitimate decisions and the judicial process could be used to hamper good governance.

## Lessons (R=Relevance, C=Coherence, E=Effectiveness and Impact)

(i) Tackle governance problems in a comprehensive manner as early as possible in conjunction with other partners, to complement the IMF's strength in delivering CD on macro-financial and related technical substance. (R, C, E)

(ii) Anchor CD strategy in a vision of medium-term capacity objectives shared with the authorities covering all macro-critical areas and including options to handle anti-reform interests in a systematic manner, informed by a discussion with relevant stakeholders. (R, C, E)

(iii) Provide a clearer structure for follow-up and exchange of information and coordination among CD providers to better exploit synergies, ideally driven by the authorities, but backed by formal agreements among CD providers, and clarify the relationship between the IMF and the EU. (R, C)

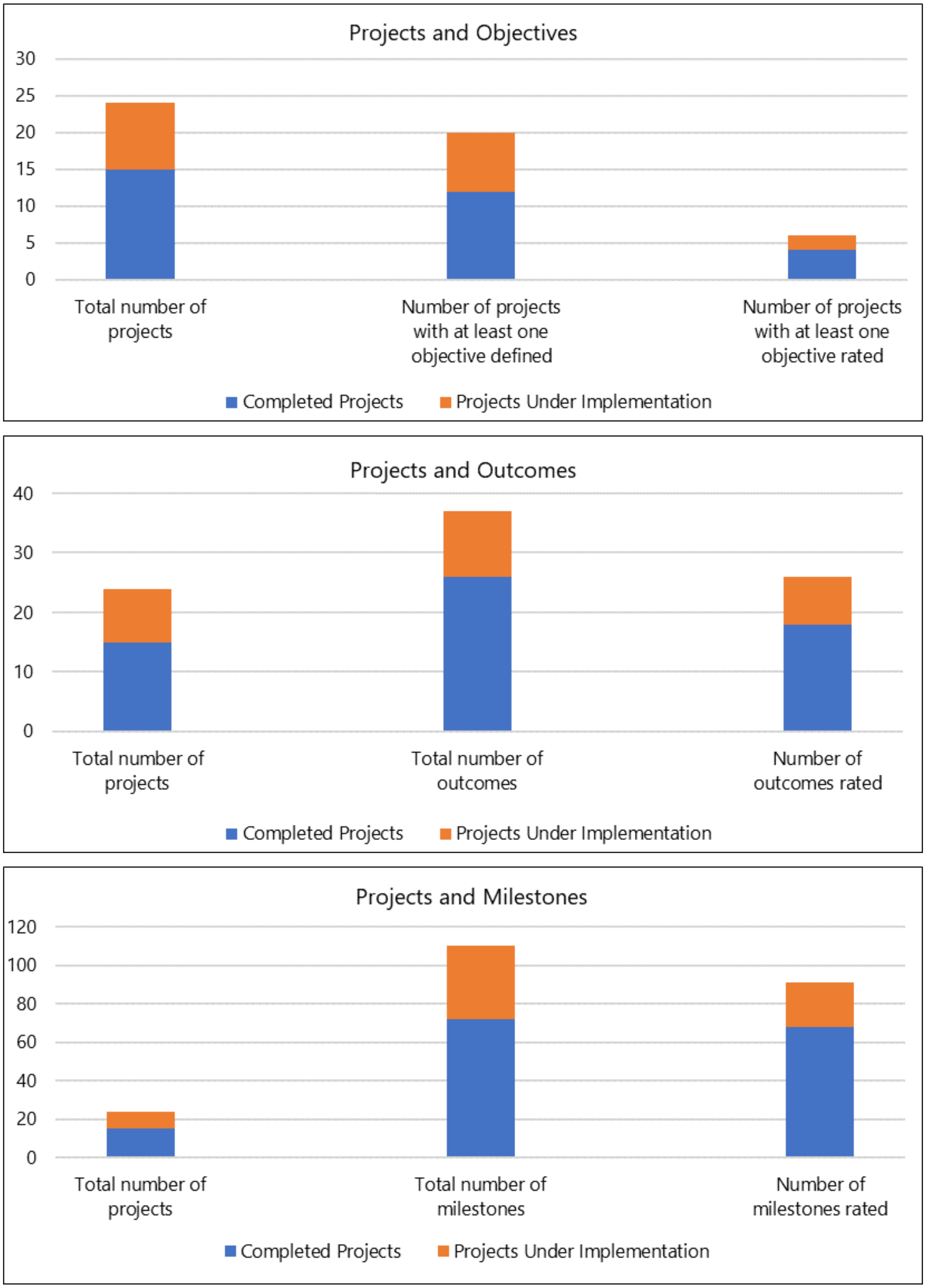
(iv) Engage in broad public sector administrative reforms to address issues common to CD delivery across the IMF's core areas of expertise, inter alia, to boost absorptive capacity and create a change management culture. (C, E)

(v) In program context, use leverage judiciously and be realistic about objectives and timelines for CD-supported reforms to avoid overburdening capacity and "window dressing" of implementation, without underlying or lasting change. (C)

(vi) In the face of entrenched anti-reform interests, introduce political economy considerations into CD (such as compensating vested interests) and go beyond international best or standard practices to further strengthen safeguards against backtracking and reversals. (E)

## ANNEX I. CD ACTIVITIES FOR UKRAINE

**Figure AI.1. Ukraine—Results-Based Management Data on Projects, Objectives, Outcomes, and Milestones**




Sources: IMF, RBM data; IEO staff calculations.

**Table AI.1. Ukraine—Number of Missions, 2012–2020**

| Year | FAD | ICD | LEG | MCM | RES | STA | Others | Total |
|---|---|---|---|---|---|---|---|---|
| 2012 | 1 | 0 | 7 | 17 | 0 | 2 | 0 | 27 |
| 2013 | 2 | 0 | 2 | 16 | 0 | 1 | 0 | 21 |
| 2014 | 1 | 0 | 2 | 19 | 0 | 0 | 0 | 22 |
| 2015 | 22 | 0 | 6 | 26 | 0 | 1 | 0 | 55 |
| 2016 | 26 | 0 | 19 | 37 | 0 | 2 | 0 | 84 |
| 2017 | 19 | 0 | 18 | 18 | 0 | 1 | 0 | 56 |
| 2018 | 10 | 0 | 17 | 23 | 0 | 2 | 0 | 52 |
| 2019 | 4 | 0 | 12 | 21 | 0 | 2 | 0 | 39 |
| 2020 | 9 | 0 | 0 | 11 | 0 | 1 | 0 | 21 |
| Total | 94 | 0 | 83 | 188 | 0 | 12 | 0 | 377 |

Sources: IMF, TIMS data; IEO staff calculations.

**Table AI.2. Ukraine—Resident Advisors, 2011–2021**

| Host Institution | CDD | CD Topic/Workstream | Start Date | End Date |
|---|---|---|---|---|
| Central Bank | MCM | Resident Project Manager (Year 1) | 5/1/2011 | 1/2/2012 |
| Central Bank | MCM | Resident Project Manager (2nd Year Extension) | 1/3/2012 | 1/2/2013 |
| National Bureau of Statistics, Moldova | STA | National Accounts | April 2012 | October 2014 |
| Central Bank | MCM | Resident Project Manager (3rd Year Extension) | 1/3/2013 | 1/2/2014 |
| Central Bank | MCM | Resident Project Manager (4th Year Extension) | 1/3/2014 | 1/2/2015 |
| Central Bank | MCM | Resident Project Manager (Year 1) | 9/13/2015 | 9/12/2016 |
| Ministry of Finance | FAD | Tax Administration | 9/21/2015 | 9/20/2016 |
| Ministry of Finance | FAD | Tax Administration Long-Term Advisor | 9/21/2015 | 9/20/2016 |
| Central Bank | MCM | Resident Project Manager (2nd Year Extension) | 9/13/2016 | 9/12/2017 |
| Ministry of Finance | FAD | Tax Administration Long-Term Advisor | 9/21/2016 | 9/20/2017 |
| Central Bank | MCM | Bank Supervision & Regulation Advisor (Year 1) | 10/2/2016 | 10/1/2017 |
| Central Bank | MCM | Bank Supervision LTX (2nd Year Extension) | 10/2/2017 | 10/1/2018 |
| Central Bank | MCM | Resident Project Manager (Year 1) | 5/14/2018 | 5/13/2019 |
| Central Bank | MCM | Banking Supervision Resident Advisor (Year 1) | 7/30/2018 | 7/29/2019 |
| Ministry of Finance | MCM | NPL Resolution Resident Advisor (Year 1) | 9/30/2018 | 9/29/2019 |
| Ministry of Finance | MCM | State-Owned Banks Governance Resident Advisor (Year 1) | 9/30/2018 | 9/29/2019 |
| Central Bank | MCM | Bank Supervision LTX (3rd Year Extension) | 10/2/2018 | 1/18/2019 |
| Ministry of Finance | FAD | Public Financial Management | 2/25/2019 | 9/30/2020 |
| Central Bank | MCM | Resident Project Manager (2nd Year Extension) | 5/14/2019 | 5/13/2020 |
| Ministry of Finance | MCM | NPL Resolution Resident Advisor (2nd Year Extension) | 9/30/2019 | 11/30/2019 |
| Ministry of Finance | MCM | State-Owned Banks Governance Resident Advisor (2nd Year Extension) | 9/30/2019 | 11/30/2019 |
| Central Bank | MCM | Banking Supervision Resident Advisor (2nd Year Extension) | 11/11/2019 | 11/10/2020 |
| Ministry of Finance | MCM | NPL Resolution Resident Advisor (2nd Year Extension) | 12/1/2019 | 1/31/2020 |
| Ministry of Finance | MCM | State-Owned Banks Governance Resident Advisor (2nd Year Extension) | 12/1/2019 | 1/31/2020 |
| Ministry of Finance | MCM | NPL Resolution Resident Advisor (3rd Year Extension) | 2/1/2020 | 2/29/2020 |
| Ministry of Finance | MCM | State-Owned Banks Governance Resident Advisor (3rd Year Extension) | 2/1/2020 | 2/29/2020 |
| Ministry of Finance | FAD | Resident Public Financial Management Advisor Extension | 2/25/2020 | 9/30/2020 |
| Ministry of Finance | MCM | NPL Resolution Resident Advisor (3rd Year Extension) | 3/1/2020 | 12/31/2020 |
| Ministry of Finance | MCM | State-Owned Banks Governance Resident Advisor (3rd Year Extension) | 3/1/2020 | 12/31/2020 |
| Central Bank | MCM | Banking Supervision Resident Advisor (3rd Year Extension) | 11/11/2020 | 3/31/2021 |

Sources: IMF, Fiscal Affairs Department, Monetary and Capital Markets Department and Statistics Department.

**Table AI.3. Ukraine—List of TA Reports, 2012–2020**

| | FAD | MCM | STA | LEG | FAD/LEG | Total | Of which | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Available within IMF | Available but confidential | Published |
| 2012 | 1 | 1 | 3 | 1 | 0 | 6 | 5 | 1 | 0 |
| 2013 | 1 | 3 | 0 | 0 | 0 | 4 | 4 | 0 | 0 |
| 2014 | 3 | 6 | 1 | | 0 | 10 | 7 | 3 | 0 |
| 2015 | 12 | 5 | 4 | 2 | 0 | 23 | 17 | 2 | 3 |
| 2016 | 8 | 11 | 0 | 0 | 0 | 19 | 16 | 3 | 1 |
| 2017 | 5 | 6 | 2 | 1 | 1 | 15 | 14 | 2 | 1 |
| 2018 | 0 | 4 | 2 | 0 | 0 | 6 | 4 | 1 | 2 |
| 2019 | 3 | 8 | 3 | 0 | 0 | 14 | 13 | 0 | 3 |
| 2020 | 2 | 0 | 0 | 0 | 0 | 2 | 2 | 0 | 0 |
| Total | 35 | 44 | 15 | 4 | 1 | 99 | 82 | 12 | 10 |

Source: IMF, Institutional Repository.

# Appendix I. CD Findings in Recent IEO Evaluations Covering EUR Countries

## The IMF and the Crisis in Greece, Ireland, and Portugal

The IMF provided substantial TA in the context of the euro area crisis. Large amounts of CD were provided to Greece and Portugal, while Ireland and Spain benefitted from a great deal of technical work on banking-sector related issues, though in the case of Ireland it was considered part of the program. Those interviewed for the related IEO evaluation saw the IMF's TA as of high quality, without however achieving its intended objectives in all cases. Lack of authorities' ownership of the policies agreed on in the context of programs, especially in the case of Greece, was a key factor leading to this outcome. The need to coordinate with the EU task force on Greece, lack of absorptive capacity, and lack of sufficient prioritization were seen as obstacles. CD delivered to Portugal was deemed to be more successful, partly attributed to the fact that the IMF was the sole provider of CD, which was mostly focused on fiscal issues. CD delivered to Spain in the context of handling its banking crisis was seen to be successful because of the IMF-staff's in-depth knowledge of Spain's financial system and its credibility as independent advisor, given that there was no program involvement.

## The IMF and Fragile States (Bosnia-Herzegovina, Kosovo)

Generally, the IMF's contribution to institution building through CD was seen as significant and effective for fragile and conflict situations. Officials reported to have been generally pleased with the quality of IMF TA, expressing the desire to receive more CD and particularly in the form of long-term experts on the ground. They felt that the overall amount of CD was adequate and broadly in line with absorptive capacity, while stretching it a bit at times. Positive elements were the continuity in the composition of CD mission, the presentation of alternative options, and the neutral character of the advice. Close alignment of CD with program objectives was considered very important. Understanding of political constraints to implementation of advice could have been better and more assessment and follow-up would have been helpful. Greater use of long-term experts as well as experts with regional knowledge and better coordination with other CD providers would have raised effectiveness and impact.

## Growth and Adjustment in IMF-Supported Programs (Latvia, Romania, Ukraine)

Overall, TA was essential to support the structural reform efforts embedded in the IMF programs with Latvia, Romania, Ukraine. In Latvia, TA also supported private debt restructuring and foreclosure. The authorities commended the quality of the TA during Latvia's economic crisis and noted that it had also substantially strengthened PFM. In Romania, the program included key measures to improve public sector arrears management and strengthen safety nets, relying on WB and EU for essential SOE and energy sector reforms. Ukraine received intense TA support during IMF-supported programs (see Box 2 in main text).

**The IMF Engagement with Small Developing States (Montenegro)**

Authorities and stakeholders in Montenegro noted that IMF "capacity development had been useful and impactful" over a broad range of topics, strengthening policy making in the areas of fiscal management, banking supervision and resolution, and capital market development and helping to build statistical capacity (IEO, 2022). It was noted that initial take-up of CD was hampered by staff turnover and lack of leadership in recipient institutions and that impact was constrained by political considerations in the area of tax policy. Country authorities suggested that IMF CD recommendations could align better with European Union accession acquis requirements. In terms of delivery modalities, the authorities underscored the good results of long-term engagements of experts. IMF staff noted that CD had become increasingly integrated with surveillance during 2010–2020.

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