MONETARY AND CAPITAL MARKETS

TECHNICAL ASSISTANCE ANNUAL REPORT

2018

“The International Monetary Fund’s Monetary and Capital Markets Department aims for effective, impactful, and quality TA that is responsive to our membership’s needs in support of robust, stable, deep, and inclusive financial sectors.”

October 2018

PREFACE

Carla Grasso

Deputy Managing Director,
International Monetary Fund

Supporting capacity development (CD) in our member countries through technical assistance (TA) and training is a core activity of the IMF. Strengthening the capacity of government institutions such as central banks for instance results in more effective policies that enable economic stability and growth. That is why for more than 50 years, the IMF has worked with governments around the world to strengthen these institutions by providing technical assistance and training on critical economic issues. This annual report by the IMF's Monetary and Capital Markets Department (MCM) provides an overview of such technical assistance provided by the IMF during the fiscal year 2018 and illustrates how the IMF supports countries in implementing sound economic and monetary policies and enables financial stability across its global membership.[1]

The demand for our TA remains very strong, reflecting the high quality of technical support provided by our staff and experts. The IMF has made significant efforts to modernize the governance and delivery of our CD, while maintaining flexibility to meet the evolving needs of our members. I am delighted that MCM continues to focus on the membership, and on fragile states in particular, while developing its ability to support countries in emerging topics. I would also like to thank the many donor countries who are actively supporting our CD efforts through contributions to our topical funds, training centers and other bilateral assistance, as well as the cooperating governments who lend us their experts. I look forward to continuing this cooperation.

[1] This report was prepared by a staff team from MCM's Technical Assistance Division under the guidance and supervision of Simon Gray. The team was led by Naomi Griffin and comprised Dilek Goncalves, Jennifer Moyo, Vassili Prokopenko, Anna Vlassova, and Naihan Yang. Many colleagues across MCM provided input to the report.

PREFACE

Tobias Adrian

Financial Counsellor and Director,
Monetary and Capital Markets Department

Guided by the priorities set by the IMF's Committee for Capacity Building and MCM's medium-term strategy for 2017-20, we have delivered TA to around 130 countries, including many with Fund-supported programs. Our work supports the authorities in many areas—monetary policy/operations and exchange rate management; financial sector supervision and regulation; bank resolution and crisis management; macroprudential policy and financial stability analysis; and capital market development including government debt management. We constantly innovate in our delivery scope and methods to adapt to emerging needs. To highlight just two—of many—salient features of our TA work in the past year:

- Responding to the increasing threats to financial stability that may be posed by cyber risk, we have begun providing TA in implementing emerging good practices in their supervision. We are also expanding our knowledge base and information sharing efforts on financial technology (fintech) related issues to better serve our members.
- Personally, I am particularly excited by the successful rollout of the Financial Sector Stability Review (FSSR), our new diagnostic tool which aims to support the prioritization of financial sector reform in Low- and Lower-Middle-Income Countries. There is a strong interest for this new product, as demonstrated by the growing pipeline of requests.

This year's TA Annual Report highlights our achievements in these areas as well as a number of case studies reflecting the diversity of our engagements. Going forward, we will strive to ensure the continued high quality of our TA advice; to maintain great relationships with colleagues across the Fund, with country authorities, and with our donors; and to pursue greater institutional effectiveness.

On behalf of the staff from MCM, I want to thank our stakeholders, including recipient countries, donors, and cooperating institutions for their continued dedication and trust. I am confident that together we can continue doing excellent work.

SELECTED ACRONYMS

AFRITAC	IMF Regional Technical Assistance Center in Africa
AFC	AFRITAC Central
AFE	AFRITAC East
AFS	AFRITAC South
AFW	AFRITAC West
AFW2	AFRITAC West II
ATI	IMF Africa Training Institute
BIS	Bank for International Settlements
BoG	Bank of Ghana
BoM	Bank of Mozambique
BPNG	Bank of Papua New Guinea
CAPTAC-DR	IMF Central America, Panama, and the Dominican Republic Regional Technical Assistance Center
CARTAC	IMF Caribbean Regional Technical Assistance Center
CBM	Central Bank of Myanmar
CBOC	Central Bank of Chile
CBS	Central Bank of Somalia
CBU	Central Bank of Uzbekistan
CD	Capacity Development
CEF	IMF Middle East Center for Economics and Finance
COFTAM	Coordination of Financial Sector Technical Assistance to Myanmar
COI	Cooperating Official Institution
DFID	United Kingdom's Department for International Development
DMF	Debt Management Facility
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
Fintech	Financial Technology
FIRST	Financial Sector Reform and Strengthening Initiative
FPAS	Forecasting and Policy Analysis System
FSAP	Financial Sector Assessment Program
FSSF	Financial Sector Stability Fund
FSSR	Financial Sector Stability Review
FTE	Full-Time Equivalent
FY	Fiscal Year
FX	Foreign Exchange
GCC	Gulf Cooperation Council
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HQ	IMF Headquarters
ICD	IMF Institute for Capacity Development
IFRS	International Financial Reporting Standards

SELECTED ACRONYMS

IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IT	Information Technology
ITD	IMF Information Technology Department
LCR	Liquidity Coverage Ratio
LEG	IMF Legal Department
LLMIC	Low- and Lower-Middle-Income Country
LMO	Liability Management Operation
LTX	Long-Term Expert
MCM	IMF Monetary and Capital Markets Department
METAC	IMF Middle East Regional Technical Assistance Center
MMoU	Multilateral Memorandum of Understanding
MNRW	Managing Natural Resource Wealth Trust Fund
MRS	Market Relations Strategy
MTDS	Medium-Term Debt Management Strategy
NBC	National Bank of Cambodia
NBFI	Nonbank Financial Institution
NBU	National Bank of Ukraine
NRB	Nepal Rastra Bank
OECD	Organization for Economic Cooperation and Development
PDM	Public Debt Management
PFTAC	IMF Pacific Financial Technical Assistance Center
RBM	Result-Based Management
RTAC	IMF Regional Technical Assistance Center
SARB	South African Reserve Bank
SARTTAC	IMF South Asia Regional Training and Technical Assistance Center
SBA	Stand-by Arrangement
SECO	Swiss State Secretariat for Economic Affairs
SMP	Staff Monitored Program
STX	Short-Term Expert
TA	Technical Assistance
TAOLAM	IMF Technical Assistance Office in Thailand (The name will be changed to the IMF Capacity Development Office in Thailand, or CDOT)
TF	Trust Fund

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STRATEGIC FOCUS AND IMPLEMENTATION

STRATEGIC FOCUS AND IMPLEMENTATION

The International Monetary Fund is committed to delivering high-quality and result-focused TA for the financial sector that is responsive to demand from our membership. Our task is extensive considering the 38 percent increase in TA delivery since FY2011, with a volume of 1,086 country missions taking place in FY2018. TA field delivery in FY2018 reached 80 full-time equivalents (FTEs).[2] MCM recognizes the importance of being ever more strategically focused to ensure resources are deployed efficiently, top quality delivery is sustained, and intended results are achieved.

MCM first formalized a Medium-Term TA Strategy in 2011, and updated it in 2014 and 2017. Guided by the Fund's capacity development (CD) priorities and strategic framework (Box 1), MCM TA focuses on strengthening stability of financial systems in member countries with an emphasis on low-income countries and fragile states. MCM's assistance flows from six veins of core work: financial supervision and regulation; systemic risk analysis; financial crisis preparedness and management; debt management; monetary policy; and central bank operations. The operations section of this report provides an overview of progress made in the priority countries and areas of work.

The department's 2017–2020 Medium-Term TA Strategy Update[3] has been built on the prior strategic framework and aimed to consolidate progress made to date. The present expectation is that TA field delivery will be maintained at current levels (about 80 FTEs yearly) over the medium-term. TA relevance, efficiency, effectiveness, impact, and sustainability is at the center of MCM's vision. In this regard, the TA approach is built on three pillars: (1) enhancing capacity to respond to our membership needs; (2) fostering knowledge creation, management and dissemination; and (3) strengthening governance and accountability through result-based management (RBM) of TA.

[2] Including support from headquarters (HQ), FY2018 TA delivery reached 130 FTEs. One FTE (full-time equivalent, also referred to as "person-year") reflects one person working full-time for one year. On average, a standard MCM two-week, two-person TA mission is about 0.10 FTEs.

[3] MCM Technical Assistance Strategy Update 2017–20: https://www.imf.org/external/np/mcm/2017/taar2017.pdf

BOX 1. IMF'S STRATEGIC FRAMEWORK FOR CAPACITY DEVELOPMENT

MCM's TA priorities are nested in the Fund's current CD priorities that are anchored within the broader Fund-wide priorities established by the Managing Director's Global Policy Agenda. The Sustainable Development Goals set by the international community and the related Financing for Development commitments are reflected in the Fund's strategic direction for CD activities.

The Fund's 2013 CD Strategy provides the overarching strategic framework with an emphasis on strengthening CD governance, prioritization, synergies with other Fund work, funding vehicles, and monitoring and evaluation of CD. The 2018 review of the Fund's CD Strategy aims to further sharpen the Fund's strategic focus.

In line with the Fund's strategic objectives, operational medium-term CD priorities are defined by the high-level interdepartmental Committee on Capacity Building. Current priorities include: support to fragile states; enhanced financial supervision and regulation, including implications of developments in fintech, and monetary policy frameworks in emerging and frontier market economies as well as other low-income countries; better integration of activities across IMF departments, including between surveillance, lending, and capacity development, and, within capacity development, between TA and training; and effectiveness of CD activities.

SECTION I

A

ENHANCING CAPACITY TO RESPOND TO THE MEMBERSHIP'S NEEDS

Effective responsiveness to demand requires multifaceted and continued efforts to enhance TA diagnostics, design, and delivery; develop internal capacity; and coordinate with internal and external partners and stakeholders.

Diagnosing TA needs and project design come first. The Financial Sector Assessment Programs (FSAPs) and the recently introduced Financial Sector Stability Reviews (FSSRs) for low- and lower-middle-income countries (LLMICs) serve as the key diagnostic tools. Launched in FY2018, FSSRs fill a crucial need in detecting and addressing vulnerabilities. MCM plans to roll out FSSRs for at least 25 LLMICs over the next five years (see Section III for more information on FSSRs). The TA Roadmaps developed through FSSRs will help address needs with tailored follow-up TA programs. In other cases, continuous engagement with country authorities through capacity development work and IMF area department surveillance support a country-centered TA strategy.

Delivery requires the right expertise and modalities. MCM's strategy emphasizes continued development of expertise to provide high-quality assistance to address the evolving areas of TA need. To this end, MCM provides staff and long-term experts (LTXs) with training, annual workshops, tools and guidelines, and engages with stakeholders globally to fortify its expertise in the areas under its mandate.[4] In FY2018, significant efforts were invested in boosting MCM's expertise in fintech and cybersecurity—two important areas of emerging TA demand (see Section III).[5] MCM collaborated with the Legal Department (LEG) of the IMF in the delivery of high-level regional conferences addressing the withdrawal of correspondent banking relationships (also referred to as "de-risking") in the Pacific, Caucasus, and Sub-Saharan Africa regions. In addition, MCM partnered with the Bank for International Settlements (BIS) to organize a symposium on capacity building in financial sector regulation (see Box 2). The symposium aimed at developing collaboration and exchange of information among key stakeholders, and is expected to be held periodically. MCM expertise is also leveraged through collaboration with other agencies in the delivery of TA. Cooperating Official Institutions (COIs) share their staff on request to participate in missions on behalf of the IMF, and include: Central Bank of Brazil; Bank of Canada; Banque de France; Norges Bank; Monetary Authority of Singapore; South African Reserve Bank, and Bank of Thailand.

Approaches to TA delivery aim to exploit synergies and promote efficient use of resources to maximize results. Where relevant, MCM TA combines cross-thematic areas of expertise to ensure a holistic and harmonized approach to authorities' needs. For example, foreign exchange (FX) market development TA in the Philippines benefitted from integrating specialized expertise in monetary policy formulation, capital account liberalization as well as central bank operations. TA and training modalities and peer-to-peer learning are also used to complement one another.

TA provided by Regional Technical Assistance Centers (RTACs) supporting multiple countries in a region is often combined with bilateral TA (i.e., TA supporting a single institution) to enhance capacity development

[4] See p. 25 for further detail on LTXs including the nature of their work and support.

[5] Accordingly, the Bali Fintech Agenda, to be launched at the 2018 IMF/World Bank Bali Annual Meetings, is expected to lead to a further crystallization of demand in the fintech area.

IMF High-Level Workshop on Solutions to the Withdrawal of Correspondent Banking Relationships.

in many regions. Box 3 highlights an example of RTAC and bilateral TA integration in Mozambique.

Partners make an impact. MCM highly values its partnership with external donors, central banks, COIs, and other TA-providing institutions such as the World Bank. Internally at the IMF, key partners are the area departments, Institute for Capacity Development (ICD), and other functional departments.[6] MCM has established long-standing partnerships with donors that supported approximately 80 percent of MCM's field delivery in FY2018.

- *Bilateral Donor Partners*. Historically, Japan has been the longest-standing and largest donor, whose generous contributions for bilateral TA projects led to significant successes particularly in the Asia region.

  Bilaterally funded TA by Canada, the Swiss State Secretariat for Economic Affairs (SECO), the United Kingdom, Norway, and Belgium has made its mark globally in strengthening financial stability frameworks in various countries and regional bodies.[7] More recently established bilateral partnerships with the Netherlands and Sweden support several reform programs in Europe and the Caucasus.

- *Multi-Donor Trust Funds*. In addition to the bilateral partnerships, donor contributions have been vital in supporting MCM programs in RTACs, and multilateral trust funds, including: the Financial Sector Stability Fund (FSSF); Financial Reform and Strengthening Initiative (FIRST); Debt Management Facility (DMF); Somalia Trust Fund; South Sudan Trust Fund; and Managing Natural Resource Wealth (MNRW) Topical Trust Fund. Key contributors to these multi-donor funds include Canada, China, the European Union, Italy, Luxembourg, SECO, and the United Kingdom. FIRST and DMF are also examples of IMF-World Bank TA partnership through joint implementation.

Successful case studies of donor supported projects are provided throughout this report, including MCM's involvement in facilitating donor coordination for TA intensive countries (Box 4). An overview of TA financing is available in Section II.

Internally within the IMF, MCM aims for synergies and close coordination with area departments, functional departments, and ICD. Area departments prioritize TA and training needs of authorities based on their surveillance and discussions with country officials. MCM, in consultation with authorities, area departments and in some cases other functional departments, designs and implements requested TA. Partnership with ICD is highly important in integrating TA and training activities (Box 2), managing various donor initiatives, and providing a strategic framework to the Fund's capacity development work. In FY2018, MCM contributed to the ICD-led studies that fed into the 2018 Quinquennial Review of the Fund's CD Strategy. Additionally, the IMF's Information Technology Department (ITD) provides support to MCM's experts in the field and innovative information technology (IT) solutions for CD projects.[8]

[6] Functional departments refer to IMF Departments that deliver TA and training to the Fund's member countries.

[7] They include Algeria, the Eastern Caribbean Currency Union (ECCU), Ghana, Kyrgyz Republic, Malawi, Mozambique, Nigeria, Ukraine, and Zambia.

[8] See country case study: "Ghana: Capacity Building in Bank Supervision and Debt Management" (p. 41).

BOX 2. PARTNERSHIPS FOR TRAINING

BIS-IMF Symposium: Capacity Building in Financial Sector Regulation and Supervision (February 8, 2018).

MCM is partnering with the BIS for furthering commonly shared goals in developing capacity of financial sector supervisors. An inaugural jointly sponsored symposium in Basel, Switzerland brought together leaders of the Fund and the Bank for International Settlements on February 8 and 9, exploring ways to further strengthen the expertise of member countries in financial sector supervision and regulation. In her opening remarks, the IMF's Managing Director hailed the hands-on training and knowledge-sharing that the IMF provides. She noted that TA, which now accounts for about one-third of MCM's annual budget, is a major part of how the IMF and the BIS promote financial stability. Agustín Carstens, the General Manager of the BIS, emphasized the importance for all stakeholders to continuously identify the changing capacity-building needs of financial sector authorities worldwide, and to enhance coordination in order to more effectively and efficiently meet these needs. The conference was attended by officials from standard-setting bodies, financial-sector authorities, government agencies, international organizations and regional supervisory groups—representing the providers, recipients and donors of technical assistance.

A new BIS-IMF initiative will create a new joint online course for bank supervisors. This structured course will cover five key topics of banking regulation and supervision over 3.5 months, where participants will study i) pre-assigned tutorials developed by the BIS's Financial Stability Institute and ii) IMF-developed online case-study modules, and iii) attend a series of live webinars. The materials for IMF-developed case studies on each topic consist of video clips (lectures and interviews), online text, discussion fora, and knowledge checks, etc. A series of interactive live webinars for each topic will provide the opportunity to engage with expert speakers. ICD provided design advice and technical help on the production of IMF content, while MCM developed the content. The target audience is professionals relatively new to banking regulation and supervision, as well as experienced supervisors who would like to refresh their knowledge. The course will be piloted this year for about 185 participants worldwide, and would supplement existing face-to-face courses offered by the IMF and the Financial Stability Institute.

BOX 3. RTAC AND BILATERAL TA INTEGRATION: MOZAMBIQUE

Coordination among the various TA providers is essential for the success of the ambitious new Norway-funded and Norges Bank-supported IMF multi-topic central bank modernization project in Mozambique. To facilitate this, the MCM AFRITAC South (AFS) LTXs participated with a LTX based in the central bank and the MCM TA country manager in a scoping mission to design the project. This has been followed up with frequent interaction between the AFS advisors and the LTX in Mozambique, as well as joint missions in the monetary policy and payment system areas. In April 2018, MCM organized a joint seminar on FX market and operations for staff from both Bank of Mozambique and the Central Bank of Zambia. Similarly, MCM organized the first payment system TA mission under the Norges Bank project jointly with the AFS LTX, and the first financial stability communication workshop with a staff from the IMF headquarters (HQ).

BOX 4. EXAMPLES OF DONOR COORDINATION IN UKRAINE AND MYANMAR

Ukraine and Myanmar are two country examples where multiple donor initiatives support the broad-based financial sector reform programs undertaken by the authorities. Harmonization of these efforts is critical to ensure the optimal achievement of results.

In **Ukraine**, at present, there are about 30 donors providing financial sector TA. Some of the key donors working with the National Bank of Ukraine (NBU) include: Canada (IMF-implemented project), the World Bank, European Union, USAID, and the European Bank for Reconstruction and Development. IMF's Fiscal Affairs and Statistics departments are also involved in the delivery of TA to Ukraine.

The NBU leads the TA management and donor coordination efforts with the support of an IMF TA manager locally and an MCM TA manager at IMF headquarters—a one-of-a-kind arrangement. The NBU has put in place a centralized arrangement under which a deputy governor oversees the entire TA management by a dedicated division. TA roles and responsibilities have been formalized with a key role allocated to five dedicated managers, each covering a specific domain of the central bank's operations, with identified and standardized deliverables that should ensue from the TA process. A biannual NBU donor coordination meeting has also been introduced to enhance cooperation and coordination amongst TA providers.

This effort has enhanced the effectiveness of capacity building in Ukraine. With the beneficiary institution being in the driver seat, high-level ownership and buy-in for the reforms can be assured to donors.

In **Myanmar**, in addition to the TA from the IMF (funded by the government of Japan), there are several donors providing TA including World Bank, Asian Development Bank, GIZ, and USAID among others. To facilitate coordination, a Committee for the Coordination of Financial Sector Technical Assistance to Myanmar (COFTAM) was formed in 2013 at the request of the Central Bank of Myanmar (CBM). Its annual meetings enable the sharing of plans and programs to support Myanmar's strategy for financial sector reform and development and determining priority areas for TA and training—taking account of the CBM's priorities and gaps identified. A financial system development strategy has been developed with IMF and World Bank TA and adopted in 2013. A more-focused banking sector action plan is also continuously updated, and implementation sequenced based on progress on the ground.

The most recent sixth COFTAM meeting was held in March 2018, bringing together representatives from nearly 20 multilateral and bilateral development partners, as well as relevant departments in the CBM, the Myanmar Ministry for Planning and Finance, and other ministries. The CBM devotes significant resources to organizing and participating in COFTAM, demonstrating its strong commitment to making effective use of TA. MCM plays a lead role in COFTAM, coordinating its broad-based TA covering areas of bank supervision, monetary operations, foreign exchange operations, and central bank financial management.

SECTION I

B

FOSTERING KNOWLEDGE CREATION, MANAGEMENT, AND DISSEMINATION

The IMF's MCM department emphasizes applying a systematic and thorough approach to capitalizing the wealth of knowledge accumulated over the years, an issue flagged by the 2017–20 MCM TA Strategy Update. MCM's knowledge work is now consolidated under a dedicated unit within the department, and a formal MCM Knowledge Management Strategy is being developed.

Knowledge creation is daily work. MCM's work embraces both the core of financial sector developments and emerging issues that are important to our membership. MCM's published working papers and staff discussion papers bring together recent studies and knowledge attained in key topics, and provide a basis from which TA can follow (Box 5).

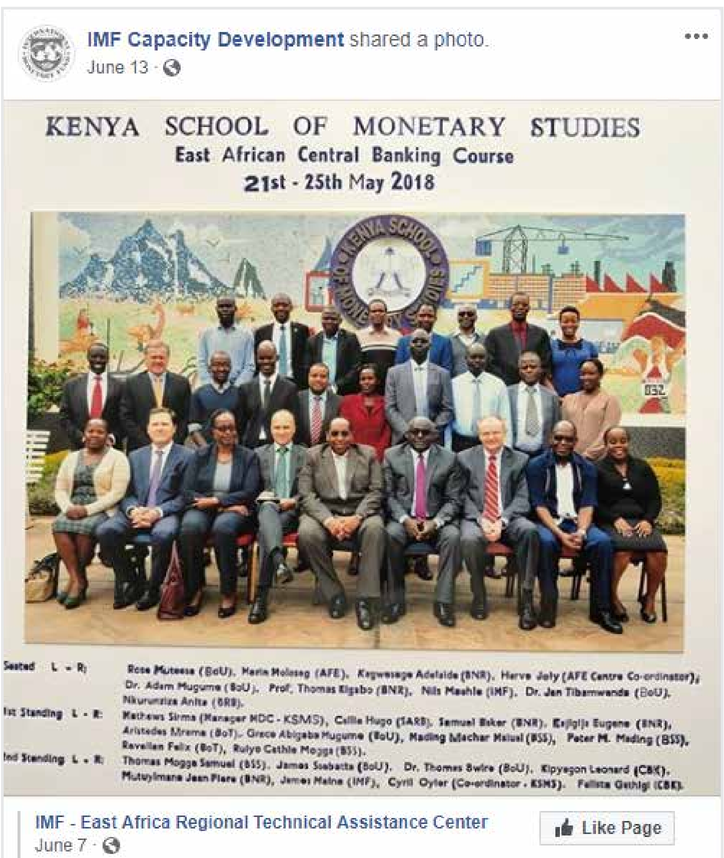
Knowledge management and dissemination stepped up. MCM has made significant efforts to organize and manage access to TA knowledge, and disseminate it widely in various fora. Some of the key activities are listed below:

- Systematically extracting lessons learned from TA evaluations (Box 6);
- Publishing and widely disseminating MCM TA Strategy and Annual Reports that publicize TA case studies;
- Annually bringing together LTXs, thereby providing a platform to discuss policy issues, share best practices and compare experiences across countries;[9]
- Periodically holding and/or participating in regional and sub-regional conferences;
- Developing online courses on debt sustainability and management, and bank supervision and regulation (see Box 2 and Section II);
- Promoting TA activities via the IMF Capacity Development Facebook and Twitter accounts; and
- Facilitating access to information on staff resources by developing an in-house Expertise Locator dashboard—a database of missions, publications, policy and country responsibilities of MCM staff.

[9] Topical sessions for the 2018 LTX annual workshop included fintech, cyber risk, the regulatory reform agenda, proportionality, risk-based supervision, IFSR 9 implementation, correspondent banking relations, anti-money laundering and combating the financing of terrorism supervision, consolidated and cross-border supervision, government securities markets, forecasting and policy analysis systems, foreign exchange intervention, medium-term debt management strategies, macroprudential policies, and monetary operational frameworks.

BOX 5. SELECT KNOWLEDGE PRODUCTS IN AREAS OF TA DEMAND

- Central Bank Reserve Management and International Financial Stability—Some Post-Crisis Reflections http://www.imf.org/en/Publications/WP/Issues/2018/02/16/Central-Bank-Reserve-Management-and-International-Financial-Stability-Some-Post-Crisis-45635
- Commodity-based Sovereign Wealth Funds: Managing Financial Flows in the Context of the Sovereign Balance Sheet http://www.imf.org/en/Publications/WP/Issues/2018/02/09/Commodity-based-Sovereign-Wealth-Funds-Managing-Financial-Flows-in-the-Context-of-the-45619
- Cyber Risk, Market Failures, and Financial Stability https://www.imf.org/en/Publications/WP/Issues/2017/08/07/Cyber-Risk-Market-Failures-and-Financial-Stability-45104
- The Effective Lower Bound for the Policy Rate in Euroized Economies—An Application to the Case of Albania https://www.imf.org/en/Publications/WP/Issues/2018/03/13/The-Effective-Lower-Bound-for-the-Policy-Rate-in-Euroized-Economies-An-Application-to-the-45690
- Fintech and Financial Services: Initial Considerations http://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2017/06/16/Fintech-and-Financial-Services-Initial-Considerations-44985
- Organizing Central Securities Depositories in Developing Markets—7 Considerations http://www.imf.org/en/publications/wp/issues/2018/03/20/organizing-central-securities-depositories-in-developing-markets-7-considerations-45687
- Oversight Issues in Mobile Payments https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Oversight-Issues-in-Mobile-Payments-41747
- A Primer on Managing Sovereign Debt-Portfolio Risks http://www.imf.org/en/Publications/WP/Issues/2018/04/06/A-Primer-on-Managing-Sovereign-Debt-Portfolio-Risks-45746
- Recent Trends in Correspondent Banking Relationships: Further Considerations http://www.imf.org/en/publications/policy-papers/issues/2017/04/21/recent-trends-in-correspondent-banking-relationships-further-considerations
- Virtual Currencies and Beyond: Initial Considerations http://www.imf.org/en/publications/staff-discussion-notes/issues/2016/12/31/virtual-currencies-and-beyond-initial-considerations-43618



Examples of MCM Twitter and Facebook feeds on IMF Capacity Development social media.

SECTION I

C

STRENGTHENING GOVERNANCE AND ACCOUNTABILITY THROUGH RESULT-BASED MANAGEMENT

Result-based management (RBM) of TA is ingrained in all aspects of TA activities from project design and delivery to monitoring, completion, and evaluation. Guided by the Fund's RBM and CD Evaluation Framework, MCM continues to strive for enhanced governance and accountability at every step of project work.

Establishing a realistic baseline and project design. This process aims to diagnose gaps, scope out TA needs, and develop a medium-term TA program that responds to country demand with relevant objectives, measurable outcomes, and time-bound milestones. It is also at this stage that the risks to a project are assessed and suitable delivery modalities and timeframes are agreed. MCM has established standardized expected results (catalogue of logical frameworks for topical areas of TA) that are periodically updated, refining the approach to result-focused TA design.

Managing and monitoring delivery. Successful delivery of TA is a multi-layered work process that requires: (i) appropriate staffing, reflecting the right mix of IMF staff and external experts, matching providers' skills to project requirements; (ii) actively engaging with authorities on implementation and reporting; (iii) close backstopping of experts' advice; (iv) intermediate stocktaking of TA progress as per original design, and reassessing risks to achievements; (v) making adjustments to delivery plans as needed; (vi) ensuring coordination and collaboration with internal and external stakeholders; (vii) tracking and reporting achievements of milestones throughout the project; and (viii) assessing TA performance at completion. For quality assurance, MCM has built a vetted expert roster and developed TA guidelines to instill quality-control mechanisms and guide TA implementation in line with RBM principles.

Evaluating results. In addition to systematic assessments of all completed projects, MCM introduced a more formal process for ex-post evaluation of select TA programs. The aim is to distill cross-cutting topical and/or regional results and lessons learned using the Fund's evaluation methodology.[10] Examples of recent MCM evaluations include the broad-based central bank operations TA to Malawi and Zambia, and banking supervision TA to Cambodia, all of which have been medium-term donor-supported programs. TA evaluations have been instrumental in continuously refining MCM's approach to TA design and delivery, and strengthening accountability measures (Box 6).

[10] The Fund follows the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee's criteria, assessing programs for relevance, development effectiveness, efficiency, impact, and sustainability.

BOX 6. SELECT TA LESSONS FROM MCM EVALUATIONS

MCM evaluations generate technical (project-specific) as well as broad based lessons that relate to management of TA. These lessons help improve our approaches to future TA. A few select lessons are provided as follows:

- Approaches to secure authorities' continued commitment and close involvement include: (i) developing **detailed implementation plans** with agreement of the authorities; (ii) **identifying a counterpart** (internal committee, unit or department) accountable for TA implementation; and (iii) conducting **periodic staff visits** to inform top management on TA progress, giving due credit to internal groups for advancements.
- **An upfront diagnostic assessment of TA needs** is critical in establishing a credible baseline from which TA results can be measured. Based on that, effective sequencing of TA activities and allowing room for absorption are essential elements of good TA design.
- IMF country TA managers need to establish an **understanding of how various TA interventions fit together** to achieve the strategic objectives for the country—e.g., how RTACs' work, bilateral TA, and training all come together to strengthen bank supervision in a country, and how they interact with other donor initiatives.
- **Tailoring TA design to the specific country context** is essential while seeking harmonization of policy advice from a consistency and good practice perspective (e.g., use of standardized results and indicators).
- **Delivery modality should be commensurate with the TA needs** and the authorities' internal capacity. A "programmatic" approach, in which assistance is a sustained medium-term engagement, is found to be more effective in building institutional capacities where the needs are intensive. Use of LTXs is an effective TA delivery modality in programmatic TA. All experts involved in delivery should be in dialogue and coordinate among themselves, even if they are on separate missions.
- Great attention needs to be paid to **sustainability of TA through ongoing staff training** for recipient institutions. Modalities can include ongoing workshop series; exposing staff to online learning opportunities and peer country studies; and ultimately, setting up internal training programs.
- **Experts' compatibility with the region/country context** is valuable in TA delivery. Experts who understand the country-specific issues tend to adapt better and receive greater acceptance from the authorities.
- **Continuity of the TA management and backstopping team** at IMF HQ is essential to successful delivery. Backstopping works best when it is done by the same staff members throughout the TA project.
- **Periodic stocktaking of TA progress** against the originally defined milestones and indicators is an important part of effective TA monitoring. End-of-project evaluation is an important vehicle to assess achievements and inform future TA engagements.

SECTION II

OPERATIONAL OVERVIEW—TAKING STOCK

OPERATIONAL OVERVIEW—TAKING STOCK

In line with member countries' strong demand for capacity building in support of strengthening their financial sectors, the IMF's TA and training efforts in this area have remained high in FY2018.[11] Financial sector TA delivery in the field reached 80 FTEs in 2018, up by 6.5 FTEs from the previous year, covering over 150 beneficiary jurisdictions—bilateral institutions and regional bodies—across the globe (Figures 1 and 2). While topical coverage remains focused on MCM's core thematic areas such as central bank operations and financial regulation, TA on frontier issues—within these thematic areas such as cybersecurity—has been on a steady rise. With the financial backing of numerous donor partners, MCM is able to continue addressing the membership's evolving TA needs and, following the Fund's strategic priorities, enhance engagement with low-income countries, fragile states, and emerging economies.

[11] FY2018 covers the period May 1, 2017 to April 30, 2018.

FIGURE 1. GLOBAL INTENSITY OF MCM TA FIELD DELIVERY, FY2018

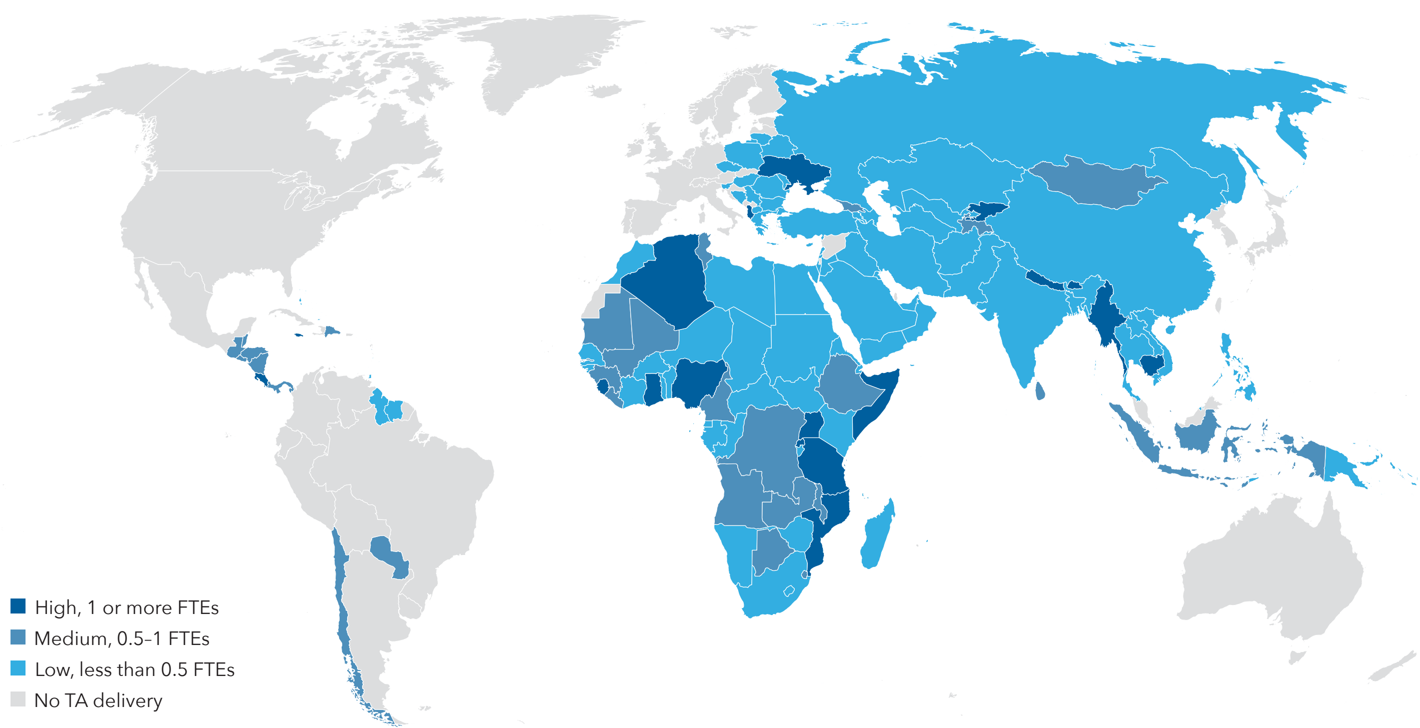


FIGURE 2. TRENDS IN TA DELIVERY, FY2011-18
(in FTEs and number of missions)

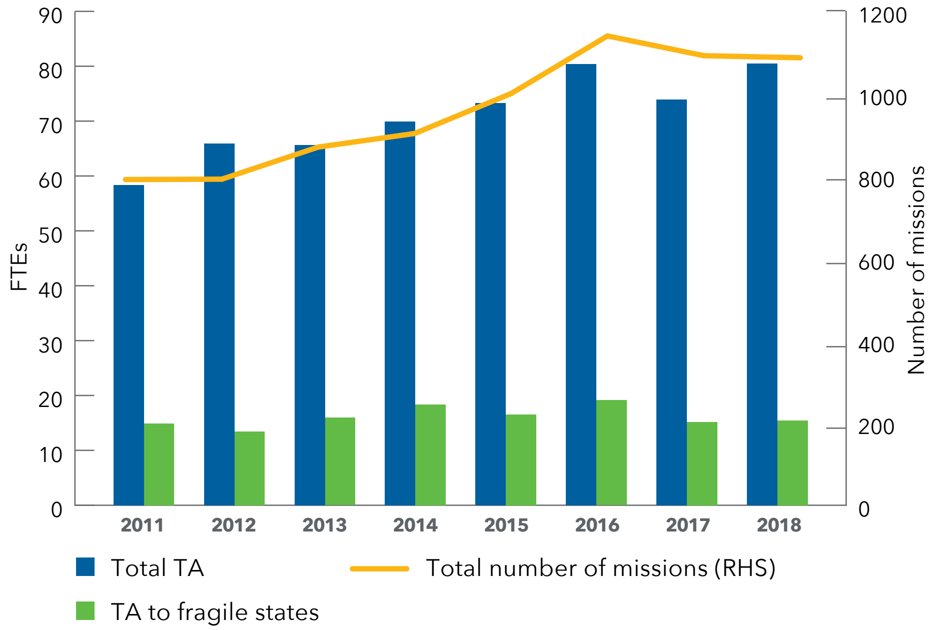
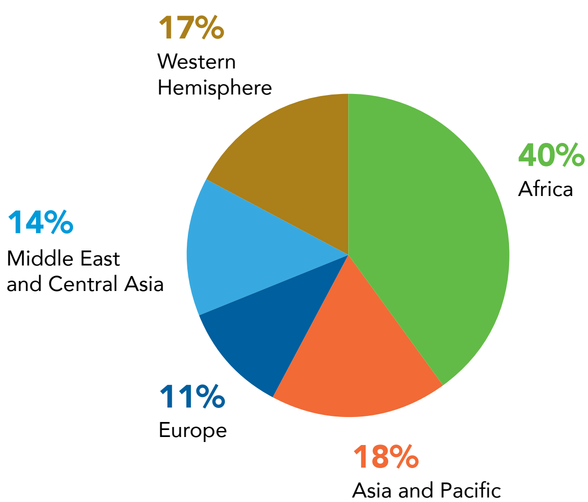


FIGURE 3. TA FIELD DELIVERY BY REGION, FY2018
(in percent of total FTEs)



REGIONAL AND THEMATIC COVERAGE

MCM's geographical TA distribution has remained broadly consistent over the last few years, with Sub-Saharan Africa being the largest recipient (40 percent in FY2018) followed by Asia and the Pacific, the Western Hemisphere, the Middle East and Central Asia, and Europe (Figure 3). While Europe received the smallest share of MCM's TA, field delivery to the region has almost doubled since 2015, reflecting the high demand from authorities and donor-partners' commitments to building on the successes of several ongoing TA programs. Except for the slight decline in TA to the Western Hemisphere, capacity development in all other regions has grown in 2018, with Asia and Pacific seeing the biggest increase from the previous year (Figure 4).

In addition to low-income and fragile states, MCM supports capacity building in emerging and transition economies, as well as countries in post-conflict situations. TA to Albania, Ghana, Myanmar, Sierra Leone, and Ukraine—MCM's top five TA recipients—together account for over 12 person-years of field work in FY2018 (Figure 5). In the Middle East and in the Western Hemisphere regions, Kyrgyz Republic and Jamaica received the largest share of capacity development in their respective regions (see Box 7 for country-specific distribution by region). All countries in MCM's top 10 are supported by at least one bilateral TA program, and in a few cases these countries receive complementary TA provided by MCM's LTXs from corresponding RTACs (e.g., AFRITAC West II for Ghana, Nigeria, and Sierra Leone; South Asia Regional Training and Technical Assistance Center, or SARTTAC, for Nepal).[12]

Topical allocation of TA by MCM remains broadly the same as in previous years: financial sector supervision and regulation (bank and nonbank institutions) represent the largest proportion of all TA delivered in FY2018 at 44 percent; followed by TA in central banking operations, monetary and macroprudential policy, debt management, financial stability and systemic risk, and crisis preparedness and management (Figure 6). Capacity building in monetary and FX market operations—a subset of central bank operations—has seen the biggest growth: up by more than 70 percent from 2014. Meanwhile, during the same period, TA related to crisis preparedness and management decreased by half, reflecting the improved global financial stability in recent years.

[12] See country case studies: "Ghana: Capacity Building in Bank Supervision and Debt Management" (p. 41) and "Nepal Rastra Bank: Multi-Topic Reform Programs" (p. 46).

FIGURE 4. TA FIELD DELIVERY BY REGION, FY2014–18 (in FTEs)

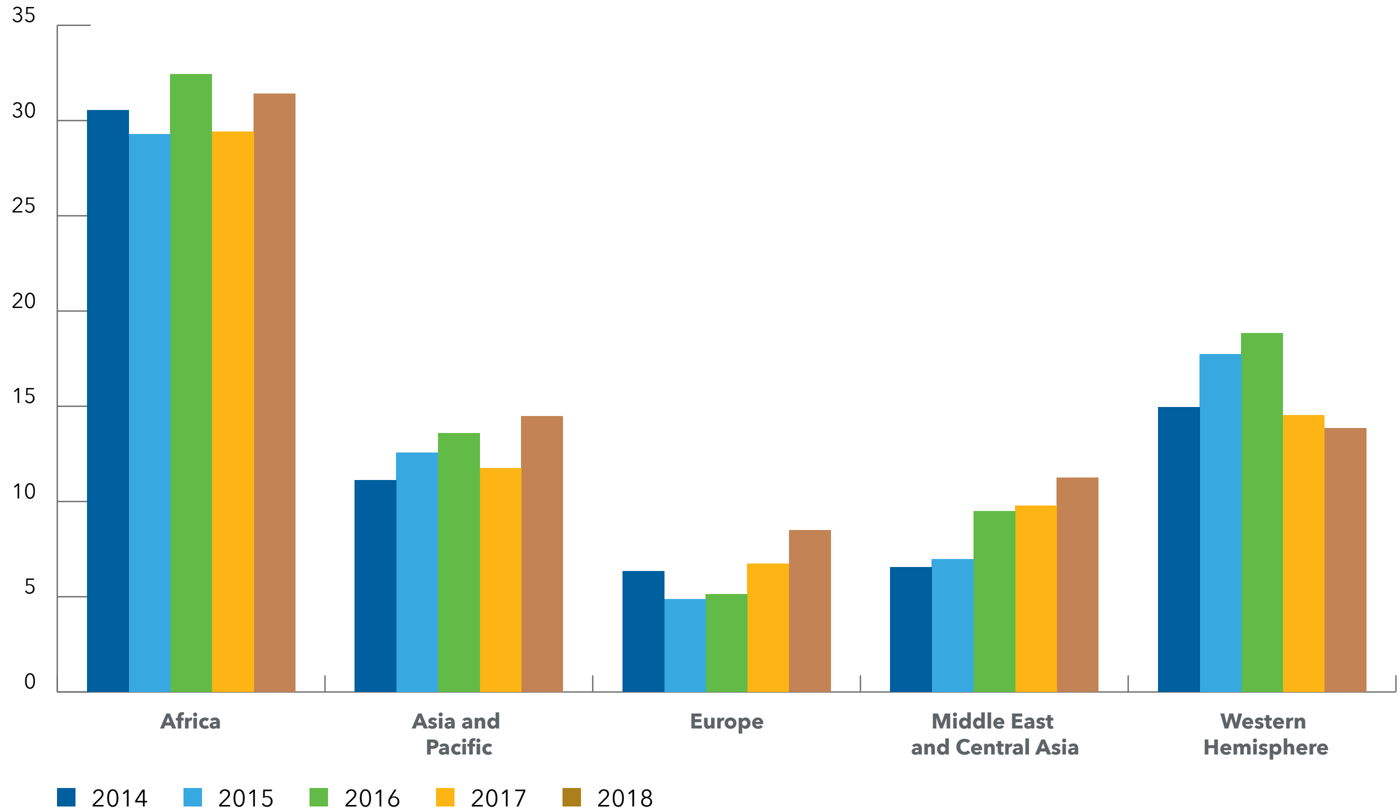
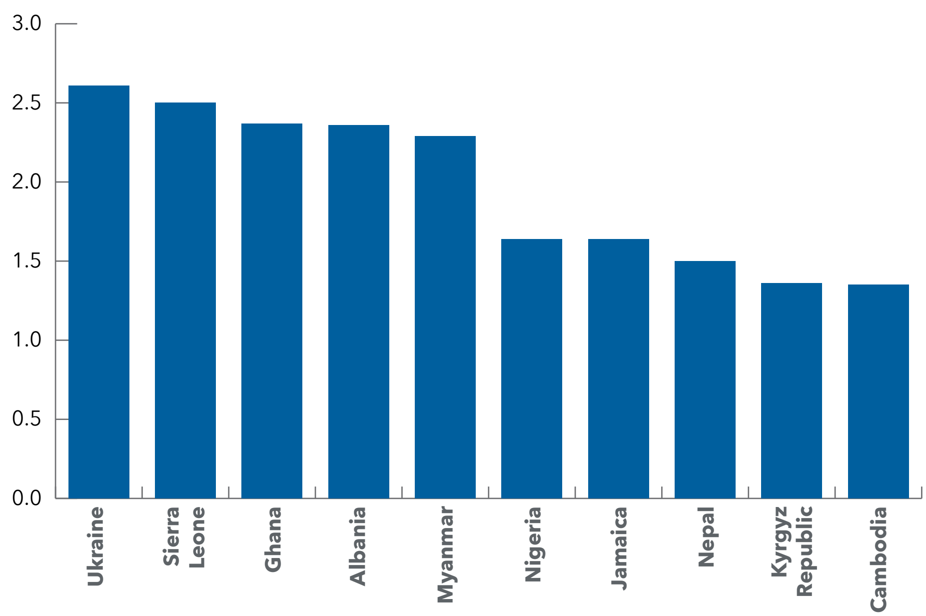


FIGURE 5. MCM TOP 10 TA RECIPIENT COUNTRIES, FY2018 (in FTEs)

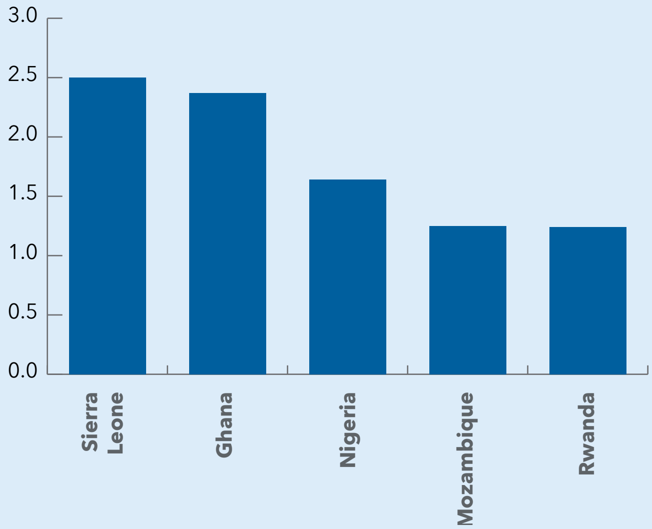


MCM's CD work–TA and training–is classified into several broad thematic groups (as listed in Figure 6), with each further categorized by specific workstreams and defined TA focus areas as follows:

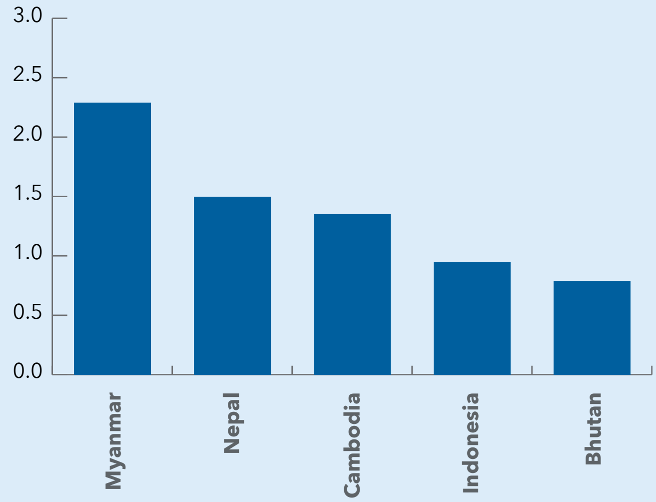
- **Financial Sector Supervision and Regulation** covers regulation of commercial banks, including in Islamic banking, as well as nonbank sectors such as insurance and securities markets. Risk-based and consolidated supervision, implementation of Basel II/III, and TA on International Financial Reporting Standards (IFRS) were core themes in FY2018.
- **Central Bank Operations** comprises TA on (i) monetary and FX market operations (e.g. liquidity management, financial market infrastructures, and payments systems), which has remained in high demand this year; and (ii) central bank governance,

BOX 7. MCM TOP 5 TA RECIPIENT COUNTRIES BY REGION, FY2018 (in FTEs)

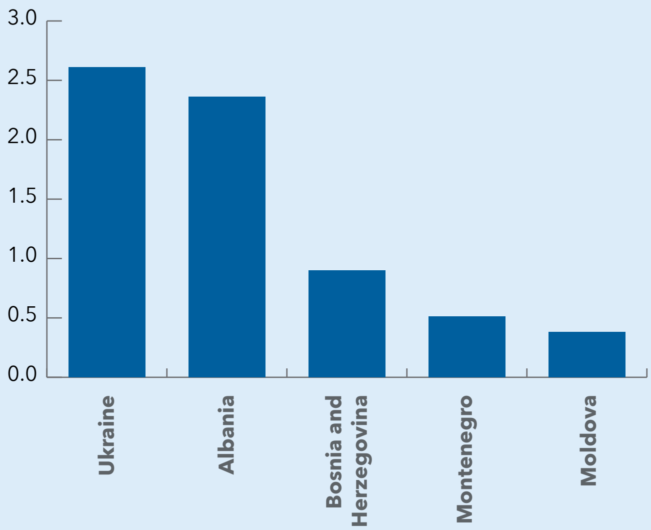
AFRICA



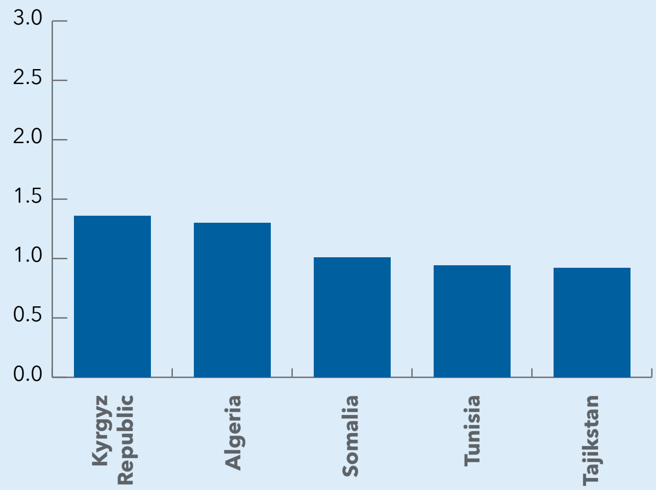
ASIA AND PACIFIC



EUROPE



MIDDLE EAST AND CENTRAL ASIA



WESTERN HEMISPHERE

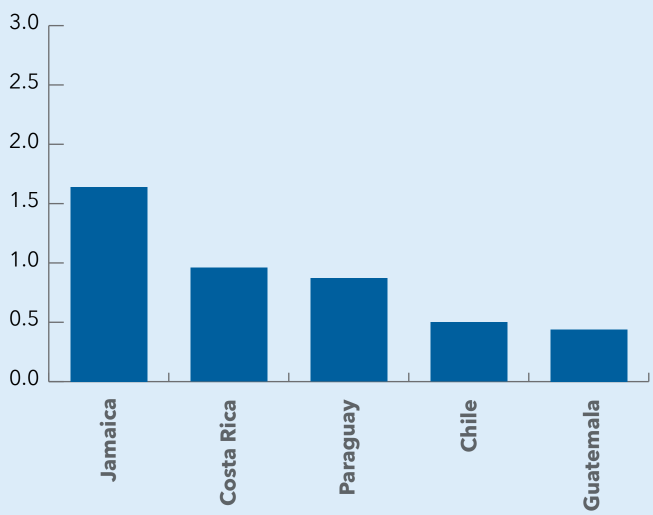
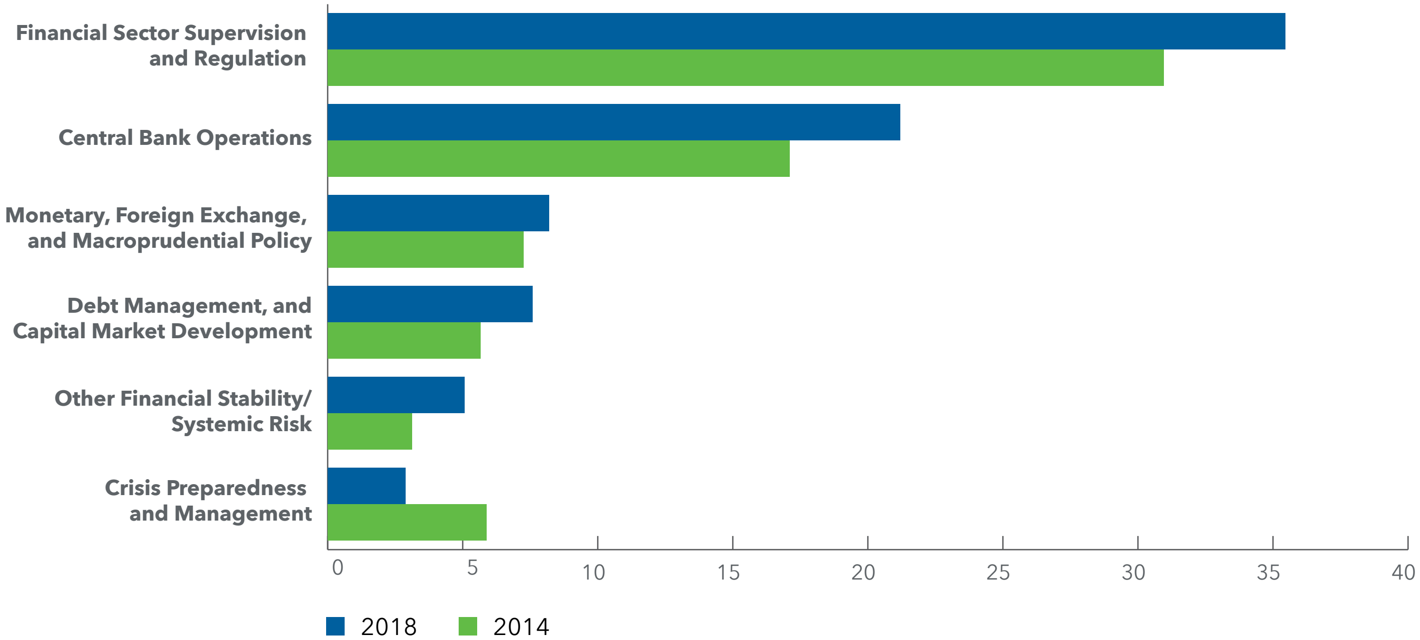


FIGURE 6. TA FIELD DELIVERY BY TOPIC, FY2014 AND FY2018 (in FTEs)



risk management, legislation, currency reform, and accounting.

- **Monetary, Foreign Exchange, and Macroprudential Policy** covers monetary policy framework design and implementation; FX regulation and market development; and strengthening macroprudential policies and instruments. Forecasting and Policy Analysis Systems (FPAS) was one of the key areas of engagement in FY2018 (see Box 8), and monetary policy communication made its mark as an emerging theme.
- Consistent with previous years, Medium-Term Debt Management Strategy (MTDS) remains one of MCM's primary TA topics under **Debt Management and Capital Market Development**, which covers capacity building in public debt management, government securities and debt market development, and domestic market deepening. The updated MTDS framework was discussed by the IMF Executive Board in July 2017.
- **Financial Stability/Systemic Risk** is a targeted TA category, focusing on (i) financial stability analysis and reporting, which accounts for the overall growth of CD in this area; (ii) stress testing; and (iii) systemic risk monitoring.
- **Crisis Preparedness and Management** frameworks–representing 4 percent of MCM's TA in 2018–also incorporates TA on bank restructuring and resolution, contingency planning, distressed asset management, and deposit insurance systems.

BOX 8. CHILE: JOINT MISSION WITH THE IMF'S RESEARCH DEPARTMENT ON FPAS

At the request of the Central Bank of Chile (CBOC), a joint MCM/Research Department mission visited the CBOC to assess and advise on the models and related processes used in support of the bank's inflation-forecast targeting regime. The mission sought to assist the CBOC in enhancing its modeling capacity, increasing effectiveness of the staff forecast as input to the Board policy decisions and risk assessment, and improving the processes for forecasting and policy analysis. The mission assessed that the CBOC's FPAS is highly advanced with all the desirable features of setups in central banks that have established successful inflation-forecast targeting frameworks. The mission provided recommendations to help maintain the strength of the system and a number of technical suggestions for refinements.

FIGURE 7. TA FIELD DELIVERY BY FUNDING SOURCE, FY2014–18
(in percent)

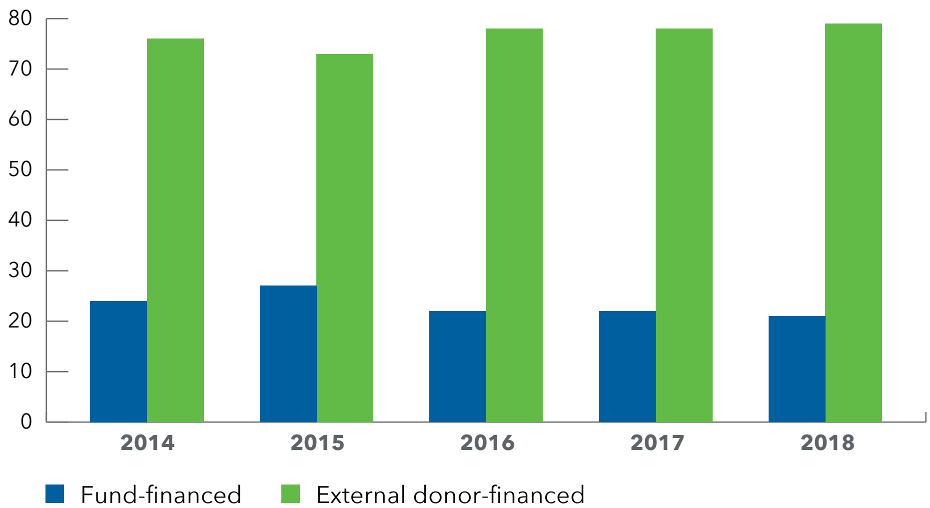
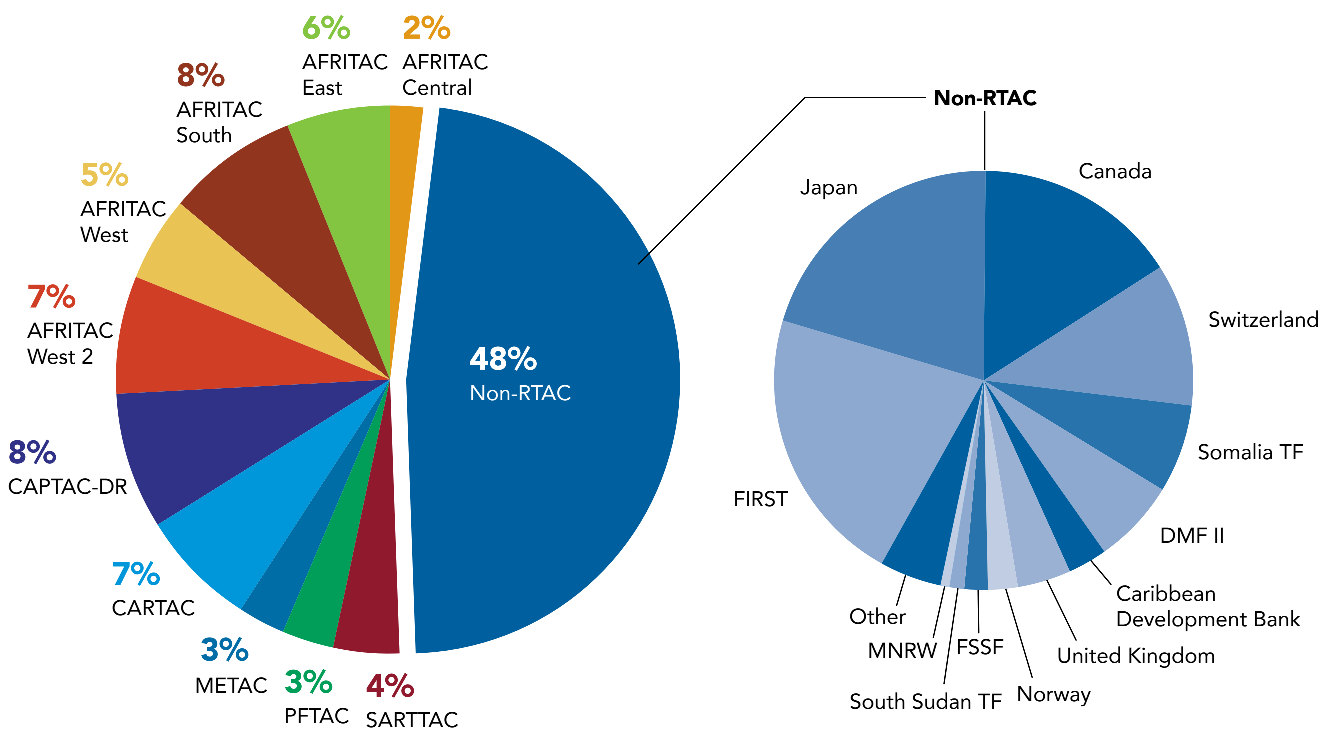


FIGURE 8. DONOR-FUNDED ACTIVE TA PROJECTS, FY2018
(in share of U.S. Dollars)

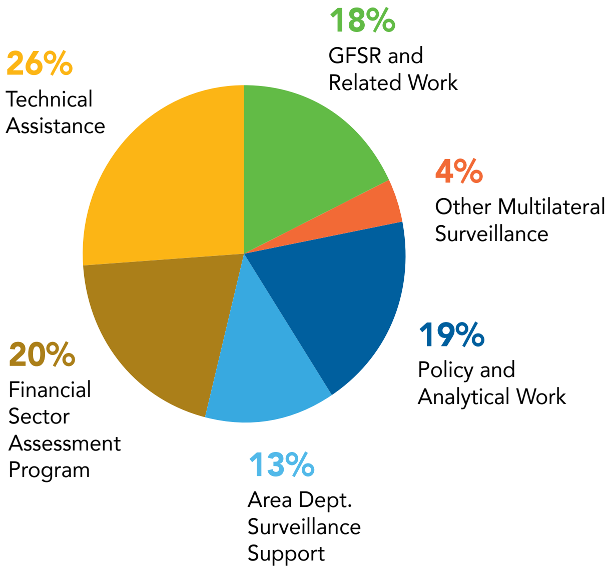


Note: "Other" category includes several bilateral donor partners, mainly–Belgium, Kuwait, the Netherlands, and Sweden.

FINANCING OF TA–MCM'S DONOR PARTNERSHIPS

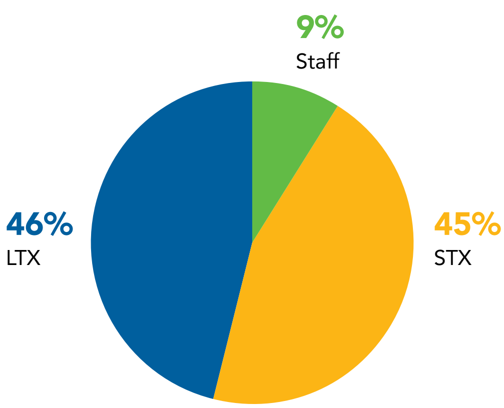
External donors finance a majority of MCM's TA field work–close to 80 percent–allowing the IMF to respond to the continued strong demand for financial sector TA from the Fund's membership (Figure 7). As described in Section I, MCM's donor-partner profile is comprised of bilateral partners, multi-donor trust funds (TF), and RTACs (Figure 8). Bilateral partners are single-country agencies that finance specific, well-defined medium- to long-term TA programs implemented by MCM, many of whom often make additional financial contributions to the IMF's regional training and TA centers and TFs. Multi-Donor Trust Funds, each financed by a number of external partners, are designed to

FIGURE 9. MCM STAFF TIME ALLOCATION BY FUNCTIONS, FY2018



Note: GFSR is the IMF's *Global Financial Stability Report*.

FIGURE 10. TA FIELD DELIVERY BY RESOURCE TYPE, FY2018



support either a single TA recipient on a broad range of topics,[13] or capacity development in a specific thematic area for a multitude of countries.[14] RTACs' operational budgets, which fully cover MCM's TA work programs in each of the 10 IMF Centers (Appendix I), include bilateral donor-financing and member- and host-country contributions.

MCM's successful partnerships with many donors is a result of the strong collaboration with staff of ICD who facilitate external financing operations for the Fund, and the commitment of the many TA recipient institutions dedicated to realizing tremendous progress in their work on financial stability.

HOW CAPACITY BUILDING IS CONDUCTED

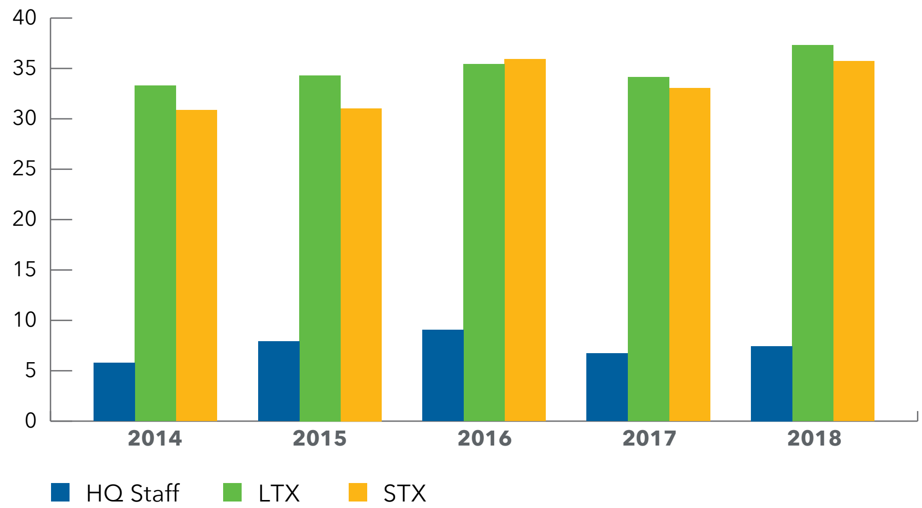
Capacity building—TA and training—is a core function of MCM, accounting for a quarter of staff resources (Figure 9), which are allocated for TA delivery to recipient institutions, as well as management and administration of the department's TA and training programs. This work is conducted by MCM staff, external consultants, and resident advisors based in the field, and includes on-the-ground—or direct—TA delivery, and operations at the IMF HQ.

[13] See country case study: "Somalia: Financial Sector Reform in a Fragile State" (p. 48).
[14] An example is the Financial Sector Stability Trust Fund (FSSF) supporting the FSSR. See Section III (p. 33).

BOX 9. LISTING OF KEY FINANCIAL CONTRIBUTORS TO IMF TRUST FUNDS FOR FY2018

FIRST	Germany, Luxembourg, the Netherlands, Switzerland, United Kingdom
Somalia TF	Arab Fund for Economic and Social Development, Canada, European Union, Italy, United Kingdom, United States
DMF II	African Development Bank, Austria, European Union, Germany, The Netherlands, Norway, Russia, Switzerland
FSSF	China, European Investment Bank, Italy, Luxembourg, Saudi Arabia, Switzerland, United Kingdom
South Sudan TF	European Union, Norway, United Kingdom
MNRW TF	Australia, European Union, the Netherlands, Norway, Switzerland

FIGURE 11. TA FIELD DELIVERY BY RESOURCE TYPE, FY2014–18 (in FTEs)



Support from HQ. The type of activities comprising TA delivery from IMF's head office include, but are not limited to: gathering information and discussing TA issues with country authorities via emails, calls, and videoconferences; delivering targeted workshops or training through webinars; undertaking desk-reviews and analysis of financial data, regulations, laws; and presenting technical advice and policy recommendations to TA counterparts remotely. In addition, HQ staff time is spent on TA project and budget management (design, implementation, monitoring, and reporting); donor partner coordination; logistical and administrative support for staff- and expert-led CD missions; and technical backstopping and HR services (e.g., recruitment, onboarding, performance management) for LTXs in the field.

TA Field Work. TA field delivery encompasses the ongoing work done by MCM's LTXs on the ground as part of their resident assignments, and by short-term expert (STX) and MCM staff missions (typically 1–2 weeks) for TA delivery, training, workshops, seminars, donor and steering committee meetings, program evaluations, and other TA activities. LTXs and STXs together account for over 90 percent of all field delivery, split almost equally, with the rest being conducted by MCM staff (Figures 10 and 11).

LONG-TERM RESIDENT EXPERTS

MCM's LTXs, whose terms range anywhere from one to five years, are deployed in high-intensity TA countries and support either a single institution (i.e., bilateral LTX) such as a central bank or supervisory agency, or a set of countries, which make up a constituency of one of the Fund's RTACs (Appendix I). In addition to delivering TA, RTAC LTXs are tasked with developing, executing, and monitoring country-specific TA programs for the center's jurisdiction in their area of expertise. This entails extensive travel in the region to maintain dialogue with numerous authorities, advance traction of ongoing projects, and monitor absorption (Box 10). Bilateral LTXs, on the other hand, work full-time in one recipient agency, typically as an advisor in a deputy governor's office or equivalent, facilitating progress on a specific set of high-level TA objectives, and overseeing the day-to-day operations aimed at their achievement. Regardless of the assignment, all LTXs work in close coordination with MCM and area department teams at IMF HQ, in a joint effort to provide high-quality, sound policy advice and effective TA for the IMF's membership.

At end-April 2018, MCM had 36 LTXs stationed in the field: 19 in RTACs, and 17 bilateral LTXs across all regions (Appendix II). Close to 60 percent provide capacity building in areas of financial sector regulation and supervision, with the rest working on an array of central banking and debt management issues. The LTX global placement map (p. 30–31) provides more details on the locations and a glimpse into the work of MCM's resident field experts.

BOX 10. CARTAC LTXS' WORK IN THE EASTERN CARIBBEAN CURRENCY UNION (ECCU)

MCM's two long-term resident advisors—on Financial Stability and on Financial Sector Supervision—at CARTAC in Barbados have been assisting the Eastern Caribbean Central Bank (ECCB) with upgrading the financial stability function and implementing Basel II, respectively. CARTAC's TA on financial stability frameworks has greatly assisted the central bank to develop a suite of systemic risk indicators for enhanced financial stability surveillance, including for the nonbank sector. These indicators have recently been published in the ECCB's inaugural financial stability report. With the assistance of CARTAC's LTX for Financial Sector Supervision, the ECCB has prepared a Basel II implementation plan and established a working team tasked with tailoring the Pillar I guidelines to the needs of the ECCU, while ensuring compliance with the Basel II/III framework. The LTX also provided TA on enhancing the ECCU Uniform Insurance and Pension Bill, contributing to the ongoing efforts towards establishment of a Single Insurance and Pension Market in the ECCU.

PROMOTING CAPACITY DEVELOPMENT THROUGH TRAINING

Training is an integral part of MCM's capacity development mandate, as described in the Technical Assistance Strategy Update 2017–20. MCM has undertaken several training initiatives in line with the recent Fund-wide strategy governing key objectives of the IMF's Training Program: (i) increase the volume of training; (ii) update the curriculum to meet the changing needs of the Fund's membership; (iii) expand the platform of training by use of new online and distance-learning technologies; and (iv) enhance partnership and co-financing with donors and other agencies to promote training.

In response to growing demand for more practical hands-on training from member countries, especially those facing challenges and significant capacity constraints, the volume of MCM training has continued to rise since 2012 (Figure 12). This increase was largely made possible by the steady rise in donor contributions for training in recent years, which financed 65 percent of MCM's training activities in FY2018 (Figure 13).[15]

Working in close collaboration with the Fund's regional training and technical assistance centers, MCM conducted 77 targeted workshops, seminars, and training missions this year—covering a broad range of traditional subjects, as well as evolving areas of interest such as cybersecurity and withdrawal of correspondent banking relationships. Regional focus was highly concentrated across

[15] Austria, Japan, and Singapore have over time been the largest donors to IMF training missions. In addition, substantial support is being provided by Australia, Brazil, China, the European Union, Germany, the Netherlands, Norway, Portugal, Russia, Switzerland, the United Kingdom, the African Development Bank, the Arab Monetary Fund, and the countries that finance training operations in RTACs.

FIGURE 12. MCM TRAINING FIELD DELIVERY, FY2012-18 (in FTEs)

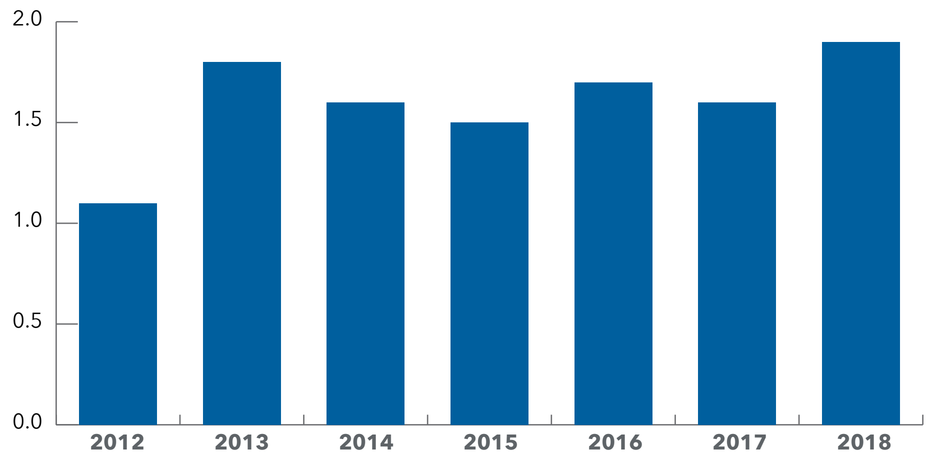
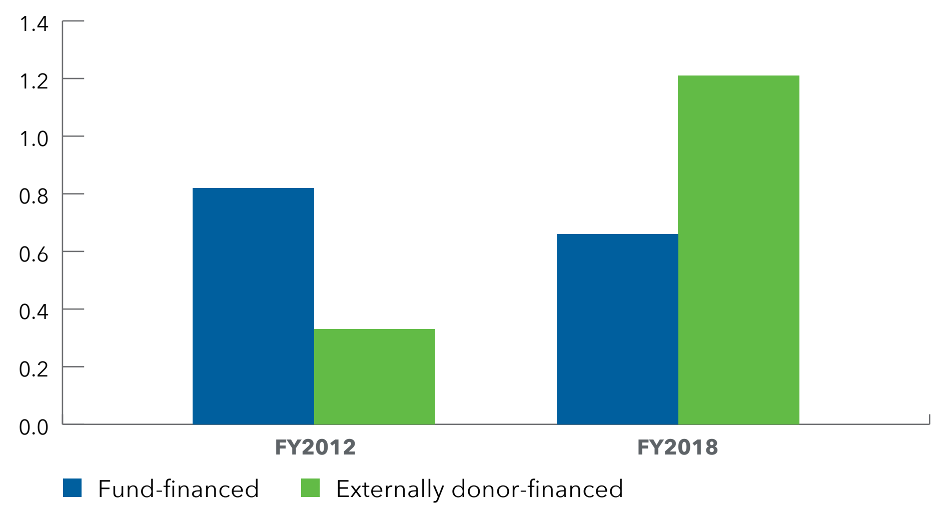


FIGURE 13. MCM TRAINING BY FUNDING SOURCE, FY2012 AND FY2018 (in FTEs)



Asia and the Middle East, which together received the largest share—over two-thirds—of MCM-delivered training in 2018 (Figure 14).

A majority of MCM's training is organized in-house and delivered directly to bilateral recipient institutions, and in some occasions, in third-party locations due to security concerns. About a third is provided via regional training centers as part of ICD's structured Fund-wide program designed for government officials of IMF member countries. These multilingual "classroom style" courses are typically policy-oriented, and emphasize peer-to-peer learning, country case study examples, and customized curricula tailored to the region. Many are also modular, allowing participants to progress over time from basic and intermediate to specialized levels. In 2018, MCM offered 24 such courses to a total of 728 participants (Figures 15).

Going forward, MCM aims to further strengthen the integration of TA and training by working with ICD and external agencies to expand specialized training initiatives via online learning platforms. In addition to the existing cross-departmental courses on Debt Sustainability Analysis, MCM is contributing to new online curricula currently being developed by ICD: (i) Debt Sustainability and Debt Management; and (ii) Bank Supervision and Regulation—a collaboration with the BIS to expand access to FSI Connect (see Box 2).[16]

FIGURE 14. MCM TRAINING BY REGION, FY2018 (in percent of FTEs)

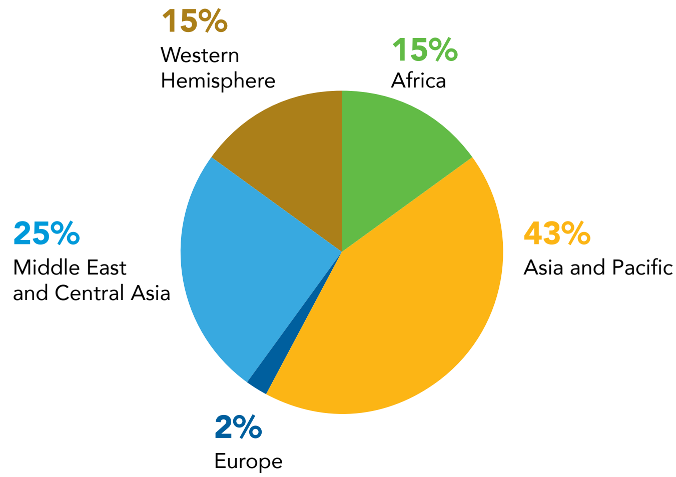
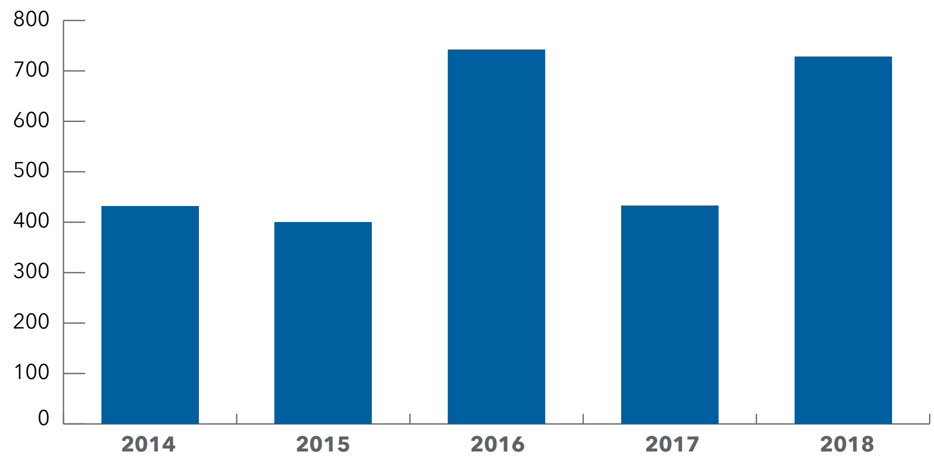


FIGURE 15. NUMBER OF PARTICIPANTS TRAINED BY MCM AS PART OF ICD'S PROGRAM, FY2014-18



[16] FSI Connect refers to the BIS Financial Stability Institute's online modules for financial supervisory training: https://www.bis.org/fsi/fsiconnect.htm

BOX 11. MCM'S REGIONAL WORKSHOPS: AFRICA TRAINING INSTITUTE, AND MIDDLE EAST CENTER FOR ECONOMICS AND FINANCE

WORKSHOP FOR SECURITIES REGULATORS ON IOSCO'S MULTILATERAL MEMORANDUM OF UNDERSTANDING

ATI Africa Training Institute

In partnership with the International Organization of Securities Commissions (IOSCO) and with support from the IMF Africa Training Institute (ATI), MCM delivered a workshop for securities regulators from Africa and the Middle East, to address obstacles preventing them from becoming signatories to the IOSCO Multilateral Memorandum of Understanding (MMoU). The IOSCO MMoU is an understanding among its signatories on consultation, cooperation, and exchange of information for purposes of enforcing securities regulation. Since its initial adoption in 2002, the MMoU has been instrumental in providing securities regulators all over the world with tools for combating cross-border fraud and misconduct.

The 1.5-day training, held in December 2017, covered in-depth the MMoU application and evaluation processes, and advised participants on how to design and implement the changes needed to overcome the various legal and political obstacles they face. A key part of the workshop was an opportunity for regulators to have bilateral discussions with IMF and IOSCO experts on their respective challenges, and discuss possibilities for follow-up TA.

MMoU workshop and other participants at an ATI training event on regulation and supervision.

The workshop received excellent feedback from participants, who felt that they are now better equipped to pursue the necessary changes in their jurisdictions. To build on its success, both MCM and the IOSCO General Secretariat are cooperating closely in providing TA to interested authorities as expeditiously as possible.

Prepared by Eija Holttinen and Cristina Cuervo

DEBT MANAGEMENT SEMINAR FOR THE GULF COOPERATION COUNCIL

In January 2018, MCM, jointly with the IMF's Middle East Center for Economics and Finance (CEF), organized a seminar on debt management for country officials of the Gulf Cooperation Council (GCC), held at the CEF in Kuwait. The program provided an overview of sound debt management practices and their interplay with the general macrofinancial environment, and facilitated interaction and the exchange of experiences among participants. Technical sessions focused on (i) governance; (ii) institutional arrangements; (iii) the formulation and implementation of a MTDS; (iv) international bond issuance; (v) the development of a local government bond market; (vi) investor relation activities; (vii) Sovereign Asset and Liability Management Framework; and (viii) interaction with related policy areas, including cash management and monetary policy.

Country authorities attending the workshop expressed the intention to further explore the points presented within the specific context of the region, while acknowledging the importance of aligning some of their current debt management practices towards the successful international experiences.

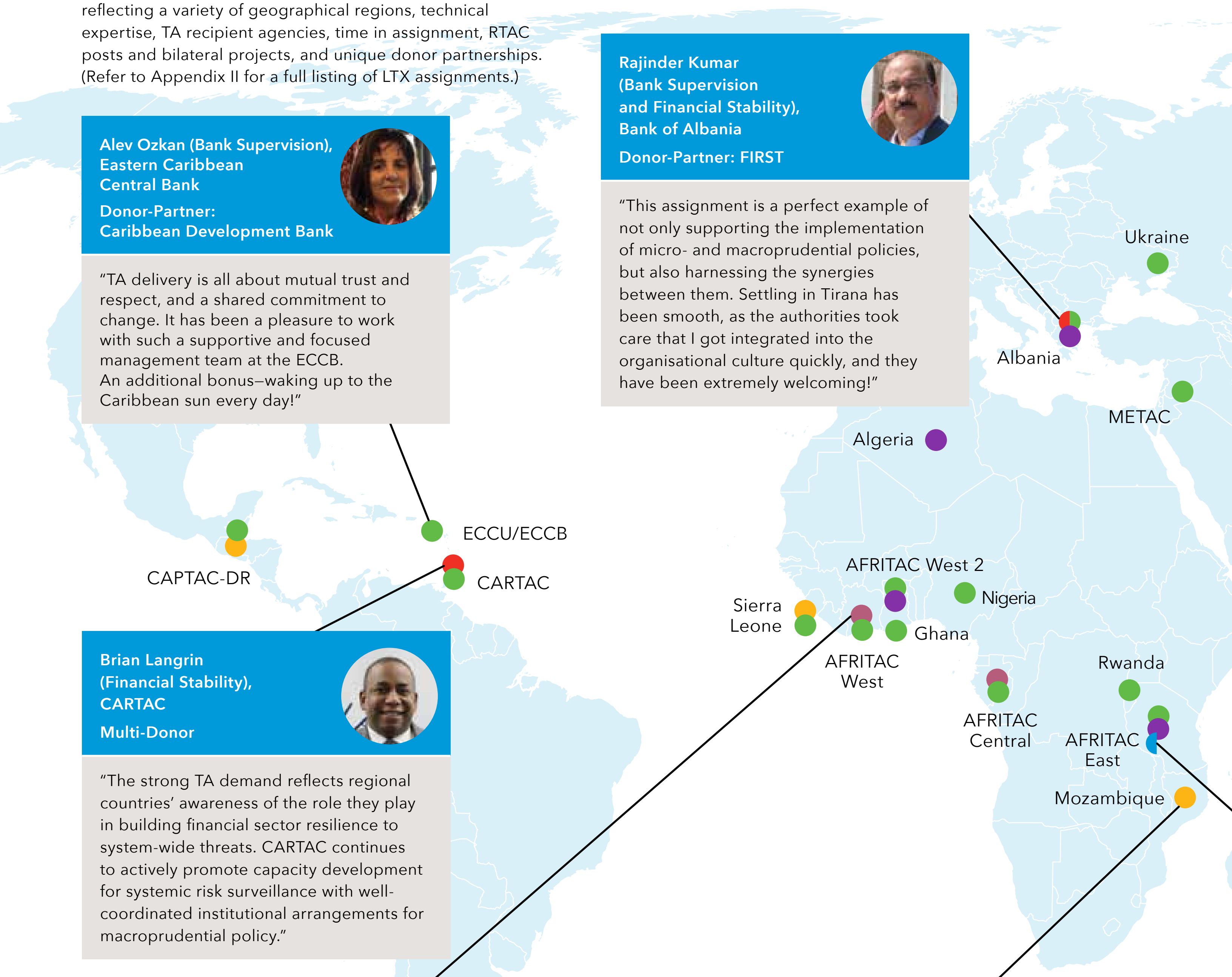
CEF Seminar Participants and IMF team

Prepared by Guilherme Pedras

MCM LTXs and staff at the Annual LTX Workshop in Washington, D.C. (March 2018).

GLOBAL PLACEMENT OF MCM LONG-TERM EXPERTS, AS OF END-APRIL 2018

Views from the Field! Some experts share their perspectives, reflecting a variety of geographical regions, technical expertise, TA recipient agencies, time in assignment, RTAC posts and bilateral projects, and unique donor partnerships. (Refer to Appendix II for a full listing of LTX assignments.)



Alev Ozkan (Bank Supervision), Eastern Caribbean Central Bank

Donor-Partner: Caribbean Development Bank

"TA delivery is all about mutual trust and respect, and a shared commitment to change. It has been a pleasure to work with such a supportive and focused management team at the ECCB. An additional bonus—waking up to the Caribbean sun every day!"

Rajinder Kumar (Bank Supervision and Financial Stability), Bank of Albania

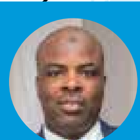
Donor-Partner: FIRST

"This assignment is a perfect example of not only supporting the implementation of micro- and macroprudential policies, but also harnessing the synergies between them. Settling in Tirana has been smooth, as the authorities took care that I got integrated into the organisational culture quickly, and they have been extremely welcoming!"

Brian Langrin (Financial Stability), CARTAC

Multi-Donor

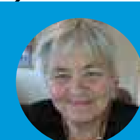
"The strong TA demand reflects regional countries' awareness of the role they play in building financial sector resilience to system-wide threats. CARTAC continues to actively promote capacity development for systemic risk surveillance with well-coordinated institutional arrangements for macroprudential policy."



Oumar Dissou (Debt Management), AFRITAC West

Multi-Donor

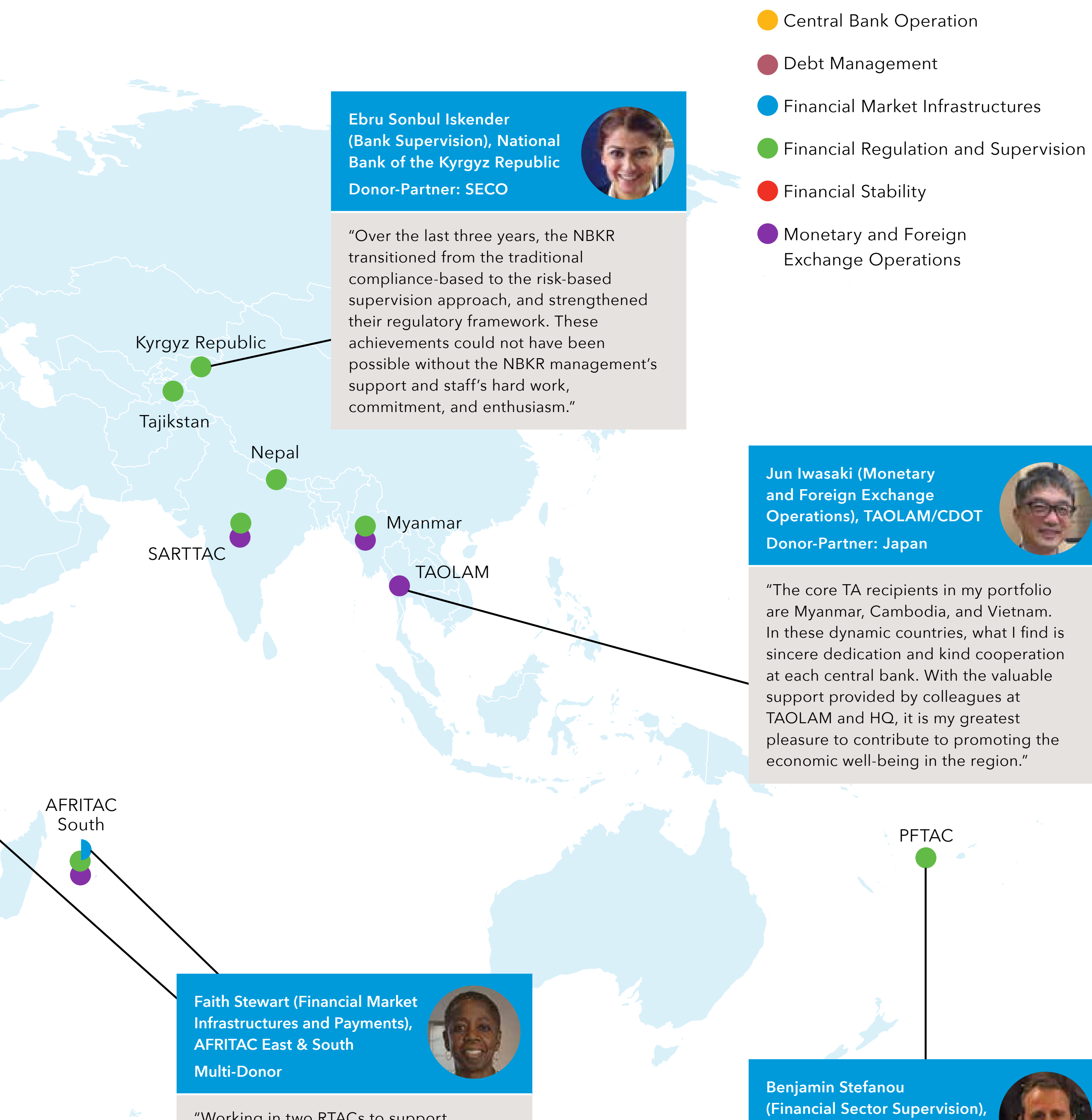
"In my time at AFW, I have had the great satisfaction of seeing member-countries play a catalytic role in the implementation of reforms aimed at improving the quality of public debt management operations, and putting the regional government securities market on a solid footing."



Kristin Gulbrandsen (Central Bank Operations), Bank of Mozambique

Donor-Partner: Norway

"My project at the Bank of Mozambique (BoM) takes a holistic approach to central bank modernization. The commitment and enthusiasm of the Governor and staff of the BoM, and Norway's support and strong engagement, are the key factors behind its success."



Ebru Sonbul Iskender (Bank Supervision), National Bank of the Kyrgyz Republic

Donor-Partner: SECO

"Over the last three years, the NBKR transitioned from the traditional compliance-based to the risk-based supervision approach, and strengthened their regulatory framework. These achievements could not have been possible without the NBKR management's support and staff's hard work, commitment, and enthusiasm."

Jun Iwasaki (Monetary and Foreign Exchange Operations), TAOLAM/CDOT

Donor-Partner: Japan

"The core TA recipients in my portfolio are Myanmar, Cambodia, and Vietnam. In these dynamic countries, what I find is sincere dedication and kind cooperation at each central bank. With the valuable support provided by colleagues at TAOLAM and HQ, it is my greatest pleasure to contribute to promoting the economic well-being in the region."

Faith Stewart (Financial Market Infrastructures and Payments), AFRITAC East & South

Multi-Donor

"Working in two RTACs to support 20 countries at varying stages of national payment systems development, presents unique opportunities for knowledge-sharing and peer-to-peer learning. One of the most fulfilling aspects of my job is seeing TA recipients' keen interest and resourcefulness in adopting good practice, while at the same time customizing solutions to meet country-specific needs."

Benjamin Stefanou (Financial Sector Supervision), PFTAC

Multi-Donor

"The rewards of working with the Pacific's 'small island, but large ocean' states are as immense as the area we cover. Our counterparts treat TA as an opportunity, applying open minds and earnest focus and resources, to achieve the most out of the work we do together."

SECTION III

MCM TA FRONTIER ISSUES

SECTION III

A FINANCIAL SECTOR STABILITY REVIEW: Helping Low- and Lower-Middle Income Countries Strengthen Financial Stability Frameworks

To respond to the needs of member countries, the IMF has developed the Financial Sector Stability Review (FSSR) as a demand-led TA instrument to help LLMICs prepare a comprehensive roadmap for undertaking financial sector reforms. Implementation of the roadmap is supported by prioritized TA financed through a Financial Sector Stability Fund (FSSF) supported by contributions from China, Italy, Luxembourg, Switzerland, the European Investment Bank, the United Kingdom, and Saudi Arabia. The FSSR also complements the FSAP, which has a strong focus on countries with systemically important financial systems. As an integrated product, the FSSR delivers a diagnostic review of key components of the financial sector, an assessment of financial statistics (i.e., Financial Soundness Indicators and balance sheet matrices), a TA Roadmap, and follow-up TA to strengthen and reinforce financial stability frameworks.

HIGHLIGHTS AND LESSONS FROM RECENT FSSRS

Solid progress has been made during FY2018 with the new instrument. FSSRs have been conducted in Costa Rica (see Box 12), Paraguay, Fiji, and Uganda, and a scoping mission was completed in Nicaragua. TA Roadmaps have been prepared to guide financial sector reforms in these countries (Costa Rica, Paraguay, Fiji, and Uganda) over the next few years. Supporting CD is also being provided in financial sector statistics to help countries strengthen financial soundness indicators and construct balance sheet matrices to better gauge interconnections within the financial sector and between the financial sector and the real economy.

In a TA Forum—an internal Fund-wide event chaired by MCM's Director on April 4, 2018—the panelists discussed initial experiences with the new FSSR product. Some key highlights and takeaways from this forum are:

- **Embracing ownership of the TA Roadmap is critical for implementation of financial sector reforms.** In the FSSRs conducted so far, authorities have seized the opportunity to directly participate in designing, establishing priorities and sharpening the focus of the TA Roadmap. They have appreciated the programmatic approach to TA, which directly connects capacity building support to the strategic reforms that address risks and vulnerabilities in the financial system. Countries have taken greater ownership of the process and have been incorporating the recommendations from the FSSR into their work plans.

- **Alongside the banking sector, strengthening regulation and supervision of the nonbank sector is vital for enhancing financial stability.** While countries have been making steady progress with regulating and supervising the banking sector, there is a need to strengthen supervisory standards in the growing nonbank sector. In some LLMICs, supervisory standards for several nonbank activities (credit unions, microfinance, insurance, and pensions) are not up to par; and because of their strong linkages with the banking sector, there is the potential for negative spillover effects to the wider financial system. The FSSRs have been helping some jurisdictions to address, in a more systematic manner, the regulation and

BOX 12. COSTA RICA: FINANCIAL SECTOR STABILITY REVIEW

MCM completed its first fully fledged FSSR mission in Costa Rica in September 2017. The authorities sought a financial sector "health check" and liked the flexibility of the FSSR, which could be tailored to meet their needs. The accompanying follow-up TA of the FSSR initiative was also well received. The FSSR conducted a comprehensive diagnosis of the financial stability framework in Costa Rica and made recommendations on improvements that would enable the authorities to be better prepared to handle potential distress in their financial system without seriously compromising fiscal resources. A TA Roadmap was developed and agreed with the authorities to address gaps in financial supervision, monitoring of financial stability, public debt markets, measures to manage high dollarization, bank resolution, and financial safety nets. Recommendations to advance financial inclusion and improve financial statistics were also included. The authorities welcomed the analysis and recommendations of the final FSSR report and asked for its publication. This publication has received great attention domestically and its financial stability analysis has elicited internal debate.

Link to Publication on the IMF website: http://www.imf.org/en/Publications/CR/Issues/2018/04/02/Costa-Rica-Technical-Assistance-Report-Financial-Sector-Stability-Review-45729.

supervision of key areas in the nonbank sector.

- **Proportionality in design and adaptation of supervisory principles is a key issue in LLMICs and small countries.** One of the big challenges raised by LLMICs, and especially small countries, is how to reduce the operational burden of supervising and regulating institutions that are small and less complex without eroding or lessening minimum capital and liquidity requirements. Regulators are still grappling with how best to tailor the methodologies to the realities of small and less complex institutions, while ensuring adherence to international core principles.

Uganda FSSR Team: IMF Staff and External Consultants.

- **Limited interagency coordination and the lack of systematic surveillance of financial sector interconnections have stymied financial sector reform in some jurisdictions.** Effective coordination between institutions with separate microprudential mandates (for banking, insurance, securities, etc.) and those with the overarching responsibility for macroprudential policy is key to strengthening financial stability frameworks. The participation of the nonbank regulators in the financial stability arrangements is necessary for enhancing surveillance of interconnections and for strengthening coordination of policy responses.

SECTION III

B

PROPORTIONALITY IN BANKING REGULATION

In response to the global financial crisis, the international community launched a major reform program aiming to address the fault lines at the source of the crisis. While the reform adequately addressed regulatory weaknesses, it focused primarily on large international financial institutions and more complex financial markets. To fit smaller institutions and developing markets, the reforms may need to be tailored.

Developing economies can strengthen their financial systems by implementing the main elements of the global regulatory reform. But to build an effective prudential framework, they may need to adapt to the international framework taking into account the sophistication and size of their financial institutions, the relevance of different financial operations in their market, the granularity of information available, and the capacity of their supervisors.

In this process, jurisdictions can benefit from a proportionality regime. The full set of Basel standards should apply to banks whose operations and systemic importance are similar to the ones of large international institutions. However, under a proportionate application of the Basel standards, smaller institutions with less complex business models could be subject to a simpler regulatory framework that ensures the resilience of the financial sector without generating disproportional operational challenges and compliance costs. Balancing simplicity and risk-sensitivity is challenging and such proportionate regimes need to be carefully designed and may even require more conservative calibration of prudential norms.

Recognizing the need to ensure proportionality in banking regulation, MCM's technical advice has been tailored to country-specific circumstances. In Eritrea, for instance, a Basel I/II hybrid approach is being taken, given the small size of the banking system. In Malawi and Kenya, the priority has been to enhance the risk-based supervisory process.

MCM is also in the process of finalizing a technical guidance note on how developing economies could incorporate international standards into their prudential framework. The paper is building on the extensive hands-on experience gained on TA missions as well as from the FSAPs.

SECTION III

C CYBERSECURITY

While cybersecurity risk awareness is increasing, the growing number and sophistication of cyberattacks is threatening to outstrip efforts to increase resilience against them. As the reliance of the financial sector on IT and the interconnectedness of systems continues to rise, cybersecurity has become a financial stability risk. The trend has accelerated since 2017, with the cybercrime industry reaching maturity—evidenced by its adoption of mainstream business models. Regulators and the industry have taken steps to increase the resilience of the broader financial system against cyberattacks, but more is needed.

An early lesson of MCM's work has been that continuous training on basic cyber hygiene is a key instrument for building cyber resilience, especially as technological solutions become rapidly obsolete. Cyber risk mitigation policies should emphasize detection, response, and recovery. Supervisors must engage with financial institutions to ensure there is sufficient attention to establishing and maintaining effective cyber-breach identification capabilities, response protocols, and recovery measures. Business processes, technology, and governance—with a focus on governing boards and senior management—are the key aspects of building cyber resilience.

Joint MCM-PFTAC Regional Workshop on Cybersecurity (Vanuatu, August 2018).

MCM has begun rolling out a TA program to address cybersecurity. The approach is threefold:

(i) **Annual workshops.** the Fund and the National Bank of Belgium hosted the first annual cybersecurity workshop for financial supervisors in LLMICs at the IMF HQ in December 2017, with the objective of sharing good practices. The second annual workshop is planned for December 2018.

(ii) **Periodic regionally focused RTAC workshops.** To supplement the annual workshops, MCM is in the process of working with RTACs to deliver regionally focused workshops hosted by RTACs. The first such regional workshop was hosted by the Pacific Financial Technical Assistance Center (PFTAC) in August 2018, with another three events to follow by January 2019.

(iii) **Bilateral TA missions.** Country-specific TA missions are also ongoing, with the goal of building regulatory and supervisory capacity, promoting good practice, and sharing strategies that strengthen cyber resilience.

SECTION III

D

FINTECH—CHALLENGES AND OPPORTUNITIES

Fintech is rapidly changing the delivery methods of financial services. Although the type and penetration of fintech vary for different countries and regions, there is a general interest on how the regulatory framework should respond. Countries' interests span a broad range of regulatory framework design issues, including of crypto-assets, concerns on stability risks, and the modernization and oversight of payment systems. While fintech holds a lot of potential, from lowering costs to promoting financial inclusion, it is crucial that all stakeholders understand and mitigate associated risks. The IMF's financial stability mandate and its global membership provides for an ideal platform for discussions as to how policies should respond to fintech.

Cross-border regulatory cooperation becomes critical as the fintech developments shift the focus of regulation from national entities to borderless activities, from a local bank to quantum-encrypted transactions. Market conditions and the technology are evolving rapidly. As best practices on policy and regulation are being formulated, MCM has mobilized its resources to generate research and analysis on fintech issues. This work also requires close coordination with other relevant international bodies such as the Financial Stability Board, the Financial Action Task Force, and the World Bank.

MCM, in collaboration with the other departments of the Fund, is developing policy advice and capacity development tools, and engaging with the Executive Board, within the Fund's broader digital economy strategy. An MCM-led team has recently produced a Staff Discussion Note summarizing initial considerations on the impact of fintech on the financial sector and the regulatory response (see Box 5).

Significant efforts are made to extract good international regulatory policies and practices with a view to share this knowledge as part of our TA. As an example, a recent workshop in China, organized by MCM together with the China Securities Regulatory Commission—provided training on the implications of fintech (and also cyber risks) for securities regulators. The workshop highlighted global regulatory and supervisory issues associated with fintech and cybersecurity, specifically in relation to the securities markets. It also showcased emerging trends and technological developments impacting the securities markets. Industry participants and regulators across the globe discussed current challenges and future approaches to fintech and cybersecurity. Sandboxing and crypto asset regulation were among the top priorities.

SECTION III

E FINANCIAL INCLUSION

Financial inclusion, defined as access to basic financial services at affordable cost, has become a policy priority for many Fund member countries. Despite reforms to deepen financial markets, banks in many countries have focused on large and well-connected enterprises while large segments of the population are excluded from financial services and small- and medium-sized enterprises face difficulties accessing credit. The gaps in access to finance also persist across various demographics, including income, gender, age and geographical location and, therefore, deter countries from reaching their growth potential. Recognizing that access to financial services can promote inclusive economic growth, policymakers in many countries have been setting formal targets for financial inclusion or developing national financial inclusion strategies.

MCM's TA work in this area underlines the key role of the regulatory environment both in enabling financial inclusion that goes hand in hand with financial stability, and modernizing national payment systems. In particular, TA is increasingly focusing on the nonbank segment of the financial system due to the growing asset base in nonbank financial institutions (NBFIs) in several members. Lack of effective supervision in this sector could threaten to undermine not only the soundness of the NBFIs and the stability of the nonbank sector, but also the stability of the entire financial system because of the interlinkages with the banking sector.

Accordingly, recent TA work undertaken in several jurisdictions has sought to shore up the regulation of the nonbank financial sector. In Swaziland, under the project funded by FIRST Initiative, TA aimed at strengthening the supervision of NBFIs. This was done by providing hands-on TA to the staff of the regulatory agencies to enhance their technical capability to supervise these institutions effectively. In other countries, such as Botswana, MCM provided TA to enhance the payment systems to better reach the underserved. As mentioned in Section III-A, one of the key lessons that came out of the recent FSSRs was that strengthening regulation and supervision of the nonbank sector is becoming increasingly vital for enhancing financial stability.

Going forward, financial inclusion is expected to remain an important element in the Fund's TA work. As more FSSRs are undertaken and financial inclusion gaps are identified, several strands of TA support to our membership are expected to grow, including: (i) continued work in strengthening the regulatory and supervisory environment for the NBFIs; (ii) adaptation of oversight frameworks to emerging applications of fintech; and (iii) in collaboration with the World Bank, enhancing payment system aspects of financial inclusion.

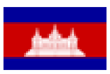
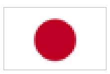
SECTION IV

MCM TA'S GLOBAL REACH—CASE STUDIES OF SELECTED TA PROJECTS

SECTION IV

A

CAMBODIA: Multi-Year Project in Bank Supervision and Regulation

In recent years, Cambodia has experienced one of the fastest financial deepening episodes by historical cross-country standards. Annual credit growth averaged nearly 30 percent, with real estate and mortgage lending growing at rates of over 40 percent in 2016–17. The already high credit-to-GDP ratio increased further to over 80 percent by end-2017. Cognizant of associated risks and in line with the government's Financial Sector Development Strategy Plan, the National Bank of Cambodia (NBC) commenced work to enhance regulatory and supervisory frameworks to buttress the safety and soundness of the financial system.

The multi-year MCM TA project, financed by the government of Japan, aimed at strengthening the regulatory framework and supervisory practices to support effective implementation of risk-based supervision. Bank supervision in Cambodia has historically relied on compliance-based approaches to assure adherence to minimum standards. The introduction of new risk-based supervisory methods required: overhaul of the regulatory framework; enhancements to data collection and management; and extensive training of supervisory staff. The TA project relied largely on resident advisors, with periodic short-term missions by MCM staff or external experts.

The TA project assisted the authorities in revising and implementing several important regulations. These included various regulations on capital requirements, impairment provisioning requirements, and liquidity requirements. The TA also assisted in improving systemic financial stability analysis at the NBC. The banking dashboard was improved by expanding the scope with a view to produce a standardized financial stability report. The project fostered some organizational changes at the NBC to streamline supervision and financial stability functions. The TA support also included training to NBC staff on stress testing.

The TA evaluation mission conducted in 2018 found that the project attained success despite the ambitious objectives of the original design. Effective implementation of risk-based supervision typically requires medium- to long-term TA engagement depending on the baseline of the country. The project focused on implementing the building blocks of risk-based supervision, including a robust regulatory framework and reporting requirements and offsite supervision. A phased approach to TA delivery allowed adequate time for processes, policies and training to take hold and support implementation. A follow-up project–also supported by the government of Japan–aims to continue enhancing the NBC's implementation of risk-based supervision. The high-level support for the project demonstrated by the authorities has been instrumental in ensuring effectiveness of the project.

Introduction of MCM's Resident Advisor to the NBC Authorities.

Prepared by Christopher Wilson

SECTION IV

B

GHANA: Capacity Building in Bank Supervision and Debt Management

Ghana is a high-intensity user of TA and there has been active cooperation, collaboration, and coordination between MCM, AFRITAC West II (AFW2), the government of Japan, SECO, the United Kingdom's Department for International Development (DFID), and the Ghanaian authorities. MCM has delivered TA on a wide range of topical issues with an emphasis on bank supervision and regulation, and debt management and development of domestic debt market. Other TA support extended to Ghana was directed towards enhancing the inflation targeting and monetary policy framework; improving foreign exchange management; monetary operations, liquidity management and forecasting; and building financial market infrastructures.

BANK SUPERVISION

Since 2012, MCM has provided TA to the Bank of Ghana (BoG), with the support of SECO, to enhance supervision and regulation of the banking sector. The current TA program has focused on two core objectives: enhancing supervisory and regulatory oversight of the banking system through development of a strategy and program for Basel II/III implementation, and improving risk-based supervision practices and processes.[17] This program has been at the center of the authorities' efforts to reform and update its processes and procedures, strengthen capital requirements, as well as improve transparency, disclosure and enforcement of its supervisory framework.

Ghana is making good strides in reforming and updating its bank supervisory and regulatory framework. A key milestone towards Basel II/III implementation in Ghana is the development of the new Capital Requirements Directive (CRD), which is expected to contribute significantly to enhancing the transparency of banks' risk exposures as well as the knowledge of supervision. To more readily integrate the CRD as new policy in supervision, and to build and upgrade capacity among staff, MCM collaborated with the IMF's IT Department on innovative IT solutions to help the BoG interrogate and analyze the substantial new volume of bank data collected for the CRD.

AFW2 has been supporting the BoG with enhancing its offsite monitoring processes and ensuring that these are more risk focused. AFW2 also provided several training workshops on consolidated supervision, liquidity and market risks, and IFRS. In addition, AFW2 facilitated an attachment for two BoG examiners to the Central Bank of Ireland on Internal Capital Adequacy Assessment Processes and the Supervisory Review and Evaluation Processes. Small clinic sessions and a review of individual offsite reports, reveal ongoing improvement in reporting of risks by examiners.

DEBT MANAGEMENT

With the support of the government of Japan, MCM has provided TA to Ghana to strengthen its debt management capacity through the development and implementation of its MTDS, and deepen the domestic sovereign debt market. TA has been delivered through a program of peripatetic visits by STXs and staff-led missions (some of which were through collaboration with the World Bank).

[17] This TA has been delivered through a resident adviser on financial supervision, based at the BoG since October 2016. Complementary support training on risk-based analysis and off-site reporting has also been provided by AFW2.

Significant progress has been made in developing the domestic market since the project was initiated, as well as in the development and implementation of the MTDS. The authorities have: reduced the frequency of new issues by re-opening existing bonds; increased the issuance of notes and bonds relative to Treasury bills; improved investor communications through investor meetings and publication of information on the Ministry of Finance and Bank of Ghana websites; and are working to improve the functioning of the primary dealership framework. The government has also performed well against the targets it has set for its debt strategy, lengthening the average maturity of domestic debt through longer maturity issuance and increasing the participation of non-resident investors. It has recently published a new MTDS for 2018–2021, with continued focus on extending the maturity of its debt through longer-dated bond issuance. In implementing the MTDS, the authorities are currently publishing a quarterly issuance calendar.

Prepared by Shelton Nicholls, Peter Madden, Dirk Jan Grolleman, Cheryl Bruce, James Knight, and Miriam Tamene

"MCM's technical assistance has gone a long way to help strengthen our bank regulatory and supervisory frameworks. In particular, we have recently issued the Capital Requirements Directive under Basel II, and our internal Basel Implementation Committee is now equipped to lead the process of effective implementation of the Basel II and III frameworks. Our bank supervision staff have also benefitted a great deal in terms of capacity to conduct onsite and offsite examinations, having streamlined their supervisory processes and sharpened their understanding of both financial and non-financial risks in banks' operations and requirements for financial reporting and disclosures by banks. We count on MCM's continued technical support as we advance on other financial sector reforms."

Dr. Ernest Addison,
Governor, Bank of Ghana,
July 2018

Bank of Ghana Staff at AFW2 Training Workshop.

Bank of Ghana: Engaging the banking industry on the CRD and Reporting Forms.

SECTION IV

C

MAURITIUS: Strengthening the Bank Resolution and Crisis Management Framework

In 2014, the Bank of Mauritius requested MCM TA to help upgrade the contingency planning for crisis preparedness and management to align it with international standards and good practices. This TA project was part of a broad overhaul of the Bank of Mauritius Act 2004 and the Banking Act 2004.

In October 2014, a MCM mission conducted a thorough assessment of the existing contingency planning framework, and thereby set the stage for subsequent TA missions. The failure of a large financial conglomerate in 2015 and the FSAP conducted in the wake of this event gave new impetus to the project.

In Spring 2017, a joint MCM/LEG mission, building on 2014 TA mission findings, provided specific advice on: (i) regulatory triggers and tools for corrective actions; (ii) resolution policies and procedures; (iii) ex-ante crisis preparedness; and (iv) extraordinary powers—safeguards and conditions. In September 2017, a follow-up LEG mission provided specific legislative drafting suggestions to the Bank of Mauritius Act 2004 and the Banking Act 2004.

A legislative package containing a new resolution and crisis management regime—along with reforms in the areas of central banking, bank supervision, deposit insurance, and payment systems—is set to be presented to parliament in 2018. In the meantime, the authorities consented to the publication of the mission report, which is available on the IMF website. The leadership of the Bank of Mauritius Governor as well as the close collaboration with LEG were critical in the success of this project, particularly in effectively managing failing banks, safeguarding financial stability while limiting moral hazard.

Prepared by Mesmin Koulet-Vickot

SECTION IV

D

MONTENEGRO: Strengthening Public Debt Management

"The TA from the IMF helped our country quickly build capacity to prepare a debt management strategy that proved very important to communicate our intentions to investors, the support received on implementing the liability management operation was timely and very important to reach the outcome to place the public debt on a sound trajectory."

Darko Radunović,
Minister of Finance

During FY2018, MCM provided TA to the Ministry of Finance in Montenegro, assisting the Public Debt Management (PDM) office in formulating a MTDS and a market-relations strategy (MRS). The TA laid the groundwork to implement liability management operations (LMOs) aimed at improving the public debt portfolio structure. The TA was undertaken as a program of activities designed to fit the needs of the PDM, and comprised of in-country missions, remote support, and training.

A combination of adverse macrofinancial conditions, an accommodative fiscal stance, and significant infrastructure investment had led to a notable increase in the size of Montenegro's public debt portfolio. The absence of a coordinated MTDS and a MRS had resulted in a concentration of maturities within a three-year period, as well as limited transparency for international creditors on debt management practice. The timing of an ambitious fiscal consolidation plan and improved macroeconomic conditions translated into greater potential rewards from implementing a formalized debt management strategy and strengthening stakeholder relations.

The TA project helped to lay the foundation for debt management and market relations, extend maturities, and reduce the cost of public debt. Main achievements include the following:

- The PDM published an MTDS for 2018–2020, having explicitly internalized potential costs from sources of risks. Strategies were developed to address refinancing risk, currency risk, and the changing investor base by using the MTDS Analytical Tool. The PDM's website was upgraded, including by adding relevant information from the MTDS in English.
- An investor factsheet was prepared to serve as an introductory reference to prevailing macroeconomic conditions and the PDM's debt management strategy.
- The deepening and formalization of stakeholder relations enabled PDM officials to engage in active outreach that provided them with valuable market intelligence on trends in creditor demand and market sentiment that improved the efficiency of implementing the LMO.


IMF Mission Team with the Montenegro Ministry of Finance Public Debt Office.

- The completion of a formal MTDS helped in the design of a LMO to address the main risks of the debt portfolio. At the same time, the MTDS, in conjunction with the MRS, provided the necessary base to communicate the debt management priorities to a wide range of stakeholders.
- The Ministry of Finance succeeded in repurchasing nearly €400 million of outstanding public debt and pricing its longest public Eurobond to date at a historically low cost. The repurchased bonds simultaneously reduced the refinancing risk in the public debt portfolio. Overall debt service costs were also lowered because of this complex yet well-managed operation.

Prepared by Vassili Bazinas, Thordur Jonasson, and Sheheryar Malik

SECTION IV

E

NEPAL RASTRA BANK: Multi-Topic Reform Programs

MCM has partnered with Nepal Rastra Bank (NRB) since 2010 in support of their reform programs. Bank supervision and monetary policy and operations have been central areas of focus. More recently, TA advice was also provided in payments systems. This broad-based TA was made possible through the generous support of the government of Japan and FIRST Initiative, and use of MCM's internal resources.

Bank supervision TA aimed to strengthen supervision by building capacity toward a shift to risk-based supervision. TA, implemented mainly by resident advisors, has made significant strides in two phases of delivery. Between 2011 and 2014, a Japan-funded program made substantial achievements in several areas including development of onsite manuals; conduct of a Basel Core Principles for Effective Banking Supervision self-assessment; crisis management tools; and the diagnostic reviews of 20 banks. In 2015, a follow-up three-year TA program was established with FIRST Initiative funding. Since then, two resident advisors have worked steadily on improving risk-based supervision in both onsite and offsite approaches. The Nepalese supervisors, who are well-informed regarding the supervision process, have been strengthening their risk-based supervisory practices under the guidance of the MCM advisors.

The NRB's bank supervision work is also supported by SARTTAC, launched in 2017, and DFID. SARTTAC's short-term TA combined with targeted training classes and a comprehensive view of the Nepal supervisory landscape had a positive impact on the development of banking supervision capacity. In addition, DFID has supported the establishment of a supervisory information system. The outputs from this system will be used by not only supervision, but also Research, Balance of Payments, Payment Systems, Foreign Exchange, and other NRB departments.

In monetary policy and operations, TA missions to the NRB have covered a broad range of monetary and FX issues including: liquidity management in 2010; the liberalization of the capital account in 2013; and monetary policy framework in 2014. The 2014 FSAP enabled a fresh and comprehensive look at those issues. Since 2016, MCM HQ as well as SARTTAC missions (more recently) continued to support the NRB on liquidity management, and the establishment of an interest rate corridor. Although the April 2015 earthquake in Nepal has posed significant challenges for the macroeconomic policy, the implementation of recommendations is gradually taking place with the NRB's commitment to reforms.

MCM's LTX in Nepal with Banking Supervisors from the NRB.

Payments systems is a more recent and highly important area of TA support. The NRB's Payments Systems Department was established in July 2015. MCM TA in 2017 aimed to assist the development of an oversight framework including policy stance, tools, and procedures to enforce central bank responsibilities. Consequently, the NRB published the Payment System Oversight Framework in February 2018. The policy document is largely aligned with the recommendations of the mission, outlining the objectives, principles, scope, and tools of oversight.

Prepared by Kat Woolford, Tanai Khiaonarong, and Diane Mendoza

SECTION IV

F

PAPUA NEW GUINEA: Enhancing IT Risk Supervision Framework

As part of the Strategic Plan, the Bank of Papua New Guinea (BPNG) is in the process of enhancing its risk-based approach to supervision. This is an important development given the size and complexity of the financial sector in PNG relative to regional peers. While the BPNG has the fundamental components of risk-based supervision, the effectiveness of the framework will be enhanced by developing a more comprehensive approach to risk ratings and supervisory attention and action planning. In 2017, MCM assisted the BPNG in developing the Supervision Framework Enhancement Program.

In early 2018, an MCM team–consisting an HQ staff member, the PFTAC resident advisor on financial sector supervision, and an external expert–provided TA to BPNG on enhancing its information technology (IT) risk supervision framework and onsite examination processes as part of the Supervision Framework Enhancement Program.

- The classroom sessions covered the key areas of IT risk supervision, such as IT security; IT change and project management; IT environment; business continuity management; IT audit; IT outsourcing; and emerging technology. The training guided the IT risk supervision team on what to look out for when conducting onsite examination in the various areas. The mission also assisted in developing a draft IT risk module (IT examination manual).
- The classroom training was followed by an on-the-job training in IT risk onsite examination providing guidance to the examination team, collating analysis of the findings, and developing a draft report of examination. The mission also looked at the full cycle of the onsite examination process, in the context of Supervision Framework Enhancement Program, covering: examination timeline; examination action terminology framework; structure of examination report; supervisory follow-up process; and formalization of onsite examination process. The mission provided detailed suggestions on how to effectively scope, prepare for, execute, and report on onsite examinations.

The main output from this TA was to help BPNG to build capacity to undertake IT risk examinations of financial institutions. Classroom training and the detailed review of IT risk module enabled the BPNG's IT risk supervision to be aligned to emerging best practices. Also, the mission's suggestions on the overall onsite examination process provided tangible and durable supervisory infrastructure to BPNG for implementation of effective and efficient onsite examination across all risk areas. The mission was well supported by productive discussions and excellent cooperation by BPNG.

Prepared by Hee-Kyong Chon and Benjamin Stefanou

IMF Presentation to BPNG Staff at the IT Risk Onsite Examination Training.

SECTION IV

G SOMALIA: Financial Sector Reform in a Fragile State

"The Central Bank of Somalia is very appreciative of the technical assistance provided by the IMF–MCM. We have seen a huge increase in the technical and functional capacity of the CBS staff, and we could benefit from the continued technical assistance from the MCM."

Executive Management,
Central Bank of Somalia

Somalia faced significant social and macroeconomic challenges due to major damages from decades of civil war. Following IMF's re-engagement with the Federal Government of Somalia in 2013, MCM promptly stepped in to provide much needed CD for building a well-functioning Central Bank in this fragile state. The areas of TA to the Central Bank of Somalia (CBS) gradually intensified and expanded further, thanks to support from the IMF's multi-donor Country Fund for Somalia.[18]

In line with IMF's long-run commitment to help Somalia rebuild its institutions and economic and financial infrastructure, MCM is implementing a comprehensive CD program with the primary goal of establishing a fully operational central bank. Despite multiple constraints (including security concerns and significant capacity limitations), MCM conducted a total of 46 CD activities (as of July 2018) since the start of the program, to assist the CBS in three primary areas: (i) central bank organization, transparency, and governance; and its accounting, internal audit, and risk management functions; (ii) banking supervision and regulation; and (iii) currency reform. All three TA projects supported by the Somalia Trust Fund were recently extended for another three years (FY2019–21) after completion of the first phase which covered the period FY2016–18.

The TA program contributed to laying the foundation for financial sector reform and capacity building of CBS staff in key areas:

- It provided intensive TA/training to Licensing and Supervision Department staff in developing the regulatory and operational frameworks for prudential supervision of commercial banks;
- It supported the currency reform team of the CBS, by providing practical advice on logistics, accountability framework, communication, anti-counterfeiting, and budget, as well as reviewing

[18] The donors to the Somalia Trust Fund are: Arab Fund for Economic and Social Development, Canada, European Union, Italy, United Kingdom, and United States. The fund, established in May 2014, has been operational since February 2015; MCM's three projects account for a large share (46 percent) of the latest approved budget of the fund allocated to all IMF TA departments.

relevant CBS documents related to the currency reform;

- It provided TA/training to accounting and internal audit departments staff in risk-based auditing, adopting the International Financial Reporting Standards framework, and preparing complete financial statements; and
- It supported the CBS in implementing its roadmap for financial sector reform through a review of current organizational structure.

The CD program for Somalia followed a coordinated, practical, prioritized, and sequential approach to gain traction. The pace of delivery needed flexibility to address challenging circumstances including security risks and finding alternative off-site locations, and slow absorption capacity due to knowledge and skills gaps. Considering these factors, the mode of TA delivery was tailored to specific needs of the CBS and relied on hands-on training modules with a combination of field visits and desk review by MCM staff and experts and periodic conference calls with the authorities as needed.[19] MCM closely collaborated with the area department, LEG, and ICD for successful implementation of its TA plan and integration of CD with surveillance in line with the Staff-Monitored Program (SMP) for Somalia.[20] In addition, MCM coordinated with other TA providers (e.g., World Bank, U.S. Treasury, DFID) on TA topics to avoid overlap and to ensure consistency.

Prepared by Jahanara Zaman

Governor of the Central Bank of Somalia, Bashir Issa Ali, with the MCM mission team.

[19] Due to the security situation in Somalia, all missions are held outside of the country.
[20] Currency reform is one of the key pillars of the SMP.

SECTION IV

H

SOUTH AFRICA: Upgrading Stress Testing Capacity for Financial Stability Analysis

"Through the technical assistance engagements of the IMF with the SARB on stress testing, the IMF made improvements to the existing SARB stress testing model and also expanded it by adding a perspective on liquidity to the solvency focus of the model. They also conveyed crucial skills and attributes to the team and maintained their support into the next stress testing cycle. As an institution we are immensely appreciative to the IMF and acknowledge the contribution of the MCM team in the IMF."

Francois Groepe,
Deputy Governor responsible for Financial Stability, South Africa Reserve Bank

A Financial Sector Regulation Bill, signed into South African law in August 2017 and implemented in April 2018, laid out the foundation and architecture of a Twin Peaks framework of financial regulation. It also conferred on the South African Reserve Bank (SARB) an explicit statutory mandate to enhance and protect domestic financial stability.

Against this background, the SARB is in the process of upgrading its stress-testing capacity in collaboration with the Fund's TA. The SARB conducts full stress-testing exercises to assess the resilience of the banking system to adverse economic developments once every two years or when deemed necessary. In 2015–16, the SARB conducted both bottom-up and top-down common scenario stress-testing exercises and the results were published in the Financial Stability Review. Subsequently, the SARB requested the Fund to provide TA in strengthening their top-down stress-testing capacity. In response, MCM reviewed from the HQ both the SARB's stress-testing framework and the 2016 macroprudential stress tests in early 2017, and visited Pretoria in July 2017 and March 2018. The SARB is now in the process of implementing the new tools in their ongoing stress-testing cycle.

The TA provided the following elements to enhance the top-down stress-testing framework:

- Solvency stress-testing framework: (i) expansion of the model to include standardized exposures; (ii) improvements in projections of net income; (iii) inclusion of additional risks (e.g., market risks, including currency risk) and portfolios beyond the loan book (e.g., holdings of securities); (iv) improvements in projection of credit risk parameters through the application of Bayesian Model Averaging techniques; and (v) implementation of single factor sensitivity tests.

- Liquidity stress-testing framework: (i) development of a Liquidity Coverage Ratio (LCR) template; (ii) implementation of the template using the existing reporting framework; (iii) calibration of LCR parameters; and (iv) development of a cash-flow based liquidity stress-test tool.

The TA also provided the cross-country perspective in the calibration and interpretation of various components of the stress testing exercise.

Prepared by Maral Shamloo

SECTION IV

I

REPUBLIC OF UZBEKISTAN: Transitioning to Inflation Targeting

"Currently Uzbekistan is undergoing through wide-scale structural reforms which include recent liberalization of foreign exchange market and modernization of monetary policy in line with international best practice. IMF's active support of reforms in form of various consultations and technical assistance missions were valuable and timely. With the help of IMF experts, we developed a new monetary policy strategy and plans for enhancing monetary operations in the medium term. Bearing in mind challenges in the upcoming years, further cooperation with IMF is considered as an important part of capacity building for the successful transition to the inflation targeting."

Timur Ishmetov,
First Deputy Chairman,
The Central Bank of Uzbekistan

Following a change in government in 2016, the Uzbek authorities have rapidly embraced economic reforms aiming at a more market-based economy. Financial markets are undeveloped and the Central Bank of Uzbekistan (CBU) has not historically taken active steps to manage liquidity or interest rates. The deepening of financial markets and modernization of the monetary policy framework have been an integral part of the reform program. To support the authorities' reform effort, MCM fielded two missions to Uzbekistan. The first mission provided a roadmap for upgrading the tools and operational structure for monetary policy, and the second mission assisted the authorities in designing an interim monetary policy framework for the transition to inflation targeting.

The project, partially supported by the MNRW Trust Fund, started in late 2017 at a critical juncture: the CBU had unified official and parallel exchange rates in September, which had led to a sharp depreciation of the official

Sammarkand, Uzbekistan.

Khiva, Uzbekistan.

exchange rate. State-owned banks had received public capital injections in FX to prepare them for losses associated with the depreciation in the official exchange rate. The adjustment did not cause major disruptions in bank loans to household and firms and economic activity. However, inflation rose sharply and the degree of dollarization remained elevated. An important early focus of the project was to design a credible disinflation strategy supported by a sound monetary policy framework and prudent policy approach. Moreover, monetary policy implementation needed to move from passive to active mode, implying a very different modus operandi for the CBU.

The TA provided a number of recommendations to achieve the CBU's objective. They included reforms to reserve requirements and standing facilities–the lending and deposit facilities that banks can access on demand; the introduction of open market operations; and the development of liquidity forecasting. The TA also provided the following recommendations to lay the groundwork for inflation targeting:

- The CBU should keep real short-term money market rates in positive territory, at least until its disinflation goal is met and inflation returned to single-digit territory. The introduction of an interest rate corridor for the short-term money market rate would facilitate this objective.
- The midpoint of the interest rate corridor should be declared as the new policy rate with liquidity management conducted to align, as closely as possible, a short-term money market rate with the new policy rate.
- Once modeling and forecasting capacity is established and the CBU's inflation forecast has proved reasonably reliable, the intermediate target should shift from real short-term rates to the CBU's inflation forecast.
- The CBU should allow for more flexibility in the exchange rate through an increased role of market forces. An intervention rule can be helpful to introduce greater exchange rate flexibility through a more systematic approach rather than deciding on the price and volume of FX interventions in an ad hoc manner; and
- It is urgent to reform FX regulation, improve exchange rate management capacity, and develop the FX market, including by reducing the market maker role of the central bank.

The CBU is at an early stage of significant monetary reforms, though the progress made to date is promising. The CBU publicly declared price stability as the primary objective for monetary policy and announced its intention to bring inflation down to single-digit figures in due course. Revision of the central bank law and FX regulation is underway, supported by the MCM and LEG Departments. Measures were taken to pave the way for greater operational independence for the CBU. Going forward, MCM is also prepared to assist with the creation of a liquid government securities market and yield curve in Uzbekistan.

Prepared by Kelly Eckhold and Thomas Harjes

APPENDICES

APPENDIX I. IMF Regional Technical Assistance Centers

RTAC	Location	Member Countries
AFRICA		
AFRITAC Central	Libreville, Gabon	Burundi, Cameroon, Chad, Central African Republic, Congo, Democratic Republic of the Congo, Gabon, Equatorial Guinea, Sao Tome and Principe
AFRITAC South	Ebene Cybercity, Mauritius	Angola, Botswana, Comoros, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Zambia, Zimbabwe
AFRITAC West	Abidjan, Côte d'Ivoire	Benin, Burkina Faso, Cote d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, Togo
AFRITAC West II	Accra, Ghana	Cabo Verde, The Gambia, Ghana, Liberia, Nigeria, Sierra Leone
East AFRITAC	Dar es Salaam, Tanzania	Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda
ASIA		
PFTAC (Pacific Financial Technical Assistance Center)	Suva, Fiji	The Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, Vanuatu
SARTTAC (South Asia Regional Training and Technical Assistance Center)	New Delhi, India	Bangladesh, Bhutan, India, Maldives, Nepal, Sri Lanka
MIDDLE EAST		
METAC (Middle East Regional Technical Assistance Center)	Beirut, Lebanon	Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Sudan, Syria, Tunisia, West Bank and Gaza, Yemen
WESTERN HEMISPHERE		
CARTAC (Caribbean Regional Technical Assistance Center)	Bridgetown, Barbados	Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos
CAPTAC-DR (Central America, Panama and the Dominican Republic Regional Technical Assistance Center)	Guatemala City, Guatemala	Costa Rica, The Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama

APPENDIX II. MCM Long-Term Resident Expert Placement (as of April 30, 2018)

Affiliation	Country	Topic	Donor-Partner
AFRITAC Central	Gabon	Financial Regulation and Supervision	Multi-donor
AFRITAC Central	Gabon	Debt Management	Multi-donor
AFRITAC East	Tanzania	Financial Regulation and Supervision	Multi-donor
AFRITAC East	Tanzania	Monetary and Foreign Exchange Operations	Multi-donor
AFRITAC East & South	Tanzania	Financial Market Infrastructures	Multi-donor
AFRITAC South	Mauritius	Financial Regulation and Supervision	Multi-donor
AFRITAC South	Mauritius	Monetary and Foreign Exchange Operations	Multi-donor
AFRITAC West	Cote D'Ivoire	Debt Management	Multi-donor
AFRITAC West	Cote D'Ivoire	Financial Regulation and Supervision	Multi-donor
AFRITAC West II	Ghana	Financial Regulation and Supervision	Multi-donor
AFRITAC West II	Ghana	Monetary and Foreign Exchange Operations	Multi-donor
Bank of Albania	Albania	Monetary and Foreign Exchange Operations	SECO
Bank of Albania	Albania	Financial Regulation and Supervision	FIRST
Bank of Algeria	Algeria	Monetary and Foreign Exchange Operations	FIRST
Bank of Ghana	Ghana	Financial Regulation and Supervision	SECO
Bank of Mozambique	Mozambique	Central Bank Operations	Norway
Bank of Sierra Leone	Sierra Leone	Central Bank Operations	FIRST
Bank of Sierra Leone	Sierra Leone	Financial Regulation and Supervision	FIRST
CAPTAC-DR	Guatemala	Financial Regulation and Supervision	Multi-donor
CAPTAC-DR	Guatemala	Central Bank Operations	Multi-donor
CARTAC	Barbados	Financial Stability	Multi-donor
CARTAC	Barbados	Financial Regulation and Supervision	Multi-donor
Central Bank of Myanmar	Myanmar	Monetary and Foreign Exchange Operations	Japan
Central Bank of Myanmar	Myanmar	Financial Regulation and Supervision	Japan
Central Bank of Nigeria	Nigeria	Financial Regulation and Supervision	DFID
ECCU/ECCB	St. Kitts	Financial Regulation and Supervision	CDB
METAC	Lebanon	Financial Regulation and Supervision	Multi-donor
National Bank of Rwanda	Rwanda	Financial Regulation and Supervision	FIRST
National Bank of Tajikistan	Tajikistan	Financial Regulation and Supervision	SECO
National Bank of the Kyrgyz Republic	Kyrgyz Republic	Financial Regulation and Supervision	SECO
National Bank of Ukraine	Ukraine	Financial Regulation and Supervision	Canada
Nepal Rastra Bank	Nepal	Financial Regulation and Supervision	FIRST
PFTAC	Fiji	Financial Regulation and Supervision	Multi-donor
SARTTAC	India	Monetary and Foreign Exchange Operations	Multi-donor
SARTTAC	India	Financial Regulation and Supervision	Multi-donor
TAOLAM	Thailand	Monetary and Foreign Exchange Operations	Japan

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