

**FOR
AGENDA**

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April 24, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **The Fund's Africa Capacity-Building Initiative**

Attached for consideration by the Executive Directors is a paper on the Fund's Africa Capacity-Building Initiative. A draft decision appears on page 20. This subject is tentatively scheduled for discussion on Wednesday, May 8, 2002. The staff does not propose at this time, the publication of this paper following the completion of the Executive Board's discussion; however, publication is envisaged at a later date.

Questions may be referred to Mr. Hino, AFR (ext. 38379), Mrs. Liuksila, OTM (ext. 38768), Ms. Nagy, AFR (ext. 34029), and Ms. De Boeck, LEG (ext. 37719).

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INTERNATIONAL MONETARY FUND

The Fund's Africa Capacity-Building Initiative

Prepared by the African Department, the Office of Technical Assistance Management,
and the Legal Department

(In consultation with the Fiscal Affairs Department, the Monetary and Exchange Affairs
Department, the Office of Budget and Planning, the Statistics Department, and
the Treasurer's Department)

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ACRONYMS

ACBF	African Capacity Building Foundation
AfDB	African Development Bank
AFRITAC	Africa Regional Technical Assistance Center
GDDS	General Data Dissemination System
MEFMI	Macroeconomic and Financial Management Institute for Eastern and Southern Africa
NEPAD	New Partnership for Africa
PACT	Partnership for Capacity Building in Africa
PRSP	Poverty Reduction Strategy Paper
RAP	Resource Allocation Plan
TA	Technical Assistance
UNDP	United Nations Development Programme
WAEMU	West Africa Economic and Monetary Union
WAIFEM	West African Institute for Financial and Economic Management

Executive Summary

- In designing and implementing growth-oriented poverty reducing policies, African countries have faced serious capacity constraints. Under the New Partnership for Africa's Development (NEPAD), African leaders have emphasized the urgent need to address this bottleneck and called on the international community to support capacity building. In response, the Fund is launching its Africa Capacity-Building Initiative.
- The Initiative's strategic goal is to strengthen the capacity of African countries to design and implement their poverty-reducing strategies, as well as to improve the coordination of capacity-building technical assistance (TA) in the poverty reduction strategy paper (PRSP) process. The initiative therefore aims to increase the volume of Fund TA to Africa in its core areas of expertise, focus it on capacity-building, and raise the effectiveness of TA through a more rapid and better-informed response, closer monitoring, and enhanced government accountability for TA outcomes. The Fund would also strengthen its coordination of capacity-building TA with other development partners, particularly the World Bank.
- Accordingly, the Initiative proposes the following:
 - The Fund establish Africa Regional Technical Assistance Centers (AFRITACs) in sub-Saharan Africa, modeled broadly on the experience of regional centers in the Pacific and the Caribbean. Each center will host a team of up to five resident experts, who will assist member countries to develop and implement their capacity-building program in the context of the PRSP process; help the implementation and monitoring of ongoing TA programs; facilitate donor coordination of ongoing capacity-building TA; and provide prompt capacity-building TA in member countries.
 - The Fund participate in the Partnership for Capacity Building in Africa (PACT), an Africa-led capacity-building initiative, and become a member of its implementing agency, the African Capacity Building Foundation (ACBF). The Fund's proposed contribution for the ACBF's next five-year pledging period is US\$4 million, which would be earmarked to finance ACBF training activities to be designed and implemented jointly by the ACBF and by the AFRITACs.
- The AFRITACs would have the following value added:
 - First, because of their location, they will be well positioned for early detection of problems and intervention. The AFRITACs would provide for a flexible and rapidly deployable capacity-building instrument for the PRSP process.

- Second, through their frequent visits, experts will follow up on, and monitor the implementation of, ongoing Fund headquarters' TA projects, thereby strengthening what is often considered the weak element of TA delivery.
 - Third, the center's governance structure will be designed to strengthen country ownership and accountability for TA outcomes.
 - Fourth, donor coordination would be enhanced both at the country level in the context of the PRSP process and at the regional level in the centers.
 - Fifth, the centers would allow closely coordinated and harmonized advice for the countries in a region, thereby helping regional integration.
 - Sixth, the centers would be a cost-effective instrument for capacity-building TA in Africa.
- As an initial step, it is proposed that two centers be established, one to serve French-speaking countries in West Africa, and the other for English-speaking countries in East Africa. If an independent evaluation finds the centers' operation to be successful after 18 months of operation, the number of centers would be increased to five over the medium term.
 - The annual budget of each center is estimated at about US\$4.5 million, to be covered by the Fund (about US\$1.3 million) and donors' contributions (for the balance). In addition, as an indication of their commitment to the Initiative, governments hosting the centers are expected to provide contributions in kind of about US\$0.5 million per center.

I. INTRODUCTION

1. Reducing poverty has been a major goal of African governments for many years. Yet, after showing hopeful signs of economic recovery in the mid-1990s, growth in sub-Saharan Africa has fallen back to below 3 percent per annum, a rate inadequate to make a significant reduction in the widespread poverty. It has been long recognized that, in their efforts to design and implement their growth-oriented poverty reduction strategies, African countries have faced a major and persistent bottleneck: the lack of sufficient capacity to formulate and implement sound macroeconomic policies.¹

2. However, notwithstanding substantial resources devoted by the Fund and the international community to technical assistance (TA) in sub-Saharan Africa to address this bottleneck, progress in capacity building has been mixed. Government institutions that are crucial for macroeconomic management have often remained weak, key financial statistics are unreliable or untimely, and there are not enough well trained government officials. For example, in a number of countries, expenditure management is still weak, there are no macroeconomic policy units to assist policymakers, and domestic capacity to establish and maintain macroeconomic databases is very limited. Uneven implementation of Fund-supported programs and policy reversals in many countries can also be attributed in part to these weaknesses. The poverty reduction strategy paper (PRSP) processes—the principal mechanism to help develop a country-driven reform program and to coordinate donor assistance, including in capacity building—have been hindered by weak capacity at all levels—the government, the legislature, and the civil society.

3. It has also been recognized that insufficient follow-up has at times limited the long-run impact of the Fund's TA.² Despite substantial TA advice to African countries over the past decades, resource constraints and the modalities of delivery have sometimes limited the follow-up and associated support required to build durable institutions and professional skills. Hence, there has been limited progress in building the necessary indigenous pool of

¹ For recent literature, see, for example, Paul Collier and J.W. Gunning, "Explaining African Economic Performance," *Journal of Economic Literature*, Vol. 37 (March 1999), pp. 64-111; Dani Rodrik, "Institutions for High Quality Growth: What Are They and How to Acquire Them," NBER Working Paper No. 7540 (Cambridge, Massachusetts: National Bureau of Economic Research, 2000); Carol Graham, "Strengthening Institutional Capacity in Poor Countries: Shoring Up Institutions, Reducing Global Poverty," *Brookings Institution Policy Brief*, No. 98, April 2002; and OECD Development Center and African Development Bank, "African Economic Outlook" (Paris: OECD and African Development Bank, 2001).

² See the "Review of Fund Technical Assistance," 1999 (EBAP/99/59; 5/17/99), and "Ensuring Alignment of TA with the IMF's Policy Priorities," 2000 (SM/00/284 and Supplement 1).

technical and managerial skills. Equally important, the ownership and accountability of the recipient governments for TA programs have often been weak, which has led to insufficient follow-up actions. Moreover, inadequate coordination among donors and other TA providers has sometimes resulted in the duplication of the provision of TA. It is imperative that any new initiative address these shortcomings from the outset.

4. The NEPAD, launched last year, stresses that while the state has a major role to play in promoting economic growth and development and in implementing poverty reduction programs, many governments lack the capacity to fulfill this role. Accordingly, good economic governance and strong domestic capacity have been identified as key to sustained poverty reduction.³ In the NEPAD and elsewhere, African leaders have called on the international community to help develop these key ingredients for the design and implementation of home-grown programs and to increase TA to Africa and focus it more sharply on capacity building. In response, the Fund is launching its Africa Capacity-Building Initiative (henceforth, the Initiative).

II. THE SALIENT FEATURES OF THE FUND'S INITIATIVE

5. **The Initiative's overarching goal is to assist sub-Saharan African countries in strengthening their capacity for effective macroeconomic management in the context of the PRSP process and, in doing so, complement existing capacity-building efforts by other TA providers.** The Initiative aims to provide technical advice in Africa that is streamlined, cost-effective, and clearly oriented toward capacity building.

6. The Initiative has seven main objectives:

- to make expertise available to African countries, so as to help them develop their own capacity-building programs for macroeconomic management within the PRSP process. To date, 5 countries on the African continent have prepared a fully participatory PRSP, and 20 countries an interim PRSP; while capacity building features prominently in these documents, a fully developed capacity-building strategy is seldom articulated;
- to help address part of the identified capacity-building TA needs by increasing the volume of the Fund TA to Africa and refocusing it on capacity building;
- to help improve coordination among providers of capacity-building TA in the Fund's areas of competence;
- to raise the effectiveness of individual TA projects through fast response, close monitoring and follow-up, and more transparent reporting of outcomes;

³ See *The New Partnership Africa's Development (NEPAD)* at <http://www.NEPAD.com>.

- to increase the accountability of recipient governments through the creation of appropriately designed mechanisms for country representation in the decision-making process for capacity-building TA programs;
- to improve the cost-effectiveness of TA by increasing field presence in, or close to, the countries to be served; and
- to collaborate with existing capacity-building efforts in Africa, with a view to improving donor coordination and offering the Fund's expertise to ongoing important capacity-building efforts.

7. The Fund's increased capacity-building assistance would focus only on areas of the Fund's core responsibilities, namely, macroeconomic policy, tax policy and revenue administration, public expenditure management, monetary policy, the exchange rate system, financial sector sustainability, and statistics.

8. The Initiative seeks to achieve these objectives by (i) establishing regional technical assistance centers in sub-Saharan Africa; and (ii) strengthening coordination with other development partners and TA providers, particularly the World Bank, the African Development Bank (AfDB), and other international and regional institutions, while fostering close collaboration with ongoing capacity-building efforts, such as the African Capacity Building Foundation (ACBF).

A. Africa Regional Technical Assistance Centers (AFRITACs)

9. **To help the PRSP process to close the existing gaps in the provision of capacity-building TA in a cost-effective manner, it is proposed that AFRITACs be established, each of which would service six-eight countries in a subregion of sub-Saharan Africa.**⁴ With well-qualified experts located in the region and readily available for consultation and advice, supported by additional TA from headquarters, the centers would be well placed for close contacts with national authorities on capacity-building needs and delivery, and to provide prompt and knowledgeable responses to emerging problems and requests for assistance. This regional approach will allow for follow-up, continuity, and consistency over time, including on matters relating to regional harmonization and integration. It is expected that this approach will prove to be more effective than the placing of long-term resident advisors in individual countries, as the latter practice has sometimes inhibited the development of local expertise.

⁴ The Fund has successfully introduced regional TA centers in the Pacific region and the Caribbean.

Institutional setup of the AFRITACs

10. Each regional TA center would have a center coordinator and a team of up to five resident experts. The **center coordinator**⁵ will be responsible for the management of the AFRITAC and its staff, providing leadership and direction in the implementation of the center's activities. He/she will assemble the center's annual work plan, drawing on the capacity-building programs for macroeconomic management of the countries in the subregion that were developed in the PRSP. He/she will maintain a close relationship with the client countries, and work with bilateral and multilateral donors to ensure the effective coordination of TA in the field.

11. The **resident expert team** will consist of specialists in a number of the Fund's core areas of responsibility. The resident expert will be selected from the panels maintained by the Fund's TA departments.⁶ The composition of the team will reflect the needs of the region (Box 1). The experts will make frequent short visits to the countries that their center services so as to provide needed advice on short notice; help with the early detection of problems; follow up on, and monitor, ongoing projects; identify and develop new projects; facilitate the implementation of some of these projects through the center; and help coordinate donor TA activities, including seeking an active collaboration on individual projects with other TA providers (see below).

12. Resident experts will maintain close contacts with the relevant TA departments at headquarters (see paras. 15 and 22). They will also consult closely with headquarters staff on decisions concerning the optimal mode of TA delivery (directly by the experts themselves, or headquarters' missions or experts).

⁵ To ensure full conformity with country PRSPs and Fund-supported programs, and in line with the practice established in the Fund's two other regional centers, the center coordinator will be a senior staff member of the African Department.

⁶ Resident experts will be selected by TA departments in accordance with the established criteria. This process will be particularly important, as the resident experts will need to be familiar with a broader array of topics than most "normal" experts are required to be. They will also have to have a good understanding of the relationship between technical issues and broader macroeconomic goals, as well as skills for TA coordination. Whenever possible, the centers will give due consideration to hiring qualified staff from the Africa region itself.

**Box 1. Assessment of Capacity-Building Needs for the First
Two Centers and the Composition of a Center's Expert Team¹**

The staff has conducted a preliminary assessment of capacity-building needs for the next three-year period (2002–04) for the countries to be serviced by the first two proposed centers² with a view to recruiting experts with the needed expertise. **In countries in the West Africa region, all of which are members of the West African Economic and Monetary Union (WAEMU), TA demand is overwhelmingly concentrated in the fiscal areas.** Of the total identified capacity-building needs, almost 70 percent are in the fiscal area, more specifically, in treasury management and accounting (for example, Benin, Burkina Faso, Niger, Senegal, Guinea-Bissau, and Togo), followed by expenditure management (Côte d'Ivoire, Mali, Niger, and Senegal). Tracking poverty-reducing expenditures has become an important specific need in many countries. Tax administration issues are important (Côte d'Ivoire, Niger, and Senegal), but demand for such assistance falls behind the above three areas. Statistical needs (representing 28 percent of total needs) are concentrated almost exclusively on national statistics, thereby highlighting also the need for a close collaboration with regional statistical institutions as well as other initiatives in this area (such as the General Data Dissemination System—GDDS and AFRISTAT) (Benin, Burkina Faso, Côte d'Ivoire, and Niger). Needs in the areas of monetary and banking supervision are intermittent (3 percent of total).

TA needs in the East Africa region are more evenly distributed among the Fund's core areas of expertise, but fiscal issues still represent more than half of total needs. As with the West Africa region, the highest demand is for treasury management and accounting (almost 40 percent of total fiscal needs) (Eritrea, Ethiopia, Tanzania, Rwanda, and Uganda); however, the second-largest demand is for tax administration, including customs (Eritrea and Ethiopia). Interestingly, demand for tracking poverty-reducing expenditures is modest, perhaps because in some of the countries—Tanzania and Uganda—reasonably good systems are already in place, while in others the basic needs are still in other areas (Eritrea and Rwanda). In the absence of regional arrangements and associated capacity-building assistance, demand for capacity-building support in the monetary and banking areas is also high (representing 34 percent of total identified needs); these needs focus on the banking supervision, including regulatory framework for bank soundness (Eritrea, Ethiopia, and Uganda) and the enhancement of monetary operations and financial market development (Uganda and Tanzania). Identified needs in the statistical area represent 14 percent of total needs, half of which are in the balance of payments and external debt statistics areas (Eritrea, Ethiopia, and Tanzania).

Sources: African Department country desks; and TA departments.

¹ The numbers presented are only indicative of overall needs.

² For a full list of countries to be serviced by the first two centers, see paragraph 16 and the map on page 21.

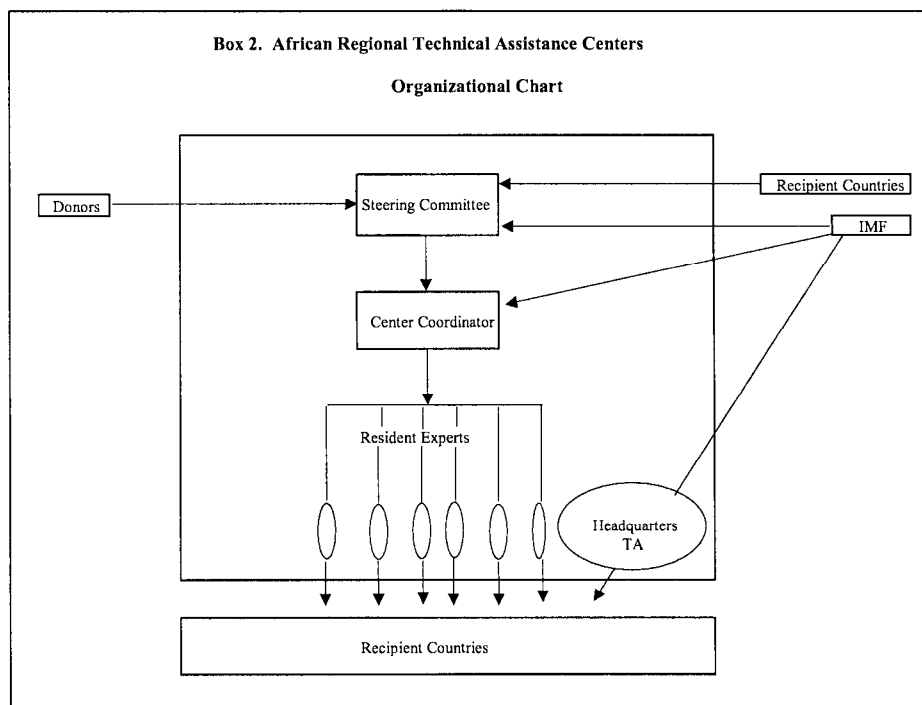
13. In addition to short visits by its resident experts, each center will perform three important functions:

- The center's experts will participate in the capacity-building aspects of the PRSP process by helping the governments design and develop comprehensive capacity-building programs for their countries and by providing expert input in the coordination process among national authorities and other TA providers.
- The centers will conduct seminars and workshops, jointly with the African Capacity Building Foundation (ACBF), and arrange for attachments of African officials to be trained in qualified institutions, in order to disseminate best practices in the subregion (see below). The centers will also collaborate with, and support training activities of, other African institutions. However, training activities are not envisaged to be the core activity of AFRITACs, and there will be no overlap with the regular courses provided by the IMF Institute or the Joint Africa Institute.

14. **The governance structure of the AFRITACs is designed to promote, in harmony with the PRSP goals, ownership of, and accountability for, TA programs on the part of client countries serviced by the centers.** Accordingly, each center will be guided by a **Steering Committee** for the development of TA strategy and priorities for the center. The Steering Committee will endorse the work program of the center, and monitor its implementation. It will be composed of representatives of the host country (chair), other African governments served by the center, and participating donor agencies, as well as the center coordinator. The AfDB, the ACBF, the World Bank, and other regional institutions, where relevant, will be invited to participate as observers. This arrangement should help foster both African ownership of the AFRITACs, client accountability through peer review,⁷ and systematic evaluation (see Box 2 for the organizational chart of the AFRITACs.)

15. While management of the day-to-day operations of the AFRITACs will be delegated to their staff, **these activities will be closely supervised by the relevant departments at Fund headquarters (AFR, FAD, MAE, OTM, STA),** to ensure both quality work and consistency with Fund policies and training provided by the Fund. Training activities will be fully coordinated by the IMF Institute.

⁷ The NEPAD considers peer review an important instrument for ensuring accountability.



16. **As an initial step, two AFRITACs will be established.** One will cover West Africa (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo), and the other East Africa (Eritrea, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda) (see Map). The locations of the AFRITACs will be chosen on the basis of objective criteria relating to operational effectiveness, safety issues, and the host countries' interest and contribution to the centers' costs, etc. The centers will be evaluated after 18 months of operation, and, if they are successful in delivering the expected outputs, their number could be expanded to up to five over the medium term.

Determination of the work plan of the AFRITACs in the PRSP context

17. **Each center's work plan will be developed in the context of the PRSP processes of individual countries.** As a first step, the government, in consultation with the nongovernmental organizations and development partners, identifies key areas of capacity-building needs. These cover broad areas ranging from macroeconomic management to sectoral policies (health, education, and other social services), the regulatory and legal frameworks, the functioning of democratic institutions, etc. The Fund's missions, resident representatives, and TA departments assist this process in the Fund's core areas of expertise. The AFRITACs' resident experts will be in a unique position to take part in this process, focusing on their areas of expertise.

18. Of the broad capacity-building needs thus identified, the Fund will be concerned with its areas of core responsibilities for building capacity in macroeconomic management. Not all of this block of needs will necessarily be met through the direct involvement of Fund TA, because the overriding aim is to facilitate assignment of projects to TA providers in the most rational way, taking account of their areas of interest, expertise, ongoing involvement, and the availability of funding. After identifying areas where the Fund should provide the technical assistance, a decision will be made on the optimal mode of TA delivery—provision by headquarters (mission, short-term or long-term, or peripatetic experts) or by the regional TA centers. This decision would be made by the relevant TA departments in close consultation with the African Department, including the AFRITAC coordinator.

19. On this basis, the center coordinator would put together a work plan for the center, encompassing all of its recipient countries. These work plans would consist of specific proposals for assistance, but would be flexible to make room for urgent requests from member countries served by the center. In putting together the center's work plan, the center coordinator will draw upon the overall guidance provided by the center's Steering Committee. The work plan will be submitted to the Steering Committee for endorsement, at which time country priorities are expected to be decided on the basis of, inter alia, the recipient's track record of making full use of past or ongoing Fund TA. The center's work plan will be included in the TA department's annual Resource Allocation Plan (RAP), thus assuring coherence with overall Fund TA priorities.

Expected outputs

20. The priorities for TA to be delivered or arranged by AFRITACs will vary across countries. **Broad common aims, however, will be to foster the capacity for sound macroeconomic management, strong fiscal institutions and financial systems, and the timely and accurate collection and dissemination of economic data in support of the PRSP process.** An overarching objective is to allow public sector economic institutions to operate efficiently and transparently and thus to be effective and accountable stewards of the resources that they manage. Examples of the centers' intended outputs include the following:

- greater capacity of government institutions and officials trained in macroeconomic management to strengthen capacity to implement PRSPs;
- more effective functioning of institutional and legal frameworks for financial management to foster good economic governance, taking account of established international codes of good practice;
- more transparent and efficient systems and procedures for budgeting, treasury operations, and expenditure planning and control, with appropriate safeguards in place for oversight and auditing, improved public sector accounting and debt-management systems;

- enhanced capacity for reliable and timely reporting of public expenditures;
- legislative or administrative changes to strengthen tax regimes or revenue collection agencies and make them capable of meeting governments' resource needs in a noninflationary, efficient, and equitable manner;
- strengthened capacity for more timely and reliable dissemination of macroeconomic data in the framework of the General Data Dissemination System (GDDS), so as to assist policymakers; and
- streamline the organization of some central banks, with a view to ensuring greater transparency and more effective conduct of monetary policy.

Accountability, quality control, and evaluation mechanisms

21. The structure of AFRITACs is designed to foster accountability to the participating countries and the donors, as well as to the Fund. The AFRITAC's activities will be reviewed by the Steering Committee. In the reviews, each center's achievements will be assessed against benchmarks that will be specified in the agreed annual work plans. Such benchmarks will be determined as concretely as possible and quantified as much as possible to facilitate objective assessment. Benchmarks may also take the form of, for example, completion of legislative or administrative steps in the development or staffing of particular institutions. Moreover, as mentioned above, after 18 months of operation, a team of outside experts will carry out an in-depth independent evaluation of the proposed AFRITACs and formulate recommendations on future actions to management.⁸

22. **Quality control will be ensured by close supervision by the Fund's headquarters.** The quality of work of the center coordinator and the resident experts will be ensured through their selection by the African and TA Departments, respectively, and backstopping by relevant TA departments, and by ongoing monitoring and evaluation. The quality of the center's overall activities will be monitored through the Fund's general oversight, as well as the Steering Committee's review.

⁸ Such monitoring and evaluation are routinely carried out under Fund TA activities supported by external financing from donors. The work of the two existing regional TA centers—the Pacific Regional Technical Assistance Center and Caribbean Regional Technical Assistance Center—are regularly reviewed by their respective steering committees, and subject to mid-term and final in-depth external evaluations.

Efficiency and cost-effectiveness

23. The AFRITACs should provide a more effective mode of TA delivery, as they incorporate mechanisms that should increase prospects for successful implementation of the Fund's TA, and, to some extent, the TA of other providers in related areas. Placement of experts in the vicinity provides important advantages in terms of closer interaction with country authorities and other TA providers, increased flow of information on TA implementation, quicker response to needs, and greater flexibility in the use of instruments for TA delivery. For each capacity-building TA activity, the recipient government is expected to appoint a counterpart to be responsible for overseeing that activity from start to finish. The increased country ownership of TA programs, helped by the countries' representation on the Steering Committee and their central role in the PRSP process, should also lead to greater commitment to and, hence, more successful completion of, TA projects. Moreover, as mentioned, peer review among African officials—through interactions in the Steering Committee—should help reinforce cooperation, accountability, and the effective use of resources.

24. There will also be cost savings as a result of stationing resident experts close to where they serve. For example, if experts were to visit sub-Saharan Africa from North America, the additional cost could be as much as US\$6,000–7,000 per visit, or about US\$1 million in total, under the assumption that the resident experts attached to each center are expected to field about 120 visits a year.

Cost-sharing among the Fund, host country, and donors

25. **The total average cost for each center is provisionally estimated at about US\$4.5 million per year** (Appendix I). It is proposed that the Fund cover about US\$1.3 million of this cost,⁹ and the remaining balance would be contributed by participating donors.¹⁰ The donor contribution would be largely for expenses related to salaries, housing, and travel costs of the five resident experts and costs related to TA provided by additional short-term experts who would assist the center. Office space, support staff, and training facilities are expected to be provided by the host country, with an estimated value of about US\$0.5 million for each center. The above total does not include the Fund's financial contribution to the ACBF.

⁹ For fiscal year 2003, the Fund's costs will be lower because the centers will become operational around September 2002.

¹⁰ Several bilateral donors, as well as the African Development Bank, have indicated interest in contributing financially to the project.

B. Coordination with Other Development Partners and TA providers

26. **To avoid the duplication of TA efforts and enhance complementarities among TA providers, it is proposed that the Fund participate in the Partnership for Capacity Building in Africa (PACT) and become a member of its implementing agency, the ACBF.** The PACT is an important collaborative framework between African governments and their international and development partners that seek to build partnerships among all key stakeholders in the development process, including African governments, the private sector, civil society, and Africa's development and financial partners (Box 3). Participation in the PACT through membership in the ACBF will also signal the Fund's support for this African initiative. Moreover, given its broad country and donor membership, association with the ACBF provides a valuable coordination and collaboration framework for the PRSP process and the proposed AFRITACs.

27. The Fund's Initiative will bring an additional impetus to the strengthening of Bank-Fund collaboration on three main accounts. First, as the Initiative is embedded in the PRSP process, the identification of capacity building needs, as well as the assignment of donor providers, will be done in close cooperation with the World Bank. Second, as a major development partner, the World Bank will be invited to participate in the Steering Committee of each center. Third, TA delivery in Africa will be more closely coordinated with the World Bank in the context of the PACT and ACBF membership. Through this strengthened collaboration with the World Bank and other capacity building assistance providers, the Fund seeks to ensure that assistance in Africa is mutually supportive and complementary.

28. It is proposed that the Fund become a member of the ACBF and appoint one representative to serve as Governor on the Board of Governors of the ACBF, as well as another representative to serve as Alternate Governor. The ACBF's Board of Governors may also invite the Fund to designate one voting member of its Executive Board.

29. It is proposed that the Fund's five-year contribution to the ACBF be US\$4 million (or US\$800,000 per year). This would finance the ACBF's seminars and workshops that are in the areas of the Fund's mandate, and which would be conducted jointly with one or several AFRITACs. The Fund and the ACBF will prepare an annual joint work program on such training activities. The IMF Institute will be consulted on the design of the training activities envisaged by the AFRITACs and the ACBF. The detailed arrangements for each individual training activity, including overall budget cost-sharing arrangements, organization, and implementation arrangements, shall be determined in a separate letter of understanding signed by the ACBF and the relevant AFRITACs. The modalities of the Fund's membership in the ACBF are laid down in a memorandum of understanding presented in Appendix II.

Box 3. The PACT and the ACBF

The **PACT** is a collaborative framework between African governments, and their development and financial partners (the World Bank, the AfDB, the United Nations Development Programme (UNDP)), seeking to build a partnership among all key stakeholders in the development process, including African governments, the private sector, civil societies, and Africa's international development and financial partners. The PACT was established in late 1999 with support from the World Bank. The PACT's implementing agency is the ACBF.

The PACT is designed as a coordinated effort to intensify capacity building across Africa through (i) increased African ownership and leadership in the capacity-building process; (ii) a strengthened role of the public sector in establishing an economic environment conducive to private sector growth and civil society development; and (iii) enhanced coordination among the key players in capacity-building efforts and the setting of long-term development objectives.

The **ACBF** was founded in 1991 as an independent development-funding institution; with headquarters in Harare, Zimbabwe. Its stated objective is to strengthen national capacity-building through programs owned and implemented by the beneficiaries themselves. The ACBF's initial mandate for macroeconomic analysis and management was strengthened and expanded to embrace the PACT's above-described priority areas when it became the PACT's executive agency. From its inception, the ACBF has received grants of about US\$220 million. At present, the ACBF's portfolio comprises 67 projects and programs, mainly in the public sector. Some ACBF projects support regional integration.

Besides the three multilateral sponsoring agencies (AfDB, UNDP and the World Bank), ACBF current membership comprises 17 African governments and 11 non-African governments. The Foundation has a three-tier management structure consisting of a Board of Governors, an Executive Board and a Secretariat. The Board of Governors, the highest policy-making body, consists of one Governor for each of the countries and sponsoring agencies. The Executive Board is charged with responsibility for operational policies, guidelines and strategies, as well as for approving the annual business plan and budget. In addition, each of the projects financed by the ACBF requires the approval of the Executive Board. By becoming a member, the Fund would be represented on the Board of Governors and, may be invited to the Executive Board. The ACBF Secretariat is comprised of a small staff of 40 professional and support staff at its headquarters.

The ACBF's priority areas include economic analysis, financial management, national statistics, public administration and management, the strengthening of the private sector and civil society, and research and training. It is in the area of training activities that direct collaboration will be established between the ACBF and the Fund's AFRITACs. The ACBF's training activities in the Fund's core areas of responsibility would be designed and carried out jointly by the ACBF and the AFRITACs, and would be financed wholly or partly by the Fund's contribution to the ACBF.

ACBF has country coordinating mechanisms or institutions (called national focal points (NFPs)) in 26 countries. The NFPs are designed to foster dialogue and participation of all stakeholders (government, the private sector, civil society, donors etc.) in the design, formulation, implementation and evaluation of capacity-building action plans and strategies. In particular, they are instrumental in identifying, designing and presenting projects and programs to the Foundation for financing. In addition, they often play a significant role in the PRSP process and are likely to serve as useful contact points for AFRITAC experts.

30. **AFRITACs shall work closely with the AfDB**, particularly in the area of promoting good financial governance; the AFRITACs' resident experts and the AfDB staff would work together in identifying projects in this area as part of the PRSP process. In addition, closer cooperation will be sought with training institutions such as the Macroeconomic and Financial Management Institute for Eastern and Southern Africa (MEFMI) and the West African Institute for Financial and Economic Management (WAIFEM), and the Joint Africa Institute. These institutions, together with the IMF Institute, will be consulted in formulating the ACBF/AFRITAC joint annual training programs. If similar training activities have been planned by other providers, they will not be duplicated in the joint program. Collaboration with regional institutions could also take place through joint diagnostic and advisory visits.

31. The AFRITACs will help reduce the risks of duplicating existing TA programs provided by others. As described above, the PRSP process provides the overall framework within which all development assistance, including TA, will be coordinated. A responsibility of the resident experts will be to facilitate this process and thus minimize TA duplication through direct coordination with country authorities and other TA providers (Box 4).

C. Risk Assessment

32. There are risks involved in this Initiative. The regional center instrument is relatively new, and it has not been tested for capacity building-projects in the complex PRSP context. A major challenge for headquarters staff and for the teams in the centers will be to quickly ascertain the evolving capacity-building needs in the member countries so that the effective operations of the centers can begin soon after their formal opening. A further risk is that, as with most TA, advice may not be implemented, so that in spite of this added effort, the much-needed domestic capacity still will not be created. There is also a risk that backsliding in economic reforms or political instability may inhibit the functioning of the centers. Finally, high turnover in government institutions and "brain-drain" abroad may leave a vacuum in domestic capacity.

33. As many of these risks relate to deeply ingrained obstacles to achieving a lasting impact with capacity-building TA, the Fund's Initiative can only seek to contribute to reduce these risks. Specifically, in order to reduce risks relating to the eventual nonimplementation of capacity-building measures, the Initiative provides for accountability mechanisms for TA outcomes to be built into the design of the AFRITACs (a peer review within the Steering Committee; a local counterpart nominated for each project who is personally in charge). Risks relating to backsliding in economic reforms in a member country could be mitigated by flexible planning by the center, for example, by providing more assistance to other client countries. Finally, the risk of losing key personnel for institution building has been a long-standing problem, whose solution goes beyond the confines of this Initiative. The departure of qualified personnel can be stemmed, as experience elsewhere has shown, only by embedding the capacity-building initiative into an overall reform process that brings tangible benefits to all, thus reducing the flight of human capital. Ultimately, however, the success of the Fund's Africa Capacity-Building Initiative will depend on the commitment of African

governments to implement reforms, inter alia, by strengthening the civil service in general. The strong interest in the AFRITACs expressed by the African leaders has been very encouraging in this regard.

Box 4. Coordination with Other Capacity-Building Assistance Providers ^{1/}

As described above, the PRSP process aims to provide an overall framework for coordinating capacity-building efforts among donors; the center's operations will also include several specific actions to ensure that capacity-building efforts of all TA providers reinforce each other and avoid overlap. By the conscious coordination among all TA providers of their respective activities, a greater and more beneficial overall impact is expected to be achieved.

- **Country-level, topic-specific coordination.** Under their respective fields of expertise, the AFRITAC's resident experts will maintain a good overview of all ongoing capacity-building projects in the areas of special interest to a number of donors (e.g., timely and accurate reporting of government expenditures). This overview will cover not only the projects supported by the AFRITACs and the Fund's TA departments, but also those of other major TA providers. If duplication or other coordination issues are detected, the resident experts will bring them immediately to the attention of the national authorities and the TA providers concerned and, drawing on their technical expertise, suggest possible ways to achieve better results and a more efficient use of resources. This coordination effort will be a continuous process.
- **Country-level, macroeconomic sector coordination.** The AFRITAC's center coordinator, together with the Fund's resident representative, will assist the national authorities in formulating a rolling TA program for macroeconomic management that will cover ongoing and prospective capacity-building projects that are or could be supported by the AFRITAC, the Fund's TA departments, and other interested TA providers. This program will be reviewed semiannually—jointly by all TA providers—in the context of the PRSP process or other existing channels of coordination. Where the intended results are not being achieved, those projects will be redesigned or dropped, and new ones added.
- **Multicountry, subregional coordination.** The AFRITAC's Steering Committee will provide a forum where capacity-building efforts for macroeconomic management may be compared and assessed across the countries in the subregion. Such an assessment will be a crucial input in determining the allocation of the center's resources among the participating countries in the subregion and could be useful for the participating donors in directing their own activities to those countries. The Steering Committee will also provide a unique opportunity for the countries in the subregion to compare the effectiveness of their capacity-building programs with those of other countries; it is hoped that peer review will contribute to raising the effectiveness of donor efforts.

It is recognized that an effective flow of information is important for strong cooperation and coordination among TA providers. The centers will distribute information on their activities widely, including the annual and quarterly rolling work plans, and progress reports. Reports on particular activities will be made available to the providers of complementary assistance.

^{1/} For details on collaboration with the World Bank, see paragraph 27.

III. STAFF APPRAISAL

34. Domestic capacity constraints have long impeded the ability of African governments to develop and implement their own macroeconomic poverty-reducing policies. Despite substantial technical assistance from the international community in the past, in many countries government institutions that are crucial for macroeconomic management have often remained weak, and there are not enough well-trained government officials. African leaders, in the context of the NEPAD and elsewhere, have stressed the importance of good economic governance and strengthened government institutions as key to sustained economic growth and poverty reduction. They have called on the international donor community for increased technical assistance, focusing squarely on domestic capacity building. In response, it is proposed that the Fund launch its Africa Capacity-Building Initiative.

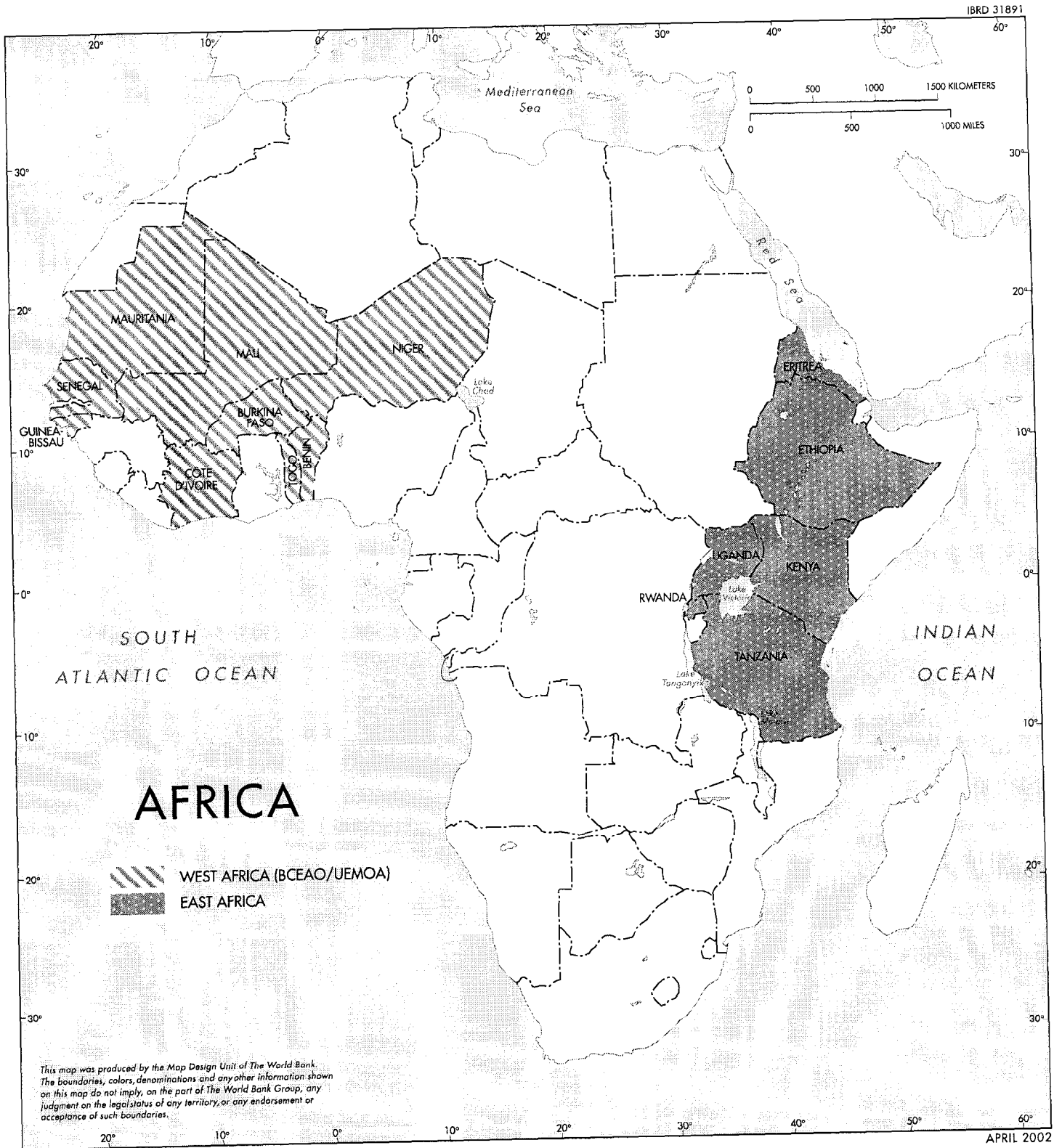
35. The staff believes that the benefits generated by the Initiative would distinctly outweigh the risks involved. The AFRITACs should contribute to providing a “critical mass” of assistance that can make a lasting impact on local capacity. They would help close some important gaps in the existing capacity-building efforts of the international community, significantly improve prospects for the success of these TA projects through greater ownership, increase the accountability of TA recipients, and deliver additional capacity-building assistance with a cost-effective mode of delivery. The Initiative would also help strengthen the Fund’s collaboration with other capacity-building assistance providers. **The staff believes that, with this Initiative, the Fund can provide an urgently needed impetus to the capacity-building efforts of African countries, thereby helping to remove one of the main obstacles to the creation of sound, homegrown economic policies on the continent. The staff therefore recommends that the Executive Board approve the proposed decision.**

IV. PROPOSED DECISION

36. In the view of the staff, the draft memorandum of understanding provides the Fund with an appropriate framework for a formal relationship and collaboration between the Fund and the ACBF. Accordingly, the following draft decision is proposed for adoption by the Executive Board:

“The Managing Director is authorized to execute, on behalf the Fund, the Memorandum of Understanding between the International Monetary Fund and the African Capacity-Building Foundation, set forth as Attachment to EBS/02/72, and to appoint, on behalf of the Fund, a Governor and an Alternate Governor to the Board of Governors of the African Capacity-Building Foundation.”

The Africa Regional Assistance Centers: Country Coverage of the Proposed First Two Centers



African Regional Technical Assistance Center (AFRITAC)
Estimated Costs Per Center

	Funding Source	Staffing (in person years per annum)	Year 1	Year 2	Year 3	Total
			US\$	US\$	US\$	US\$
Center Coordinator 1/	IMF	1.0	246,000	246,000	246,000	738,000
Five long-term resident experts 2/	DONOR	5.0	1,095,000	1,095,000	1,095,000	3,285,000
Short-term experts 3/	DONOR	3.0	1,008,000	1,008,000	1,008,000	3,024,000
IMF staff short-term TA missions 4/	IMF	1.0	336,000	336,000	336,000	1,008,000
Quality control, supervision and backtopping by IMF HQ 5/	IMF	2.8-->2.3	643,200	588,450	533,700	1,765,350
Professional and administrative support 6/		1.4	432,125	432,125	432,125	1,296,375
Travel costs 7/	DONOR		390,000	390,000	390,000	1,170,000
Training	DONOR		100,000	100,000	100,000	300,000
Evaluation	DONOR			80,000		80,000
Office support, communications, etc.	DONOR		200,000	200,000	200,000	600,000
Start-up costs	IMF		250,000			250,000
TOTAL		14.2-->13.7	4,700,325	4,475,575	4,340,825	13,516,725
<i>Of which:</i>	IMF	4.8-->4.3	1,475,200	1,170,450	1,115,700	3,761,350
	DONOR	8.0	2,793,000	2,873,000	2,793,000	8,459,000
HOST GOVERNMENT CONTRIBUTION 8/	<i>HOST</i>		470,000	470,000	470,000	1,410,000
MEMORANDUM ITEM:						
Standard 13% administrative fee of donor financed activities 9/	DONOR		363,090	373,490	363,090	1,099,670
TOTAL DONOR CONTRIBUTION			3,156,090	3,246,490	3,156,090	9,558,670

1/ Budgeted at US\$20,500 per month or US\$246,000 per year.

2/ Standard cost of US\$18,250 per month or US\$219,000 per year.

3/ Additional technical assistance generated by the center to be satisfied by short-term experts. Estimated at 3 expert years at US\$336,000 per person year, including travel costs.

4/ Missions to meet additional TA generated by the centers. Estimated at one IMF staff year at US\$336,000 per person year, including travel costs.

5/ IMF TA departments' recruitment, backstopping, and supervision of experts, including in-country inspection visits.

6/ To be largely covered by a standard 13% administrative fee charged to donor contributions.

7/ Travel costs of center coordinator (10 weeks) and 5 resident experts (120 weeks) at US\$3,000 per week.

8/ Estimated value of in-kind contribution of office space, training facilities, security, secretarial support, cleaning services, etc.

9/ A standard 13% administrative fee is charged to help defray the expenses incurred by the Fund in the recruitment and backstopping of long-term resident and short-term experts, and administration of the donor financed activities.

**Memorandum of Understanding Between the International Monetary Fund
and the African Capacity Building Foundation**

PREAMBLE

The International Monetary Fund (hereinafter referred to as the “IMF”) and the African Capacity Building Foundation (hereinafter referred to as the “ACBF”) wish to cooperate in the contribution to capacity building in Africa in ACBF’s core competence areas that are consistent with the core areas of the IMF’s expertise, to take advantage of the synergies and complementarities of a partnership approach to capacity building. Having regard to their common interest in establishing cooperation and collaboration in fostering sustainable capacity building for African countries, without undue overlap between their respective capacity building activities, the IMF and the ACBF have reached the following understandings.

A. Participation

1. The IMF shall become a member of the ACBF under the terms of the ACBF’s Constitution.
2. The IMF wishes to participate in broad policies and strategies for developing and fostering coordinated and sustainable national capacity building throughout Africa in the areas of the ACBF’s mandate, including its expanded mandate under the Partnership for Capacity Building in Africa. This Partnership is a collaborative framework between African countries and their international development or financial partners intended to strengthen the capacity of African countries to create an enabling environment for sustainable development in Africa. Accordingly, the IMF shall appoint one representative to serve as Governor on the Board of Governors of the ACBF, and one representative to serve as Alternate Governor. In addition, in order to participate in the conduct of the ACBF’s general operations, including the approval of its programs, operational plans, and annual budgets, the Board of Governors of the ACBF may invite the IMF to designate one voting member of the Executive Board.

B. IMF Contribution and Financial Arrangements

1. In order to finance the activities set forth in paragraph C(1) of this Memorandum of Understanding, the IMF, subject to sub-paragraph 2 below, will contribute to the ACBF four million United States dollars (US\$4,000,000) (hereinafter referred to as the “IMF contribution”), over a period of five years.
2. Subject to sub-paragraphs 3 and 4 below, payments of the IMF contribution will be made to a separate interest bearing account maintained in US dollars and opened by the ACBF with the London-based Standard Chartered Bank for the purpose of this Memorandum of Understanding (the “Account”). Any interest earned on the funds contributed by the IMF

and held in the Account shall be available to the ACBF solely for the purposes set forth in this Memorandum of Understanding.

3. In light of the identified purpose of the activities set forth in paragraph C of this Memorandum of Understanding to be financed from resources contributed by the IMF in accordance with sub-paragraph 1 above, the financial arrangements related to the IMF contribution will be governed in accordance with this Memorandum of Understanding. Upon this Memorandum of Understanding becoming effective and the IMF becoming a member of the ACBF, the ACBF will promptly notify and liaise with the London-based Standard Chartered Bank regarding the opening of an interest bearing account for the IMF contribution.

4. Upon this Memorandum of Understanding becoming effective and the IMF becoming a member of the ACBF, the IMF will make payments of its contribution on a semi-annual basis. After the first semi-annual contribution, however, further payments from the IMF will be made on the condition that two-thirds of the previous cumulative paid-in contributions have been disbursed or already agreed upon in the letters of understandings referred to in paragraph C(3) below. Payments of such semi-annual contributions will be made to the Account upon receipt by the IMF of a call letter from the ACBF, which will include specific deposit instructions.

C. Purpose of the IMF Contribution

1. Subject to sub-paragraph 3 below, the IMF contribution will be used to finance the direct costs of ACBF's seminars, workshops, or other training activities, for nationals of African beneficiary countries, which are consistent with the IMF's purposes under the IMF's Articles of Agreement, including macroeconomic policy analysis and management, tax policy and administration, public expenditure management, monetary policy design and management, financial sector soundness, and the enhancement of statistics. To facilitate the coordination of these training activities, the ACBF and the IMF will jointly establish an annual work program no later than March 31 of each year. Progress in the implementation of the joint annual work program will be subject to a review by the IMF and the ACBF every six months, or more frequently if necessary.

2. The implementation of the joint annual program shall be the responsibility of the ACBF. Each of the seminars, workshops, or other training activities referred to in sub-paragraph 1 above and financed from resources contributed by the IMF, will be designed by, coordinated with, and implemented either by, or jointly with, one or more of the Africa Regional Technical Centers (hereinafter referred to as "AFRITACs") established by the IMF.

3. The detailed arrangements for each seminar, workshop, or other training activity, including cost-sharing, organizational, and implementation arrangements, will be jointly determined on a case-by-case basis in a separate Letter of Understanding between the ACBF and the relevant AFRITAC or AFRITACs.

D. Accounting and Audit

1. The IMF contributions shall be held in the separate Account and accounted for separately from assets and property of other accounts of, or administered by, the ACBF. The assets held in the Account shall not be used to discharge or meet any of the ACBF's liabilities, obligations, or losses incurred with regard to any such other accounts.
2. The ACBF shall request the London-based Standard Chartered Bank that the assets held in the Account be accounted for separately from assets and property of other accounts of, or administered by, the London-based Standard Chartered Bank. The assets held in the Account shall not be used to discharge or meet any liabilities, obligations, or losses incurred by the London-based Standard Chartered Bank in the administration of any such other accounts.
3. The ACBF shall provide the IMF with a copy of the monthly statement of the Account, which shall include the balance of the Account, the date and amount of any IMF contribution deposited in the Account, the date and amount of any disbursement therefrom, and any interest earned and credited to the Account.
4. Within 120 days after the completion of each seminar, workshop, or training activity, the ACBF shall provide the IMF with a detailed statement of expenditures related to that particular activity.
5. No later than six months after the end of the fiscal year of the ACBF, the ACBF shall provide the IMF with the externally audited financial statement of the Account for such year prepared in accordance with International Accounting Standards, together with the opinion of the external auditors on such statements. The costs of the external audit of the Account shall be borne by the ACBF.

E. Effectiveness

This Memorandum of Understanding will become effective upon signature by authorized representatives of both parties.

F. Amendments

This Memorandum of Understanding may be amended in writing by consent of both signatories.

G. Termination

1. Subject to sub-paragraph 2 below, this Memorandum of Understanding will continue in operation for a period of five years commencing on the date of its effectiveness, and subject to renewal.

2. This Memorandum of Understanding may be terminated by either signatory giving a six-month written notice to the other. Upon termination of this Memorandum of Understanding, the IMF shall also terminate its membership in the ACBF.

3. Upon termination of this Memorandum of Understanding, the Account shall be closed and any balances, net of the amounts of existing liabilities and commitments under the activities to be financed under this Memorandum of Understanding, that remain in the Account shall be transferred promptly to the IMF.

H. Notices

Any notice or communication required or permitted to be given or made under this Memorandum of Understanding will be in writing and sent to the following addresses:

For the International Monetary Fund:

Director
Office of Technical Assistance Management
Office of the Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
U.S.A.

Fax No.: 1 202 623 7106

For the African Capacity Building Foundation:

Executive Secretary
The African Capacity Building Foundation
Intermarket Towers, 7th Floor
Corner Jason Moyo Avenue/Sam Nujoma Street
P.O. Box 1562
Harare, Zimbabwe

Fax No.: 263 4 702915/738520

Signed on: _____

For the International Monetary Fund

For the African Capacity Building Foundation

EDUARDO ANINAT
Deputy Managing Director
in charge of Technical Assistance

SOUMANA SAKO
Executive Secretary