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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 99/61

10:00 a.m., June 8, 1999

Contents

Executive Board Attendance

S. Fischer, Acting Chairman
S. Sugisaki, Acting Chairman

Executive Directors

A. Barro Chambrier
T.A. Bernes
R.F. Cippà

N. Eyzaguirre

K.A. Hansen
K.-T. Hetrakul
W. Kiekens

A. Mirakhor

A.S. Shaalan
M.R. Sivaraman
G.F. Taylor
Wei Benhua
J. de Beaufort Wijnholds

Y. Yoshimua

Alternate Executive Directors

S.M. Al-Turki
D. Ondo Mañe
J. Chelsky, Temporary

W.-D. Donecker
A.G. Zoccali
J. Spraos
H. Oyarzábal
E. González-Sánchez, Temporary
A.R. Palmason, Temporary
C. Harinowo
J. Prader
V. Rigász, Temporary
B.S. Newman
M. Sobel, Temporary
E. Jourcin, Temporary
M. Daïri
J. Mafararikwa, Temporary
L. Palei, Temporary
S. Collins
O.L. Bernal
J.C. Estrella, Temporary

O. Kwon
Wang X., Temporary
Y.G. Yakusha
I. Dragulin, Temporary
M. Takeda
K. Gobe, Temporary
S. Hinata, Temporary

A. Linde, Acting Secretary
J. Prust, Acting Secretary
M. Miller, Assistant
P. Kunzel, Assistant
C. Andersen, Assistant

Also Present

ECB: R. Raymond. IBRD: C. Talati, East Asia and Pacific Regional Office. Administration Department: J.L. Godfrey, B.R.H.S. Rajcoomar. African Department: S. Rothman, A. Tahari. Asia and Pacific Department: E. Canetti, R.A. Elson, A. Ilyina, R. Kronenberg, H. Liang, L.E. Molho.Bureau of Computing Services: F.A. Maranto. European I Department: M. Hardy. External Relations Department: S.J. Anjaria, Director. Fiscal Affairs Department: V. Tanzi, Director; P.S. Heller, Deputy Director; G. Abed, M. Asakawa, W. Mahler. IMF Institute: G. Dahl. Legal Department: F.P. Gianviti, General Counsel; I. Mouysset, V.T. Thuronyi. Monetary and Exchange Affairs Department: S. Ingves, Director; V. Sundararajan, Deputy Director; M.I. Blejer, H. Mehran. Policy Development and Review Department: T. Leddy, Deputy Director; A.J. Doughty, C.G. Muniz B., J. Seade. Secretary's Department: P. Gotur. Statistics Department: C.S. Carson, Director; P. Joyce, Deputy Director; O. Evans, J. Karlik, T.K. Morrison. Treasurer's Department: H. Flinch. Western Hemisphere Department: C.M. Loser, Director; M.E. Bonangelino, Deputy Director; C. Cha, D. Chua, W.E. Lewis, J.S. Lizondo, J.G. Stotsky. Office of the Managing Director: D. Citrin, S. Tiwari. Office of Budget and Planning: E.-A. Conrad, Director; N. Bradshaw, R. Carey, P.J. McClellan, N. Sachdev, K. Wilairat. Office of Internal Audit and Inspection: E. Brau, Director; M.P. Blackwell, A. Coune, P. Nagy, V. Wertman. Advisors to Executive Directors: W.F. Abdelati, P.A. Akatu, M. Askari-Rankouhi, B. Couillault, M.H. Elhage, L.J.F. Erasmus, O.A. Hendrick, A.R. Ismael, N. Jadhav, J. Jonáš, M.F. Melhem, Nguyen Q.T., J. Ntamatungiro, G. Schlitzer, M.R. Shojaeddini, F. Zurbrügg. Assistants to Executive Directors: S.A. Bakhache, N.R.F. Blancher, J.G. Borpujari, R. Burgess, P. Cabezas, M. Carlens, N.K. Gueorguiev, M.R. Hajian, M.S. Hililan, C. Josz, A. Kapteijn, S.N. Kioa, K. Kpetigo, W. Merz, D. Nardelli, K. Ongley, M. Pérez, L. Redifer, M.M. Salvador, C.-P. Schollmeier, U.F. Seyidzade, R.J. Singh, Sugeng, M. Vismantas, Vongthieres O., S. Vtyurina, M. Walsh, R.P. Watal.

1. CONTINGENT CREDIT LINES—GRANDFATHERING OF EXTENDED ARRANGEMENTS—AMENDMENT OF DECISION NO. 11627-(97/123) SRF AND CHAIRMAN'S SUMMING UP AT EXECUTIVE BOARD MEETING 99/48

The Executive Directors considered a staff paper on grandfathering of Extended Arrangements with respect to Contingent Credit Lines (SM/99/117, 5/21/99).

Mr. Kiekens made the following statement:

The Extended Fund Facility was established to provide financial assistance in situations described as follows:

(a) An economy suffering from serious payment imbalances related to structural maladjustments in production and trade and where prices and cost distortions have been widespread;

(b) an economy characterized by slow growth and an inherently weak balance of payments position which prevents pursuit of an active development policy.

(Section I of Decision No. 4377-(74/114) of September 13, 1974; Selected Decisions, page 138).

The EFF decision recognizes that countries with such a "serious payments imbalance" or "inherently weak balance of payments position" will need considerable time both for correcting the structural imbalances and for repaying the financial assistance.

The Board's decision to exclude CCL access to countries having EFF arrangements was therefore correct.

The proposed transitional exception, under which a CCL can be provided to any country having an extended arrangement in effect on the date of the CCL decision, makes sense only if we admit that in the recent past, some countries may have received an Extended Arrangement without suffering from balance of payments problems and structural distortions as required by the EFF decision, and that it therefore cannot be excluded that they can meet the eligibility criteria for access to the CCL.

The Peruvian authorities recently reached an understanding with the Management on their request for a precautionary EFF. I have not as yet seen any documentation enabling me to judge whether Peru's request meets the conditions required under the EFF decision. But if Peru does qualify for the EFF, it is impossible that it should qualify under the eligibility criteria for the CCL. Amending the recent decision on the CCL to accommodate Peru would be both useless and arbitrary. If Peru does not qualify under the EFF, but is eager to obtain Fund financial assistance as a precaution against the emergence of balance of payments problems, I would strongly encourage Peru to request a precautionary SBA. Such an arrangement would certainly be a useful step in the direction of qualifying for a CCL.

The Peruvian authorities argue that because they have already reached an understanding on their request for an EFF, and have made their intentions public, switching to a Stand-By Arrangement at this stage could send a adverse signal to the markets, and that they should not be excluded from potential access to the CCL. I do not think that requesting an SBA rather than an EFF will affect market sentiment negatively; the effect should be quite the contrary, if market participants are well informed about the kind of problems the EFF was designed to address. Furthermore, neither an understanding with Management nor public announcement of it can or should prevent the Board from correctly applying the eligibility criteria under the EFF decision and its consequences for the country's eligibility for a CCL. It is well known that other Directors and myself have repeatedly and consistently argued against what we view as "improper" use of the EFF.

For these reasons, I cannot support the proposed amendments.

Mr. Eyzaguirre and Mr. Hendrick submitted the following statement:

The Board's decision to provide a "grandfathering" provision to countries with a precautionary extended arrangement in place at the time of the CCL approval on April 23, 1999, was correct. As Mr. Kiekens recognizes in his Gray, we cannot preclude the possibility that those countries might meet the eligibility criteria for access to the CCL. Thus, we should not discriminate against countries which decided to negotiate a precautionary EFF with the Fund, and obtained Board approval before the authorities were aware that to request such a program would impinge on their ability to request a commitment of CCL resources. The principle involved is simple. Both the authorities and the staff should be aware of the rules of the game since the beginning of program discussions.

The proposed amendment to the decision on the CCL, is intended to take account of arrangements that were at an advanced stage of discussions at the time of the CCL approval. In fact, the Peruvian authorities expressed their interest in a new extended arrangement and held meetings with the staff for that purpose as early as during the Annual Meetings in Washington in October 1998. A formal letter requesting a new precautionary EFF was sent by the Minister of Economy and Finance to the Managing Director in October 1998. Negotiations for a new precautionary EFF between the staff and the Peruvian authorities were initiated in March and completed ad referendum on April 16, 1999, that is, one week before the approval of the CCL decision. The first quarterly targets for the quantitative performance criteria and structural benchmarks have been set for end-June 1999, implying that the program is considered "active" since April.

The proposed amendment is neither intended to reopen the discussion about the grandfathering provision nor to discuss the appropriateness of precautionary extended arrangements vis a vis precautionary Stand by arrangements. Similarly, it is not concerned with the question of whether Peru might meet the eligibility requirements for access to CCL resources. In our view, the amendment improves upon the former decision as it ensures equality of treatment among member countries. The case of Peru is, in our view, not different from that of other countries with a precautionary EFF that have been grandfathered.

My Peruvian authorities consider that changing the nature of the arrangement at this advanced stage could send a wrong signal to the markets, and we believe it is appropriate to rely on their judgment in this matter. It is worth mentioning that in late April, two weeks after concluding negotiations with staff, the authorities posted the Letter of Intent and Memorandum on Economic and Financial Policies (MEFP) in several websites for comments and suggestions. The government received more than one hundred formal comments from the business sector, academia and the other public opinion. Some of those suggestions have been incorporated in the MEFP in consultation with the staff.

Mr. Sivaraman made the following statement:

The proposal under consideration is to extend the time limit for a commitment under Extended Arrangement till June 30, 1999 to enable a member to be considered for access to the CCL .

In my view, we are going against the spirit of the decision taken to set up the facility of a contingent credit line. It does not seem to be appropriate for an international institution of the stature of the Fund to alter its decision to accommodate one member's request. If there had been several such requests the case could have been stronger for the proposal. Further, as we are extending this time limit for consideration for access to the CCL only until June 30, 1999 clearly rules out the possibility of other members getting a similar benefit who could be in the same position as the Peruvian authorities now, in early July 1999.

The other argument of Mr. Kiekens on whether a country fulfils the eligibility criteria for a CCL if it has an EFF also requires to be considered seriously.

Therefore, I am in agreement with the view expressed by Mr. Kiekens.

The Deputy Director of the Policy Development and Review Departmen commented that Mr. Kiekens had pointed to what appeared to be an anomaly between the provisions of the Extended Fund Facility (EFF) and the concept of a precautionary arrangement in the framework of the EFF. He would agree that there was at least a question that needed to be looked into in that regard. At the same time, it needed to be borne in mind that there had been precautionary extended arrangements for the preceding 20 years, and if there was an anomaly, it was one that the Fund had lived with for some time.

The Board had already decided on a transitional provision to grandfather extended arrangements treated as precautionary and in existence at the time the decision was taken on the Contingent Credit Lines (CCL), the Deputy Director pointed out. The exception that the staff was suggesting at the current juncture would apply only to one country. It was a question of whether, because that country had gotten to such a late stage in negotiations on an extended arrangements that was intended to be precautionary, and because it had taken longer than expected to agree on the terms of the CCL, there should be an extension of the grandfathering provision to accommodate the country concerned--Peru. Therefore, the exception would not be generally applied.

Mr. Sivaraman said he wondered whether the Extended Arrangement for Peru had been under consideration by the staff at the time of the Board's consideration of the provisions of the CCL.

The Deputy Director of the Policy Development and Review Department replied that, given the pace of the negotiations in the Board on the CCL, the two issues had not come together in the staff's mind. The staff working on the CCL, as well as the Board, had been unaware of the status of the negotiations for Peru's extended arrangement.

Mr. Sivaraman observed that, when a general question of principle was being decided and some cases under consideration might not fit the general principle, those cases were nevertheless generally kept in view, and when a general decision was taken, it was mentioned that exceptions might be made for the particular cases concerned. It appeared that in the current circumstances the staff and the Board had failed to keep the exceptional cases in view, and that the Board could be said to be doing so at the current juncture, by proposing to extend the grandfathering deadline.

Mr. Collins said that he agreed with the Deputy Director of the Policy Development and Review Department. Mr. Kiekens's logic and legal analysis were impeccable, but the exception had already been made in the decision on the CCL. The principle that Mr. Kiekens was trying to uphold had in fact already been breached. Mr. Sivaraman was concerned that if a new deadline of June 30 were agreed, other countries might come forward and claim eligibility for the exception. He did not believe that that would happen, as it was known that only one case of eligibility existed. There had clearly been a lack of consideration of potential cases at the time that the CCL decision had been agreed. He was prepared to support the requested change to accommodate Peru, on the clear understanding that it was without prejudice to any application by Peru for a CCL, which request would have to be judged on its merits.

Mr. Chalone commented that he, too, had been impressed by the usual clear legal stand of Mr. Kiekens. At the same time, the central issue was the equality of treatment of members. If Peru were denied that, the Fund would be discriminating against Peru, given the decision on the CCL. The idea of converting the potential extended arrangement for Peru into a stand-by arrangement, to enable Peru to become eligible for the CCL, might indeed send the wrong message to the markets, as Mr. Eyzaguirre had pointed out, and it really did not address the issue. The fact was that Peru had a precautionary extended arrangement, and that in negotiating for that Peru had not had knowledge of the CCL--which of course had not been agreed at that time. He was therefore compelled to support the proposed decision.

Mr. Bernes said that, for the reasons already articulated by the Deputy Director of the Policy Development and Review Department, Messrs. Collins, Eyzaguirre, and Chalone, he could support the proposed decision. Such a decision would not qualify Peru for the CCL, as Mr. Collins had pointed out; rather, it would ensure that Peru was not disqualified for the CCL because it had found itself in a transitional period.

Messrs. Bernal and Oyarzábal said that they could support the proposed decision, for the reasons stated by Messrs. Collins, Eyzaguirre, and Chalone.

Mr. Donecker stated that he agreed with Messrs. Kiekens and Sivaraman that, in general, requesting an extended arrangement while expecting the option of requesting a CCL to remain open was inconsistent with the terms of the CCL. However, the case of Peru was a special and unique one, and he was willing to accommodate Peru on that basis, but on the firm understanding that Peru would not request a CCL sooner than one year from the date of activation of any precautionary extended arrangement, and subject to the Board's review of that precautionary arrangement. With that understanding, the principle would be preserved that a country with a weak balance of payments--assumed in the case of countries requesting extending arrangements--could not become eligible as well for the CCL, for which a sound balance of payments was assumed to be a prerequisite.

Mr. Eyzaguirre said that he agreed that the proposed decision did not prejudice Peru's eligibility for the CCL in any way. He could agree to Mr. Donecker's proposed compromise. He understood that it would be inappropriate to seek eligibility for the CCL right after having agreed to a precautionary extended arrangement. The Peruvian authorities were willing to go along with the suggestion of Mr. Donecker.

Mr. Newman said that he could also go along with the proposed decision. He wondered whether there would be an opportunity to consider the broader issue Mr. Kiekens had raised about the operation of extended arrangements. He recalled that the Board used to have regular reviews of that facility, but that it had not had one lately, nor was one scheduled in the near future.

The Deputy Director of the Policy Development and Review Department confirmed that no review was scheduled. The staff would return to that question. At the same time, it did not appear that the CCL was the right vehicle for that; perhaps it could be considered in the context of the conditionality review, or something more specific to extended arrangements.

Mr. Hansen said that, with the compromise suggested by Mr. Donecker and Mr. Eyzaguirre's consent to it, he could support the proposed decision.

Mr. Couillault noted that he appreciated Mr. Kiekens's clear analysis, but he could nevertheless support the proposed decision, with the clear understanding that it did not imply his support for any future request by Peru for access to the CCL.

Mr. Wijnholds said that while he had sympathy for Mr. Kiekens's points, he also wanted to approach the problem in a pragmatic fashion. There were good reasons for the distinction between extended arrangements and stand-by arrangements. In practice, unfortunately, the distinction had been blurred. He agreed that that issue needed to be addressed, and that a review of extended arrangements was needed. He regretted that Mr. Newman had not supported his call to do that during the discussion of the work program on the preceding day.

He would not wish to single out Peru, Mr. Wijnholds stressed. It would not be fair to exclude Peru because of the way the Board had formulated the decision on the CCL. He could not but recall in that vein the reaction of some members of the Board to the request of Aruba for some flexibility in the rules regarding publication of its Article IV consultation report, and it seemed that the same question of flexibility could be applied to the case of Peru at the current juncture. Therefore, Peru should have the option of applying for the CCL at some point. Mr. Eyzaguirre had accepted Mr. Donecker's proposal for a transition period of a year, which seemed a good compromise. He could go along with the proposed decision.

Mr. Hinata said that he joined the view of previous speakers and supported the proposed decision.

Mr. Barro Chambrier said that his chair could support the proposed decision in the spirit of equity and fairness, and in the light of the compromise suggested by Mr. Donecker and agreed to by Mr. Eyzaguirre.

Mr. Schlitzer stated that he could go along with the proposed decision. The staff and Mr. Eyzaguirre and Mr. Hendrick had provided sufficient arguments in favor of an extension of the grandfathering deadline. The principle of equality of treatment was compelling. At the same time, he agreed fully with Mr. Kiekens about the improper use of extended arrangements, and it would be important to bring that broader issue to the Board for discussion.

Mr. Palei said that he could also go along with the proposed decision. At the same time, he was a bit concerned about how the markets would interpret it. While the main concern of the Board was to provide equal treatment for the members who were already in the process of negotiating extended arrangements, the markets might misinterpret it as a signal of its intention to consider Peru as a candidate for the CCL. He wondered whether the Fund would make a public statement explaining the decision.

The Deputy Director of the Policy Development and Review Department, replying to a question from Mr. Palei, confirmed that the staff had reviewed the state of negotiations on extended arrangements, and that there were no other cases; Peru would be the only case.

Mr. Mirakhor observed that Mr. Kiekens had raised the issue as a matter of principle, not because of the particular case at hand. In that light, the staff should take his comments and concerns very seriously, and address them as soon as possible.

The Deputy Director of the Policy Development and Review Department reassured Mr. Mirakhor that the staff would do so.

Mr. Wei said that he could go along with the proposed decision.

The Acting Chairman noted that there was broad, albeit not unanimous, agreement in favor of the proposed decision.

Mr. Kiekens commented that, because many Directors had considered that they must support the proposed decision on the grounds of preserving the principle of the equal treatment of members, he wished to explain why he was against the decision on the same grounds.

The question was whether the Fund would continue to make no practical distinction between stand-by and extended arrangements, Mr. Kiekens continued, or whether it would begin to use extended arrangements in the way that they had been originally intended--namely, strictly to cases of serious balance of payments problems and entrenched structural problems. In the past, he had made accommodation for several cases that in his view had not qualified for extended arrangements in order to respect the good-faith negotiations between the staff and a country requesting an extended arrangement. The first accommodation had been the case of the Philippines; another case had been Indonesia; and another, very striking, case had been Argentina. However, at some point the Board would have to make clear what the treatment would be with respect to eligibility for extended arrangements.

He did not know why, and the staff had not explained why, Peru was likely to request an extended arrangement rather than a stand-by arrangement, Mr. Kiekens emphasized. Was it simply a matter of the country's choice? Or was Peru confronting the deeply entrenched structural problems and grave balance of payments problems that an extended arrangement was designed to deal with? He had not made any judgment about the eligibility of Peru for an extended arrangement, but if he were to conclude that it was not eligible, the course he would have to follow was not clear. He wondered whether, if he were to conclude that the request was not in keeping with the rules for access to extended arrangements, he would be expected to support a review of the rules with a view to changing them.

He recalled that the Deputy Director of the Policy Development and Review Department had said that a review of the conditionality under extended arrangements was not on the agenda, Mr. Kiekens went on, even though he, in his capacity as an Executive Director, had formally requested that such a review be put on the agenda. It had been suggested by the Chairman that he consult with the staff on an appropriate time for a review, which he had done in writing, and on which he had never received any reply. If the Fund continued to use extended arrangements improperly, a real problem of equality of treatment would arise, as then every country could reasonably expect that extended arrangements would be applied to it in the same way as they had been applied to other countries--improperly--in the past. In that case, every future case should also be entitled to request a CCL. That was the issue of equal treatment, and not merely the case of Peru alone.

Mr. Taylor considered that Mr. Kiekens was doing the Board a service in raising those matters. Mr. Kiekens had been raising questions about the conditionality of extended arrangements for at least 18 months. As a matter of procedure, he had been perplexed that there appeared to have been no response to those questions, and no response to repeated commitments by management to review the aspects of extended arrangements that did seem to be of some concern.

The Deputy Director of the Policy Development and Review Department said that he wished to reassure Mr. Mirakhor and the Board that the staff was serious about examining the issues that had been raised about extended arrangements. The staff would return to the matter, although he was not certain in what framework. It could be in the context of the review of conditionality; or of the CCL; or on its own.

The Acting Chairman took note of the staff's commitment to come back to the issue.

Mr. Donecker commented that, given what had been said in the current discussion, he would expect the staff to be mindful of the Board's concerns, and to think in a more disciplined fashion about the differences between stand-by and extended arrangements, pending a further review of extended arrangements. The Board would have to look more carefully at individual cases, to ensure that equal treatment was accorded members, and that the standing decisions of the Board were respected by the staff. In practice, delineating between a possible stand-by or extended arrangement for a particular country was often difficult, and the Board would give the staff the benefit of the doubt, but the staff should be aware of the Board's concern to maintain the decision on extended arrangements.

The Acting Chairman concurred with Mr. Donecker that the staff should be mindful of the need to consider carefully in individual cases whether a stand-by arrangement or an extended arrangement was more fitting.

The Executive Board took the following decision:

1. In Decision No. 11627-(97/123) SRF, adopted December 17, 1997, on the Supplemental Reserve Facility and Contingent Credit Lines, Paragraph 18 shall be replaced by the following:

"18. Notwithstanding the provisions of paragraph 16, financing under this section may be committed and provided under any Extended Arrangement in effect on June 30, 1999."

2. In the summing up by the Chairman on Contingent Credit Lines at the Executive Board Meeting 99/48 of April 23, 1999, footnote 1 shall be replaced by the following:

"[1] However, CCL resources could also be committed under an Extended Arrangement in effect on June 30, 1999."
(SM/99/117, 5/21/99)

Decision No.11982-(99/61) SRF/CCL, adopted
June 8, 1999

2. REVIEW OF FUND TECHNICAL ASSISTANCE

The Executive Directors considered a staff paper on the review of Fund technical assistance (EBAP/99/59, 5/17/99; and Sup. 1, 5/17/99).

Mr. Elhage submitted the following statement:

We would like to express our appreciation for the high quality and extensive coverage of the papers prepared for today's discussion. Given the central role the Fund plays in providing technical assistance to members and its significant cost, we welcome this comprehensive assessment which gives us the opportunity to exchange views on how to improve the delivery, efficiency, and effectiveness of the Fund's technical assistance. Before commenting on some of the findings and recommendations of the report, we would like to highlight our concurrence with the view that it is difficult to evaluate technical assistance since many elements and parties are responsible for the outcome. As such, cautious interpretation of the statistical results is called for.

One of the recommendations in the Review is to link the Article IV consultation with technical consultation. It is well to point out that linkages already exist. The findings of the 1994 TA Review found that increased cooperation between Area Departments and other TA departments in the identification of technical assistance needs had, in fact, led to better prioritization and tailoring of the assistance to the specific circumstances of each country. The past few years have seen an increased role for Area Departments, which in practice constitute the initial contact point for TA, with TA departments considering the requests only after the recommendation of the Area Departments. We feel that this is an appropriate and effective procedure, since Area Departments have a more in-depth knowledge of the needs of the countries as well as their record of commitment and implementation.

What is being proposed in the Review would significantly increase the burden on area departments' surveillance missions beyond what is feasible for the present typical size of a mission team. We agree with the staff that carrying out technical consultations as proposed in the Review would require at least one additional specialist from each of the TA departments on the Article IV mission. This proposal is costly. On this issue, given the broadly indicative estimates of the resource implications of the Review's recommendations, we are somewhat surprised by the Review's assessment that the recommendations can be implemented over the next two years with existing budgetary resources. We have some difficulty with the assessment that the proposals contained in the report will not require additional staff resources. Critical to the Review's assessment is that low-priority/low-impact cooperation projects are cut. One of the important issues which have been revisited by this Board time and again has been how to prioritize the technical assistance that the Fund provides. While we agree with the view that technical cooperation should be limited to subjects that are at the core of the Fund's responsibilities and to refer requests to other providers wherever appropriate, we cannot agree with the view to cut projects with a low probability of achieving a satisfactory impact. It is important to keep in mind here that some of the technical assistance provided to some countries in the FSU during the early transition period would have had low probability of achieving a satisfactory impact. It would have been, in my view, a mistake not to have provided the assistance.

The Review points out that the weakest part of the Fund technical assistance provision is the effort devoted by the Fund to maximize the probability of implementation and impact in the recipient countries. In this regard, the Review offers a number of recommendations to enhance the effectiveness of the Fund's TA program. On this issue, the staff reminds us that some of these proposals have been tried in the past but have not become the norm because the benefits did not seem to outweigh the costs. We urge the staff to continue to experiment with ways, including many of the Review's proposals, to improve the effectiveness of TA. Clearly, resource constraints might be a limiting factor to the implementation of many of the Review's recommendations. In our view, if it is believed that the implementation of some of the Review's recommendations are needed to enhance the effectiveness of the Fund's TA program, then we should provide the adequate resources to undertake them.

The Review concludes that technical assistance delivered by long-term experts stationed in recipient countries seems to have a less satisfactory impact than those delivered by staff missions. As indicated by the staff in paragraphs 52 and 53, it appears that the staff do not share the findings of the Review on this issue. We lean on the side of the view that long-term experts are not substitutes for staff missions and most often they complement the use of missions and short-term experts. While it is desirable to have Fund staff provide most of the technical assistance, given the emergence of a growing gap between demand for Fund technical assistance and available resources, it is not possible to meet the increased demand without reliance on long-term experts. Also, we agree with the staff that the assessment of what mode of TA delivery is appropriate will have to be made on case-by-case basis. Clearly, the country's circumstances and the kind of TA involved will be important determining factors in such a decision. Having said that, closer collaboration between the TA departments and the authorities in the identification and definition of TA needs, in the preparation of the terms of reference, and joint monitoring of the TA program will improve the effectiveness of the technical assistance provided by the long-term experts.

On charging for TA, we share the view that country contributions should not be required for technical cooperation provided through staff missions and visits by short-term experts. On the issue of country contributions for long-term experts, we cannot go along with the recommendations of the Review that country contributions be required for externally financed long-term experts. As is correctly stated in the Review document in footnote 24, this would be tantamount to taxing grants supplied by the donor community.

In conclusion, like the staff we support some of the initiatives proposed in the Review to strengthen the Fund's TA program. However, the increasingly active role played in recent years by area department staff in identifying, during program or consultation discussions, countries' technical assistance needs has served the Fund and members well. Also, it has provided a suitable framework for a systematic assessment of overall technical assistance needs and of plans to address them. Many of the initiatives proposed in the Review to strengthen the Fund's TA program are already emerging in departmental practices. As such we do not see the need for major changes in the TA program. Also, before implementing some of the initiatives recommended in the Review, the potential benefits of these initiatives need to be weighed against their costs.

Mr. Barro Chambrier submitted the following statement:

We generally support the conclusions of this informative paper that the effectiveness of technical assistance (TA) depends particularly on: (i) strong commitment of beneficiary government; (ii) the type and quality of the technical assistance provided; (iii) the design and monitoring of projects; and (iv) the placement of the project in a broader policy framework. However, as proposed by the staff, more work is needed to define operational modalities of the paper's recommendations and to evaluate the impact of the proposed reforms on the cost and coverage of Fund technical assistance to membership.

Fund technical advice remains essential for Fund surveillance and for the successful program implementation by member countries. Accordingly, it is reassuring to note the paper's finding that Fund TA is deemed of high quality, appreciated by recipients, and that it has achieved notable success. Indeed, around two thirds of projects appear to have had a satisfactory impact. However, much remains to be done to strengthen preparation, follow up, coordination and transparency of TA, so as to maximize its effectiveness and its impact on recipient member countries. In particular, the paper finds that there is no explicit Fund policy on technical assistance, little evaluation, little reporting on results to management and the Executive Board, and little public dissemination of the lessons learned. In this context, the paper broadly confirms the last Board review of Fund's Technical Assistance Program (EBM/94/10). We also appreciated the useful statement of the staff on the Review that identifies the issues for today's discussions.

Although we concur with most of the Review's recommendations, we have a few concerns about the proposed reorientation of technical assistance and would like to have clarifications on a number of the proposed reforms. We also provide our views on the issues for discussion.

Reorientation of TA resources

Fund technical assistance is highly valued by member countries implementing ambitious macroeconomic and structural reforms in the context of Fund-supported programs. Fund technical assistance is particularly critical for the success of ESAF-supported programs, where technical needs are incorporated in the PFP. Therefore, we are puzzled by the proposed recommendation on the redistribution of TA resources from traditional uses in favor of new demands.

The recommended redistribution of resources from unsuccessful projects to other projects shies away from resolving the fundamental issue of TA effectiveness at the level of both the Fund and the recipient country. Our view is that, instead of reorienting resources, unsatisfactory projects could be reassessed and redesigned whenever legitimate needs are compelling.

We agree with the recommendation that adequate resources should be allocated to crisis prevention in the context of Fund surveillance. But we think that this should not be done at the expense of TA currently provided to countries that are committed to reforms. Our view is that, with a strengthening of project implementation, no significant savings can realistically be expected from cuts on low-priority/impact projects. Accordingly, we would suggest that additional resources (additional personnel) be allocated to the new demands for technical assistance in the areas of transparency and the development of internationally-established standards.

Policy framework

We think that the establishment of a Fund policy framework on technical assistance and cooperation could improve the effectiveness of Fund advice to membership. However, such a policy framework should allow flexibility in the handling of complex issues, as well as adaptability to a changing environment. It should also avoid adding to the existing staff work load and should not unduly shift resources from operational TA to administrative tasks. The proposed reforms should also ensure coordination with other providers of technical assistance from outside the Fund. We suggest that staff assess the practical modalities, including cost evaluation, for the proposed technical consultations and technical cooperation action plans and for reporting to the Board. We understand that TA departments are already in the process of improving TA planning and evaluation and that TA is being integrated to Fund surveillance activities. Also, ESAF-supported programs assess TA assistance needs in a medium framework, even though no ex-post formal evaluation is carried out. In this vein, we support the staff's proposal to prepare a paper on TA Policy and Operational Guidelines, which would formalize the existing practices and initiatives.

Although we support the idea of limiting Fund technical cooperation to core substantive areas where the Fund is prepared to cooperate with its own expertise, we would suggest that the Fund plays a catalytic role in the provision of technical assistance to less developed member countries even in areas outside Fund direct expertise, but critical to Fund surveillance and programs. In this context, coordination of Fund technical assistance with other providers will be critical in catalyzing donor resources.

Even though we agree with the key elements of the recommended Fund policy framework on technical consultation and cooperation, we would like clarifications on the conditions of partnership, notably on the establishment of a good track record of implementation of technical advice. As described in the report, Fund actions are a critical element to the success of technical assistance. Accordingly, we should not penalize committed member countries which cannot establish a good track record due to factors beyond their control. TA evaluation should indicate clearly the authorities' responsibility in TA project performance.

We think that the term "technical assistance and cooperation" proposed by the staff is preferable to "technical consultation and cooperation" used in the paper.

Publications of TA reports

We propose that TA activities and evaluation be reported to the Board on a regular basis; reporting modalities should be defined by the TA Policy and Operational Guidelines. Like the staff, we are concerned that the publication of technical assistance reports could alter the quality of Fund staff advice to the authorities. Accordingly, we support staff proposal to develop specific recommendations for proper confidentiality safeguards.

Some methodological flaws

The study was based on polls and interviews with staff and the authorities who were not necessarily at the origin of the projects under review. In addition, the analysis appears to rate projects that are not comparable. This may have led to a few unexplained results.

It is puzzling to note in paragraph 30 that "the impact of Fund technical assistance appears to be predictable from the beginning". Paragraph 51 also states that "there is evidence that for many proposed projects the staff and the authorities appear to have a good ex ante view of likely success". This argument is used to determine cuts in the funding of low-impact projects. Our view is that ex-post project evaluation should consider specific conditions under which some difficult projects were approved and implemented. In this context, we agree with the staff argument of "calculated risks" which need to be taken in some special circumstances.

The Review suggests that technical assistance delivered by long-term experts in recipient countries has a lower impact than delivery by staff missions. This result is not surprising if the recruitment process of long-term experts is not carried out in a competitive setting, if the expert is not assigned clear responsibilities (including training of local officials so that they can take over as soon as possible), and if follow-up and supervision mechanisms are non-existent or weak. Our view is that a number of member countries with undeveloped administrative capacity need assistance from qualified long-term experts. The impact of long-term experts will depend not only on their intrinsic qualities (of which technical skills, leadership, adaptability and language skills), but also on the environment in which the experts operate and the effectiveness of supervision mechanisms. We also think that it is not appropriate to compare the performance of staff missions and long-term experts, at least for three reasons: (I) they do not operate in the same environment (experts from multilateral institutions are generally better supervised than those chosen by cooperating bilateral institutions (paragraph 28); (ii) they do not carry out similar tasks (staff missions deal with policy issues while long-term experts help in institutional capacity building, such as in the area of banking supervision); and (iii) the impact of long-term experts may take some time to be felt.

Charging for TA

Since the issue was discussed extensively in the recent past, we do not see any need to come back to past Board decisions. We are of the view that the present procedures are appropriate. We are afraid that putting a charge might discourage a number of members from approaching the Fund, which could adversely affect the adjustment effort.

Mr. Mozhin and Mr. Palei submitted the following statement:

The staff from the Office of Internal Audit (OIA) have prepared an extremely useful review of the Fund's technical assistance (TA). Although the authors of the review, in some instances went too far, their approach was successful in initiating a healthy discussion within the Fund. The strong and skeptical reaction from the TA departments in response to some of the review's proposals shows that within the Fund itself there exist serious disagreements on some of the key features of TA, such as its goals, consistency, efficiency, relation to surveillance and Fund programs, and the authorities' involvement. In light of the remaining differences in views on TA, our comments for today's discussion should be considered as preliminary.

The development of an explicit policy framework seems to be a promising path toward the improvement of technical assistance, a major activity of the Fund. Hopefully, during the preparation of this document, the staff, management, and the Board will be able to reach consensus on the principles of TA, corresponding operational modalities of decision making, and on the financing of TA. In our view, such work within the Fund should benefit from the authorities' input, and also from the opinions of outside experts, who provided TA under the Fund's umbrella as well as independently. Accordingly, we would propose to place the drafts of the framework on the Fund's external Internet site, so that the Fund could solicit and receive comments from a broader audience. In addition, and as proposed by the staff, we are in favor of the presentation of a separate paper on charging for TA. The Board should look again into the possibilities of charging for TA as a way to meet the growing demand for TA and to allocate resources more efficiently.

As a general idea, the proposals to enhance strategic orientation of technical assistance is very attractive and should not be dismissed on the grounds of lack of resources. We would not go as far as making technical consultations a necessary part of Article IV consultations for all members, but they could be useful in some instances. It appears that the TA departments agree with the OIA that, in an ideal world, it would be preferable to prepare a "technical cooperation action plan" for many countries. The leading argument against the widespread use of this instrument is budget constraint and relative efficiency of planning versus actual provision of assistance. However, it should still be possible to find some middle ground and to identify feasible ways to enhance the medium-term orientation of TA. We believe that the authorities should carry a larger burden in the preparation of a "technical cooperation action plan" than is currently envisaged. In such an approach, most likely, only the initial efforts to formulate such a plan would place significant extra burden on Fund staff. In subsequent years, the authorities will undertake the responsibility of revising and updating the plan. Under such an approach, the staff would encourage and assist the authorities in the preparation of TA strategies. Simultaneously, this will naturally lead to an active participation of the authorities in TA planning, as well as to a better scrutiny of these activities by the authorities. Our reasoning in a general case of TA is similar to this chair's current position on the distribution of workload in preparation of transparency reports. The authorities should prepare the transparency reports, while the Fund should promote the use of a common format for these reports and, based on the information provided by the authorities, should evaluate their progress in the adoption of internationally accepted codes and standards.

Both the OIA staff and TA Departments recognize the potential value of improvements in ex-post evaluation of TA. The review correctly points to some of the weaknesses in the existing practices of selective evaluations by the departments themselves. It would be beneficial to introduce a more systematic and formal approach here, to extract lessons from successful TA and from errors in its provision, and to make relevant information accessible, at least within the Fund. It is also important to introduce the national authorities and Area Departments as necessary participants of the TA evaluations. Occasional external evaluations, budget permitting, could play a positive role in strengthening the efficiency of TA. Having said that, we would like to emphasize that evaluations should be conducted by the experts with an intimate knowledge of the issues involved. Therefore, it is essential to avoid oversimplification of this matter by reducing evaluation to a kind of rating system.

The issue of priorities in the provision of TA is no trivial matter. Indeed, the recent wave of crises brought to our attention area previously underestimated by the Fund, such as debt monitoring and management, financial sector health, and transparency. Since the demand for technical assistance, the depth and coverage of technical assistance are likely to increase, the Fund's coordinating role in the provision of technical assistance by outside entities and individual experts has to be addressed in more detail. Hopefully, the envisaged policy statement will be developed along these lines.

Mr. Bernes submitted the following statement:

> At the outset, let me say that I found the report prepared by the Office of Internal Audit and Inspection to be extremely enlightening. It provides a refreshing and comprehensive perspective on the issue at hand, and I particularly welcome the ambitious and creative list of recommendations for change, even if it may not be possible to implement every one of the recommendations in the very near term. Overall, I attach high value to this exercise, and the high quality of the outcome speaks to the important contribution that OIA can play to improving the functioning of the Fund's work.
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> The staff's response to the Review also provides an important, and generally more cautious, counterbalance to the ambitious ideas envisaged by OIA. I believe that in some instances the staff's concerns are well warranted, and we should take heed of their advice. However, there are also a number of issues on which I think the staff is overly cautious about adopting the recommended changes. For example, when referring to the proposals for operational and procedural reform, the staff paper states in paragraph 20 that "such changes would result in a net loss of effectiveness and impact from the Fund's overall TA efforts". Ex-ante, I find this opinion to be rather strong. In contrast, I find that many of the OIA's proposals are sensible, and would like to see their recommendations given due consideration.
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> Before turning to some of the specific proposals, though, I would like to make a few general observations. First, from a strategic perspective, I strongly support the concept that Fund technical assistance (TA) should be proactive rather than reactive, and in this sense tied more closely to Fund surveillance. While I do not wish to repeat them here, suffice it to say that I find the arguments in favor of a more forward-looking approach very compelling. While there are bound to be methodological wrinkles to iron out, and associated short-term budgetary costs, I also believe that there should be significant long-term beneficial consequences to the Fund's membership, and the global economy, from a more proactive approach, and potential longer-term savings in the form of a reduction in the number of programs necessary to help countries that find themselves in the midst of financial or economic crises.
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> The staff describe in paragraph 50 of their paper a trade-off between the effectiveness of TA and the flexibility and speed of response of TA. Even if an indifference curve exists between these two choices, I am not convinced that we are currently at an optimal point on the curve from a longer-term perspective (where in my view a premium should be placed on laying down a path of effective and high-impact TA that has the potential to keep countries out of difficulty in the first place, rather than on the ability to rush technical assistance to countries in trouble), and I would not like to pre-empt an attempt to shift the curve to a higher level of overall satisfaction by being inordinately cautious about introducing change.
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> In this light, I welcome the emphasis on, and recommendations for, improving the efficiency and impact of TA. One of the most telling results of the surveys, to my mind, is that while TA is highly valued by recipients (and indeed many would be willing to pay for, or at least share the cost of, effective

and high-impact TA), a clear majority of recipients would nevertheless scale back their demand for the Fund's advice if it began to charge for all or a substantial portion of this service. Among other things, this suggests that at the margin, the costs of technical assistance exceed the perceived benefits. Viewed in this light, there must be efforts aimed at improving the effectiveness and efficiency of our assistance efforts, given that the level of technical assistance is of high quality and the potential benefits are indeed valuable.

In the remainder of this statement, I would like to set out in as brief a manner as possible my position on many of the issues for discussion raised by OIA and the staff.

- I support the proposal that the staff prepare a policy statement on the objectives and operational framework for TA. I also agree with the proposal to change terminology and adopt the term technical assistance and cooperation (or simply technical cooperation).

- As might be deduced from above, I think that we need to move forward with proposals designed to integrate TA more closely with both surveillance and program work, and to make it more proactive and efficient. I appreciate the staff's concerns about the potential resource costs, especially in light of the added demands that will emanate from the architecture-related initiatives; however, I do not want to be overly cautious about experimenting with new methodologies. On balance, I agree with the staff proposal to experiment with the use of technical consultations (around 20 willing countries would seem appropriate, as suggested by OIA) and technical cooperation actions plans (a limited number of countries, perhaps three or four, as suggested by the staff) over a period of about two years, followed by a review as suggested by OIA.

- To help address the obvious resource costs, I concur with OIA that low-priority projects, and those with low anticipated impact or where recipient country commitment is weak, be cut. Moreover, as OIA makes clear, a unique strength of Fund TA has been its primary reliance on in-house expertise. I agree that in-house expertise should continue to be relied upon in areas where the Fund has a comparative advantage, and clearly advice on information technology matters is not within the Fund's area of comparative advantage. Anything beyond extremely basic advice in this area should be discontinued.

- I also agree with OIA on shifting the emphasis away from the use of long-term experts toward short-term experts, while making more use of new communication technologies where feasible. Nevertheless, I accept that there will continue to be a small number of cases where a long-term expert is the most efficient means of delivering high impact TA.

- The issues related to standards and codes has to be seen as an integral part of sound macroeconomic policy, structural reform and institution building. I do not believe that these issues are easily divorced, or that it is meaningful or helpful to do so in broad terms. In the end, therefore, I think that the overall increase in the TA resource burden is something that will have to be addressed through additional funds, either from external sources, or internal sources if ultimately required.

- I support OIA' s recommended changes with respect to charging for TA, and I agree that future recipients be informed at the inception of an advisory project of its estimated cost.

- Increasing the transparency of the Fund's TA activities is definitely a goal worth pursuing. With respect to reporting to the Board, I do not think that reverting to the pre-1991 policy of reporting a country-by-country account of assistance activities would be useful or desirable. Rather, to be of more use across the Fund's membership, reports could be organized in terms of policy/institutional issues and lessons learned. Any and all such information should be published as appropriate and otherwise disseminated as widely as possible.

- Finally, and equally significantly, I strongly agree with OIA's assessment, articulated in paragraphs 63 and 64, of the importance of adequate evaluation for the Fund's TA work for accountability, transparency and improvements in efficiency. The two-tiered approach proposed by OIA appears sensible and pragmatically flexible, and I am pleased to see that the staff plans to adopt the elements of this approach. However, I do not share the staff's reluctance to adopt a common rating system to make comparisons across TA uses and over time. My opinion is closer to that of OIA's on this matter, particularly given that the heterogeneity problems referred to by the staff can seemingly be addressed through the addition of elements beyond the common rating system. Nevertheless, given the concerns raised by the staff, and despite the discussions that have already taken place with OIA, I would suggest that specific expertise and advice from those bilateral providers of TA with solid, efficient and workable evaluation schemes be sought in connection with the implementation of the Fund's TA evaluation scheme. Perhaps the Board's Evaluation Committee might be asked to look at this. In any event, no final decision on this point should be taken without further expert views.

Mr. Yoshimura submitted the following statement:

I would like to thank the Office of Internal Audit and Inspection (OIA) for a comprehensive and valuable report on its review of the Fund's technical assistance (TA). The report describes problems of the current TA as well as a number of useful recommendations to alleviate those problems. In addition, we have received a staff paper (EBAP/99/60), representing the views of the departments in charge of TA, such as the Fiscal Affairs Department (FAD), the Monetary and Exchange Affairs Department (MAE), and the Statistics Department (STA). These materials provide us with a good basis on which to have a deep discussion on the Fund's TA activity.

My authorities have been supporting the Fund's TA activities with the largest financial contribution through the Japan Administered Technical Assistance Account (JAA), and have also sent many experts from our central bank and elsewhere. Therefore, we are particularly interested in the evaluation of the Fund's TA. Moreover, we have participated five times in the regular inspection missions in order to check for ourselves the effectiveness of the TA financed by the JAA. From this experience, we have views of our own on how to improve the Fund's TA. For instance, we have the impression that satisfactory technical assistance is provided by external experts, regardless of the length of their tenure, when 1) communication and information exchange between the experts and related departments in the Fund are good; 2) resident representatives are functioning well as a liaison between the experts and the recipient countries' authorities; and 3) the Fund's TA is well-coordinated with TA provided by other organizations such as the World Bank. The last point, better coordination, is applicable to TA provided by the Fund staff as well.

In the rest of this statement, I would like to comment on some of the issues for discussion listed in the staff paper.

There is no doubt that it is better for the Fund to have an explicit statement of the objectives and policy framework of its TA. Most of the TA services currently provided by the Fund start from a problem that already exists and is well recognized, and then apply to that problem the successive steps of "diagnosis", "implementation", and "consolidation". The need for this type of traditional TA, however, might gradually decline in the future as recipient countries graduate from technical assistance. What will become relatively more important will be preventive TA. By integrating TA more closely with the Fund's surveillance and program work, we might be able to increase its efficiency as well as its ownership by recipient countries. Indeed, the Financial System Stability Assessments (FSSA) conducted by the MAE is a forerunner of the new type of Fund TA activity. In sum, I support the recommendation made by the OIA to introduce a new policy framework based on the concepts of "technical consultations" and "technical cooperation action plans", and try these out on a number of countries for at least two years until the next review.

According to the OIA report, although the Fund's TA has provided high quality advice and recommendations, implementation has sometimes been less than satisfactory. And to increase the probability of successful implementation, the report makes a number of proposals to improve the Fund's TA practices. I can subscribe to many of these proposals. In particular, as a representative of a donor country, I strongly urge the Fund to strengthen follow-up and evaluation activities, including monitoring and analyzing policy implementation by recipient countries. Also, I agree with the OIA proposal that the Fund should provide its TA services only in the core areas of its expertise. Therefore, I believe that TA in information technology unrelated to the core areas should be abolished.

As we discussed at the Executive Board meeting on transparency, enhancing the transparency of Fund operations increases the Fund's accountability, and hence is desirable. I strongly believe that this principle should apply to the publication of TA reports as well. While, of course, we need to be mindful of the role of the Fund as a confidential advisor, we should also recognize that publishing a TA report will provide a good opportunity for the general public to reflect on the efficacy of the Fund's TA, and could also increase recipient countries' sense of ownership. I can therefore support this proposal as well.

Regarding the cost of technical cooperation, my authorities have stressed the necessity of fair burden sharing for supporting developing countries on several occasions. The OIA recommendation to improve burden sharing through an expansion of the number of external donors is consistent with our position, and thus I can go along with it. On the issue of recipient countries' contributions, the TA provided by the JAA has not required any contributions from beneficiaries. However, in order to improve their ownership as well as to reduce the differential treatment of contributions within the Fund-organized TA, we are ready to accept the OIA's proposal to start charging some fees on externally financed TA, including the JAA. However, in view of the fact that the JAA funds are disbursed from our ODA budget, we would like to make sure that the burden borne by beneficiaries does not become excessive.

Mr. Cippa submitted the following statement:

First, I would like to thank the Office of Internal Audit and Inspection for the preparation of the documentation for today's discussion, as well as the TA staff for their statement on the OIA Review. Technical assistance provided by the Fund has considerably expanded in recent years and its policy relevance has significantly increased. A thorough discussion of this issue is therefore timely and welcome. Demands for Fund technical assistance will probably not decrease in the near future. Indeed the implementation of standards and codes of good practices--core elements of the new Architecture--can hardly be conceived without considerable additional assistance from the Fund. At the same time, demands for more traditional TA services will not diminish. There is therefore a need for prioritization and for a clear policy guiding the Fund's provision of TA.

I, therefore, strongly support the proposition that a policy statement on Fund's technical assistance be drawn up and an appropriate policy framework be designed. These could well be discussed along with the forthcoming paper on technical assistance policy and operational guidelines. In addition, I am ready to go along with the proposal to adopt the term "technical consultation and technical cooperation", should there be a consensus in the Board that the old term is too outdated and paternalistic.

In order to achieve greater prioritization, the Fund should first of all concentrate its activities on those areas where its comparative advantage is proven. In this respect, the question on the provision of Fund advice in information technology is adequately answered in the OIA Review. I thus agree with the proposed cessation of BCS technical assistance work and with the assessment that this decision would not seriously hamper the advisory work of other departments.

In the selection of projects, the Fund should focus on the implementation of high impact projects. In principle, if there is a clear evidence of a lack of interest or ownership by the authorities, the Fund should abstain from providing assistance. I agree, however, that assessing the impact of a project ex ante may be difficult. I understand, therefore, that a calculated risk needs sometimes to be taken. Even if the odds are not favorable, the stake may be important enough to make it nevertheless worthwhile to carry through the project. Moreover, in some specific cases, technical assistance may be the most important instrument to maintain the dialogue between the Fund and the authorities. This aspect should not be neglected.

I believe that technical assistance activities in the Fund should be more closely linked with area departments in their surveillance and program work. Such a link would permit more proactive and forward-looking technical advice. This could contribute in tilting the distribution of TA away from regional consideration, as it is currently the case with the Regional Allocation Plan, to a greater focus on need and past performance in implementing advice. Area departments could contribute usefully in assessing the overall impact of a project and the commitment of the authorities. Furthermore, area departments are probably in a better position to strike the balance between assistance in the implementation of standards and codes and the provision of more traditional technical support. I therefore support the suggestion to introduce technical consultations within the Article IV framework. As the experience tends to show that TA projects are more successful if set in a clear medium-term framework, I also support the introduction of Technical Cooperation Action Plans. These instruments should be phased in gradually over an experimental two-year period.

In delivering technical assistance, the Review identifies some areas of improvement. As in programs, here too commitment and ownership by the authorities are key factors to assure success. The OIA Review rightly emphasizes a number of steps aimed at improving ownership, that I fully support. For instance, the recipient countries should have a leading role in the identification of needs and be more involved in the selection of experts and in the drawing up of their terms of reference. Moreover, in the selection of experts, greater care should be given to their language and teaching skills. In addition, I was quite surprised by the conclusion that long-term experts were less efficient than other modes of delivery. If this is the case, the consequence may be the need for closer scrutiny in the selection of experts and not necessarily a shift of policy toward the assignments of short-term and peripatetic experts.

Concerning evaluation procedures, I broadly concur with the suggestions set forth by OIA. The proposed two-tier system of self-evaluations by staff and periodic independent evaluations should, if well implemented, guarantee an efficient control of the quality and impact of the Fund's assistance activities.

As regards the proposed measures to increase the transparency of assistance projects, I fully support the proposal that the results of technical advisory work be regularly reported to the Executive Board and to Management. There is, in my view, no reason why the reporting on technical assistance should differ from the reporting practiced in the surveillance and program work of the Fund. The inclusion of an account of the proposed technical consultations as a separate section in Article IV reports should thus be welcomed. As to the question on the periodicity of reporting to the Board, I regard a biennial report on assistance activities and its evaluation as appropriate.

I am, furthermore, convinced that the external communication of the results of technical assistance projects needs to be vastly improved. The voluntary publication of technical cooperation reports would, without doubt, be a positive development. Moreover, if increased bilateral support is to be found to finance Fund technical assistance, a greater public awareness of its existence, its content and its usefulness needs to be achieved.

To turn next to the question of country contributions to the Fund's advisory work, the proposition that contributions should be made to the cost of long-term expert assignments is in line with previous statements of this Chair. Still, I would give preference to a scheme that allows to take into consideration the limited ability to pay of certain countries. Recipient countries should in any case be informed, as is suggested in the review, on the cost of technical assistance and cooperation incurred by the Fund or by external donors.

Finally, on the question of the budgetary costs implied by the OIA's suggestions, I think that the resource implications may be higher than suggested in the review, especially in view of the decline in bilateral contributions. Nevertheless, up to one third of technical assistance projects have, at present, a less than satisfactory impact. In many cases, it seems that the staff and the authorities could have identified these low-impact projects in advance. Given these facts, I consider the potential for budgetary savings to be large and thus share the opinion of OIA that it should be possible to implement the recommendations of its report within existing budgetary limits.

Mr. Al-Turki submitted the following statement:

The Office of Internal Audit and Inspection (OIA) rightly concludes that "Fund technical assistance is getting many things right, is very much appreciated by recipients, and has achieved notable success." The demand for technical assistance (TA) can be counted on to continue growing for both program and non-program countries, TA being perhaps the most important direct benefit of Fund membership for the latter. TA demand will also grow in view of the Fund's increasing forays beyond the traditional macroeconomic and structural reform work into oversight of related international codes and standards. Given resource constraints, the challenge therefore is to ensure that TA is efficiently utilized. The OIA's comprehensive review and the statement from management and staff provide a valuable context to examine the options in that regard.

It is unfortunate that the present review, like the earlier one in 1994, finds around one-third of the Fund technical assistance projects less than satisfactory. The task of reallocating resources from less efficient to more efficient uses thus remains as challenging now as it was in the past. Indeed, the challenge is more daunting now in view of the enormous increase in the volume, complexity, and global reach of Fund TA. Against that background, I will limit myself to a few broad remarks, and some specific observations on recommendations in the OIA *Review* and the staff statement.

Staff is right to stress that assessment of the *Review*'s recommendations is a matter of weighing benefits against costs in an uncertain and rapidly changing global environment. Therefore, while I am in broad agreement with a number of the recommendations, I also share some of the reservations outlined in the staff statement. Here, I will first remark on a few key areas.

On regular reporting to the Board, the established practice of including information on status and prospects of TA in Article IV consultation reports has been very useful and should be continued with appropriate elucidations. As for the proposed public dissemination, it is important to be mindful that there are situations in which premature disclosure can compromise TA objectives. Also, it is important to avoid undue expectations from TA as a panacea for economic crises. This is especially the case as prospects for timely diagnosis and implementation of the appropriate TA are limited by resource constraints in not only the Fund but also the recipient countries.

Specifically, I agree with the *Review* that Fund TA could serve as not only a "curative" but also a "prophylactic" against financial crises. However, I would stop short of the impression in paragraph 5 that the absence of a detailed overall Fund TA policy framework was a significant factor in the recent outbreak of financial turmoil in several emerging market economies. Clearly, explanations for such crises are frequently easier found in hindsight than in foresight. Therefore, unanticipated financial crises will likely continue to recur even if the Fund has an elaborate TA policy framework in place. To claim otherwise would be to suggest as if the Fund has fail-safe means for anticipating such crises.

TA, however important, is best viewed as an integral element of Fund surveillance or program work. As such, it is a means to an end and not an end in itself. Viewing TA instead as an independent "third leg" of the Fund's work can thus be misleading. Also, the question of an appropriate name to describe Fund TA is an essentially cosmetic matter. I therefore have no difficulty in either continuing to call it TA or choosing any of the alternatives proposed in the *Review* and the staff statement.

I will turn next to the major recommendations in the *Review.*

First, the *Review*'s proposed integration of TA with surveillance and program work in Fund missions is clearly a matter more of scale than of substance. In substance, the integration is already in place since consultation and program missions routinely identify new areas for TA and check up on ongoing TA in consultation with the relevant Fund departments. However, the detailed TA work is usually conducted independently of the surveillance and program missions with exceptions made as needed. I believe this process has served the Fund well and should be continued with any marginal changes that may be necessary for improved performance.

The *Review,* however, in effect recommends a radical departure from the unusual practice of keeping TA discussions separate from surveillance and program missions. It is evident that the proposed fuller integration of TA as a rule would have substantial resource costs. Indeed, the *Review* underscores that internal resource constraints will require phasing in of the action plans over a period of time. As staff emphasizes, such phasing-in could overload the Article IV process and sharply increase the burdens on area and TA departments staff. On balance, I therefore see merit in continuing the tradition of small and focused missions with ad hoc exceptions for fuller TA integration as needed.

Second, while I fully agree that TA should be focused on the Fund's core expertise areas, the meaning of this admonition is becoming increasingly fuzzy in the midst of the continuing extension of the Fund's activities. Indeed, the *Review* recognizes this in including among the Fund's core objectives "those that facilitate progress toward the implementation of codes and standards." As this chair has points out in past Board discussions of these various codes and standards, the Fund faces dangers of a mission-creep well beyond accustomed areas of expertise in macroeconomic and structural reform work. It is thus important to exercise self-discipline to stay well within the Fund's expertise and mandate. In that context, I can support the recommendation to phase out Fund provisions for assistance on information technology.

Third, the very high demand for TA in the face of limited resources requires a careful prioritization of TA projects. This has been at the core of the Fund's usual practice of allowing considerable leeway to the concerned individual mission chiefs and economists to determine the content of TA planning in a surveillance or program context. Typically, ideas for such planning arise in the course of discussions with member countries. I have doubts that advantages of such a flexible approach can be matched by benefits to be realized from any grand strategy for a Fundwide comprehensive TA planning encompassing all members in a forward-looking problem-solving framework. I therefore urge caution in considering the proposal for such a strategic approach outlined in paragraph 35 of the *Review.*

Fourth, I agree that TA should not be viewed as a free good. I therefore endorse the recommendation for recipient country sharing of the costs of, for instance, some of the housing and other local expenses of experts. I can also appreciate the proposal for withdrawing Fund TA from recipients lacking commitment to the program. However, as staff notes, there are occasions when risks have to be taken, especially in the context of programs in countries facing difficult and problematic circumstances. The issue, therefore, has to be decided on a case by case basis in full view of the ground realities. Also, as the *Review* pointed out, the Fund's commendable record regarding provision of excellent recommendations should be supplemented by an equally creditable reputation for follow up work to ensure fuller achievement of the agreed TA objectives.

Fifth, while I endorse the several recommendations for improvements in the expert recruitment process, countries experiencing migration abroad of skilled manpower could also gain from greater use of qualified nationals. Here, the *Review* could have benefitted from insights in the Fund Working Paper by Nadeem Ul Haque and M. Ali Khan on "Institutional Development: Skill Transference Through a Reversal of Human Capital Flight" (WP/97/89). I will appreciate staff views on the scope for using nationals to supplement expatriate experts in Fund TA projects.

In conclusion, let me reiterate that the key question is whether a proposed initiative is feasible in the light of the pressing budgetary constraints. It should be emphasized that large scale efficiency gains from TA reallocation appear unlikely in view of the past near-stagnation of the proportion of "less than satisfactory" activities in the TA program. Accordingly, I share staff concerns that budgetary savings anticipated in the *Review* may not be achievable in practice. Thus, feasibility of the major changes proposed in the *Review* can only be assessed in the light of more detailed information. Here, I am looking forward to the forthcoming discussions of the Fund's *TA Policy and Operational Guidelines.*

Mr. Oyarzabal submitted the following statement:

I welcome the review of the Fund's technical assistance. I think it is most timely and has merit in dealing with an issue that is relatively complex. Technical assistance, in my view, has been and will continue to be a very significant instrument in the relationship among the Fund and its members. I strongly believe that technical assistance should originate upon a request from each individual country. This element underscores ownership. Yet, in the process of discussions with the authorities, whether they are formal or informal, when weaknesses have been identified by management or the staff, suggestions promoting the possibility of technical assistance are not necessarily out of place. It would be interesting to see the results of evaluating technical assistance activities from the perspective of country's authorities, determining if they have followed up, if they have been consistent in their commitment. I would like to suggest that either the staff or the Office of nternal Audit & Inspection go beyond than the samples used for their analysis along the lines suggested. Even though the benefits of technical assistance in some cases cannot be clearly perceived in the short term, its value-added can be more generally appreciated when one takes into account the medium and longer term,

I would support a policy statement outlining the objectives of the Fund's technical assistance activities, as well as the policy framework under which it should operate. The utilization of the term "technical assistance and cooperation" does not pose any difficulty, in my view, and is acceptable as discussed in the papers brought forward for discussion today.

The Board should be informed of the technical assistance that is being provided, its scope, how it is developing, and on its evaluations, taking into account possible recommendations to create mechanisms and means for a more efficient implementation of this important activity by the Fund. Even though there is an important initiative to promote transparency, I believe that the characteristics of technical assistance and cooperation tend to be highly technical and specialized and, at this moment, it might not be necessary to go public on each experience. In any case, the results of technical assistance and the lessons derived from these experiences can be useful and should be made public to create value added centering on the issues addressed by technical assistance that may frequently be present in many countries.

I agree with the report presented by the Office of Internal Audit & Inspection and the staff's view that there is increasing pressure for specialized experts to assist work being done for technical assistance, particularly related to transparency and standards. Recognizing the need to promote both of these issues, as core elements in the functioning of the Fund and its relationship with its member countries, it appears a reality that must be faced adequately from the human resources availability aspect, as well as the cost that must be addressed in bringing these elements effectively forward. It might be desirable to envisage a period of two to three years to better evaluate the potential resource implications of the proposals on transparency and standards. Therefore, when the time comes to address the issue of funding, from the administrative budget or otherwise, it will be taken into account accordingly. Looking back at our recent discussion on the budget, I believe there have not been substantial changes in technical assistance requirements which indicate a greater need for resources than those already contemplated in the budget, as it was approved.

In dealing with the definition of priority objectives for technical assistance, I believe more information might be useful to aid the Board in determining those priorities. Roughly speaking, I would be inclined to think along the lines that there might be a possibility of grouping countries when common weaknesses have been identified relating to fundamental aspects of policy decision making, implementation, and the relationship with the Fund. For example, it might be possible to identify a certain group of countries that need to address the need to develop core data as required by the Fund. At the same time, there might be other areas such as the application of codes that could be developed and implemented in parallel without one necessarily relying on the other. In any case, I believe that the priorities that could be established should deal first with those countries that have systemic implications for the world economy. Taking into account possible constraints, a balance should be established so that other countries are also covered.

One of the issues that readily caught my eye was the proposal to help raise countries' commitment to technical assistance. I strongly support the suggestions mentioned in the Review and feel that a better acceptance of the Fund and its views will, to a certain degree, come as a result of greater knowledge of the institution and its policies. This relates to confidence building based at least to some extent, on the "educational efforts" the External Relations Department can carry out in disseminating information of what the Fund is, its objectives, and other essential and relevant information.

In many cases, if not in most, Article IV consultations require considerable efforts by staff missions in gathering data and holding discussions of a policy nature or otherwise with the authorities. Additional initiatives to deal with technical assistance and emphasize its usefulness in the course of these missions, as well as the need or possibility of including an evaluation of the results derived from this activity, will add to the strain that already exists in Article IV missions. The specific or specialized focus of many technical assistance programs, as well as their operational aspects, indicate that they might be out of context for an Art. IV mission. I prefer that technical assistance programs stand on their merits.

When looking at the issues relating to the evaluation of technical assistance, it seems obvious that there are a lot of elements that the staff does not control. Recognizing this reality, I suggest that the Office of Internal Audit & Inspection should analyze the results of technical assistance from a country perspective, thus highlighting, among other things, issues related to commitment, follow up, institutional capacity, domestic expert availability, etc., that could make a difference in the success and/or efficient implementation of technical assistance given to countries.

It is difficult to take a stand on the possibility of establishing a policy defining when the Fund will or will not participate in technical assistance activities. As I said before, there are many things out of the Fund's control and they should be taken into account in evaluating the possibility of success of technical assistance initiatives in any member country. If there is a situation of evident lack of commitment or follow up, or evidence of repeated failures in these initiatives where causes can be clearly pinpointed and relate to undesirable actions by the authorities, it might be necessary to consider this option. A case-by-case approach based on unbiased information should be a basic element necessary to make a decision along these lines.

As the IMF Institute has been making efforts to strengthen its presence in many parts of the world, one could envisage that it could develop new programs that could be offered in the core areas of the Fund to help sustain the efforts that have been initially addressed through technical assistance. This type of support could be implemented and would deepen institutional development of many member countries.

Finally, I welcome the emphasis on improving the efficiency and impact of technical assistance. It is an extremely useful tool that is valued accordingly by member countries.

Mr. Mirakhor submitted the following statement:

Thanks are due to the Office of Internal Audit and Inspection (OIAI) for preparing a clear and informative report on the timely review of technical assistance. Also appreciated are the staff comments on the report. The focus on technical assistance is important, and systematic close monitoring and review of Fund activities in this area are clearly needed. As Mr. Bernes suggests, perhaps the appropriate time to consider various options for establishing the required mechanism of monitoring and review would be the upcoming review of the evaluation process. I also agree with him that it would be useful to request the External Evaluation Committee of the Board, in cooperation with the OIAI, to obtain information on ways other TA providers conduct this activity.

Like Mr. Barro Chambrier, we too were puzzled by the proposed recommendation on the redistribution of TA resources from traditional uses in favor of new demands. Redistribution of resources away from the traditional use of technical assistance would not serve well the membership. Particularly in cases of ESAF- Supported Programs, Fund technical assistance is absolutely crucial to the success of reform process and in capacity building.

We agree with Mr. Barro Chambrier that charging for TA is not appropriate given the positive externalities associated with TA not only from its contributions to domestic growth, stability, and living standards, but also from its impact on the smooth functioning of the international financial system. Moreover, TA is about the only direct benefit many countries receive from their membership in the Fund. Additionally, the industrial countries--as a matter of routine--receive the benefits of staff's detailed and comprehensive technical studies of various aspects of their economy as part of background papers attached to the annual Article IV consultations or the WEO. Functionally, there is very little difference between these studies and TA for developing countries. A pricing policy would have to take this into account as a matter of necessity to comply with the principle of uniformity of treatment.

Mr. Yoshimura has provided us with a very useful set of conditions that would render a TA program successful. These conditions complement well those of the paper's own, as summarized at the beginning of Mr. Barro Chambrier's statement. We would, however, add an important factor: the presence of counterpart skills in the recipient country capable of absorbing knowledge transfer imparted by TA.

Once the TA is provided, the appropriate knowledge transfer will only take root when the necessary domestic technical counterpart is developed and retained. Unfortunately, in many recipient countries, retention of skills in the public sector, where TA is supposed to impact, has not proved an easy task. A proper consideration of the issue of skill retention lies not only in the subject of TA evaluation, but is also intimately tied into the issue of civil service reform for developing pecuniary and non-pecuniary incentives for appropriate human resources management in the public sector. These incentive structures should keep pace with the objective of retaining such skills. In many countries, it is observed that the skills that TA seeks to provide may have migrated, or cannot be retained at home. It is highly desirable for TA programs to pay attention to retaining and/or reversing the migration of such human capital. In this context, one important issue facing TA program is the selection of experts in a way that assures the best available quality. While many highly trained nationals of TA recipient countries are using the required skills in foreign academia, multinational corporations, IFIs, and private financial institutions, the report implicitly follows convention in assuming that only a foreign national can provide TA.

The reservoir of the "brain drain," to the extend that it exists, is a pool that can be drawn upon for provision of TA. However, such an approach is precluded on some assumed--through not tested--attribution of moral hazard. A recent study suggests that allowing expatriate nationals to be included in TA would result in increased capacity building (WP/98/164). Such experts bring knowledge with limited start-up costs. They are also more likely to have a greater stake in improving the efficiency of the system in their countries. This approach may improve the chances of repatriation of human capital (WP/97/89). Anecdotal evidence from countries in our constituency suggests that expatriate nationals can play an effective role in institution building in their countries. Be that as it may, the hypothesis of effectiveness of expatriate nationals is worth testing for more efficient allocation of TA resources.

We agree that it is appropriate to substitute the term "technical assistance and cooperation" for "technical assistance." Along with the change in terminology, attempts should be made to foster such cooperation as exchange of technical information and experts among countries. Increased use of experts from countries in one region in technical assistance to another country in the same region could enhance regional cooperation. At present this is done to a limited extent and should be expanded. Moreover, regional events, such as conferences or panels on recent TA subjects, could provide a good forum for follow-up and shared knowledge. Finally, it would be worthwhile to explore the relationship of TA to the activities of the IMF Institute and synergies that potentially exist between these two important areas of Fund service to its members.

Mr. Yoshimura said that he agreed with the sentiments of Mr. Bernes and Mr. Mirakhor, that the upcoming review of the evaluation process would be an appropriate point to consider various monitoring and review mechanisms. Moreover, he agreed that the external evaluation committee should consider the mechanisms adopted by other technical assistance providers.

Mr. Zoccali made the following statement:

By way of introduction to the issues for discussion, we fully agree with the major assessment findings that emerged from the OIA review reflected in paragraph 3 of EBAP/99/59 and, in particular, with the importance of gaining country commitment and adequately following-up the Fund´s advisory process. We are less sanguine than OIA, however, regarding the validity of the assertion that "in general, technical assistance provided by staff missions appears more likely to be successful than that provided by long-term experts". Similarly, the reservations of staff on the methodology used in the OIA report, in Annex I of the main paper, particularly regarding the measures of "product" and "impact" employed in assessing the impact and effectiveness of a TA activity, justify caution when drawing inferences for specific proposals for operational reform of Fund TA procedures.

The size of OIA´s project sample, however, should in no way downplay the critical importance of strong government involvement and ownership to ensure the highest impact of Fund technical advice. Moreover, lack of interest by the authorities should serve to weed-out inefficient TA projects from the start. At the same time, the fact that the Fund´s technical advice is generally highly regarded and preferred over that of other donors, should be seen as the opportunity for further actions within the control of the Fund to enhance its effectiveness. We concur, therefore, on the need for excellent communications between technical assistance providers and recipients, of placing a TA project in a broader policy framework, of having well-prepared experts and more focused country-specific project preparation and recommendations and of giving special attention to follow-up procedures. The relevant issue stemming from OIA´s assessment, however, is not whether some operational improvements are warranted in these areas, but how best to bring them about in light of the human and budgetary resource constraints, both in the Fund and in the recipient countries.

Against this backdrop, I will address the main issues suggested for discussion.

First, we view a more preventive orientation for the Fund's technical assistance, that encompasses the concept of "technical consultation and cooperation" as a desirable medium-term objective. We support, therefore, the proposal that staff prepare a policy statement for Board consideration outlining the objectives for such activities, the policy framework under which it should operate to achieve high impact, and the definition of the subject areas in which the Fund is prepared to cooperate with its own expertise.

Second, the Fund should continue to take calculated risks in providing technical assistance in support of economic programs. The obvious link between technical assistance needs and Fund surveillance, suggests that TA should also be available with equal priority to countries that show clear interest and commitment in adopting new international codes and standards and in implementing previously received technical advice.

Third, we recognize the merits of a more coherent, forward-looking and proactive approach to identify technical weaknesses and facilitate knowledge transfer and capacity-building in areas directly related to the Fund's core activities. However, the proposed technical consultations and technical cooperation action plans are likely to be highly resource intensive and could lead to artificially generated demands, as is perhaps reflected in the World Bank's findings that 80 percent of its projects were found to be at risk, in terms of inadequate attainment of developmental objectives and unsatisfactory implementation. Similarly, the prospect of overloading the Article IV consultation process or impairing the flexibility and capacity of TA departments to respond quickly to urgent and high priority requests needs to be factored in. On balance, we would find useful some prior experimentation with such instruments with a representative number of pilot cases during a limited period, before taking a decision on these specific operational proposals to further develop internal cooperation. Such an approach, in our view, would serve to expose more clearly the trade-offs and resource implications involved and avoid voluntarism that could end up reducing the cost-effectiveness of the Fund's valued technical assistance. We are skeptical that OIA recommendations can be implemented over the next two years with existing budget resources and those proposed for FY2000.

Fourth, in any event, we strongly endorse the operational steps to increase the participation of recipient authorities in all stages of technical cooperation and, thus, increase their commitment. Similarly, we generally support the suggestions concerning the modification of the expert selection mechanism to ensure adequate preparation of experts for their assignment, facilitate the fuller integration of the work of experts with that of the Fund, and improve and formalize backstopping procedures. In this regard, I fully concur with the importance that governments participating in the survey assigned to adequate staff communication and language skills, low turnover in mission and expert assignments and personnel with practical experience. Similarly, the call for customized recommendations with adequate follow up, particularly during the most critical phase of implementation, should be taken fully on board.

Fifth, we are generally attracted to the suggestions for improving the transparency of the Fund's technical assistance activities, in particular the preparation of papers on the lessons learnt on important technical cooperation subjects of general interest. A word of caution is, however, called for in making technical advisory reports available to a wider audience. A balance must be struck between preserving confidentiality, where this is relevant because of the sensitivity of the information involved, and fostering high quality advice and coordination with other providers. Moreover, since technical assistance should form part of the authorities' strategy to bring about policy reform and implementation, we consider that the Fund's policy on dissemination of specific technical advisory reports should not end up weakening the voluntary attempts by the authorities concerned to establish ownership over the reform process. Thus, we would favor a policy of publication of these reports that is based on expressions of interest of the authorities to do so, at the outset of a TA mission, rather than the proposed publication in all cases "unless the recipient country objects". Similarly, we should keep in mind that only one-half of technical advisory reports were translated into the language of the country concerned and that in 40 percent of the projects, experts did not even communicate in the language of the authorities. Drawing from the recent experience with the dissemination of the staff paper on Argentine transparency practices, where my authorities specifically requested its translation for dissemination in Spanish, it would seem important to have a clear definition in the case of TA reports of what is intended by proper dissemination, and perhaps to revisit this issue more generally on the basis of a staff paper devoted exclusively to the procedures applying to the different categories of Fund information currently being disclosed.

Sixth, regarding the evaluation system for Fund technical assistance, we are concerned by the survey conclusions (in EBAP/99/59, Supplement 1) : that TA departments consider their job basically done after delivery of the final report and, as importantly, that other departments who would be in a better position to do follow-up in the field do not really consider it their job. Addressing the insufficient integration of TA into the Fund's work is critical for the effectiveness of the service being provided. To make a difference in this regard, however, the formalization of evaluation procedures will be need to supplemented by effective backstopping of missions, quality control safeguards and inspection and follow-up visits as part of that process. We hope that in addition to a commonly agreed framework and focused periodic independent evaluations, these other aspects will also be part of staff's proposals to enhance the evaluation activities of TA departments.

Seventh, price should not be a barrier for the receipt of technical assistance services. Moreover, as OIA notes "it is in the strong interest of the entire membership to use these means of delivery for prompt advice by the Fund, when required". Having said this, my authorities fully recognize that technical assistance is not a "free good". In addition to the minimum support requested, some countries also provide contributions in-kind and ultimately recipient borrowing members contribute towards such services via the rate of charge. Proper incentives for efficient resource allocation should apply not only to recipient countries but also to the Fund. We consider it important, in this regard, to avoid duplication of TA efforts across TA providers. As noted in the grays, redistribution of TA resources away from the traditional use of TA would not serve the membership well. The context of high demand for technical assistance, including from new countries intent on adopting international standards, underscores even more the importance of maintaining the level of external financing and of enhancing cooperation among international bodies and national agencies. The degree of support most notably from Japan, Australia, Denmark, France and Switzerland is, in any event, greatly appreciated by my authorities. The level of Fund-wide overhead in the provision of TA also deserves permanent attention. Although cost comparisons with other providers are not given in the papers, it is clear that with an overhead of 11.3 percent of total administrative expenditure, increasing to 17.3 percent in FY 1998 when administrative and policy support is taken into account, opportunities for budgetary cost-savings may exist and should also be identified. On balance, the recommended new system of contributions is deemed piecemeal and we would favor a separate paper on this issue by staff before deciding on any modification of the current system.

Eighth, regarding information technology matters, our view is that access to minimal TA in a very limited set of cases and within a tightly circumscribed budget could be cost-effective, justifying the maintenance of limited response capacity in the area.

In sum, Mr. Chairman, this technical assistance review has brought to the fore key issues for its more effective delivery. We look forward to the prompt implementation of many of OIA's recommendations and stand ready to consider any adaptation, as well as their budgetary implications, on the basis of the trial experience gained.

Mr. Yakusha made the following statement:

I would like to thank the Office of Internal Audit and Inspection (OIA) for writing two candid and interesting papers. The amount and quality of work in preparing these papers is impressive. The papers contain some important information about weaknesses in our technical assistance. At the same time, however, the report also has some positive things to say about the Fund's technical assistance from the Fiscal Affairs Department, the Monetary and Exchange Affairs department, and the Statistic Department. This is reassuring. What is somewhat disturbing is that the reports tend to treat the work of experts from outside the Fund, so-called long-term advisors, with more skepticism than the work of our own staff. It is easier, of course, to blame the authorities for lack of interest in their services, but one should also look at the selection procedures of such experts, their previous experiences, terms of reference, reporting requirements, and other relevant factors, together with the authorities' commitment. I would like also to thank the staff for its response to OIA's papers.

One of the most important findings is the difficulty in achieving "sufficient impact." I read this to mean actually putting into practice the lessons provided by the technical assistance team. The review attributes this lack of impact to a low degree of ownership, a lack of follow-up, a lack of communication between recipient and provider, and the manner in which technical assistance is provided. In this regard, I agree with the recommendation that objectives should be defined more clearly. I would welcome a standard template that shows the perceived expertise shortage, the extent to which we hope to reduce that shortage, how we intend to do it, when we intend to do it, and whether or not we have achieved our objectives. Defining objectives, and evaluating whether we meet those objectives, is crucial to guarding the effectiveness of our technical assistance. In fact, if departments are made accountable for reporting on effectiveness, this by itself would generate incentives for follow-up and increased communication. Reporting to the Board could also overcome some of the problems listed in Paragraph 51, namely that there may be institutional incentives to approving projects with low marginal utility, and that too many resources may be made available for projects with low priority.

The question is how do we achieve this? I would like to support the staff's suggestion that each department should make a policy statement on the objectives for technical assistance. This statement should be evaluated shortly after completion of a technical assistance assignment, and perhaps again after a somewhat longer lag. I would also support some kind of reporting to the Board. In this regard, there are perhaps two options. One is that we have one meeting a year in which we discuss an umbrella paper on our overall experience with technical assistance. This paper could consist of all technical assistance policy statements for individual countries, and whatever evaluations were available. I should acknowledge that this paper may be somewhat dry, but the purpose of having a single meeting devoted entirely to the effectiveness of technical assistance would be to force us to pay attention to this important and costly Fund activity.

Another alternative would be to do the opposite, i.e. rather hold a single large meeting, we might include country-specific information in the separate Article IV staff reports. I take note of the staff's doubts about the usefulness of a rating system to compare technical assistance across countries, uses, and over time. That is why we are somewhat skeptical at the suggestion to include technical consultations in the Article IV process. In this instance, I agree with the objections raised by the staff. Given the current debate on the international financial architecture, there is a serious risk that we are overburdening the Article IV process. Moreover, those providing technical assistance are often not the same people who conduct the Article IV missions. I suspect that monitoring code and standards, as well as identifying technical assistance needs, require a significant amount of time and effort. Such a process may well benefit from separate discussions. Having said that, our chair has no problem with taking an experimental approach.

On the issue of publishing the results of Fund technical assistance, I have no objection in principle, but I would like to know more about what that would entail. I would observe, however, that accountability and publicity are two different things.

As for the development of technical cooperation action plans for countries receiving above-normal amounts of technical assistance, I take note of the staff's objection that the resource cost may not outweigh the benefits. I wonder how much value-added value there would be once the various departments develop a more formal routine framework with objectives, follow-up, and evaluation.

On the question of which areas the Fund should focus its technical assistance, I agree that technical assistance should be limited to areas where the Fund has a comparative advantage. In this regard, technical assistance in the field of information technology should have a very low priority. It would have been interesting for the review to have commented on whether there are some areas within, for instance, the domain of the Monetary and Exchange Affairs Department that the Fund should have stayed away from. One example is bank privatization, which could perhaps be better left to private institutions or the World Bank.

I would encourage the Fund to work closely with the World Bank, BIS, OECD, and other organizations as a way of using effectively our scarce resources. In this regard, I was struck by the observation that the World Bank, for instance, had received project terms of reference in only 12 percent of all cases, and that the final technical assistance mission report was provided to the Bank in only a quarter of cases. I do not want to sound critical, but we seem to be suffering from an ivory tower syndrome. Cooperation with other institutions and agencies might even obviate the need for the Fund to spend time on the implementation of its policy advice. In the private sector, for example, there is an array of management consulting firms. Some are so-called strategic consulting firms, which deliver reports but do not spend a lot of time on follow-up. Others are known for focusing more on implementation and typically spend more time looking at very practical details. We might wonder whether such a division of labor should not also exist in the international arena.

Turning to the question of whether long-term experts are inferior to shorter-term missions, I am inclined not to compare these two forms of delivery directly, as they obviously tend to address different problems. I see them as compliments rather than substitutes. The review makes some useful suggestions, however, as to how the effectiveness of long-term experts could be improved, and we should focus on implementing those. I am thinking particularly of focusing on teaching, communication and language skills, involving the authorities more closely in selecting a long-term expert, and having the expert meet with the authorities before embarking on the assignment. These preliminary consultations on terms of reference could be conducted, in our view, at the time of the Interim Committee meetings, for example, when it could be feasible to involve the authorities in drawing up the terms of reference.

I am skeptical of having the Fund actually train the outside experts in teaching and communication skills. This sounds like providing technical assistance to technical assistants. Either someone is a qualified expert or not. In recruiting from national central banks and ministries, we should select on the basis of those skills.

Finally, on the question of revising country contributions, I agree that any perverse incentives should be removed. However, given the difficulty of this recurring debate, I would not advocate major changes, and I continue to work from the principle that this is a cooperative institution where the bulk of the technical assistance burden should be shouldered by the most able members. This principle underlies our current system.

If we are to make a change, I would want to give this some more consideration, perhaps on the basis of a separate staff paper. Moreover, I tend to think that we may expect the authorities requesting long-term advisors and other targeted special assistance to commit to implementing some of the standards endorsed by the recent Interim Committee meeting. Such a commitment may play a more important role in assuring the implementation of advice.

In conclusion, let me say that, after reading the reports, I am still left with several questions. It is still not entirely clear if technical assistance is provided equally to all members, taking their weaknesses and stage of development into account, as well as their willingness to cooperate with the Fund. However, the decision to provide technical assistance will inevitably remain case by case and subjective. This is just an observation; I have no solution.

There also seems to be an assumption in the review that we should provide more technical assistance to emerging market economies, perhaps because of their systemic importance and the idea that technical assistance might have prevented some of their current problems. This raises the question of how we weigh the importance of technical assistance to a small developing country with no access to capital markets, against assistance to a systemically important emerging markets with presumably better institutions. Again, I have no answer, but it is something to think about as we further our work on a common framework.

Mr. Taylor made the following statement:

This is a worthwhile and generally well conducted exercise. It is embarrassing to find that there is no statement of objectives for expenditures that now exceed $70 million a year. Is that because it is a difficult exercise, or because it is obvious what we are trying to do? One statement might be to say that the objective is to support/improve macroeconomic administration in member countries, but even a simple objective like that throws up a couple of questions, particularly as to how much is enough, and how much can we afford—questions which are not really addressed by the review.

I was unable to find the terms of reference for this review. The Director of the Office of Internal Audit and Inspection reminded me that there was an outline discussed before the review got underway, but there should be a formal set of terms of reference to be published with the results of the evaluation. This evaluation seems to be about the effectiveness of Fund technical assistance and, to some extent, its relevance. The evaluation places less emphasis on its efficiency. As a general observation, if we are not sure about the objectives of technical assistance, and if only one of several relevant questions about technical assistance has been addressed in the review, and if the report is correct that most assistance is valued highly by recipients, then we should be careful before mandating an extensive change in what we are doing. Further study seems warranted.

Nevertheless, there are some valuable ideas in this report and I think some experimentation is called for. Firstly, we must have a statement of objectives, and it needs to be somewhat thoughtful. The question also arises as to technical consultations and technical cooperation action plans, which should receive our blessing, at least in principle. We need, as Mr. Zoccali said, an improved integration of technical assistance into the broader work of the Fund. I was startled, on one occasion, to be the means of introducing the leader of a technical mission to the leader of an area department mission. I would have thought that such connections were made long before the involvement of the Executive Director.

We also need to focus the attention of countries on key priorities, and the process of technical assistance should be a means of doing that. The staff have expressed concern about the question of costs. If we keep a focus on priorities in technical cooperation action plans, rather than trying to do everything that we can think of, then we should still have control over the resources cost. So, in principle, I would favor experimenting with these suggestions and to review our experience within a year, rather than the two years suggested by the staff.

On the important question of the country's level of commitment and track record of implementation, I was struck by what Mr. Oyarzábal had to say about the desirability of analyzing the results of technical assistance from a country's perspective. That can be very revealing. Two years ago there was an extremely good evaluation conducted by a small organization located in Fiji, called the Pacific Financial Technical Assistance Center (PFTAC). The evaluation covered nine countries in terms of their propensity to use technical assistance, their receptiveness to advice, the initial practical impact and its sustainability, and the differences in behavior and results in countries in similar situations. The experiences of these countries provided considerable insight into what was needed get more benefit from technical assistance. It also revealed much, in some instances, about how well countries were being run. So, I think that is an important suggestion that I would like to see pursued in further work.

As for the proposal to provide financial resources through the Technical Assistance Framework Account, Australia participates in a small way in that mechanism. Australia maintains a keen eye on which partners are the most effective, and it is reassuring to know that our authorities have a positive view of the Fund's activities. I would join the report's recommendation that this is an effective means of providing for bilateral provision of technical assistance.

On the question of cost recovery, I support the OIA findings. It is interesting that the report finds that recipient countries would, to a large measure, accept some further cost recovery. Personally, I think it is essential to have recovery, in a small way, to ensure ownership. I would appeal to Directors from developing countries to think about that point. The level of cost recovery proposed is, in most instances, appropriately low.

On the evaluation, we should make the distinction between the evaluation of technical assistance as a broad activity of the Fund, and the evaluation of projects within the Fund departments. I would like to know more about the approaches being adopted in the three main departments that provide technical assistance, and I do not see why that should be necessarily included in an evaluation that covers the Fund as a whole.

Just a few further comments from the perspective of very small countries with limited human capacity. Both the main provider and the recipients in my constituency disagree completely with the notion that long-term assistance is less effective. I think this is probably because very small countries and, to some extent, very poor countries are in a significantly different position from others. Our view is that the exclusive use of short-term advisors assumes a degree of host country capacity that is not often available in some smaller, poorer countries. This is particularly relevant in considering future Fund assistance to the central banks that we have in the Pacific.

The PFTAC serves as an intermediate means of delivering technical assistance in the Pacific, and it has been a very successful model. It does not involve a continuous presence in the recipient country, but ensures a continuous presence nearby, and a capacity to maintain continuous contact and to react quickly. It is an organization, or a mode of delivery, that attracts outside support from the UNDP, Australia, and New Zealand. It does not seem to attract the interest of the OIA, but I would be concerned at any question of disturbing this model. In fact, there is probably a case for expanding the model and considering whether it could be applied in other parts of the world.

On the question of whether there is sufficient technical assistance, given the looming competition between our traditional assistance activities and the demands of the new products that we are promoting against possible contractions of credit availability, it seems that the competition between these activities might be somewhat overstated. Transparency and codes of good practice should be complementary and reinforcing, rather than competing with traditional technical assistance efforts. However, while we should give these new products some profile, and enable target countries to adopt codes and more transparent practices, if there is a clear conflict, we should give precedence to our core activities. We cannot afford to set them aside.

There are many other issues, but I would just finish by commenting on how we should take this work forward. We should not reach too many final conclusions at this stage, but we should certainly ensure a process that would enable us to keep track of the best suggestions from OIA.

I think further work, as far as the Board is concerned, would be best conducted by way of seminars. We would benefit from some detailed presentations on questions like evaluation, country commitment, how much is enough, and perhaps even the basic objectives of the exercise.

Mr. Wei made the following statement:

At the outset I would like to commend the staff for presenting us with the excellent papers on the Review of Fund Technical Assistance which are most informative and useful. As is this chair's consistent stance, we have full trust and confidence that many reviews could be done internally—not necessarily by external experts. I am not diminishing the quality of outside experts in any sense, I am just saying that our staff can perform as well as the external experts. This Review provides us with a good example. We will continue to advocate that, whenever possible, we should ask our own staff to conduct the reviews or surveys.

This being said, let me turn to the major issues in the papers.

Firstly, a general comment, the findings and conclusions by the OIA staff are very objective. Although the staff in the technical assistance departments hold different views on many issues—which is natural and understandable—they do have similar opinions on the most important issues, such as Fund policy framework on technical activities, the improvement in the transparency of the Fund's technical activities, including regular reporting to the Executive Board, and so on. This common understanding is conducive to the Board, management and staff in moving forward to further enhance the Fund's technical assistance.

Secondly, on the importance of Fund technical assistance, all of us agree that it is as important as the Fund's other major functions, such as surveillance. All of us agree that technical assistance helps and complements the Fund in the conduct of its surveillance and designing programs for its members. It is indeed the Fund's third leg. Therefore, like other Directors, we see the urgent need to establish a policy framework on the Fund's technical assistance activities. In this regard, I generally agree that the Fund should prioritize on technical assistance and concentrate on its core areas. Nevertheless, I have two points I wish to emphasize. One is that, while noticing that about one third of conducted technical assistance is less than satisfactory, I am of the view that when the national authorities seek help from the Fund, the request itself expresses the sincerity and commitment on the part of the authorities, and the Fund should not refuse such a request. The other is that the paper proposes that technical assistance from BCS should be discontinued. I cannot agree with this proposal. BCS is very specialized in the help it provides to member countries in strengthening central bank operations and helping them draw up strategic plans in information technology. In this area, BCS has the best staff with the best knowledge. I do not think that experts from other sources can do a better job than they can. Moreover, taking account of confidentiality, the authorities cannot leave everything to outside experts. The other reason is that we live in the era of modern technology, more precisely computers. More than ever, member countries need help and advice from the Fund in this area. The Y2K issue is still ahead of us. It is time to enhance BCS's technical assistance capacity, not weaken it, let alone cease it altogether. Therefore, I believe that we should continue with BCS technical assistance.

Thirdly, on the issue of including technical consultation into the Article IV consultations and have its results included in the staff reports, I agree with the views of the staff from technical assistance departments that this will overload the consultation process too much and sharply increase the burden for area and TA department staff, especially for large members. For example, the current Article IV consultation with China needs at least two full weeks. The staff have already complained that this is too short a time. If we add TA consultation and other activities, the process will be too lengthy. It is simply not feasible. On the other hand, I am concerned about the focus and integrity of the Article IV report. Therefore, we are not convinced that TA consultation should be included in the consultation process.

Fourthly, on the issue of financing the Fund's technical assistance, we appreciate the contributions from Japan and other donors. To reduce the cost I think we should encourage the recruitment of local staff, both professional and support, in the implementation of TA. Much could be saved on travel expenses. On the issue of charge, we repeat our position that we are opposed to the proposal to charge recipient countries for Fund TA.

Lastly, we agree with the proposal of the tow-tier evaluation procedure. On the issue of the publication of TA reports, I fully share the views and concerns expressed by Mr. Zoccali.

On the issue of the redistribution of resources from traditional TA to new demands, I share the view of Mr. Barro Chambrier and Mr. Mirakhor that program related TA must be guaranteed. We urge that more resources be mobilized to meet the new TA demands.

In concluding, my authorities appreciate very much the technical assistance provided by the Fund. Much advice has been taken in China's reforming process. My authorities would like this cooperation with the Fund to continue.

Mr. Estrella made the following statement:

The promotion of better governance, highlights the need to strengthen human resource and institutional capacities in member countries. Presently, the IMF provides approximately 300 person-years of TA to its member countries (14 percent of the Fund's administrative budget) mainly in the areas of monetary, fiscal, and statistical issues. TA projects have grown both larger and more complex. Moreover, the recent development by the Fund of standards and of codes of fiscal, monetary and financial policies presents new challenges for Fund surveillance, implying a potential increase in demand for TA. The IMF must prioritize its TA activities, allocating TA resources among member countries and regions in the most efficient manner.

In this process, It is important to secure a much closer involvement of national authorities at all stages of the technical cooperation process.

This evaluation suggests that those TA projects with the highest impact are likely to be characterized by strong ownership, excellent communications between the parties involved in the TA, well-prepared experts, focussed project preparation, and attention to follow-up.

Taking all the six major findings of the OIA review into account, the correlation found in the empirical study, and staff and management comments expressed in their statement, we will summarize our position very briefly.

TA should be "demand driven" and, therefore, we cannot force countries to implement Fund advice, if there is no IMF program. As a result, we do not see a clear solution to the Review's concern about the orientation of Fund TA being largely reactive rather than proactive. Of course, if the authorities agree, the staff should generate the required TA medium-term planning with the authorities' involvement.

We have some doubts regarding the proposed introduction of the "technical consultations" (TC), and the "technical cooperation action plans" (TCAPs). The OIA proposed, that the TC could be conducted by the staff as part of the Article IV consultation discussions. However, as the staff and management have said in their statement, phasing-in the TC within the Article IV process could further overload the consultation. Therefore, we should separate the proposed TC and TCAP from the Article IV process. More important, the TC and TCAPs should only be conducted in those countries willing to participate in such an exercise, and on a pilot basis. The TCAPs are expected to be very resource intensive and it would be better to test this approach only in a very limited number of countries.

As the OIA has proposed, special emphasis should be placed on close country involvement in the identification of needs and the design and preparation of individual projects. It is also important to place more attention on the preparatory phase of a TA mission and to send written material on the lessons from previous TA to the authorities in advance. More important, recommendations of a TA should be as country-specific and operational as possible. No doubt, policy advice needs to take account of the specific situation of a country and the absorptive capacity of the country's administrative structure. Moreover, the proposed speed of implementation of the TA recommendation should also be designed taking into account the country's absorptive capacity.

We support the OIA suggestion that an annual report should be prepared for Management and the Executive Board on Fund technical cooperation activities.

We do not support the publication of the technical advisory reports.

We support the allocation of all these new responsibilities to the Technical Assistance Committee (TAC). In this regard, we can support the renaming of TAC as "Technical Cooperation Committee."

We support the OIA recommendation not to require country contributions for TA provided by short-term experts. Country contributions should continue to be required for long-term experts, but that provision should continue to be made for in-kind payments. Contributions toward the cost of long-term experts should also be required for Fund long-term experts financed by external donors.

We have no doubt that there should be greater burden sharing, mainly from industrial countries, through expansion of the number of subaccounts under the Technical Assistance Framework Account.

Finally, the staff does not share the OIA assessment that the recommendations of the Review are likely to be implemented over the next two years with existing budget resources until FY 2000. In this regard, we would like to hear further comments from staff, but we think, as the staff proposed, that a good opportunity to discuss this issue is the forthcoming discussion on TA Policy and Operational Guidelines.

Mr. Jourcin made the following statement:

I welcome this comprehensive review of Fund technical assistance, which is a major component of the support provided by the IMF to many countries. Overall, the demand for technical assistance has been growing and it is certainly appropriate to consider from time to time the outcome and the prospects of this specific IMF activity. On the one hand, the report prepared by the Office of the Internal Audit and Inspection contains interesting findings and recommendations, with the view of improving the efficiency of technical assistance. On the other hand, the statement presented by the Staff constitutes a useful complementary document, notably on operational and procedural issues. As a whole, the papers provided for today's meeting are a kind of invitation to identify a well-balanced way among complex trade-offs. I will attempt this difficult exercise by following the proposed issues for discussion.

First, concerning the terminology, I am ready to adopt the term "technical assistance and cooperation." This being said, in a number of cases, I do not think that the term "assistance" is outdated.

Second, and more importantly, I strongly support the proposal that Staff prepare a policy statement for Board consideration on the objectives and operational framework related to the Fund's technical assistance activities. I agree with OAI that the absence of an explicit Fund policy on technical assistance is clearly a weakness which must be addressed.

Third, I share the view that technical assistance and cooperation should be integrated more closely with both surveillance and program work. In this regard, Article IV consultations could provide a periodic opportunity to conduct technical consultations with the authorities. I am aware that this proposal would be costly if applied for all Article IV missions. However, it would not be necessary to make a comprehensive assessment in every cases, nor each time. Often enough, a quick appraisal of the ongoing technical assistance and of future needs should be sufficient and certainly better than doing nothing. As well, preparing a Technical Cooperation Action Plan should concern a very limited number of countries and, on this point, I am sensitive to the staff's argument for maintaining the flexibility and capacity of Technical Assistance departments to respond to other urgent and priority requests. Having said that, at this stage, I am in favor of a period of experimentation in a small number of pilot cases.

Fourth, the Fund should focus its technical assistance on the areas where it has obviously a comparative advantage. In this regard, I share OIA's recommendations, in particular in the field of information technology for which alternative providers are available. This specialization must be coupled with an improved prioritization. We can always say of technical assistance that there must be a demand, but there should also be a strong Fund interest in emphasizing this demand. There are some criteria for presumption of priority: new member, transition economies, countries under or seeking a Fund program, post-conflict countries. Another major criterion is certainly the commitment of the recipient country. In sum, I think that prioritizing implies efforts to dissuade countries addicted to technical assistance from asking again and again. I also believe that prioritization in an administrative body implies choices by heads of departments.

Fifth, as for the modes of delivery of technical assistance, I support the staff"s view on the complementarity of long-term and short-term experts. If there is a problem of efficiency, the solution is not likely shifting from one mode to another, but rather enhancing the selection and the follow-up of experts. More generally, improving the impact of the technical assistance requires reinforcing evaluation activities and increasing transparency. In this regard, I share most of the recommendations made by OIA, except on the issue of rating systems for which, like staff, I have reservations.

Sixth, on charging for technical assistance, I doubt wether the introduction of recipient countries contributions would improve the efficiency of technical assistance. Would it limit demand or express stronger commitment? Maybe sometimes but not always. Would it allow to better allocate technical assistance according to Fund priorities? I doubt it very much. In fact, demand would be driving the Fund, which would provide technical assistance without regard to its own priorities. There is also an issue of equity. Should we pay for surveillance which is technical assistance provided freely to all countries? This being said, if the staff prepare a separate paper on this issue, I am willing to discuss it.

Finally, as for budgetary implications, we should wait until a proper assessment of the costs of the measures recommended in the review, as well as an estimation of possible budgetary savings, are available.

Mr. Collins made the following statement:

The OIA has provided a thought-provoking report, involving an enormous amount of preparatory work. That it has elicited a fairly critical response from the staff shows that it has achieved its objective of stirring up debate about an activity that accounts for 14 percent of the Fund's administrative budget. This is also borne out by the high quality of Directors' contributions.

There is no doubt that technical assistance is a crucial part of the Fund's mission, and it is also one of the institution's relative strengths, a point which the report acknowledges. That makes it all the more surprising that so little Board attention is devoted to the activity compared to surveillance, which accounts for a similar proportion of the budget.

Technical assistance is likely to become even more important following the development of internationally-agreed codes and standards. There is broad agreement that codes and standards represent one of the key elements in the new international financial architecture, and it is also clear that some countries will need technical assistance if they are to be implemented without delay. I can therefore support the development of explicit objectives for technical assistance, and a framework for meeting those objectives.

I also support Mr. Mozhin's suggestion for publicizing a draft of those objectives on the Internet. The staff argues that they need to retain some flexibility in responding to the changing needs of members, and I accept that point. However, it should be possible to set up objectives and a framework in a way which is not overly prescriptive.

I also support the call for an effective evaluation mechanism. It is important that we move away from the current ad-hoc approach to evaluation. This chair has repeatedly called for an ongoing, systematic mechanism for evaluating all the Fund's operations, policies, and procedures, and that applies as much to technical assistance as to other areas. And as with all evaluations, the results should be made public.

The development of explicit objectives would obviously represent an important first step forward. The OIA report calls for a twin-track approach to evaluation. The first track involves an annual self-evaluation of all projects. I can see that there may be some use in this. Self-assessment can provide useful discipline, but it does need to be kept simple. Whatever form the evaluation takes, we need to keep in mind the time horizon over which technical assistance projects are expected to meet their objectives. In particular, technical assistance on policy, as opposed to institutional reform, may take some time before the effects are felt. The second track calls for some form of independent assessment. To my mind, this is more important, and should be the dominant feature in any evaluation mechanism that is adopted.

Moving on, it is clear that we face significant resource constraints in providing technical assistance, and there is a need for efficient and fair rationing. There are a number of issues here—prioritization, cooperation with other institutions, encouraging commitment, implementing charges, and raising additional finance. I would like to touch on each of those in order.

First, on prioritization, the report finds little linkage between surveillance and technical assistance. There clearly should be a stronger link—surveillance should play an important role in identifying priorities for technical assistance. This is likely to be especially important in the area of codes and standards, and it is clear that many countries will need some assistance. I expect this to be an increasing feature of future technical assistance projects. Also on codes and standards, the staff argue that demands in other areas, such as macroeconomic, structural, and institutional issues, are not likely to diminish. Now, it is not clear to me this is necessarily the case over the medium run. I see the two as linked. That, after all, is why we want codes and standards. If we get them right, we should face fewer problems in those other areas. So, although the process might take some time, we have to see that we are embarking on a long-term process. I am therefore attracted to the idea of holding technical consultations as an integral part of Article IV missions. The staff argue that this would be prohibitively expensive, but I have noticed that staff from the Fiscal Affairs Department or the Monetary and Exchange Affairs Department are frequently part of the mission, and it is not clear that they cannot devote some of their time to technical consultations. I think the staff suggests it will need two extra persons per mission to do this, and that would be excessive. However, I am not yet convinced by that argument.

Second, on the issue of cooperation with other institutions, I agree that it makes sense to focus Fund technical assistance on the Fund's core areas of expertise. There are only a limited number of experts available, both in national authorities and in international organizations, so there is a strong case for enhanced cooperation between the Fund, other institutions, and member governments. This mirrors our efforts to press for enhanced cooperation in surveillance of codes and standards, and I am attracted by Mr. Barro Chambrier's suggestion that the Fund could play a catalytic role in the provision of technical assistance by other institutions and organizations in non-core areas.

On the issue of encouraging commitment, I accept that the staff occasionally may need to take a risk in providing technical assistance to a problem country, but it is also important that we minimize instances of throwing good money after bad. When it comes to the use of Fund resources, there is no likelihood that we would agree to a program if a member did not demonstrate adequate commitment, and the same should apply to technical assistance.

The Director of the Office of Internal Audit and Inspection made the following statement:

Echoing Mr. Collins's remarks, I believe that OIA has put forth a comprehensive evaluation effort that has provoked useful debate. Given that effort, and given the thoughtful comment that have been made so far, I want to touch only on two areas, as I fear there might be some misunderstanding.

I would like to emphasize that the OIA recommendations on resources are aimed at cutting out ineffective assistance. We are not recommending that technical assistance resources be shifted away from ESAF and other countries. However, we do find that there is a strong basis to believe that perhaps one-third of technical advisory projects are not as successful as they need to be. We believe this state of affairs can be improved by changes in the operational procedures applied to technical assistance, and we believe that our specific proposals will help achieve this, particularly as many of the proposals have been suggested to by member country officials when we consulted with various authorities in detail. Our suggestions on cuts in technical assistance that we believe to be ineffective are not very large. With a cut of about $3 million out of a total technical assistance program of $69 million, of which maybe one-third is less than satisfactory, we are suggesting relatively small resource shifts. Now, the critical question is whether it is possible to determine, when a request comes to the technical assistance departments, whether a project has a good chance of achieving a satisfactory impact. The evidence seems to suggest that, in many cases, both the authorities and the staff can form a reasonable view on that issue, and we are finding in our empirical work that a large proportion of projects which were rated ex ante as having low priority by the technical assistance department, were indeed not very effective when evaluated ex post.

On the second point, the matter of the relative effectiveness of long-term experts versus missions and short-term experts, I am afraid that there might be some misunderstanding. My first remark is that, in our evaluation methodology, the criticisms concerning the effectiveness of long-term experts did not come from the technical assistance or area departments of the Fund. Instead, those criticisms came from the authorities. Now, they may or may not be justified, but there might also be some truth in that message. We are very explicit in our report that long-term experts are the appropriate vehicle to deliver technical assistance in many instances, and we do not say that long-term experts in general should not continue to be used. What we do say is that the technical assistance departments should perhaps be more careful in the selection of experts, in their quality, in the way they are guided, their communication skills, the necessity of having the authorities meet the expert beforehand, and so on. If these steps were to be handled satisfactorily, we would expect a future evaluation to show greater satisfaction with long-term experts.

The Director of the Fiscal Affairs Department made the following statement:

There seems to be some feeling that the link between the area departments and the technical assistance department is weak. In terms of program work, they are extremely close. In fact, I might argue that they are too close, and that this is one of the problems. In terms of surveillance work, the links have been more limited and the reason is simple. Given the resources available, when the decision is between putting a person in an Article IV mission, or putting that person into a technical assistance mission, the choice has always been obvious. The solution is also simple—either give us more resources or tell us explicitly that Article IV consultations are more important than technical assistance, so that we might shift resources from one to the other. However, I do not want to give you the impression that the connection with surveillance is too limited. There is much work that we do that is closely linked with surveillance. In fact, one of the problems in this institution is that we tend to identify activities with the channel through which they are conveyed—if something takes place through Article IV consultations, it must be surveillance; whereas if something takes place through a technical assistance mission, must be technical assistance. In practice, however, the areas merge.

On the second point about evaluation procedures, I was somewhat amused by the implication that we do not evaluate our activity properly. From our perspective, we do little else. We evaluate our activity on a daily basis. We have tried our best for years to get the most out of our available resources, at the cost of having several people work more than they should, accumulating more than 100 days of overtime, and at risk to their health. As for a formal evaluation, however, that is a different story. If Directors want a formal evaluation, with a report to the Board, we can surely do that. That is a decision of management and the Board. However, I want to emphasize that this type of evaluation could prove embarrassing to many countries, although maybe that should not deter us. It could even prove embarrassing to some departments, as it might appear that sometimes we have provided technical assistance that we should not have, for particular reasons. Of course, I am being very frank.

On the question of whether we should have a numerical evaluation. This might run the risk of becoming a GIGO exercise—"garbage in, garbage out." If you tell us to put numbers into our evaluation, we will do so. However, we will not trust the numbers we put in, and we hope that you will not trust the results that emerge. It will always be difficult to attach numbers to specific activities in specific countries. As for the use of outside experts in the evaluation of our activities, there are few people outside this institution that know enough about these issues to be able to conduct such an evaluation.

As for the question of whether the staff should report to the Board more often on technical assistance issues, we would be very happy to accommodate such a request. We produce about 100 major reports a year, which entail some of the most difficult, elaborate, and complex work conducted within this institution. Such reports do not receive a high profile, but if the Board would like us to report on such matters, we would be happy to oblige. Up to now, however, that has not been the policy of the institution.

Returning to the issue of a numerical evaluation, it might also be interesting to conduct a similar exercise for surveillance. We could give numbers, perhaps 1-5, and indicate where surveillance was so successful that members did not have to approach the Fund for program support. Given that we have a large number of countries coming to the Fund for programs, perhaps we are not doing as good a job with surveillance as we are for technical assistance.

We would be happy to make our technical assistance efforts more public. Some of our reports on such issues are first rate and would be of great value to many people outside, but we must first have the consent of the country concerned and we must develop the modalities for doing that. Also, sensitive material would have to be deleted. For instance, when I used to lead technical assistance missions, I sometimes visited countries where the authorities allowed us to pick up the tax returns of individual enterprises or taxpayers, so that we could evaluate the degree of compliance. That was against the law of the country, and the minister concerned could have gone to jail for making their information public. This is just an example, but it is the sort of thing you might want to keep in mind.

As for the relative benefits of short-term experts compared to long-term experts, many people have commented that the two are not perfect substitutes. They are mostly complementary. We first send a mission to propose some changes in policies or institutions, and the minister will often reply that they need help to make the changes. We then send an expert. Occasionally we may have made a mistake, as sometime a minister may have pushed too hard to get a particular person. We frown on such pressures, but it has happened. There are cases where I agree with the Director of the Office of Internal Audit and Inspection that there have been some difficulties.

Mr. Yoshimura asked whether countries graduate from technical assistance. My first response would be to ask a similar question as to whether countries graduate from surveillance or the need for programs. In this connection, there was another question within the report that asked why the Fund had not provided technical assistance to Thailand and Korea before the crisis. The reason was that Thailand and Korea had, in some way, graduated from our technical assistance efforts. We provided a lot of assistance in the early 1980s—they implemented major changes in the budgetary area, and a value-added tax was introduced in both countries. At some point, we were told that our assistance was no longer required. That was the main reason why there was so little technical assistance from EAD before the crisis, and we were not told by the area departments that these countries were in need of further help.

Another point was whether we should make greater use of qualified nationals. The key word here is "qualified." If we can find qualified nationals, we certainly should use them. However, there are some problems that we might want to note. One problem came out in a country where the qualified expert was a member of an opposition party. It was assumed that the expert was playing politics, and in that case, the Executive Director asked us not to send nationals to that country. The other problem is the expertise we need is often scarce. It is rare, for example, to find somebody who knows how to introduce a value-added tax—someone who knows that there are some 60 steps, some of which require much attention, from the design of the forms, to organizational details, to the optimal frequency of tax returns. The other problem is moral hazard. More than once I have had a minister try to push for a particular expert, only to find out that the expert was a close relative. I would feel very uncomfortable if I were pressured to do that. If we were to have several experts in a country, then there would be no problem. The leader, an expert from outside, would have ample assistance. But in most cases, we only have one person. If we do not choose the right person, the whole project fails.

There was a question on whether we should concentrate on the areas of our comparative advantage. That is certainly something I would agree with, though our comparative advantage has been evolving over time. The work my department does today is very different from the work it did 5-10 years ago. New activities have arisen, and they all look like core activities. The promotion of appropriate codes of conduct, for instance, is a new activity, which will require a considerable amount of technical assistance. The issue of safety nets is another example, and out work on pension reform is another. These are all new activities, so the Fund's concept of its core responsibilities keeps changing.

The question arose concerning who should identify a country's need for technical assistance. The current approach is simple: the country makes a request. In fact, I insist that the minister himself send me a letter, and then we consider whether the request has merit, talking intensively with the area department concerned. With the advice of the area department, a decision is made as to whether technical assistance will be provided. When the minister writes to me, he also indicates the terms of reference as to what is required. Those terms of reference need to be outlined clearly before we send any experts.

We do not expend effort on low priority projects. Instead, the point to note is that there are projects with a high probability of success, and projects with a low probability of success. That is a totally different issue. There are

> many reasons we might go to a country where a project has low probability of success. One reason might be that management tells us that these countries are important, and that assistance is critical. Another reason might be that the area department asks us to send somebody to that country. What may be worse, they might go to the minister, providing him with the requisite letter, and then the minister writes to me. Those are where most of our failures come from. When ministers take the initiative on their own, there is a reduced chance of failure—the failure stems from our attempts to tie too much technical assistance to the ongoing problem. A few days ago I had one of our experts return from a major Asian country, complaining bitterly that, when he arrived, there was no interest in the mission. Given that we were really pressured to arrange the mission, I tried to find out why the response had been so tepid. The reason was exactly as I just outlined. The area department had pushed the minister to send a request. So, when we consider modifying our policies on how we determine who gets assistance, we need to be frank and know exactly what we are talking about.

Extending his remarks in response to a query from the Acting Chairman, the Director commented that the technical assistance and area departments were sometimes linked too closely. He felt that, in a few cases, technical assistance had become an instrument for maintaining a dialogue with the authorities when program negotiations encountered difficulties. If it was felt that an important program depended on action in specific areas, a technical assistance mission might be sent, even where the probability of success was somewhat low.

The Acting Chairman commented that such issues might be best addressed between the management and staff, without the need for further guidance from the Board.

Mr. Donecker suggested that, rather than making an a priori judgement that area departments were not well placed to determine when technical assistance was needed, it might be better to hold the area departments responsible for their advice. Moreover, he considered that the first and foremost activities of the Fund were surveillance and program support, and that the area departments should have the main responsibility for providing and coordinating the Fund's technical assistance efforts, to ensure that they conformed closely with the Fund's surveillance and program work. If the recommended technical assistance failed to produce results, then the Board would want the technical assistance departments to explain why, and would want to hold the appropriate people responsible.

Mr. Bernes remarked that the Director of the Fiscal Affairs Department's comments suggested the need for a more formal, structured approach, as outlined in the OIA report. His comments also highlighted the need for an independent evaluation function. The emergence of potentially embarrassing facts—regardless of whether they reflected poorly on the area departments, the technical assistance departments, or the authorities concerned—would provide valuable lessons for the future. It also had to be kept in mind that the Fund's technical assistance was, in general, regarded highly. The challenge, therefore, was to seek out areas where there might be problems.

The Director of the Office of Internal Audit and Inspection, responding to a query from Mr. Prader, commented that his estimates of the cost of the report's recommendations came from his own department. The relevant table in the OIA report had clearly outlined how those estimates had been calculated. The figure of $3 million, from a total technical assistance budget of $69 million, covered a two-year experimental period. After that point, further resources would be required.

The Director of the Fiscal Affairs Department remarked that he did not agree with the underlying premise that there was something wrong with the Fund's technical assistance efforts. In fact, a 30 percent failure rate was somewhat encouraging, given the constraints and practical realities entailed with such an exercise.

As for the recommendation for more a broader, more explicit framework—in the form of a technical cooperation plan—such a framework needed to be defined in more detail, the Director continued. It was unclear what time horizon would be covered by the plan, and how it would deal with the issue of sequencing. Frequently, the Fund's technical assistance efforts, at a particular point in time, were driven by the policy decisions of the authorities. Given that such decisions were often politically difficult, it was not realistic to expect them to conform to a predetermined timetable. Moreover, tying such a framework into the Article IV process would require a greater involvement of experts. The Fund employed some very intelligent, highly trained macroeconomists to conduct their Article IV consultations, but such people could not be expected to master the detailed technical issues that formed the work of the technical assistance departments. Therefore, missions would have to include experts from the Fiscal Affairs Department, the Monetary and Exchange Affairs Department, and the Statistics Department. Such a scheme would require considerable staff resources over the two-year trial period, with even greater resources needed if it were decided to implement the recommendations more permanently.

Mr. Yoshimura remarked that he had assumed that the technical assistance departments had agreed to a two-year trial implementation of the OIA recommendations. Given the Director of the Fiscal Affairs Department's comments, however, it did not seem that those departments were fully committed to the trial. He supported implementation of the pilot project, and urged the technical assistance departments to consider the recommendations further.

Mr. Collins said that he was surprised at the Director of the Fiscal Affairs Department's remarks. The skills involved in identifying a problem were not the same as those needed in its resolution. Therefore, in identifying the possible need for technical assistance, it might not be necessary to have a full range of experts. Instead, a more generally-qualified staff member might suffice—someone who would be able to talk to the relevant people within the country concerned, and who could determine whether a particular difficulty reflected a technical constraint, or a more fundamental problem.

The Acting Chairman, responding to a query from Mr. Prader, pointed out that the Fund as a whole had not looked into the resource implications of the report's recommendations, though the OIA had provided their estimates within their report. However, the technical assistance departments had agreed to implement the recommendations on an experimental basis.

Mr. Newman observed that the Director of the Fiscal Affairs Department appeared to consider that technical assistance was so complex that only technical experts were in a position to assess its quality and effectiveness. In that light, he wondered what role the Board might play in assuring that the technical experts were held accountable for their advice.

Mr. Barro Chambrier said that he agreed that the Fund needed to improve the efficiency and effectiveness of its technical assistance, but also that the current state of affairs was relatively sound. The Director of the Fiscal Affairs Department had raised a valid point that the issues involved in providing assistance were often somewhat specialized. Therefore, the recommendations would likely have significant resource implications, which should be considered carefully.

Mr. Collins commented that the budgetary implications were one issue that would have to be addressed. However, the issue at hand was a proposal to task Article IV missions with the responsibility of identifying technical assistance needs—linking the identification of such needs with the regular process of surveillance. That task could be fulfilled without the need for a team of highly-specialized experts.

The Director of the Monetary and Exchange Affairs Department made the following statement:

> The recommendations for policy statements, and increased reporting to the Board, are very sensible. I have 115 people and, as there is no policy statement, nobody else seems to know what we do. Reporting to the Board would put some pressure on us to explain ourselves, and so might help ensure a greater sense of direction and structure. That suggestion has my strong support.
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> On the issue of technical consultations (TC) and technical cooperation action plans (TCAP), the challenge is to integrate the new proposals into our current responsibilities. Ten years ago, my department dealt with technical assistance issues only—nobody really asked what we were doing, and we only had about 10-15 people. We have gradually moved into the mainstream work of the Fund. Today we participate actively in a number of Article IV missions, and we could participate in many more if we had more people. We have been asked to check the Basle core principles, we participate in transparency report work, and we send experts to many different countries. Now we are being asked to conduct technical consultations and technical cooperation action plans, and we have already started our own pilot projects with the financial sector stability assessments (FSSA). The issue is how we should coordinate all these items. If are all to be fulfilled in the long run, we will definitely need more resources. We can do our best to cope for a year or two, on a pilot basis, but that will not be enough in the long run. As a short-run measure, when it comes to the action plans, one way might be to include them in the FSSAs that we are conducting anyway. When we conduct an FSSA, we investigate the country's financial sector thoroughly. Based on that exercise, we will generally find some areas in need of improvement, and in many cases, those improvements will probably take many years. Some will be so technical as to lie outside our field of expertise, often involving areas where the World Bank is becoming increasingly active. If it is possible to mesh the proposed TCs and TCAPs with our existing efforts, I would be happy to implement the report's recommendations. Actually, I would welcome such a move, as it would be a way of stating clearly what needs to be done in the country concerned. Having said that, I am convinced that the proposals will require increased resources in the long run. I do not have any actual estimates, and that is something that we would have to consider closely, but as I understand it, that is one of the purposes of conducting a pilot project.
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> On the issue of Article IV consultations, the way it works at the moment is that a mission might go to a country and say there is a problem in

the banking sector. They then they show up in my office and say that we have to send somebody to look into that sector. So, in that sense there is already close cooperation in detecting such problems. However, having said that, we also have found that, on issues such as the Basle core principles, being a general macroeconomist is not enough. Special knowledge is needed before staff members can know what they are doing. Also, Directors should be aware that, in many cases, the products that have been recommended do not yet exist within the Fund or anywhere else. So, we will have to invent something new, which means that, in practice, we will not be able to implement the recommendations immediately. Many of the required experts do not exist as yet, and we will have to develop the necessary skills ourselves.

On the issue of evaluations, I do not mind having various evaluation procedures put in place—we already conduct a considerable amount of self-evaluation regarding the quality of our reports and the work of our experts in various parts of the world. If there is a demand for a more formal procedure, that certainly is fine with me. In fact, I am in the process of reorganizing my department in order to ensure that we are up to date on what is happening in the technical assistance field. Having said that, though, we have to be careful not to become too attached to numbers. It is difficult to create an appropriate rating system, and so we really have to look into what other countries have been doing, in order to judge the extent to which it is possible to arrive at a satisfactory solution. Such a system would need some extra work and discussion before it could be put in place, but a small-scale pilot should not be a problem.

The Director of the Statistics Department made the following statement:

It would be useful for me to say something about the resources issue, drawing on an analogy between the recommended process and what our department does when we conduct a multisector assessment. I can be quite concrete by describing a mission that we undertook last year to a major country. That country had received a substantial amount of Fund technical assistance, and we needed to reevaluate exactly where things stood at that point in time and how far the statistical system had advanced. We also needed to assess the different kinds of technical assistance, the modes of delivery, and so on, that might be required. In fact, the importance of such a mission had been mentioned after the Article IV Board discussion. I led the mission, which consisted of myself, four sector-specific people, and a staff member who covered issues of inter-sectoral consistency, the assistance being provided by other multilateral organizations and bilateral donors, dissemination issues, and the publication process.

While the major task was to assess the situation and decide what kind of technical assistance would be most useful—including an assessment of the best modalities and time frames—we also provided some advice on the spot. The process took two weeks, in a situation where we had full cooperation from the authorities. We worked as hard as physically possible, in the typical Fund style. We left behind a plan for technical assistance that extended several years into the future that we had discussed with the authorities. We identified the types of technical assistance needed, the modes of delivery, and the sequencing. This experience serves as a guide to the resources that might be involved in conducting a thorough, well-grounded, assessment that leads to an action plan, with a substantial commitment from the country itself. We intend to continue this type of exercise. During the mission, we suggested that we should come back for further follow-up discussions after a year, and I expect that we will be proposing that very shortly. We conduct about eight of these assessment missions in our department each year, and it would be quite feasible to incorporate them into the pilot TC and TCAP process. However, to be effective, such exercises are very resource intensive.

This leads me to a second important point. Our department would welcome the opportunity to provide more information to the Board, as it might then be clearer why such resources are necessary, and why such exercises need to be conducted over a multi-year planning horizon. We would welcome the opportunity to provide a case study that outlines the effort involved in helping a member move from ground zero, across all macroeconomic statistics areas, to a situation that we and the country can be proud of, in terms of periodicity, timeliness, and other aspects of quality.

As for our department's efforts to provide both traditional technical assistance and assistance with new issues, such as standards, we do not consider that there is much of a distinction between the two. We have used the Special Data Dissemination Standard (SDDS), from 1966, and the General Data Dissemination Standard (GDDS), from 1997, as our framework. Specifically, the GDDS is providing to be popular, as countries that have already done the training exercise have seen it as useful organization framework. It leads to a plan for improvement the country takes ownership of, and it is seen as a long-term process. Therefore, we are trying to reorient our department's approach to technical assistance to build on this framework, recognizing that we will have to have some resources available on short notice when a need comes up to fix a more immediate problem.

I have two smaller points that may be of interest. One concerns the issue of charging. The Statistics Department, unlike the other technical assistance departments, often deals with national statistical offices. In many countries, those offices are at the low end of the bureaucratic hierarchy. They are typically under-resourced compared to the ministry of finance or the central bank. Their staff are less well trained, they have fewer computer resources, and their buildings are often in poorer condition. I mention this because charging might mean that national statistical offices will not get the opportunity to benefit from technical assistance, as they are a low budgetary priority.

Finally, I would like to make a point about the complementarity between information technology (IT), technical assistance, and some of the work that is being done by the three technical assistance departments. My department has, on occasion, found it useful to have technical assistance from IT staff to get a project started. They have at times been able to put in place the infrastructure that makes our own work more effective. In short there is a benefit in having some capability of providing complementary advice that can move a country forward.

Mr. Bernes thanked the staff for raising an important issue. The nature of the Fund's assistance was changing. The move to a world of standards and codes would have consequences for the way in which the Fund provided technical assistance, and the countries' demand for that assistance. That was why there was a need for a system that could establish priorities and deliver assistance in the most effective manner possible. He agreed that the recommendations would have resource implications over time, so it was important to understand what those costs would be and how to prioritize the Fund's efforts. One of the purposes of the pilot project was to provide valuable insight into such issues.

The question of how to evaluate the Fund's technical assistance activities was somewhat complex, Mr. Bernes continued. It was important not to rush to judgement on such issues, which was why he had suggested that the Fund might profitably draw on the experience of bilateral donors and other multilateral organizations.

Mr. Donecker made the following statement:

> We welcome the comprehensive, frank, and informative review of technical assistance undertaken by the Office of Internal Audit and Inspection (OIA). Since there is no explicit Fund policy on technical assistance, this paper is a valuable basis for the discussion of this important issue. The findings of OIA are interesting, if only partly surprising. Among these are, for example, a recognition that the efficiency of long-term experts is not as high as expected, though I take Mr. Taylor's point concerning very small member states. Also interesting is the fact that one-third of projects do not achieve a satisfactory impact. I agree with the Director of the Fiscal Affairs Department that it is difficult to judge what constitutes a satisfactory impact, and what are the causes of disappointing results. This and other findings indicate a clear need for improvements and for reforming current practices. Generally speaking, we support most of the recommendations put forward in OIA's executive summary, and we agree with the thrust of Mr. Bernes's preliminary statement. I would also like to associate myself with the remarks Mr. Bernes just made.
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> This discussion is an excellent opportunity to clarify one central strategic issue; i.e., the question of how much, and by what means, the Fund should provide technical assistance to its members. The proposal to include technical consultations within the framework of Article IV consultations, and for more formal technical action plans is one possible way forward. However, neither staff nor the Board are sure about the resource implications of permanent implementation. Therefore, we would appreciate further work on this issue. Also, we would appreciate work on ways of providing technical support to member countries in a more selective manner. The envisaged pilot study should be of help in reaching conclusions, and it will surely help in the preparation and formulation of technical assistance policy, as well as of operational guidelines that reflect strategic issues in a more systematic framework. In preparing such guidelines, we should focus our assistance on the Fund's core areas of responsibility, especially with a view to helping the implementation of codes and standards. We share OIA's view that there is a strategic need to link the assessment of technical assistance requirements, and allocation decisions, to surveillance. This should be achieved by giving the area departments a clear coordinating and supervisory role with regard to the provision of technical assistance, and by holding them accountable through regular evaluation and involvement of the Board. Therefore, I endorse the approach proposed in Paragraph 6 of OIA's executive summing up. There is a

need to improve the evaluation of the Fund's technical assistance, and I support the respective proposals by Mr. Bernes.

Given the resource impact of technical assistance, as well as the Fund's responsibilities vis-a-vis various external donors, reporting to the Board and management is important and should be on a regular basis. The technical assistance committee, to be renamed technical cooperation committee, should be responsible for such monitoring and reporting. However, I do not agree with the creation of a separate Fund department dedicated to technical cooperation across the various specialties. The Policy Development and Review Department should provide broad oversight and ensure that Fund technical cooperation efforts are incorporated into the surveillance process.

Turning to some specific issues. First, we have no objections to changing the term "technical assistance" to "technical cooperation." Second, we are in favor of a stronger integration of technical assistance into the Article IV procedures. This would help keep the Board better informed. However, Article IV documents should not be overloaded with this information. Thirdly, we have no objections to the publication of the results and findings of technical assistance, on a voluntary basis. This might be an important instrument to enhance transparency with regard to the technical, country-based cooperation provided by the Fund. Also, papers on the lessons learned may be disseminated, if they cover important subject matters of general interest. Fourthly, appropriate country contributions to the costs of technical support should be an important incentive to use the advice as effectively as possible. However, the contributions should take into account the circumstances in the recipient country–i.e., its ability to pay. Further staff comments on cost sharing would be helpful.

Fifth, we are not sure whether it makes sense to discontinue the technical assistance on information technology matters, especially in the Fund's core areas of responsibility. I have some difficulty imagining how improvements, for example, in statistics will be possible in some countries without dealing with issues of information technology. Admittedly, the Fund has no comparative advantage in this area, but this task is, in some respects, a sine qua non. I wonder whether a downsizing of that area might not be more appropriate, at least for the time being.

On the issue of costs, we endorse the proposal to reduce activities in low-efficiency projects and to shift to high efficiency technical assistance. We also agree that changes should be phased in gradually. In light of the resource implications, we should have a trial phase for work-intensive technical cooperation action plans, followed by a review of the results. Technical assistance resources will need to be focussed increasingly on those issues where they have the most efficient impact.

We should have an interim progress report on Fund-provided technical assistance for Board review by the end of July 2000. Moreover, as suggested by Mr. Collins, we should aim to strengthen further our cooperation with the World Bank.

Mr. Prader made the following statement:

The review of the Fund's Technical Assistance program puts the Board in a difficult situation, as the staff seems to disagree with many of the Office of Internal Audit's (OIA) recommendations, requiring the Board to arbitrate between the two. As could be expected, and as is evident from their buff statements, most Directors prefer not to take sides but to adopt a Solomonic stance.

Notwithstanding this delicate position, I think that the Fund's Technical Assistance is one of its chiefest treasures, a free export of intellectual capital, operating in the background in support of the authorities' main activities and often underappreciated. On occasion the Fund's technical assistance has been more valuable to a country than its lending.

Regardless of the righteousness of the respective positions of staff and OIA, we prefer to err on the side of caution, and our conclusions can therefore only be tentative.

We think that it is useful, even necessary, to monitor technical assistance, provided this does not lead to an increase in bureaucratic requirements and paperwork. With this in mind, we agree with the recommendation that regular reports to the Board on technical assistance activities should be resumed, just as was the case until the early 1990s. Without such reporting it is all but impossible to know just what the Fund has been doing in terms of technical assistance. But apparently the Fund has changed its mind on this issue from time to time. It may as well be that the Board will lose interest again after listening to some 200 technical assistance reports annually from MAE and FAD.

We also support increased public dissemination of the results of Fund technical assistance, subject to agreement from the recipient countries.

However, we are skeptical about OIA's recommendation to cut technical assistance in cases where the possibility of success is deemed to be low. Basing our assistance on the likelihood of success would require the Fund to curtail not only its technical assistance but also its lending in view of the dire state of economic policy and administrative capacity in a large part of our membership. In fact, given the state of the world, a failure ratio of 30 percent in my view represents an astounding success rate. If success were the main criterion, the Fund would have to downsize its activities drastically. In addition, I am afraid that the success criterion might be ignored in the so-called "special countries," and would be applied only to the smaller countries.

We have real difficulty believing that the Review's recommendations can be implemented over the next two years with existing budgetary resources. It seems more realistic to assume that additional staff would be needed, particularly in view of the proposal to include experts from the Technical Assistance departments in Article IV missions, the long-term plans for technical assistance and the planned reorientation of Technical Assistance.

On the latter recommendation, we fear that we will very soon discover that it will hardly be possible for new forms of technical assistance--the so-called "standards work"--to take the place of the traditional technical assistance aimed at institution building and administrative capacity because demand for traditional technical assistance will remain strong. I would be grateful if the Office of Budget and Planning could assess the staffing implications, not only for the trial period, but also for full scale application of the new approach. At any rate, we should think beyond the one step of the trial period. Management should give us assurances that the pilot project does not mean a foregone conclusion or a mechanism for finding consensus in the Board. Instead Management should approach the pilot project without preconceptions concerning its outcome.

On charging for technical assistance, most countries in our constituency support the idea of user fees. I realize that it will be almost impossible to find fair criteria for cost sharing. Nevertheless, more vigorous efforts should be made to design a scheme for contributions from recipients based on their ability to pay. Any efforts to increase ownership and strengthen commitment by means of cost-awareness is worthwhile. In any case, I support Mr. Zoccali's request for a separate staff paper on this issue.

Finally, I agree with the emphasis on cooperation and coordination between all parties in this endeavor, i.e., between Fund departments, IFIs, donors, and the recipient countries.

The Acting Chairman commented that the staff agreed that moving toward the implementation of technical cooperation action plans would be useful. Given the resource implications, however, they would start with a pilot project. Careful evaluation of the lessons from that pilot would form the basis of a further report to the Board.

Mr. Newman made the following statement:

At this stage of our discussion, I will try to react more to what other people have said rather than to read all of my statement, or put it on the record. I do, however, want to join others in thanking the staff and welcoming the OIA report. We did find it useful. We also agree that TA is a valuable and important part of the Fund's mission and is almost certainly going to increase in the future both absolutely and relative to the entire budget as the Fund moves into new areas. It is for this reason that we believe it is essential that we ensure that we do better and improve both the effectiveness and the efficiency of our TA effort.

With regard to the modalities of the OIA study, we recognize the difficulty of assessing the effectiveness of such a complex issue as TA. We recognize also the inherent deficiencies and the imprecision of surveys as well as the difficulty of developing quantitative criteria to measure performance and to compare performance across various forms of TA. At the same time, we also share the view of the staff that we do not want the Fund to provide only safe TA. However, in a world of finite resources, choices should be made and priorities set. Some means of assessing effectiveness and efficiency is therefore unavoidable. As the staff does not find the current approach sufficiently robust, we would encourage it to develop an alternative mechanism that would enable the Fund to make some reasoned judgments as to the efficiency and effectiveness of our TA so that the Board can fulfill its fiduciary responsibility to cover how we spend our budget resources.

I find it very difficult in this kind of debate to reach definitive judgments since I am not an expert in many of the areas that the staff is providing TA and therefore believe that some kind of measuring rod to assess performance would be useful. Indeed, even bringing in outside experts to serve as evaluators requires the Board to make a judgment at the end of the day as to how to allocate the resources and whether or not they are being done well. So some kind of framework for assessment strikes me as being essential.

As a first step in improving our TA performance, it seems to me very logical to provide for a mission statement, not only for overall TA but also for each of the various departments that provide TA. I would caution, however, that my experience in crafting mission statements is that you can make them anything you want. There is a danger of making them so general that they can be all things to all people, and that will not serve any particular purpose either for the Board or the staff as a guide to how to proceed on TA. Therefore, the mission statement should focus on those areas that are of particular importance to the IMF and in which we have a clear comparative advantage. That may change over time, as Mr. Tanzi mentioned this morning, but that only means that the mission statement has to change. In that regard, I was somewhat struck that the staff study did not raise the very fundamental question as to whether or not TA should be provided in-house or should be provided primarily by contracting out. I think in developing a mission statement we do need to figure out what our strengths and weaknesses are and focus on provision of TA where we have real strengths and a real comparative advantage. I think in that context we all know that there are a lot of TA providers out there and that in this context the Fund can be a catalyst, as Mr. Barro Chambrier said, but can also be a complement to the work being done elsewhere. The Fund could not and should not try to do it all and will need to cooperate more closely with other TA providers.

In terms of making our TA more effective, I think everybody agrees that improved ownership is essential. The trick is how do you get it. I am in the camp that says, basically, the Fund should highlight the areas where TA is needed, but it is up to the country to seek the TA itself, and that its priorities should take precedence over the Fund's. In that same regard, I think it is also essential that in developing a specific TA assignment the country be in on the ground floor, helping to choose the experts and the terms of reference for the study, and also being accountable for the outcome of the study. In that context, I must admit I am very close to Mr. Prader's view with regard to charging. We all know the phrase that free advice is worth about what you pay for it. It seems to me that one of the best ways to ensure ownership and accountability is if a country had to make a payment toward the provision of TA. I think it would also help diminish the danger that Mr. Tanzi mentioned this morning that we tend to use TA. If there was a cost involved with regard to the provision of TA, there might be a reduced pressure to oversupply.

The other key area is the question of how we deliver our TA. I do not have a lot to add in this regard to the measures which the staff suggested to improve the quality of the technical assistance providers. I think the real problem there is that we are providing so much technical assistance, and so is the rest of the world, that the number of experts out there with which to do it is too small. Hopefully the market will improve as the demand for technical assistance grows, but I think we need to be very careful and selective in our TA providers. I take Mr. Mirakhor's point that there may well be national experts that could play a role in this area as well, and that would certainly take care of some of the deficiencies that we have seen with regard to outside experts in terms of language and institutional knowledge. But again the question is: can you find the right people?

I am of a mixed mind on whether or not TA should be linked to surveillance. I recognize that the area departments provide a unique expertise and a unique perspective on the needs of a country, and I think that can be a useful means of highlighting TA requirements from which the country can then pick and choose what it thinks are best in its own interest. I do not, however, believe that TA should be provided in the context of the Article IV consultation process. I think that is overburdening a process which is already becoming stretched and more complex as we get into a broader range of subjects including standards. I think we should keep surveillance and TA provision separate.

Like others, I really do not care what you call technical assistance. The key issue is whether or not the name change actually means an attitude change, and that will only become known in the future. I also see merits in the proposals for TCAPs, but to be honest with you I am concerned that the proposals suggested by OIA imply that we do this for everybody, and I do not think that is particularly necessary. I think we should start somewhat smaller than the proposals that were in the review and then see just how far we need to go on it. But I certainly do not think we need to go through an exercise like that for all 182 members of the Fund. I would prefer that we start small and focus on those countries which have the largest technical assistance needs rather than to spread ourselves too wide at the beginning.

Finally, with regard to evaluation and accountability, I understand and accept the role that the departments play in their own self-assessment, but inherently self-assessment has a perception problem: no matter how good it is, the outside viewer will always be suspect that it is not truly independent. It seems to me that we are going to need outside evaluations on a regular basis of our TA–not necessarily every year but over a number of years. I take Mr. Bernes's suggestions on how we might go forward in this regard, and believe that outside evaluation is going to have to be an integral part of the system in order to achieve greater accountability. I also believe in the usefulness of transparency in this regard and believe that countries that receive TA should be willing to have published the reports that are provided as a result of TA which will help to encourage implementation and provide a further check on the quality of TA through the reactions of outside experts. Clearly in this context I think it is essential that the Board itself play a greater role than we have in the past. I recognize that our agenda is already full, but it seems to me an assessment of TA every couple of years, especially when it is now $70 million and rising, is not too much to expect of the Board, and I would hope we could proceed on that basis.

Mr. Mafararikwa made the following statement:

Given that our chair is a major recipient of Fund technical assistance, we would like to offer some brief comments on a few of the recommendations.

First, we note the growing demand for technical assistance while sources of finance are dwindling. There is merit in exploring other sources of financing, and I would support Mr. Zoccali's call for a separate paper dealing with this issue. In that paper, we would urge the staff to explore mechanisms for greater burden sharing among donors, as well as careful allocation of resources within the Fund. Also, more work should be done to expedite the provision of technical assistance where donor funding has been identified. In addition, we would request the staff to provide a more detailed breakdown of local expenses related to technical assistance in recipient countries. This might help some countries that could contribute more in-kind resources, or perhaps pay in their local currencies. Overall, we should remain cognizant that many countries that are the recipients of technical assistance are the least capable of paying for such services. We believe the proposed increase in contributions from these countries would yield unintended results. It would impose a heavy financial burden on these countries, discouraging them from seeking Fund assistance, and would compromise adjustment efforts. Mrs. Carson has given a good example in this regard. Also, charging for technical assistance would make it more expensive for the countries to move quickly toward adopting international best practice in terms of codes and standards.

We do not believe that cost recovery is the best way of enhancing ownership and effectiveness. Ownership can be enhanced, and technical assistance made more effective, by ensuring that recipient countries are more actively involved in planning and identifying needs, in the selection of experts and the drawing of terms of reference, and in preparing for absorption of that assistance. The impression that staff assistance is more effective than that of external experts should not be surprising, as the staff findings quickly find their way into conditionality under Fund-supported programs.

I agree with the points raised by Mr. Barro Chambrier and Mr. Yoshimura on ways of improving the effectiveness of external experts. One of the key tasks of long-term experts is to train local residents. However, we should bear in mind that such assignments are also a source of employment and income for these experts, and that they have an incentive to stay for longer periods, rather than shorter. Consequently, the incentive for those experts to train locals is sometimes weakened. From our experience, the duration of the assignments are typically extended, and we feel there is significant room for improvement in this area.

Regarding low- or high-impact projects, in low-income countries most technical assistance addresses institutional capacity and structural problems, the benefits of which take time to materialize. If this is what the review calls low-impact or low-priority, we think that such an assessment is misleading. Therefore, we do not support the recommendation to shift technical assistance away from these projects, as they are essential to most recipient countries and are conducted mostly by long-term experts. We also do not support shifting technical assistance resources from long-term to short-term assignments. We note the clarification made by the Directors of the Office of Internal Audit and Inspection and the Fiscal Affairs Department in this regard.

Regarding the focus of technical assistance, we note that the review recommends a shift in favor of issues related to standards and codes. This shift is premature for ESAF- and HIPC-eligible countries, where emphasis should continue to be placed on building institutional and administrative capacity to manage macroeconomic policies and undertake reforms. Issues of codes and standards can be addressed within the context of the implementation of reform programs. Also, the new international financial architecture involves a variety of other international institutions, and we support the view that the Fund should provide technical assistance only in its core areas of expertise.

Finally, the Fund should formulate a policy framework on technical assistance activities, and this should also cover the modalities for cooperation with other players. We support the experiment on technical assistance action plans, and we also support the case for increased transparency in the provision of Fund technical assistance. However, we believe that countries should continue to be afforded the right to exercise judgment on the merits of publishing the findings of technical assistance missions.

Mr. Sivaraman made the following statement:

I would like to commend the evaluation report for its high quality. It has come at an opportune time, when so much is being demanded from the Fund in the context of changes in the international monetary system. The nature of our assistance will also undergo a dramatic change, as we are asking for international standards to be observed by every country in every possible area. However, I am somewhat surprised that technical assistance, which is the Fund's third-most important function in terms of budget, has received so little of the Board's attention in the past.

The conclusion of the review, regarding the lack of evaluation and reporting to the Board, is somewhat distressing. Although the staff has made a number of points concerning the report, which may be quite valid, we cannot ignore the fact that some of the points brought out in the report are important. The report emphasizes that the impact of long-term experts is less than satisfactory. According to Table 8, Supplement 1, page 133, long-term experts accounted for 53.4 percent of in-field technical assistance. This suggests a need to scrutinize decisions on when to provide long-term experts, the method of their selection, and why a review has not been conducted so far. We do not dispute the need for long-term experts in cases where a new system has to be designed and implemented, or new legislation has to be drafted, but there certainly seems to be a need for greater selectivity and supervision. In this context, we agree that the Board must lay down a policy on technical assistance—I do not think we will achieve much by changing the name from technical assistance to cooperation, and I am indifferent to either name. The Board's policy should also be subject to a periodic review. We support the need to provide adequately for follow-up of technical assistance, and the greater involvement of recipients in drafting terms of reference and even in the selection of outside experts. While expertise provided by the Fund staff need not be paid for–we would agree with Mr. Prader and Mr. Newman on this–the fee proposal has received less respect than it deserves. We could possibly consider an incentive system whereby long-term experts provided by the Fund are paid for by the recipient in the initial stages, and the amount refunded if the experts' advice is accepted and implemented within an agreed time frame. If, however, the experts' work is discarded, which I am sure would be done in consultation with the Fund, the recipient need not be charged. This goes beyond the suggestion in the review, but probably could improve ownership of assistance programs. It would be useful to prepare action plans in consultation with the potential recipient countries before the overall resource requirements are assessed and allocated in the Fund. This could be done in conjunction with Article IV consultations.

Prioritization of assistance on the basis of urgency should be determined on clearly identifiable criteria. Three or four sources of unwarranted pressure on such decisions have been pointed out in the review. There should also be a transparent selection process of experts, based on well-defined criteria, and it should not be left wholly to mission chiefs. I understand that, currently, it is the mission chief who decides who should be the expert, which I think is rather too much of a burden. We should have a transparent selection process, so that this burden is lightened. The criticism brought out in the report that some long-term experts have not been effective, as well as the point made by Mr. Morais's chair, are also relevant in this context.

Although we recognize the difficulties in assessing of the impact of technical assistance programs, there is a need to conduct a detailed review as to why the impact of long-term experts, who often come at a very high cost, has been less than satisfactory.

Mr. Palmason made the following statement:

The OIA review of Fund technical assistance has been a useful exercise. The report is comprehensive and frank, and results in several daring proposals for enhancing the effectiveness of technical assistance. In principle, I broadly agree with the findings and recommendations but, subject to the assessment that the changes lead to more efficiency and cost effectiveness in delivering technical assistance, and that the recommendations can be implemented within existing budgetary resources. This chair does not see room to move beyond the resource allocation determined by the budget. I think the testimony by department heads earlier today threw this concept severely into doubt, and it calls for further analysis of the consequences of committing to larger missions and grand cooperation designs. I agree with Mr. Prader about thinking more than one step ahead with regard to the resource consequences of this new model, and I agree with those that have argued in favor of cost recovery and ownership.

At this stage in the discussion, allow me to say a few words about the review. I agree that a comprehensive policy statement outlining the objectives of technical assistance would be useful. But I am less convinced than many others of the merits of trading in the well-established term "technical assistance" for something more elusive, because it is much more than just a phrase. I might add that both program and non-program countries in my constituency have received technical assistance in the recent past without that raising any particular "stigma issues." More generally, I find it helpful to retain some distinction between the different layers of Fund collaboration with its members, not the least for purposes of planning, and with respect to transparency, and accountability, while I agree with those who have argued against overburdening the Article IV Consultation process. That said, I am not against attempts to align technical assistance closer with surveillance activities, thus shifting the balance of priorities somewhat away from the traditional focus, and to the more contemporary needs, if this should contribute to giving a more proactive role to the concept of technical assistance. Hence, I believe some flexibility is desirable, also with regard to format and duration of missions. In addition, this might also contribute to making the Fund more relevant for many of the industrial countries – something often referred to as desirable. Nonetheless, I would tend to agree with those that have cautioned against placing too high hopes on technical assistance as a means to prevent financial crisis, because there is usually more to the story than technical deficiencies, although that is also an issue.

The concepts of standards and codes are relatively important in the immediate context. At the same time, I am convinced that the demand for "traditional" technical assistance will remain high in the times ahead. Hence, there is a need to weigh the marginal utility of our various efforts. In doing this, it should be clear that significant resources must remain in the traditional areas, including program implementation related efforts.

But the extent to which resources are provided for assistance that ex ante is deemed likely to be of "low impact" is disturbing. I would like to think that we can reduce the risk taking and devote resources increasingly to "high impact" projects.

The review suggests steps to help raise recipient commitment. I fully support these recommendations. I would put particular emphasis on the need to informing recipients of the estimated costs to the Fund of the assistance to be delivered, as well as improving the accountability of the recipient country through better reporting to the Executive Board. In this context, I would also add that Management should be more careful in ensuring that sufficient commitment is in place before providing the assistance. This would increase the likelihood of successful implementation.

On transparency of technical assistance activities and advice, I would very much welcome steps towards increased transparency. As a first step, the internal reporting has to be strengthened. Most importantly, the Executive Board should be informed more regularly in connection with the Article IV discussions on technical assistance related issues. In staff reports, we are regularly provided information on the assistance that has been provided by technical assistance departments, but information relating to the extent the authorities have actually acted on the advice should also become more frequent. However, I wonder if the publication of technical advisory reports would carry the same benefits as publication of Article IV staff reports, and we should not automatically treat the two in the same manner. Nevertheless, the proposed measures could perhaps be considered on a voluntary basis.

Finally, on the financing issues, I would strongly caution against replacing decreasing external financial contributions with an expanding administrative budget. Stricter prioritization of Technical assistance efforts, in line with OIA recommendations, and other efficiency-enhancing measures should go a long way in meeting the high level of demand. Second, in addition to focusing more on assistance judged to have "high impact", the Fund should focus on areas were it has a comparative advantage. I therefore believe that technical advice on information technology matters could be discontinued as suggested by the OIA. Third, on country financial contributions, I can, on balance, agree with the recommendations made by the OIA. That is, to seek contributions for all long-term experts, irrespective of whether they are financed from the Fund or from external sources. This would provide the correct incentives. More generally, although the concept of cost recovery is a delicate issue, I believe it is a desirable and a necessary part of the process.

Mrs. Hetrakul made the following statement:

We appreciate the opportunity to review the Fund's technical assistance program. This review is very important in guiding the Fund on ways to optimize the benefits of technical assistance. In general, such assistance is helpful to member countries. It is particularly important for developing countries that are in the process of restructuring their economies, such as the countries in my constituency. In time of crisis, technical assistance received from the Fund was timely and of high quality.

The OIA's findings show us that, while Fund technical assistance is rated highly for its advice and recommendations, country commitment and follow-up appears to be weak. We agree with the OIA's analysis that a comprehensive policy framework will be one of the main factors which will increase the country's commitment to technical recommendations.

Efforts to build ownership between the Fund and a member country are essential to strengthening a country's commitment. Thus, we support OIA's recommendation that a shift should be made from the concept of technical assistance to technical assistance and cooperation. The latter approach will provide a better opportunity for both parties, the Fund and the authorities, to be involved in designing both a country's economic program and its technical assistance requirements.

Like OIA, we consider that the integration of technical cooperation with Fund surveillance and program work is crucial. There should be a link between technical assistance and Article IV consultations. I would like to make a few brief comments for emphasis.

First, choosing a technical assistance project should be based on, or as a result of, Article IV consultations. A project, especially one that requires a long-term expert, should be well planned, including a time schedule for implementation.

Second, we agree that the Fund's technical consultations should center on the areas of the Fund's competence, namely monetary, fiscal, and statistical issues. For this reason, we do not support the discontinuation of technical assistance on information technology related to these areas. Member countries, particularly developing and emerging economies, still need information technology assistance, and although there are alternative providers outside the Fund, they are generally inexperienced with government institutions. In addition, as shown in Box 6 of the paper, alternative providers would likely be expensive and less convenient. On this particular point, my Malaysian authorities would like to express their appreciation and support for the continuation of the Fund's role in providing IT technical assistance. Malaysia has greatly benefitted from the Fund's help in setting up their economic and financial database. In line with the SDDS requirements, member countries are intensifying their efforts, in compiling and processing data, to achieve greater transparency in statistical practices. Information technology plays an important role. As the Fund has extensive experience in analyzing member countries' economic and financial databases, it is hoped that it will continue to provide such assistance to its members.

Third, the availability of financing is a crucial factor in implementing a technical assistance project. Once a project has been agreed by the authorities, sufficient resources should also be available for follow-up and evaluation. The Fund should pay attention to the cost of the whole project, and prioritize resources toward high impact projects within the administrative budget. In addition, on the issue of country contributions, we support OIA's recommendation that the level of contribution should continue to be related to a country's ability to pay, and that a provision should continue to be made for in-kind payments of transportation or suitable housing. Findings show that most countries appear to be willing to pay for advisory projects that achieve high impact. Based on these considerations, we suggest that no charge be required for poorer countries.

Finally, since evaluation is one of the weakest elements in the technical advisory process, we feel that this matter should be addressed. To be effective, we suggest that the progress of technical consultations be reported during the Article IV process, so that the Fund and the recipient country can evaluate the assistance program periodically. We believe that there should be an evaluation of the overall implementation of technical assistance and cooperation regularly, maybe every two or three years.

Mr. Spraos made the following statement:

The issue of technical assistance is somewhat daunting in its scope. We should have more frequent exposure to this topic in the Board, but perhaps we might have it parceled into smaller packages, so it might be digested more easily, and so that we can react more effectively.

The first point that I would like to raise is that of payment by recipients. The proposal has merits in ensuring that assistance projects are valued and that the recipient is committed. However, charging for such projects in a program country, if the project is central to the implementation of reforms required by a Fund supported program, appears somewhat problematic. I would support the charging of non-program countries for assistance, or the charging of program countries for projects that are peripheral to their economic program. However, I would insist on two provisions. One is that there should be a progressive schedule of charges, with a cut-off point below which the poorest countries would be completely exempt. Secondly, there should be a mechanism for recycling the proceeds of such charges back to the member countries, on a progressive basis if possible, but in such a way that this recycling does not substitute for funds that would otherwise have accrued to recipients. This is not easy. For example, if we recycle the payments to a technical assistance account, it is likely that other sources of funds for technical assistance will diminish. I would like to ask the staff if they can see a way of mitigating this problem. Mr. Sivaraman suggested that countries might pay initially, and then be refunded if the findings are accepted and properly implemented. That is an alternative mechanism, but it is subject to various problems. We need to look into this issue further.

I would find the weeding out of projects with a perceived low chance of success to be unpalatable for projects that are crucial for program countries. For other projects, I would not like to discourage the taking of calculated risks. Here, I like Mr. Cippa's formulation, which says that we should estimate the chances of success, and then weight these by the value of the project if it were to be successful. This index then helps to rank the project. In this way, for a project that had a low chance of success, but was of high importance, the rank would be relatively high, and so the project would be accepted. Of course, no selection mechanism can be fully mechanical in this way, but such a system of ranking might be of some help, compared to a purely subjective approach. In any event, it is important that these calculated risks be taken.

The third topic that I would like to raise is the different success rates of long-term and short-term technical assistance projects. There can be any number of reasons for this result, some of which are mentioned in the review, and some of which can be addressed. I can contribute just one insight from my own personal observations and experiences. High quality experts with the required skills are much more difficult to recruit for long-term assignments than for short-term ones. My working hypothesis, therefore, is that the allocation of low-quality of experts to long-term assignments is a serious source of concern. The question then arises as to what can be done. Eliminating long-term projects is no answer. I side with Mr. Zoccali, Mr. Taylor, Mr. Jourcin, and others on that issue. Some tasks are long-term by nature and cannot be broken up into a succession of shorter ones. One possibility is to be more rigorous and demanding in the selection of long-term experts. However, then we would either have to pay more until enough candidates of the right caliber materialize, or if this creates disruptive relativities or is prohibitively expensive, we would have to proceed with only those projects for which the experts of the required standard can be found at the current rate. This is a rationing mechanism driven by labor availability, and like all rationing, it has problems. But let me ask if there is any flexibility in the pay scales that are offered to experts. It is a serious and inherent problem, and we must try and cope with it as best we can.

I support Mr. Mirakhor's emphasis on the transfer and retention of skills by recipients. The most crucial test of success of a technical assistance mission is not what it does while in the field, but rather the legacy it leaves on its departure. I wonder whether this can be adequately captured when trying to assess the effectiveness of such assistance. It is related to the issue of adequate follow-up, and I support those who have emphasized that point.

For the record, I am inclined to agree with those who say that, on balance, implementation of the proposals in the review paper will entail the need for more resources. The suggested savings are doubtful, and some are undesirable—especially savings that arise from cutting the traditional functions of technical assistance in favor of new ones. Prioritization is important and can help, but I hope we will not use prioritization as a codeword for inappropriate reductions. Willing the ends without willing the means only accumulates strains and aggravations, and technical assistance is such a valuable end that it deserves to have the necessary means made available.

Mr. Newman observed that the present organization of the Fund's technical assistance efforts centered on three functional departments, each responsible for its own projects, and a technical assistance committee, which decided budget allocations. Such a model might have been appropriate in the past, but given the amount of assistance that was now demanded, it was questionable whether it provided the proper degree of accountability. Committees, by their nature, lacked accountability owing to the dispersion of responsibility. An alternative model, which was implicit in the report's recommendations, might link technical assistance more closely to the area departments and the Article IV process, with the Policy Development and Review Department ensuring uniformity of treatment across departments. It was not clear, however, that even this model would be the most efficient.

A third approach would be to have a single technical assistance department, Mr. Newman continued. Although the OIA report and Mr. Donecker had already rejected such a model, he urged Directors not to discard the idea prematurely. As technical assistance grew more important and more complex, there would be an increasing need for prioritization, which could be accommodated most efficiently within a single hierarchical structure.

Mr. Donecker commented that a preferred approach would be to ensure that assistance efforts be linked more closely to area departments. Such departments would be more aware of developments in specific countries, and were in closer contact with the authorities. At the same time, however, the technical assistance departments should be allowed to develop the specialized skills that would be needed.

The Director of the Statistics Department remarked that the current issue was not so much whether the recommendations would be incorporated into the Fund's technical assistance work, but rather the extent and manner in which they would be incorporated. The technical assistance departments had some experience already with self-assessment, and would continue to study the issue. Also, they would continue to explore the current and potential contributions of other bilateral donors and international organizations.

The Director of the Fiscal Affairs Department commented on the suggestion that the area departments might identify technical assistance needs, while leaving the technical assistance departments to tackle the details of implementation. Unfortunately, without the contribution of specialized experts, such an identification exercise was likely to be so general as to be effectively useless. That was the World Bank's approach to technical assistance, and it was not clear that the Bank's efforts were regarded favorably in comparison to the Fund.

Notwithstanding Mr. Yoshimura's expression of concern, he was not against the recommended pilot project, the Director continued. However, he had wanted Directors to be mindful of the likely cost, of the need to ensure that evaluation was conducted by experts, and the need to ensure that any policy framework contain enough detail to be useful. A policy statement that was too general would not achieve very much. It needed to cover, inter alia, aspects of sequencing and the consequences should a member want to pursue one particular assistance project rather than another. Similarly, he was not against the idea of evaluation—in fact, he would welcome the opportunity for greater contact with the Board. However, the case for a mechanical, quantitative rating system was not compelling.

On the suggestion that greater reliance should be placed on experts outside the Fund, it needed to be kept in mind that the Fund staff were very efficient, the Director remarked. The staff were highly qualified, hard working, and produced services at a fraction of the cost of non-Fund providers. As for the relative effectiveness of long-term experts relative to short-term experts, the conclusion reached by the report was not convincing. To counter the incentives for long-term experts to extend their assignments by reducing their training efforts, the Fiscal Affairs Department had not allowed any assignments to extend beyond two years. There had been problems with the impact of training, but that was often because freshly-trained government employees sometimes chose to move into the private sector.

The Director of the Office of Internal Audit and Inspection, responding to a query from Mr. Collins, commented that any sensible evaluation system of a complex activity, such as technical assistance, would need to rely significantly on self-evaluations. The report had recommended that the technical assistance departments themselves develop their self-evaluation systems—discussions with other providers had underscored the fact that evaluation systems that did not have the full confidence of providers were not cost-effective. The report, therefore, had refrained from providing detailed suggestions, with three provisos. First, the report had suggested that the self-evaluation system receive input from the technical assistance departments, the area departments, and the authorities. Second, the system needed to have sufficient common elements to facilitate the allocation of resources across areas—the report had recommended a rating system which would capture whether the objectives of the technical assistance project had been achieved. Finally, the self-evaluation based system should be subject to occasional independent evaluations, to ensure that it was functioning properly; that evaluation could be either external or internal to the Fund.

The Director of the Fiscal Affairs Department noted that a recent self-evaluation, in collaboration with the European II Department, had tried to assess the Fund's progress in assisting tax administration reforms in Russia and the Baltics. That assessment had been very difficult. Even with a simple 1-5 rating scale, experts from different departments had been simply unable to agree on the rating that should be applied. Moreover, evaluations were always ex post, whereas the decisions being evaluated were ex ante—it was difficult to know what to do in a case where previous assistance had been unsuccessful, but where the area department considered that the authorities were displaying a new level of commitment.

The Acting Chairman made the following summing up:

> Executive Directors welcomed the opportunity to discuss the Fund's technical assistance program and to consider proposals to enhance its effectiveness. They appreciated the candor and comprehensiveness of the documentation that had been prepared for the discussion. Directors recognized the importance of Fund-provided technical assistance as a service to the membership which, they noted, accounted for almost as large a share of the administrative budget as bilateral surveillance.

Directors generally supported proposals to better integrate technical assistance into a country's overall policy framework; to improve follow-up and implementation of recommendations; to strengthen communication and coordination among technical assistance providers, and between technical assistance providers and national authorities; and to improve the selection and training of experts. Directors considered, however, that a number of the proposals put forward in the Review by the Office of Internal Audit and Inspection needed further study, and should initially be approached on a limited experimental basis.

Recognizing the importance of cooperation between the provider and recipient, there was broad support for a change in terminology, namely, to adopt a term such as "technical assistance and cooperation," rather than the currently employed "technical assistance," although several Directors did not see the issue as major. In this summing up, the term "technical assistance" will continue to be used.

Directors underscored the importance of continued efforts by the Fund to better integrate technical assistance with its surveillance and program activities. These activities should all contribute to the same ultimate objectives in an integrated way, which argued for intensifying cooperation between the staff of technical assistance and area departments, and between Fund staff as a whole and national authorities. Many Directors recognized the value of the staff's discussing technical assistance matters with national authorities in the course of Article IV consultation discussions as a way of promoting such cooperation, facilitating a coherent and proactive approach to the identification of needs for technical assistance, and assessing its effectiveness consistently. Many Directors also considered that, for some countries with substantial technical assistance needs, the staff and national authorities could usefully draw up together a Technical Cooperation Action Plan that would place needs in a medium-term framework. Such an approach has already been followed in connection with a number of Fund-implemented technical assistance projects supported by the United Nations Development Program (UNDP).

Notwithstanding their desirability in principle, Directors recognized that in practice there were limits to the extent to which these approaches to the allocation of technical assistance could be applied. The process of consultation could be costly in itself, and many Directors cautioned against overburdening Article IV consultation missions with additional tasks for which they may not be well suited. In addition, in view of budgetary constraints, difficult choices were inevitable. Furthermore, commitments to medium-term programs of technical assistance should not undermine the Fund's ability to respond flexibly to changing situations. For these reasons, Directors generally considered that consultations on technical assistance needs in connection with Article IV consultation discussions and the drawing up of Technical Cooperation Action Plans should initially be pursued only selectively, on an experimental basis, to be followed by a further review of their effectiveness and resource implications.

Directors stressed that technical assistance should not be provided without serious assurances that national authorities are committed to effective implementation. However, several Directors also noted that it can be difficult to determine, ex ante, the extent of this commitment, and that, notably in the context of adjustment and reform programs, potential benefits may sometimes justify proceeding with technical assistance even if the authorities' commitment (or capacity) to implement changes is not fully assured.

Directors generally considered that Fund-provided technical assistance should be confined to subjects that are within the organization's core responsibilities and for which the staff has significant specialized expertise. Some Directors, however, noted that the scope of the Fund's core responsibilities has been broadened in recent years. Many Directors also stressed the importance of collaboration with other providers of technical assistance, and some Directors considered that the Fund could play an organizing and catalytic role, even in non-core areas of assistance. Given this general orientation, a number of Directors considered that it was not appropriate for the Fund to provide technical assistance on information technology. A number of other Directors, however, considered that the Fund should retain some capacity in this area, as a complement to its technical assistance in other areas.

Directors agreed that ongoing work on internationally agreed standards and codes of transparency could affect the volume and composition of demands for technical assistance. Several Directors cautioned that new demands from this quarter should not be allowed to crowd out traditional demands for technical assistance, notably in ESAF-eligible countries. Some other Directors noted that traditional and standards-related technical assistance could complement, and need not compete with, each other.

Regarding the means of providing technical assistance, Directors considered that long-term experts could usefully complement assistance provided by the staff and short-term experts, particularly but not exclusively, in countries with limited institutional capacity. However, requests for the assignment of long-term experts should be scrutinized carefully, and such experts should have regular contact with, and oversight by, headquarters-based staff.

In addition, long-term experts should have backgrounds and technical skills suited to their tasks, as well as the ability to communicate and work effectively with others. A few Directors mentioned the possibility of the Fund making some use of local nationals to provide technical assistance. Several Directors stressed the importance of concerted follow-up after a mission or at the conclusion of an expert's assignment in order to maximize the impact of the advice provided. Directors also stressed that the impact of technical assistance would depend substantially on the extent to which knowledge and skills were transferred to officials in the recipient country.

Directors underscored the importance of ensuring that the Fund's recommendations and views regarding technical assistance are conveyed in a clear and operationally useful way. End-of-mission reports should be tailored to a country's specific circumstances and should emphasize the analysis of policy options rather than description. Directors agreed that there should be an enhanced effort to promote the dissemination of those results and lessons of Fund-provided technical assistance that were of general interest (including through postings on the Fund's website). One way of achieving this goal would be to publish technical assistance reports, provided the recipient country agrees, and with appropriate deletions of sensitive country-specific information. However, several Directors advocated a cautious approach to the publication of country-specific reports. They stressed the importance of fully respecting member countries' wishes regarding confidentiality, and ensuring that countries are not discouraged from seeking Fund technical assistance by any fear of unwanted publicity.

As in previous discussions, Directors were divided in their views on country contributions toward meeting the cost of technical assistance. Some Directors believed that contributions had an important role in determining the seriousness of authorities' commitment to and ownership in technical assistance projects, while others believed that contributions were inappropriate. Among those Directors who favored country contributions, most considered that contributions should be required not only for Fund-financed long-term experts, as at present, but also for long-term experts who were externally financed. Several of these Directors, however, stressed that consideration should be given to a country's ability to pay, especially for the lowest income countries. Directors looked forward to receiving further, more specific, proposals in this area.

Directors expressed appreciation for the financial support for the Fund's technical assistance program provided by other organizations and member countries, notably the UNDP and Japan. While the environment for such support had in some respects become less favorable, Directors urged management to work closely with external donors to encourage its continuation at the highest possible level. They were generally of the view that if there were to be any shortfall in external financing, a compensating increase in financing from the Fund should be seriously considered to forestall any reduction in the delivery of technical assistance to the membership. Some Directors stressed that any intensification of resource constraints would add to the importance of avoiding commitments to low-priority, low-impact projects. In this regard, however, some Directors were skeptical of the Review's assessment that, by avoiding such projects, its recommendations could be implemented over the next two years within existing budgetary resources.

Directors stressed the need for comprehensive and rigorous evaluation of Fund technical assistance activities, including both ongoing self-evaluations and periodic broader independent assessments. Several Directors observed that a well-functioning and systematic evaluation system could do much to increase the effectiveness of technical assistance. It could, inter alia, assess the degree of integration of technical assistance into the Fund's work and could draw on inputs from different sources, including staff of technical assistance and area departments, national authorities and outside experts. Directors recognized that the range of the Fund's technical assistance and the conditions under which it is provided make comparisons and the development of common criteria for evaluation purposes difficult. Nevertheless, Directors encouraged the staff, with the involvement of the Board's Evaluation Group, to review possible approaches to evaluation, including those used by other technical assistance providers. Directors favored a resumption of periodic and comprehensive reporting to the Board on the Fund's technical assistance activities, with a first report being issued by mid-2000. A few Directors expressed a preference for organizing such reports in terms of issues and lessons learned, rather than on a country-by-country basis.

Building on today's discussion, a policy statement presenting specific proposals on the objectives, operational framework, and evaluation methodologies of technical assistance will be prepared for Executive Board discussion by the end of the year.

Mr. Donecker suggested that the staff should prepare an interim progress report before the end of July 2000. That report did not have to include firm conclusions on procedural issues, but should provide the Board with an opportunity to return to the issues outlined in the OIA report, and to assess what progress had been made.

3. PAPUA NEW GUINEA—1999 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report of the 1999 Article IV consultation with Papua New Guinea (SM/99/86, 4/7/99; Sup. 1, 6/4/99). They also had before them a statistical appendix (SM/99/119, 5/25/99).

Mr. Taylor made the following statement:

Directors will have noted that the staff report on the 1999 Article IV Consultation with Papua New Guinea is quite critical in some aspects of government policy.

The Papua New Guinea government feels that the report does not adequately represent its position on some important issues. It has been agreed with Fund management that the most effective way of covering this issue is for me to table a statement on behalf of the authorities, and this is appended.

My personal observation is that it has proved difficult at times in the past for both sides to establish an effective dialogue to work through the differences of perspective on key policy issues. However, I am pleased to be able to report to the Board that in recent days the government has taken very active steps to reactivate an effective relationship. With a responsive Fund staff, I am confident that differences of understanding and judgement will soon be worked through in a professional manner.

On behalf of the Papua New Guinea authorities, Mr. Taylor submitted the following statement:

The purpose of this statement is three-fold. First, to reassure the Executive Board members of the government's strong commitment to economic and financial reforms that Papua New Guinea has embarked upon since late 1994, through consistent implementation of bold measures despite the recent and present difficult global and regional economic environment. Second, to provide the government's views on certain policy analyses and statements presented in the staff report in order to inject a more balanced picture of the government's implementation track record. And third, to provide a synopsis of the progress made so far in implementing the 1999 budget, including the key structural reforms in the public sector, privatization, financial sector, and indirect taxation.

Members of the Executive Board would note from the staff report that the government of Papua New Guinea has on its own initiative been implementing bold macroeconomic and structural reforms under very difficult regional and global economic conditions. Unlike many economies in the region with access to private capital flows as well as significant financial support from the IMF, the World Bank, and the Asian Development Bank (AsD) the government of Papua New Guinea has implemented these reforms without any external financial support.

An unprecedented El Nino-induced drought, as well as the fallout of the Asian Crisis and lower prices for Papua New Guinea exports, have caused a 35 percent decline in the value (in US dollar terms) of our exports over the 1997-1998 period which triggered a loss in export-based tax revenue of a massive 52 percent. Furthermore, we experienced a fall in untied budget grants from Australia of 26 percent over the same period. Despite these significant shocks to the economy and government's revenue base over 1997-1998 (which amounted to K333 million or 4.2 percent of the 1998 GDP), the Papua New Guinea authorities have managed to maintain relative macroeconomic stability through implementation of tight financial policies. Through strict expenditure control, a modest budget surplus was achieved in 1997 for the second year in a row; the budget deficit in 1998 was limited to only 1.7 percent of GDP. At the same time, bold structural reforms were initiated, including a major tariff and excise tax reform and the introduction of a value-added tax. These achievements, as well as the progress gained so far in implementing the 1999 budget, are clear testimony to the government's strong resolve to implementing prudent macroeconomic policies and necessary structural reforms, and should certainly command support from the international financial institutions.

Unlike the previous years' consultations, the 1998 discussions took place at an inopportune time—immediately after the end of the 1998 financial year and in the middle of the summer vacations in Papua New Guinea. This meant that a significant amount of the information related to the 1998 fiscal and monetary operations were not available for review and analysis by the staff team. Many of the divisional heads and senior managers were also not available to meet with them. This, understandably, created a sense of frustration for the mission members who were unable to use their visit as productively as they would have wished.

Overall we would agree that the outlook for the economy remains difficult, particularly in view of the weakness in the prices of our major exports, but would like to highlight two key areas: (i) the government's success in maintaining macroeconomic stability rather better than other countries in the region; and (ii) the fact that, in response to the changed outlook, we have moved decisively on fiscal issues, notably in terms of expenditure restructuring and the passage of VAT legislation.

The revised estimates of the fiscal out turn for 1998 indicate a deficit of about K137 million (equivalent to 1.7 percent of GDP). There has been a weakening in the fiscal position, but this largely reflects as highlighted above, low export taxes, lower MRSF taxes and shortfalls in import duties due to the weaker-than-expected recovery of the nonmining sector. As noted, financing from domestic sources was larger than expected, due entirely to delay in commercial financing—the terms of which were not acceptable to the state.

As noted by the mission, the recovery of the non-mining sector from the drought has been less than robust, due to a combination of factors. One factor not given adequate weight by staff in the report is the effect on the real economy of the sharp rise in real interest rates. The tightening of monetary policy during 1998 effectively choked off private sector non-mining investment. While cognizant of the role of interest rate policy in helping to ensure that the stability of the exchange rate is maintained, the spread between deposit and lending rates remains relatively high, and the central bank has recently signaled its concerns in this regard.

We feel that the comments on the deterioration in the quality of economic governance reflect a misunderstanding of the nature of recent policy actions, and a failure to acknowledge the legitimacy of the democratic decision-making processes in Papua New Guinea. The comments on the creation of the Papua New Guinea Banking Corporation (PNGBC) group, for example, fail to note the fact that this was done in consultation with Bank of Papua New Guinea (BPNG), the competent regulatory authority, and received parliamentary approval.

The 1999 macroeconomic policy framework may need to be tightened further in view of the absence of any signs of strong recovery in the world economy and possible shortfalls in external financing. We would note, however, that external financing from commercial sources is being arranged at levels that would allow us to maintain the integrity of the current budget framework.

We have noted the warnings in the staff report of a threat of a 'financial crisis'. Although we see no evidence of this yet, we are carefully examining the potential sources of risk identified by the Fund staff.

The 1999 budget remains on track and while the external situation is a cause for concern we are determined to achieve the set targets, including the overall deficit target of 0.9 percent of GDP. Public service reforms are proceeding under the direction of the inter-ministerial committee. Some delays in the timetable have been encountered, but this is not unexpected, given the ambitious nature of the reforms. The government is determined to complete the retrenchment program this year.

The implementation arrangements for the VAT and the tariff reform are on target for July 1, 1999. With adequate funding provided and released under the budget for this purpose, and with support from a government-funded technical expert, the public education campaign and programs to brief the business community and train technical staff are well on target. Despite speculations in the media, the Internal Revenue Commission is prepared to implement the VAT system, as planned. Other new tax measures introduced under the 1999 budget have been implemented and will bolster our revenue effort.

The Bank of Papua New Guinea has introduced several significant measures to ensure the soundness of the banking system. These include the introduction of the Bank of International Settlement (BIS) prudential guidelines, strengthening the banking supervision capabilities with technical support from the IMF, enhancing the use of the open market operations to improve the effectiveness of the monetary policy, and strengthening surveillance of the state-owned commercial bank through on-site and off-site audits of the bank's lending portfolio and policies. The latest audit conducted in January 1999 by Price Waterhouse Coopers of PNGBC has confirmed the group's financial soundness, and the bank has shown significant improvement in its net operating profit after making adequate loan loss provisions.

The government's privatization program for 1999 has already achieved good results. The state's equity in the Pacific Rim palm oil plantations was sold to the Commonwealth Development Corporation in March 1999 for K26.4 million (US$11 million). The Government's 5 percent equity in Porgera Gold Project was sold last week for K35.7 million (US$15 million) to Orogen Minerals Limited after its evaluation by Rothschild. To ensure the transparency of the privatization program, the government set up in April 1999 a Privatization Council, with membership from the government, the opposition, and the Transparency International to oversee the entire process. Teams of specialist consultants and legal advisors will assist the council.

The 1999 budget also provides for a major shift from recurrent to development spending with a view to improving the availability and quality of basic infrastructure in the rural areas. This program, which is implemented under strict guidelines approved by the Attorney General, the Auditor General and the Ombudsman's Office, has begun to bear good results. We are confident that the funds invested will also yield substantial dividends in terms of stimulating non-mining growth.

Finally, I would like to emphasize the importance attached by the government to the mutual exchange of views and information with Fund staff. The recent discussions, I hope, will help clarify the nature of the difficulties facing our economy as well as remove areas of misunderstanding about recent policy initiatives and this government's resolve to persevere with the reform process.

The Fund has, in the past, provided valuable financial and technical support to this country in difficult times. We are hopeful that in the course of the next couple of months it will be possible for the Fund to once again take a supportive position and help bolster our reform efforts.

The government stands committed to carrying out its own program of reforms that will stimulate nonmining growth rationalize the public sector and boost resources available for rural development. We hope that a review of the economic situation and of our policies by the Fund staff will allow the resumption of negotiations in the second half of June on a possible stand-by arrangement to support us in our endeavors.

Mr. Taylor submitted the following additional statement:

Further to my statement of earlier today, I am now attaching a statement by the Prime Minister announcing a package of economic and financial stability measures in Papua New Guinea.

These measures cover both expenditure control and revenue enhancement; adjustments to monetary and exchange rate management; and a range of structural reforms, including tax, public service, labour market, privatisation and the financial sector, and quality of economic data.

The details of these measures have only just come to hand. While the thrust of the measures is clearly intended to address the macroeconomic situation as seen by staff, staff will no doubt need a few days to assess the overall impact of the package.

ATTACHMENT

The National Executive Council has approved a series of economic and financial measures to reinforce macroeconomic stability and boost public confidence in the economy.

In announcing the package, Prime Minister Skate said the reform package is inline with the Government's structural adjustment program.

"The measures are designed to reinforce economic and financial stability and deepen structural reforms. The package of fiscal, monetary, exchange rate and structural reform policies which come into effect immediately are expected to not only stabilise the Kina and prices, but also result in improving the competitiveness of our economy and create more jobs for our people.

"When implemented, the measures outlined in this package are expected to result in the collection of an additional K85 million in revenue totaling 1% of GDP in the second half of the year. In the same period cuts to expenditure in the vicinity of K20 million can also be expected."

The Prime Minister said the time to introduce the reform package is 'now'following the recent onslaught of external shocks to the economy. "The regional and global economic crises, depressed commodity prices and natural disasters in PNG have savaged the economy resulting in a 35 percent decline in the US dollar value of our exports and 4% of GDP in revenue loss during 1997 and 1998.

"Despite these significant shocks, the nation has maintained relative macroeconomic stability through the implementation of tight financial policies.

"In the absence of financial assistance and a rescue package from international financial institutions, many other countries around the world would have panicked and forced their economies into deep depression - but this nation has stood strong.

> "To address these concerns, and to ensure that the 1999 Budget and macroeconomic framework remain on track, the Government believes further tightening of fiscal and monetary operations is in order to cope with continued pressure on the exchange rate and international reserves position.
>
> "This package involves limiting our expenditures in line with our revenue base, while stepping up our revenue collection efforts. This package requires no additional expenditures by the Government or increases in manpower over the remaining months of 1999.
>
> "Many of the proposed measures are actually a reinforcement of existing regulations and prudential requirements while others are to initiate the formulation of the year 2000 budget.
>
> The measures are expected to minimize irrational behavior in the market to assist monetary stability and, therefore, exchange rate stability."
>
> The NEC has directed the Budget Implementation Committee to commence immediate implementation of the measures contained in the attached matrix in close cooperation with the Department of Treasury, Internal Revenue Commission, the Central Bank and other departments and line agencies.

Mr. Taylor, having circulated two preliminary statements on the same day, apologized for the tardy distribution of the advice on new measures taken by the authorities. While the staff was still in the process of assessing the new measures, he noted that they were designed to respond—at least in part—to the concerns expressed in the staff report. Following the recent disagreement between the staff and the authorities, there had been some encouraging developments, including a visit to Washington, D.C. by an economic team led by the treasurer of Papua New Guinea. The team had met with the Fund's Deputy Managing Director, Mr. Sugisaki, and had expressed a desire to build a more fruitful relationship with the Fund. It was hoped that the Fund would respond by sending an early mission back to Papua New Guinea.

The Acting Chairman noted that, in addition to the meetings between the staff and the authorities, he had had at least three meetings with the head of the delegation of Papua New Guinea since the summer of 1998. This illustrated the Fund's commitment to the continuation of a substantive policy dialogue with the authorities.

Mr. Gobe made the following statement:

> It is welcome that the authorities maintained macroeconomic stability rather better than other countries in the region under difficult economic conditions. However, the slowdown in the regional economy had a greater negative effect on Papua New Guinea's economy because of its external vulnerability. In addition, inadequate management of fiscal and monetary policy reportedly led to a loss of confidence among investors and donors, resulting in capital outflows. I understand that the effect on the economy of these outflows was quite large. In light of the fact that the proportion of grants to total revenue is large and that the effect of private foreign capital movements on Papua New Guinea's balance of payments is also significant, the most important issue for the authorities is to improve the accountability and transparency of fiscal and

monetary policy. In this regard, I share the staff's view that the authorities should eliminate extra-budgetary operations and increase transparency in budgetary procedures. In addition, an effective means of improving the integrity and accountability of monetary policy would be to strengthen the independence of the central bank. Therefore, the Central Bank Law should be revised. Furthermore, it is crucial that the authorities make every effort to improve the coverage, timeliness, and reliability of data to permit the appropriate monitoring of economic conditions. A review by the Pacific Financial Technical Assistance Center (PFTAC) pointed out many problems in the statistical area. I hope the Fund will provide appropriate technical assistance, based on this review. I also hope the authorities will make significant progress in the future by utilizing such external support effectively. Let me turn now to fiscal and monetary policy.

The authorities should prevent further expansion of the fiscal deficit. According to the staff, the revenue projections are optimistic and the allocation of expenditures is not realistic in the 1999 budget. In this regard, I welcome that the recently announced macroeconomic stability measures include some measures on both the revenue and the expenditure sides. Regarding the introduction of the value-added tax (VAT), in light of the authorities' administrative capacity, a sufficient preparation period should be allowed for. I hope that with sufficient preparation, the introduction of the VAT will be successful. It is also important to make the VAT rate high enough to ensure a positive fiscal balance; also, there should be no exemptions. In addition, I hope the authorities will proceed with the public service reform program in order to achieve the objective of completing the retrenchment program this year.

On monetary policy, I understand the authorities' concern that high interest rates will choke off private investment, which could have a huge negative effect on real economic growth. Since capital outflow is due to a lack of confidence in fiscal and monetary policy, appropriate measures would be to address the lack of transparency and accountability. Therefore, excessively-high interest rates will not be appropriate because of their huge negative effect on the real economy. However, as it is necessary for the authorities to reduce the inflation rate and to cope with continued pressure on the exchange rate and the international reserves position, they should keep a relatively tight monetary policy.

Finally, as Mr. Taylor suggests in his statement, in order to promote early economic recovery, it would be helpful if the Fund would once again take a supportive position and help bolster the authorities' reform efforts. The recently announced macroeconomic stability measures clarify the authorities' strong intention to implement necessary measures for economic recovery. In this regard, I urge the authorities to steadily implement these measures. And, with good performance observed in the near future, I hope the staff will evaluate it appropriately and start negotiations for the new stand-by arrangement immediately. I strongly hope that the authorities will make significant progress in the future with economic reforms under the new stand-by program.

Mr. Chelsky made the following statement:

After having read both the staff paper for this year's Article IV consultation and the authorities' statement as circulated by Mr. Taylor, I must admit to some unease on a number of fronts, including with respect to both substantive policy issues and the nature of the policy dialogue between the staff and the authorities.

Clearly, the authorities have within their power the ability to significantly improve economic conditions. An increasingly serious lack of transparency and accountability in government operations strikes me to be at the root of much of what has gone amiss over the past year. In this regard, I believe the staff report makes it clear that there can be little sustained improvement in economic conditions or in donor and private sector confidence until the authorities seriously and comprehensively address concerns with budgetary management and transparency and with the independence of the central bank. However, in reading the staff report I am unclear about the extent to which the current poor state of affairs is the result of the absence of a framework of accountability versus being a side effect of Papua New Guinea's notoriously weak administrative and technical capacity. I believe this distinction is key to improvement of Papua New Guinea's situation. Even if the absence of appropriate checks and balances is identified as the most immediate impediment to successful macroeconomic management, efforts to correct the situation will fail if the human resource constraints to implementing a more appropriate framework are not addressed. I would therefore welcome information from the staff of either the Fund or the World Bank on the kind of assistance being provided to the authorities to assist them in implementing a strategy to enhance implementation capacity in the public sector.

Before turning to some specific policy issues, I would like to comment on the serious discord between the staff and the authorities that is evident in the documentation distributed for today's discussion. While we are used to differences of opinion between the staff and the authorities, the contrast between the staff report and the statement of the authorities in this case is quite pronounced. That there persist such divergent views on even the most basic issues raises questions about the productiveness of the present dialogue.

On the one hand, the authorities' statement has an aura of unreality about it, and it seems fraught with a sense of denial about the room for improvement in economic management. Further, the authorities would be well served not to attribute current difficulties almost exclusively to external developments. El Nino and the Asian crisis, rather than being seen as the source of Papua New Guinea's difficulties, would more constructively be viewed as developments which have revealed serious underlying weaknesses in the Papua New Guinean economy. I was also troubled by the authorities' reaction to staff criticism of the creation of the PNGBC group. The staff's and the Fund's criticism of the formation of the group was based on economic considerations and, as such, was not a criticism of the democratic process. Indeed, it is important for the efficient functioning of the democratic process that Papua New Guinea's citizenry has access to independent assessments of the economic costs of their political choices.

On the other hand, I found the staff report at times slightly unbalanced in its assessment of the Papua New Guinea economy. As I noted, the authorities have made and, indeed, still are making some serious errors in policy, but all is not negative, and I was troubled by a tendency throughout the report to dismiss or downplay areas in which progress has been made. Looking at last year's Article IV discussions, I recall that Directors highlighted a few key areas in urgent need of action. These included passage of legislation to implement the value-added tax, the adoption of an ambitious agenda for commercialization and privatization, and an independent audit of the PNGBC by a reputable international firm, to be completed within a reasonable period of time. If I read the documentation for today's discussion correctly, value-added tax legislation has been passed, the privatization agenda has been advanced, and the audit of PNGBC was completed by PriceWaterhouseCoopers. I should note that with respect to the value-added tax my positive comments hinge on its planned introduction next month, and would welcome any assurances Mr. Taylor can provide that it will remain on schedule. As I noted, these are real achievements, and failure to undertake necessary reforms elsewhere should not detract from our expression of support for these actions. I also wonder about the extent to which the constructiveness of the policy advice could be enhanced by clearer priority setting in policy advice. While the articulation of priorities is always valuable, it is essential in the case of Papua New Guinea, given its limited administrative and technical capacity. I would admit also to being troubled by the allegation in the authorities' statement that, unlike in previous years' consultations, the discussions this year were at a particularly inopportune time when most of the relevant players were on vacation. I would presume that the timing of Article IV missions is negotiated between the staff and the authorities, and I would welcome any clarification on the chain of events.

In terms of what I was noting about technical capacity and lifted administrative capabilities, nowhere are the problems associated with this clearer than with respect to the banking sector. At last year's Article IV discussion, this chair noted that, to the extent that there were problems with the financial sector in Papua New Guinea, it is with domestically-owned operations and not foreign subsidiaries of banks operating in Papua New Guinea. Since the domestically-owned banking sector is dominated by the state-owned PNGBC group, which is in need of significant reform of its internal governance structure, we argued that it might be more appropriate, given the limited financial and technical expertise in the country, and as the staff notes at the BPNG, to at least in the near term focus what few resources there are in improving the internal governance of the group in anticipation of its future privatization. Once this was on its way, attention then could be turned to enhancing the broader supervisory capacity rather than taking the more diffuse approach of seeking to change the PNGBC through external pressure. I realize that this goes counter to what has now become a standard call within the Fund to improve the institutional capacity for banking supervision, but the case of Papua New Guinea is somewhat unique, and as in all other areas we should avoid turning any policy principle into a mantra.

Turning to monetary and exchange rate policy, it should be recalled that at last year's discussion the staff and a number of Directors were supportive of the central bank's approach of accepting gradual depreciation of the currency while using monetary tightening and ongoing intervention to limit the scale of the depreciation. This chair was in the minority in arguing for a much more restrained intervention and a willingness to allow greater depreciation of the currency. In addition to concern with the declining reserves at that time, the basis for our recommendation was a view that capital flows into Papua New Guinea were not particularly interest rate sensitive, making interest rates a costly and inefficient way of propping up the currency, and that the consumer price index, which is almost entirely urban focussed in a country that is overwhelmingly rural, had overstated the impact of depreciation on inflation. Our view then and now is that the downward pressure on the exchange rate will only be sustainably addressed with the improvement in investor and donor confidence associated with improvements in governance. It now appears that staff have revised their recommendation and are urging the authorities not to resist pressures on the currency and to protect the currently low level of reserves. I would be interested in the chain of events that led to the staff's reassessment of the appropriate exchange rate policy. Given the importance of the Fund providing clear and consistent advice to the authorities, I would also be interested in how the policy dialogue with the authorities has evolved on this issue. At the very least, we need to be up front about the role our own change of heart may have played in the authorities' present monetary policy ambivalence.

Ms. Wang made the following statement:

Compared with other countries in the region, the authorities of Papua New Guinea were more successful in maintaining macroeconomic stability during the recent turmoil in the financial markets. GDP registered a positive 2.4 percent growth in 1998, which, I believe, was quite impressive given the unprecedented El Nino-induced drought the country suffered in 1997, and the unfavorable external environment which cut its export value by 35 percent over the 1997-1998 period. The authorities also deserve our commendation for taking the initiative in implementing bold macroeconomic and structural reforms under very difficult regional and global economic conditions. Although the Fund has made a contribution in facilitating the authorities' efforts through Article IV consultations and technical assistance, I would like to speculate that the authorities' achievements would be greater if their efforts were complemented by much stronger support, especially financial support from the Fund and other multilateral financial institutions.

It is encouraging to learn from the staff report Supplement 1 that progress has been made in the structural area, especially in taxation and privatization. The retrenchment of government employees has also made some headway, although it is a bit slower than scheduled, but the slowing is just as expected, since the reduction of personnel is not an easy or simple task, not only in Papua New Guinea, but also in other parts of the world. In the macroeconomic policy area, the reduction of the Cash Reserve Requirement (CRR) rate and the increase of the Minimum Liquid Asset Requirement (MLAR) in an effort to reduce direct central bank financing of the budget deficit while maintaining a tight monetary policy are welcome. The progress made in the above areas demonstrate the will and commitment of the authorities to structural reform, and the authorities deserve credit in this regard.

That being said, we do share the staff's concern about some of the developments in the macro economy. The continued decline in foreign exchange reserves and increased depreciation pressure, despite the improved export performance, and the continued deterioration of the government's cash flow, are the main sources of concern. The continued increase in wages and salaries during the first quarter of 1999 is disappointing. Clearly, adjustment is needed to restore market confidence in Papua New Guinea's economy. As for the staff's policy recommendations, I have some comments and questions. First, according to staff's mid-term adjustment scenario, with the implementation of the tighter monetary and fiscal policy—with the balanced budget for 1999—GDP growth in 1999 could reach 2.9 percent. Here I just wonder where the growth comes from? It seems to me that the negative effect of tighter fiscal and monetary policy on employment, investment, and consumption should not be neglected. The experience in some of the Asian crisis countries indicated that the effect of tighter macroeconomic policy on confidence should not be overestimated, and the negative impact on growth should not be underestimated.

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Second, staff mentioned in paragraph 31 of their report that Papua New Guinea's social indicators of development remain among the worst in the Asia Pacific region, particularly in the rural sectors. Meanwhile, staff recommend a withdrawal of the budgeted increases in district support and rural development funds, given the uncertainties regarding the effectiveness of the new mechanisms to monitor the use of these funds. Here I just wonder whether the more constructive way is to strengthen technical assistance from the multilateral institutions or other countries to Papua New Guinea to increase its ability to use these funds effectively.

To conclude, I fully agree with Mr. Taylor that the staff report on the 1999 Article IV consultation with Papua New Guinea is quite critical of some aspects of government policy. It is also regrettable to learn that it has proved difficult at times in the past for both sides to establish an effective dialogue to work through the differences of perspective on key policy issues. The harmonization of the relationship between Papua New Guinea and the Fund, or more broadly, between Papua New Guinea and the main multilateral financial institutions, requires effort not only from the government of Papua New Guinea, but also the Fund and other multilateral financial institutions. In this respect, it is encouraging to learn from Mr. Taylor's preliminary statement that in recent days, the government has taken very active steps to reactivate an effective relationship. Papua New Guinea is now facing difficulties, and the authorities have already, through their actions, and the newly announced macroeconomic stability measures, proved their strong resolve to implement prudent macroeconomic policies and necessary structural reforms. It is the time for the Fund and other international financial institutions to act. In this context, we fully support the authorities' request for the stand-by arrangement, and urge the staff to bring this issue to the Board for discussion as soon as possible.

With these remarks, we with the authorities of Papua New Guinea further success in their future endeavors.

Mr. Barro Chambrier made the following statement:

As the previous speakers have made the points that I share, I can be very brief. It is clear that the country has suffered from severe exogenous shocks over the past two years, with major consequences to the economy, but it is also clear that, as stressed by Mr. Chelsky and others, internal weaknesses in policy implementation have complicated the situation. Therefore, I think that it is important that we look to the future. It will be important for the authorities to implement strictly the measures that are needed on the macroeconomic front. Here, there is a need to insist on the importance of taking corrective actions. I am, however, encouraged by Mr. Taylor's opening statement with regard to the measures that have been put in place: The package of economic and financial measures aimed at reinforcing macroeconomic stability and deepening structural reform. I think that the emphasis must be placed on reducing fiscal imbalances. This is particularly important given the fact that the latest data confirm that fiscal policy remains on an expansionary course. Here, I would urge the authorities to be more strict on their policy vis-à-vis wages and salaries. Therefore, taking into account the severe shock that the economy has recently undergone and the fact that the external situation may not recover quickly, a further tightening of the fiscal effort may be appropriate.

In the monetary sector, I welcome the measures that had been introduced earlier to ensure the soundness of the banking system, and the fact that the last audit has confirmed the soundness of the banking system. However, the recent surge in credit to the government is a cause for concern and will make it harder to contain inflation, which is high. I note the authorities' concerns at the negative impact of the high level of interest rates on the economy. However, until the inflation rate is reduced, a tight monetary policy may be the only option.

To improve the efficiency of the economy, a number of structural reforms measures need to be taken. The authorities have already made progress in the reform of the fiscal sector, and on privatization, but much more remains to be done. Of major concern is the requirement by major public enterprises to provide subsidized services. I would agree with the staff that this is an issue that needs to be addressed quickly, as they are a threat to the budget and also act as a disincentive to private investment. Similarly, there is a need to rationalize all public enterprise tariffs, and establish a clear system for regular tariff adjustments. But, more importantly I would encourage the authorities to develop a plan that will lead to the privatization of the public enterprise sector. It is only the strict implementation of a package of measures that will bring back investor confidence in the country.

In conclusion, I note that the Papua New Guinea authorities are showing the willingness to reform their economy. If I look at their track record during an earlier Fund program, I am encouraged. I welcome the statement of the authorities for their strong commitment to economic and financial reforms and I hope that negotiations can be resumed soon on a program that could receive Fund support under a stand-by arrangement, but in the meantime, like others, I think that it will be important for the Fund to provide the technical assistance that is needed. I wish the authorities all the best.

Mr. González Sánchez made the following statement:

We learned from the staff report that the economic situation in Papua New Guinea has deteriorated substantially, due to both the effects of exogenous factors and to a weak macroeconomic management. The former, including the drought in the last semester of 1997, the declining regional demand and falling international prices for the country's most important commodity exports, originated a drastic contraction of output and a considerable external current account deficit. The latter, reflected in a large fiscal imbalance and an accommodative monetary stance, compounded the adverse effects of external shocks.

In the context of a rapid expansion of credit to the non-government sector, official reserves have declined sharply since the second half of 1997, thus aggravating the country's vulnerability to the regional economic crisis. In this framework, the introduction of actions to avoid a domestic financial crisis is considered of utmost importance. Concerning this subject, I would like to make two comments. First, I consider that the country already has a useful instrument to face external shocks, which is the flexible exchange regime. This instrument can help to ease speculative pressures and discourage short-term capital flows. Second, I believe that a sound domestic financial system is also essential to face external financial shocks in an effective manner. Fortunately, as indicated in Mr. Taylor's informative set of preliminary statements, the Bank of Papua New Guinea has adopted diverse measures to ensure the soundness of the domestic banking system, including the introduction of the BIS prudential guidelines. These measures can also prove to be very helpful against external financial shocks. Needless to say, prudent fiscal and monetary policies, as well as a commitment to transparency and improvement of statistical data, are also fundamental to minimize the impact of potential exogenous shocks.

Mr. Taylor's set of preliminary statements indicate that the government of Papua New Guinea considers that the staff reports do not adequately reflect its position on some important issues. I encourage both the authorities and the staff to hold candid and cooperative dialogues to solve any differences that might exist.

At any rate, and by reading the statement by the prime minister of Papua New Guinea provided to us by Mr. Taylor announcing a package of economic and financial stability measures, it seems clear that there are important points of agreement between the authorities and the staff, and it is in the interest of both parties to work together. In this context, it is encouraging to note that the National Executive Council has instructed the Budget Implementation Committee to start the immediate implementation of those measures. With these comments, I wish the authorities every success in their future endeavors.

Mr. Dragulin made the following statement:

Economic developments in Papua New Guinea were generally less encouraging in 1998, with external factors contributing significantly to this outcome. Two consecutive years with some 16 percent annual decline in export revenues seriously affected private incomes, government revenue, and the balance of payments. Three sectors–agriculture, mining, and petroleum–contributed 41 percent to GDP, while copper, gold, and petroleum brought in 57 percent of revenues. The staff report reveals that tax revenues from the mineral sector lowered the revenue ratio by over 20.5 percent of GDP in 1998. This element strongly suggests that the major challenge for the authorities, at least for the long-term—apart from the need to significantly improve macroeconomic policies—is to diversify the economy.

That said, it is equally important to admit that the course of economic policies in 1998 was not sustainable. A visible indication of this is given by the deterioration of the balance of payments position, which turned negative over the past two years. Resources have been released from the capital account on a net basis in both 1997 and 1998 to foreign creditors and to close the gap of gross official reserves accumulated during the last two years, with the staff projecting further deterioration in 1999. This reflects not only a current account problem but also a less friendly environment for foreign direct investment (FDI).

The staff report also states that new FDI project approval has declined from the equivalent of 7 percent of GDP in 1997 to 2 percent in 1998. This is telling in relation to the perception by investors of the present focus of economic and structural policies. I would also concur with the staff that the current policy mix for 1999 is fiscally unsustainable, and will sooner rather than later result in financial problems. Therefore, there is—as suggested by the staff—a need to adopt corrective fiscal and monetary policies, including a more flexible exchange rate policy and reforms aimed at improving governance, in order to restore confidence among investors and donors, turn the tide of capital outflows, and set the stage for sustainable revival of investment and growth. Against this background, the additional information which we received from the authorities, clearly reflects a positive attitude to the recommendations of the Fund. The need for further fiscal consolidation is admitted, and a major step in this direction has been taken with the decision to introduce the value-added tax soon. With adequate fiscal policy in place which could limit or eliminate the deficit, I agree with the staff that prudent monetary policy could result in currency stability, lower inflation, and growing capital inflows.

Turning to the structural problems, I welcome the steps taken to strengthen the banking regulations and supervision, and the progress made in the area of privatization.

Finally, given the authorities' commitment to speed up the reform process, I consider that an early resumption of the negotiations on a possible stand-by arrangement could be beneficial to the economy.

Mr. Rigász made the following statement:

It was heartening to learn from Mr. Taylor's preliminary statement that the authorities of Papua New Guinea have recently taken very active steps to reactivate an effective relationship with the Fund. We are hopeful that the necessary understanding can be reached quickly for the resumption of full-fledged assistance from the Fund. Although the prospect of an early and successful bond issue may ease the immediate financing pressures on Papua New Guinea, the authorities should not assume that this venture into the private capital markets can relieve them of the need for fiscal adjustment. The other side of this coin is that the present external borrowing will not only be very expensive, but, by significantly increasing Papua New Guinea's public debt, will make it harder to obtain further credit. We are therefore encouraged that the government in its statement to the Board repeats its promise to streamline the public sector and hope that the delays that have occurred up to now are the result of technical difficulties rather than a slackening of effort in anticipation of the external financing. I also welcome the government's intention of boosting development spending in order to upgrade and add to basic infrastructure from the rural areas. Providing an economic infrastructure is obviously necessary for promoting the growth of nonmining economic activity. However, the government must remain realistic in its expectations about the supply response that can immediately be expected from such spending.

Given Papua New Guinea's very large infra structural needs–according to the World Bank, for example, in 1996 only 3.5 percent of Papua New Guinea's roads were paved–the government should not try to do it all, but should seek private partners in such endeavors. Private sector involvement should not only be confined to foreign investments, but should also be seen as a source of viable business opportunities for domestic agents. According to news reports, foreign investment's focus on the minerals sector has not yet created many jobs for the locals. Some 80 percent of the population is still engaged in agriculture, mostly subsistence farming, and this has hardly changed over the past decade. Surprisingly also, total crop land represents just 1 percent of the total land area–a figure which has not changed over the past two decades.

Finally, according to the latest country report of the Economist Intelligence Unit, the economic assessment report was released to the local media, possibly in frustration that the Fund's advice was not being taken. Could the staff say whether or not this is correct.

Mr. Harinowo made the following statement:

I would like to thank the staff and also Mr. Taylor and the Papua New Guinea authorities for their respective reports and statements. I also share many views made by the previous Directors, and would like to make a brief comment on some of the issues that have been raised.

In the short run, I share the view on the importance of restoring economic stability to the country. Macroeconomic policies should be aimed at reducing inflation to a low single-digit range, replenishing the stock of reserves, and making room for adequate expansion of credit to the private sector. These objectives can be achieved by adhering to prudence in both fiscal and monetary policies. The authorities are to be commended for adopting measures in line with the suggestions made by the staff, and I encourage them to stay this prudent course.

I also concur with the staff appraisal on the need to restore the confidence of investors and donors. Enhancing transparency and accountability in the conduct of macroeconomic policies is crucial in order to restore credibility. In this particular case, fiscal management must be improved and tax reforms promptly implemented. Similarly, the financial system must be strengthened through the reinforcement of banking supervision and regulation, the management of the state-owned banks improved in order to build credibility, and sound monetary management consistently adhered to. But there are also longer-term issues that need to be addressed.

First, I am of the view that there is scope for the authorities to derive a greater benefit from the country's natural resources. To the envy of other countries, Papua New Guinea has been abundantly blessed with various natural resources such as oil, gas, copper, gold, silver, and forests. These natural resources are already in the process of being exploited. However, even though the balance of payments statistics indicate that considerable earnings pertain from the export of those resources, the funds that flow out of the country through the services account are equally significant. I would ask the staff to comment on how those investment profits are being distributed and on the degree of transparency that characterizes the negotiations. An improvement in the sharing of benefits with investors would invariably improve the fiscal and external positions. Could the Fund or the World Bank assist the authorities in improving their negotiating position?

Second, since natural resources are nonrenewable, a plan should be developed to diversify the economy. The rich forests provide opportunities to develop the wood industry, e.g. through the production of plywood and other wood products. There are endless opportunities.

Third, the country's population is fully capable of taking part in the development process provided the necessary education is made available. If financial resources can be tapped from burden sharing with investors, this will provide an opportunity to improve the overall capacity of human resources. A plan, designed with the assistance of experts, can optimize this process. With these remarks, I wish the authorities success in overcoming their challenges.

Mr. Palmason pointed out that the staff report referred to the implementation of a number of different taxes, which were all in the range of 10 to 11 percent of GDP. This might lead to a less than optimal revenue collection; rates in the range of 20 percent of GDP seemed more appropriate. Referring to staff missions to Port Moresby by the Legal Department in 1995 and by the Asia and Pacific Department in 1996, he asked whether it was Fund policy to suggest such low rates and whether perhaps renewed technical assistance was pertinent.

Mr. Sobel noted that his authorities had appreciated Box 3 in the staff report on the need for more transparent fiscal and monetary management. His chair hoped that such issues would be dealt with in this fashion more often in the future. He also asked whether the resources taxation followed in Papua New Guinea was consistent with sound environmental practices.

In response to questions and comments from Executive Directors, the staff representative from the Asia and Pacific Department, Mr. Molho, made the following statement:

> I would like to begin by updating the Board on where we stand in our recent policy dialogue with the authorities. As Mr. Taylor has mentioned, we had meetings in Washington, D.C. last week with the delegation from Papua New Guinea, which was keen to reactivate the policy dialogue. We consider this a very positive development and, in conjunction with the package of measures that were received yesterday, it clearly suggests that there is a heightened sense of urgency in Papua New Guinea and that the authorities are keen to address the problems. This is perhaps the most positive element of the newly announced package of measures.
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> On the details of the policy package, we have not yet had the time to make a full assessment, but the authorities have requested our feedback and we will be providing this in writing within the next few days. However, a few general points can be made at this point.
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> There are some positive aspects in the package, especially on the revenue side, that are in line with some of the recommendations in the staff report. In particular, there is a proposal to raise the export tax on logs and adjust petroleum prices. This is definitely a step in the right direction. However, many of these measures do not appear specific enough, and the authorities may still need to expand on them and articulate exactly how and over what time frame they will be adopted. This, together with the nature of some of the other measures on the revenue side, which focus more on tax administration, makes us question whether it would be feasible to achieve the kind of savings that is envisaged during 1999.
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> On the expenditure side, the package does not appear to address the basic problem identified in the staff report of the large gap between the government's contractual obligations and appropriated funds. The package appears to be aimed mainly at dealing with cash flow management, which may result only in expenditure arrears if it is not supported by restraint in expenditure commitments. Obviously, delaying payments is not an adjustment measure that would have lasting beneficial effects on the fiscal situation. Finally, the package envisages a substantial amount of external financing from commercial sources, which is likely to carry a high cost. In the staff report, we have questioned whether this is advisable.
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> On monetary and exchange rate policies, the measures that are envisaged in the new package do not seem to go in the direction that we have advised, and there are two main areas of concern. One is with respect to the MLAR. In effect, the government proposes to raise the MLAR by another 10 percentage points with this package. This is not what we consider to be conducive to increased confidence. In any case, as indicated in the supplement to the staff report, since the banking system as a whole has been comfortably above the MLAR, we doubt whether this will have any significant impact at the margin.

A second area that raises some concern is the proposed approach on exchange rate management. The government proposes to tighten the administration of exchange regulations, especially those having to do with leads and lags in trade settlements, e.g. by shortening the retention period of export receipts. The aim is to improve the inflow of foreign exchange. Our view is that, while in the short run there may be some positive effect in the foreign exchange cash flow, this is not a confidence-building policy. What is needed instead is a more comprehensive framework in which investors are convinced that it pays to invest in domestic financial assets. This is our preliminary reaction to the government's proposals.

The next step will be to provide our feedback to the authorities on the recently announced policy package. Then, in line with an arrangement that we discussed with Papua New Guinea's treasurer on June 4 1999, we have provided the authorities with an extensive list of information that we find necessary in order to prepare for a meaningful policy dialogue. Unfortunately, since the January 1999 mission, the flow of information has been disappointing and this, as indicated in the staff report, has hampered our ability to produce estimates that we consider reliable. Once we receive the requested information, which we hope will happen within the next few weeks, we can revisit the issue of fielding an early mission and make plans to revive the policy discussions at that point.

Let me turn to the more specific questions raised by Directors. Mr. Chelsky inquired about our assistance on implementation capacity. Our most recent technical assistance has been in the areas of bank supervision and statistics. A bank supervision expert from the Department of Monetary and Exchange Affairs (MAE) paid a number of visits to Port Moresby in 1998 and we arranged it so that the Article IV mission could overlap with his last visit.

We think that there is great scope to improve the implementation capacity within the BPNG. In our latest contacts, we have found that the main constraint often is insufficient commitment at the top management levels of some institutions. This appeared to be the case with the recent MAE technical assistance. While at the technical level BPNG officials were very receptive and welcomed the assistance, the MAE expert was not met with effective cooperation from the authorities. There was also a balance of payments statistics mission in December 1998 from PFTAC. At the time we were in Papua New Guinea, the report had been presented to the central bank, but the authorities had not yet read it. Technical assistance departments are generally reluctant to support countries that are not willing or able to devote the counterpart resources to absorb the assistance. In Papua New Guinea, this has recently been the more binding constraint.

A number of Directors, including Mr. Chelsky, suggested that the staff report may have given too little credit to the achievements of the authorities. Of course, it is often a judgment call whether the glass is half full or half empty, and I can see why this perception may have arisen. But if one looks at a more complete information package, it may become clearer why we did not want to give too much credit for some of the areas that might otherwise have deserved more credit.

To be more specific, I would like to refer to two examples. First, in the case of PNGBC, we did indeed suggest in 1998 that an independent audit be conducted, as we were seriously concerned about governance. A merger of the PNGBC with three other institutions had been arranged on a very short notice, and this had given rise to concern—including within the Fund Board during last year's Article IV discussion— given that the motives behind the transaction were unclear. Thus, it seemed advisable at the time to carry out an independent audit. The report, which has now been completed, contains advice on how to improve the internal procedures of the PNGBC. While we were grateful that the authorities made the report available to us, we were, however, still not satisfied that the governance problems were being properly addressed. When the merger of PNGBC was announced, one key concern was that this might be done largely with a view to raise funds for the government. The government, however, maintained that this was a bona fide effort to move toward privatization. In the event, it became apparent in the course of 1998 that the PNGBC operation was indeed used to transfer K100 million to the government, of which half was in extra-budgetary funds that were subsequently used to capitalize Air Niugini.

Accordingly, our concerns about governance have been borne out, given that this transaction may have resulted in an understatement of the problems in public sector finances. While the staff report highlights these aspects, they are far from transparent. The staff was also somewhat disappointed that PNGBC did not appear to be much closer to privatization than it was a year ago. One reason is that the recently approved PNGBC corporatization bill would appear not to facilitate an early privatization. There is, in particular, a clause in the corporatization bill that makes PNGBC responsible for carrying out community service obligations, thus allowing for its continued use as a vehicle for meeting the social objectives of the government. While this is not appropriate for a state-owned commercial bank in general, it is certainly also not a way to proceed toward privatization.

Finally, during the last year, and as highlighted in the staff report, PNGBC was a major contributor to the sharp expansion in credit to the non-government sector, which includes provincial authorities and non-financial public enterprises, such as Air Niugini. There was a large expansion of credit from PNGBC to Air Niugini during 1998, which did not appear to have been motivated by strictly commercial criteria, as Air Niugini was facing severe financial difficulties at the time. In these circumstances, its heavy borrowing from PNGBC heightened our concerns about governance.

The reform and privatization of public enterprises is a second area where the staff may appear to have been wary of overstating the extent of recent progress. In part, this arises from the fact that the recent progress reflects primarily initiatives undertaken after the preparation of the staff report. The supplement to the staff report clearly reports the achievements highlighted by the authorities in their statement to the Board, which include the sales of stakes in certain enterprises. While the staff report acknowledged some progress in the restructuring of Air Niugini, the supplement pointed to the risk that these may be reversed, especially if fare adjustments do not keep up with increasing costs. In this light, the staff considers the privatization of Air Niugini to be of the highest priority. By comparison, the recent sales of equity in other enterprises would seem to be of lesser economic importance, and may be more akin to financial asset operations, whose main effect is to ease the government's cash flow constraints.

On the timing of the consultation, I would like to reassure Directors that one of our greatest concerns is to set the consultation dates in agreement with the authorities. During the Annual Meetings in October 1998, the authorities expressed keen interest in having a Fund mission carry out the consultation while simultaneously reviving discussions on an adjustment program as soon as possible, subject to the proviso that it be coordinated with a World Bank mission. This is something that we try to do as a matter of course as it is very productive to have at least some overlap in the field with our counterparts from the Bank. However, as it is often difficult to plan such missions on short notice, the earliest time that we could meet the authorities' request was in December 1998. At the Annual Meetings, we accordingly reached an understanding with the authorities that the consultation would take place during the first half of December 1998. However, upon sending our proposal in writing to the authorities, they responded that the proposed dates were inconvenient, as some officials would be out of the country, and asked if we could move the dates forward. Unfortunately, it proved impossible to meet this request, in part because the World Bank would not have been able to overlap with our mission. We subsequently proposed that the mission take place in January 1999 in order to ensure that it kept within the 15-month limit of the consultation cycle. We asked the authorities to confirm that the proposed dates were acceptable, and that all the interested officials would be able to meet with a Fund mission during that period. The authorities responded positively, thus making it possible to finalize the mission dates. We accordingly did everything we could to ensure that the mission took place at a time that was convenient for the authorities.

On the question raised by Mr. Chelsky concerning exchange rate policy, there probably has been a change in emphasis in the staff's policy advice over time. In the consultation discussions of 1998, the staff had proposed a combination of tighter monetary policy and intervention to ease pressure on the kina. However, as early as in February-March 1998, when a follow-up mission visited Port Moresby, the level of reserves had declined so rapidly that we advised the authorities to tighten monetary policy and minimize any further intervention. This has been our policy advice since.

Ms. Wang asked about the sources of growth in the staff's medium-term adjustment scenario. A significant part of the problem in Papua New Guinea is the collapse in private investment, which is documented in the staff report. This is closely related to the problem of lack of confidence. If the government adopts the proper macroeconomic policies to restore confidence, there is great potential for an upturn in foreign direct investment. As other Directors noted, Papua New Guinea is blessed with natural resources that make it a very attractive place to invest, and this leads us to believe that investment could recover quite rapidly.

The rural development funds, which we have suggested that the government withdraw, are not intended for social expenditure, but rather for rural infrastructure, including the building of roads in the rural areas so as to allow farmers to bring more produce to markets. While we support this type of investment in principle, the reallocation of budgetary resources in the 1999 budget has in practice crowded out, among other items, transfers to the provinces, including subsidies for schools and health clinics run by churches and non governmental organizations. This has been reported in the press, and the authorities have confirmed that the funding for schools and health clinics has been severely affected by the budget crunch, thus impinging on social expenditure.

In response to the question raised by Mr. Rigász, it is true that our statement was released to the local press. However, this happened more than a month after the mission had returned to headquarters and completely without our knowledge. In fact, it was a cause of discomfort for us, as the statement contained frank language, including a reference to our belief that a crisis might be imminent.

In response to the question raised by Mr. Palmason, I can confirm that the tax rate proposed by the authorities for the new VAT was indeed 10 percent. The staff had recommended introducing the value-added tax at a higher rate, especially as it would be introduced at a time of severe fiscal strain. We hope that the authorities will accept our recommendation, but since they are concerned about the political feasibility, it remains unclear whether the implementation will be realized. Internal debate within the country continues, reflecting the sensitive nature of the issue.

On the issue of profit sharing, the Fund's expertise is limited, and therefore the private sector might be better placed to provide specialized advice. In some countries, at the request of the authorities, we have in the past provided comparative information on production sharing agreements in other countries, thus allowing the authorities to make a more informed assessment. As a general principle, a transparent and fair bidding procedure is applied. The more participants that bid for contracts, the better the chance that the government will be able to secure advantageous terms.

On the issue of logging sector taxation, we did express concern during our previous mission that the reduction or elimination of the tax for lower quality logs carries some risk not only for government revenue, but also for the environment. There has been evidence of excessive logging in the lower grade timber areas, which may have been partly a result of the tax reduction. The forestry sector has experienced a substantial recovery during the first part of 1999, but we do not have access to the detailed information needed to ascertain whether excessive logging is indeed taking place. However, it is reassuring to note that the government is considering raising the export tax on logs. More generally, the World Bank is carefully monitoring developments in Papua New Guinea's forestry sector in the context of its assistance program. The Bank staff therefore usually provides us with information on such matters.

Mr. Taylor made the following concluding statement:

The staff has once again been very frank, and the authorities might very possibly disagree with some of the issues raised by staff. I will reflect on whether that needs a specific response later.

It is true that, as far as we can tell, and as several Directors have pointed out, the macroeconomic situation is not too far adrift, particularly by comparison with some other countries in Asia. Unfortunately, the authorities have not been able to capitalize on this, due in part to some non-transparent and at times seemingly capricious policy announcements, and to tenuous undertones of incipient political instability. It is this situation which, in part, has brought on the need for further macroeconomic measures.

On the issue of the value-added tax, which is scheduled for introduction on July 1, 1999, much preparatory work has been put in at the technical level over a protracted period of time. I have been advised that this should be adequate to support its effective introduction, and the authorities have assured me that the timetable will be met. Assuming it is met, Papua New Guinea will be ahead of Australia in introducing an indirect taxation base. However, it remains a particularly difficult issue for the country, and political discussions are continuing with the view to reassure provincial decision-makers. Although I have no information to suggest that the tax will not be implemented, Mr. Chelsky and others are right to point to this as a critically important measure, and this is one of a number of messages that I will be passing on to the authorities immediately after this meeting.

Mr. Barro Chambrier and others asked about privatization. I will circulate the schedule that was attached to the prime minister's statement earlier this week, which gives a privatization and divestiture timetable for 10 government-owned or partially government-owned endeavors in the utilities and other areas. It is an ambitious timetable that will require a lot of effort to implement. However, it should be taken at face value, and no doubt the World Bank and other agencies will be offering support for its implementation.

Several Directors have commented on the need to build up the capacity of the administration in Papua New Guinea. This is a view that is shared by the authorities. The technical assistance evaluation, recently discussed by the Board, states that Solomon Islands has obtained 55 times as much—and Vanuatu and other Melanesian countries 100 times as much—technical assistance as Papua New Guinea on a per capita basis. While this discrepancy is due partly to more continuous presence of technical assistance in key areas, it also demonstrates that it is the country's responsibility to more aggressively and consistently seek technical assistance. Needless to say, the Fund and other donors or providers of technical assistance should then respond promptly. I hope very much that we make progress on this issue in the near future.

Finally, in relation to the question put by Mr. Harinowo and Mr. Sobel about the profitability of enterprises in the resource area and their impact on the environment, there have been ongoing difficulties with the impact on the environment of some mining operations. In recent days, there has been press speculation that a major mine may close because it is financially unable to continue operations on an environmentally acceptable basis. So, while Papua New Guinea is in some respects one of the most well-endowed countries in the Pacific, it is not quite as well-endowed as it might appear to be. The investments in infrastructure that are needed in this remarkably inaccessible country, where almost 99 percent of the territory is vertical—which, incidentally, is the reason why only 1 percent is presently being cultivated—should not be underestimated. I would like to thank Directors for the interest and concern expressed. There have been a number of very thoughtful and perceptive interventions, and I will be passing on in considerable detail what the various chairs have had to say.

The Acting Chairman made the following summing up:

Executive Directors broadly agreed with the thrust of the staff appraisal. They expressed concern about Papua New Guinea's macroeconomic situation and outlook, noting that the kina had remained under pressure, reserves were being depleted, and there was a risk of a continuing rise in the rate of inflation. While recognizing the role that a difficult external environment had played in this situation, Directors believed, nevertheless, that these problems also reflected weaknesses in macroeconomic management. Directors noted, however, that the recently announced package of economic and financial stability measures included an appropriate focus on tighter fiscal and monetary policies, and the introduction of key structural reform measures. They strongly encouraged the authorities to improve transparency and accountability, which would help boost public confidence. They recommended sustained implementation of tight macroeconomic policies, far-reaching structural reforms, and improved administration and technical management which will help reduce financial imbalances and set the stage for a sustainable increase in investment, growth, and poverty reduction.

In the fiscal area, Directors supported the authorities' efforts aimed at reducing the budget deficit. They welcomed the recently announced measures, which they hoped would contribute to an improved revenue ratio, a tighter control over expenditure, and a better allocation between recurrent and development expenditures. Noting the continuing efforts to secure financing from external commercial sources, Directors advised the authorities against borrowing at high cost.

Directors also agreed with the authorities that a tighter monetary policy is needed to bring inflation down and restore exchange market stability. They recommended that the government rein-in credit to the budget, and encouraged the authorities to increase the independence of the central bank. Given the uncertain external environment, the economy's vulnerability to terms-of-trade shocks, and the depressed level of reserves, Directors cautioned against further intervention to support the kina, except for smoothing short-term fluctuations. In the main structural areas, Directors supported the official plans to implement the value-added tax in July 1999, and encouraged the government to broaden and accelerate its medium-term program of tariff reform. In the public enterprise sector, they noted the recent progress in privatization and were encouraged by the privatization timetable announced in the authorities' economic program. They urged the authorities to develop concrete action plans for the privatization of major public enterprises.

Directors welcomed the conclusion of the external audit of the Papua New Guinea Banking Corporation and the recent strengthening of surveillance over its operations. They strongly encouraged the authorities to follow this up with further steps to strengthen the framework for the PNGBC's operations.

Directors urged the authorities to improve the coverage, timeliness, and reliability of Papua New Guinea's macroeconomic statistics, and called for continued technical assistance from the Fund.

Directors welcomed the prospects for an early reactivation of an effective and close dialogue with the Fund. They hoped that an improved track record of policy implementation, and a regular flow of information to the Fund, would pave the way for the negotiation of a possible stand-by arrangement with the Fund.

It is expected that the next Article IV consultation with Papua New Guinea will be held on the standard 12-month cycle.

Mr. Barro Chambrier suggested that, as a way to enhance relations with the authorities, the Acting Chairman could send a letter outlining the main points of the outcome of the meeting.

Mr. Taylor agreed with Mr. Barro Chambrier's suggestion.

The Acting Chairman suggested that such a letter could be sent together with Mr. Taylor's detailed report of the discussion.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/99/60 (6/7/99) and EBM/99/61 (6/8/99).

4. ESAF TRUST—GOVERNMENT OF CANADA—BORROWING AGREEMENT—AMENDMENT

The International Monetary Fund, in its capacity as Trustee of the Enhanced Structural Adjustment Facility Trust, approved the amendments to the Borrowing Agreement between the government of Canada and the International Monetary Fund, as Trustee of the ESAF Trust, which became effective on May 9, 1995, as set out below, and authorizes the Managing Director to take such action as is necessary to conclude and implement the amendments.

(i) In the sentence of the preamble of the Borrowing Agreement between the government of Canada and the International Monetary Fund as Trustee of the ESAF Trust, "SDR 400 million" shall be substituted for "SDR 200 million."

(ii) Paragraph 1(a) of the Borrowing Agreement shall be amended to read as follows:

"The Trustee may make drawings under this agreement at any time during the period from the effective date of this agreement through December 31, 2003, upon giving the government of Canada at least 5 business days (Washington, D.C.) notice, provided that the total drawings may not exceed the equivalent of SDR 200 million until April 1, 2000." (EBS/99/87, 6/2/99)

Decision No. 11983-(99/61) ESAF, adopted
June 7, 1999

ATTACHMENT

Enhanced Structural Adjustment Facility:
Borrowing Agreement with the Government of Canada

I have been authorized to propose on behalf of the International Monetary Fund (the "Fund") as Trustee of the Enhanced Structural Adjustment Facility Trust (the "Trust") that the government of Canada agree to lend to the Fund as Trustee for the purpose of providing resources to the Loan Account of that Trust, in accordance with the terms of the Instrument establishing the Trust (the "Instrument") adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended. The amount of the loan is to be the equivalent of SDR 400 million and the terms and conditions of this loan shall be as follows:

1. a. The Trustee may make drawings under this agreement at any time during the period from the effective date of this agreement through December 31, 2003, upon giving the government of Canada at least five business days (Washington, D.C.) notice, provided that total drawings may not exceed SDR 200 million until April 1, 2000.

b. If any installment of principal or interest is not paid to the government of Canada within a period of ten days after its due date, the Trustee shall not make further drawings under this agreement pending consultations with the government of Canada on the matter. However, the Trustee may resume drawings under this agreement once arrears to the government of Canada have been discharged.

2. a. The amount of each drawing shall be denominated in SDRs. Unless otherwise agreed between the Trustee and the government of Canada, the amount shall be paid, on the value date specified in the Trustee's notice, by transfer of the equivalent amount of U.S. dollars or SDRs by the Bank of Canada to an account specified by the Trustee. Upon receipt of the saTrustee's notice by the government of Canada, the Bank of Canada shall promptly advise the Trustee of the media to be used for the transfer.

b. Upon request, the Trustee shall issue to the government of Canada a nonnegotiable certificate evidencing its claim on the Trust resulting from a drawing outstanding under this agreement.

3. a. Each drawing shall be repaid in ten equal semiannual installments beginning five and one-half years and ending ten years after the date of the drawing. Repayments by the Trust shall be made on the relevant maturity date.

b. By agreement between the government of Canada and the Trustee, any drawing or part thereof may be repaid by the Trustee at any time in advance of maturity.

c. If a drawing matures on a date that is not a business day of the Fund, the maturity date shall be on the preceding business day.

4. a. Interest on the amount outstanding in respect of each drawing shall be computed at an annual rate determined by the Trustee at the time each drawing is made and at intervals of six calendar months thereafter, from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, on the business day of the Fund referred to in paragraph 8, as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month interbank rate in Germany,
- the midpoint between the bid and offered rate on six-month Treasury bills in France,
- the average rate for newly issued bank CDs in Japan with a maturity of between 150 days and 180 days,
- the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day.

The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places.

b. The amount of interest payable in respect of each drawing shall be calculated on an actual day basis and shall be paid on all outstanding drawings under this agreement promptly after June 30 and December 31 of each year.

5. a. Payments of principal and interest shall be made in U.S. dollars or in other media as may be agreed between the Trustee and the government of Canada.

b. Payments in U.S. dollars shall be made by crediting the amount due to the account of the Bank of Canada at the Federal Reserve Bank of New York, New York. Payments in SDRs shall be made by crediting Canada's holdings account in the Special Drawing Rights Department. Payments in other currencies shall be made to an account specified by the government of Canada.

6. a. The government of Canada shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1, or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

b. The transferee shall acquire all the rights of the government of Canada under this agreement with respect to repayment of and interest on the transferred claim.

7. At the request of the government of Canada, calls on its commitment to meet drawings may be suspended temporarily at any time prior to June 30, 2003, subject to the provisions of Section III, paragraph 4(b) and (c) of the Instrument.

8. Unless otherwise agreed between the Trustee and the government of Canada, all transfers, exchanges, and payments of principal and interest shall be made at the exchange rates for the relevant currencies in terms of the SDR established by the Fund for the third business day of the Fund before the value date of the transfer, exchange or payment.

9. If the Fund changes the method of valuing the SDR, all transfers, exchanges, and payments of principal and interest made three or more business days of the Fund after the effective date of the change shall be made on the basis of the new method of valuation.

10. Any question arising hereunder shall be settled by mutual agreement between the government of Canada and the Trustee.

If the foregoing proposal is acceptable to the government of Canada this communication and your duly authenticated reply accepting this proposal shall constitute an agreement between the government of Canada and the Trustee, which shall enter into effect on the date the Trustee acknowledges receipt of the communication by which the government of Canada notifies the Trustee of the completion of the required legislative procedures.

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/99/82 (6/4/99), by Advisors to Executive Directors as set forth in EBAM/99/82 (6/4/99), and by Assistants to Executive Directors as set forth in EBAM/99/82 (6/4/99) is approved.

APPROVAL: May 14, 2001

SHAILENDRA J. ANJARIA
Secretary