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The IMF and Capacity Development—Case Studies for Middle East and Central Asia

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ABBREVIATIONS

AML/CFT	Anti-Money Laundering/Combating Financing of Terrorism
AfDB	African Development Bank
AsDB	Asian Development Bank
CCA	Caucasus and Central Asia Region
CCAMTAC	Caucasus, Central Asia, and Mongolia Technical Assistance Center
CCP	Central Counterparties
CD	Capacity Development
CDD	Capacity Development Department
CDIS	Coordinated Direct Investment Survey
CSD	Central Securities Depository
DFID	Department for International Development, U.K.
EBRD	European Bank for Reconstruction and Development
ECF	Extended Credit Facility
ED	Executive Director
EFF	Extended Fund Facility
EU	European Union
FAD	Fiscal Affairs Department (IMF)
FCDO	Foreign, Commonwealth and Development Office, U.K.
FDI	Foreign Direct Investment
FGS	Federal Government of Somalia
FMS	Federal Member States
FPP	Financial Programming and Policies
FRS	Federal Republic of Somalia
FSAP	Financial Sector Assessment Program
FSSA	Financial Sector Stability Assessment
FTE	Full-Time Equivalent
FX	Foreign Exchange
GCC	Gulf Cooperation Council
GRS	Georgia Revenue Service
HIPC	Heavily Indebted Poor Countries
HQ	Headquarters (IMF)
IBP	International Budget Partnership
ICD	Institute for Capacity Development (IMF)
IFRS	International Financial Reporting Standard
IOSCO	International Organization of Securities Commissions
JVI	Joint Vienna Institute
LEG	Legal Department (IMF)
LTX	Long-Term Expert
MCD	Middle East and Central Asia Department (IMF)
MCM	Monetary and Capital Markets Department (IMF)

MECEF	IMF-Middle East Center for Economics and Finance
MFPU	Macro-Fiscal Policy Unit
NBG	National Bank of Georgia
NCPP	Netherlands Capacity Development Partnership Program
NDP	National Development Plan
NTP	National Transformation Program
OPEC	Organization of the Petroleum Exporting Countries
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PPI	Producer Price Index
PPP	Public-Private Partnership
RA-GAP	Revenue Administration Gap Analysis Program
RBM	Results-Based Management
RCDC	Regional Capacity Development Center
RMTF	Revenue Mobilization Trust Fund
RPPI	Residential Property Price Index
RTAC	Regional Technical Assistance Center
RTC	Regional Training Center
SAUMOD	Saudi Macroeconomic Structural Model
SB	Structural Benchmark
SBA	Stand-By Arrangement
SC	Steering Committee
SCB	Saudi Central Bank
SCF	Somalia Country Fund
SDDS	Special Data Dissemination Standard
SMP	Staff-Monitored Program
SOE	State-Owned Enterprise
STA	Statistics Department (IMF)
STX	Short-Term Expert
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
UK	United Kingdom
USAID	United States Agency for International Development
VAT	Value-Added Tax

OVERVIEW

These case studies analyze the relevance, coherence, and impact of the IMF's capacity development (CD) engagement in Georgia, Saudi Arabia, and Somalia. The studies cover the period 2012 to 2020, except for Somalia where the period starts in 2014 when CD engagement began as the country emerged from a civil war. For the period covered, Georgia and Somalia were high-intensity users of IMF CD measured by average full-time equivalents (FTEs) per year, and Saudi Arabia was a medium-intensity user. Measuring CD in terms of FTEs, Georgia accounted for 5.8 percent of CD provided to countries in the Middle East and Central Asia Department (MCD), Somalia for 3.5 percent, and Saudi Arabia for 3.4 percent (Table 1). Overall, IMF CD to countries in MCD is lower than to other regions with similar levels of economic and institutional development. CD delivery and follow up through Regional Capacity Development Centers (RCDCs) is also lower.

Table 1. Georgia, Saudi Arabia, Somalia: Overview Indicators

	Georgia	Saudi Arabia	Somalia
CD Missions (Total, 2012-20, TIMS)	217	65	158
CD in FTE/Year (FY2012–21, TIMS)	2.2	1.3	1.3
CD FTE (percentage of MCD FTEs, FY2012–21, TIMS)	5.8	3.4	3.5
CD intensity rank (compared to other MCD, FY2012–2021, ACES)	2	16	1
CD intensity rank (compared to all recipients, FY2012–2021, ACES)	31	97	23
Training participant weeks/year (FY2012–2021, PATS)	198.3	137.7	78.7
GDP per capita PPP (USD, 2019, WEO)	15,612.9	49,216.2	954.3
Rank GDP per capita (2019, WEO)	87	26	192
Population (million, 2019, WEO)	3.7	34.1	14.6
UN Human Development Index (rank, 2020, UN)	61	40	N/A
Government Effectiveness Indicator (rank, 2019, WB)	49	75	207

Source: IEO staff calculations.
Note: IMF engagement with Somalia was limited in FY2012 and FY2013.

The three cases are a good cross section of the diversity of countries in MCD. Georgia is an upper middle-income country and one of the best performers in MCD and the Caucasus and Central Asia region, with higher institutional capacity, better governance, and more economic stability. IMF CD work to strengthen policy frameworks and advance reforms in Georgia has been blended with the three upper credit tranche IMF arrangements during the period under review. Saudi Arabia is an oil-based high-income country and is a member of the G20. It launched an ambitious socio-economic reform program in 2016 to diversify the economy and decrease reliance on oil. CD work to support Saudi Arabia's reform agenda has been integrated with IMF surveillance advice. Somalia is a fragile state that is emerging from a civil war that devastated the economy, public institutions, and human capital. It is one of the poorest countries in the world. CD work to build Somalia's institutions and the skills of government officials has been integrated with the Heavily Indebted Poor Countries (HIPC) Initiative, which required staff monitored programs to establish a track record, followed by an IMF arrangement that provides primarily concessional finance.

These case studies are based on: (i) interviews with country officials, Executive Directors and their staff, IMF staff in MCD and capacity development departments (CDDs), selected external short-term (STXs) and long-term experts (LTXs), and other CD providers; (ii) a review of documents such as IMF staff reports, program memoranda of economic and financial policies, regional and country strategy notes, MCD presentations to the Executive Board, CD reports, back-to-office reports of CD missions, government documents laying out reform agendas, and other relevant non-IMF documents; and (iii) databases such as the IMF's Results-Based Management System (RBM) and Travel Information Management System (TIMS), the World Bank's Governance Indicators, and the International Budget Partnership's Open Budget Survey.

Each case study follows the same structure. Section I provides an introduction and country overview, covering the country's economic and political situation, the challenges it faces, the nature of the IMF engagement, indicators of capacity, the motivation for the case study, and basic facts about CD work in the country. Section II discusses the IMF's CD engagement in the country. The section covers the strategy and prioritization of IMF CD work, the way it is delivered and coordinated with partners, and an assessment of the effectiveness and impact of the CD provided. Section III provides an overall assessment, focusing on the relevance, coherence, and impact and sustainability of the IMF's CD work in the country, and it also draws some lessons.

Key Findings

In all three cases, IMF CD met the goals of relevance, coherence, and effectiveness and impact. Although some projects have fallen short in their impact and sustainability, there have been numerous achievements and no major failures. In particular:

(a) IMF CD projects have been relevant to each country's macroeconomic, financial, and structural reform agenda, supporting the implementation of policy advice provided under IMF programs and surveillance. Notably, there was a tight link between Georgia's 2017 Extended Fund Facility (EFF) program and the CD agenda, and Somalia would not have been able to implement its four staff monitored programs, which were followed by an Extended Credit Facility program, without extensive CD from the IMF and partners. In Saudi Arabia, there was close alignment between surveillance advice and the CD agenda.

(b) The coherence of the IMF's CD work in the three countries was secured by developing CD priorities that focus on country demand, and by planning CD delivery based on diagnostic assessments, discussions with the authorities, the work of other providers, and an appraisal of implementation capacity. In addition, training was generally integrated with the delivery of technical assistance (TA), which, to varying degrees, contributed to a transfer of knowledge and skills to make advice sustainable at the end of a project. Developing a coherent CD package along these lines enhanced the authorities' ownership and commitment in all three countries.

(c) For all three countries, projects with the greatest effectiveness, impact and sustainability were driven by country demand and the political will to push reforms, especially when project goals were agreed between the authorities and the IMF, and these goals considered country context. By contrast, shortfalls in implementation and impact in some areas were due to a combination of lower appetite for reform in that area, lower domestic priority for the project, and insufficient tailoring of advice to the country's situation. In sum, CD interventions in the three countries were more successful when the authorities had strong interest and ownership, and TA was anchored in a clear objective and aligned with domestic priorities.

(d) In all these dimensions, Somalia's situation has been unique because of the greater risks and constraints of operating in a fragile state with continued political and security dangers. Appropriately, the IMF accepted a higher tolerance for risk in its CD operations in Somalia, apart from maintaining the strict rule against travel to the country because of security hazards. Even when capacity is low and the context is unfavorable, Somalia's experience shows that the IMF can have an important impact. Engagement that gradually builds absorption capacity and skills can yield large dividends for future CD work. But with a higher tolerance for risk in CD operations, it needs to be recognized that in fragile situations there is also a significant possibility of failure because of political instability and an escalation of security threats.

(e) Achieving relevance, coherence and effectiveness required frequent and extensive dialogue with country authorities about their CD needs. The case studies demonstrate that it is important for projects to start with a good understanding of initial conditions, the gaps that need to be addressed, and the political support for difficult reforms. This has been easier when there has been strong and proactive collaboration between the area department and CDDs to ensure consistency with the overall goals of the authorities and program or surveillance advice. In addition, the case studies show that calibrating the pace of reform to be consistent with domestic capacity results in better outcomes. Preparing sequenced, adjustable multi-year plans that recognize that the process of building capacity and institutions is slow and rarely proceeds in a straight line has helped guide CD engagement in many, but not all, instances.

(f) The case studies highlight that the experience and credibility of IMF teams and experts, who know what to focus on and engage constructively with the authorities, also affects outcomes. Investing to build trusting relationships with counterparts and understanding their perspectives and political constraints, with a good sense of what can be done and what cannot be done, has important benefits.

(g) Successful interventions in the three countries used a variety of delivery modalities and maintained continuity of staff. Of these modalities, the presence in-country of resident LTXs and peripatetic STXs has been particularly beneficial. Where there are travel restrictions, as in the case of Somalia, virtual connections can help to achieve greater continuity. The experience of all three countries demonstrates that ability to support counterparts between formal missions has been important to have a sustained impact.

(h) While Saudi Arabia and Somalia can receive training through the IMF-Middle East Center for Economics and Finance (MECEF), the IMF's Regional Training Center (RTC) in Kuwait, and Georgia through the Joint Vienna Institute (JVI), the IMF's RTC in Austria, none of the three countries benefitted from the presence of a Regional Technical Assistance Center (RTAC) during the period of the evaluation. The case studies do not suggest that this hampered the delivery of CD, and it is not clear if the presence of such an RTAC would have resulted in more, better, or different TA. It is an open question, however, if the CD provided to the three countries was more expensive than if a regional center had been in place. In addition, the presence of a RTAC could have helped with the continuity of interaction, building better relationships, following up on CD, and could also have brought benefits from regional synergies.

(i) The approach to financing the CD agenda differed for each country. For Georgia, 56 percent of CD was funded by the IMF, with the rest covered by external sources including bilateral donors and the Revenue Mobilization Trust Fund despite Georgia's status as an upper middle-income country. Saudi Arabia, as a high-income country, self-financed 43 percent of its Fund CD. As a fragile state, the IMF's CD work for Somalia has been financed primarily by a dedicated multi-donor trust fund that has been supported by a range of bilateral and multilateral donors. These diverse funding models worked well, fitting each country's circumstances. Notably, apart from the funding aspect, the Somali trust fund approach had the advantage of promoting closer coordination with donors on prioritization, allocation, delivery, and the evaluation of results. Political uncertainty in Somalia, however, has affected fund raising for future CD activities. In Saudi Arabia, there was a rational balance between focusing self-financing on a large and costly multiyear project while leaving most smaller projects with more limited costs to be financed by the IMF. Broadening the Saudi self-financing model to other high-income cases would need to address concerns about potentially putting the staff in the awkward position of recommending CD which the country then has to fund, and about who drives selection of Fund experts and timetables.

(j) The three case studies reveal that it is important for CD providers to recognize the distinction between the first-best technical advice and the best policy advice for the country's situation. Good policy advice seeks to weigh multiple objectives, and considers local circumstances, the political economy constraints, and absorption capacity. CD advice that recognized this distinction and avoided generic recommendations led to improved traction and better outcomes instead of stalled reforms that are based on the best technical advice. The IMF has greater value when its advice leads to the implementation of better economic policies.

(k) Coordination with different TA providers that are active in the three countries has helped avoid duplication of effort and promoted consistency of advice. Close coordination with partners has been effective in Somalia, where needs have been greatest, and in Georgia, where a large number of other CD providers are also present. Saudi Arabia is unique as other providers are often private consulting firms and there was little overlap in tasks. In all three cases, moving in a coordinated fashion with partners has helped each agency reinforce the work of others and conserved resources.

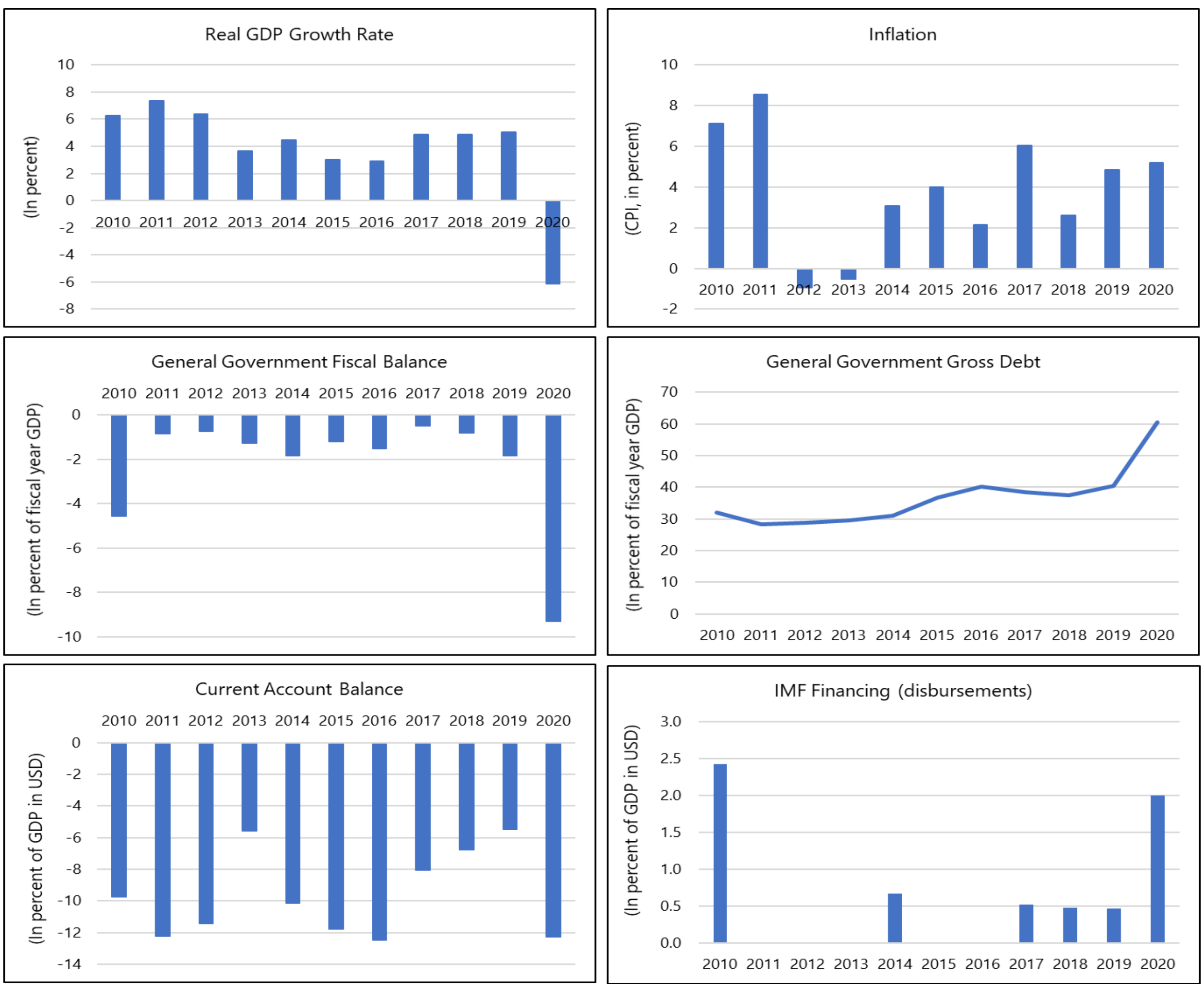
(l) Finally, the experience of the three countries demonstrates that even in the best cases there is a large element of luck that determines the impact and sustainability of IMF CD. Much has depended on whether country leadership has the appetite for reform and the vision to push forward with change. When this leadership and vision has been combined with an action-oriented IMF area department mission chief that coordinates to bring various parties together, it has nursed transformative change.

GEORGIA: STRENGTHENING POLICY FRAMEWORKS AND ADVANCING REFORMS

I. INTRODUCTION AND COUNTRY OVERVIEW

1. Georgia is a small open economy in the Caucasus and Central Asia (CCA) region. The country has a good record of maintaining macroeconomic stability and raising living standards, reaching upper middle-income status in 2015 (Figure 1). Improvements in economic management and governance have earned Georgia a reputation as a "star reformer." But Georgia has a narrow production base and is exposed to volatile trading partners and geopolitical tensions. This makes the economy vulnerable to external shocks. In addition, although growth has been high, the country has not created sufficient employment and inequality remains elevated. Georgia's currency, the lari, floats on the foreign exchange (FX) market, but persistent dollarization and sizeable FX liabilities make it hard for the central bank to implement this regime consistent with the inflation targeting framework. Georgia signed an Association Agreement with the European Union (EU) in 2016, providing an anchor to modernize legal frameworks and deepen trade integration.

Figure 1. Selected Indicators for Georgia, 2010–2020



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

2. The IMF has been actively engaged with Georgia since its independence in the 1990s, assisting the country as it transitioned from central planning under the Soviet Union to a more market-based economy. Although the country is one of the best performers in the CCA region, with higher institutional capacity, better governance, and more economic stability, legacy problems remain and Georgia's structural transformation is incomplete. Three IMF arrangements have been agreed since 2012, each supported by capacity development (CD) provided by the IMF and other partners.

- A precautionary 24-month Stand-By Arrangement (SBA)[1] was put in place in April 2012 to guard against an unsettled external environment that increased vulnerability at a time of large external debt repayments and upcoming elections. The program met its primary objectives and helped preserve the independence of National Bank of Georgia (NBG), which was under threat after the 2012–2013 political transition from the government headed by the United National Movement to a new government headed by Georgia Dream. Over the course of the SBA, however, it became difficult to reconcile the program's fiscal objectives with the new government's policies.

- As the external outlook worsened, a three-year SBA[2] was agreed in July 2014. The program, however, derailed after the first review. Fiscal slippage, the proposed withdrawal of financial supervision from the NBG, and the growth of contingent liabilities prevented progress.

- Following parliamentary elections in October 2016, which gave the incumbent Georgia Dream party a majority, the government united around a program to promote growth while maintaining macroeconomic stability. The government's reform agenda aimed to leverage Georgia's geographic position to become a transit and tourism hub in the region. This focus on structural reform led the authorities to request a three-year arrangement under the EFF,[3] which was approved in April 2017. Following the outbreak of COVID-19, the EFF was extended by one year to April 2021 with augmented access. All program reviews were completed and IMF financial support was fully disbursed.

Through its program and CD work, the IMF's overarching goal has been to support macroeconomic stability and Georgia's transition toward becoming a dynamic emerging market economy that serves as a good example for the CCA region.

3. CD provided by the IMF was modest during the two SBAs (2012 to 2016), and then ramped up substantially with the 2017 EFF (Figure 2), peaking in 2019. CD provided by Fiscal Affairs Department (FAD) dominates. Monetary and Capital Markets Department (MCM) is next in

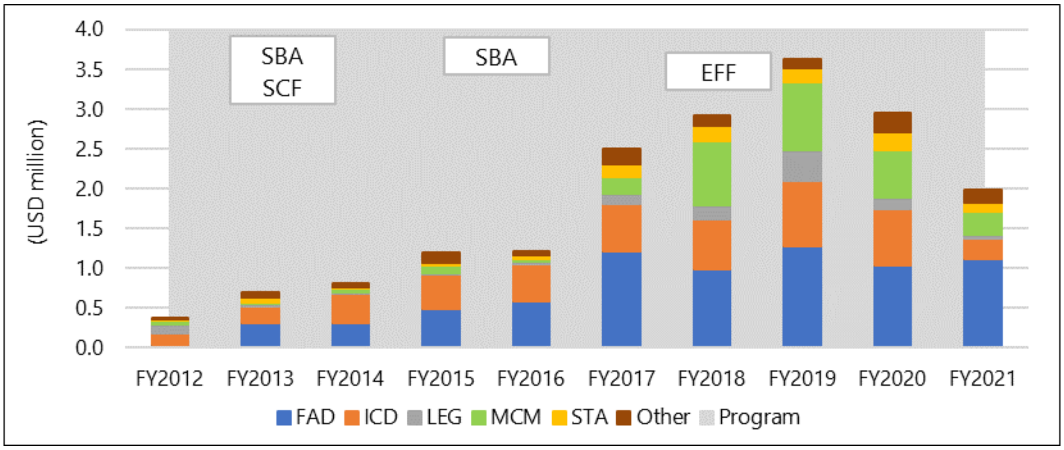
[1] IMF (2012).

[2] IMF (2014a).

[3] IMF (2017a).

importance, providing between a third-and-a-half of what FAD provides. In addition, CD provided by Institute for Capacity Development (ICD), Legal Department (LEG), and Statistics Department (STA) is also sizeable. For the period under review, Georgia has been a high-intensity user of IMF CD services, receiving 5.8 percent of CD missions to Middle East and Central Asia Department (MCD) countries (Table 1 in Overview).

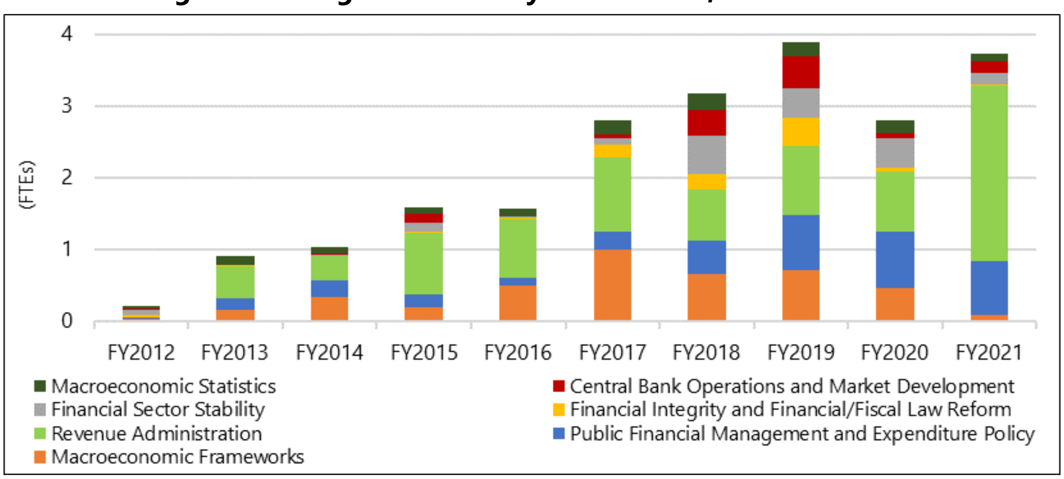
Figure 2. Georgia—IMF CD Spending by Department and IMF Programs, 2012–2021



Sources: IMF, ACES data; IEO staff calculations.
Note: IMF program: SBA (2008–2011, 2012–2014), SCF (2012–2014), SBA (2014–2017), EFF (2017–2021).

- FAD's CD work has been wide ranging, covering tax policy and tax administration; public financial management (PFM); fiscal risk management; fiscal rules; public-private partnerships (PPPs); and the public sector balance sheet and fiscal risks from state-owned enterprises (SOEs), a relatively new area of focus under the EFF (Figure 3).

Figure 3. Georgia—IMF CD by Workstream, FY2012–2021



Source: IMF, TIMS data; IEO staff calculations.

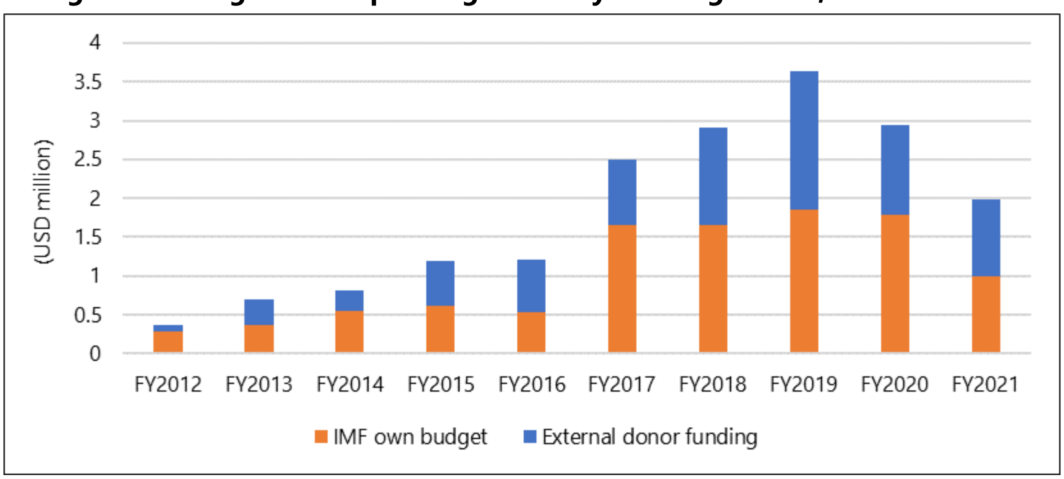
- CD work by MCM has also been wide ranging, covering inflation targeting; monetary and foreign exchange operations; liquidity management; centralized risk management and financial reporting; International Financial Reporting Standards (IFRS) accounting; the development of the government securities market; financial stability analysis; bank and non-bank supervision; the macroprudential policy framework; consolidated supervision; and the bank resolution framework.

- LEG has focused on the development of the local currency bond market governed by Georgian law; the insolvency law; and the bank resolution framework (together with MCM). Data provision is broadly adequate for surveillance and STA's work has focused on improving the compilation and dissemination of price, national accounts, and external sector statistics to strengthen input into policy making as the structure of the economy has evolved. ICD has been involved in a multi-year project to strengthen macroeconomic management in Georgia.

- Georgia was not covered by an RTAC during the evaluation period. Georgia is now covered by a new RTAC for the Caucasus, Central Asia, and Mongolia (CCAMTAC), which was launched virtually on February 1, 2021.

4. For the period 2012 to 2016, an increasing proportion of the IMF's CD work in Georgia was financed by Japan, with the rest financed by the IMF (Figure 4). Coinciding with the launch of the EFF in 2017, funding sources for CD in Georgia became more diversified, adding the Netherlands and the Revenue Mobilization Trust Fund (RMTF). For the period 2012 to 2020, the IMF financed 56 percent of CD delivery to Georgia.

Figure 4. Georgia—IMF Spending on CD by Funding Source, FY2012–2021



Sources: IMF, ACES data; IEO staff calculations.

II. CD ENGAGEMENT

5. Georgia has a good track record of implementing sound macroeconomic policies and reforms. Public finances have been kept in check and public debt is moderate (Figure 1). The NBG has steered inflation toward its target in the medium term. The external position has been broadly consistent with fundamentals and desired policies. Against this backdrop of macroeconomic stability with growth, the IMF's CD engagement in Georgia has been driven by the authorities' commitment to reform to improve on these achievements. Georgia's strong ownership and effective implementation of IMF CD recommendations has, in turn, generated a virtuous circle of further CD engagement.

Strategy, Prioritization, and Allocation

6. The Georgian authorities have been keen to strengthen policy frameworks and advance the implementation of structural reforms, driving their demand for CD from the IMF. Their goal has been to reduce vulnerabilities, support more inclusive growth, and further Georgia's transition to becoming a dynamic emerging market economy. To support these objectives, published program documents and unpublished IMF staff country strategy notes and CD strategy notes (prepared annually since 2018, and somewhat sporadically prior to that) have summarized agreement between the Georgian government and IMF on a CD strategy to strengthen the fiscal, monetary, and financial stability policy frameworks, address structural bottlenecks to growth, and improve macroeconomics statistics to provide better input into policy making. Reforms in these areas are macro-critical, as elaborated below.

- CD to strengthen the fiscal framework has been important to preserve medium-term fiscal sustainability. This has involved CD to fortify revenue mobilization; adopt a fiscal rule to prevent procyclicality and promote fiscal transparency and accountability; improve PFM, including the governance of infrastructure investment; and develop a framework for fiscal risk management.

- CD to strengthen the monetary framework has supported the NBG's ability to meet its inflation targeting mandate. The focus has been on refining the NBG's inflation targeting framework, improving liquidity management and monetary operations, and upgrading central bank communications.

- CD to strengthen the financial stability framework has been important to build financial sector resilience. Areas covered have included supervision and bringing the crisis management framework in line with international best practice.

- In the structural area, the government announced a "Four-Point Reform Plan" for 2016–2020 to address bottlenecks to growth. The plan aimed to improved infrastructure, education, government efficiency, and to promote private sector efficiency. Reforms in these areas are largely under the purview of the World Bank, the European Bank for

Reconstruction and Development (EBRD), and the Asian Development Bank (AsDB). To support the Four-Point Reform Plan, IMF CD focused on its areas of expertise including capital market development to promote domestic savings and support private sector-led growth, strengthening infrastructure governance to promote efficiency in both government and private sector investment, and a new insolvency law to support the restructuring of viable non-financial companies.

- In the statistical area, as the structure of Georgia's economy evolved and the proportion of activity coming from services (for example, tourism) increased, CD was needed to upgrade macroeconomic statistics to provide better input into policy making. For example, price and economic activity indicators had room to improve to support the inflation targeting framework and assessment of financial stability risks.

7. The priorities under the strategy described above have been driven by the Georgian government's agenda and the objectives of the two SBAs and the EFF, ensuring strong ownership. As noted in paragraph 3, CD provided by the IMF was modest during the two SBAs, and then ramped up substantially with the 2017 EFF (Figure 3).

- During the first SBA (2012 to 2014), which was precautionary, the limited CD provided focused primarily on tax administration. Reform in this area was part of the government's broader fight against corruption, with a view to replace arbitrary payments with a healthy tax payment culture. In addition, PFM technical assistance (TA) aimed to improve the efficiency of the public sector and limit risks to public finances. The two structural benchmarks (SBs) at the launch of the program were linked to PFM TA.

- During the second SBA (2014–2017), the intensity of IMF CD picked up somewhat and was more closely integrated with the program. Significant CD resources were again devoted to tax administration to improve compliance. In addition, a tax policy TA mission identified a menu of measures that would both raise revenue and reduce inequalities. PFM TA focused on improving fiscal transparency through the preparation of a fiscal risk statement. MCM TA covered inflation targeting; risk management and financial reporting; monetary policy and financial stability; liquidity management; and IFRS accounting. Finally, TA from STA focused on improving national accounts statistics. Of the seven SBs set at the launch of the program, five were linked to TA recommendations for tax administration, PFM, and statistics.

- Georgia's demand for CD ramped up substantially with the EFF (2017 to 2021) and was met by corresponding larger supply from the IMF. The policy agenda for the EFF was based on the government's Four-Point Plan, medium-term fiscal objectives and fiscal structural reform plans, and the NBG's reform plans, all intended to preserve macro and financial stability and advance structural reforms to bolster growth. The resulting priorities for IMF CD activity were broad and included TA in the following areas:

- On the fiscal front, TA was requested to improve the disclosure and management of fiscal risks; modify the existing fiscal rule framework to provide policy flexibility over the economic cycle while ensuring sustainability; implement fiscal transparency reforms; strengthen infrastructure governance to reduce inefficiencies in public investment; and to continue to strengthen revenue administration based on a three-year TA plan (2017–2020). As the program evolved, concerns about quasi-fiscal activities grew, leading to TA on the public sector balance sheet and reforms to improve oversight of SOEs.

- On the monetary front, TA was requested to continue to enhance the inflation targeting framework and promote exchange rate flexibility by improving the monetary policy transmission mechanism through better liquidity management and a broader list of eligible collateral, together with steps to improve NBG communications.

- On the financial front, TA was requested to support the NBG's plans to publish a self-standing financial stability report with forward-looking analysis; strengthen financial safety nets and the resolution framework; expand NBG oversight to the non-bank sector; and develop capital markets by establishing a framework for the taxation of financial instruments.

- On the statistics front, TA was requested to continue improving the national accounts, monetary and financial statistics, and price statistics.

- On strengthening macroeconomic management, ICD has been involved in a multi-year project that combines TA and training and has two main streams: (i) to provide customized training in macroeconomic analysis, with a focus on fiscal analysis and forecasting; and (ii) to support a dedicated team's use of sophisticated models to do fiscal policy analysis and answer questions posed by policymakers.

- The number of SBs related to IMF TA recommendations grew significantly compared to previous programs, covering financial stability, capital market development, monetary policy operations and communication, deposit insurance, bank resolution, tax administration, public-private partnerships and fiscal risks, and PFM. The MCD team coordinated with capacity development department (CDD) staff in the design of SBs related to TA advice.

8. Extensive use was made of diagnostic assessments. TA on revenue mobilization was supported by a Tax Administration Diagnostic Assessment Tool (TADAT) in 2016 and a Tax Gap Analysis (RA-GAP) in 2017. Although not in the TADAT format, a tax administration diagnostic mission was also conducted in 2012. A Fiscal Transparency Evaluation was conducted in 2016, and a Public Investment Management Assessment (PIMA) in 2018. The Financial Sector

Assessment Program (FSAP) in 2014[4] identified gaps in financial sector oversight and governance; macroprudential policies; safety nets and crisis management; and the application of Basel core principles for effective bank supervision. These assessments fed into TA plans and recommendations during the EFF.

9. All interlocutors agreed that the IMF aligned its priorities with the Georgian government's agenda. Ownership was strong and the authorities knew what they wanted, leading to demand-driven CD. Other key points from the interviews:

- The authorities expressed satisfaction with the process for identifying CD priorities in consultation with IMF staff. They noted that although they do not have a formal internal process to determine CD needs, they know what they wish to accomplish as they implement their reform agenda, leading to the identification of gaps that need to be filled with IMF support. This leads to proactive requests for IMF CD. In instances when the IMF staff have made suggestions for CD, the authorities said that either they agree, or say it is not a priority, or say it is a priority but the timing is not appropriate because political difficulties will complicate implementation. In the instances where they do not agree, they said that the IMF has honored their wishes.

- All interlocutors agreed that there was good alignment of CD and SBA/EFF objectives. TA needs were built into programs and SBs were tied to TA recommendations. MCD staff noted that on occasion CDDs overreached by trying to include specific or too many TA recommendations as SBs, requiring the area department to push back. The approach was to focus program conditionality on higher level issues, rather than trying to convert detailed TA recommendations into an SB. Overall, structural conditionality has been based on what the authorities wished to accomplish, and often the authorities would propose that "this TA recommendation will be our SB."

- MCD staff, especially the EFF mission chief and resident representatives, have taken a leading role in matching country demand for CD, needs of the program, and corresponding supply of CD from the IMF. CDDs have been exceptionally accommodative of TA requests from Georgia. They know the authorities are serious and will implement TA recommendations, resulting in a virtuous circle of CD delivery and results. There do not appear to be instances where Georgia's request for CD that was within the IMF's standard mandate could not be satisfied, although the timing of support may have been constrained.

- Interlocutors from the IMF observed that although the authorities were keen to reform, their agenda and the distinction between short-term and medium-term priorities were, on occasion, not sufficiently fleshed out. IMF advocacy was therefore important to refine the agenda. In addition, vulnerabilities identified by IMF staff in the context of EFF

[4] IMF (2014b).

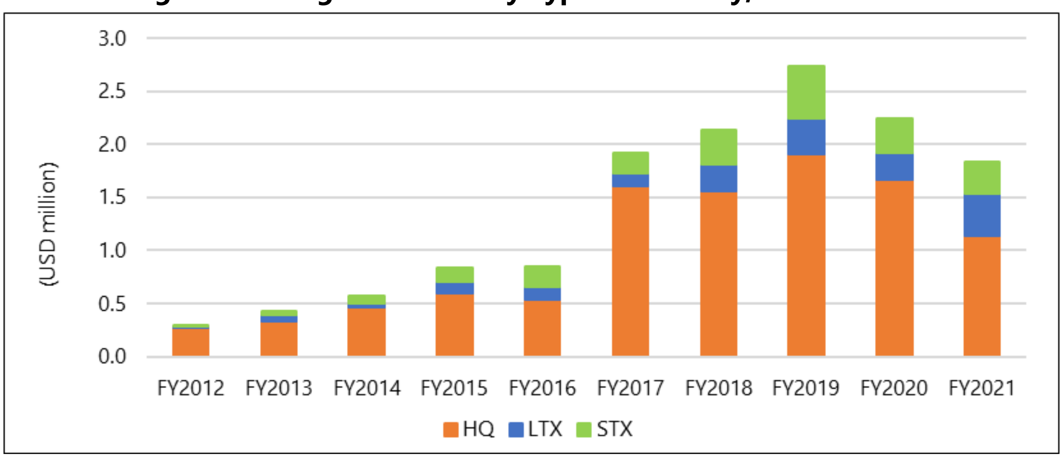
discussions and diagnostic assessments elevated some topics and put them higher on the authorities' agenda. Improving the bank resolution framework and strengthening oversight of SOEs to reduce fiscal risks were two examples.

Delivery

10. As discussed in paragraph 7, several diagnostic assessments guided CD plans in Georgia. In cases when a formal diagnostic was not conducted, there were usually Headquartes (HQ)-led scoping missions to identify specific needs, gather data and information, do preparatory work, and determine the appropriate mode of CD delivery. Diagnostic and scoping missions were typically followed by single or multiple missions depending on the topic, staffed by a combination of IMF headquarters staff and external STXs. A LTX on tax administration has been resident in Tbilisi since 2017 (Figure 5 and Annex I). In addition, a regional PFM LTX, resident in Armenia, covers Georgia. This regional LTX joins all PFM missions and travels to Georgia several times a year. Most fiscal projects required numerous missions, while projects in other areas typically required fewer missions as the topics covered were more narrowly defined.

11. As noted in paragraph 3, Georgia was not covered by an RTAC during the period covered by this case study, which complicated the follow up of TA. This gap is being addressed by the 2021 establishment of the CCAMTAC, which took several years to bring to fruition. The CCAMTAC aims to deepen the IMF's CD engagement in the region to support institution building and economic policymaking and promote regional synergies.

Figure 5. Georgia—IMF CD by Type of Delivery, FY2012–2021



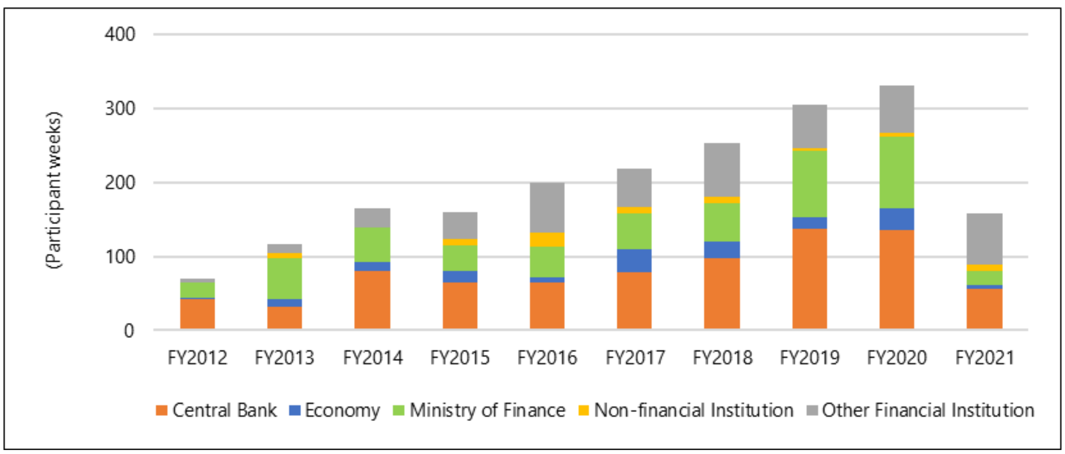
Sources: IMF, ACES data; IEO staff calculations.
Note: Spending data excludes non-personnel (NP) costs, which include, among others, travel expenses.

12. The training component of CD was sizeable. For example, STA provided training on "web scraping" techniques to compile data and ICD provided training on DSGE modeling. LEG's work on developing a local currency bond market included training the tax authorities on the application of new tax laws for capital market transactions and outreach seminars for market participants. In addition, the resident LTX for tax administration organized workshops for the Georgia Revenue

Service (GRS) and advised on training needs related to using the TADAT methodology. The authorities emphasized that TA and training go hand in hand because if local capacity is deficient then TA cannot help. They therefore see raising local skills to be as important as TA.

13. Georgian officials are active users of the training provided by the Joint Vienna Institute (JVI) and IMF headquarters. The Minister of Finance requires most professional staff in the ministry to complete the online financial programming course. Figure 6 shows training received, measured in participant weeks by Georgian agency. In addition, in cooperation with the JVI and Georgia's Ministry of Finance, the IMF has delivered additional training through the Georgia Training Program to officials from other CCA countries. As Georgia is more advanced than other CCA countries, their officials often lead these regional workshops, facilitating peer learning. The authorities observed that JVI training is efficient, but it is too standardized; it helps build general capacity, while Georgia has a greater need to build specific capacity. Furthermore, they suggested that it would be beneficial to extend IMF training to independent public bodies to help them fulfil their mandate. Beyond public bodies, extended training to staff in private commercial banks would contribute to financial stability. In this connection, the authorities noted that online courses were scalable and their utilization by a broader audience should be encouraged.

Figure 6. Georgia—IMF Training by Recipient Agency, FY2012–2021



Sources: IMF, PATS data; IEO staff calculations.

14. All the IMF resident representatives in Tbilisi since 2012 noted that they spent a significant part of their time on CD activities. This often started at the TA prioritization and planning stage, with the resident representative acting as an intermediary between HQ staff and the authorities as MCD's Regional Allocation Plan is developed. When CD missions come to Georgia, the resident representative typically met with them, and joined kick-off and concluding meetings and might even join some technical meetings. This provided the resident representative with a better grasp of the issues and helped identify areas that might need more attention. Resident representatives also maintained close contact with the resident tax administration LTX and the regional PFM LTX. They were also well placed to apprise CD teams of political economy issues and obstacles that might be faced. Furthermore, they facilitated data

transmission to CD teams. More generally, the integration between the resident representative, teams from the area department, and CD teams was good, with members of CD teams (including the two LTXs) joining area department meetings when appropriate.

15. Views about follow up to CD interventions were somewhat mixed. On the one hand, most interlocutors said that the follow up to TA advice was good. When the authorities had questions about implementation or needed additional input, their requests were accommodated. In addition, if a TA project required multiple missions and a sequential roadmap was available, follow up was automatic. Similarly, the EFF, which required several review missions and the assessment of compliance with SBs, provided a good avenue to follow up on TA recommendations. The presence of the resident and regional LTXs also enhanced follow up. And finally, interlocutors noted that the need for follow up has been reduced because of Georgia's strong implementation record and the competence of its officials, especially in the central bank. On the other hand, a few interlocutors said that follow up had been less than ideal. Often the MCD mission teams had to do significant follow up on TA delivery in the context of the EFF, but with limited control over the CDDs. Specifically, the concern was expressed that MCD mission chiefs were held responsible and accountable, but they did not have the corresponding authority. Moreover, for MCD staff to manage the follow-up process required time and resources, which was in limited supply because of competing demands. The existence of an RTAC could have helped with the follow up of TA and reduced the burden on MCD.

16. Interlocutors said that virtual work because of the COVID-19 restrictions generally proceeded well, but the time difference complicated scheduling. One advantage of virtual work was the ability to pull in a range of experts from other institutions and CD partners to augment IMF CD teams. It was emphasized, however, that the positive experience was facilitated by the mission chiefs from CDDs and MCD being already familiar with Georgian counterparts. This advantage would be lost if new personnel had to be introduced in this virtual environment.

17. The authorities praised the quality and quantity of CD delivered by the IMF, but they also had two suggestions for improving the delivery of TA in addition to the points made in paragraph 12 about training. First, they observed that on occasion TA reports have relied unduly on standard templates and have not put sufficient emphasis on country context, making these reports less valuable. Second, they noted that requests for CD in standard areas covered by the IMF have been well delivered, but as the IMF's work has expanded into new areas it has not been adequately matched by the availability of CD. For example, as the IMF developed an "integrated policy framework" it was unable to provide Georgia with the CD to implement such a framework.[5] Overall, however, they emphasized that IMF CD has been of great value, often exceeding what they receive from other partners.

[5] The integrated policy framework is a new analytical approach developed by the IMF to help countries respond to fluctuations in capital flows. The approach is summarized in the paper "Toward an Integrated Policy Framework" (IMF, 2020b).

Partnerships, Coordination, and Dissemination

18. Many external partners also provide TA to help Georgia implement its reform agenda. The multilateral providers include the World Bank, the AsDB, the Asian Infrastructure Investment Bank (AIIB), the EBRD, the European Investment Bank (EIB), and the EU. Bilateral providers have included Germany's development bank KfW, the United States Agency for International Development (USAID), and Statistics Denmark and Statistics Sweden (both via EU twinning arrangements).

19. Interlocutors agreed that in general, despite sporadic surprises, coordination between CD partners had been good. On occasion, there was some overlap in the TA provided, or lack of clarity about partner work programs, or differences of view about the appropriateness of advice offered. But these were amicably resolved. The consequence of these difficulties, when they occurred, is that projects might get delayed and staff resources need to be devoted to resolve problems. The authorities observed that because they drive the CD process, they also make decisions on which institutions to engage for TA. To help with coordination, they tell the IMF, for example, that "Agency X is doing Y and we would like the IMF to do Z." But other interlocutors noted that there had been occasions when (a) it appeared that the authorities were soliciting similar TA from multiple partners, or (b) there were shortcomings in internal coordination between ministries in Georgia, which complicated external coordination. This has made it important for IMF staff to devote resources to stay abreast of work being done by other providers to reduce surprises. Much of this burden of coordination falls on the IMF's resident representative.

20. The nature of partnerships and coordination is best illustrated through specific examples.

- For its work to develop the lari-denominated debt securities market, LEG played an important role to convene partners to help in areas where LEG did not have the required expertise. In consultation with the Georgian authorities, the AsDB was brought in to advise on asset-backed securities, the EBRD on derivatives, Belgium's Financial Services and Markets Authority on regulatory issues, and Deutsche Bundesbank on repurchase market issues. Working together resulted in a comprehensive package consistent with the EU's Markets in Financial Instruments Directive (MiFID).

- Various agencies provide TA on different aspects of fiscal risk and PFM. The authorities said that they considered the IMF to be in the lead on fiscal risk issues as it provided the strategic vision for this work. For the most part coordination in this area had been smooth. On SOE reform, an area that has typically been in the World Bank's domain, the IMF's work has focused on the financial oversight of SOEs and the inclusion of the related contingent liabilities in the annual fiscal risk statement of the budget. More recently, other aspects of SOE reform, including governance issues, have been handled jointly by the IMF and the World Bank. On PPPs, the AsDB took the lead, with the EBRD and IMF also providing assistance. But there were delays in the PPP law because of the need to resolve IMF staff concerns about advice from the EBRD about matters related to private sector proposals for partnerships that are unsolicited.

- The World Bank and AsDB have led on pension reform. Coordination with them has been important because of the IMF's interest in the macroeconomic and social implications of the reform. In addition, the IMF's resident representative played an advocacy role by explaining the reform proposals to members of parliament and their staff.

- STA has coordinated its TA on national accounts with experts from Statistics Denmark and Statistics Sweden, agreeing on the division of labor. On TA for the producer price index and the residential rental price index, other providers are not involved, although World Bank experts have provided complementary assistance to compile the price indexes needed for the International Comparison Program.

- TA from the EU supports the goals of Georgia's EU Association Agreement. This TA focuses on public administration reform, agriculture and rural development, and judicial reform. The EU's work on public administration reform has complemented the IMF's PFM work without overlap and the other issues are outside the IMF's expertise. Similarly, there has been no overlap with USAID's work, which focuses on strengthening Georgia's resilience to malign external influence and consolidating fragile democratic gains by enhancing governance.

- KfW advised the government to convert the Partnership Fund (see paragraph 6) to a full-fledged development bank. IMF staff did not agree with this recommendation and persuaded the authorities to reject this advice. Coordination in this case was more reactive than proactive.

- At the request of the authorities, KfW and USAID paid for experts to provide advice on the German and US approaches to bankruptcy. Despite limited coordination, there was no conflict with LEG's subsequent TA on an insolvency law, which was tailored to Georgia's circumstances and proposed a hybrid of these two approaches, both of which are consistent with international good practice.

21. Georgia has benefitted from its ability to attract donor funding. Two examples are worth highlighting. First, the revenue administration reform program embedded in the EFF (see paragraph 6), was supported by the RMTF. There was debate about using RMTF resources for Georgia because it is an upper middle-income country, but it went forward primarily because of Georgia's reputation as a star reformer. The RMTF made it possible to install an LTX in Tbilisi, crucial for moving ahead with revenue mobilization reforms under the EFF. Second, Georgia has benefitted from funding by the Netherlands Capacity Development Partnership Program (NCPP) to strengthen macroeconomic policymaking in Eastern and Southeastern Europe through better information and analysis. The NCPP has financed STA's CD to improve Georgia's national income and price statistics. In addition, the NCPP financed ICD's project to improve Georgia's

macroeconomic management through training and model development (see paragraph 6). Interlocutors noted that the Dutch authorities' involvement has been at arm's length.

22. The authorities have consented to the publication of 11 IMF TA reports since 2016, which is a quarter of the reports issued during the period (see Annex I for details). More sensitive reports, for example dealing with tax administration issues or monetary policy operations and foreign exchange intervention, were not published. For the reports that were published, an important rationale for the authorities has been to leverage IMF credibility and to use the reports as an endorsement of reform intentions.

Effectiveness and Impact

23. Georgia's reform record and the implementation of TA advice was modest during the 2012 and 2014 SBAs but strengthened significantly under the 2017 EFF. Political dynamics and elections influenced this evolution. The Georgia Dream party, which had been in opposition, won the 2012 elections and it took time for the new government to come to grips with TA already in the pipeline and to determine its policy agenda and TA needs. In addition, the new government was initially skeptical about IMF advice. Both the 2012 and the 2014 SBAs stalled (see paragraph 2). The 2016 elections gave the incumbent Georgia Dream government a parliamentary majority and new impetus for reform. Moreover, the government and IMF staff forged a stronger working relationship. The 2017 EFF was launched and traction of IMF CD advice strengthened as IMF staff assessed the authorities' needs and focused on areas with strong government ownership.

24. Most of the TA provided on issues related to the central bank, financial stability, capital market development, the insolvency regime, fiscal risks, statistics, and macroeconomic management have had good traction and a demonstrable impact. TA in these areas was driven by country demand and politics played a smaller role in implementation decisions, increasing the likelihood of success. By contrast, the traction of TA on revenue administration has been mixed. Specific examples of effectiveness and impact of CD in these areas are discussed below.

25. The National Bank of Georgia was highly receptive to IMF advice. The NBG had strong leadership with a reformist bent and technically competent staff with the capacity to implement TA recommendations. NBG leadership's long-term view of CD needs and clear vision of what they wished to achieve as an independent central bank motivated their requests for TA.

- MCM provided TA on inflation targeting (IT) and liquidity management, which together helped to strengthen the monetary policy framework. The IT regime has helped anchor inflation expectations and the credibility of the NBG has been fortified. In addition, the NBG has enhanced its communications by holding regular press briefings upon completion of Monetary Policy Committee meetings. Although dollarization remains widespread and complicates the IT and floating exchange rate regimes, increasing the use of lari is likely to be a slow process as it requires people to change their behavior.

- Comprehensive reform has led to improvements in supervision and financial safety nets, helping ensure financial sector resilience even during the COVID-19 shock. Building on the recommendations of the 2015 FSAP and TA support, the authorities have implemented critical elements of the Basel III framework. Prudential regulation on capital and liquidity requirements have been strengthened. The NBG now also has oversight of non-bank lenders such as microfinance institutions and bank holding companies on a consolidated level. Georgian representatives highlighted that MCM TA helped the NBG close a large number of micro-finance institutions without any loss of deposits, contributing to the consolidation of the sector and greater stability. They also noted that ongoing TA on central bank risk management has helped upgrade NBG staff skills. With TA support, in 2019 the NBG started to publish an annual self-standing financial stability report. Finally, a new bank resolution framework, aligned with international good practice, is being rolled out based on legislation issued in 2020. TA in this area was provided jointly by LEG and MCM. The NBG now has the tools to resolve a systemic institution, but their application has not been tested. The September 2021 Financial System Stability Assessment[6] under the FSAP confirmed this assessment.

26. The authorities' interest in capital market development was propelled by their goal to rely less on FX denominated foreign law public debt and instead move toward lari-denominated local law debt securities. LEG's assistance was wide ranging, including the drafting of laws for dematerialized securities holding and the taxation of collective investment schemes, and advice on a legal framework for primary dealers and tax treaty issues. Partners focused on other aspects as discussed in paragraph 19. The TA has resulted in the implementation of "first generation reforms" of the legal and regulatory framework. These include the quick passage of the "Investment Funds Law" and the "Law on Securities Markets" in 2020 and the introduction of a tax regime for investment fund operations. These reforms are in line with LEG's recommendations and consistent with EU and International Organization of Securities Commissions (IOSCO) principles. In addition, a primary dealer system has been operating in pilot mode since October 2020. Although about 80 percent of public debt is still FX-denominated, the immediate impact of the project is evident from real-time data that shows the steady internationalization of lari-denominated bond holdings.[7]

27. LEG TA on corporate insolvency reform supported the adoption of a new legal framework, though the impact of this reform depends on implementation. The previous system was slow and incentives to restructure viable firms was inadequate, biasing the system toward liquidation. The TA from LEG resulted in recommendations tailored to Georgia's circumstances. The Georgian authorities drafted a new insolvency law based on these recommendations. Several iterations of the draft law were reviewed by LEG from headquarters. It took about two years to get the law in adequate shape, in part of because of the different perspectives of the relevant

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[6] IMF (2021c).

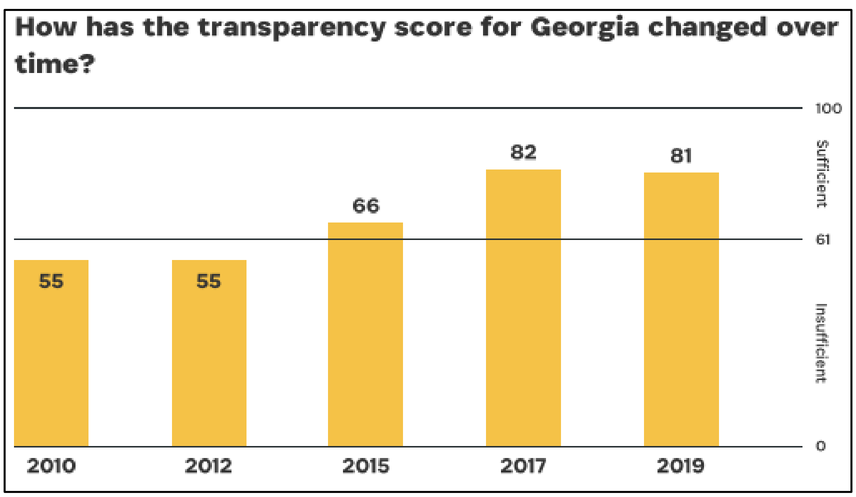
[7] This data is confidential and unpublished, but LEG has access to it.

Ministries. It then took a further year to pass the law. The new law is consistent with international good practice with a suitable balance between creditor and debtor rights. The expectation is that the new legal framework will work better than the previous one to promote the restructuring of viable firms. But its actual implementation remains an open question. Much will depend on the quality of insolvency judges and licensed bankruptcy administrators and the time it takes for them to build the necessary experience.

28. On PFM matters, there has been substantial FAD TA engagement over many years, with the regional LTX playing a crucial role. Of the array of PFM TA provided, the most notable achievements have been in the related areas of fiscal transparency and fiscal risk analysis.

- For fiscal transparency, a TA action plan was developed based on the 2016 Fiscal Transparency Evaluation, covering several areas including improving the accuracy and transparency of budgeting and accounting. Implementation of the plan has led to an improvement in Georgia's score for budget transparency and budget oversight (which covers both legislative and audit oversight) in the survey conducted by the International Budget Partnership (IBP).[8] Figure 7 shows the evolution of Georgia's transparency score in the IBP survey over the last decade. For 2019, Georgia's global ranking was fifth out of 117 countries surveyed, putting it well ahead of other countries in the region. The potential to improve the country's global rank was an important incentive for the authorities as it increases Georgia's attractiveness to foreign investors.

Figure 7. Georgia—Budget Transparency



Source: International Budget Partnership.

- For fiscal risks, the Georgian authorities have made substantial progress in recent years to improve the oversight and reporting of fiscal risks, including from SOEs. An annual Fiscal

[8] IBP is an independent global research and advocacy program to promote public access to budget information and the adoption of inclusive and accountable budget systems. See IBP (2019).

Risk Statement was first released in 2014, with improvements made each subsequent year. The most recent reports have high-quality disclosure and analysis of fiscal risks, including, for example, an assessment of: (i) the impact of macroeconomic risks on the fiscal sector; (ii) Georgia's public sector balance sheet; (iii) an impact assessment of SOEs on fiscal aggregates; (iv) SOE performance, quasi-fiscal activities, and transfers received from the government; (v) financial risk analysis of major SOEs; and (vi) fiscal risks associated with PPAs and the stock of PPP liabilities. In parallel, the Ministry of Finance has established a Fiscal Risk Management Unit to coordinate this work, facilitated by the skill-building aspect of TA in this area. So far, the greatest progress has been in identifying and measuring risks, while further work is needed to implement the governance reforms to better manage these risks.

29. Services such as tourism and transport are becoming a larger component of economic activity in Georgia but were not adequately captured in economic statistics. In addition, there were deficiencies in the national accounts, including obsolete calculations for owner-occupied dwellings. The authorities were keen to address these faults with TA support from STA, which focused on national accounts, the producer price index (PPI) for services, and the residential property price index (RPPI). The implementation of TA recommendations in these areas has been strong. In 2019, the National Statistics Office of Georgia (GEOSTAT) disseminated an updated national accounts series with significant improvements in the quality and international comparability of gross domestic product (GDP) estimates. On the RPPI, Georgia started at ground zero at the time of the first STA mission in May 2018, but after just six months RPPI data from three different data sources were being collected. Similarly, the PPI was expanded to more activities than initially planned and in January 2020 GEOSTAT published new PPIs for telecommunications services and transportation and storage services. The pace of collecting PPIs for tourism activities, however, has been affected by the pandemic. Overall, policy makers have more timely and better data to guide decisions. For example, the RPPI is a financial soundness indicator and important to assess risks and vulnerabilities, and compiling PPIs for service activities is important to deflate nominal services output to get a better gauge of real GDP developments.

30. Georgian representatives praised ICD's multi-year project to strengthen macroeconomic management, which provided TA combined with customized training on macro-fiscal modelling. A DSGE model suitable for Georgia's circumstances has been built and a team has been trained to use it to simulate policy scenarios. Buy-in from managers has been strong. Progress, however, was not linear and there was significant need for follow up and coaching, which was provided by ICD. In 2020, the authorities begun to use the ICD-provided model for policy analysis and forecasting to inform their internal policy discussions and documents. As further experience is gained, the model's formal use in the policy process is expected in the coming years.

31. Compared to the generally positive examples provided above, traction of TA on revenue administration has been more mixed. FAD has devoted substantial CD resources to this area

since 2003, but achievements were limited until the 2016 TADAT. The main accomplishment between 2012 and 2016 was the introduction of single taxpayer accounts with a unified treasury code for any type of tax payment. There were no fundamental disagreements on TA recommendations, but without political champions for tax reform implementation was slow. Although the situation improved after the TADAT and the installation of an LTX, progress has still been slow. Accomplishments include a partial reduction of the outstanding stock of unrefunded value-added tax (VAT) credits; the start of an automatic refund system of VAT credits that is expected to prevent an increase in the stock of unpaid credits; and moves toward a risk-based approach by the GRS to better identify non-compliant cases. But implementation was uneven and there was considerable pushback from the authorities on the advice received. For example, the authorities tend to prefer rules rather than use a modern risk-based approach as advised by FAD. In addition, there were differences of view about the sources and nature of information that tax authorities should have access to, with FAD recommending a wider set of such data. Changing the organizational structure of the GRS was also a sticking point and it took time to get agreement from the authorities. And, even when there was agreement on advice, implementation decisions were delayed. Although it is an imperfect measure of progress, it is noteworthy that the ratio of gross tax revenue (that is, before refunds for VAT and other taxes and the reduction of VAT credit arrears) to GDP remained relatively flat over the period of the evaluation, hovering around 24½ percent of GDP. Interlocutors highlighted several obstacles that contributed to weaker traction for TA on revenue administration.

- First, political support for revenue administration reform has varied. There have been several changes in the Ministers of Finance and Directors General for Revenue in recent years. This revolving door led to settled issues being frequently revisited.

- Second, the Ministry of Finance and the GRS were not always on the same wavelength, which led to delays in decisions. The Ministry of Finance was especially concerned about the impact of reforms on the business environment and the potential for corruption.

- Third, going from a command-and-control structure to risk-based assessments that require judgment is a slow and evolutionary process.

- Fourth, the perceived rigidity in TA advice and resistance to adapting recommendations to local conditions sometimes led to a stalemate. Often, perfection of technical advice could be the enemy of good policy advice.

- And fifth, better revenue administration requires investment to improve information technology systems. Georgia did not invest enough to make these improvements.

32. The authorities complimented the quality of IMF TA, saying that it is typically superior to what they receive from other providers. They praised the competence of IMF staff and the LTXs and STXs assigned to Georgia. If multiple agencies can provide advice in a particular area, they said they prefer to request TA from the IMF. For example, even though other IFIs have expertise

on capital market development and supervision of non-bank financial institutions, they requested TA in these areas from the IMF. They observed that TA tended to be more successful and has greater impact in the following circumstances:

- When it is targeted to goals that are agreed between the authorities and the IMF.
- When the authorities themselves are prepared and attentive.
- When there is unity among the authorities on the path forward, which they noted does not always happen.
- When it sees the big picture and takes account of country context, including the political situation and Georgia's traditions, and avoids getting bogged down in narrow details.
- When there is a constructive discussion about specifics of recommendations, noting that they often challenge recommendations, which then leads to better solutions.
- When there is continuity of staffing by the IMF with well-chosen experts.
- When Georgian staff turnover is low or if systematic processes are in place so that turnover does not have a large impact.
- And when the engagement is sustained, starting with diagnostics, to TA delivery, to support for implementation.

33. Of the 21 CD projects in the RBM database, 20 had at least one objective defined but only 2 of those projects had their objective(s) rated; in total there are 66 outcomes rated (Annex I, Figure AI.1).[9] Overall, the available RBM ratings are broadly consistent with the assessments in the previous paragraphs of this subsection and with the strong record of compliance with structural benchmarks under the EFF.

34. The authorities observed that their feedback to the IMF on TA received is sporadic and happens informally. They suggested that such feedback needs to be more systematic and that the RBM framework does not fulfil this need. Only the Georgian representative discussing TA for revenue administration said that there was a consultation process with IMF staff on RBM milestones. This representative noted that the number of milestones was excessive and many were poorly defined. In addition, better sequencing would help to avoid a bunching of milestones with the same deadline. All other Georgian representatives said that RBM-related issues did not feature in their discussions with the IMF.

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[9] Outcome ratings are based on progress made toward targets or achievement of milestones, and milestone ratings are based on the project manager's observations about progress toward achievement of the milestone.

III. Overall Assessment

35. Georgia has a good record of maintaining macroeconomic stability and implementing reforms to improve economic management and increase the resilience of the economy. There is consensus on national priorities, including promoting Euro-Atlantic integration, enhancing government effectiveness, and fostering better governance and a business-friendly environment to attract investment. The focus on preserving stability and advancing reform has made Georgia fertile ground for CD work by the IMF and other agencies. Indeed, several interlocutors said that Georgia is the darling of CD providers and that it deserves its reputation as a star reformer. Georgia serves as an excellent example for the region, and it has the potential to play a significant role in peer-to-peer learning.

Relevance

36. The IMF's CD work in Georgia has been relevant to the authorities' goal to strengthen policy frameworks and advance structural reforms. CD has been determined by country demand, with requests for CD stemming from the authorities' genuine commitment to reform. To support the objective of reducing vulnerabilities and promoting more inclusive growth, the IMF and the Georgian authorities agreed on a CD strategy to strengthen fiscal, monetary, and financial stability policy frameworks, improve statistics to provide better input into policy making, and address structural bottlenecks to growth. Reforms in these areas are macro-critical, and the IMF confined its CD on structural matters to its areas of expertise. Specific CD priorities were driven by the objectives of the two SBAs and the EFF in place from 2012 to early 2021. TA needs have been built into programs and structural benchmarks have been tied to TA recommendations. When staff have advocated TA on an issue, the authorities made the final decision to ensure ownership. Overall, the quality of the dialogue with the authorities to ensure consistency between Georgia's needs and IMF CD has been strong.

Coherence

37. Although the range of CD that the IMF has provided to Georgia has been wide, it has been planned and delivered in a way that enhanced the authorities' ownership and commitment, and it has been well aligned with IMF program work and the work of other providers. Key factors that contributed to the coherence of CD include:

- Various diagnostic assessments have facilitated the dialogue with the Georgian authorities, enhancing ownership by helping to identify the gaps that CD needs to address and determining the appropriate mode of CD delivery.

- For most projects, delivery has involved consistent and recurring engagement by the same IMF staff members and STXs over the course of projects. This has supported relationship-building and stability in the advice provided. Similarly, the resident LTX for tax administration and the regional LTX for PFM have been critical for making progress in projects in their areas.

- MCD staff have played a leading role to match country demand for CD with the corresponding supply of CD from the IMF, ensuring that CD provided has been consistent with the authorities' preferences and the needs of the SBAs and EFF. In turn, CDDs have been keen to assist Georgia because they know the authorities are serious, capable, and willing to implement TA recommendations.

- IMF resident representatives in Tbilisi have been closely involved with CD work, acting as an important point of liaison between the authorities, CD missions, partner providers, and MCD staff at headquarters.

- CD work has been well integrated with program work. The focus of structural conditionality has been on higher level issues and what the authorities wished to accomplish. Conditionality has helped calibrate the pace of reform and keep CD on track, especially when reform momentum picked up under the EFF.

- Training has been an important component of TA. In addition, Georgian officials have been active users of available classroom training. The authorities noted, however, that JVI training is too standardized and general, while Georgia has a greater need for training to build specific capacity.

- Georgia is also the darling of other TA providers and there are many of them. Despite occasional overlap and tension, partner coordination has been good, and differences have been amicably resolved. But coordination needs resources, with much of the burden falling on the resident representative. In the important case of capital market development, LEG purposefully sought partners that had expertise it lacked, thus providing the authorities with a comprehensive package of reforms.

Effectiveness, Impact, and Sustainability

38. When the authorities request CD, they deliver and much of the IMF's TA and training work in Georgia has had a tangible impact and is making a lasting difference in the economic management of the country. The authorities praised the quality of IMF CD, saying that it is generally superior to what they receive from other partners. The positive impact of CD is most evident in areas such as the NBG's strengthened IT framework and monetary policy operations, which anchored inflation expectations; improvements in the financial stability framework, including better regulations and a wider scope for supervision, publication of an analytical financial stability report, and a new bank resolution framework that have increased the resilience of the financial sector; the development of the local currency bond market under local law that is leading to a gradual decrease in reliance on FX-denominated public debt; the passage of a new insolvency law consistent with international good practice that should make it easier to

restructure viable firms; greater fiscal transparency that has raised Georgia's global rank to fifth in a 2019 independent survey of budget practices; significantly stronger fiscal risk analysis, including the publication of a comprehensive annual Fiscal Risk Statement, setting the stage for the better management of these risks; and better economic statistics that reflect the changing structure of the economy as the service sector becomes more important. There has been strong ownership of CD in these areas and politics has played a smaller role in implementation decisions.

39. By contrast, traction of TA on revenue administration has been mixed. Progress has been made since the 2016 TADAT, including reducing the backlog of VAT credit arrears, moving to an automatic refund system, and increased reliance on a risk-based approach for tax compliance. But mobilizing political support for reform in this area has been weaker. In addition, switching from a culture of command-and-control to modern risk-based assessments is a slow process. More flexible TA advice, consistent with local conditions, might have helped.

Lessons and Questions

40. Georgia's experience shows that strong ownership, political support, and absorptive capacity can build its own momentum by generating greater willingness to supply additional CD because CDDs find it rewarding to see TA advice being implemented. This virtuous circle makes it important to ensure that strong systems are in place to allocate CD resources so that the generous provision of CD resources to a country like Georgia does not crowd out other deserving cases. For example, using RMTF resources to place an LTX in upper-middle income Georgia was fruitful, but could the LTX have been more beneficial elsewhere? Similarly, it is good to be a showcase for effective CD, but could a country like Georgia do more on its own without outside assistance? These are not easy questions to answer, but they need to be asked when resource allocation decisions are made.

41. It is important to have a continuous dialogue with country authorities about their CD needs and the selection of projects. Projects should start with a good understanding of initial conditions, the gaps that need to be addressed, and the political support for difficult reforms. The IMF has greater value when the dialogue with the authorities leads to the selection of projects that result in better policies and better policy implementation. The IMF's focus on strengthening policy frameworks in Georgia and improving the statistics needed for policy decisions met this goal. This focus benefitted from strong interdepartmental collaboration between MCD and CDDs to ensure that TA and training topics were relevant for the authorities' needs and program requirements.

42. The continuity and quality of IMF teams and experts that know what to focus on and engage constructively with the authorities matters. The authorities noted that the quality of IMF CD teams is high and that variance around the average is lower than for other institutions. They also noted that current or former policymakers from other countries have been the most effective advisors. Staff interlocutors observed that the best in the IMF vie to work on Georgia,

and the same applies for recruiting experts. When the right person or team is providing TA and training, not only does it improve substance, but it also improves credibility.

43. It is important to calibrate the pace of reforms and implementation of TA recommendations, pushing the authorities when necessary but also restraining them when appropriate. There have been times when the authorities have been overly ambitious, and the IMF staff have advised slowing down by distinguishing between short-term and medium-term priorities to ensure efficient delivery and sequencing of TA. Having a program in place has helped to attune the pace of reform and keep CD on track and address needs in an appropriate sequence.

44. Ownership requires good coordination among various ministries and agencies in the recipient country. When different actors that are jointly responsible to implement a reform are not on the same wavelength, as happened with introducing a new insolvency law and with tax administration, it can lead to delays in implementation.

45. Training should be fully integrated with the delivery of technical assistance. It is important to ensure that at the end of a TA project there has been sufficient transfer of knowledge and skills to make the advice sustainable.

46. Seeking first-best technical advice is not always optimal as it may differ from good policy advice for the country's circumstances. Rather, policy advice should seek to balance multiple objectives and consider local circumstances and political constraints. Recognizing what is political feasible can improve policy traction and lead to better outcomes than stalled reforms based on the best technical advice. The nature of policy advice should also recognize that organizational change and institution building can be slow even when absorptive capacity is high.

47. Coordination with different TA providers has helped avoid duplication and promoted consistency of advice. As the nature of Georgia's CD needs change, this cooperation should make it easier for future TA by other providers to build on work done by the IMF.

48. Countries should not wait for a crisis to upgrade policy frameworks. Bringing the bank resolution law and the insolvency law up to international standards during "peace time" has given Georgia the tools to deal with a crisis if it should occur.

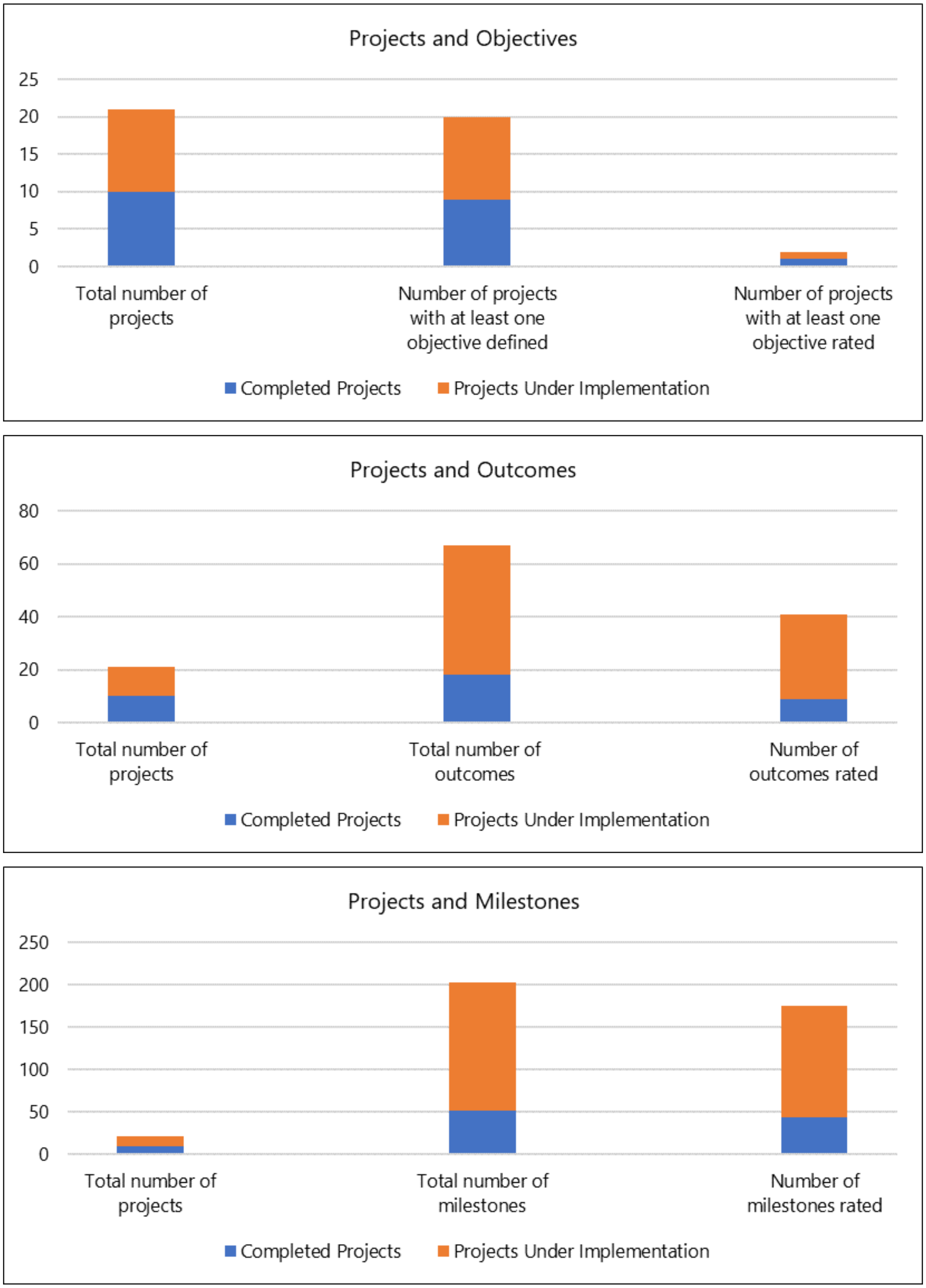
49. The establishment of CCAMTAC, a dedicated RTAC for the region, will bring the delivery and follow up of TA closer to the recipient countries, including Georgia. However, as CCAMTAC is not a fully integrated RCDC providing both TA and training, Georgia will continue to have access to training offered by JVI.

50. Georgian officials subscribed to the points above and had some additional observations. First, the IMF provides discipline to the reform process by putting pressure on the authorities to track progress and implementation schedules. This helps avoid a damaging stop-start process.

Second, the IMF has broad knowledge going beyond a specific issue and can help the authorities see the big picture. For example, the government might be under pressure to provide tax relief to boost a particular sector, and IMF perspectives on the implications of such a policy for the tax system and the macro-fiscal picture can be very beneficial. And third, the ability of Georgian officials to participate in IMF TA to other countries, as has happened on occasion, is an important motivator and facilitates peer learning. But it also has a downside as the Georgian agency might lose staff to the IMF.

ANNEX I. CD ACTIVITIES FOR GEORGIA

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



Sources: IMF, RBM data; IEO staff calculations.

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

Year	FAD	ICD	LEG	MCM	RES	STA	Others	Total
2012	0	0	1	2	0	0	0	3
2013	8	0	0	0	0	2	0	10
2014	6	1	0	1	0	1	0	9
2015	13	0	0	3	0	1	0	17
2016	15	1	0	0	0	1	0	17
2017	19	1	1	3	6	3	0	33
2018	16	5	5	13	0	3	0	42
2019	22	5	9	11	0	2	0	49
2020	21	3	2	6	0	5	0	37
Total	120	16	18	39	6	18	0	217

Sources: IMF, TIMS data; IEO staff calculations.

Table AI.2. Georgia—Resident Advisors, 2019–2021

Host institution	CDD	CD topic/workstream	Start date	End date
Ministry of Finance	FAD	Extension of Resident Revenue Administration Advisor	04/14/2019	4/30/2021

Source: IMF, Fiscal Affairs Department.

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

	FAD	MCM	STA	LEG	Total	Of which: Available within IMF	Of which: Available but confidential	Of which: Published
2012	1	0	1	0	2	2	0	0
2013	3	0	2	0	5	5	0	0
2014	1	0	0	0	1	1	0	0
2015	3	2	0	0	5	4	1	0
2016	5	1	4	0	10	10	0	2
2017	3	4	0	0	7	7	0	1
2018	4	4	2	1	11	11	0	3
2019	1	4	4	0	9	8	1	2
2020	1	3	2	0	6	6	0	3
Total	22	18	15	1	56	54	2	11

Source: IMF, Institutional Repository.

SAUDI ARABIA: SUPPORTING THE AUTHORITIES' REFORM AGENDA

I. INTRODUCTION AND COUNTRY OVERVIEW

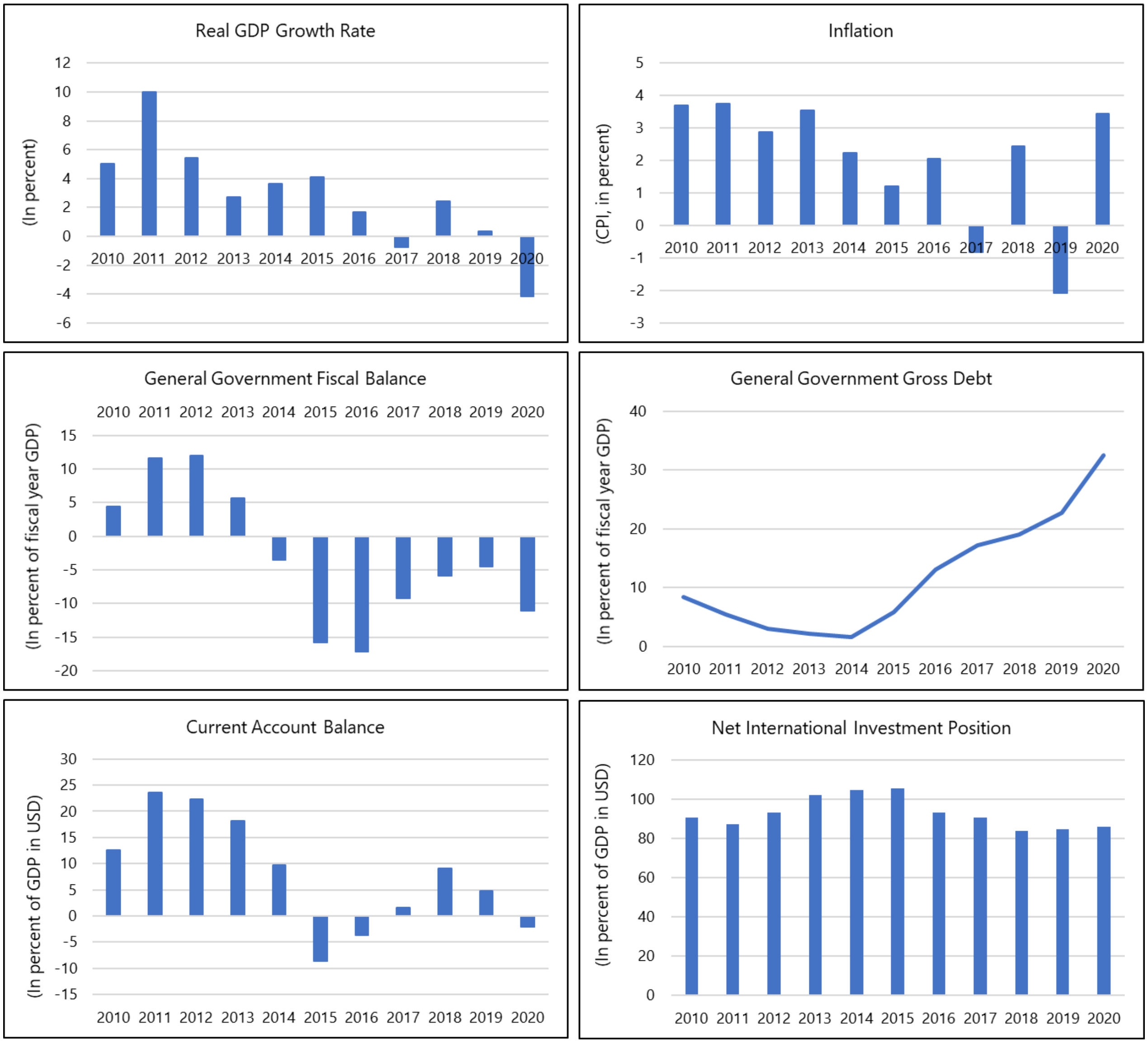
1. Saudi Arabia is a high-income country with an oil-based economy. It is a member of the G20. Spillovers from Saudi Arabia are important globally and regionally. Saudi Arabia plays a lead role in managing oil production adjustments under Organization of the Petroleum Exporting Countries (OPEC)+ agreements; the country provides financial assistance to many countries and institutions; growth and financial developments spill over to other Gulf Cooperation Council countries; and it is a source of substantial remittance outflows. Saudi Arabia is thus an important surveillance country for the IMF from both a bilateral and multilateral perspective. Article IV consultations have been conducted annually, except for 2020 because of logistical issues related to the COVID-19 pandemic and Saudi Arabia's Presidency of the G20.

2. The decline in oil prices in 2014–2015 led to a fall in economic activity and large fiscal and current account deficits emerged (Figure 1). Fiscal and financial buffers built over the previous decade helped cushion the impact on the economy. The exchange rate for the riyal is pegged and provides a credible monetary anchor.

3. The IMF's longstanding policy advice to Saudi Arabia in Article IV consultations has been to diversify the economy, strengthen the fiscal framework, and improve the labor market. Little headway was made on these issues until the collapse in oil prices in 2014 and a change in Saudi Arabia's leadership in 2015, which led to a marked increase in the enthusiasm for reforms. With this change in the policy environment, the Saudis began to develop an ambitious socio-economic reform agenda to transform the economy and create a society that provides a foundation for economic prosperity. On the economic front, this agenda aligned well with IMF surveillance advice, especially to strengthen policy frameworks, reduce reliance on oil by diversifying the economy, and increase employment. In connection with the planned reforms, Saudi Arabia sought TA from the IMF and others, including the World Bank and private consultancy firms. The reform agenda and the associated IMF TA needs were strongly backed by Managing Director Christine Lagarde during her November 2015 visit to Saudi Arabia. The overarching strategic objectives and reforms to achieve these objectives were subsequently laid out in *Vision 2030*,[1] which was announced in April 2016.

[1] Government of Saudi Arabia (2021).

Figure 1. Selected Indicators for Saudi Arabia, 2010–2020

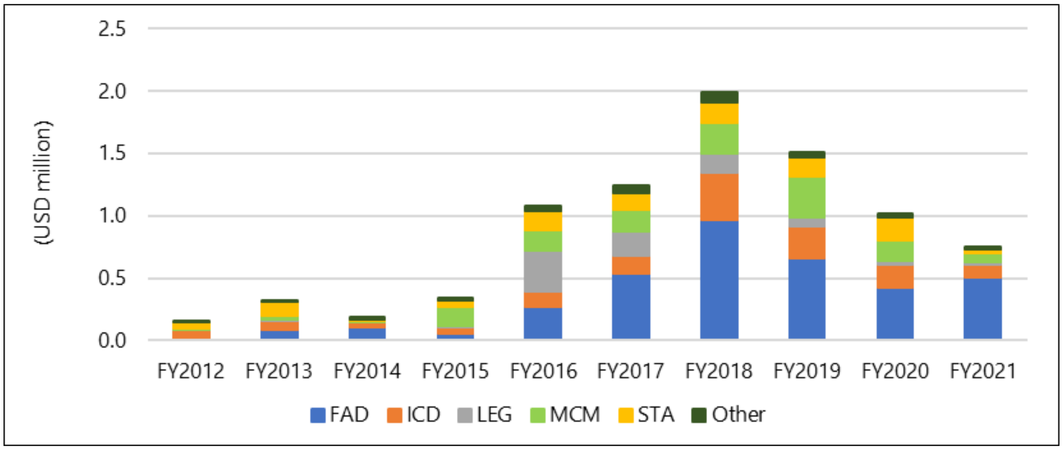


Sources: IMF, WEO database; World Bank database; IEO staff calculations.

4. IMF-provided CD for Saudi Arabia was negligible during 2012–2015, but then ramped up substantially starting in 2016 and peaked in 2018 (Figure 2). Thus, for the more limited period 2016–2020, Saudi Arabia would be considered a high-intensity user of IMF CD. Key features of IMF CD for Saudi Arabia include:

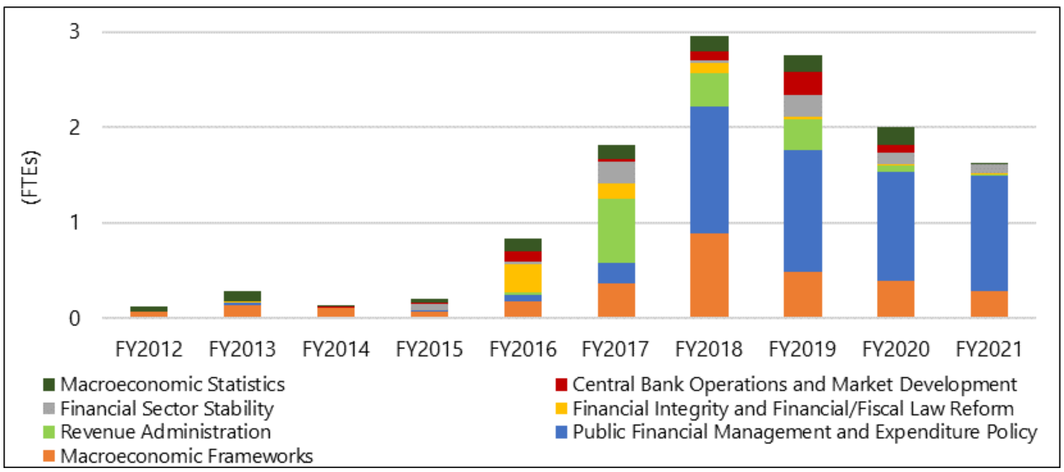
- CD provided by FAD dominated in terms of volume as measured by FTEs. FAD's CD work has focused primarily on tax policy and administration, especially the introduction for a VAT, and strengthening the macro-fiscal framework (Figure 3). Other areas included budget institutions and energy price reforms.

Figure 2. Saudi Arabia—IMF CD Spending by Department, FY2012–2021



Sources: IMF, ACES data; IEO staff calculations.

Figure 3. Saudi Arabia—IMF CD by Workstream, FY2012–2021

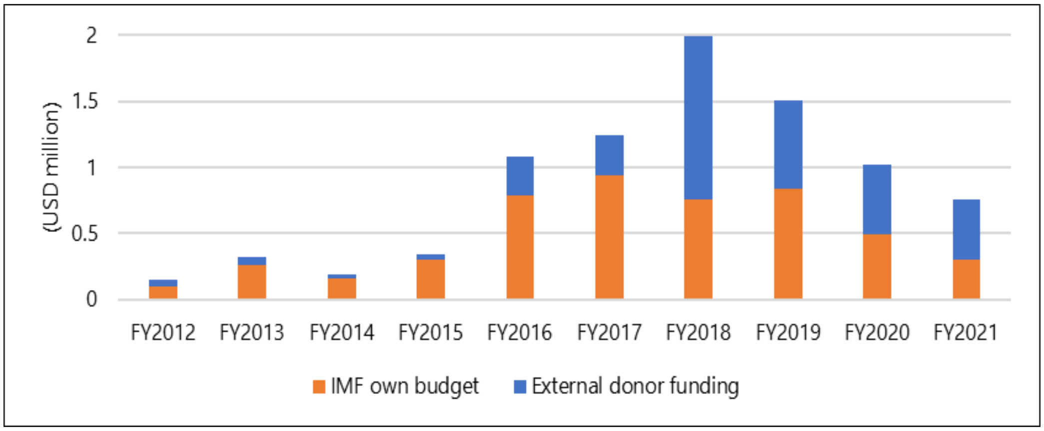


Sources: IMF, TIMS data; IEO staff calculations.

- CD provided by MCM and STA has been lower in terms of FTEs, but has been important for policy formulation and meeting reform priorities. MCM's work has included stress testing; establishing the National Debt Management Center; liquidity management; the regulatory and supervisory framework, including for Islamic banking and securities markets; and monetary policy operations. STA's CD engagement covered multiple statistical topics anchored by the desire to subscribe to the Special Data Dissemination Standard (SDDS). LEG provided assistance to enhance the effectiveness of the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime and on the VAT law.

- As a high-income country, Saudi Arabia self-financed a substantial part of CD operations through charges, focusing on the following areas: (i) establishment of a macro-fiscal policy unit (MFPU); (ii) establishment of the National Debt Management Center; (iii) enhancing the AML/CFT regime; and (iv) strengthening the regulatory and supervisory framework for central counterparties (CCPs) and central securities depositories (CSDs). The Saudi financing for the MFPU project covers a resident LTX embedded in the unit and the associated work to develop the medium-term fiscal framework, build capacity in macro-fiscal forecasting, and improve fiscal reporting. All other CD is financed by the IMF (Figure 4). Over the period 2016–2020, the Saudi authorities financed 43 percent of the IMF's CD activity in the country.

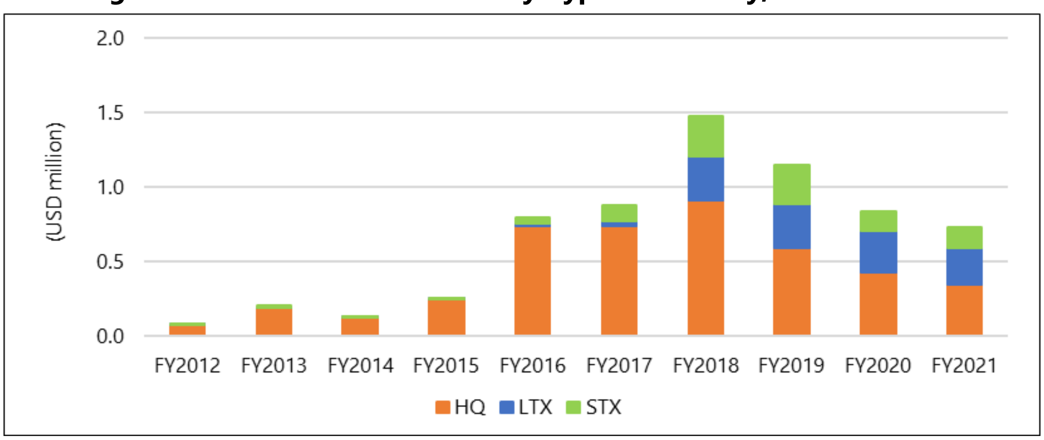
Figure 4. Saudi Arabia—IMF Spending on CD by Funding Source, FY2012–2021



Sources: IMF, ACES data; IEO staff calculations.

- CD delivery has been primarily via missions by HQ staff and STXs. The LTX was embedded in the MFPU starting in 2016 (Figure 5). Saudi Arabian officials have been active users of the training offered by the IMF's Middle East Center for Economics and Finance (MECEF) in Kuwait.

Figure 5. Saudi Arabia—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

5. With the change in Saudi Arabia's leadership in 2015, the country began a fundamental policy shift to respond to low oil prices and meet the aspirations of a young and growing population. Plans for a bold and ambitious transformation of the economy were set out in *Vision 2030* and the National Transformation Program (NTP). Switching the focus of growth from the public sector to the private sector was an important goal. The cabinet was reshuffled and a number of ministries were merged or restructured to support the reforms. The authorities' commitment to implement *Vision 2030* reforms increased the authorities' interest in TA from the IMF, creating a conducive environment for CD activity starting in 2015–2016. Prior to that, CD engagement was small and IMF advice had little traction for both Article IV consultations and technical assistance.

Strategy, Prioritization, and Allocation

6. The capacity development strategy, as outlined in country and CD strategy notes prepared by IMF staff, has focused on strengthening the fiscal framework, financial sector oversight, and statistical capacity.[2]

- Helping the authorities implement a large, sustained, and gradual fiscal adjustment in line with both *Vision 2030* goals and Article IV consultation recommendations was a priority. This required CD to: (i) strengthen the Ministry of Finance's capacity to undertake fiscal policy analysis and forecasting; (ii) help develop a strong fiscal framework, including increased fiscal transparency and a medium-term budget and expenditure framework; and (iii) provide advice on specific fiscal policy issues such as the VAT and energy prices.

- On the financial sector side, in addition to strengthening regulation and supervision to safeguard financial stability, the priority was to strengthen the Saudi Central Bank's operational framework, particularly liquidity management. Vulnerabilities and gaps identified in the FSAP helped identify potential areas for TA.[3] In addition, because Saudi Arabia did not face any significant funding gaps until a few years ago, there had been little need to develop expertise in public debt management. As fiscal deficits arose when oil prices fell sharply, the government had to draw down its fiscal buffers and issue debt. This prompted a request for IMF TA to establish the National Debt Management Center and develop a public debt management framework.

[2] CD Strategy Notes are available for FY2021–2023; FY2020–2022; FY2019–2021; 2014, 2013; and 2012. A Country Strategy Note is available for FY2021–2023.

[3] FASP missions were held in November 2016 and February 2017, and the Financial Sector Stability Assessment (FSSA) was published in October 2017 (IMF, 2017b)). The previous FSAP was in 2006, with an update published in April 2012.

- In the statistical area, Article IV reports had pointed to important data gaps and the goal of TA and training was to strengthen the compilation and dissemination of macroeconomic and financial statistics to help policy formulation and implementation. In addition, as all other G20 countries had already adopted the SDDS or SDDS+, the Saudi authorities committed to subscribe to SDDS before the country took over the G20 Presidency in 2020. This commitment provided an anchor for the CD strategy on statistics.

- An AML/CFT diagnostic mission by LEG in November 2015 concluded that Saudi Arabia faced a range of money laundering and terrorist financing risks but that there was limited information to determine the scope and size of these risks. At the request of the authorities, this diagnostic led to TA over 2016–2017 to assess risks, help with legal drafting, and develop a risk-based approach to supervision.

7. The *Vision 2030* reform agenda is wide ranging, but IMF CD stuck to areas of core expertise. Notably, although labor market reform is viewed as important by both the authorities and the IMF, staff's "big picture" recommendations have been underpinned by analytical work in the Article IV surveillance context rather than by TA.[4] IMF staff noted that if a request is received that is not in the IMF's remit it is not accommodated. Instead, the Saudi authorities are pointed to other providers. For example, Saudi requests for IMF TA in areas such as industrial policy, anti-corruption issues, and social safety nets was more appropriate for the World Bank. In interviews, Saudi officials regretted that the IMF did not accommodate such requests as they were confident that the IMF TA would have resulted in high quality advice.

8. All interlocutors agreed that TA provided to Saudi Arabia is demand driven, with a sizable portion funded by the Saudi authorities. The approach has been to look at IMF surveillance advice—both Article IV consultations and the FSAP—and then determine where the IMF could provide TA that matched the authorities' interest and reform agenda. Area department staff took the lead in this process, noting that if TA and surveillance had not been integrated, surveillance would not have been effective. As a result, the program for IMF TA has been driven by the types of reform that the authorities are keen to implement and is well integrated with surveillance advice. In addition, reforms to meet the G20 commitments, such as the G20 Data Gaps Initiative and strengthening oversight of CCPs and CSDs related to G20 endeavors to reform derivatives markets, have also played a role in generating demand for TA. Additional relevant points about this matching process are elaborated below.

- The Saudi authorities noted that a key goal of *Vision 2030* is to improve economic policy making and conform to best global practices as relevant for Saudi Arabia's circumstances. This strategic vision results in a work plan with specified priorities and a timeline. These

[4] For example, the 2019 Article IV consultation staff report included an annex that analyzed labor productivity growth at the sectoral level in Saudi Arabia. Based on the conclusion that labor productivity growth has been falling and that the wages of Saudi workers are above those consistent with their productivity, the report suggested reforms to improve the competitiveness of Saudi nationals for jobs in the private sector.

priorities generate TA needs that are discussed with MCD. The authorities expressed appreciation that the IMF has taken Saudi priorities into account and have accommodated most CD requests within the IMF's core mandate. They saw a strong link between their own CD priorities and Article IV and FSAP recommendations. For example, issues such as stress testing and liquidity management arose from a combination of the central bank's own assessment and the need for enhancement identified by Article IV and FSAP missions. They said that they do not feel pressured by the IMF to accept CD and they make decisions based on their own priorities, noting that in some areas (for example, liquidity management and asset-liability management) IMF staff put a higher priority on the need for TA than the authorities.

- On the IMF staff side, active engagement by the MCD mission chief and country team with the Saudi authorities and CDDs has been crucial to set CD priorities. Staff from CDDs noted that requests for TA come through the area department, which asks CDDs to assess whether the requested TA can be provided. CDDs also discuss with MCD what priority should be assigned.

- MCD's engagement with CD work in Saudi Arabia has been broad based but has been especially close for the MFPU project. An MCD team member joined one of the early missions for this project and MCD has played an important role in designing the project, setting objectives, and assessing achievements. In the statistical area, on occasion STA TA missions have overlapped with Article IV missions, further enhancing integration. In addition, MCD has requested STA to look into specific data issues to enhance surveillance.

- IMF staff noted that the authorities' willingness to pay for certain CD projects has not played a significant role in the prioritization and allocation of CD, but that it has contributed to confirming that CD is demand driven and well-aligned with the country's own agenda. Consistent with the Fund's charging policy, the approach has been to obtain Saudi funding for large and costly multiyear projects such as the establishment of the MFPU, with smaller scale and less costly projects being funded by the IMF. In addition, the Saudi authorities expressed a willingness to finance selected smaller projects with a narrow focus that they viewed to be urgent (see paragraph 4 for the list of CD projects financed by the Saudi authorities). IMF staff noted that asking the Saudi authorities to pay for CD related to surveillance recommendations puts the mission chief in an awkward position because of the perception of a conflict of interest, and that this problem is avoided when the authorities unilaterally volunteer to pay for CD. In addition, the experience has been that when the Saudi authorities finance a CD project, it can lead to additional demands including seeking faster turnarounds, putting additional pressure on CDDs.

- Saudi Arabia's Executive Director (ED) has played a major role in facilitating the dialogue between IMF staff and the authorities on the CD strategy and setting priorities. This dialogue has also been aided by a former Saudi ED who is now an advisor to the Governor of the Saudi Central Bank and by a former Alternate ED who is now a Deputy Minister of Finance. In addition, a former IMF staff member from Saudi Arabia returned to Riyadh in 2015 to help set up the MFPU, and his knowledge of the IMF's CD operations was a significant asset. These relationships have helped ensure that the CD strategy and priorities are agreed with the country authorities and are backed by strong ownership.

- Some IMF interlocutors noted that on occasion, the authorities make a general request—for example, the desire to establish a regulatory structure for Islamic finance—without a self-assessment of specific needs. The task of MCD and the CDDs is then to identify specific needs and define the scope of potential TA. Again, the Saudi ED has been instrumental in assisting the dialogue between all parties to better define the request for TA.

9. Both Saudi officials and IMF staff agreed that the IMF's CD strategy for Saudi Arabia is well defined and that the priorities are driven by country demand and integrated with surveillance policy advice. They also noted that RBM systems and results-based monitoring and evaluation have not played a significant role in the process of prioritization and allocation of CD. In interviews IMF staff noted, however, that Saudi Arabia's policy process is at times insufficiently systematic and that the authorities often come to the IMF with unanticipated "urgent" requests at the last minute, which can make it difficult to plan.

10. Saudi officials noted that although the approach to prioritization and allocation of CD is satisfactory, it is not optimal. They said that they are often surprised that Saudi Arabia is not given higher priority in allocation decisions and believe that they do not have an adequate picture of the IMF's own priorities and available resources even when the country is willing to pay for CD. This results in unanticipated "no" answers from the IMF to some Saudi TA requests, delays in getting a "yes" responses for other requests, or even no response either way because of bureaucratic delays on the IMF side. A better approach in their view would be to hold periodic seminars, perhaps in the context of Article IV missions, involving the Saudi authorities, the MCD country team, and TA coordinators from CDDs. With adequate preparation, these seminars would provide the opportunity for the IMF to: (i) commit to TA it can provide and specify a time frame for the TA; (ii) indicate that the IMF does not have the resources for the requested TA but it could be provided if the Saudi authorities pay for the TA; and (iii) if the TA request is not within the IMF's remit to make suggestions on other possible providers based on the IMF's network of experts.

Delivery

11. TA projects often start with a formal diagnostic assessment or at least a detailed discussion with the authorities and the country team about specific needs. Once the scope of a project is decided, CDDs decide the appropriate mode of delivery. MCD may be consulted (including in the context of approving terms of reference), but its role in decisions about the mode of delivery is limited. The typical mode of delivery in Saudi Arabia has been missions with a combination of HQ staff and external STXs. Multiple missions have been needed for most projects (for example, establishing the MFPU, VAT implementation, financial supervision and

regulation, and strengthening macroeconomic and financial statistics). These were handled flexibly in terms of staffing (for example, missions with only HQ staff, missions with HQ staff and STX, or STX only missions) depending on circumstances and the issues to be addressed. This approach helped address emerging issues more efficiently. For example, in the six months prior to the January 1, 2018 launch of the VAT, a small FAD HQ tax administration team with one or two STXs visited Riyadh three times to evaluate the work being done by the private project management consultants, and to provide an independent readiness evaluation, identify critical risks, and recommend mitigation actions.

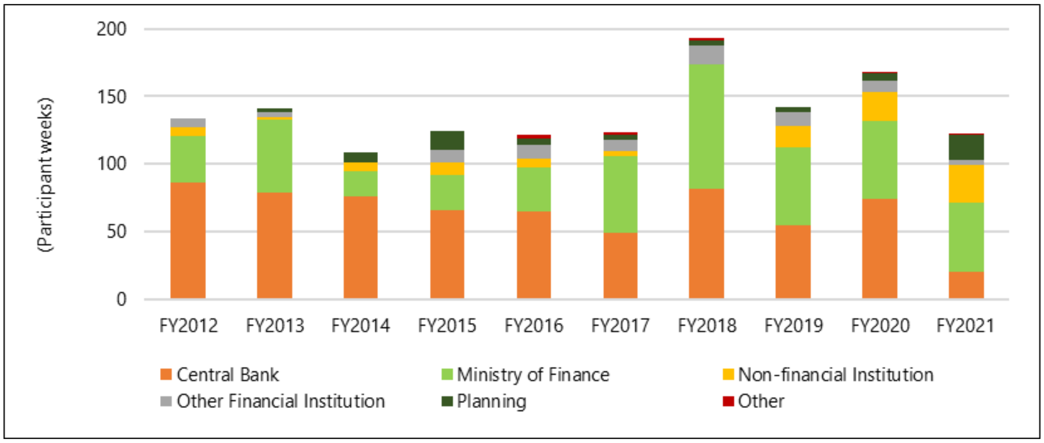
12. Saudi Arabia is not covered by an RTAC and hence the RTACs have not played a role in CD delivery. Neither the Saudi authorities nor IMF staff considered the absence of an RTAC to be a concern. IMF interlocutors noted that if one had been in place, it might have helped build relationships by providing continuity of interaction, but that it is unlikely that it would have resulted in more, better, or different CD in the case of Saudi Arabia.

13. To support the MFPU project, an FAD LTX, paid for by the Saudi authorities, is resident in Riyadh (see Annex I). The LTX is a native Arabic speaker, a crucial requirement for the position. FAD backstops the LTX, and the relationship is close with weekly meetings on project implementation. These weekly meetings assess what has been done and what needs to be done and also provide an opportunity to discuss issues of substance and coordinate the work of the LTX with planned STX visits, making it a positive experience for FAD. The authorities also expressed strong appreciation for the work of the LTX and said that his continuous on-the-ground presence over the last four years has been instrumental in the success of the project, including building local skills through on-the-job training. They view the LTX as "one of us," noting that he understands the culture and challenges and provides candid opinions. This positive experience, however, has not been replicated for other projects. Finding suitable experts that speak Arabic has been a significant constraint. In one case, the authorities requested a resident expert for six months and the IMF provided the authorities with names of potential experts. But none were found to be suitable and the authorities hired a private consultant instead. In another case, IMF staff noted that the CDD turned down a request for an LTX because of general concerns about the autonomy of a Saudi-financed expert.

14. Several projects have merged TA and training. For example, staff of the MFPU have received training on developing a medium-term fiscal and expenditure framework, budget monitoring, and fiscal risk analysis. The training was sequenced because Saudi officials first needed to be trained on the underlying concepts and analytical tools. TA provided by STA has included the training of statistical officers in Riyadh on methodology and compilation, and these officials then train statistical officers in other cities. Saudi officials have also made extensive use of the training provided by the MECEF, which is based in Kuwait City and funded by the Government of Kuwait. The MECEF covers Arab League countries and facilitates peer learning in the region. The courses are conducted in Arabic and in English, with interpretation into Arabic, making them accessible to more participants. MECEF officials report that those Saudi officials

that attend MECEF courses are well selected and eager to learn. Notably, an increasing proportion of Saudi officials that attend are women and their performance in the courses has been at the top of the scale. Figure 6 shows participant weeks by agency for classroom training.

Figure 6. Saudi Arabia—IMF Training by Recipient Agency, FY2012–2021



Sources: IMF, PATS data; IEO staff calculations.

15. The delivery of CD slowed in 2020 for a combination of reasons including: (i) several projects had been completed or had matured to a less intensive phase, while new projects (for example, sovereign asset and liability management) were at a more nascent stage; (ii) the authorities were busy with the G20 Presidency; and (iii) the pandemic led to travel restrictions. Engagement with the authorities continued through video calls and email exchanges to address technical questions. The monitoring of ongoing projects (for example, SDDS compliance, work of the MFPU, financial supervision and regulation) continued as part of standard monitoring work performed from HQ. Both Saudi and IMF staff interlocutors noted that remote engagement lacks personal touch thus hindering effective delivery of CD.

16. Saudi officials value the TA they receive from the IMF, which they view to be of high quality and generally well-tailored to Saudi Arabia's circumstances. Their chief reservation was that the timing of delivery can often be slow because of administrative delays in the IMF. In addition, they view the process of requesting an LTX to be tedious and bureaucratic and said that it is often faster and cheaper to hire a private consulting firm. Saudi representatives made the following additional points:

- Sustained engagement that allows for frequent visits by STX or HQ staff is their preferred modality because it enables follow up to help with implementation and provides opportunities for hands on training. They also emphasized the importance of TA teams being knowledgeable about the region, having the skills to build a trusting relationship, and continuity in their assignment to a project. In this connection, they noted that the choice of STX at times seems to be driven more by "being somebody's friend" rather than credentials and knowledge of the region.

- Central bank officials highlighted that the IMF's ability to bring in STX from other central banks is particularly appreciated because much can be learned from their experience.

- Saudi representatives observed that it is important to establish work plans to phase TA to ensure that recommendations are implemented in Phase 1 before moving to Phase 2. For example, well defined sequencing, based on a constructive dialogue between Saudi officials and TA providers, has been essential for the multi-year MFPU project.

- Officials said that Article IV consultation discussions and interim staff visits provide an important opportunity to follow up on TA recommendations and implementation, a point that was strongly echoed by IMF staff.

- The authorities appreciate the skill-building training they receive both as a part of TA projects and classroom instruction. They observed, however, that the training component of CD could be improved. First, to reduce lags between TA and associated training they suggested that TA reports could better specify the training needs with a concrete timetable and plan for its provision. And second, although they value the knowledge transfer by participating in MECEF courses, they would also like to receive customized training in Riyadh on topics of interest as they arise.

Partnerships, Coordination, and Dissemination

17. Saudi Arabia is unique among IMF CD recipients because of the extensive use of private consulting firms to assist with a variety of projects. For example, *Vision 2030* was produced with the assistance of two consulting firms. The authorities recognize the credibility and expertise of the IMF and put a high value on IMF TA. They noted that if a TA topic arises out of Article IV consultation discussions, then the IMF is given priority in the provision of the TA. Even on such topics, however, the authorities prefer to engage private advisory firms to assist with the practical details of setting up the support systems needed for smooth implementation, especially when timetables are tight. This requires the IMF to work together with external consultants. Three examples are worth highlighting:

- First, the authorities set an ambitious timetable to introduce the VAT and hired a private firm to manage the project and develop the VAT infrastructure and systems. The IMF's TA focused on policy and tax administration design, identifying critical risks, and recommending mitigating actions. An additional task of the IMF's VAT TA was to provide an independent evaluation of the work being done by the large team of private consultants.

- Second, when the MFPU sought a specific type of macro model and wanted it to be up and running in two or three months, the preference was to use a commercial firm instead of the IMF. This private firm also provided two full time staff (and additional short-term staff as needed) to support the MFPU's use of the model and in areas such as risk management and fiscal rules. Saudi officials pointed out that private firms are nimbler in their response to urgent requests for assistance.

- Third, IMF TA to establish the National Debt Management Center and develop a public debt management framework provided general advice and guidance on good debt management. The authorities supplemented this TA with private consultants to help assess market conditions and issue debt.

In all these cases, interlocutors agreed that the collaboration between the IMF and the private consultants was good and did not give rise to problems as the division of labor was clear. Significant differences of view did not arise and there was reasonable sharing of information between parties within the constraints of associated non-disclosure agreements. The authorities also noted that they appreciated the IMF team's views on the advice provided by private firms.

18. The World Bank's Technical Cooperation Program has provided policy advice, CD, and implementation support to development efforts in Saudi Arabia since 1975. The program is on a reimbursable basis under the Bank's Reimbursable Advisory Services. Areas of ongoing World Bank advisory and CD work include PFM; business climate and foreign direct investment; small and medium enterprise strategy; urban development; poverty and social protection; employment policy and unemployment assistance; the education system; health sector efficiency; energy efficiency; electricity sector legislation and policies; the national ports strategy; water resources; and the national transport strategy. Two examples regarding Fund-Bank relations on Saudi Arabia are worth highlighting:

- There is little overlap with IMF work in most of the areas of World Bank involvement, but in interviews IMF staff noted that the World Bank has sometimes tried to encroach on areas that have traditionally been in the IMF's purview, especially on fiscal issues. This encroachment has generally been sorted out cooperatively; for example, the World Bank takes the lead on public expenditure matters, while the IMF takes the lead on fiscal transparency.

- The MFPU uses multiple economic models for different analytical purposes, including the IMF's Financial Programming and Policy (FPP) model and the Saudi Macroeconomic Structural Model (SAUMOD), derived from the macro model that World Bank staff use in most of the Bank's member countries. The World Bank has provided training on the use of SAUMOD and also on the use of a new computable general equilibrium model used by the MFPU. There has been good communication between IMF and the World Bank team supporting SAUMOD.

19. The Saudi authorities view TA as confidential advice and hence do not consent to the publication of TA reports. They also noted that TA engagements have many phases and that it is not appropriate to publish reports at each phase, especially as reports are not always drafted with constructive messaging. Instead, they suggested that it would be more appropriate to

publish an assessment at the end of a TA engagement to summarize the main principles and recommendations of the TA together with what has been achieved. In addition, the publication of IMF manuals on key issues would help expand the base of knowledge.

Effectiveness and Impact

20. Saudi officials admitted that the traction of TA they received before 2015 was weak, as was the implementation of surveillance advice. They emphasized that this was not the fault of the IMF or because of concerns about the quality of the advice. They pointed to a distinct transformation in Saudi Arabia starting in 2015, with a greater readiness to change the way of doing things and the political will to push an ambitious reform program. Saudi officials said that IMF surveillance recommendations backed by TA has been highly influential, resulting in a strong implementation record. On the IMF staff side, the 2019 Article IV consultation staff report[5] concluded that: "The authorities are making good progress in implementing their reform agenda. Non-oil growth has picked up, female labor force participation and employment have increased over the past two years, the successful introduction of the value-added tax has underpinned an increase in non-oil fiscal revenues, energy price reforms have helped reduce per capita consumption of gasoline and electricity, and fiscal transparency has increased" (paragraph 45). In a similar vein, the 2021 Article IV staff report[6] noted that the reforms over the last five years have played a key role in helping the economy manage the COVID-19 shock. In sum, the CD provided by the IMF to help implement the authorities' reform priorities, underpinned by strong Saudi ownership of the reforms, has played an important role in delivering these achievements.

21. IMF CD has had its greatest impact on fiscal matters, which is also the area that absorbs most of the CD resources for Saudi Arabia. The strong traction has resulted in the introduction of a VAT, strengthened capacity to undertake fiscal policy analysis with the establishment of the MFPU, and a better and more transparent fiscal framework. Implementation of TA recommendations to strengthen bank regulations and prudential norms is ongoing and it is too early to determine its impact in terms of reducing financial vulnerability. Saudi Arabia also eventually subscribed to SDDS before their G20 Presidency in 2020, but the process could have moved faster. More generally, on the statistical front traction has been mixed in areas such as Foreign Direct Investment (FDI) statistics. Liquidity management and forecasting is another area where traction has been limited. TA on a sovereign asset and liability management framework is still at its early stages and it is too early to assess its effectiveness. These examples of varied impact and the factors that contributed to the outcomes are discussed in greater detail below.

22. The CD provided to introduce a VAT was a notable success. The IMF had provided TA on options for indirect taxation in 2006 but the project languished. A decade later, the authorities put VAT adoption high on their policy agenda and requested TA from the IMF. An FAD TA

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[5] IMF (2019b).

[6] IMF (2021b).

mission in the first half of 2016 provided advice on policy design for the VAT and excises. A separate mission from LEG provided advice on the VAT law. The area department team also played a major role in the discussions about policy design. Following the work on tax policy issues, the focus switched to tax administration and a TA mission in the second half of 2016 advised on a workplan leading up to the introduction of the VAT, covering issues such as taxpayer registration and preparing businesses to comply with the tax. Subsequently, three short and focused TA missions took place in the second half of 2017 to assess the work of the private project management consultants and to provide an independent evaluation of readiness to introduce the tax by identifying critical risks and recommending mitigating actions. The VAT was launched on January 1, 2018, and a post-implementation review by FAD in November 2018 concluded that implementation was successful but there was scope to improve on-time filing and payment for large taxpayers and to increase the use of risk management to support activities that promote better compliance. The 2019 Article IV staff report[7] (paragraph 20) observed that VAT revenue collections had exceeded expectations, meeting the objective of raising non-oil revenue. A confluence of factors contributed to the successful introduction of the VAT in a short period of time:

- The authorities wanted to adopt a VAT to reduce reliance on oil revenue and were fully committed at both the political and technical level. They set an ambitious timetable for introduction, which helped focus efforts. After an initial slow start in 2016, the authorities revamped their team and put a dynamic and knowledgeable senior Saudi official in charge of the project, which provided fresh impetus.

- On the policy front, the authorities agreed to adopt a single VAT rate with limited exemptions. The adoption of a broad VAT tax base was facilitated by analysis by FAD and MCD staff. This simplified administration and helped speed up implementation.

- IMF TA was well targeted, providing guidance where the IMF has expertise (for example tax policy design, tax administration approaches to encourage compliance, and advice on organizational and staffing plans to ensure smooth administration). The IMF team also advised on the essential tasks for the private consultants. Follow-up was frequent in the run-up to implementation.

- The private consultant firm hired by the authorities played an important role in managing the project and setting up the needed infrastructure. At the peak, the firm had a team of about 60 people on the ground, setting apart this project from the IMF's experience in other countries.

- The personality and experience of those providing TA matters. In interviews, Saudi officials said that FAD staff and the STX they hired were excellent, and their experience,

[7] IMF (2019b).

background, and personal touch gave them credibility. The same sentiment applied to the MCD team handling the policy design discussions. They noted that the IMF team worked collaboratively with the external consultants. The authorities also praised the IMF for its swift response in providing the needed TA for the project, noting that this has not always been the case.

23. Establishing the MFPU and improving fiscal reporting was another area of success. Prior to 2016, Saudi Arabia did not have a macro-fiscal framework or the institutional structure and capacity to do fiscal analysis and forecasting. The goal to bring the fiscal accounts back to balance in the medium term after the oil price shock led to the request for CD to address this shortcoming. The request was linked to surveillance advice and MCD staff's recommendation to establish a macro-fiscal unit. Substantial CD provided by FAD over 2016 to 2020, financed by the Saudi authorities, focused on establishing the MFPU from scratch to provide input into the budget process, improve fiscal reporting, and strengthen the identification and management of fiscal risks. Providing hands-on training to MFPU staff, including on modeling techniques to enhance the delivery of the unit's output, was a central part of this project. An LTX was installed in early 2017 to support the unit and several missions were mounted with varying combinations of HQ and STX staff. The authorities broadly adhered to the work program that was set at the start of the project and modified as needed over time based on progress. Each mission assessed the tasks achieved and laid out tasks and milestones for the coming period. The engagement, which is continuing, has produced tangible results and outcomes.

- The MFPU staff can produce medium-term macroeconomic and fiscal forecasts; run scenarios to evaluate the impact of different polices; interact with various stakeholders and make presentations; and produce fiscal reports and analytical papers, some of which are published. About 30 professional staff were assigned to the unit in 2020, up from just five in 2016 when the MFPU was established. Training has improved their technical skills, including in the use of the unit's models. Staff turnover, however, is a concern.

- The elevation off the MFPU into a "deputyship" that reports to the deputy minister of finance is additional evidence of the impact of this work. The results of this project also feed into MCD's surveillance work on the country. Furthermore, the *International Budget Partnership* survey[8] on budget transparency practices has improved the rating for Saudi Arabia from rock bottom (a score of 1) in 2017 to a score of 18 in 2019. This is still a low score, but it signifies progress. New budget documents have now been introduced for publication, increasing transparency.

- The factors that contributed to the success of the project are similar to those outlined above for VAT implementation. There was strong interest in the output of the unit from Saudi Arabia's top leadership, which increased the incentive to implement TA advice and

[8] IBP (2019).

absorb the training received. In addition, MCD worked closely with FAD on the project. As noted in paragraph 11, the authorities view the LTX as "one of us," and his understanding of the culture and specific challenges Saudi Arabia faces have been an asset. The authorities also noted that the manager of the unit has good access to FAD staff allowing quick follow up of issues. Finally, the authorities said that in the future they would be in a good position to advise other Gulf Cooperation Council (GCC) countries on establishing a similar unit.

24. TA by MCM on strengthening bank regulation and prudential norms has been modest compared to other IMF CD engagements in Saudi Arabia. Following the 2011 FSAP, the authorities took steps to align Saudi Arabia with the global regulatory reform agenda and made several improvements. These included the implementation of Basel III in 2013 and steps to enhance Saudi Central Bank (SCB) risk-based supervision. Although there was no IMF TA on these matters, MCM and LEG were often asked to comment on policies and plans before implementation. MCM did, however, provide TA in 2015 on strengthening the stress testing framework. The 2017 FSAP led to further MCM TA to address weaknesses in the areas of problem assets, provisions, and reserves.[9] It may be too early to assess the impact of this TA in terms of reducing financial vulnerability because some of the enhancements are ongoing. In addition, the COVID-19 shock led to a loan deferral program and looser application of provisioning rules that will likely have masked some financial vulnerabilities. SCB officials were generally positive about the quality of this TA but noted that recommendations are sometimes too "high level" with insufficient focus on nitty-gritty implementation issues.

25. The authorities engaged in protracted efforts over the last decade to prepare for SDDS subscription, but with weak resolve. An STA mission in 2013 assessed gaps in data dissemination practices relative to SDDS requirements and developed a plan for the authorities to subscribe by 2015. But little progress was made. Subsequently, at the 2016 Annual Meetings, the authorities reiterated their intention to subscribe to SDDS because greater data transparency was part of the *Vision 2030* reform and modernization agenda. Saudi Arabia was the only G20 country that had not subscribed to SDDS at the time the new request for TA was made. The effort to subscribe to SDDS coincided with steps to advance implementation of the G20 Data Gaps Initiative. The CD strategy to enable subscription was crafted in consultation with MCD. Work concentrated on compiling general government and external sector data (especially the reserve template), where the gaps vis-à-vis SDDS requirements were most pronounced. TA missions and follow up work accelerated in 2017–2019. Saudi Arabia subscribed to SDDS in September 2019, three years after the start of the stepped-up effort in 2016. Although SDDS adoption took place just before Saudi Arabia's G20 presidency in 2020, the pace could have been faster with better adherence to workplans outlined by TA missions.

[9] More recently, MCM has also provided TA on financial regulation related to Islamic banking activities, consistent with the authorities' goal to enhance oversight of this sector by 2023 as planned in *Vision 2030*.

26. Traction of CD provided to strengthen liquidity management has not been as strong as hoped. The 2016 Article IV consultation report[10] recommended that the central bank should move away from non-competitive ways of allocating liquidity, especially as the fall in oil prices was leading to a squeeze in liquidity, and instead to establish a liquidity management and forecasting framework to guide money market operations. This recommendation was echoed by the 2017 FSAP,[11] leading to TA by MCM to develop such a framework. As a result of this TA a liquidity forecasting model was developed and with the intention of presenting the results to the central bank's monetary policy committee and adding the forecast to the regular monetary policy update. However, IMF staff noted that the authorities have not been transparent about the output of the model and it is not clear if the framework is working adequately. Staff also noted that the authorities' reluctance to share detailed high-frequency transactional data affected TA in this area (only monthly data was provided to the TA team) and that their ownership of this project has been limited.

27. CD provided to improve FDI statistics is another area where traction has been partial. The unreliability of Saudi FDI data led to TA from STA in 2018 and 2019 to address deficiencies. The 2018 mission focused on a framework to collect FDI data, including inter-agency collaboration, establishing a unit dedicated to the task of collecting FDI data, and conducting a foreign investment survey. Implementation of the 2018 TA recommendations was mixed, and the results of the survey were not shared with the 2019 mission, which focused on improving the coverage, quality, and timeliness of FDI data. An additional objective of the 2019 TA mission was to facilitate the resumption of reporting to the IMF's Coordinated Direct Investment Survey (CDIS).[12] Subsequent to the mission, however, SCB informed STA that CDIS data would not be submitted to STA for the next release of the data. Saudi Arabia is the only G20 country that does not participate in CDIS, which is part of the G20 Data Gaps Initiative. As in the case of TA on liquidity management, the authorities' reluctance to share detailed data with the mission team affected the delivery of TA. Overall, the implementation of TA advice in this area has fallen short of expectations.

28. As noted in paragraph 9, RBM systems have not played much of a role in the prioritization and allocation process. None of the 9 CD projects in the RBM system had rated objectives, though some outcome and milestone ratings are available (Figure A1; Annex I). Discussion of these ratings with the authorities appears to have been limited.[13]

[10] IMF (2016b).

[11] IMF (2017b).

[12] The CDIS is a worldwide statistical data collection effort led by STA and designed to improve the availability and quality of data on FDI, both overall and by immediate counterpart economy.

[13] Outcome ratings are based on progress made toward targets or achievement of milestones, and milestone ratings are based on the project manager's observations about progress toward achievement of the milestone.

III. Overall Assessment

29. New leadership in 2015 and the collapse in oil prices led to a fundamental policy shift in Saudi Arabia. Plans for an ambitious transformation of the country were set out in *Vision 2030*. On the economic front, the authorities' agenda aligned well with previous IMF surveillance advice, especially to strengthen policy frameworks, reduce reliance on oil by diversifying the economy, and increase employment. The fresh commitment to reform increased the authorities' interest in TA from the IMF, creating a conducive environment for CD activity starting in 2015–2016. Prior to that, the IMF's CD engagement in Saudi Arabia was small and IMF advice had little traction for both Article IV consultations and technical assistance.

Relevance

30. The IMF's CD engagement with Saudi Arabia since 2015 has been relevant to the goals set by the Saudi authorities and consistent with implementing policy advice provided in Article IV consultations and the FSAP. As a high-income country, Saudi Arabia finances a sizable portion of the CD it receives, which has contributed to confirming that CD is demand driven and well-aligned with the country's own agenda. In addition, the process of considering IMF surveillance advice, and then determining where the IMF could provide TA that matched the authorities' interests and priorities, has ensured that CD projects are relevant to the conditions and needs of the country. In doing so, the IMF has focused on areas where it has expertise and Saudi requests that are not in the IMF's remit have not been accommodated. Thus, CD has been geared to strengthening the fiscal framework to help the authorities implement needed fiscal adjustment; improving financial sector oversight and strengthening the central bank's operational framework to address vulnerabilities identified in the FSAP; and addressing data gaps and getting the authorities to the finish line for SDDS adoption. Area department staff have taken the lead in integrating CD with surveillance, helping to enhance relevance. In addition, the Saudi Executive Director, Alternate Executive Director, and their staff have played a major role to facilitate the dialogue between IMF staff and the authorities on the CD strategy and set priorities.

Coherence

31. Ownership and commitment by the Saudi authorities has been facilitated by a well-defined CD strategy with priorities driven by country demand. This has also increased the traction of IMF surveillance advice in recent years. The coherence of the IMF's CD activity in Saudi Arabia has also been supported by flexible modes of delivery with sustained engagement; merging TA and training; and working productively with private consulting firms and the World Bank, which are also active in the country. In particular:

- The planning and implementation of CD projects—starting with diagnostic assessments and discussions involving the authorities, the relevant CDD, and the MCD team to define the scope of the project—has contributed to ownership. Sustained engagement with multiple missions by HQ staff or STX, coupled with remote support to Saudi counterparts between missions, has enabled follow up and enhanced the ability to address emerging issues and tailor advice to the country's circumstances and project developments. The authorities praised the Saudi-financed LTX for the MFPU project, noting that his continuous presence over several years has been instrumental for success, but were disappointed that this model has not been replicated for other projects despite the willingness to pay related costs.

- To engage productively with the authorities, it has also been important for TA teams to be knowledgeable about the region and its culture, have the skills to build trusting relationships, and remain on a project for much of its duration. The authorities noted that most IMF TA providers have met these criteria and that they have benefitted from several first-rate counterparts. But they also said that some have lacked the necessary relationship-building skills or did not have sufficient knowledge about the region.

- Training has been an important component of several TA projects. The LTX for the MFPU provides on-the-job training to staff of the unit, which has been supplemented by the training they receive from STX and HQ staff. In addition, TA provided by STA has included the training of statistical officers in Riyadh, and these officials have then trained statistical officers in other cities. Saudi officials have also made extensive use of the training provided by the MECEF in Kuwait, which facilitates peer learning in the region. In the interviews, Saudi officials expressed a preference for customized training in Riyadh on topics of interest as they arise. They also suggested that TA reports could be more specific about training needs and provide a concrete timetable for its provision, steps that would reduce the lags between TA and the associated training.

- Saudi Arabia extensive use of private consulting firms to assist with a variety of projects makes it unique among IMF CD recipients. In addition, Saudi Arabia receives substantial TA from the World Bank on a reimbursable basis. In both cases, collaboration between the IMF and these partners has been good and has not given rise to problems. There has been little overlap in tasks, the division of labor has been clear, and the sharing of information has been reasonable. The authorities also appreciate the IMF team's views on the advice provided by private firms.

Effectiveness, Impact, and Sustainability

32. The authorities' strong ownership as reflected in readiness to change the way of doing things and the political will to push an ambitious reform agenda has enhanced the effectiveness and impact of IMF CD. The largest positive impact has been on fiscal matters, the area that absorbs the bulk of CD resources. The smooth and quick introduction of the VAT was a landmark achievement and has underpinned an increase in non-oil fiscal revenue. In addition, as the first country in the GCC to implement a VAT, Saudi Arabia paved the way for other GCC countries to follow suit. The CD provided to establish the MFPU and improve the fiscal framework, paid for by the Saudi authorities, has also produced tangible results and outcomes. These include

strengthened capacity and technical skills to undertake fiscal policy analysis, and the introduction of new and more transparent published budget documents. These achievements on the fiscal front will yield sustained benefits that can be expected to grow over time as practices become more entrenched. IMF CD has been less intensive in other areas. TA for SDDS adoption has a binary outcome—either the country meets and adopts the standards, or it does not. Saudi Arabia subscribed to SDDS in September 2019, in line with its objective to do this before taking over the G20 Presidency in 2020. In the financial area, the implementation of TA recommendations to strengthen bank regulations and prudential norms is ongoing and it is too early to determine its impact on reducing financial vulnerability. Two areas where traction has been weaker are noteworthy. First, implementation of the recommended framework for liquidity management and forecasting is a work in progress and it remains unclear if it is operating as envisaged. And second, the TA on improving FDI data has not yet resulted in reporting to the IMF's Coordinated Direct Investment Survey as had been expected. Saudi Arabia is the only G20 country that does not participate in CDIS, which is part of the G20 Data Gaps Initiative. For both liquidity management and FDI statistics, the authorities' hesitancy to share detailed data with mission teams has affected the delivery of TA.

Lessons

33. CD interventions are more successful when the authorities have strong interest and ownership, and TA is anchored in a clear objective and aligned with domestic priorities. For example, there was full commitment at both the political and technical level to introduce a VAT. And similarly, the elevation of the status of the MFPU to put it under the charge of a Deputy Minister of Finance signalled the authorities' seriousness and ensured that the project got the attention it needed. The authorities' goal to adopt SDDS before Saudi Arabia's G20 Presidency also made a difference compared to earlier efforts that faltered. By contrast, the authorities were less invested in the TA for liquidity management and FDI statistics as these areas were not a high domestic priority. The success of TA also depends on the authorities' willingness to share detailed data.

34. Proactive coordination between the MCD country team, CDDs, and the Office of the Executive Director has been crucial to align CD with surveillance and with the goals of the authorities in Riyadh.

35. Successful interventions have deployed a range of delivery modalities— HQ missions, STX missions, and a resident LTX. This makes it possible to support counterparts between formal missions and have a sustained impact. For example, the work on the MFPU has been ongoing and continuous over four years.

36. Continuous engagement along the lines of the MFPU project can make a large difference, but it can also be expensive. Saudi financing for the project made it possible and made the absence of an RTAC less of a problem. Other CD projects financed by the Saudi authorities were smaller and less costly but helped align country and IMF priorities. The self-

financing CD model, however, also raises concerns. For example, seeking Saudi financing to pay for CD related to surveillance advice puts IMF staff in an awkward position because of the perception of a conflict of interest. In addition, there are general concerns about who would control experts that are hired and backstopped by the IMF but financed by the Saudi authorities.

37. Saudi culture has further to go to increase transparency and openness. This can create obstacles, including the reluctance to share detailed data needed for CD projects. Therefore, the need to invest to build trusting relationships with counterparts and to have the skills to do so is greater than usual. Credibility and credentials of the people providing TA are essential but not sufficient. Knowledge of the region, its culture, its protocols, and the ways of doing business, together with the ability to improvise, adapt, and quietly persuade, are also critical to help build trust and confidence. For the most part, TA teams and experts have been of high quality and have had these skills. But there have also been instances where providers have had the technical abilities but not the complementary skills to build trusting relationships.

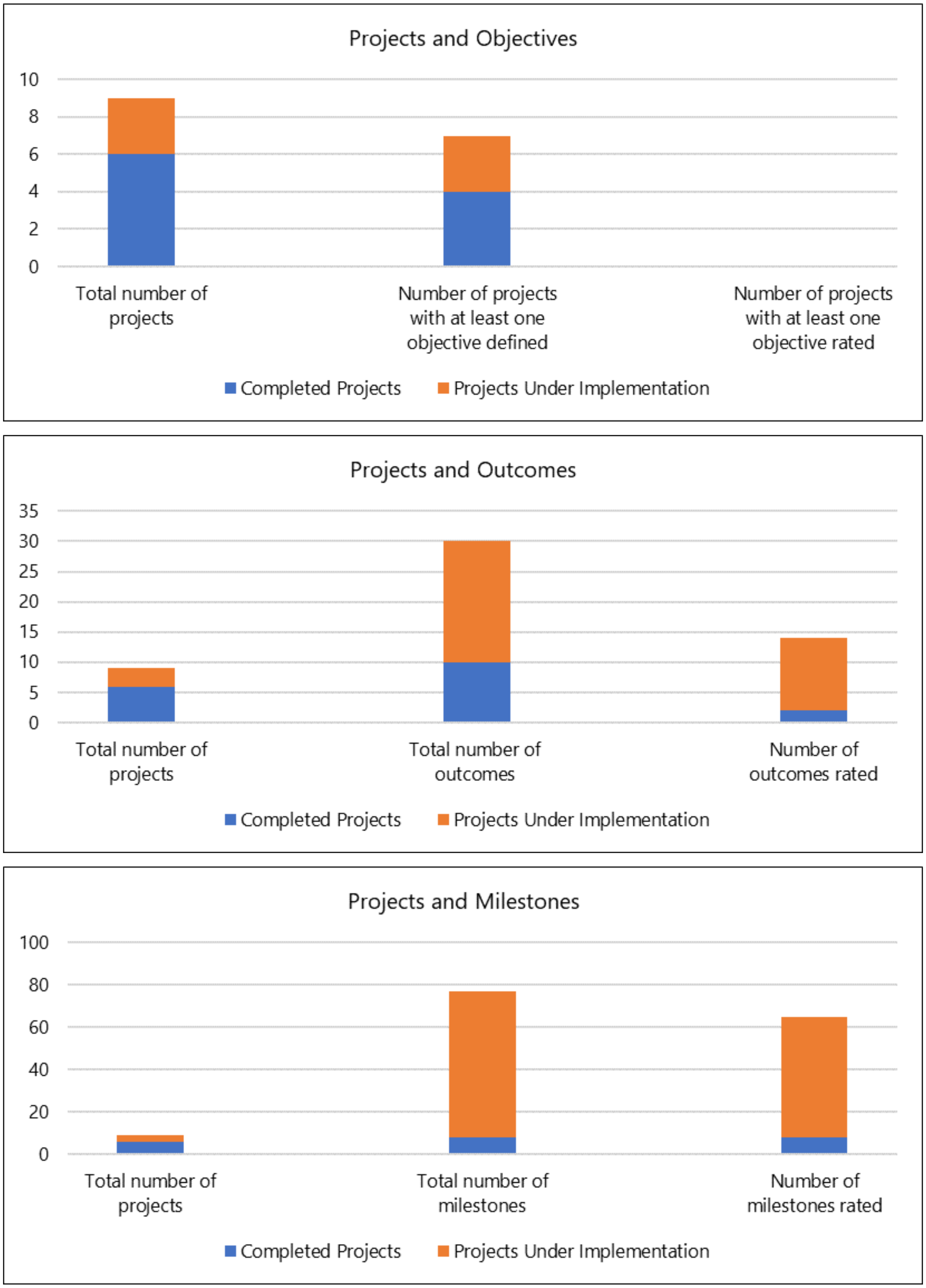
38. In the interviews, Saudi officials drew the same lessons as noted above. Two additional lessons that they drew from their experience are salient.

- First, although they view the overall quality of CD provided by the IMF to be high, they noted that some TA reports would be more useful if they had specific advice to help with implementation. Instead, some reports have been too generic and too high level. They noted that this problem often arises because insufficient attention has been paid to understand the situation on the ground and poor customization of advice to the authorities’ objectives and needs.

- Second, to improve the prioritization and allocation process and the speed of the IMF’s response to requests for CD, the authorities suggested holding periodic seminars, perhaps in the context of Article IV missions, involving the Saudi authorities, the MCD country team, and TA coordinators from CDDs to discuss short-term and medium-term CD needs and financing implications. The results of these discussions would reduce uncertainty about the CD that the IMF can or cannot provide for Saudi Arabia.

ANNEX I. CD ACTIVITIES FOR SAUDI ARABIA

Figure AI.1. Saudi Arabia—Results Based Management Data on Projects, Objectives, Outcomes, and Milestones



Sources: IMF, RBM data; IEO staff calculations.

Table AI.1. Saudi Arabia—Number of Missions, 2012–2020

Year	FAD	ICD	LEG	MCM	RES	STA	Others	Total
2012	0	0	0	0	0	1	0	1
2013	1	0	0	0	0	2	0	3
2014	1	0	0	0	0	0	0	1
2015	0	0	0	3	0	1	0	4
2016	3	0	2	2	0	1	0	8
2017	9	0	2	2	0	1	0	14
2018	9	0	1	3	0	3	1	17
2019	5	0	1	2	0	2	0	10
2020	2	0	0	2	0	3	0	7
Total	30	0	6	14	0	14	1	65

Sources: IMF, TIMS data; IEO staff calculations.

Table AI.2. Saudi Arabia—Resident Advisors, 2017–2021

Host institution	CDD	CD topic/workstream	Start date	End date
Ministry of Finance	FAD	PFM Resident Advisor	2/18/2017	2/17/2018
Ministry of Finance	FAD	Extension PFM Advisor	2/18/2018	3/19/2018
Ministry of Finance	FAD	Extension of Saudi Arabia Resident PFM Advisor	3/20/2018	2/17/2019
Ministry of Finance	FAD	Extension of Saudi Arabia Resident PFM Advisor	2/18/2019	3/19/2019
Ministry of Finance	FAD	Extension of Saudi Arabia Resident PFM Advisor	3/20/2019	2/17/2020
Ministry of Finance	FAD	Extension of Saudi Arabia Resident PFM Advisor	2/18/2020	3/17/2020
Ministry of Finance	FAD	Extension of Saudi Arabia Resident PFM Advisor	3/18/2020	2/17/2021

Source: IMF, Fiscal Affairs Department.

Table AI.3. Saudi Arabia—List of TA Reports, 2012–2020

						Of which		
	FAD	MCM	STA	LEG	Total	Available within IMF	Available but confidential	Published
2012	0	0	2	0	2	0	0	0
2013	0	0	1	0	1	0	0	0
2014	0	0	0	0	0	0	0	0
2015	0	2	0	0	2	1	1	0
2016	0	1	0	0	1	0	1	0
2017	0	2	1	0	3	3	0	0
2018	0	2	1	0	3	0	1	0
2019	1	1	2	0	4	0	0	0
2020	0	1	1	0	2	1	0	0
Total	1	9	8	0	18	5	3	0

Source: IMF, Institutional Repository.

SOMALIA: BUILDING INSTITUTIONS AND SKILLS AFTER A CIVIL WAR

I. Introduction and Country Overview

1. Somalia is a fragile state. A new Federal Government of Somalia (FGS) was formed in Mogadishu in 2012 after the emergence from a civil war that lasted for a quarter century. The civil war devastated the economy, infrastructure, and public institutions. The loss of human capital was huge. After the formation of the FGS, the Somali authorities, supported by the international community, have strived to build state institutions and maintain economic stability. But social, economic, and political conditions remain difficult. Notably:

- Somalia is one of the poorest countries in the world and poverty is rampant. The population is young and youth unemployment is high, adding to social tension.
- State functions remain limited. International grants and remittances are critical to support even low levels of consumption.
- The central bank does not control monetary policy and the U.S. dollar circulates alongside the Somali shilling because there is little confidence in the local currency. Counterfeit notes and rival producers of local currency further complicate matters.
- Although there has been progress in reconciliation, Somalia remains politically fragmented and work toward stabilizing relations between the FGS and five Federal Member States (FMS) is ongoing. As a result, the FGS is confined to the capital Mogadishu and its surroundings, with limited control outside that sphere.
- The damage from the civil war has been aggravated by extended drought affecting agriculture and livestock, which account for the largest share of GDP.
- The security situation remains brittle, with recurrent terrorist attacks by extremists and fighting among competing clan-based factions.

2. Following the formation of the FGS in 2012, the Somali people agreed to a Provisional Constitution, formed a Parliament, and constituted the Federal Republic of Somalia (FRS), comprising the FGS and FMS. The second FRS elections were held in 2017, with a peaceful transfer of power to a new administration. After protracted negotiations with the FMS, the model for upcoming national and presidential elections was agreed in 2020. But delays in holding these elections added to political uncertainty, affecting the work of international partners assisting Somalia. Parliamentary elections were eventually conducted in April 2022 and presidential elections in May 2022.

3. After a break of almost 25 years, the IMF re-engaged with Somalia in April 2013 when the FGS was recognized as the legitimate government. This paved the way for the IMF to provide policy advice and TA as part of a nation building effort to reconstruct the country's economic institutions and support the authorities in formulating a reform strategy. Policy advice and CD activity remained the only form of engagement for several years because IMF financing was not

possible until Somalia's long-standing arrears to the IMF were cleared. The IMF's engagement with Somalia since 2013 has evolved as follows:

- The engagement in 2013 and 2014 led to an Article IV consultation in 2015,[1] the first since 1989. An IMF Staff-Monitored Program (SMP)[2] was launched in May 2016. Subsequently, three more consecutive SMPs covering the years 2017 to 2019 were agreed and satisfactorily completed by the Somali authorities. IMF CD was a large component of these SMPs.

- The good track record of policy implementation and reform under the four SMPs set the stage for debt relief and clearance of IMF arrears in March 2020. That is, Somalia reached the Decision Point under the Heavily Indebted Poor Countries (HIPC) Initiative .[3]

- The clearance of long-standing arrears upon reaching the HIPC Decision Point gave Somalia access to IMF financial resources and other development finance to support the country's medium-term objectives. A combined three-year arrangement under the IMF's Extended Credit Facility (ECF) and EFF was approved in March 2020. The staff report for the request for these arrangements[4] noted that "Somalia will continue to need extensive capacity development support to meet the program's goals and benchmarks and to reach the HIPC [Completion Point]" (paragraph 38).

- The first review of the ECF was completed in November 2020. Subsequent reviews, however, have been delayed because of the pause in donor disbursements and uncertainty related to delayed elections (see paragraph 2). Program reviews are expected to resume once financing and political assurances are in place after the elections. Meanwhile, regular and constructive dialogue with the authorities has continued.

4. Macroeconomic data is limited in Somalia; the key indicators that are available are shown in Figure 1. Prior to the COVID-19 pandemic, economic growth was relatively stable but too low to reduce widespread poverty. Fiscal discipline has been maintained and inflation has been contained.

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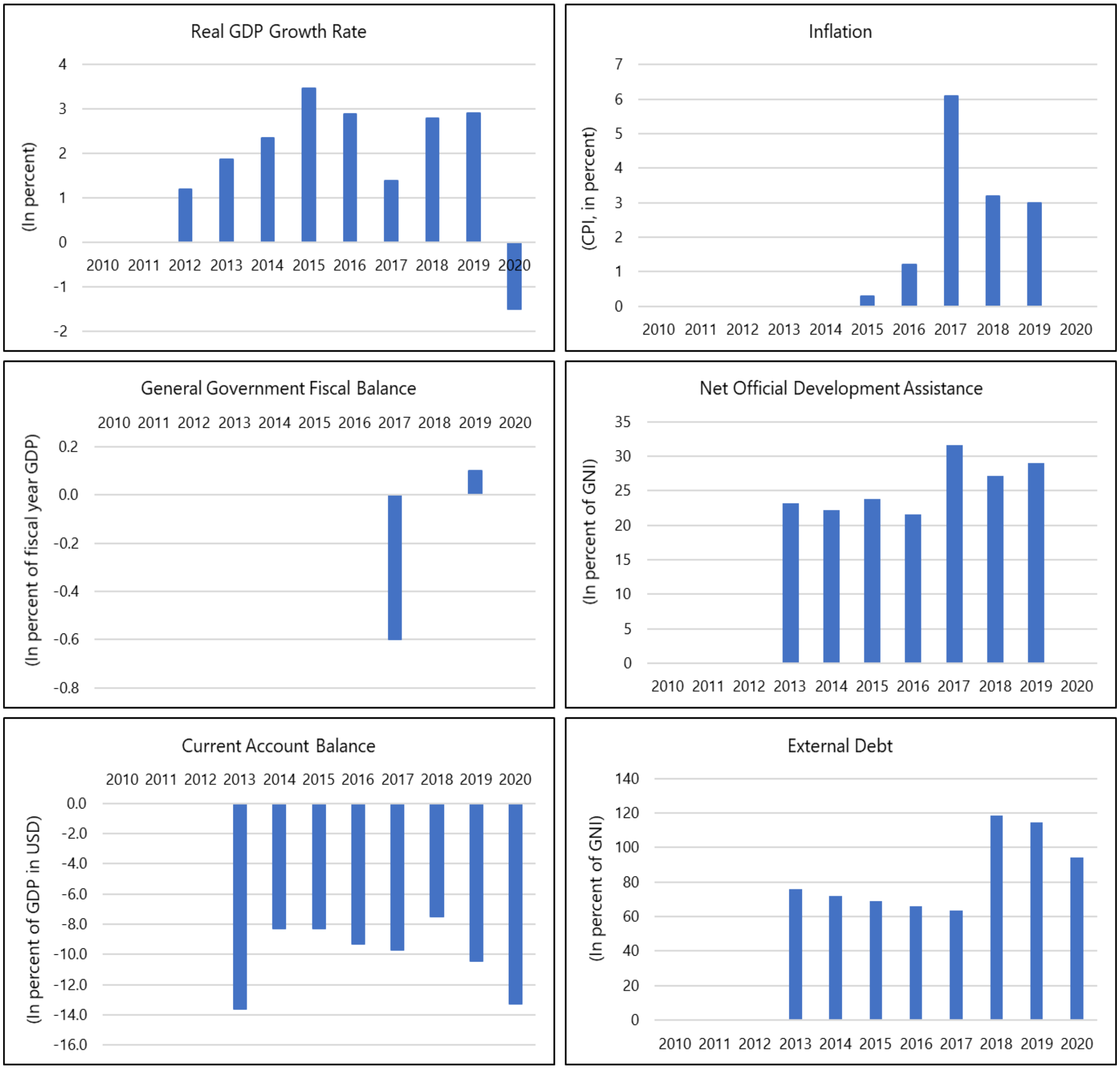
[1] IMF (2015b).

[2] IMF (2016a).

[3] For an explanation of the HIPC process and how it applies to Somalia, see Annex III of IMF, 2019a. Additional information about the process is available in IMF, 2021a.

[4] IMF (2020a).

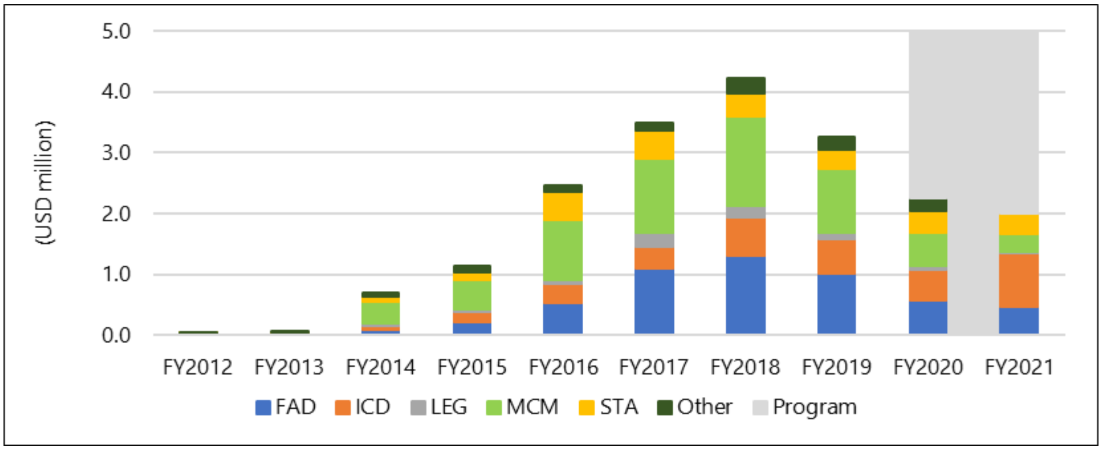
Figure 1. Selected Indicators for Somalia, 2010–2020



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

5. CD provided by the IMF was modest in 2014 and 2015 as the IMF began to reengage with Somalia. Little information was available about the economy and policy plans. CDDs therefore mounted "scoping missions" to assess the situation and determine priorities. CD then ramped up substantially in 2016 when the first SMP was launched (Figure 2). CD provision remained high during the subsequent SMPs from 2017 to 2019, but then tapered in 2020. For the period 2014 to 2020, Somalia was a high-intensity user of IMF CD. The following points about IMF provision of CD to Somalia are also salient.

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

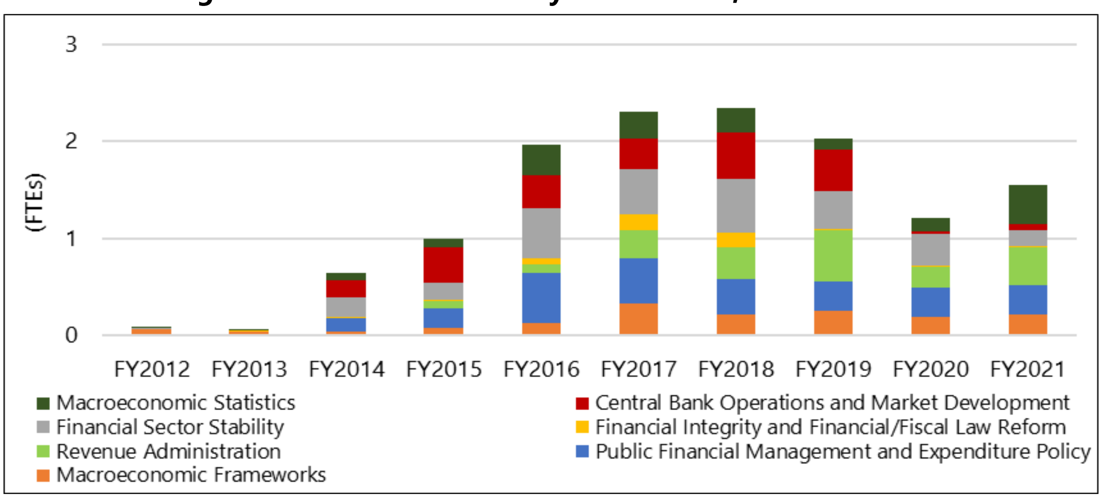


Sources: IMF, ACES data; IEO staff calculations.
Note: IMF program: ECF (2020–23), EFF (2020–23).

- All IMF work—surveillance, CD, and program discussions—is conducted outside Somalia in neighboring countries (for example in Addis Ababa, Djibouti, and Nairobi), because in-country missions are not allowed due to the security situation. The IMF resident representative for Somalia is based in Nairobi.

- In terms of dollar amounts, MCM has provided the largest proportion of IMF CD (Figure 2). This CD focused on setting up a central bank (Figure 3). In addition, TA was provided to lay the foundations to introduce a new national currency to replace outstanding cash currency in circulation (or the "currency exchange project" for short).

Figure 3. Somalia—IMF CD by Workstream, FY2012–2021



Sources: IMF, TIMS data; IEO staff calculations.

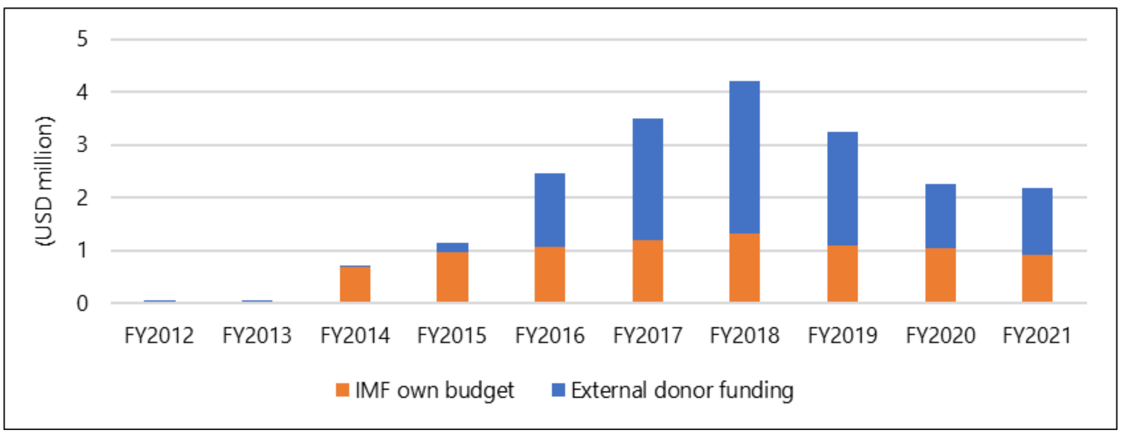
- CD provided by FAD has also been substantial. This TA had two major strands. The first was to develop a medium-term PFM reform strategy. The second strand was tax policy and tax administration, especially customs administration.

- As macroeconomic and financial statistics were rudimentary, STA has focused on the development, compilation and publication of core data. LEG reviewed the PFM law, the central bank law, and advised on establishing the central bank's legal department. The AML/CFT framework was also reviewed.

- Training has been a significant part of TA delivery in view of the low level of capacity. The aim has been to reinforce understanding and build human capital (see Figure 6 and further discussion below).

6. The IMF's CD work for Somalia has been supported by a multi-donor trust fund—the "Somalia Country Fund" (SCF).[5] The SCF started its first phase in 2015 with donations from Canada, the EU, Italy, the United Kingdom (UK), the United States, and the Arab Fund for Economic and Social Development (Figure 4). A second phase covering 2021 to 2025 was launched in March 2021 and will support the CD program through the ongoing HIPC Initiative.

Figure 4. Somalia—IMF Spending on CD by Funding Source, FY2012–2021



Sources: IMF, ACES data; IEO staff calculations.

7. The 2018 IEO Evaluation of "The IMF and Fragile States"[6] included a background paper with a case study of Somalia. This case study, which was prepared after the satisfactory completion of the first two SMPs, concluded that the impact and effectiveness of technical assistance was constrained by IMF staff's inability to travel to Somalia despite the pressing need for on-the-ground support. The stakeholder views in the case study also highlighted that IMF staff could be more proactive in promoting better donor coordination. In addition, the study

[5] IMF (2015a).

[6] IEO (2018).

noted that some functional departments had taken too long to reengage with Somalia and needed to be persuaded that the IMF had a role to play regardless of the difficult circumstances.

II. CD ENGAGEMENT

8. TA and training can play a transformative role in a fragile state when the economic and financial structure have been destroyed. After the devastation of the civil war, Somalia needed to start from scratch to rebuild basic institutions necessary to conduct simple government functions and create the capacity to formulate and implement economic policies. The delivery of IMF CD in these circumstances had to be tailored to Somalia's limited absorption capacity. Fostering absorption capacity was itself an important goal.

Strategy, Prioritization, and Allocation

9. The Somali government has two fundamental objectives. First, getting the design of reforms right to rebuild a well-governed nation. And second, obtaining debt relief. The IMF has played a critical role in both areas. The details of the government's strategy and the specific reform priorities have been outlined in a "National Development Plan" (NDP) prepared by the government with the assistance of the international community.[7]

10. With enormous needs but limited institutional capacity, it has been essential to prioritize and sequence reforms and the associated TA and training to avoid overwhelming the authorities. The IMF has kept its focus on its areas of expertise, namely (i) fiscal issues; (ii) the monetary sector and payments system; (iii) statistical systems; and (iv) legal issues. Nevertheless, in the early years of reengagement with Somalia, prioritization even in these core areas was weak because state building needs were vast, but this improved as more experience was gained. Other multilateral organizations and bilateral partners provide intensive TA to supplement the IMF's work in its core areas and also in areas outside the IMF's mandate, making it important to coordinate activities. In interviews and documents, IMF staff noted that the emphasis has been on "quick wins in high impact areas" in an attempt to deliver rapid gains and help build traction for both the authorities and donor community. In addition, emphasis was put on pacing, sequencing, and managing expectations to take account of Somalia's unique circumstances.

11. The overarching objective of the IMF's CD program has been to build Somalia's capacity to implement sound macroeconomic policies. In the lead up to the establishment of the SCF and the launch of the first SMP, numerous IMF staff visits, the 2015 Article IV consultation, and scoping missions by CDDs identified five priority areas for CD activity to meet this objective: (i) developing an integrated macroeconomic framework and policies; (ii) establishing a fully functioning central bank; (iii) developing tax and customs policy and administration; (iv) instituting PFM through realistic budgeting and effective budget implementation systems;

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[7] Federal Government of Somalia (2017); the two most recent NDPs cover 2017 to 2019 and 2020 to 2024.

and (v) building capacity for the production and dissemination of macroeconomic data.[8] A multi-year CD agenda and work plans were established for these priority areas as elaborated in the Program Document to establish the SCF and summarized in the 2015 Article IV staff report. The expectation was that CD engagement would deepen and broaden in the medium term along with Somalia's reforms. This expectation has been largely fulfilled, although adjustments to initial plans have inevitably been necessary. Three examples of the multi-year approach are noteworthy:

- An FAD TA mission in mid-2015 on "Developing a Medium-Term PFM Reform Strategy" assessed progress made in implementing the FGS's PFM reform strategy for 2013–2016 and outlined the elements of a revised medium-term strategy for 2016–2020. The objective of the revised strategy was to put a transparent budget process in place, taking account of the ability to generate revenue. The revised strategy included details of the activities to be financed by the PFM component of the SCF and delivered by FAD. A participant in the 2015 diagnostic noted that "FAD's TA agenda and its sequencing picked itself because Somalia started with a tiny budget and a narrow revenue base." Consistent with this multi-year approach, FAD has been providing continuous support for the preparation of Somalia's annual budget, gradually building local skills in budget processes and documentation with each successive fiscal year.

- The central bank initially operated as a fiscal agency and not as a traditional central bank. Following several missions to assess needs and the establishment of the SCF, MCM developed a "Financial Sector Reform Road Map," a multi-year phased program to develop a functioning central bank and promote financial intermediation in a dollarized economy. Work on central bank issues has covered areas such as the organization and governance structure of the central bank, training on internal auditing and accounting, and a regime to license and supervise banks. Somalia had been cut off from correspondent banking relationships because of AML/CFT issues, creating additional challenges.

- At the start of the IMF's reengagement with Somalia there was no reliable data, which made it difficult to assess macroeconomic conditions and formulate economic policies. The priority was to set up a system of national accounts and price statistics. A team from STA worked with the Ministry of Planning to develop a program that had a large training component, starting with the basics. What data to collect? How should it be collected? How should it be compiled and analyzed? Data on monetary accounts was not an initial priority because the economy is largely dollarized. Similarly, compiling balance of payments statistics was left for later in the multi-year approach.

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[8] See staff report for the first SMP (IMF (2016a), Box 2).

12. It was recognized from the outset that a sequence of SMPs would be needed for Somalia to establish a track record of economic policy performance. As noted earlier, four consecutive SMPs covering 2016 to 2019 were successfully completed, paving the way for the IMF's Executive Board to approve a 3-year ECF-EFF arrangement in March 2020. The CD program for Somalia has been closely integrated with policy reforms and macroeconomic objectives under these programs. The country team in MCD, in close consultation with the Somali authorities and CDDs, played a large role in identifying key CD needs based on the country's objectives and IMF policy advice. As an MCD staff member put it during an interview, "IMF programs guided TA and TA guided the programs."

13. With the authorities' agreement, TA recommendations were incorporated as SBs under programs, together with corresponding commitments in various Memoranda of Economic and Financial Policies (MEFPs). The volume of SBs has been large. For example, the last review of SMP IV had 18 SBs, covering: (i) fiscal transparency, cash management, and expenditure controls (5 SBs); (ii) domestic revenue mobilization (6 SBs); (iii) financial stability, monetary policy capacity, AML/CFT (6 SBs); and (iv) macroeconomic and financial data and other governance reforms (1 SB). Target dates for SBs were set taking into account what the authorities would be able to achieve with available CD support. This approach provided a framework to prioritize and sequence TA recommendations and a structure to monitor implementation. MCD missions usually included TA experts to discuss TA recommendations, resulting in close integration of teams. Furthermore, when the authorities agreed to an SB, they were agreeing to a TA recommendation. The successful completion of four consecutive SMPs to establish a track record of policy implementation suggests satisfactory observance of SBs.

14. The Steering Committee (SC) of the SCF—which includes representatives from the main donors as well as the IMF and FGS—has provided strategic guidance and contributed to setting priorities. The SC, which typically meets about twice a year, endorses annual CD work plans and reviews progress under these work plans. Performance under IMF programs is also assessed. This accountability to donors has helped enhance the prioritization process. In addition, the collaboration with partners that have a presence in Somalia (as opposed to the IMF's offsite missions) has helped hone priorities based on the situation on the ground.

15. In interviews, IMF staff noted that the authorities did not have a clear sense of their priorities during the first few years of reengagement with the international community. But this changed as the authorities' capacity grew. By the time of the second SMP in 2017, they had developed a more active voice in assessing needs and setting CD priorities. And, starting with the third SMP in 2018, the authorities began to play a larger role in designing the specific reforms under IMF programs and evaluating the CD needed to implement these reforms and meet program commitments. The authorities agreed that it took some time before they played an active role in setting priorities. But they also noted that it took the IMF staff a few years to recognize that the Somali authorities were serious and committed to reform, and that shortfalls in implementation were due to limited capacity and not lack of commitment.

16. The authorities made several other noteworthy points about prioritization.

- They noted that in the early days of reengagement, Somali institutions existed in name only because they had no resources and few staff. Lacking everything, the authorities observed that they had to start somewhere and IMF advice on formulating a reform strategy and setting priorities based on experience in other fragile states was instrumental. They also appreciated that priorities have been set after a discussion of diagnostics to identify gaps and that absorption capacity has been taken into account.

- The authorities viewed conditionality and SBs under the SMPs as inevitable because of their desire to reach the HIPC decision point. They appreciated that conditionality was aligned with TA and that complicated SBs were avoided. They described IMF teams as being "sensible" and keen to support the authorities. Hence, they did not feel that conditionality was imposed, while recognizing that the IMF has standards and needs to show genuine progress toward meeting agreed objectives. Priorities under the programs therefore became government priorities, which made it possible to reach the HIPC decision point in 2020.

- The authorities noted that as capacity improved, they played a more active role in the discussion of SBs, including saying "we cannot do this," or "to do A we first need to do B and therefore we will need TA and training on B." In this connection, they observed that establishing roadmaps for the reform program helped to identify prerequisites that needed to be met before undertaking certain reforms such as the currency exchange project. In addition, they noted that when an agreed SB could not be met the discussions with IMF staff have been constructive to understand the reasons and develop corrective action.

Delivery

17. The dangerous security situation in Somalia precludes IMF staff and STX travel to Somalia. IMF CD work is therefore conducted in neighboring countries, including Djibouti, Ethiopia, Kenya, and Uganda. Somali officials travel to these locations to meet with IMF CDD and MCD teams. TA and training are typically provided in a workshop format and the duration of the workshops is one or two weeks. Somalia is not covered by an RTAC, but training of Somali officials is covered by the MECEF in Kuwait.

18. IMF staff's inability to travel to Somalia creates difficulties. Offsite delivery has made it hard for IMF staff to comprehend the Somali work environment and assess the situation on the ground. Workshops therefore tend to focus on higher level conceptual issues, and the practical aspects of institution and skill building can get insufficient attention. Follow up is impeded, reducing the pace of implementation of TA recommendations. On-the-job training is also more difficult. Furthermore, offsite delivery is more costly and absorbs a significant portion of SCF resources, as the SCF covers the travel expenses for Somali officials. Logistical issues, including

difficulties in obtaining visas for Somali officials and arranging for hotel and workshop space, also absorbs a substantial amount time for the Nairobi-based resident representative. In addition, only a small group of Somali officials can travel because of cost considerations, and sometimes they are not the right ones. And while these officials are attending CD workshops, work in Somalia suffers during their absence. Offsite delivery also limits access to federal states and their officials, although more have begun to attend CD workshops.

19. Notwithstanding these drawbacks, IMF staff have improvised and adapted and mounted a large number of missions to make the most of the offsite CD delivery model. The workshops have given continuity to the IMF's CD engagement and it has still been possible to support four SMPs and the current ECF-supported arrangement. The workshops make it possible to get the undivided attention of Somali officials for several days. With Somali officials and IMF staff staying together in the same hotel there have been out-of-workshop opportunities to interact and build trust. Workshops have also been designed to provide a blend of TA and training. CDD representatives also noted that a change in the current practice of offsite engagement could jeopardize the quality and continuity of IMF engagement because some staff and STX would not be comfortable travelling to a high-risk location. Somali officials regretted that IMF staff cannot travel to Mogadishu where they could meet more people and see the local situation. But they also recognized the rationale of that IMF rules on the matter and accepted the constraints. The authorities noted that even offsite delivery of CD by the IMF is "a blessing" and were grateful that SCF resources make it possible for them to travel for CD workshops. They observed that these workshops and IMF advice have been tailored to make them relevant to Somalia's circumstances. In addition, the tailoring has evolved as capacity and skills in Somalia have improved.

20. IMF staff's inability to travel to Somalia has also put a premium on collaboration with partners such as the UK's Foreign, Commonwealth and Development Office (FCDO) and the World Bank, whose staff and experts are allowed to travel to Somalia.[9] Some IMF STX have been hired separately by partner agencies to travel to Mogadishu. For example, the IMF's PFM STX also works in a similar capacity for the UK's Department for International Development (DFID)/FCDO. Detailed PFM work would not have been possible without this dual role. The inability to travel to Somalia has also led the IMF to cede CD delivery on some projects to other partners. Notably, the currency exchange project, for which MCM provided initial TA, is now handled by the World Bank, which benefits from the on-the-ground presence needed for this complex project.

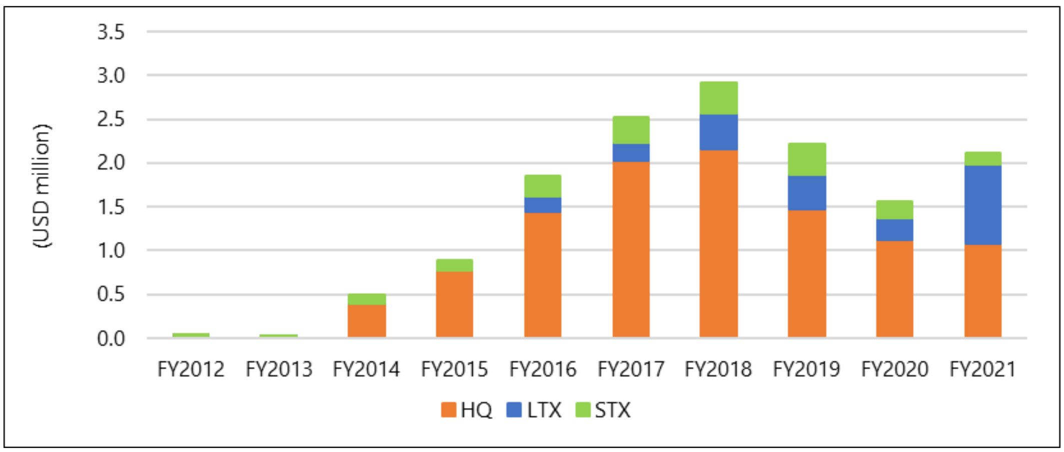
21. As HQ-based staff have not always had the requisite expertise on some issues specific to fragile states or have been otherwise occupied, the IMF has relied extensively on external STXs (Figure 5). The PFM STX, who has extensive experience in fragile states, has worked on Somalia from the early days of the IMF's reengagement, providing important continuity. External experts

[9] A reorganization of UK government agencies in September 2020 resulted in the DFID becoming a part of the FCDO.

have also played a significant role in projects such as the organization of the central bank, internal audit and accounting, bank supervision and regulation, revenue forecasting, tax policy and administration, revenue forecasting, the extractive industry fiscal law, and various statistical issues. Due to the intermittent nature of offsite delivery, LTXs are not assigned to Somalia.

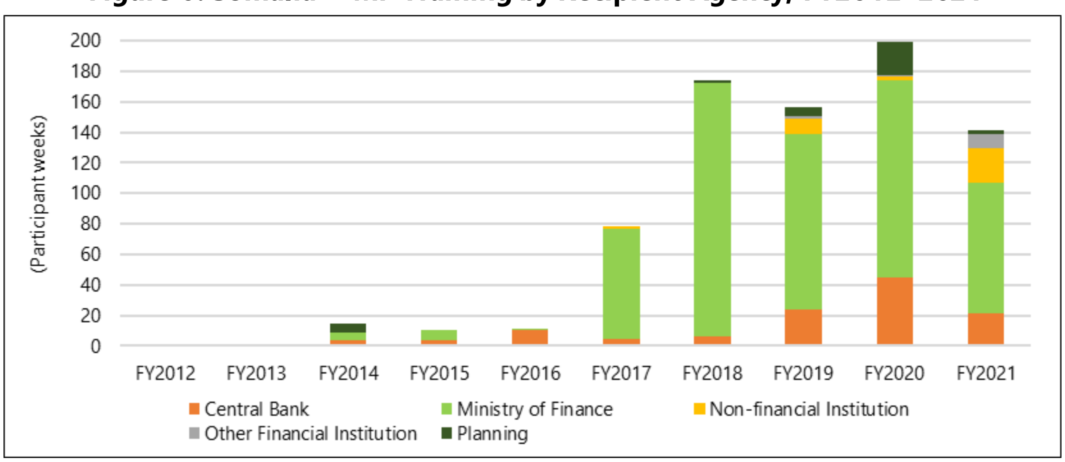
22. Although Somali officials participate in courses offered at the MECEF in Kuwait, the standard multi-country courses offered by MECEF are not suitable for Somalia's circumstances. The training needs for Somali officials tend to be more basic and require customization to address specific gaps in skills. The blend of TA and training provided in the offsite workshops allows for this customization. It has allowed training to be designed to develop absorption capacity. The progression of training has taken into account the progress made on previous training. The Ministry of Finance has been the largest recipient of training (Figure 6).

Figure 5. Somalia—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.

Figure 6. Somalia—IMF Training by Recipient Agency, FY2012–2021



Sources: IMF, PATS data; IEO staff calculations.

23. The authorities were pleased with the integration of training with TA, which they noted pays a high dividend in terms of implementation of recommendations and complying with SBs under programs. For example, a number of staff in the central bank's supervision department and in the tax department have been trained by IMF experts, providing them the skills necessary for them to do their job. Somali representatives noted that the return of Somali diaspora has helped with knowledge transfer but emphasized that there is no substitute for developing skills of local staff.

24. The authorities noted that lines of communication have been open, and the IMF has been responsive when implementation difficulties arise. But they also said that they would prefer more frequent follow up, for example, via quarterly workshops on core issues. Representatives from CDDs agreed that because of weak capacity there is a danger that momentum is lost between CD missions. In addition, the authorities may think they understand an issue, but they may be on the wrong path and getting back on the right path is delayed until the next CD mission. Strengthening follow-up between in-person CD missions with systematic support would therefore be beneficial. Interlocutors from CDDs observed that additional funding for STX contracts to provide remote support for several days each month, both proactively and to be available on call as needs arise, would enhance follow up, maintain momentum, and provide an avenue for remote on-the-job training. But CDD representatives also noted that with just a limited number of responsible officials in Somalia, regular follow up tends to be challenging.

Partnerships, Coordination, and Dissemination

25. Somalia has a dedicated multi-donor trust fund to finance the IMF's CD work. The "Somalia Country Fund for Capacity Development in Macroeconomic Policies and Statistics," or SCF for short, started its first phase in 2015 with the support of Canada, the European Union, Italy, the UK, the United States, and the Arab Fund for Economic and Social Development. The aim of the SCF is to strengthen Somalia's operating and technical capacity to make economic and financial institutions more effective, transparent, and accountable. The first phase covered 2015 to 2020, with aggregate commitments of US$9.6 million. This phase was later extended and overlaps with a second five-year phase that was launched in March 2021. The estimated cost of CD under the SCF's second phase is US$9.3 million till the end of fiscal year 2025. The aim of the second phase is to deepen CD work in the five IMF priority areas listed in paragraph 9 and accompany Somalia through the ongoing HIPC Initiative. However, fundraising for Phase II has been slow, in part because of delayed elections and political uncertainty, creating a risk to future CD activity and the success of the ECF-supported program. As of November 2021, the resource commitments for Phase II are sufficient to plan CD for approximately the first two years of the five-year phase.

26. Each phase of the SCF is underpinned by a "Program Document" that describes the CD agenda, the projected resource needs, the governance structure, work plans, and plans for conducting an independent evaluation at the mid-point of the phase. In addition, the Program Document for Phase II includes a brief discussion of tracking progress under the IMF's RBM

framework. Work under the SCF is guided by a SC composed of representatives of the authorities, donor partners, and the IMF. Each year, mid-year and end-year reports are produced for SC's consideration, and cover financial highlights, progress on CD work plans, and proposals for changes to work plans. As noted in paragraph 14, the SC endorses work plans, reviews past progress, and provides strategic guidance and contributes to setting priorities. An independent mid-term evaluation of Phase I of the SCF was finalized in July 2019; its conclusions are discussed in the next subsection on impact and effectiveness.

27. In view of Somalia's vast needs and ambitious reform goals, it has been essential for other providers to supplement the IMF's CD work. The World Bank, the African Development Bank (AfDB), the EU, the UK's DFID/FCDO, USAID, Statistics Sweden, and other bilateral donors have all been active in providing TA to Somalia. The IMF is closely engaged with these agencies, some of whom are present on the ground in Mogadishu and in Nairobi. They view the SMPs and subsequent ECF-supported arrangement as a good way to organize international community engagement on economic issues, providing them with greater confidence in economic management. Partners' awareness of the conditionality embedded in the SMPs and ECF is high, and they have been willing to coordinate their own conditionality with the IMF. Other points from the interviews include:

- In the initial years of reengagement with the international community, the Somali government would get multiple sets of advice from different agencies and had difficulty prioritizing. The SC structure of the SCF therefore became a critical coordinating tool for partners to engage with the Somali government, the IMF, and each other. In recent years, the Somali government has used its participation in the SC to advocate focusing scarce resources on areas with specific goals and targets to meet program conditionality. However, as SC meetings can be formal and bureaucratic, informal discussions among partners outside the that framework have played an important role.

- SCF partners noted that in the years leading up to the first SMP and also during the first two SMPs, IMF resources were spread too thin across a wide agenda because the task of state building was a huge entry point and the resource consequences of the offsite delivery model had not been adequately internalized. The mid-term review of Phase I of the SCF was a useful exercise because donors used it to press the IMF to focus on areas where it has a comparative advantage—namely, budget preparation and execution, revenue mobilization, and central bank operations—taking into account the IMF's offsite delivery model.

- Collaboration has been good, with a shared understanding of each institution's area of focus. Issues of potential encroachment in areas within the IMF's mandate have been satisfactorily resolved. The IMF resident representative, based in Nairobi, has maintained close contact with the donor community, facilitating collaboration. Partners noted that debriefs by IMF mission teams and the resident representative have been valuable to keep everybody apprised of the situation and work plans. In addition, in areas of IMF core expertise, relevant IMF departments have had the opportunity to review the advice of other partners before it is finalized. Overall, the approach has been collaborative rather than competitive and has taken into account the advantage of partners with a presence on the ground in Somalia.

- Partners also rely on the leverage the IMF has because of the Somali government's overarching goal to comply with ECF conditionality to reach the HIPC completion point. Their input has been incorporated into SMPs and the ECF-supported arrangement. For example, there has been good synergy between the IMF and the DFID/FCDO's technical assistance on customs reform, which has focused on expanding tax collection to all three major ports in Somalia as this is a major source of revenue. The IMF focuses on policy design and legislation and sets revenue targets under programs, while DFID/FCDO provides assistance on implementation in Somali ports and advises on the realism of revenue targets.

- The World Bank has been an important partner on financial sector issues, complementing the IMF's work on central banking and financial stability by focusing on mobile money, the payments system, and non-bank financial intermediaries. As noted in paragraph 19, the World Bank has taken charge of the currency exchange project, which requires presence on the ground. (Donors played an important role in encouraging the IMF to pull back its involvement in the currency exchange project as they realized that on-the-ground presence would be critical to make progress.) The World Bank is also involved in PFM work and in sectoral projects in areas such as agriculture, transport, and oil.

- The EU has provided Somalia with budget support under a project that started in 2019. The EU therefore has a strong interest in the governance and fiduciary safeguards surrounding their support. This includes collaborating with the IMF on PFM matters and relying on IMF reports to monitor progress and assess whether the EU's eligibility criteria for the release of the budget support has been met.

- US Treasury has been a partner on AML/CFT issues and the currency exchange project in view of their concerns about the counterfeiting of US dollar notes.

- The newly established National Bureau of Statistics partners with the IMF, Statistics Sweden, the World Bank, and the African Development Bank. Experts from Statistics Sweden can travel to Mogadishu and the agency has taken a leading advisory and TA role. Although the IMF and other partners are not always unanimous on appropriate statistical approaches, the Somalia team at the IMF has deferred to Statistics Sweden even if their approach diverges from that of the IMF. The rationale is the belief that it is important to take advantage of the resources from other partners to make quick progress, while specific details can be refined over time as institutions become more developed.

- Reconciling external debt and establishing an external debt database has been important for the HIPC process and clearance of arrears. To this end, starting in 2013 the IMF has participated in a technical working group with partners, including the World Bank, the AfDB, the EU, and DFID/FCDO.

- The 2018 Somalia case study for IEO's fragile states evaluation[10] stated that, "Officials felt that the IMF staff could have been more proactive in promoting donor coordination. A roadmap for policy measures prepared by the IMF in the context of the SMP could serve this purpose" (paragraph 26). As discussed below, similar concerns were raised by an external evaluation of SCF concluded in 2019. It is therefore welcome that these perceptions were not expressed by partners during the interviews for this case study, suggesting that shortfalls on this front have been addressed as experience was gained with each SMP. Nevertheless, partners noted that despite improvements there is room to strengthen the collaboration and links between institutions. For example, more systematic coordination and cooperation, especially the sharing of information and inclusion in meetings, would make it easier for partners such as DFID/FCDO, the EU, and the World Bank to follow up on IMF TA, especially on more technical implementation issues where their presence on the ground gives them an advantage. Work in areas such as the macro-fiscal framework and FGS-FMS relations fall in this category.

- The authorities expressed their appreciation for the coordinated TA they receive from multiple partners to meet their overall objectives of national development, and for the role played by the IMF to harmonize the work to avoid duplication. They noted that they are often, but not always, in the room for donor discussions. They were also grateful for partner funding of some Somali staff salaries and the hardware needed to do these jobs.

28. The sharing of IMF TA reports with IFI and donor partners appears satisfactory based on interviews. Two TA reports are available on the IMF's public website—one on internal audit and accounting training for the Central Bank of Somalia (October 2018) and one on bank supervision and regulation (March 2021). (See Annex I for details.)

Effectiveness and Impact

29. The Somali authorities had a strong incentive to establish a good track record of implementing reforms agreed under SMPs, an essential condition to reach the HIPC decision point. This requirement enhanced the traction of IMF CD despite difficult circumstances, enabling Somalia to meet the conditions to reach the decision point in March 2020. Reaching the decision point led to the clearance of arrears and normalized relations with the IMF and other international institutions, unlocking Somalia's access to new concessional financial resources to fund much needed development and social spending. The authorities' goal now is to reach the HIPC completion point, which will allow Somalia to achieve the full and irrevocable reduction in

[10] IEO (2018).

debt committed at the decision point. This requires establishing a further track record of good compliance under IMF's ECF-supported program and World Bank loan programs, especially the satisfactory implementation of reforms underpinned by CD from development partners. The former President of Somalia viewed obtaining this debt relief to be important for his legacy, and it motivated the authorities to push ahead with their reform program. This commitment to the HIPC process has fostered broad ownership as demonstrated by parliament pushing through legal reforms central to IMF and other development partners' programs. Importantly, the high-level political dialog about the HIPC process conducted in the context of the IMF's Article IV consultations, the SMPs, and the ECF-supported arrangement, have helped improve the traction of CD by reducing blockages due to slow political decision-making.

30. Somalia's civil war led to the destruction of institutions and human capital. As a result, the level of skills and organizational abilities of the Somali authorities was weak at the start of the IMF's reengagement. The return of a number of qualified individuals from Somalia's diaspora to assist with the reconstruction of the country helped but was not sufficient. Initial CD efforts therefore focused on building awareness and introducing basic concepts, and then developing phased multi-year roadmaps for reform that built gradually as skills and absorption capacity improved. This gradual approach, including through a sequence of four consecutive SMPs, appears to have paid off. Notably, a number of interlocutors observed that development partners now face much more receptive Somali counterparts than in the past, making CD activity more productive. That said, although there have been important achievements from low initial levels, skill gaps are still large and weak organizational capabilities still hinder the ability to absorb CD. In addition, high staff turnover, inevitable in a post-war country, hampers continuity and the transfer of knowledge.

31. As noted in paragraph 25, the governance structure of the SCF called for a mid-term independent evaluation. The evaluation was conducted by TRANSTEC,[11] a commercial evaluator firm based in Brussels. The final evaluation report, assessing the IMF's CD work from February 2015 to June 2018, was issued to members of the SCF steering committee in October 2019. The report provides judgments on relevance, impact, effectiveness, and sustainability. The report's top line conclusion was that the "SCF scores satisfactorily in all indicators of relevance, effectiveness, impact, efficiency and sustainability. Despite observed areas for improvement, there has been no major failure in this respect" (page 12). Salient points from the report are as follows:

- The best scores were for relevance and impact. All projects were relevant to the objectives of the SCF and consistent with the needs of the FGS, contributing to reconstruction and sustainable growth in Somalia. The impact on the government's capacity to implement sound macroeconomic policies was assessed to be positive, although still developing gradually in several projects. The evaluators also concluded that

[11] TRANSTEC (2019).

impact is higher for "projects that require tangible output in the form of draft laws and regulations, without necessarily entailing longer processes of capacity building" (page 13). By contrast, lower impact was observed in projects where the output was less tangible.

- The SCF also scored well on effectiveness and sustainability. The evaluators concluded that a sequential approach according to priorities and activities that were practical, clear, and consistent with objectives and expected results contributed to effectiveness. Regarding sustainability, the report concluded that all projects were developed with the involvement and endorsement of the Somali authorities. Sustainability performance was better for projects that (a) generated spillovers for beneficiaries beyond the target group (such as banks); (b) contained straightforward output such as pieces of legislation; and (c) involved a strong desire of the authorities to deliver on the expected policy outcome.

- The report also identified a number of shortcomings. On relevance, the report notes a perception that the SCF operates in isolation from other donors and organizations, leading to concerns about the possible duplication of activities. In addition, there is a perception that projects have been steered by the IMF in a way that seems excessive and occasionally rigid, and that not all activities are sufficiently results oriented. On impact and sustainability, the key issues identified are low absorption capacity, high staff turnover, and the IMF's inability to work in Somalia, which precludes embedding experts to provide hands-on capacity building. Limited engagement with the FMS also reduces impact. On effectiveness, shortfalls were due to the difficult project environment and limited absorption capacity of Somali institutions and staff, rather than the quality of the CD provided and the design of projects.

32. Information gathered from interviews suggests that IMF staff accepted the feedback and made adjustments within its control. The restriction on travel to Somalia remains in place, but the IMF stepped up its collaboration with partners present on the ground. And after being spread too thin in the early years of engagement, it pared back its portfolio of projects. Notably, the IMF has pulled back from the currency exchange project, which is now handled by the World Bank. But interlocutors also noted that the IMF could do more to adopt a systematic approach to monitor effectiveness and outcomes. In particular, they observed that using structural benchmarks to measure outcomes is ad hoc, and a more systematic RBM approach focused on building capacity over the longer term would benefit Somalia.

33. Application of the RBM framework has been uneven in Somalia (Annex I, Figure AI.1). Of the 15 projects in the RBM system, most have objectives defined but only two have their objective(s) rated. Outcome and milestone ratings are available for higher proportions of

projects.[12] One Somali official noted that there was a consultation process about some milestones, but what was more important was the broader framework for good communication with IMF staff via the SMPs and ECF-supported arrangement, and with the SC of the SCF as it reviews the CD process.

34. Strides have been made in state-building and implementation of policies to promote economic stability despite Somalia's limited capacity and travel constraints that affect the IMF's operations. The impact of IMF CD is evident from the achievements noted below.

- The FGS has established a basic fiscal framework, supported by an annual budget process, regular fiscal reporting, and advances in PFM reforms. With improvements in tax collection, domestic revenue more than doubled from 2015 to 2019, reaching 4.6 percent of GDP. The annual budgets are also supported by improved capacity for cash management and forecasting and tighter expenditure controls. In addition, a government payments system is now in place with a single treasury account, which several interlocutors said was a landmark achievement. (In the past, government salaries were paid in cash out of suitcases.) As a result, civil servants are paid on time and the accumulation of domestic payment arrears has been curtailed since 2017.

- The Central Bank of Somalia has made headway in implementing its restructuring plan and an update of its organizational and governance structure is underway. Appointing a Board of Directors and senior managers has been a challenge, but this step has now been completed and a team to manage the new strategic plan and the associated transition is in place. The CBS inspects and licences banks and money transfer bureaus and started to do the same for the all-important mobile money sector at the end of 2020. Reporting by financial institutions has improved and some of the foundations for the currency replacement project have been laid.

- The National Bureau of Statistics has been established and progress is being made on compiling and disseminating macroeconomic and financial data. Improvements in this area are evident from a comparison of the breadth of data presented in the 2015 Article IV consultation staff report and more recent IMF staff reports.

- The legislative reform agenda has also continued to advance. The Revenue Act, Public Financial Management Law, and Companies Law have been enacted. The Senate has passed an Audit Bill, and the Lower House has passed an amendment to the Customs Law. An amendment to the Statistics Law has also been enacted.

[12] Outcome ratings are based on progress made toward targets or achievement of milestones, and milestone ratings are based on the project manager's observations about progress toward achievement of the milestone.

- In all these areas, TA and training has been closely integrated with policy reforms under the SMPs and ECF-supported arrangement to maximize ownership and traction.

35. But there have also been areas where the impact of IMF CD has been muted. Four instances are highlighted below. It is important to emphasize, however, that shortfalls are primarily due to the continued fragility of the state and the inherent complexity of institutional change, which is a decades long process.

- First, the impact of IMF CD work is confined largely to the FGS, with only partial inroads in developing FMS capacity. The IMF has provided TA on fiscal federalism, the Revenue Act covers both the FGS and FMS, and some SBs now cover both the FGS and the FMS. Steps have also been taken the engage with the FMS on training but identifying the appropriate counterparts has been difficult. Nevertheless, the IMF's engagement with FMS remains limited. Expanding the scope of IMF CD to the FMS will take time, not least because the system of intergovernmental relations is in its infancy. As evident from the history of other federal countries, the process of realizing a full fiscal federal system is a deeply political and gradual process.

- Second, the currency exchange project was seen as a medium-to long-term objective from the start, but it has been delayed beyond expectations. Meanwhile, dollarization is strong and circulation of counterfeit Somali currency is widespread. Apart from difficulty in meeting various foundational preconditions (including legal and security issues before a new currency can be issued), it is a costly project and donor funding has been limited. In addition, political buy in for the project has wavered. As noted earlier, initial work on the project was done by the IMF, but the World Bank has now taken the lead.

- Third, although sustained engagement has resulted in progress on financial supervision, the central bank has only a handful of supervisors while the financial sector continues to grow. The risks to financial stability and the domestic payments system therefore remain large.

- Fourth, there has been progress on the management of domestic arrears and cash forecasting, but lack of transparency (perhaps related to the continued tribal structure in the country), has limited the impact of the new systems. For example, there is still a preference to manage cash via rationing because this gives the authorities greater control and allows them to decide on winners and losers.

36. The authorities view the quality of IMF CD work to be excellent and generally better than what they receive from other development partners. They also appreciated that IMF staff took a realistic view of what could be achieved in Somalia's difficult circumstances, refining plans depending on progress made. Noting Somalia's unique context, the authorities said that any need that can be filled through TA and training generally has a significant impact. Instances where the impact of CD is limited tends to be due to the situational constraints rather than the

nature of the advice or willingness of the authorities. For example, TA on external and monetary statistics has been first-rate, but it has not been possible to conduct the necessary surveys because of limited capacity, resources, and time. They also noted that some IMF recommendations are technically straightforward but require political will to implement. The process of agreeing to SBs under the SMPs and ECF-supported arrangement has helped focus the mind of politicians to make the necessary difficult decisions. Pressing ahead with a sales tax despite resistance from the public is an example of such a decision. The assistance provided by the IMF to prepare various laws and regulations has been a major benefit and the legislative agenda would not have progressed without this assistance. In addition, training provided by the IMF has made Somali civil servants more professional. The authorities did not see any notable shortfalls in the IMF's CD activities, although some desirable activities were constrained by a lack of SCF resources and lack of on-the-ground presence. Overall, they expressed pride in what has been achieved since the IMF reengaged with the country.

III. OVERALL ASSESSMENT

37. IMF CD activity and program work in Somalia are conducted in an environment of high political and security risks. Delays in elections that undermine the legitimacy of the national government, continuing terrorist attacks, and tension between the FGS and FMS affect policy making and the delivery of reforms. The legislative agenda is large and changes to the electoral cycle increase the risk of a backlog of stalled new laws. Slow fundraising for Phase II of the SCF is a risk to the IMF's future CD activity and the success of the ECF-supported program. Furthermore, the macroeconomic and development agenda is exceptionally large, capacity constraints are still significant, and the IMF staff are required to operate offsite because of the security situation. Getting traction for CD work in these circumstances is unusually difficult. Recognizing that Somalia will remain fragile and vulnerable to these risks and constraints into the medium term, the IMF has appropriately accepted a high tolerance for risk in its CD operations for Somalia apart from maintaining the strict rule against travel to the country. The acceptance of such risks has the potential to yield substantial dividends as CD contributes to stronger state institutions and better policy making, but it also means that there is the potential for failure if political instability results in a policy vacuum and donor funding dries up.

38. Notwithstanding these challenges, the Somali authorities have demonstrated broad ownership of the reform agenda. They are committed to the HIPC process, completing four sequential SMPs to establish a track record needed to reach the HIPC decision point. Since normalizing relations with IFIs, the desire to reach the HIPC completion point continues to motivate the authorities to implement CD advice from the IMF and development partners. The remaining agenda remains vast, and extensive CD support will be needed to meet the ECF-supported arrangement's goals and benchmarks, a necessary condition to reach the HIPC completion point.

Relevance

39. The CD projects led by the IMF have been relevant to the overarching objective to support the authorities' agenda to promote economic recovery, build institutions, and meet the conditions to get debt relief. A particular focus of the IMF's CD work has been to develop the capacity to implement sound macroeconomic and financial policies. In a fragile state emerging from a civil war, it was essential to go back to fundamentals and ask basic questions. How to establish a functioning central bank? How to build a tax system to raise resources for the government? How to design, execute and monitor a realistic government budget consistent with available resources? How to compile and disseminate the statistics necessary to carry out these tasks? These are the questions that IMF CD work attempted to answer based on conditions in Somalia. The answers gave the IMF the power to shape the transformation of the country. Although there were complaints about a slow start by the IMF, it was wise to begin with a needs-based assessment in these areas and to tailor interventions to take into account the authorities' limited absorption capacity. Indeed, fostering absorption capacity itself became an important goal of CD work. And, as this capacity improved, the authorities began to play a larger role in setting priorities. Overall, by listening to the authorities, concentrating on areas of IMF expertise, developing roadmaps for well-paced and well-sequenced multi-year work plans in priority CD areas, and making adjustments over time based on progress, IMF CD work has been consistent with the conditions in Somalia and the needs of the country.

Coherence

40. As Somalia's relationship with the IMF deepened, intensive TA and training was well integrated with the SMPs and ECF-supported arrangement, resulting in a coherent package that facilitated ownership and commitment on the part of the Somali authorities. Several elements have contributed to this coherence.

- The CD program has been designed to deliver the policy reforms and macroeconomic objectives under IMF programs to support the authorities' key objectives. As noted earlier, IMF programs guided TA and TA guided the programs. TA recommendations have been incorporated as SBs enhancing ownership. When the authorities agreed to an SB, they were agreeing to a TA recommendation. TA has also been integrated with training to build skills and improve ownership. However, follow up appears to take place primarily in the context of CD and program missions, and support between missions tends to be ad hoc.

- The offsite delivery model forced the IMF staff to improvise and adapt and there has been a process of learning-by-doing. A large number of missions have been conducted in third countries, giving continuity to CD engagement and supporting four SMPs and the current ECF-supported arrangement. The resident representative for Somalia based in Nairobi has played an instrumental role in making this delivery model work. But the drawbacks of this delivery model, which hampers the efficiency and sustainability of the

IMF's CD effort, also need to be recognized. That said, it remains important for the IMF to continue to make security-related decisions that are independent of operational considerations.

- The SCF has delivered valuable financing for the IMF's CD work on Somalia, helped set CD priorities, and provided an important forum for donor coordination. The IMF's collaboration with partners has strengthened over time, with a shared understanding of each institution's area of focus. The IMF has increased its reliance on partners that have a presence on the ground in Somalia to further the common agenda. In turn, partners rely on the leverage the IMF has because of the Somali government's goal to comply with IMF programs and meet the conditions to obtain debt relief.

- The IMF's willingness to cede delivery of some CD projects to better-placed partners and not stretch itself too thin is welcome. More generally, IMF staff learned from the mid-term evaluation of the SCF in 2018 and made adaptations that were within its control. There is scope, however, for more systematic cooperation and coordination with partners to enable them to follow up on IMF TA, especially on more technical implementation issues that require a presence on the ground. This will require devoting more IMF staff attention and resources to the task.

Effectiveness, Impact, and Sustainability

41. The effectiveness and impact of the IMF's CD work need to be assessed against the backdrop of the risks and constraints discussed above. Overall, despite the weak absorption capacity and the demanding agenda for reform, IMF CD work has been effective and has had a positive impact. The authorities have implemented numerous TA recommendations and complied with SBs under SMPs and the current ECF-supported arrangement. The impact of IMF CD is evident from the improved capacity of the FGS to implement more coherent macroeconomic policies. The advances made in the legislative reform agenda also indicate that projects that require tangible output such as laws and regulations have a positive impact. Even beyond such tangible output, there have been prominent achievements due to TA and training received. These include an improved fiscal framework and stronger PFM processes; better tax collections; a governance structure for a re-built central bank that can now prepare financial statements that approach IFRS consistency; a framework for licensing financial institutions and supervising them; and better statistics in core areas. CD absorption has improved over time.

42. The increased involvement of the Somali authorities in developing projects in recent years should enhance sustainability. To be sure, there is still much to do and refinements and extensions will be needed in all CD areas. In addition, the risk of setbacks to the reform process are significant. But what has already been achieved is considerable and should make a lasting difference. The distance still to go should not diminish the progress already made. After all, building skills and institutions, especially after a devastating civil war, is an arduous and decades long process.

Lessons

43. Several interconnected lessons that are specific to CD work in fragile states can be derived from Somalia's experience. These lessons have been largely incorporated in the IMF's CD work on Somalia, although some are still a work in progress.

- For a fragile state with no institutions and limited capacity, TA and training are needed across the board because of major institutional and skill gaps. To avoid overreach, it has been essential for the IMF to develop a good framework to prioritize and steer TA based on a diagnostic needs assessment and its core expertise. In addition, for most countries CD tends to be timebound, but in cases such as Somalia it needs to be continuous. It is important to build gradually and prepare for the long haul with a sequenced plan. Strategic plans and roadmaps that are broken into small steps to be implemented at each stage can be useful provided that they do not become bureaucratic and inhibit adjustments based on actual developments. Sequencing needs to cut across different streams of CD work. For example, advancing CD on PFM is difficult if corresponding progress is not made on central bank accounting, establishing a single treasury account, and improvements in the payments system.

- Enhanced follow-up would help maintain momentum between CD missions and support proper implementation of recommendations. As LTX are not possible in view of travel restrictions, increased resources for STX to provide remote assistance both proactively and on demand would promote needed follow up. This is an area where more attention is needed to augment the effectiveness of CD in Somalia. But it also needs to be recognized that with just a handful of responsible officials in Somalia, regular follow up will be a challenge.

- With Somalia's vast needs and ambitious reform goals, even greater emphasis on systematic cooperation and coordination with other development partners that are also active in the country is worthwhile. Experience in Somalia has clearly demonstrated that moving in a coordinated fashion with partners conserves resources and helps each agency reinforce the work of others. Devoting even more IMF staff attention to this task would be beneficial.

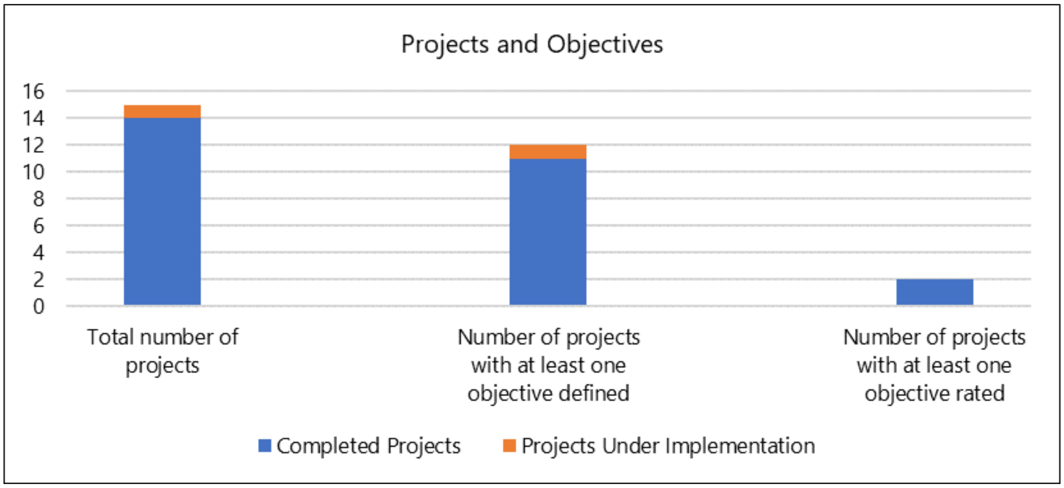
- Fragile states are complex, putting an additional premium on building trust with the authorities. This makes the selection of the IMF staff team important to ensure that they understand the issues and political constraints, have a clear idea of what can be done, have a flexible approach, and take a long-term view. It is positive that the Somali authorities' view is that IMF staff generally met these criteria and took Somali opinions into account and that they considered themselves and the IMF staff to be equal partners. As one official put it, "The IMF staff guided us, and their experience helped. The IMF suggested, we discussed, and then we made a joint decision."

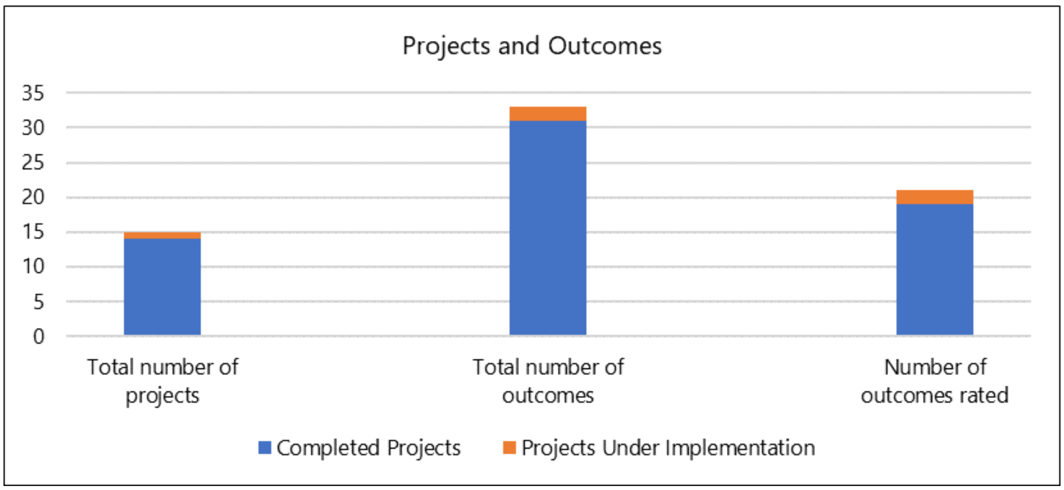
- The IMF has considerable influence on the authorities via programs and links to the HIPC process. This helps get political buy in for priority reforms. But at the same time, it is important to recognize that in fragile post-conflict cases with multiple factions, politics can trump the implementation of agreed reforms. For example, PFM rules can become secondary, and it is important to be realistic about what can be achieved and what cannot be achieved. Rules can be put in place, but they will often be disregarded. Key appointments might be made on the basis of cronyism. This needs to be accepted in a fragile state context, where the IMF's tolerance for such risks should be higher than in standard cases. But it is also important to guard against the danger that ad hoc approaches become entrenched, which will have long-term consequences.

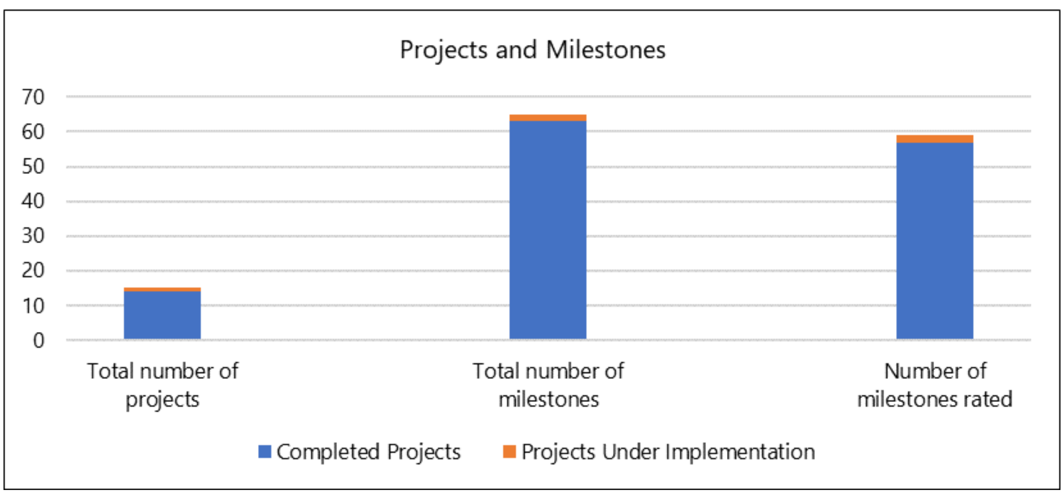
- Consistent with the points above, the authorities emphasized the following lessons: (i) even when capacity is low and the context is unfavorable, the IMF can have a huge impact; (ii) the complementarity between various reforms needs to be recognized when priorities and work plans are established; (iii) follow-up is crucial; (iv) it is important for the authorities to be clear about what they can and cannot deliver; and (v) building trust and approaching issues with an open mind without preconceived notions helps advance the reform agenda.

ANNEX I. CD ACTIVITIES FOR SOMALIA

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







Sources: IMF, RBM data; IEO staff calculations.

Table AI.1. Somalia—Number of Missions, 2014–2020

Year	FAD	ICD	LEG	MCM	RES	STA	Others	Total
2014	3	0	0	7	0	1	0	11
2015	4	0	0	11	0	2	0	17
2016	9	0	1	12	0	5	0	27
2017	12	0	3	10	0	7	2	34
2018	9	0	1	12	0	4	0	26
2019	10	1	0	13	0	4	0	28
2020	7	0	0	6	0	2	0	15
Total	54	1	5	71	0	25	2	158

Sources: IMF, TIMS data; IEO staff calculations.

Table AI.2. Somalia—List of TA Reports, 2012–2020

	FAD	MCM	STA	LEG	Total	Of which		
						Available within IMF	Available but confidential	Published
2012	0	0	0	0	0	0	0	0
2013	0	0	1	0	1	0	0	0
2014	0	1	1	0	2	0	0	0
2015	1	4	3	0	8	2	5	0
2016	0	3	1	0	4	1	2	0
2017	2	1	3	0	6	3	1	0
2018	2	4	2	0	8	1	1	1
2019	0	1	2	0	3	1	0	0
2020	1	1	2	0	4	3	0	1
Total	6	15	15	0	36	11	9	2

Source: IMF, Institutional Repository.

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