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EBS/96/15  
Correction 1

CONFIDENTIAL

February 6, 1996

To: Members of the Executive Board

From: The Secretary

Subject: External Evaluation of Technical Assistance Provided by  
the Monetary and Exchange Affairs Department - Report of  
Independent Panel

The following corrections have been made in EBS/96/15 (1/26/96):

Page, 26, second para., line 4: for "many countries"  
read "some countries"

Page 32, first full para., fifth line from the bottom: for "there appear  
to be a few major problems" read "there appear to be few major problems"

footnote 1, line 5: for "preferences not clearly"  
read "preference is not clearly"

Corrected pages are attached.

Att: (2)

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Department Heads



The Panel could ascertain three possible and not mutually exclusive reasons for this perceived difference. First, MAE's own expertise, as the Department's name indicates, lies more in the monetary and exchange field than in, for instance, banking supervision and organization. Second, crisis management has been the name of the game in areas such as banking supervision in several of the countries surveyed. This in turn has meant that the foreign resident experts have been pressed into performing urgent policy tasks themselves, sometimes pretty much on their own, leaving little time for training local counterparts or devising and implementing systems that could then be run without their help.<sup>1</sup> It should be noted here that in the vast majority of cases these foreign advisers have been highly praised by recipient authorities and have been credited with helping avoid or mitigate some major crises. Third, and perhaps most importantly, the satisfactory performance of functions such as banking supervision or the running of an efficient payments and settlements system requires that a fairly large number of qualified personnel be trained and, for the accomplishment of certain tasks, that cooperation from outside the central bank be forthcoming. These "people-intensive" tasks depend on a general training and "change-of-mentality" effort that is likely to take time and that technical assistance can encourage but not replace. In contrast, the success of broad measures in the monetary and exchange rate policy area can be insured by a few committed members of higher management who are willing, and will be rapidly able, to take over from outside advisers.

#### 4.3.4 Monitoring and Control

The Panel was informed by MAE staff about the several methods applied to ensure adequate monitoring, control, feedback and follow-up of TA in the field. At the recipient institution end, occasional dissatisfaction could be sensed even though it was advanced cautiously. In some such cases, slow progress in implementing structural reforms, though admittedly mostly self-inflicted, appears at the same time to have prompted such dissatisfaction with MAE, possibly as part of a self-defense mechanism. Thus, although the few complaints from central banks were in some cases well justified, the main responsibility for delays in the implementation of TA and for other imperfections was essentially their own. In one instance, it was fairly obvious that reluctance on the part of MAE, or of the Fund generally, to go ahead with its TA activities in the country, was the real reason for the recipient's dissatisfaction.

Critical observations were also collected from experts in the field, relating to communications with headquarters during their term, as well as to other issues including the length of their contract, relations with missions and resident representatives, their succession, if any. The general impression gained by the Panel was that there was room for improvement here as well as with respect to follow-up of mission reports and monitoring of progress in the implementation of recommendations.

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<sup>1</sup> An additional problem that arises in areas such as banking supervision is that when local counterparts are effectively trained, they are frequently hired away by the non-central bank sector.

#### 4.4 Summary of Findings

The interviews conducted by the Panel revealed a generous willingness on the part of central bank officials to praise the technical assistance provided by, or under the guidance and control of, the Fund's MAE Department (or indeed of the Fund's advice and technical assistance in general). Throughout the new member countries engaged in a process of structural reforms and transition to a market-based economy, the role of technical assistance was called welcome and helpful (with varying degrees of superlatives), important, indispensable, essential, and critical to the success of that process. This highly positive judgement is perhaps best understood against the background of repeated references made by officials at all levels to the initial lack of basic knowledge of the functioning of a market economy, of the required structural and institutional framework, and of the implications for policy in relevant areas, including central banking. This admitted lack of basic knowledge made the authorities highly dependent on, and receptive to technical assistance and advice which initially they received from the most diverse sources, in many cases causing confusion rather than helping them to make up their own minds. As repeatedly mentioned by recipients, the MAE Department played a critical role in bringing some order to the TA process in the central banking area, partly on its own initiative and partly in response to calls by the cooperating donor central banks for a degree of coordination of activities in this field which the Fund seemed best equipped to bring about.

Much of what has been said of new Fund members applies--with some obvious modifications--to other countries receiving technical assistance from the Fund, through MAE in particular. In many instances, TA to central banks in these countries has a longer history. But the more recent greater dynamics of their structural development (with the exception of some countries in Africa), the ongoing globalization of financial markets, the consequent greater exposure to capital movements, the perceptions of a growing role and authority of central banks, and the generalized shift to indirect instruments of monetary policy in recent years has stimulated recourse to the technical assistance offered by the Fund. And, as in the case of new members, tributes for the Fund's contributions to the progress made in recent years were readily forthcoming in the interviews. Lack of such progress was often openly attributed to shortcomings or obstacles at the recipient's end, be they of a bureaucratic, technical or wider political nature, rather than to the Fund's involvement.

Willingness to voice criticism was somewhat more muted during the interviews, though in certain cases, and depending also on personalities, dissatisfaction was expressed in no uncertain terms. Among the reasons for the great willingness to praise and, by the same token, the observed reluctance to be critical, the following may have played a role in addition to a high premium on politeness:

For many countries, membership of the Fund is a wholly new experience and an achievement of great political prestige. The Fund is seen as an institution that has gained great experience in dealing with member countries' problems and commands enormous respect. Fund staff is perceived as highly competent and able to draw on large resources of accumulated wisdom.

partly because of other dimensions of their presentation than the aptness of their prose. It would seem that the reports are occasionally too long, mix broad general considerations of principal interest to upper management with more technical considerations of principal interest to specialists of a given narrower topic, and sometimes appear more as a report of the Mission team to headquarters in Washington than as a document to be used in the recipient country as a help in implementing the structural reforms that are being proposed. In other words, the reports, though mostly very competent and well done, may attempt to be too many things to too many people. The Panel wishes to make it clear that we are not arguing that the reports should be done away with or that they are bad, on the contrary. However, to anticipate on our recommendations, we do believe that their presentation is a matter that deserves MAE's attention. The presentation (including a possible division into different parts or types) could be better adjusted to the various target audiences of the reports.

Relevance is a third criterion by which to judge the quality of the advice contained in the mission reports. One dimension of relevance is whether the reports deal with problems and issues of primary concern to the recipient country's institution building efforts. There is no doubt that the answer is clearly yes. Here the initial contacts of MAE management with recipients and the first multi-topic missions in the case of comprehensive TA requests seem to serve their purpose of focusing TA on priority subjects quite satisfactorily. As far as requests for specific limited technical assistance are concerned, the fact that they tend to originate with the recipient central bank and are made in response to identification of a specific need by the latter also ensures relevance and proper attention to concrete priorities. A second dimension of relevance is whether the advice is given in such a fashion that it can be concretely implemented in the specific circumstances of the recipient institution. The answer obviously cannot be given in terms of the reports alone since much depends on other means of delivery and on concrete implementation through long- and short-term experts, and so on, matters that are commented on in other parts of this Report. At a general level, however, the reports are written for the most part in a fashion that helps rather than hinders their implementation. There are some caveats here, nevertheless. For one thing, there are instances of general preaching of the good cause rather than concrete hand-on advice in some reports or parts thereof. For another, even when specific measures are advocated one sometimes finds a dearth of figures illustrative of the situation of the recipient country or of concrete calculations of the costs and benefits of a particular measure (from what level to what other level should reserve requirements be reduced, what will the impact on the money stock likely be, on interest rates, etc.) A third dimension of relevance is whether the advice is likely to be adopted and implemented by the recipient institution. This is again a matter that cannot be judged from the mission reports themselves, although these often and properly warn of the difficulties likely to be encountered. They also sometime report on progress made in implementation relative to previous missions and their reports. This is a practice that the Panel would like to see generalized as part of its more general recommendations for increasing the effectiveness of TA.

Finally, consistency is a relevant criterion in judging the quality of the written advice contained in the reports. There are many dimensions to consistency and many caveats as to the application of this criterion. Thus consistency is not necessarily a virtue in itself; there is no virtue in being consistently bad, nor is consistency achieved by the enforcement of rigid dogmatic views, that are not adapted to individual circumstances when appropriate, desirable. Consistency is

important in a number of ways, however. It is important that advice be consistent with good practice; that the different parts of a TA program be consistent with each other; that advice not be randomly reversed over time; and that advice given by different sources be as consistent as possible. In other words, one can distinguish between coherence/consistency across (within) a single document, across documents relating to the same country, across documents relating to different countries, and across documents issued by different Departments of the Fund and/or other agencies.

Although on the whole, the reports are quite satisfactory on most of these criteria, there is occasionally some room for improvement. Internal consistency within multi-topic mission reports is occasionally not as strong as it could be. As noted above, this is probably due to the variety of backgrounds of mission members and is particularly striking on the connection between monetary and exchange matters. Turning to consistency of advice over time and documents for a given country, inconsistencies also occur. These, however, often reflect changing advice as a function of changing circumstances and are thus not to be regretted. It might be useful, however, more systematically to note and motivate such changes, for instance by noting briefly how a report on a particular topic differs for the preceding one(s) and how well the recommendations contained in the previous report have been implemented. The same type of remarks can be made concerning the consistency of advice across reports for different countries. Here it is even more obvious that circumstances will differ; it would be useful, however, to encourage, when appropriate and possible, reference to "standard" Fund practice or doctrine on a topic, such as it is contained in MAE Operational Papers for instance. One should not be too rigid, however, for fear of not adapting the advice to the specific circumstances of the country. Again, the recommendation is to explain rather than to modify the country-specific advice to suit a rigid mold.<sup>13</sup> Consistency or written advice across Departments of the IMF has not been checked by the Panel as it has not compared mission reports with program or Article IV consultations reports. Nevertheless from oral comments received in various categories of interviews, there appear to be few major problems here. There are more serious conflicts with advice given by other institutions such as the World Bank. The advice given on matters of exchange-rate policy by the Fund and the Bank can occasionally conflict, which is obviously a matter of concern, not so much for advice of the technical assistance type as for more general policy advice.

Advice is of course given in many other than written, easily obtainable, form. It is, in particular given by long- and short-term experts in the form of internal memoranda and notes, of

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<sup>13</sup>The consistency of advice across countries sometimes appears exaggerated and not necessarily justified. The Panel has thus found that in most cases short-term government paper (and more specifically Treasury bills) were the recommended instruments for open-market operations even though an argument in some cases could have been developed for the issue of central bank paper instead. This preference is not clearly evidenced in written Fund "doctrine", at least as it appears in the "indirect instruments" Staff Memorandum (SM/94/270). It may be due to the background of the experts instead. Similarly the preference for lodging the supervisory function within the Central Bank may reflect the preferences of the chosen experts rather than an agreed doctrine.