

TECHNICAL ASSISTANCE PROVIDED TO UKRAINE, FY1999–2003⁷⁵

I. INTRODUCTION

1. During the past decade, the IMF has provided a significant amount of technical assistance (TA) to Ukraine, that is, about 10,800 person days or approximately 41 person years (Table 1). Most of this assistance was concentrated in the period 1994–2001, when significant changes and policy challenges were faced in the move toward market institutions and macroeconomic consolidation. The soft budget constraints faced by state-owned enterprises (SOE), resulting from nonpayment of taxes and bank loans, were a major source of problems in the fiscal and banking sectors. Thus, many macroeconomic problems had microeconomic roots, which required reforms with major repercussions on the political economy. This was part of the background that TA activities were facing in the macroeconomic area during this period.

2. In addition, Ukraine exhibited certain features which differentiate it from other IMF borrowers. Ukraine had high levels of education and well-established institutions of public-sector governance at the start of transition—albeit geared to the requirements of the previous centralized Soviet system. Hence, the challenge facing TA work in Ukraine was more in the realm of supporting changes in deeply ingrained habits and in well-established institutions of public sector governance rather than starting anew. TA called for major realignments of the activities and relative powers of existing government agencies.

3. During the period FY1999–2003 that is covered by this evaluation, the annual level of TA provided by the IMF remained high and followed past trends. It was sharply reduced in FY2003 and in the projected amounts for FY2004. During this period, about 80 percent of total TA came in the form of long-term resident experts. The remainder was provided by about 35 short-term missions (Appendix I). The period also coincided with an active interaction between the IMF and the authorities in the context of the 1998 Extended Fund Facility arrangement (EFF), which incorporated a large number of policy benchmarks covering a three-year horizon. Many of the TA activities delivered were closely linked to these benchmarks (Appendix II).

⁷⁵ Based on interviews conducted by IEO with government officials and multilateral and bilateral TA providers in Kiev, Ukraine between April 5 and 14, 2004 and interviews with Bank and Fund staff in Washington, DC as well as internal Fund memoranda and communications, and World Bank and IMF staff reports.

Table 1. Composition of Technical Assistance in Ukraine
(In person days) 1/

Topics	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
FAD										
Budget Treasurv	269	258	62	114	5	...	8	6	...	...
Courses, Seminars	...	...	...	...	...	...	35	...	...	...
Expenditure Policy	...	...	...	...	...	54	...	...	...	...
Fiscal Management	14	...	189	238	140	263	263	280	...	...
Public Expenditure Management	...	...	76	...	199	259	316	160	...	...
Tax Administration	280	463	525	222	89	157	184	24	...	56
Tax and Customs Administration	...	...	...	18	...	...	...	...	...	...
Tax Policy	...	...	...	43	...	...	...	...	...	34
Briefing	9	...	10	...	...	...	...	...	...	...
Social Safety Nets	...	89	...	...	...	...	...	...	...	...
Blank	...	...	10	...	...	...	...	...	...	...
FAD total	572	810	872	635	433	733	806	470	0	90
MAE										
Blank	...	...	...	69	...	...	...	...	...	...
Accounting	...	...	112	...	46	31	32	58	30	...
Bank Restructuring	...	...	40	...	36	5	79	202	40	...
Bank Supervision and Regulation	61	52	...	...	424	219	54	1	...	...
Capital Markets/Securities Supervision	...	...	...	...	...	...	...	4	...	...
Foreign Exchange	25	47	...	...	...	...	33	...	...	...
Monetary Policy	...	...	...	...	26	...	...	...	...	...
Multiple Subject	74	...	6	...	72	158	...	...	...	18
Research and Policy	...	...	...	14	...	...	...	...	...	...
TA Overhead	2	8	3	...	...	3	...	2	3	...
General Advisor	267	112	230	...	...	...	...	...	...	...
MAE total	429	219	391	83	604	416	198	267	73	18
STA										
Balance of Payments Statistics	24	23	15	...	...	5	...	...	...	...
Briefing:	...	...	5	3	...	13	5	...	...	...
Consumer Prices/Producer Price	...	27	24	16	12	...	20	22	...	...
Debriefing:	...	...	...	2	...	16	5	...	...	...
Inspection Visit	...	4	...	...	...	3	2	...	...	...
Money and Banking Statistics	35	23	25	...	11	10	...	11	...	...
Multisector Statistics	233	260	404	266	261	227	261	237	...	...
National Accounts Statistics	...	47	...	...	22	16	...	...	...	...
SDDS: Assessment	...	...	...	...	...	...	...	...	12	...
STA total	292	384	473	287	306	290	293	270	12	...
LEG										
Blank	...	...	...	7	5	...	...	...	...	...
FSC	...	...	...	...	17	...	...	...	...	...
Tax Policy	...	...	...	11	...	...	...	...	...	...
LEG total	...	...	...	18	22	...	...	...	...	...
Grand total	1,293	1,413	1,736	1,024	1,365	1,439	1,297	1,008	85	108

Sources: IMF's Office of Technical Assistance Management and Travel Information Management System

1/ For short-term experts, those assigned for less than six months in the field, and missions, the data includes weekend days. For long-term experts, weekend days are excluded.

4. During this period, about half of the TA, as measured in person years, was provided by the IMF's Fiscal Affairs Department (FAD), with the remainder being shared about equally by the IMF's Statistics (STA) and Monetary and Financial Systems (MFD) Departments. TA was delivered in tax policy and particularly in tax administration, tax expenditure management with an emphasis on treasury systems, the enhancement of the analytical capabilities of overall fiscal management, bank supervision and restructuring, and statistics. These activities are described in detail below.

A. TA on Tax Administration

5. TA in this area has been extensive, starting in 1992 in the form of TA missions, long-term advisors, and several tours and study seminars and focusing on Ukraine's State Tax Administration Agency.

6. The initial phase of TA covered a broad set of reforms, including reorganizing tax offices according to administrative functions, setting up new procedures for taxpayer services, auditing and conducting assessments, improving collection of arrears, and developing a modern computer system. Reform measures were initially implemented in a pilot office and gradually expanded to other tax offices.

7. After three years of development, an FAD review mission in 1997 found little progress relative to expected results, except for the introduction of a modern computer system. Limited progress was found in reforming procedures and organizational arrangements. The sharp increase in tax arrears during 1998 (the stock of arrears quadrupled during that year and the number of taxpayers with arrears doubled) and the assessments of further FAD review missions during 1998 resulted in a change in TA strategy, by both FAD and the authorities. The objective was to target TA more sharply, initially in the audit area and then in controlling tax arrears and focusing on creating special "large taxpayer offices."

Developments from 1998 to 2001

8. A resident expert was assigned for six months during 1998 to advise on implementation of a national audit plan and to train auditors. The first expert was then followed by another resident expert who advised the State Tax Agency from late-1999 to mid-2001, whose end-of-assignment report contained the following main points:

Improving the operations of the pilot project

9. To enhance tax collections, training courses were developed and on-site visits were increased. Computer programs were improved and more realistic reporting and forecasting systems were implemented. Overall, the results of these activities at the pilot office were positive: collections increased, managers and staff better understood their roles and responsibilities, and control of collection cases improved significantly. The main recommendation was to expand the pilot model to other regional offices—to be managed, coordinated, and monitored by the State Tax Agency.

Helping implement organizational changes and workflow procedures

10. A key problem was the slow implementation of improved procedures and workflow reforms. To some extent this was the result of management and staff not being fully aware of the reasons for these changes. In addition, the lack of interest and participation on the part of a subset of senior officials proved to be a serious deterrent. This attitude permeated to staff and lower management, who became reluctant to implement the necessary reforms. As a response, new timetables for the implementation of these reforms were established. Training courses were conducted and senior management was informed about the lack of interest of some key officials.

11. Training activities improved local knowledge and understanding of the required reforms. However, critical managerial changes to address the lack of interest by some senior officials in the agency were not made, and this was judged to be a major factor in delaying the overall implementation process.

Improving the operation of large taxpayer offices (LTO)

12. A major problem to be addressed was putting in place an effective criterion for defining the large taxpayer category, which was previously too restrictive, thus resulting in large arrears cases. A review of a number of large tax arrears cases revealed an alarming growth in such arrears, particularly due to large state-owned enterprises that extensively used payment-avoiding schemes. This was a critical problem because the existing LTOs had been planning to expand to larger cities.

13. To address these problems, training programs for LTO staff were conducted. The need for changes in the tax code to allow the State Tax Agency to enforce collections in large state-owned enterprises was brought to the attention of senior officials. Little progress was achieved in this area.

Identifying/recommending changes to legislation and administrative provisions

14. A new tax code provision was passed by the RADA in early 2001. Because the law still provided for complete forgiveness of tax debts, it was judged to fall short of what was required. Several rules essential to the determination and collection of taxes were not included in the law.

15. Problems with the new law and recommendations for changes were transmitted by memorandum to the head of the State Tax Agency, the Deputy Minister of Finance, and the Deputy Chairman of the Finance and Banking Committee. These efforts were complemented by TA provided by the U.S. Treasury Department.

Progress at the conclusion of the resident experts' assignment

16. The conclusions of the resident experts' assignments reflected mixed progress. Progress was made in the workflow and reporting systems of the State Tax Agency. Agency

staff became more aware of the need to aggressively enforce tax collection. However, important changes in legislation were still required to close loopholes in the tax code. Less progress was made in having the agency head acknowledge that key critical changes in senior personnel were required. It was found to be critical that senior officials show their approval of reforms in a manner that would be highly visible to the rank and file. Finally, it was critical for the government's attitude to change by supporting tax collection efforts taken against the largest enterprises.

17. Some Ukrainian counterparts working in this area expressed their appreciation for the work of the resident experts. They noted, however, that IMF TA could have been a little more practical. In comparison with IMF TA, they described the TA provided by the Dutch government to be "very practical" and "based on real-life experience."

Developments from 2002 to 2003

18. With the end of the long-term experts' tax assignments by mid-2001, the volume of TA on tax administration was sharply reduced. The main activity during 2002 was a mission to advise on steps to reduce the mounting volume of value-added tax (VAT) refund arrears—a new development that became an important factor in delaying disbursements under the existing EFF.

19. The significant increase in overall tax arrears, from three percent of GDP at the end of 1991 to six and a quarter percent of GDP at the end of 2002, reflected noncompliance by the energy sector and the inability to collect arrears already restructured under the 2001 tax amnesty—an initiative that the IMF TA strongly discouraged. This situation cast further doubt in FAD about the authorities' commitment to follow up on past TA recommendations. It was judged that the most appropriate strategy was to focus on well-defined problem areas, such as carrying out a specific mission on VAT refund arrears, rather than recommendations on broader reform strategies in tax administration. This strategy was also judged to fit emerging collaboration efforts with the World Bank, which was in the process of preparing a \$200 million tax administration project for the agency that would support a broad set of policy steps in this area.

20. Several recent IMF documents have assessed progress made during 2003 and provide a consolidated view of the current situation. The most comprehensive source is FAD's Fiscal Strategy Brief for 2003. It exemplifies the benefits that a good fiscal brief can provide in assessing progress and future directions in TA.

21. Areas where there have been progress include the following:

- Tax holidays were discontinued in 2003 and tax preferences were cut significantly in 2003 and 2004, reducing their fiscal cost from four and a half percent of GDP in 2002

to two and three-quarters percent in 2004. Many sectoral VAT exemptions have been suspended.⁷⁶

- Although progress has been slow, tax authorities have gradually expanded the number of large taxpayer offices, with the objective of covering about 65 percent of revenue by the beginning of 2004.
- A new law on collection enforcement has helped reduce the volume of tax arrears. The introduction of national audit plans and further training has improved the overall audit function.
- VAT refund arrears seem to have been the result of a combination of government cash management practices (lack of flexibility in interpreting sub-target revenue collections) and unclear practices of the tax administration.
- A \$200 million World Bank project will follow up on several areas of tax administration assistance, and FAD has cooperated with the World Bank in its design. The IMF will remain available for advice when there is a clear and specific demand from the authorities.

22. Areas where less progress has been made include:

- The constant use of tax amnesties, and the risk that such practices will continue in the future. The expectation of these amnesties significantly reduces the payoff of improvements in tax administration.
- The limited accountability and external oversight of the State Tax Agency, which only reports to the President, is an area of weak governance in fiscal management. This weakness is explicitly recognized by the 2004 Fiscal Report on Standards and Codes (ROSC).

23. In discussing the sharp reduction of TA during the last two years, some Ukrainian counterparts suggested that the IMF focus on a more limited set of topics but follow through to their resolution. While the IMF has delivered TA on VAT issues in 2002, there has not been enough follow-up in spite of continuous TA needs in this area.

B. TA on Treasury Systems

24. Support for the treasury development was another important area of technical assistance provided by FAD during FY1999–2003 to assist improving the quality of overall fiscal consolidation. It was largely provided by resident experts in Kiev from August 1998 to January 2002, focusing on five areas: (a) cash management; (b) accounting system and

⁷⁶ International Monetary Fund, “Ukraine: Request for Stand-By Arrangement,” (2004).

computerization; (c) fiscal reporting and management of arrears; (d) improved coordination between the Treasury and other agencies—in particular the Budget Office—including a new budget classification and improved commitment controls; and (e) the introduction of a Treasury Single Account (TSA) system.

25. Recently, considerable progress has been made in all of these areas, and this fact has been explicitly recognized by the FY2004 ROSC. However, progress toward some of these goals was difficult. A major reason was insufficient collaboration across agencies and resistance to yielding controls and responsibilities to others. Particularly difficult was FAD's recommendation to implement the TSA (a benchmark in the 1998 EFF), in particular the need for efficiency and transparency, and to consolidate cash balances and eliminate the practice of leaving such balances at the regional level. Stronger support from the whole cabinet would have made progress easier.

26. An area of tension in relations between the authorities and the IMF was the speed at which the implementation of the TSA was carried out. The IMF position was that enough time was available to implement the TSA by the end of 2001. The authorities thought the intermediate arrangements in place at that time, whereby the state treasury made cash management decisions that located public funds at several regional offices, were working effectively and were fully transparent.

27. During discussions in Kiev, the Ukrainian counterparts noted that the problem could have been avoided had more time been taken at the start to explain how the concept of a TSA had been implemented in other countries, which would have enabled the Ukrainian authorities to draw from this international experience. At the start of TA in this area, officials knew little about what was required—they were more willing to trust the judgment of the resident experts. However, as the authorities deepened their understanding, they began to question what was being proposed, particularly at the operational level. Difficulties also arose over the interpretation of what a TSA system required, with the authorities believing they had accomplished what was recommended.

C. TA on Fiscal Management

28. The purpose of TA activity in fiscal management was to enhance the macroeconomic and fiscal analytical capability of the Ministry of Finance to better integrate the budget into the overall macroeconomic framework. It focused on a specific unit within the Ministry, namely the Macro-Fiscal Policy Department. Most of the TA activity was provided by a resident expert in the field from October 1998 to April 2002. The initial terms of reference for this TA stated:

- Assist the Department with (a) constructing a consistent macroeconomic framework for the budget; (b) improving revenue and expenditure forecast and policy analysis; (c) monitoring domestic and foreign financing of the budget; and (d) providing general fiscal policy analysis and briefing to the Minister.

- Develop new initiatives such as (a) fiscal policy review notes to assess fiscal outturns and policy options; and (b) an approach for the conduct of fiscal policy in the medium term.
- Consistent with the above, (a) help reorganize the Department; and (b) develop an on-the-job training program.

29. Significant progress was made during the 1999–2001 period in many of these areas. Specifically, the Department had:

- Put in place regular budget execution notes providing an analysis of deviations from plans and recommendations for in-year corrections. These notes were circulated to the Minister and posted on the Ministry's website. They helped sensitize the statistic agencies to the need for improvements in fiscal data.
- Started preparing economic reviews for wide dissemination.
- Initiated the preparation of a financial programming forecast in an effort to achieve internal consistency between the Ministry of Finance (fiscal block), the Minister of Economy (real sector block), and the National Bank of Ukraine (NBU) (monetary and balance of payments block). This exercise improved inter-agency coordination.
- Initiated regular forecasting seminars with open attendance from various ministries, private sector representatives, and academic centers involved in forecasting.

30. At the end of the resident expert's assignment in May 2002, it was judged that the Department was in a strong enough position to proceed without the need of an advisor. However, several risks remained, jeopardizing the sustainability of recent progress. Corrective steps could only be addressed by decisions taken by the Minister of Finance and by the cabinet at large.

- Significant tensions remained between the Macro Fiscal Department and the Budget Department within the Ministry of Finance, which could only be settled by a decision from senior management.
- A major problem was that the Macro Fiscal Department was located too low in the Ministry's structure. This put constraints on the ability of the Department to play a major role in medium-term forecasting, insofar as it was unable to obtain necessary cooperation from other departments within and outside of the Ministry. In spite of the explicit recommendations of FAD and the IMF's area department to correct this problem, no decisions were made by the authorities.
- Because of the training received, Macro Fiscal Department staff started to be approached for job opportunities by the private sector, particularly in the area of economic forecasting. In fact, several talented staff had already left the Department

by early 2002. This made resolution of the Department's overall status even more important.

- Efforts to institutionalize the production of forward-looking reports focusing on emerging fiscal issues (for example, for the Department to be more anticipatory) were not successful. The Department's tendency to view itself as the Minister's advisor remained ingrained.

31. Some of these problems surfaced and became more serious when important changes in senior management and in the Cabinet took place in 2002 and 2003. An important portion of the Department's staff left. Nevertheless, important spillovers remained. The quarterly seminar that the Department started with the Ministry of Economy continued, and the practice was taken over by the latter with support from the UNDP. These seminars were useful in linking the work of the Ministries of Finance and Economy, the NBU, international financial institutions, and think tanks, eventually giving rise to quarterly "consensus" type macroeconomic projections. During all these years, resident advisors worked closely with USAID and the U.S. Treasury, and benefited from bilateral assistance from Canada, Germany, and the United Kingdom, as well as from EU-TACIS.

32. The Ukrainian counterparts noted that the resident expert working in this area had the ideal qualities for such an expert. He was considered a real teacher and colleague, devoting significant time to explaining and coaching. He made a special effort to first understand the Ukrainian context, which increased his effectiveness because he did not fall into what counterparts considered to be the common trap of trying to quickly extrapolate from his own country's experiences.

33. According to the Ukrainian counterparts, the effectiveness of IMF TA would have been enhanced had there been more upfront training for the direct beneficiaries of the TA, including training conducted at the Vienna Institute. This would have ensured that the resident expert could spend less time teaching basic principles and could concentrate more on strategic objectives. In addition, greater efforts could have been made to educate the Minister, senior officials, and other government departments about the role the Macro Fiscal Department was intended to play and why it was of relevance to them. The resident expert did make special efforts to establish links between related agencies to bring them along, including special efforts to coordinate with the donor community.

D. TA on Banking

34. Prior to 1999, most of the TA provided by the IMF focused on the internal operations of the NBU, in areas including auditing, accounting, bank supervision, monetary operations, and payment systems. This TA was provided in coordination with activities by other donors, such as USAID, EU-TACIS, the World Bank, the Netherlands Bank, and others.

35. Starting in 1999, the focus changed as evidence started to emerge that the banking system was experiencing severe difficulties. Together with the authorities, it was decided that

an urgent priority was to address the distressed eight largest banks in Ukraine, first by assessing their situation in depth and then by developing and implementing rehabilitation and restructuring plans. For this purpose, resident experts were stationed in Kiev between 1999 and 2002 to advise the NBU's Banking Supervision Department to draw out these plans and follow up on implementation. Their activities were complemented by several large missions that visited Kiev during the period. Part of this work was carried out with USAID and EU-TACIS technical advice that focused on specific banks.

36. Many of the steps to be taken in implementing these plans were contained in the 1998 EFF's Memorandum of Economic Policies, and a close link was established between these TA activities and program conditionality in the EFF. In addition, some TA activities targeted at the NBU in the areas of auditing, accounting, and monetary operations continued during this period. Following anomalies in the reporting of net international reserves, several TA missions also visited Kiev to advise on reforms to enhance internal controls and the reporting framework of reserve management.

Progress achieved and lessons learned

37. As it happened, progress in this area depended largely on personalities at the Central Bank. There were periods conducive to good progress and others when the resident advisor's work was directed away from the most urgent and delicate topics of supervising and implementing action plans toward organizational issues. Because of the political sensitivity of restructuring some of the most distressed and largest banks, TA activities in these areas were less welcomed. Progress in improving laws and regulations to strengthen supervision advanced more rapidly than the more politically-difficult tasks of actually supervising the banks. In some instances the advisors got caught in internal bureaucratic tensions that reduced the effectiveness of the TA work.

38. Examining the situation today, partial success has been achieved. The situation of the smaller banks in the original group improved, and they became relatively smaller (and hence systematically less important) owing to the rapid growth of new banks that emerged as monetization and credit expanded and overall growth resumed. Eventually, the World Bank took the responsibility of following up and implementing the liquidation of Bank Ukraine. The Savings Bank has improved its balance sheet, although it remains under-capitalized.

39. This area of TA is one of the most delicate in terms of its political repercussions. Tensions between the authorities and advisors may have also been compounded by the fact that TA in this area was closely linked to program conditionality. In fact, the resident experts' terms of references explicitly refer to their responsibility to assist the authorities in meeting commitments under the 1998 EFF program.

40. Some Ukrainian counterparts noted that the poor state of the economy after 1998 made it difficult to proceed aggressively with bank restructuring and closure. The initial standards advocated by the IMF (for example, on loan provisioning) may have been too stringent or ambitious. Other counterparts thought that greater scope for the injection of cash

should have been considered. Efforts to restructure Bank Ukraine could have been focused on limiting its activities rather than on closure. Several options suggested by the NBU were not accepted by the IMF. However, in response to a question about the other TA providers working in this area (that is, funded by the World Bank and the European Union); local counterparts indicated that other TA providers' advice and strategy were similar to those coming from the IMF.

41. Many of the teams that were put together to analyze the situation of the banks and to develop action plans involved Ukrainian counterparts in their work. On-the-job-training for these local counterparts was an important capacity building element of the TA activity and may have had important externalities whose effects can only be judged in the future.

42. Finally, it is of interest to examine the Ukraine Financial System Stability Assessment (FSSA) undertaken in 2002 (April 22, 2003) regarding areas covered by past IMF TA: "The Ukrainian financial system has been growing rapidly as the macroeconomic environment has stabilized and general confidence has returned, but important vulnerabilities remain. The authorities have strengthened the prudential regulation of banks and other financial sector institutions, institutional reforms are also progressing, and some soundness indicators show improvement. However, a large share of loans are nonperforming, credit—much of which is denominated in foreign currency—has been growing very rapidly, and real interest rates are high. Hence, credit risk remains a major threat to financial stability. Further, efforts are needed to improve the capitalization and operational efficiency of the state-owned banks." As seen today, the NBU has clearly improved the supervision of the largest private banks, who have experienced improvements in their capital adequacy ratios. However, the banking system is still riddled with a large number of smaller pocket banks that are not fully subject to supervisory rules and regulations. The Savings Bank has improved its portfolio but remains undercapitalized.

E. TA on Statistics

43. During the past decade, technical assistance from the IMF on statistics has been extensive and sustained. The period studied here, FY1999–2003, followed this trend, and TA relied extensively on the contributions of resident advisors who remained in Kiev throughout the period. The IMF's TA work helped to consolidate much of the progress that was achieved earlier, focusing on the following areas.

- i) Advice to the State Statistics Committee (SSC) on:
 - national accounts statistics;
 - price statistics;
 - coordination with other donors; and
 - selected TA on statistics laws and coordination activities with EUROSTAT.

- ii) Advice to the Central Bank on:
 - balance of payments statistics; and
 - monetary statistics.
- iii) Advice to the Ministry of Finance on:
 - Government Financial Statistics.

44. Important progress was made in most areas. Enactment of a new statistics law, which was put in effect in January 2001, was an important milestone in providing guarantees of confidentiality to respondents and helping to build the independence of the statistical system. The ROSC on Data Module assessment based on the April 2002 mission acknowledged progress toward the Special Data Dissemination Standard (SDDS), with Ukraine meeting the periodicity and timeliness requirements. However, Ukraine still does not disseminate the template on international reserves and foreign currency liquidity. The ROSC also acknowledged the soundness of the legal framework supporting statistical quality as well as the fact that macroeconomic statistics broadly followed international standards.

45. The end result was the subscription of Ukraine to the IMF's SDDS in January 2003. In fact, Ukraine became the first country of the Commonwealth of Independent States to subscribe to the SDDS. In spite of the progress achieved, follow up to TA recommendations faces difficulties in certain areas:

- There is significant rotation of personnel, often associated with changes in senior management.
- Parallel units are reluctant to work together and relinquish responsibilities to each other when needed. Because of bureaucratic rigidities and habits, units tend to work "down" and not "across" the system. There is little freedom for staff to work together outside the bureaucratic system.
- SSC senior management is unable to reallocate resource across units, from overstaffed to understaffed departments.

46. The quality of end-of-assignment reporting by resident experts was excellent, as was the project checklist for the STA senior staff visit to those countries where long-term resident experts were assigned.

47. Ukrainian counterparts in this area consistently spoke very highly of the IMF resident experts. Coordination with other donors was good, and the experts' reports were of an appropriate length and level of technicality. The presence of IMF TA also helped reconcile differences among related agencies.

48. However, Ukrainian counterparts did raise some concerns. They said that at times, TA recommendations were not appropriate for the country context, with the IMF tending to take positions which were subsequently pressed upon the country. Counterparts asked for “greater tolerance.” Several counterparts raised the issue of translation. Manuals on policy guidelines that are sent to the agency for comment only arrive in English, and local staff were not given much time to comment. This was unfortunate since counterpart staff would have wanted to provide input into the relevant deliberations of the IMF. This would be greatly facilitated if unofficial translations could be provided earlier. Officials were particularly appreciative of the resident experts’ efforts to help compile a unified terminological dictionary, which has proved helpful for both interpreters and translators.

49. Finally, one issue raised in our interviews with official was the possibility of a stronger role from STA in assisting to incorporate the shadow economy in national account statistics, particularly in countries with large informal sectors such as Ukraine.

F. Coordination with Other Donors

50. Although Resident Representatives hold regular meetings with donors and embassies at the conclusion of IMF area department missions, there was a perception that the IMF should also be open to informal meetings with donors sponsoring TA and training in areas related to the IMF’s work. Some donors suggested that the IMF organize semi-annual briefings for other TA providers to discuss issues of mutual interest.

51. Suggestions were also made that the IMF make greater outreach efforts within Ukraine, including to universities, to explain the mandate and work of the IMF. Regarding future TA needs, it was suggested that future activities focus on building research and analytical capacities among the younger generation.

52. World Bank staff commented that IMF TA was perhaps too strongly driven by program considerations. The intensity of TA fluctuated according to program needs. Ukraine needs a longer-term capacity building strategy, proceeding on a schedule independent of IMF programs. Moreover, it is questionable whether TA aimed at capacity building would be effective in a time of crisis. TA that is too closely related to an IMF program designed to respond to a crisis will probably not be effectively used. It was recognized that departing from this model may be difficult for the IMF. The issue was raised whether IMF staff receive recognition for work outside a crisis context. The IMF Resident Representative was well-placed to see longer-term issues independent of a crisis context, and could play a critical role in helping shape a longer-term capacity building-oriented TA in a specific country context. This would also have important implications for the mandate and resources given to IMF Resident Representatives.

G. Summary of Cross-Thematic Comments from Counterparts

53. In this section, we summarize the most common type of feedback received from local counterparts which are relevant across TA topics. This also includes feedback from Ukrainian policymakers commenting more broadly on TA provided by the IMF.

54. Generally, the long-term resident experts who provided most of the TA during the FY1999–2003 period were judged positively, having made important contributions to increasing local knowledge in their particular sector. They helped improve coordination across related agencies—a difficult task during periods of radical redefinitions of the role of such agencies.

55. There were obviously differences on how the same resident expert was judged by different Ukrainian officials. Understandably, one gets the impression that problems were usually associated with the political and bureaucratic sensitivity of the TA recommendations given. In areas such as banking supervision and restructuring, tax administration, and treasury reforms—where policy follow-up involves redistribution of rents and incomes or a major realignment in the power and responsibilities of agencies (also relative to powers at the local level)—there was more tension than in other TA areas which sought to enhance the macroeconomic capabilities of the Ministry of Finance or to provide overall statistics support.

56. One reason for tensions during TA delivery may be that it came, at least at the beginning of the period, at a time of political turmoil and change in government, with high turnover of senior staff, and that an important part of the TA was linked to conditionality in the 1998 EFF program. Moreover, TA resident experts were expected to follow up and monitor part of that conditionality through TA.

57. Many officials recommended that the IMF should spend more time explaining why particular TA work was needed, including to high-level officials, and should make an effort to do so across agencies. It is important that a range of models and alternatives be presented, highlighting different country experiences, prior to deciding on a specific course of action for Ukraine. Instead, IMF experts tended to brainstorm “among themselves” and then present the authorities with a single solution. More interactive discussions in the early phase of TA delivery are important.

58. Some officials also recommended that the expert’s terms of reference should better clarify the objectives of the activity, including upfront commitments and obligations on the part of the authorities for a clear follow-up action plan. This action plan should then be left with the authorities at the end of the exercise and include details on training and dissemination.

59. The IMF should refrain from placing “personal advisors” to specific ministers or agency heads. This practice reduces the incentive for experts to advise more broadly across agencies, thus reducing important externalities. It is important to disseminate lessons across government agencies to strengthen links and avoid mistrust.

60. The IMF sometimes does not sufficiently engage the authorities on problems related to implementation of recommendations, including any social consequences, as well as constraints to implementation.

61. A clearer distinction should be made between TA in times of crisis and in times of tranquility. The first calls for faster implementation. In the latter case, the IMF can offer a broader analysis of options, time tables, social cost implications, and make a stronger effort to work jointly with the authorities to identify future TA priorities.

62. A more transparent criterion should be developed between the IMF and the authorities to determine how participants for IMF training courses abroad are selected. Situations where a staff member leaves an agency immediately after returning from training should be avoided. Participants in courses abroad should be required, on their return, to conduct seminars on what they have learned to maximize externalities.

63. There is the perception that sometimes long-term resident experts are assigned to a specific agency not because of the needs of the authorities, but as a response to the IMF's desire for more and better information about what is happening in that particular agency. This recommendation has been corroborated by discussions with IMF staff who believe TA experts should keep a minimum distance from program negotiations and from follow-up of program conditionality in their areas of TA work, which would increase the authorities' trust of the experts.

64. To address the problem of constant changes in the staff of ministries and agencies, it is recommended that international financial institutions and donors assist in creating think tanks sponsored by the government but autonomous in making hiring decisions, that have the power to hire qualified public officials once these officials leave the public administration following changes in government. This would prevent loss of these public sector officials' technical expertise.

65. Regarding TA advice on the banking sector, some officials thought the IMF was asking for improvements in capital adequacy ratios and loan provisioning which were too ambitious and unrealistic, particularly during a crisis period.

66. Improvements in the speed and quality of document translation would improve the process and timeliness of obtaining feedback from local experts.

II. LESSONS

A difficult context: a transition economy in the midst of political and institutional change

67. The experience of Ukraine could be of relevance if the IMF decides to deliver TA in a transition country that today features similar conditions to those characterizing Ukraine a decade ago: that is, well-established institutions of governance inherited from central planning and high levels of education and scientific knowledge adapted to the economic realities of the time. In this context, technical assistance faces particularly difficult challenges: how to encourage changes in well-established institutions which would involve a major rebalancing of their relative power and which are likely to face resistance. Because of

the high education level, the TA solutions and recommendations for change need to be well-argued and their rationale particularly well-explained. Otherwise, they will not be accepted.

TA in the midst of a program

68. An important part of the TA program in the period was linked to specific targets in the 1998 EFF program. TA on tax administration was to help increase the share of cash collections (tax collection in cash represented only 10 percent of GDP in 1998 because of the heavy use of netting out practices); progress in implementing the single treasury account was to help in improving the transparency of fiscal operations; and progress in improving banking supervision and implementing action plans for large banks in distress was to assist in reducing vulnerability affecting the financial sector. Moreover, some of the resident experts' terms of references explicitly refer to their role in monitoring policy actions agreed under the program.

69. This close link between TA and programs may have had some adverse effects on the effectiveness of the resident advisors, particularly if they were seen as extensions of area departments following program conditionality. This may have damaged the authorities' trust and the ability of the experts to influence progress toward achieving longer-term institutional changes.

More emphasis on early brainstorming and interaction with officials prior to coming out with a specific recommendation

70. One piece of consistent feedback from the field was the need to better explain the rationale for a particular TA activity and for recommendations made by the experts. In other words, there is a perception that the IMF staff does not "bring people along enough." This is critical to increase the ownership of the TA activity and adoption of ensuing recommendations.

The IMF should avoid strong and abrupt discontinuities in the volume of TA provided from program to nonprogram periods

71. Longer-term capacity-building objectives and activities should not depend on having an IMF program. The very abrupt decline in the amount of TA provided by the IMF in FY2003-04, as long-term expert assignments ended, raises questions on whether a country-focused medium-term strategy of TA exists or whether TA activity is essentially driven by program needs (Some TA in the area of banking supervision will be resumed during FY2005 as a follow-up to the 2003 FSAP). The lack of a framework for identifying medium-term capacity-building priorities *across* the IMF's areas of expertise is one of the lessons from the Ukrainian experience. This framework should essentially be driven by the IMF's area departments, operating independently of the existence of a program.

Mutually agreed indicators of progress in implementation must be agreed upon and then tracked—and for large TA activities formal agreements should be in place

72. In all areas of TA provided by the IMF, progress was eventually made. Tax collections have improved, the legal framework for enforcing tax arrear payments has been enhanced, progress has been made on supervision of the banking sector, and good progress has been made in implementing a modern treasury system and statistical systems. Some of this progress has been confirmed by the fiscal and data ROSCs and by the FSSA.

73. However, progress was difficult in some areas—specially in tax policy and administration, and in banking supervision, depending heavily on the specific senior officials in the agencies receiving TA. During specific periods, significant tensions emerged between these officials and resident experts and IMF staff. It was largely the result of not having clearly and mutually agreed indicators of progress in implementation activities and the specific steps that were required from the authorities. This generated a wide divergence of expectations during the delivery of TA, reducing the possibility of clear accountability. This suggests the need, specially for more complex and multiyear TA activities, to incorporate in the TOR clear and mutually agreed indicators of progress as well as commitments and obligations to be followed by both the IMF and the authorities.

74. The experience of TA in Ukraine during the past decade is relevant when the IMF decides to accelerate its assistance to transition countries facing similar circumstances. We believe a comprehensive ex post evaluation of the TA experience in Ukraine should be carried out in order to explore in more depth the sources of the differences described above and to derive useful lessons for future TA work. When a large program of TA in a country is subject to different views regarding the magnitude of its success—and that country is representative of an important taxonomy of the country situations the IMF may face in the future—an ex post evaluation should take place automatically.

MODALITIES OF TA PROVIDED TO UKRAINE IN FY1999–2003

IMF Technical Assistance Missions, 1999–2003 (As of December 31, 2003)		
Department	Type of mission	Date
FAD	Treasury project	Sept. 1998 Oct. 2000 Apr. 2001
	Tax administration	July 1999 May 2000 Oct. 2000
	Fiscal management	Nov. 1999
	Expenditure policy and management	Feb. 2000
	Treasury and budget reforms	Apr. 2001
	VAT refund management and selected VAT administrative issues	Feb. 2002
	Tax policy	Sept. 1998
MFD	Joint MFD/WB mission on bank restructuring	Feb. 1999
	Bank restructuring	Oct. 1999
	Bank restructuring, accounting	Jan. 2000
	Banking reform, reserve management, accounting	Nov. 1998
	Internal audit, reserve management, accounting	May 2000
	Bank restructuring	June 2000
	Accounting and internal audit	Nov. 2000
	Accounting and internal audit	May 2001
	Internal audit	Oct. 2001
	Accounting	Oct. 2001
	Review of TA needs and inspection	June 2002
STA	National accounts	Oct. 1998
	Monetary and banking statistics	Mar. 2000
	Consumer price index	Nov. 2001
	SDDS: Assessment	June 2002
	ROSC data module mission	Apr. 2002
	Money and banking statistics	Oct. 2002
	Producer price index	Oct. 1998
LEG	Article VIII	Nov. 1998

Technical Advisors in the Field		
Type of TA	Advisors	Date
Tax Enforcement Advisor	Mr. Biber Mr. McDonald	May 1998–Sept. 1999 Nov. 1999–Apr. 2001
General Advisor at National Bank of Ukraine (NBU)	Mr. Ehlers	Apr. 1996–Apr. 1998
Banking Supervision Advisor at National Bank of Ukraine	Mr. Herron Mr. Lopes	
Treasury Advisor	Mr. Platais Mr. Lepage	July 1998–July 2000 Mar. 2001–June 2002
Multisector Statistics Advisor	Mr. Blackburn Mr. Piché	July 1998–June 2001
Macroeconomic Policy Advisor to the Ministry of Finance	Mr. Marion Mr. Robertson	July 2001–Jan. 2002
		Sept. 1996–Jan. 2000 Mar. 2000–Mar. 2002
		Oct. 1998–Apr. 2001 May 2001–May 2002

POLICIES TO BE IMPLEMENTED UNDER THE 1998 EFF

(In the areas where TA was provided)

	Prior Actions Needed for Completion of Reviews			Authorities Agenda for Structural Reforms for 2001
	Second Review May 1999	Third Review August 1999	Fourth Review December 2000	
1. <i>Tax policy and administration</i>	Change STA's collection mechanism for 36 metallurgical companies that will make tax debts senior to all other debts in a manner that would yield additional revenues of Hrv 100 million for the remainder of 1999.	Establish a full-service large taxpayer unit at the state administration headquarters and appoint head and senior staff for the unit.	Initiate bankruptcy proceedings against five of the 50 largest tax debtors.	<p>Publish list of 50 enterprises with the largest tax arrears to the budget and the amount of their arrears on the last reporting date.</p> <p>Initiate bankruptcy proceedings against five of the 50 largest tax debtors.</p>
2. <i>Banking supervision and restructuring</i>	<p>Conclude rehabilitation plans for seven large banks in line with findings of diagnostic studies, with quantified targets for eliminating capital deficiencies as recommended in the diagnostic reviews.</p> <p>Upgrade prudential standards to eliminate deficiencies in loan loss provisioning as well as in classification and provisioning of accounts receivable. Establish a timetable for addressing remaining prudential issues as discussed with IMF staff, and focus on selection of adequate personnel.</p>	Submit to parliament a draft law on deposit insurance, in line with recommendations provided by IMF and World Bank staff, which contains provisions that would allow problem banks to be excluded (in particular, any of the seven large banks if they fail to comply with the formal restructuring agreements), and ensure that any costs associated with the scheme would first be funded by the scheme itself and then by the government, but not by the NBU.	<p>Passage by parliament of a new Law on Banks and Banking Activity.</p> <p>Finalize a medium-term strategy for Bank Ukraina which would not require recourse to government financing.</p>	<p>Financial sector reform</p> <p>Implement the agreed plan for Bank Ukraina.</p> <p>Implement the restructuring program for the Savings Bank agreed with the NBU in 1999 and reduce over time its exposure to the energy sector. Refrain from issuing directed credit through the banking system.</p> <p>Continue to conduct quarterly audits of NIR by reputable international auditors.</p>

POLICIES TO BE IMPLEMENTED UNDER THE 1998 EFF (CONCLUDED)
(In the areas where TA was provided)

	Prior Actions Needed for Completion of Reviews			Authorities Agenda for Structural Reforms for 2001
	Second Review May 1999	Third Review August 1999	Fourth Review December 2000	
	<p>Adopt a timetable for adjusting the on-site examination manual in line with procedures used for the diagnostic studies, to be completed by December 1999.</p> <p>Require all banks with total assets greater than Hrv 100 million to undergo annual audits by audit firms with internationally-accepted qualifications, using internationally-accepted standards; adjust their accounts accordingly; and publish the audited financial statements in their annual reports.</p> <p>Reduce government's outstanding liabilities to banks (through a subset of guaranteed loans, as formulated in consultation with IMF staff) to no more than Hrv 125 million.</p>			<p>Integrate Internal Audit into the risk management process of the NBU internal audit department by (i) ensuring that Internal Audit is represented on any committee or process in the NBU that is involved in risk on the senior management committees within the NBU; and (iii) provide internal audit with automatic and unrestricted access to any information they need within the NBU to perform their duties. Management or internal control; (ii) invite Internal Audit to sit</p>
3. Reform of the treasury	<p>Transfer extra budgetary accounts of the State Tax Administration to the treasury.</p>	<p>Adopt a joint plan by the NBU and the treasury to implement a pilot project for the treasury single account at the NBU, in line with recommendations made by IMF staff.</p>		<p>Implement the single treasury account.</p>

Source: IMF program documents.

LIST OF INDIVIDUALS INTERVIEWED IN UKRAINE

Name	Title	Organization
Mr. Petro Andrushchenko	Chairman of the Board of EnergoBank and past Head of Banking Supervision at the NBU	EnergoBank
Mr. Luca Barbone	Director for Ukraine	World Bank
Ms. Valentyna Bessarab	Head of IMF Coordination Division	National Bank of Ukraine
Ms. Olena Chechulina	Deputy Head	Treasury
Ms. Helene Chraye	First Counselor, Head of Operations	Delegation of the European Commission
Mr. Mark Davis	Senior Country Economist	World Bank
Ms. Olena Dragovoz	Head of Price Statistics Division	State Statistics Committee
Ms. Svetlana Faber	Director of Department of Methodology and Planning of Banking Supervision	National Bank of Ukraine
Mr. Lorenzo Figliuoli	Senior Resident Representative	IMF
Ms. Vira Gal	Director of Economic Department	National Bank of Ukraine
Mr. Yuriy V. Gladun	Head of the International Relations Department	State Tax Authority
Mr. Mykola K. Golev	Director of the Tax Collection Department	State Tax Authority
Mr. Victor A. Golovko	First Deputy Chairman Head	State Statistics Committee
Mr. Valentyn Hnatyshyn	Deputy Director	National Bank of Ukraine
Mr. Oleksiy Ilyashenko	Chief of Protocol	State Tax Authority
Mr. Olexander Kirieiev	Director of Centre for Banking Policy Research	National Bank of Ukraine
Mr. Henry Kol	Second Secretary of Economic and Cultural Affairs	Embassy of the Netherlands
Ms. Irina Kuzima	Head of International Cooperation Department	State Statistics Committee
Mr. Serhiy I. Lekar	Deputy Head	State Tax Authority
Mr. Maksiuta	Advisor to the President	
Ms. Patricia Maruschak	Project Officer	Canadian Embassy

Name	Title	Organization
Ms. Valentyna M. Moskalenko	Deputy Head	State Tax Authority
Ms. Vira Naniivska	Director	International Centre for Policy Studies
Ms. Iryna Nikitna	Head of National Accounts Department	State Statistics Committee
Mr. Y. C. Pan	Counselor and Head of Technical Cooperation Section	Canadian Embassy
Mr. Ferdinand Pavel	Economist, Institute for Economic Research and Policy Consulting	German Advisory Group on Economic Reforms in Ukraine
Mr. Oleksandr Petryk	Director of Economic Analysis, Research and Forecasting Department	National Bank of Ukraine
Mr. Volodymyr F. Pikhotsky	Director of the Methodology Department	State Tax Authority
Mr. Anatoliy V. Shapovalov	Deputy Minister	Ministry of Finance
Ms. Marina Shapovalova	Deputy Director of Scientific Research Centre of the NBU	Ministry of Finance
Mr. Ihor Shumylo	Director of General Economic Department	Ministry of Finance
Ms. Tatyana Smorgonskaya	Project Manager of Financial Services	Delegation of the European Commission
Ms. Ana Tetaruk	Department of Monetary and Fiscal Statistics	National Bank of Ukraine
Mr. Victor Vasylets	Deputy Director of General Department of Banking Supervision	National Bank of Ukraine
Mr. Dusan Vujovic	Country Manager for Ukraine	World Bank
Mr. Feder Yaroshenko	First Deputy Minister of Finance	Ministry of Finance
Mr. Arseniy Yatseniuk	First Deputy Governor	National Bank of Ukraine