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Minutes of Executive Board Meeting 96/47

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Executive Board Attendance

S. Fischer, Acting Chairman
A. D. Ouattara, Acting Chairman
P. R. Narvekar, Deputy Managing Director

Executive Directors

A. A. Al-Tuwaijri
M.-A. Autheman
L. E. Berrizbeitia

I. Clark
B. S. Dlamini

K. P. Geethakrishnan

J. E. Ismael

A. Kafka
W. Kiekens

Y.-M. T. Koissy

K. Lissakers

C. Saito
S. Schoenberg

E. Srejber
D. V. Tulin

E. L. Waterman
J. de Beaufort Wijnholds

Alternate Executive Directors

S. M. Al-Turki
A. Fayolle
V. J. Fernández
A. Galicia-Escotto, Temporary
C. K. Duenwald, Temporary
Y. Patel, Temporary
T. Berrihun, Temporary
J. Shields
J. W. Dagustun, Temporary
H. B. Disanayaka
R. Kannan, Temporary
J. C. Martinez Oliva, Temporary
L. M. Cheong
R. F. Cippa, Temporary
H. Kaufmann, Temporary
A. Calderón
J. Prader
J. Jonáš, Temporary
D. A. A. Daco, Temporary
H. A. Barro Chambrier
S. N'guiamba, Temporary
B. S. Newman
M. W. Ryan, Temporary
T. Fukuyama
Y. Tahara, Temporary
M. Daïri
S. Rouai, Temporary
A. G. Zoccali

Y. Y. Mohammed
T. K. Gaspard, Temporary
B. Andersen
A. Vernikov, Temporary
E. Kouprianova, Temporary
J.-H. Kang

Han M.

L. Van Houtven, Secretary and Counsellor
G. Walton, Assistant

Also Present

IBRD: A. M. Mansoor, Central Africa and Indian Ocean Regional Office; A. Diz and A. Swoboda, Independent Panel Members. Administration Department: J. L. Godfrey. African Department: E. A. Calamitsis, Director; R. O. Carstens, J. A. Clément, P. Dhonte, U. Fasano, R. A. Franks, M. Oumi. External Relations Department: S. J. Anjaria, Director. Fiscal Affairs Department: T. M. Ter-Minassian, Deputy Director; P. S. Heller. Legal Department: J. M. Ogoola, H. N. Schiffman. Monetary and Exchange Affairs Department: M. Guitián, Director; V. Sundararajan, Deputy Director; P. T. Downes, E. Feldman, O. E. G. Johnson, H. Mehran, E. A. Milne, A. B. Petersen, P. J. Quirk, T. Yoshimura. Policy Development and Review Department: J. T. Boorman, Director; J. Ferrán, Deputy Director; H. W. Bredenkamp, T. Nakao, R. H. Nord, S. M. Nsouli. Research Department: M. Mussa, Economic Counsellor and Director; T. Ito. Secretary's Department: R. H. Munzberg, Associate Secretary; W. S. Tseng, Deputy Secretary; A. Mountford, M. J. Papin. Southeast Asia and Pacific Department: K. Saito, Director; M. R. Kelly. Statistics Department: J. B. McLenaghan, Director; R. A. Elson, H. Kuwahara, R. Pownall. Western Hemisphere Department: A. S. Linde, F. van Beek. Office of the Managing Director: S. Sugisaki, Special Advisor; D. Burton, J. Prust; Office of Internal Audit and Inspection: E. Brau, Director, A. Coune; Office of Budget and Planning: N. H. Bradshaw, R. C. Carey, E.-A. Conrad, C. S. Lee, H. Wiesner. Advisors to Executive Directors: P. Cailleteau, S. S. Farid, He J., K. M. Heinonen, G. Iradian, J. John, J. Justiniano, M. H. Mahdavian, M. F. Melhem, G. Mucibabici, S. O'Connor, T. Oya, M. Petrie, R. von Kleist. Assistants to Executive Directors: S. Arifin, R. D. Bessone Basto, P. I. Botoucharov, J. A. Costa, J. C. Estrella, L. Fontaine, S. Fukushima, D. Giga, M. Giulimondi, C. M. Gonzalez, A. Guennewich, D. S. Hakura, A. M. Koulizade, K. Kpetigo, T.-M. Kudiwu, D. G. Loevinger, I. Moon, Ng C. S., A. Ruocco, V. Trivedi, M. Yiu.

1. REPORT BY FIRST DEPUTY MANAGING DIRECTOR

The First Deputy Managing Director said that he wished to report on his recent travel to Singapore to attend the twenty-fifth anniversary of the Singapore Monetary Authority, to Oxford, England to attend a conference of the Institute for International Finance, and to Basle, Switzerland to attend a meeting of the Bank for International Settlements.

For his visit to the Monetary Authority of Singapore, he had been invited to deliver the keynote address, entitled "Central Banking: The Challenges Ahead," the First Deputy Managing Director said. The address focused on the main challenges for Singapore, including reducing inflation and maintaining a sound financial system. The conference was attended by central bankers and central bank governors, mainly from the region, but also from Europe and the United States. Coincidentally, the President of the World Bank was also in Singapore. Following the conference, meetings were held with the Minister of Finance and the Prime Minister to discuss recent economic developments in Singapore.

The conference of the Institute of International Finance in Oxford covered a variety of issues, including maintaining a sound financial system and progress in the implementation of structural measures in response to the Mexico crisis, the First Deputy Managing Director remarked. The most notable session of the conference was the one in which Mr. Nigel Wicks of the United Kingdom presented an outline of the Group of Ten report on work-out procedures, including the possibility that the Fund would be willing to lend to governments in arrears on their external or internal debt. Private sector participants, who were widely represented at the conference, thought that the Fund's willingness in that regard would be a definite setback to the cause of international capital markets. There was a lively discussion in which officials expressed the view that the debt burden had to be shared, and that the private sector should recognize that, in extreme instances, it would be necessary to restructure lending operations in a reasonable and orderly manner. On the whole, the conference was considered a success. It was clear that the Institute of International Finance, which had added mutual funds and other capital market players to its membership, was building itself up as a major representative of the private sector in international financial markets.

At the Oxford conference, he had also been able to meet with the Deputy Prime Minister of Poland, the Governor of the Central Bank of Hungary, and with the Minister responsible for coordinating economic policy in the Turkish government, the First Deputy Managing Director added.

The third set of meetings took place at the Bank for International Settlements (BIS) in Basle, the First Deputy Managing Director remarked. The meetings were concerned with the coordination of technical assistance to the countries of the former Soviet Union. In the past, those meetings had typically only been attended by the donor or contributing central banks, but for the second time, representatives from 15 recipient central banks had also been invited. The contributing central banks appeared content with the current framework for the meetings, although it was clear that the coordinating mechanism was costly.

The first of two meetings, which had been organized by the Fund, was remarkably successful, the First Deputy Managing Director said. It began with a discussion by the donors on likely developments over the next few years. Most countries were willing to maintain the level of technical assistance support they were now providing. However, one or two countries

were projecting cutbacks in their technical assistance activities. The second meeting focused on a review of the macroeconomic situation in the countries of the former Soviet Union.

Participants, from both the donor and recipient governments, were extremely happy with the meetings, the First Deputy Managing Director remarked. It was clear that a great deal of progress had been made in reducing inflation and in achieving stronger growth performance in the countries of the former Soviet Union. Participants also noted the increased effectiveness of the dialogue with the central banks of recipient countries. Yet another cause of satisfaction was the fact that the coordinating process had clearly worked.

2. EVALUATION OF TECHNICAL ASSISTANCE PROVIDED BY MONETARY AND EXCHANGE AFFAIRS DEPARTMENT—REPORT BY INDEPENDENT PANEL

The Executive Directors considered a report by the independent panel evaluating technical assistance provided by the Monetary and Exchange Affairs Department (EBS/96/15, 1/26/96; Cor. 1, 2/6/96; and Sup. 1, 2/6/96).

The staff representative from the Monetary and Exchange Affairs Department (MAE) made the following statement:

The external evaluation report (EBS/96/15, 1/26/96; and EBS/96/15, Sup. 1, 2/6/96) is well balanced and contains recommendations that will be used in strengthening the work of MAE in the technical assistance area. This statement has been prepared in order to inform the Board of steps MAE intend to take in response to the recommendation of the report, as well as to elicit Board guidance on how best to implement some of the Panel's recommendations.

Looking ahead, the report properly points to a prospect for some tapering off of certain technical assistance activities. This can indeed be expected as the demand from transition economies for basic institution-building is met. But it should be noted that more than half of MAE's technical assistance goes to other members. Much of this technical assistance is revolving because of the continued need to help member central banks adapt their policy instruments and structures to the evolution of markets. Technical assistance needs of this nature will likely arise in transition economies as well, as they proceed with their reform efforts. Also, in this context, a sizable share of MAE's technical assistance consists of advice on the structural and institutional aspects of monetary and exchange policies. The close linkage of this assistance with Fund advice on economic policy management in general calls for its incorporation into surveillance and use of Fund resources discussions, a process that is already under way.

The report argues coherently that there is room for reconsidering the scope of technical assistance provided by MAE. The views expressed in the report on the appropriate scope of MAE's technical assistance, however, are too confining. In the last few years, technical assistance subject coverage expanded partly in response to the needs of countries in transition for assistance in a range

of concomitant reforms to foster market-based monetary management. Some of these needs have been or are being met, so that a reexamination of the focus of MAE's technical assistance is warranted.

The rationale for MAE technical assistance involvement in several reform areas is clear from the Board discussion last March 11, 1996 of the paper, "Bank Soundness and Macroeconomic Policy" (SM/96/40, 2/12/96; and Sup.1 and Sup. 2, 2/23/96). MAE involvement in banking supervision, payments system, and accounting derives from their macroeconomic and technical linkages to our work in the monetary and exchange areas, and supports the effectiveness of members' economic and financial policies, including those undertaken in the context of stabilization programs. The principle laid out by the report, e.g., to ensure an appropriate scope of technical assistance, is valid, however, and MAE does not intend to build up extensive "in-house expertise" in areas of peripheral interest from the IMF's perspective. MAE's input in these areas, as the report points out, should be one of coordination. Coordination, however, will require that the staff is sufficiently knowledgeable on the subject to be able to identify what needs to be done, and to call upon the right experts from the cooperating central banks, as well as to assess the completed work.

There is a continuing need to integrate technical assistance with macroeconomic policy advice in general. This process has already started, as evidenced by recent Board papers (such as, in addition to the document mentioned above, those on indirect instruments of monetary policy and capital account convertibility), and by the evolving role of structural policies in surveillance and Fund program discussions. The latter reflects, in part, an increasing use of technical assistance inputs in the design of Fund programs. Also, the observation in the report on the need to better integrate technical assistance advice on monetary management with advice on exchange management is a valid concern which is being addressed by ensuring that MAE missions' terms of reference and reports reflect the linkages between monetary and exchange operations.

An area where there is scope for improvement, well identified in the evaluation report, is the need for strengthened procedures for monitoring and evaluating long-term experts. This is a need felt in MAE for some time, calling for enhanced expert monitoring and evaluation in order to better integrate experts' advice within well-formulated technical assistance programs.

With greater integration into a broader technical assistance framework, and, by implication, into program and surveillance work, the selection and monitoring of experts becomes of increasingly critical importance. In this regard, professional competence, of course, remains the prominent consideration to ensure that selected experts, besides sharing the objectives of the program, have the appropriate skills and experience for assisting in the implementation of the programs' policies. Through an extended briefing period in Washington and regular back-up staff support, it will be ensured that the technical advice given in the field remain in line with the policy and reform context underlying the technical assistance framework. There is significant scope for a strengthening of

technical assistance delivery this way. This will entail strengthening expert accountability to the Fund, which may raise complex issues, as typically the long-term experts assigned by MAE are "responsible entirely to, and under the sole direction of, the requesting institution" (EBAP/63/111, 10/18/63). While this arrangement has been implemented flexibly in individual cases to ensure technical assistance effectiveness, it may be necessary for the staff to bring the issue of expert accountability to the Board at a future date.

The observations in the report concerning the expert roster and the matching of experts with specific needs are pertinent, indeed. In response, means will be sought to further improve systems in this area. As to the role of the recipient institution and country authorities, their influence in the setting of terms of reference will be increased. With regard to the matching of the appropriate expert to the mutually agreed need, though, the Fund should retain the responsibility.

Balance between long-term and short-term expert advice is difficult to strike, and the appropriate mix will vary from country to country. In relatively developed central banks, where advice is sought on specific issues, short-term expert visits will typically be indicated, whereas in transition economies or in developing central banks where operational support and skill transfer are the primary goal, a resident or peripatetic advisor may prove indispensable in providing continuous hands-on expertise. As countries move from design of structural reform to its implementation, this mix will shift, making continuous review of this matter necessary.

The evaluation report contains recommendations regarding monitoring of progress of technical assistance programs and conditionality. These suggestions merit exploration, although they may only be relevant to comprehensive or longer-term programs of assistance. An important question here is how formal such an approach should be. Substantive aspects have already been incorporated in many comprehensive technical assistance program cases, where detailed action plans of reforms for each area of central banking have been drawn up, and agreement reached with the authorities on a specific timetable of technical assistance inputs in support of the action plan. There may be a need to strengthen this approach. A related issue is how to assess the authorities' commitment, which the report rightly stresses as being paramount in ensuring success of the technical assistance effort. The staff will here need to look closely at the authorities' record of implementation before committing additional resources. Board views on these interrelated issues would be helpful.

The suggestion made in the report on the need to increase the training component of technical assistance deserves further reflection. In this regard, though, it is unclear whether MAE is currently well placed to carry this activity beyond what it is already doing; for example, in the context of its technical assistance workshops, and as a catalyst and coordinator for other institutions (such as cooperating central banks) which are better equipped to do the training. In FY 1996, MAE delivered 14 technical assistance workshops on a variety of specialized central banking topics. These workshops combine technical

assistance and training, by bringing together a group of officials in a region to discuss common structural and implementation issues, and also review country experiences and general principles to facilitate problem solving. MAE execution of training projects funded by the European Commission TACIS program in the Central Bank of Russia and forthcoming in the National Bank of the Ukraine are good examples of the IMF's role as coordinator in the training area.

The evaluation paper contains a few references to presentational aspects of technical assistance reports. Many of them reflect that the reports, in effect, address two audiences: (i) top country management, with relatively general policy advice needs; and (ii) technicians, with directly applicable technical advice requirements. Efforts will be made to strike an appropriate balance, with a judicious use of technical appendices, and to better enforce internal guidelines for short and concise reports.

Mr. Mohammed, speaking on behalf of Mr. Shaalan, made the following statement:

I am pleased to note that the general findings of the independent panel confirm the high quality of MAE technical assistance, as well as its relevance and general usefulness, although I must say that I for one did not doubt that from the outset. Before commenting on the findings and recommendations of the report, I have two interrelated general observations.

My first observation is that this evaluation adds little to the general findings of the review of Fund technical assistance that was discussed by the Board in February 1994. Since the terms of reference of the report under discussion today were adequately specific, the reason for this outcome appears to be the method chosen by the independent panel for the conduct of the evaluation. The survey of a large number of cases of technical assistance in a wide ranging manner could, by definition, only lead to general insights on the process as a whole rather than to a detailed assessment of the quality and effectiveness of MAE's assistance. A careful reading of the terms of reference should, in my view, have led to the selection of the alternative method considered by the panel, namely the in-depth examination of a smaller sample of individual cases of technical assistance to central banks and the careful review of the quality and relevance of the assistance as well as an evaluation of the resultant institution-building and skill accumulation. However, I should also note that the last sentence in the terms of reference, namely, that "the findings are not intended as an assessment of the technical assistance activities of MAE as they relate to any individual country," could have effectively discouraged the choice of this method despite its suitability. In this connection, I would also point out that the method of evaluation should have been decided upon prior to the selection of the panel members and not the other way around since this has an important bearing on the skills needed for the evaluation.

My second general observation is closely related to my first. In my view, the Board should have been involved in all the stages of this exercise, namely the selection of the Fund activity to be evaluated, the approval of the terms of reference, and the decision on the method of evaluation. I am not sure that the

Board would have accorded the highest priority to the evaluation of MAE's technical assistance, as opposed to other areas that may have a higher priority.

Turning to the specific findings and recommendations of the panel, I have the following comments:

First, one of the important issues which have been revisited by this Board time and again has been how to prioritize or ration the technical assistance that the Fund provides. The panel suggests some form of conditionality based on demonstrations of commitment, including past performance in implementing technical assistance. This issue was extensively discussed on the occasion of the 1994 technical assistance review, and the difficulties of defining precise conditionality were duly noted. I would agree with the staff that we have already incorporated substantive "commitment" conditions in many comprehensive technical assistance program cases. During the past few years, we have had in place what I believe is a successful informal system where a decision on the provision of technical assistance is decided upon cooperatively between the area departments and the technical assistance departments. Formalizing this approach could lead to unnecessary inflexibility. I would also add here that we need to distinguish between "institution-building" assistance and "policy" assistance when we deal with this issue. I can agree to the importance of advance demonstrations of commitment by the authorities in the former type of assistance. However, I have reservations on the suitability of requesting such demonstrations with regard to the latter. In the case of technical assistance for policy advice, clearly it would not be advisable, or even acceptable, to request an advance commitment by the recipient authorities to implement the, as yet unknown, recommendations of a technical assistance mission. I stress this because it has come to my attention that there have been instances where such requests of advance commitment to implement policy recommendations have, in fact, been made.

Still on prioritization, I would note here that it is not clear what procedure the report is endorsing for the initiation of technical assistance requests and for the ultimate decision to go ahead. Footnote 16 on page 42 suggests that having the initiation of technical assistance programs take place through contacts with area departments in the context of annual consultations or program discussions may be rather cumbersome and slow. This contradicts the findings of the 1994 technical assistance review which found that increased cooperation between area departments and other technical assistance departments in the identification of technical assistance needs had, in fact, led to better prioritization and to a better 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 points for technical assistance, with MAE considering the requests only after the recommendation of the area departments. I feel that this is the right 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.

Second, and closely related to the issue of prioritization, is the avoidance of unnecessary duplication of technical assistance through better coordination with other institutions, especially the World Bank. The report points to the need for improvement in this area, but does not put forward concrete recommendations. Given the tight budgetary constraints that the two Bretton Woods institutions are facing, and the Board's call for more effective coordination of technical assistance programs on the occasion of the 1994 technical assistance review, clearly more attention needs to be paid to this issue.

Third, I would agree with the emphasis placed on the critical importance of monitoring the work of experts and of following up the implementation of recommendations. Improved and more systematic procedures in this area are called for. I would also note in this connection, that the 1994 review had pointed to the human resource constraints that served to reduce the availability of staff resources for technical assistance functions. Unfortunately, today's report does not address the issue of resource constraints and the extent to which they are affecting the level of monitoring by MAE, although it did make a general recommendation for "increased attention to monitoring and control of experts in the field." Closely related to this point is the follow-up on the implementation of technical assistance advice. The Board stressed its importance on the occasion of the 1994 technical assistance review when it pointed to the need to devote sufficient resources to such follow-ups. It would, therefore, have been useful if the present study had evaluated the adequacy of MAE resources directed to both technical assistance monitoring and follow-up.

Fourth, on the assessment of the quality of advice given, which must be at the core of any evaluation of technical assistance, I note with concern the independent panel's finding that there have been cases of inconsistencies in the advice given in the areas of monetary and foreign exchange management. Clearly this is a serious matter that suggests the need for more in-depth follow-up. Of course, it also brings us back to the importance of assuring adequate monitoring and assessment of technical assistance.

Fifth, the panel's suggestion to "consider the 'privatization' of certain activities like assistance on foreign exchange management, information technology, computer or language training' (p 39), confused me somewhat. While I can understand that MAE would provide technical assistance in foreign exchange management, I was surprised to learn that they were also providing assistance in those other areas. I would appreciate clarification by the staff.

Mr. Shields made the following statement:

I was disappointed by this report. Its observations and recommendations seem in general sensible—notwithstanding the rather defensive staff statement—but at \$300,000 it seemed poor value for money. This reflected the procedure adopted. I shall therefore focus here on the process of evaluation rather than on the content of the report.

I do nevertheless look forward to our discussion on technical assistance. This will be our first opportunity to do so since February 1994: a long gap. Technical assistance occupies 10 percent of Fund staff time and is our principal service to many Fund members. We should perhaps consider whether to have more regular scrutiny by the Board.

The report adopted a "top down" approach to evaluation. It was undertaken by prominent outside experts who were given a broad remit. They specified their own criteria; designed their own approach; did the field work themselves; and concluded with a set of broad judgements and recommendations. By their own admission, however, they "did not feel sufficiently expert in all fields of central banking to enable them to undertake an in-depth detailed examination of all aspects of an individual country's experience."

This approach gives the appearance of objectivity and well-roundedness. But it is no substitute for self-evaluation, which could have made available to the experts detailed information from the department and hence permitted more detailed recommendations. Far better would have been a process which started genuinely "from the bottom up" in terms of the Department's own work and evaluation; and was then subject to external review.

I was surprised that the considerable experience in evaluating technical assistance of the World Bank and other international agencies was not utilized. These bodies would generally have called upon a professional evaluator to supervise methodology.

I would like to see formal self-evaluation become an integral part of the Fund's work (see Annex for how this might apply to MAE). Self-evaluation would involve continuous collection of evidence on the quality and relevance, as well as the cost of the Fund's activities. With such information, the staff could continuously judge the effectiveness of their own operations. They could then seek and implement improvements quickly. One consequence would be that, when external evaluation was considered necessary, outside experts could build on quantified internal material and concentrate particularly on whether the process of self-evaluation and follow-up needed to be amended. This would be particularly relevant to technical assistance.

Of course, if there were more of a purchaser/provider relationship between area and technical assistance departments, these issues would be even clearer; purchasing departments might also want to commission external evaluations themselves.

As regards an assessment, this evaluation clearly suffered from lack of the right infrastructure for self-evaluation. It also suffered from vague terms of reference, leading it to range too widely and to lack the sort of clear focus we would expect. It provided us with no quantification of the effectiveness of technical assistance or relative costs. And it did not seem to reflect formal internal assessments. Whilst its recommendations nearly all seemed sensible, I

suspect that the same suggestions could have emerged from a few no-holds-barred meetings with the staff, management and Executive Directors here.

As a consequence, the evaluation exercise does not seem to have provided good value for money. Despite the extensive visits to recipient countries, I could not identify many penetrating observations (or pieces of hard evidence) that emerged from them. Nor was the sample tested. The recommendations in the report also did not discriminate effectively between the different types of technical assistance or the types of countries visited (there seemed disproportionate coverage of transition economy issues).

I particularly regretted the lack of any in-depth study of individual assignments or recipient country experience and any consideration of whether technical assistance assignments generated spurious additional demand for technical assistance.

On the report recommendations, I have just two points for the moment. First, after our recent discussion on banking soundness, it is clear that the Fund must have interest and expertise in banking regulation and supervision, although central bank staff should continue to provide much of the technical assistance to recipient countries. Second, as long as there is no price allocation mechanism for technical assistance, detailed evaluation is the only way to judge whether benefits outweigh costs. It is however very much second-best. This report does not tell us whether some technical assistance is currently of negative net benefit. Another consequence of the lack of a pricing mechanism is that MAE will have to continue to deal with excess demand; I assume that any slowness in response to requests is a form of queuing mechanism.

As to the self-evaluation approach applied to MAE, taking MAE as an example, self-evaluation would require that: (i) each mission, expert or staff coordinator would report at the time on the quality, cost-effectiveness and impact of each technical assistance assignment (perhaps using "benchmarks" as recommended). Gradings would be given. Monitoring and annual inspections would ensure consistency in assessment; (ii) all self-evaluation reports would be reviewed collectively by the department at least once a year (probably at the beginning of the budget exercise). This exercise would confirm any adjustments to approach that have been considered. It would also help in the modification of resource requests. Area departments would be consulted formally; (iii) if serious deficiencies were revealed, the department would consider an external evaluation by the staff from other departments and/or external experts. Terms of reference would be clearly focused on specific issues of concern; (iv) if Management or the Board felt that a more independent external evaluation was appropriate, the Board would determine whether it was a priority issue, set the terms of reference for the evaluation and receive and debate the report. (An Evaluation Unit would have been an efficient way of arranging this); (v) evaluations would be expected to result in short reports, including quantified recommendations. These would be supported by detailed appendices, based on self-evaluation and cost comparisons.

Mr. Wijnholds made the following statement:

I welcome the thorough evaluation of the technical assistance provided by, or given under the guidance of, the Monetary and Exchange Affairs Department (MAE). The excellent evaluation report, prepared by three eminent outside experts, appropriately recognizes the indispensable role of technical assistance in the area of MAE expertise in supporting central banks in member countries, and in facilitating an efficient implementation of Fund-supported adjustment programs. I fully agree with the papers' basic findings, namely that, first, technical assistance provided or coordinated by MAE has been found to be very useful to recipient country institutions, and second, its relevance and quality have made a measurable contribution to the countries' efforts at structural reform in central banking and financial markets, and to their ability to cooperate with the Fund. In addition, the enlarged training component of technical assistance has been found valuable for increasing the recipients' absorptive capacity.

Let me now address some of the more specific issues raised in the report and the staff's comments. I broadly agree with the independent Panel's conclusion that after a period of rapid increase of the volume and the scope of technical assistance offered by MAE, there are prospects for a tapering off of certain activities. In fact, the experience and development in many of the countries in my constituency indicates that the demand for basic institution building has been generally met. Demand has shifted toward more targeted advice and assistance in specialized areas, and closely follows the evolution of financial markets in the members' countries. The staff rightly reminds us, however, that more than half of MAE's technical assistance goes to developing countries and that it therefore contains a considerable revolving element. Nevertheless, I believe that also for such countries a process of long-term graduation from a strong reliance on technical assistance should be kept in mind.

As regards the focus of MAE's technical assistance, it is clear that with the evolution of financial systems and the sophistication of the domestic financial markets, MAE support should become and is becoming more targeted and more specialized. In addition, the constantly changing scope of technical assistance, which covers a great diversity of fields, requires Fund management and MAE staff to re-examine the relevance of different activities on a regular basis. As the appropriate scope of technical assistance can be expected to continue to change over time, I fully share the view that MAE should not build up extensive 'in-house expertise' in areas of peripheral interest for the Fund.

An issue closely related to the focus and scope of technical assistance is the appropriate set of instruments of assistance delivery. Like the volume and the scope of technical assistance, the instruments of assistance have expanded and diversified substantially, both in duration and means. Having in mind the shift of demand to more specialized advice and the frequent "recipients' fatigue," however, I share the view that the usefulness and the value added of the so-called 'comprehensive, multi-purpose missions' has substantially diminished.

At the same time, recent experience shows an enhanced interest in requesting long- and short-term experts and specialized topics missions. Last, but not least, seminars and workshops among a wider audience (especially in the transition economies) seem to be particularly useful in increasing understanding of financial and monetary policy issues. I was pleased to see that the staff agrees with the recommendation that continuous review of the delivery process is necessary.

Another important issue observed by the independent Panel is that the MAE Department appears to have encountered its greatest challenges and difficulties in the monitoring and controlling the implementation of its recommendation. The general impression gained by the Panel is that there is room for improvement in this area, and it appropriately raises the question concerning the costs and efficiency of the technical assistance effort. In my view, Fund technical assistance in general, and MAE assistance in particular, possesses some of the characteristics of a public good available in principle on demand and at nominal cost. Effectiveness and cost efficiency, however, should still be among the most important criteria for its availability. Monitoring should therefore be seen as an essential ingredient of the process of technical assistance. The Panel makes some suggestions in this area, such as the use of benchmarks and time limits, as well as the development of 'standard' cost ranges. These are interesting ideas which deserve a closer examination. I would, however, wish to caution against relying too much on a quantitative approach, which could lead to quasi-precise outcomes and could be overly bureaucratic.

I also have some of these concerns as regards the Panel's recommendation of introducing formal conditionality for technical assistance. Suggestions include a 'Letter of Intent on technical assistance,' containing cost estimates of the project and the expected overall time horizon, a rudimentary 'tranche policy' and commitments in terms of dates for the initiation or termination of particular actions. Such a formal approach would strike me as rather inflexible and bureaucratic. As the staff indicates in its statement, there already is some 'de facto' conditionality as regards technical assistance at present. I am concerned that a too formal approach will tend to delay the delivery of urgently needed technical assistance. Of course, if countries make very poor use of technical assistance, the Fund should not continue with such support indefinitely. If the staff were to come to the conclusion that the recipient authorities clearly lack commitment to implement the Fund's technical assistance, it should reduce its efforts after careful consideration and after consultations, including with the Executive Director representing the country concerned.

The Panel has also pointed to the matter of coordination, both within the Fund and with other providers of technical assistance. Since I cannot judge this matter, I would be interested to hear management and staff's views on the possible need for greater internal coordination within the Fund, especially between MAE and FAD. Let me add here that I do not see a particularly clear role for the Research Department in the area of technical assistance in a broad sense, as suggested by the Panel. As regards the coordination of technical assistance with other donors, I recall from personal experience that there were

considerable problems in this area a number of years ago, but had the impression that matters had much improved through intensified contacts with other bodies. Indeed the Panel compliments the Fund, and MAE in particular, for its role in bringing about coordination of donors in technical assistance in the central banking field. Having in the past participated in coordination meetings chaired by the then Deputy Managing Director of the Fund in Basle, I can certainly endorse that view. Incidentally, I was a little surprised that in lauding the Fund's excellent collaboration with other agencies, the Panel mentions (only) UNDP by name. Apparently coordination with the World Bank is sometimes still a problem. On page 32 of its report, the Panel expresses concern over occasionally conflicting advice on exchange rate policy, though adding that this is more a matter of general policy advice. Comments on this matter would be appreciated.

Finally, a few words on presentation. Striking the right balance between comprehensiveness and clarity in writing mission reports is quite a challenge. The Panel's observation that while the reports are mostly of high quality, they "may attempt to be too many things to too many people," seems to be acknowledged by the staff in noting in its statement that the reports in effect address two audiences. I believe that this approach carries the risk that in particular top-level policy makers will make insufficient use of such reports, which they quickly will find too long and too technical. The staff's intention to make (more) use of technical appendices and to enforce the writing of short and concise reports therefore has my full support.

Mr. Clark made the following statement:

Before addressing specific issues in the report, I must congratulate the authors for producing such a well organized and clear document. Particularly impressive is the explicit presentation of the structural approach to the evaluation: the scope of the review (especially the focus on procedures rather than the specific policy advice of the technical assistance), the methodology for acquiring and processing information, and the analytical framework centered on the dimensions for quality measurement and the criteria for evaluating assistance (relevance, effectiveness, and efficiency). The application of this structural approach to the findings of the review and in the assessment of these findings provide a necessary sense of direction to the suggestions, recommendations and conclusions with regard to MAE's technical assistance. The high quality and strong focus of this report vividly illustrates the value of an independent evaluation procedure for examining Fund activities and reflects well the vast experience and high competency level of the review panel. Their efforts are commendable, valuable, and greatly appreciated.

The task of considering the panel's findings and suggestions is made easier by the positive result of their overall assessment, with which I concur. The focussed and balanced response of the staff to the evaluation report is a valuable contribution to the process, which should be continued. Consequently, my comments can focus on a few significant issues raised by the assessment and recommendations related to the proposed scope; the conditionality, pricing and ownership; and the coordination of MAE's technical assistance.

On the scope of technical assistance, the report alludes to an "explosion" in technical assistance that has led the Fund into a number of areas beyond the traditional concerns and expertise of MAE staff. This has led the panel to distinguish between general assistance and special-topic assistance, technical advice versus policy advice, and the Fund as the primary provider of assistance and its role as the coordinator for assistance provided by cooperating central banks. The panel allows that many of the new topic areas such as banking supervision and payments system development are closely related to the operational functions of central banking and of effective monetary policy implementation and that the lines of distinction among the types and functions of assistance are not always clear. However, it also suggests that the Fund might be more effective if it refocuses along traditional lines.

In an increasingly liberalized, global environment for financial and exchange rate markets—one in which effective monetary policy implementation is necessarily more market oriented, the demands and requirements for technical assistance from the Fund are bound to change. While this will likely place greater emphasis on special topic missions, technical training, and the coordination role of the Fund as the needs of central banks graduate from basic assistance over time, it does not preclude the Fund from adapting the skill requirements of its staff to these new needs. As the staff statement indicates, the Fund will always be the provider of basic assistance and general advice to its member's central banks. Nevertheless, it must also be aware in a broad sense of the specific needs and issues of central banks at various stages of development to ensure the consistency of its general advice with specific issues and to improve its functioning as a coordinator for technical assistance from cooperating central banks.

As regards conditionality and ownership for technical assistance, the interesting suggestion to formally institute a process of conditionality for technical assistance is worthy of further consideration. The finding that recipient central banks rely primarily on missions and do not effectively utilize available published materials is disturbing on efficiency grounds. This behavior would tend to reduce the absorption capacity for technical assistance and increase the duration and frequency of missions. Also, while the general record of implementation is positive, the thoroughness and speed of implementation of recommendations from technical assistance was found to be correlated with the type of assistance. For example, recommendations regarding central bank's policy formulation and operations activities with respect to monetary policy, foreign exchange management, and internal information management were quickly implemented, largely because discretionary action was more completely under the control of the central bank. However, assistance on banking supervision, commercial bank reporting and financial management systems, and clearing and settlement systems were more slowly and less successfully implemented because of their complex technical nature and the need for a broad consensus among a number of players for effective action. Indeed, the panel reports that the infrequent delays in implementing advice are related to institutional or political circumstances or to an inadequate developmental stage, both of which are typically unrelated to the quality and relevance of the technical

advice. In other words, delays are due primarily to the absence of political will or consensus to undertake the recommended reforms.

A formal letter of intent and a set of conditions for the continuance of a technical assistance program could address some of these issues effectively. The letter of intent would require the recipient bank to build its case for a technical assistance request with arguments rooted in the existing literature on the topics under consideration. There are some learning-from-doing gains involved in this process. The letter would spell out explicitly the scope of the technical assistance program, its delivery mode and tranching, the proposed sequencing of the necessary reforms, and the tentative schedule of reform. The recipient central bank, together with other relevant authorities, would precommit to the elements of the reform package, as well as to its own resource contribution to the process. Efforts to build reform consensus more firmly should then begin before the provision of assistance. Failure to meet these commitments could result in delays in the continuance of further technical assistance in this policy area and possible others.

While such an effort may require a pre-assessment mission by Fund staff, the subsequent gains in terms of resource allocation, as well as in terms of fostering ownership in the technical assistance program by the recipient central bank, could well be worth it. Also, while this conditionality would be formulated independently of conditionality for financial assistance, elements could easily be incorporated into the conditionality for financial programs. This would additionally strengthen the co-ordination between MAE and the area departments and further promote consistency in their policy advice, which is already considerable.

The review panel also argues with some merit that charges for technical assistance would encourage stronger ownership of the assistance program by the recipient central bank (presumably on the basis of financial co-sponsorship as a means of limiting moral hazard) and help ration the demand for such assistance (by promoting possibly self-help programs based on available published material for at least some aspects of required assistance). However, to be effective this would probably require some degree of differentiated pricing across types of assistance based on relative cost. Moreover, since the successful implementation of such technical assistance yields positive externalities for others beyond the recipient, full-cost pricing will be suboptimal and ability-to-pay will be a relevant consideration. Consequently, some rationing criteria in addition to price will be required. A letter of intent, and the consistency between prior commitments and implementation experience from previous requests, would contribute some non-price criteria for the efficient allocation of technical assistance resources.

In regard to coordinating technical assistance, the panel report, with some concurrence from the staff, suggests that technical assistance—in terms of both the message and its delivery—could be better coordinated by the Fund. The panel raises a number of issues regarding the consistency of advice from various agents within the Fund. For example, the financial programming approach used, sometimes somewhat mechanically, by area departments is not

particularly well suited to monetary policy advice. It generally produces too many targets for monetary policy with the consequent prospect that none may be consistently achieved. Moreover, as the panel report indicates, the links between monetary and exchange rate policies are not always effectively drawn, especially when trying to integrate specific topic assistance into a more general framework. The panel also seems to be concerned that the theoretical foundations for policy advice may, at times, be too eclectic, although such eclecticism is typically rooted in pragmatism and not often mutually exclusive. Similarly, inconsistency in advice over time may be related to new information or new circumstances as much as to new providers of technical assistance.

While quick remedial action generally eliminates any bumps that arise in this process, preventative action would be more effective. Discussions about coordinating policy advice often focus on inter-institutional concerns; however, coordination problems within the Fund have not apparently been fully resolved. The panel's suggestions for more formal briefings and debriefings for technical assistance missions and for more explicit collaboration between mission teams from all departments, on-site long-term advisors, and resident representatives would clearly contribute to greater continuity and consistency in technical advice and monitoring activities. Efforts by the staff to improve this aspect of co-ordination are already underway and should be encouraged to proceed even further.

The suggestion for formal "benchmark" technical assistance programs may, however, be difficult to operationalize while preserving flexibility and sensitivity to the specific nature of individual central bank's circumstances and needs. In terms of policy content regarding particular issues, an informal set of preferred options already exist, which generally guides the advice of the mission. Hardening these options may hamstring advisors unduly and weaken the quality of advice.

Informal procedural models for the type of assistance and delivery mode best suited to specific issues and needs already exist and are useful for resource allocation and planning. More formal structures for these benchmark models may, however, be helpful. The development of such models could, for example, explore more fully the use of regional multi-country missions and regional seminars and workshops as delivery mechanisms for assistance. More explicit procedural models could also be useful for drafting letters of intent with regard to conditionality and tranching for technical assistance.

Mr. Jonáš made the following statement:

I agree with the conclusion of the evaluation panel that the technical assistance provided to member countries by the Monetary and Exchange Affairs department (MAE) has made a significant contribution to the success of their reforms. This conclusion is confirmed by the experience of countries in our constituency, which were not covered by the report. The technical assistance provided to their central banks by special missions, and on a continuous basis

through the resident representatives, was extremely useful, both at the level of broad policy issues and at the level of more technical and special questions.

I will address three issues: graduation from technical assistance; coordination of technical assistance; and conditionality of technical assistance.

I will begin with the future demand for technical assistance and the "graduation" of recipient countries from technical assistance. When the countries of Central and Eastern Europe began to implement economic reforms at the beginning of the 1990s, the demand for technical assistance increased sharply. Now, since the main tasks of transformation are nearly completed in many countries, I foresee a gradual decrease in these countries' demand for technical assistance. With the task of building independent central banks and introducing indirect instruments of monetary policy largely finished, the future focus of technical assistance will necessarily change. Central banks, which now operate in a new environment open to the rapidly evolving world financial markets, will need to continue learning. The report foresees the need for more specialized kinds technical assistance to meet these circumstances, calling for a shift to more short-term, specialized missions as opposed to the multipurpose missions of the past. These conclusions I endorse.

However, technical assistance should not become permanent and in the medium term it will become desirable to phase out technical assistance activities in the most advanced recipient countries. The central banks of the most advanced countries will graduate from recipient status to partner status, and they themselves could play an active role in providing technical assistance to countries whose transition is less advanced. As we have already stressed during our last discussion of technical assistance, the countries that are ahead in the implementation of economic reforms are well prepared by their experience to provide advice and assistance to countries in the earlier stages of the transition. It is even conceivable that a central bank might be a recipient of technical assistance in one area, while providing specific advice and expertise in other areas. At least one country in my constituency has already pioneered this situation, and found that the practice worked quite well.

On the prospective role of the MAE as a coordinator of technical assistance, I will note that the MAE has already took a leading role in coordinating the activities of the 23 cooperating central banks. However, for the countries of Central and Eastern Europe in particular, I see a need for closer coordination of Fund-provided technical assistance with the activities of the OECD, BIS and EU under the PHARE program.

Finally, I was interested by the idea of introducing some conditionality into the provision of technical assistance. After all, if the Fund is going to provide technical assistance as a public good, certain mechanisms should be in place to guarantee that it will produce the desired benefits. The staff's note reminds us that substantial elements of conditionality are already included in many technical assistance programs. Despite this, I think that it would be both feasible and desirable for a number of technical assistance programs to

incorporate some more explicit form of conditionality along the lines of performance criteria, even though I agree with Mr. Mohammed that it is hardly acceptable to ask the authorities in advance to commit themselves to accept policy assistance. But especially in the area of institution building, it should be possible ex post to make judgments about whether the recipients did indeed make sufficient efforts to use their technical assistance effectively. The idea of using the authorities' track records in following the advice received under technical assistance as a criterion for rationing the technical assistance to member countries is attractive, but I would also repeat what I have said two years ago, namely that past track records of technical assistance implementation are not always a reliable indicator of whether the authorities will be cooperative in the future. This argument seems to me especially valid in cases where political changes may also mean changes in the willingness of the authorities to accept advice from outside.

Mr. Berrizbeitia made the following statement:

I concur with the opinion expressed by other Directors in their statements on the high quality of the report prepared by the evaluation panel, and on its main conclusion that the technical assistance provided by the Monetary and Exchange Affairs Department has played, and will continue to play, a critical role in the increasingly multifaceted relation of the Fund with its member countries. I further consider that MAE's technical assistance has generally been extremely relevant, useful and of high quality, and that possible weaknesses in implementation or absorption may be more related to constraints in the recipient institutions or countries, than to weaknesses in the assistance provided. Nonetheless, there is room for improvement in monitoring and control, as well as in the decision making process for origination and continuation of technical assistance in any member country, including through the introduction of a certain degree of conditionality.

This chair has repeatedly stressed that technical assistance constitutes the third critical element of the Fund's principal activities in relation to its member countries, the other two being surveillance and conditional financing. It is therefore an integral component of the role of the Fund, and should be considered on the same footing and subjected to similar criteria as the other two components. Indeed, the effectiveness of both Surveillance and conditional Financing often depends on, and can certainly benefit from a strong supporting role for technical assistance. For these reasons, my comments will concentrate on the substance of technical assistance and not on the issue of an evaluation unit, which I feel is better left to another occasion.

The necessity of a close linkage among the Fund's triad of activities suggests the importance of strengthening and possibly institutionalizing a more effective coordination among the three. Although I understand that consultations take place on an ad-hoc basis between MAE, for example, and the relevant area department, when considering a request for technical assistance, the coordination process could benefit from a more systematized approach which could perhaps be channeled through regular meetings of a more centralized "Technical

Assistance Committee," in which all relevant departments should participate. Such a committee, which could be chaired by one of the Deputy Managing Directors, would serve as an effective screening and rationing mechanism for providing technical assistance; it could also serve to establish priorities in terms of both member country requirements and improved resource allocation, it would contribute to the more effective integration of technical assistance with surveillance and conditional financing, and it would help to ensure that the provision of technical assistance is well focused and better coordinated with other institutions, as member country needs evolve over time.

Such an effective integration would contribute substantially to placing technical assistance on an equal footing with the other two activities, and would place the cost issue in a broader perspective. Indeed, given an appropriate coordination and integration mechanism, as I am suggesting, which should result in a more systematized rationing procedure, there should be no need to charge for technical assistance services, any more than there are charges for surveillance activities, or program design. At the same time, such a coordinated process could also facilitate the establishment of conditionality criteria, either by including technical assistance in existing programs, by conditioning it on the basis of the recipient's past track record, as an indicator of the authorities' commitment, or by designing longer term "tranching" technical assistance programs.

Now, if technical assistance is to become an integral component of the core activities of the Fund, as I am proposing, the provision of technical assistance by the Fund should be concentrated in its core area of expertise, namely the macroeconomic implications of perceived weaknesses in the institutional or functional capabilities of member countries.

A more effective distribution of labor between the Fund on the one hand, and the World Bank and other development institutions, on the other, suggests that the Fund should concentrate on the macroeconomic aspects—for example, on the design and implementation of monetary management by central banks—whereas the other institutions should emphasize the micro design of institution building and more specific assistance. A clear definition of the respective areas of responsibilities among institutions would go a long way toward minimizing the costs of coordination, overlapping of activities, and generally improve resource allocation and efficiency.

Two specific areas which may deserve increased attention by management in the context of technical assistance are the role of resident representatives and a more effective diffusion of relevant publications and other specialized literature. Although it is clear that technical assistance should not be the overriding criterion in choosing a resident representative, it could nonetheless play a role in that choice, especially if a longer term need for technical assistance is fairly well identified in a member country. Also, the lack of knowledge regarding the existence and contents of specialized publications, as indicated in the Panel's report, should be countered through appropriate diffusion mechanisms, including through a more intensive use of electronic means and

through direct efforts of the resident representative. Better knowledge and increased availability of existing publications to appropriate officials in recipient institutions should constitute one of the first steps in the provision of technical assistance to any member country.

Finally, although it is not unlikely that demand for certain types of technical assistance may decline in the future, it is also probable that new needs will continue to arise over time in the context of an increasingly integrated world economy. I would therefore not be too sanguine as regards the possibility of reducing resources dedicated to technical assistance in the foreseeable future. On the contrary, to the degree that we achieve a more effective integration of technical assistance into surveillance and program design, it is not unlikely that required resources may increase.

I therefore consider that the Fund should be prepared to continue to provide the human and financial resources necessary for technical assistance in its areas of expertise, at the very least at current levels, and continue to coordinate with other organizations the availability of appropriate technical assistance in related fields, while ensuring that Fund staff are sufficiently knowledgeable to be able to identify needs and appropriate institutions and experts for more specific types of assistance. In this context, to the degree that the Fund's technical assistance activities are concentrated on its core area of expertise, the provision of technical assistance by the Fund should tend to rely increasingly on its own human and financial resources, rather than on outside experts and financing, while referring more specific technical assistance needs to other institutions better placed to provide such services.

Although my comments apply not only to MAE, but to all Departments involved in providing technical assistance, since today's discussion is centered on activities of the Monetary and Exchange Affairs Department, I take this opportunity to express my Venezuelan authorities' sincere and deeply felt appreciation for the technical assistance we have received, especially in areas related to banking supervision but also in the areas of Statistics and Fiscal Affairs, much of which is effectively incorporated into the economic program that we will soon be considering in this Board.

Mr. Al-Tuwaijri made the following statement:

I share some of the concerns of other Directors regarding the procedure for this evaluation of technical assistance. In particular, I feel that Board involvement in the process of defining the terms of reference of this evaluation would have been warranted.

This being said, I welcome this report, which raises a number of important issues, and I also find the statement by the staff especially useful in clarifying some matters. My remarks will focus on four areas.

First, there appears to be room for reconsidering the scope of technical assistance, and I share the views of the panel that the Fund should refrain from

the provision of technical assistance in areas where it does not have a comparative advantage. At the same time, one should not unduly confine the scope of technical assistance. As the needs of the membership change, the nature of the demand for technical assistance will also change. Furthermore, the use of outside experts helps the Fund meet the needs of its members without building a significant in-house expertise that may become redundant at a later stage. This being said, the staff is right in pointing out that some in-house knowledge will nonetheless be needed.

Second, the importance of coordination and consistency of advice cannot be overemphasized. Here, while there seems to be a need for improvement, I am encouraged by the progress made so far.

Third, the training of officials in member countries should be a paramount objective of most technical assistance programs. It is of particular importance that resident experts strive to build local expertise during their tenure. Of course, the IMF Institute has consistently executed impressive training programs. The staff points out that MAE may not be well placed to expand the training component of its assistance beyond its current level. In the circumstances, the need to enhance training is better handled through a greater role for the Institute.

Fourth, the report suggests the introduction of conditionality in technical assistance programs. This approach certainly merits further consideration. At the same time, as the staff points out, substantive aspects of such an approach have already been incorporated in many cases. It is difficult to envision how conditionality can be practicably strengthened further. In some instances, a rigid and formal approach may even unduly restrain this institution's ability to deliver timely technical assistance.

Finally, this report confirms that technical assistance provided by MAE has generally been of a very high caliber. This, of course, can only be the result of the high caliber and dedication of the staff.

The Acting Chairman remarked that, with regard to coordination, there was an internal Technical Assistance Committee that reported to one of the Deputy Managing Directors on the allocation of technical assistance resources within the Fund.

Mrs. Cheong made the following statement:

Let me start by congratulating the staff for the Panel's commendation on the technical assistance provided by the MAE Department.

I concur with the Panel's assessment that the technical assistance provided by the MAE is of a high standard and reflects the Fund's pursuit of excellence. Nevertheless, there is always room for improving effectiveness and efficiency. First, efficiency could be improved through strengthened coordination with other Fund internal departments and other institutions, especially the World Bank. Intensified coordination could reduce, if not eliminate

duplication and the possibility of conflicting advice. The exchange rate area is a good example. Second, efficiency could be improved through ensuring continuity of experts. As in the Fund's Article IV consultation missions, some complaints from member countries have been raised on the lack of continuity in mission members. Third, training would enhance effectiveness since it would increase the absorptive capacity of the recipient member. This, however, does not necessarily mean that the MAE should conduct training by itself; rather, the MAE could identify and make suggestions to the IMF Institute on training tailored to the members' needs. Fourth, good communication skills among resident representatives can effectively enhance the success of the Fund's delivery of technical assistance.

On the method adopted by the Panel, it is regrettable that the Panel had refrained from evaluating selected cases. The Panel's conclusions are, therefore, only of a general nature. On the other hand, the Fund has evolved and so have its member countries, such that specificity is now equally if not more important. The Panel's report could be more useful if evaluation of a smaller sample as proposed by Mr. Mohammed was undertaken.

I would appreciate clarification on the choice of MAE Department for this first formal evaluation. If you ask any central bank, certainly those from my constituency, they will no doubt praise the high quality work of MAE and its generally appropriate and useful advice. As a rule, when we want to improve any aspect of the institution, we would not start with one of the best performing department. On the contrary, evaluation should begin in departments where we feel that improvement is direly needed.

On the technical assistance process, I agree with Mr. Wijnholds that technical assistance for institution building has achieved its objectives and technical assistance for specialized areas will be more demanded. The Panel's review of selected cases could provide insight to improve the design and the process towards more targeted technical assistance work. The Fund must also evolve in garnering more expertise in specific areas as more countries graduate from their need for general type technical assistance.

To ensure that technical assistance recommendations are implemented, conditionality may be necessary. However, we should avoid unnecessary bureaucracy, especially in nonprogram countries. I, therefore, have reservations on the "Letter of Intent" approach. Seeking commitment from authorities to implement changes in a system after receiving technical assistant advice is acceptable, but tranching may not be a good idea because it is not possible to implement change when the whole package of the change is unknown. Tranching may work for a country that needs general technical assistance for institution building and specific technical assistance can be made available on condition that recommendations on institution building have been effected. But for countries seeking specific technical assistance, tranching will make the technical assistance process ineffective. I would recommend caution in this approach.

Furthermore, central banks or governments cannot be held to ransom that they must implement technical assistance recommendations, or cease to receive further technical assistance. It should suffice that they implement changes in the area that technical assistance was requested, but such policy implementation may differ from the advice provided by the technical assistance mission of the Fund. (Third opinions may be sought and the final adopted package could be a mix of recommendations by various experts.).

I support the views of other Directors that the area department should be the first level of approach for technical assistance requests, although this should not preclude direct consultation between authorities and the MAE before a formal request is made. The request itself should be directed to the area department to provide a systematic way of managing the Fund's technical assistance program.

I do concur with Mr. Shields's proposal on self-evaluation. When improvements are being sought it does make sense to look within ourselves to find the faults before asking outsiders to do so. Self-evaluation as proposed could also be useful in instilling accountability among Fund staff in their design of policy advice. However, external evaluation will always have the advantage of neutrality and objectivity to complement the self-evaluation exercise.

Mr. Fukuyama made the following statement:

The report before us of the independent panel contains a number of useful suggestions. Following the report of Sir Alan Whittome, this excellent report convinces us again that we can use external experts effectively for the evaluation of the Fund's activities. My authorities, having supported the Fund's technical assistance through the Japan Administered Technical Assistance Account and by sending experts, are greatly interested in this issue.

I would like to comment on some issues discussed in the report and in the staff's statement.

The report indicates that technical assistance to central banks will likely be gradually phased out over the long run, as recipient countries graduate from technical assistance. This may not happen for many years. A more important issue, which we should address at this stage, is how the Fund could react to the changing phases of technical assistance, namely from diagnosis to implementation to consolidation. In this regard, it is encouraging that the flexible reaction of MAE is reported by the Panel. The need for technical assistance is also becoming more sophisticated and specialized and, therefore, it is imperative that MAE maintain its flexible stance. This said, it is worth bearing in mind that technical assistance is expected to decrease dramatically, even if not in the immediate future. In this sense, the Panel's suggestion that one should avoid building up a permanent MAE staff that cannot be used for other tasks or in other departments deserves attention, although I agree with the staff that MAE needs to have adequate knowledge in a wide range of fields even when it plays the role of coordinator.

It is encouraging that the report finds that MAE technical assistance is reputed to be of high quality and to meet the needs of recipient countries. However, I get the impression that recipient countries might have overvalued MAE's technical assistance, based on a misunderstanding that this Panel was established to reduce the Fund's technical assistance. In this respect, I share some directors' concern that the in-depth examination of a smaller sample may have given a somewhat different picture. It is desirable, therefore, that a system of continuous evaluation be established to reflect the frank opinions of recipient countries, and of other departments such as the area departments, Policy Development and Review, and the Research Department.

My authorities have, at various times, expressed their grave concern about the duplication of technical assistance. In order to avoid this duplication as much as possible, MAE should make further efforts to collect information on technical assistance provided by other institutions and to strengthen coordination among providers. I believe that MAE is best suited to take a leadership position in this respect. To that end, MAE should also convince recipient countries that they are also responsible for avoiding such duplication. Dipping into several institutions' technical assistance wastes the financial and human resources of all parties.

Turning to the modes of delivery, it is a concern that the role of resident representatives in relation to technical assistance missions is uncertain. Given that the Fund's policy tends to be criticized as being inflexible, the information and opinions of resident representatives—who live in recipient countries and know them well—is indispensable. In addition, cooperation among recipient-country authorities, resident representatives, and resident advisors is crucial for ensuring the implementation of Fund advice.

As the Panel indicates, technical assistance reports are often flawed; reports are neglected by the authorities of the recipient countries, implementation of reforms is not ensured, and so forth. Of course, ownership and commitment of the recipient countries are crucial, but reports themselves should be designed to ease the implementation of specific policies and reform. It should also be noted that the role of the Fund is not completed when reports are filed; the Fund should monitor the authorities' implementation of these policies and reforms, and should be ready to provide assistance if required.

As to the selection of experts, a good balance between long- and short-term experts is, as the staff mentions in its statement, difficult to strike, and it may depend on what type of technical assistance is involved. Nevertheless, the role of short-term experts is certain to be expanded; in particular, it is important to consider how experts could provide recipient-oriented technical assistance. As the report indicates, self-liquidating would be impossible while experts are doing "their own job" and the staff of recipient countries does not cooperate with the experts.

Finally, let me touch upon an issue of conditionality. The report suggests that, in light of the need for rationing technical assistance and seeking

cost-efficiency, conditionality and tranching on benchmarks be introduced. As several Executive Directors mention in their grays, a cautious approach will be needed. It is natural that the Fund should be cautious in providing new technical assistance when the recipient country has, for unjustified reasons, not fully utilized its previous program. However, as I mentioned before, it is not guaranteed that all Fund advice meets the specific needs of recipient countries, nor that it is well-designed, taking its implementation fully into account. Therefore, evaluation of performance from only the Fund's point of view is one-sided. Conditionality should, if it is introduced, be judgmental, including the Fund's review of its own policy and advice. This is not an easy task.

Mr. Geethakrishnan made the following statement:

My first point relates to two areas of the Fund work with which I am quite familiar because of my past background. I refer to the conditionality that we place on program countries, and technical assistance. I have been at the receiving end in both cases. So the other day I was thinking that after my retirement, I would offer my services as a consultant. I thought it would be best to be the external evaluator, because I would be independent, and at the same time, I would be paid well. Then, I went to the next stage of asking myself if I were asked to evaluate the technical assistance of the Fiscal Affairs Department, what would my comments be? I will put down five, six major points.

I am sure for all twenty-four of us here the first point would be the very high quality of the staff and the excellence of the report. We say it day in and day out at every Board meeting, at least three times a day. I am sure most of us mean what we say. If the bulk of the work of the Fund is of a high quality, and if most of the staff are of a very high excellence, then technical assistance is not going to be an exception.

My second point would be concerned with the perception of the recipient country. I will have to admit that there will be a wide gap between the advice given by technical assistance missions and its implementation. On the other hand, I will not be very critical of the staff saying. I would be the first to admit that they have given very good advice, considering the socio-political constraints imposed upon their work.

The third point I would make is the need for better coordination between the various wings of the Fund, and between the Fund and the Bank.

The fourth point is that most consultants are likely to say that there is a greater need for monitoring of their work while they are in the field.

My last point would be that the need for the Fund's support facilities in terms of money or technical assistance is likely to taper off as more and more countries reach higher stages of development. All of the above points would represent my a priori conclusions of an evaluation of the technical assistance of the Fiscal Affairs Department.

When I look at the report that we have before us, it contains a vast number of recommendations and conclusions, but the hard core of the report contains the points I have made. But the basic difference is that in my case I arrived at these conclusions without 6 months of hard work covering twenty countries, ten of which the team has visited, and the other 10 they had discussions with the authorities during their visit at the last annual meetings. That makes a major difference: whereas my conclusions in terms of the Fiscal Affairs Department could have been brushed aside as merely theoretical, we cannot brush this report aside because it is based on an actual, practical evaluation and data. But this is where my first problem arises.

Let me compare this report with the Whittome report. First of all, I should admit the comparison is not totally valid because the Whittome report was looking at a particular incident in one country, whereas when you are talking in terms of Monetary and Exchange Affairs Department's technical assistance, we are covering a wide range of issues and countries. The Monetary and Exchange Affairs Department's technical assistance covers 40 percent of the total work of technical assistance of the Fund. If I take the total of about 300 man-years, it is about 120 man-years. But let us consider my comparison. The Whittome report wraps everyone on the knuckles, whether it be the management or the Board or the staff or the Mexican authorities. But most of its conclusions are supported by, or based on, actual documentary evidence of our own actions and inactions. That is the reason why, all of us may broadly feel we are at fault. I personally believe this is what has triggered the extremely high speed with which we have gone further, either on surveillance or on data publication standards. The Whittome report, I think, was in that way a milestone. It triggered further action, introspection, and we have done very well. To that extent, this report is clearly seen as based on hard data, actual discussions. The data collected will compel us take drastic action on the various suggestions.

Unfortunately for me, I do not know whether it is because of the need for brevity in the report or the need for not offending the various people, the report merely says it is based on the discussions and the data. It does not buttress the recommendations with actual details. Maybe the panel of experts has provided another 300 pages of supplementary material to the Fund setting out all the details based on which these conclusions have been derived. I would feel strengthened in my acceptance of the report if I could have a look at that material so that I feel convinced that these recommendations, which I would arrive at on the basis of an a priori knowledge and reasoning.

My second point relates to two starting points of the report. The one on page 5 of the report starts by saying, "In the specific area of central banking, many newly independent member countries sought the Fund's technical assistance for drafting of central bank legislation and the setting up of new central banks. Such requests have increased dramatically in recent years in countries in transition in Eastern Europe." It goes on, "As a result, over the last five-year period, the total volume of Fund resources devoted to technical assistance has more than doubled, with the Monetary and Exchange Affairs Department accounting for roughly half." The committee is not saying it, and the

external evaluators are not saying it, but for a person who reads it between the lines, the impression is gained that the villains of the peace are the Baltic countries, Russia, and the other countries of the former Soviet Union. Once their problems are solved the whole situation will return to normal, and we may no longer require this level of assistance.

I would like to respectfully submit that if you look at the total technical assistance for the Fund as a whole, the share of the Monetary and Exchange Affairs Department in fact has drastically fallen over the last ten years. One of our earlier reviews of technical assistance clearly shows that the share of the MAE accounted for roughly 70 percent of the total technical assistance of the Fund over a very large number of years. In fact, the total technical assistance asked for in the Fund could have gone up, it has gone up for the Fund as a whole. There is no peculiarity for the Monetary and Exchange Affairs Department, and no peculiarity to the Eastern Europe countries.

In addition, on page 3 of the report, with reference to the subject matter covered, emphasis was placed on technical assistance of the institution-building type. In other words, the report, while it is comprehensive, and looks at the entire technical assistance of the Monetary and Exchange Affairs Department, has tended to focus sharply on institution-building. Are we sure that institution-building forms the bulk of the Monetary and Exchange Affairs Department's technical assistance work. Because the conclusions of tapering off are based on this basic premise of institution-building. I looked at some numbers. It says, out of 240 man-years in the last year, 166 man-years were devoted to institution-building. However, I suspect that there is a definitional problem. In the Monetary and Exchange Affairs Department, possibly all the technical assistance could be described as institution-building. In the Fiscal Affairs Department, possibly not even 30 percent would be categorized as institution-building. I can illustrate this with one point. When the Director of Monetary and Exchange Affairs Department turns up in India to talk to us about the independence and autonomy of the central bank, it is treated as institution-building by the Monetary and Exchange Affairs Department. When the Director of the Fiscal Affairs Department comes to India to talk about corruption, it is not treated as institution-building.

To the extent the panel of experts claims that it has focused on institutional-building aspects and has come up with a package of recommendations, I think it is not being very fair to the Monetary and Exchange Affairs Department because that department's work is quite comprehensive, and goes beyond institution-building.

The reason I am drawing attention to this is, institutional-building demand could go down over a period of years as countries build up the institutions, but the demand for other technical assistance will continue to be there. While we all wish that countries progress, and that the demand for technical assistance and Fund support will not be there, I think it is brave music of the distant drums for many, many years to come. Dependence on the Fund for this support is bound to be there.

The next point that I would like to make take relates to external funding, an aspect which I am afraid has not been taken into account in a serious manner by the panel of experts. In cases where technical assistance is externally funded, the Fund perhaps does not have the same level of discretion in terms of the choice of the experts or monitoring its work as it has in its own staff. To the extent in the last five years, externally funded technical assistance has become a major part, roughly one third, many of the problems that the panel has come across in terms of coordination, briefing, monitoring, and lack of control in the field, may have its origin in the externally funded staff. I would, therefore, have welcomed an indication of where the Fund's choice of the experts might have been limited. I would even now recommend that it is necessary for the Fund to examine to what extent external funding measures are used with a view to keeping the net expenditure to the Fund at a minimum. We say technical assistance should increase only to the level of external funding, but maybe there is a case for the Fund to increase its own net expenditures on technical assistance.

My next point is on coordination. The Board in the last three years has highlighted the need for coordination. In any organization there is bound to be competition and jealousy. Some amount of one-up-manship will always be there. Just as the Fund is doing a lot of developmental work, we do not say, sorry, it is part of the Bank's mandate. We said it is very much our territory. Likewise, the Bank, not to be undone, goes and advises India on the fiscal structural adjustment loan, which perhaps is our territory, but it is the Bank that does it. So to some extent overlap and duplication is unavoidable given human nature, but the point is well-taken, there is need for better coordination so that we avoid overlap and keep it to a minimum.

Here, the suggestion that I have to make is this. We have a similar problem with data these days. We have, I thought, found a solution by putting a paragraph on data issues in the Article IV consultation so that it gets prominently highlighted. Now, we do not discuss data separately, but when we discuss the Article IV consultations with each country, the data issues get highlighted. Each of the Directors has an opportunity to comment on it. But more importantly, the area department gets its teeth into the problem of the data. Likewise, I would like to suggest that in the case of technical assistance, in the future there could be a paragraph in the Article IV consultation report which highlights details of the technical assistance given and assesses to what extent the advice of the technical assistance has been incorporated or fulfilled. If it comes to a detailed discussion in the Board, thereafter we can go into whether or not it should become part of the conditionality, but not without having first gone through this process.

The next suggestion that I have is on training. My alternate, Mr. Disanayaka, has been a governor of the central bank until he came over here recently, and had a specific suggestion which I endorse. He says one aspect which is often not totally focused upon is the training of trainers. If you take various areas like bank supervision, payments systems and accounting, national account, GDP, balance of payments, open market operations, these are areas

where each of the central banks, through its own training institutions, has to continue to address its training requirements so as to better the quality of the staff attending to these problems. Today, there are occasional visits by the Fund technical assistance staff, and also we invite those people from the country concerned to come to our training institute here. We recruit somebody for a training in bank supervision. He attends a 12-week course, goes back promptly on his promotion and is put on open-market operations and the entire training becomes wasted until such time he comes back a dozen years later and does the same thing. So Mr. Disanayaka would like to suggest, and this, as I say, I endorse, having more focus on the training of trainers in the institutions in the countries concerned. For the Fund it would be very cost effective because in one shot they train about 10 people, and thereafter the 10 people carry on the message in successive rounds, and for the country concerned it means their training becomes faster.

My last set of points is peripheral. As I said, we regard a certain amount of duplication as unavoidable. The panel of experts also referred to charging. This is an aspect that we have discussed threadbare not only in Board, but in the Budget Committee. We have made some recommendations for making some increases here and there, but primarily we felt that we should not move toward full charging. Technical assistance is a needed input from the Fund, and it should be provided. There could be a case for some minimal improvements which are already in effect. So I do not think there is a case for doing more. And we should not think in terms of rationing. If there is a demand, the Fund should rise to the occasion, provided the question becomes how to fund it, whether it will get more bilateral assistance, or whether it will increase the total kitty for it. We should not put the cart before the horse and say the Fund has a limitation. That would be a totally incorrect approach.

Likewise, incorporating technical assistance advice in the programs and making it part of conditionality, I think is a premature suggestion. We should first try to incorporate technical assistance issues as a paragraph in Article IV reports.

My last point refers to staff continuity. We are a small organization. We have a competent staff. The total technical assistance permanent staff of the Monetary and Exchange Affairs Department is only about thirty. So we should never commit the mistake of treating any particular wing of the Fund as a watertight department. There should be greater mobility. It is this mobility that will also secure greater coordination.

Mr. Clark noted that the events surrounding the Whittome report on the Mexico crisis represented a significant event in the Fund. However, in the case of Mexico, it was clear that something went wrong and needed to be corrected. It was not obvious that things had gone wrong in the case of technical assistance in the Monetary and Exchange Affairs Department. Moreover, an evaluation exercise should not necessarily focus on cases where things were off-track. Evaluation should be a regular process, and equal satisfaction should be drawn from an evaluation report that contained only relatively minor recommendations for improvement.

The possibility of both some form of "letter of intent" for technical assistance and the inclusion of technical assistance considerations in Article IV reports were both meritable options and should be explored further, Mr. Clark added.

Mr. Saito made the following statement:

I would like to commend the panel for the helpful paper that they have produced which sets the stage for the Executive Board to deepen its understanding and involvement in this very important topic of technical assistance. I will proceed with some general comments on the Panel's report, to be followed by specific remarks on the coordinating function of the Fund, the regional redistribution of technical assistance, the imposition of conditionality, the importance of the authorities' commitment, the issue of self-financing and the question of monitoring long-term experts. In discussing these issues I will also address the points raised by the staff representative in his statement.

While I welcome the broad range of issues raised in particular in Chapter 3 of the report, I felt somewhat disappointed when I did not see a commensurate range of topics at the time the findings and conclusions were presented. The fact that the Panel's task was not aimed at producing an assessment of the technical assistance activities of MAE in any individual country, or in any given group of countries, may be the reason why the report appears somewhat vague as to the specific conclusions presented. This becomes most noticeable, for example, when in summarizing the findings in pages 27 and 28 the report lists the strong points but only to be followed by the weak points which to a large extent nullifies the former. Moreover, the strong and weak points are presented not as the opinion of the Panel but as the opinion of the persons the Panel interviewed.

Despite the general orientation of the work done by the Panel, a large majority of references are related to the experience with transition economies. Given the magnitude of the technical assistance effort devoted to those economies and the sheer complexity of that undertaking, perhaps it would have been more useful to undergo a closer examination of transition countries in order to draw specific lessons which could be used to improve the provision of technical assistance in the future. As the report stands now the two main recommendations derived from that experience are not, given their high degree of generality, as helpful as it would have been desired: That technical assistance to central banks will most likely be gradually phased out over the long run in view of its success and that technical assistance in specific areas such as banking regulation and supervision where in-house expertise remains limited should better be left out to experts drawn from central banks and not from the Fund. Leaving aside the fact pointed out in the statement by the staff representative on the rationale for MAE technical assistance involvement in banking supervision and related areas, which I share, I wonder if the extensive technical assistance experience with transition economies could have not provided more pertinent conclusions as for example in regard to the degree of adequacy and usefulness of the advice, as well as the degree of acceptance and absorptive capacity shown and in particular the type of constraints encountered in its implementation.

The role of MAE as coordinator of technical assistance provided by cooperating central banks is barely analyzed in the report. Its assessment consists of just half a line to state that on the whole it has been excellent. This, however, is difficult to match with another statement of the report announcing a likely "technical assistance fatigue" on the part of cooperating central banks which begs the question of the reason for that "fatigue" when the experience has been excellent. Some clarifications from the Panel or the staff would be welcome.

Another interesting issue raised by the report in chapter 3 is the regional redistribution of technical assistance in the face of the existing resource constraints. The issue is clearly framed in terms of the need to equalize the return of the last SDR spent on technical assistance activities in any member country. However, given the inherent difficulty of adequately reflecting all the returns involved, particularly when one wants to take into account political and equity-type considerations. I agree with the report that a serious consideration by the Fund of this issue would be warranted since it is beyond the scope of the present study. This would help to dispel the notion that the present mechanism for allocating technical assistance resources among different countries or regions, listed in page 15 of the report, is rather subjective. One of the main recommendations of the report, that of introducing conditionality for technical assistance, can also be useful as a way of allocating scarce technical assistance resources. I, however, share Mr. Jonáš comment that due consideration should be given to the changing political circumstances and the reasons that may explain a poor record of implementation.

The issue of conditionality is closely linked to the quality of the recipient's commitment to the task of technical assistance. Taking into account the recipient's track records of compliance can help to assess such a commitment. The statement of the staff representative agrees with the importance of the authorities' commitment for the success of the technical assistance effort and raises the question of how formal the imposition of conditionality should be. My impression is that further efforts should be made to call recipients' attention to the fact that both aspects, commitment and compliance, are going to be critical yardsticks to assess the availability of technical assistance in the future. Perhaps a Board's instructions through a summing-up and pertinent emphasis on the terms of reference may be all the formality that is needed. I share, moreover, Mr. Shaalan's comments on the need to qualify conditionality when we are dealing with policy advice rather than with institution-building type of technical assistance.

A connected issue is that of the reimbursement of the cost of the technical assistance service on the part of recipients which would be a clear demonstration of commitment. I am of the view that a full-cost charge could be counterproductive, precisely for those countries with the greatest need. I agree with the report, however, that some charge to all recipients could play a useful role in eliciting commitment and participation. It would be important, however, to find a criterion as objective as possible to avoid the perception of arbitrariness.

The question of the long-term experts which was taken up by the statement of the staff representative does not seem to represent a major complication since both MAE and the experts agree on the need for greater monitoring. The quotation on page 18 of the report stating: "We have very little feedback to our reports to MAE" speaks for itself. EBAP/63/111, assigning the entire responsibility for monitoring long-term experts to the requesting institution, could be easily amended by explicitly acknowledging the need of MAE's intervention to ensure a proper long-term expert accountability. As for the methods to be used in the monitoring process, I have found both the misgivings in page 35 of the Panel report regarding the excessive reliance on regular reports from advisors and the advice for more frequent spot-checks in the field on the part of the top management of MAE, quite appropriate.

Mr. Martinez Oliva made the following statement:

I wish to thank the components of the independent panel for their excellent report. The high quality of the analysis and the comprehensive approach followed contribute to a clear and well-focussed picture of the activity of technical assistance provided by the Monetary and Exchange Affairs Department (MAE). The description of the approach followed to address the problem of the evaluation is very useful, and paves the way for future work. The fact that the evaluation is positive, indicating that the technical assistance provided by MAE has yielded very good results, is important for two reasons. First, it represents an encouragement to continue the activity, that has been found to be relevant and useful to recipient country institutions; second, it suggests that the process might gradually converge, in the sense that the role of technical assistance should decline with the increase of own expertise.

From this point of view, I appreciate the fact that, according to the report, technical assistance was very useful in a large number of cases, as it contributed to the achievement of the objectives of recipient countries, and, conversely, that the cases where relevance and usefulness were absent or substantially lacking have been shown to be absent or lacking.

In this respect, nonetheless, the report warns that technical assistance is likely to remain important in the years to come. In particular, the report lists a number of factors that might tend to inflate technical assistance activities in future years. Among such factors, particularly important seems to be the provision of technical assistance at a zero, or constantly low cost, which contributes to persisting excess demand, and the fact that the institutions which are currently providing technical assistance might tend to reduce their involvement in future years, thereby passing increasing portions of technical assistance on to the Fund.

The conclusion of the panel confirms the impressions emerged in the occasion of the 1994 Review of Fund Technical Assistance, when the Executive Board agreed that no reduction in the demand for technical assistance could be expected in coming years.

This perspective trend raises the issue of what can be done to address the problem of reconciling the growing demand for technical assistance with the inevitable reduction in resource availability. Among the various possibilities that have been sometimes discussed in past occasions, there is the idea that provision of technical assistance should be connected to recipient's past track record in making a good use of Fund's advice is perhaps the one that deserves more attention (p. 39). The report's suggestion of introducing "target ranges" as an element of discipline is consistent with this idea, and deserves attention.

According to the document, monitoring the use of technical assistance can be useful to understand whether a country has "graduated," that means, according to report, if the recipient institution has "reached some threshold of information and skills that enables it to continue learning and solving problems on its own." For this purpose, the document suggests making use of a close monitoring of the projects, based on conditionality, in the sense that is conventionally used for the use of Fund's resources. I agree that the use of conditionality, based on instruments like the "Letter of Intent on technical assistance" a "tranche policy" etc., could be a useful tool to favor the achievement of good results from technical assistance. I am nonetheless convinced that, an excessively bureaucratic approach should be avoided, with the help of a large amount of flexibility in the interpretation of the procedure, and a reasonable level of aggregation in its implementation. The latter could be achieved, for example, by implementing the conditionality for groups of projects aimed at similar tasks, rather than for single projects as suggested by the document.

On the issue of cooperation with other bilateral and multilateral technical assistance providers and within the Fund, we have always supported, the idea of cooperation as a means to provide a more intense stock of knowledge to recipient countries avoiding conflicting advice and in the meantime to share and alleviate the burden of providing assistance. Concerning the coordination among the different providers of technical assistance, including the Fund, the difficulty in assuring that such a task be fulfilled is not negligible, given the large number of institutions involved. Still, the effort of coordinating the many actors in this field might prove worthwhile to pursue. On coordination within the Fund, I believe, like other speakers that a strong effort should be devoted to further improve the coordination of functions along the lines suggested by the document.

The use of technical assistance is, for many member countries, the start of a process of structural change, the first step in the route towards adjustment and reform. It often takes a long time, between this start and the moment in which the country is ready to access conditional Fund's resources. Given the importance of technical assistance in these instances, it should be made available to all member countries aiming to benefit from external advice and expertise on the basis of a general commitment towards a good use of this scarce resource.

Mr. Cippa made the following statement:

In recent years we have witnessed a substantial increase in the share of the Fund's human and financial resources devoted to technical assistance. This is a welcome development, since the potential benefits, especially for transition countries, are significant. However, these benefits depend on the quality and efficacy of the assistance delivered. In this respect, I welcome this external evaluation of an important component of the Fund's technical assistance, namely the part provided by MAE and thank the authors for this excellent report.

I very much welcome the panel's basic conclusion that in most regards MAE advice has been of very high quality. This high standard combined with the coordinating function the Fund has taken in this area, has ensured that technical assistance plays a key role in the reform process of a number of countries. This conclusion is largely confirmed by the experience in the countries of our constituency. The report provides the basis for deciding on how to further improve this area of Fund activity. I shall limit my comments to some general issues pertaining to the provision of technical assistance.

I agree that outside experts from central banks should be flexible. They should not try to simply implement their own national systems, but be able to respond to the specific situation and needs of the recipient country. Advice over time and across countries should, therefore, be expected to change. However, in order to avoid that such differences be interpreted as inconsistencies, mission reports should clearly present and explain any deviations from a possible "standard" Fund practice.

In cases where the report identified inconsistencies in the advice provided, the problem could be traced back to a lack of coordination. Although closer collaboration is time consuming and, therefore, often thwarted by tight schedules, we should place a high priority on improving this aspect. This improvement should take place both within the Fund as well as with other institutions.

As regards the coordination with other institutions, like previous speakers, I am somewhat worried by the alleged nonoptimal coordination with the World Bank which led on some occasions to conflicting advice in crucial areas, such as exchange rate policy. Within the Fund, I see some merit in increasing the coordination among departments, in particular MAE and Fiscal Affairs Department, but like Mr. Wijnholds I do not see a particularly clear role for Research Department in the area of technical assistance. But above all, I see merit in increasing MAE involvement in the design of adjustment programs requiring substantial structural reforms. A better evaluation of the time required and the difficulties implied to implement these reforms could be achieved. As a direct consequence we should be able to gain in realism in the various scenarios to be considered.

The provision of technical assistance should be demand-driven. However, as long as the Fund provides this type of assistance at costs well below

market prices, there will inevitably be a problem of excess demand. Also in the aim of enhancing the efficiency of the service we provide, and endorsing a better use of it, we are in favor of a system of charges although we recognize that in doing this we should take into account the country's economic situation and its capacity to pay. But as long as technical assistance is a free good, I agree with Mr. Shields that the only way to judge whether benefits outweigh costs is to resort to detailed evaluations.

I share the panel's view that another promising avenue to reduce excess demand and enhance the efficiency of technical assistance would be the introduction of some form of conditionality. This would include the possibility to use benchmarks which could be useful in the future for assessing the effectiveness of MAE programs. As stated by previous speakers, such an approach would be easier to adopt in the area of institution-building than in the one of policy advice. I have sympathy with the concerns of avoiding an excessive bureaucratic approach and enhanced flexibility. Still I think that the "de facto" conditionality based on staff judgment that already exists, could be strengthened especially if technical assistance continues to be provided substantially below cost.

Good relations with a central bank of an industrial country could further contribute to enhance the recipient authorities' commitment to implement technical assistance advice and create favorable conditions to collaborate with the outside experts. Besides experts' visits to the recipient country, this could imply for instance training of recipient central bank's staff in the donor country.

I consider that the achievement of self-sufficiency by the recipient country is one of the most important goals of technical assistance. Insistence on the commitment of the recipient institution and its staff could, therefore, also contribute to this target and help ensure the "self-liquidating" character of technical assistance. As the panel points out, this "self-liquidating" character has implications for staff policy. An excessive build-up of permanent staff exclusively in charge of technical assistance should be avoided. As technical assistance proceeds to more advanced stages especially in the transition economies, more specific advice will increasingly be needed, which can best be provided by outside experts. This being said, I fully recognize the role that technical assistance plays and will continue to play in the future in other parts of the world or will play in the countries of the former U.S.S.R. once the institution's building phase is over. However, in endorsing the revolving character of technical assistance, as it is defined by the staff representatives, we must be careful not to endorse any permanent inefficient use of scarce resources. Once more, the best way to avoid this is to ensure that some kind of price allocation mechanism will be at work. I also agree with the statement of the staff representative as regards the multiple functions of MAE, and in particular the role of its advice on the structural and institutional aspects of monetary and exchange policies in the general context of surveillance. As I suggested before, we would also endorse an increased role of this department in the design of adjustment programs.

Finally, without downgrading the role of other institutions, I believe that the coordination of the provision of technical assistance should remain the task of the Fund. According to the experience of the Swiss National Bank, collaboration between the Fund and central banks from industrial countries has proved to be very useful. Combining the Fund's long experience in building institutions and reforming economic structures, on the one hand, and the specialized technical know-how and operating capabilities of central banks, on the other, is probably the best way to ensure adequate technical assistance.

Ms. Lissakers made the following statement:

I must say that I share the disappointment of some of my colleagues in this report. In trying to clarify my own reaction to it, I think that Mr. Saito put his finger on one weakness, which is that the expert Panel reflects primarily the results of its own surveys of the opinions of the recipients of technical assistance and the providers of technical assistance. Given the very distinguished nature of this Panel, I for one would have welcomed a more clear expression of the Panel members' own views and assessment of the quality of the advice and the quality of the delivery system of the technical advice.

I agree with Mr. Saito and others that perhaps an approach involving a few case studies, where the Panel followed from cradle to grave, as it were, the inception of the technical assistance, the selection of the expert, the design of the terms of reference, and the results in terms of policy performance in the country receiving the technical assistance, would have been very helpful and given us a more concrete measure of the effectiveness of our technical advice.

First, with regard to technical assistance design, I was surprised, frankly, that there was not more discussion of the terms of reference. I do not have great expertise in this area, but I have had occasion recently to look at a couple of terms of reference documents for technical assistance from MAE as well as from my own authorities in the same area, and I must say that I was appalled by the vagueness of the terms of reference, both the ones drafted by this institution and, unfortunately, by my own authorities.

It seemed to me that the terms of reference made it possible for a technical expert to do everything and nothing and still be within the parameters of the terms of reference that I have seen. I know that we hesitate to bring in lawyers into some of our economic activities, for good reason, but it seems to me that perhaps a little legal advice, given that these are contracts after all, with payment and an expectation of delivery of service, that perhaps the Legal Department should be brought in to the design of terms of reference for the experts we hire as a routine procedure.

I thought the Panel had a useful discussion about the purpose of technical assistance and the balance between doing and teaching. We all know that in many program countries doing is essential in the initial stages, because countries simply cannot deliver their commitments under Fund programs without some

very active involvement by outside technical experts. So, doing may indeed, at least in program countries, be the first step, the first stage.

Maybe we should look at this sequentially—doing, teaching, and leaving. But, again, a more rigorous terms of reference document would help to drive that sequencing so that there is a teaching stage where that is necessary. I think MAE and the Fund generally needs to take a better look at the interaction between the individual experts, teaching experts that we send out into the field and our own training institutes. The fact is that using some institutional nexus for teaching, training people, may in many cases be by far the most efficient way of delivering. The Panel has given us some useful suggestions about what additionally we need to look at.

On the question of coordination, the terms of reference for the Panel had it look only at coordination within the Fund. Frankly, I think there are probably more difficulties and problems with regard to coordination between Fund technical assistance and sister institutions like the World Bank and the IDB, which provide technical assistance in the same areas, as well as the central banks. I was frankly surprised, given the juxtaposition of the Basle Group's meetings on this and our discussion, that there was not any reference at all to the interaction between the Fund and the central bank and the coordinating body that are own Deputy Managing Director chairs in this area. As I say, that was in the terms of reference, that limitation, but I am surprised and I rather wonder why the mandate was presented that way.

The weakest part of the report was in monitoring, and I think that is a very important area that should have been evaluated. There are two short paragraphs which I think reflect this point that Mr. Saito made about the reflection of others' opinions. The concluding sentence in this evaluation of the Fund's monitoring and control of technical assistance on page 25, the last paragraph, says "The general impression gained by the Panel was that there was room for improvement here as well as with respect to follow-up of mission reports and monitoring of progress." I realize that there are references to the monitoring process in other parts of the report, but I again would have liked a little more rigorous and, frankly, more opinionated assessment by the Panel itself on what it thinks of our monitoring procedures.

Again, the ability to monitor is a function of the precision of the terms of reference and benchmarks. I realize that when you are talking about in many cases personal interaction as determining the quality of the outcome in this area, it is hard to be precise in terms of conditionality and benchmarks, but I think we could do a little better in establishing benchmarks. As we know from our own Fund programs, they do play an important role in monitoring not only the recipient's performance but also our own in carrying through a program.

Finally, on the question of rationing our services and costs, I must say that this paper has led me to conclude even more strongly than before that we have to price the technical assistance services, not just in terms of our own budgetary interest and cost recovery interest but perhaps, even more

importantly, as a way of rationing. Yes, the demand for technical assistance services is going to be unlimited if it is free, and I think that we need to impose a cost on the users (a) to limit demand, and (b) to encourage actual effective use of the services that we deliver.

Clearly, the cost we impose has to be commensurate with the capacity of the recipient to pay, the countries in question to pay, and we can debate that method. Some sort of cost wedge would be a good idea, since we do in fact want to terminate our involvement. We should not become a permanent consulting firm for countries. One source of concern is the footnote on page 25 that says that an additional problem that arises in areas such as banking supervision expertise is that, when local counterparts are effectively trained, they are frequently hired away by the non-central bank sector. I am sure that is quite prevalent, but that does not mean that the Fund should be the permanent hole-filler in this regard, and I am afraid that is a role we could easily fall into if our services are free. At some point, countries are going to have to pay and hire other technical expertise.

I think that to the extent that we have limited institutional capacity, we should try to closely link our technical assistance with the delivery of Fund programs and ensuring the efficacy of Fund-supported adjustment programs. I am not saying that should be the inclusive use of technical assistance, but to the extent that we have to choose, I think that should be our first choice. Once we have taken care of that, if we still have resources to deploy elsewhere, we should certainly not deny our members the use of the expertise we have.

The Panel is quite clear that we should weight our technical assistance resources heavily to our own natural areas of expertise. I quite agree with that, and that goes back to the question of coordination between central bank technical assistance and our own. We certainly think that improving the quality of banking supervision and regulation in our member countries is an important goal and one where we have some role to play but I agree with the Panel that, in terms of the delivery of the actual technical assistance, we should rely primarily on other banking regulators and regional cooperative groupings that are expanding their scope, for example, in Western Hemisphere. We should not compete in that area; we should perhaps play a coordinating and an instigating role rather than a provider role.

Finally, in evaluating this exercise as part of our experiment in evaluations, I would have had to give the exercise a gentleman's "C," and I think it points to the need, as we have said before, for the Board to play a role in the design of evaluation projects and the terms of reference for independent evaluators. It would have been particularly useful in this case, because the Board reflects the experience of the recipients of technical assistance, as well as the institutional view. Perhaps we could have covered some of these weaknesses in the design of this evaluation project if the Board had been involved in the design stage of this project.

Mr. Wijnholds remarked that he doubted how much could be gleaned from the sort of detailed case-study approach that Ms. Lissakers had suggested. A general policy approach would be more useful and less costly than examining a selection of case studies "from cradle to grave."

Mrs. Cheong said that even though there would be excess demand for technical assistance while it continued to attract a zero price, there should first be an examination of measures other than cost recovery to ensure that technical assistance was used more effectively.

Ms. Lissakers observed that imposing a price for technical assistance would be an efficient rationing device. A pricing system could be made more equitable by adopting a "cost wedge" approach whereby a program country that had weak institutional capacity could receive critical technical assistance at no cost. The approach would entail a rising percentage of cost recovery in the outer years of a program. But with no cost recovery, technical assistance could become an endless process.

Mrs. Cheong suggested that another criteria for cost recovery might be the implementation record of a country receiving technical assistance. On that basis, a country with a strong implementation record would not be required to pay for technical assistance. That would also mean that nonprogram countries that did not use the Fund's resources would not have to pay for technical assistance.

Ms. Srejber observed that the newly issued management guidelines on country contributions for long-term technical assistance had, in fact, established a system of cost recovery for technical assistance.

Mr. Shields noted that the last major Board discussion of technical assistance was in February 1994. At that time, many members of the Board had expressed an interest in the question of charging for technical assistance. It might therefore be useful if the Budget Committee considered the issue in some detail with a view to bringing about some change in the methodology for cost recovery.

The Acting Chairman noted that, on the question of costs and charges for technical assistance, there had been extensive discussions in the Budget Committee, which were reported to the Board at the time of the last budget. The policy of charging for long-term technical assistance had been approved in the previous budget, and guidelines had been issued that were effective from May 1, 1996. The charges varied according to the income of the recipient countries, and ranged from \$5,000 per expert-year for ESAF-eligible countries to full cost for high-income countries.

Mr. Fernández remarked that, if technical assistance was regarded as one of the Fund's core activities, it should be considered on the same footing as the other two core activities, namely, surveillance and financial programming. That would imply not charging for technical assistance, as in the other two cases.

Mr. Waterman made the following statement:

I welcome this report as a useful contribution to our consideration of technical assistance, and I think the work underlines the value in having some

external involvement in such analysis. Picking up on some of the more general comments made by other speakers, I would also be interested in hearing if management had particular objectives in commissioning this report and to what extent management considers those objectives have been achieved.

The overall assessment of MAE activities seems to be very positive and the report's recommendations seems sensible and well-considered, in my view, and I agree with nearly all of them. One exception, though, is the idea that the Research Department could become a research and economics department responsible for defining Fund positions on policy issues, and monitoring the consistency and quality of advice across the Fund. Maybe I have misunderstood the proposal, but I see this function as already carried out by the Policy Development and Review Department and that seems appropriate to me.

Given my general agreement, I would like to focus on some key issues and some areas where the staff seemed to disagree with the report and others where I would like to draw out the Panel on its findings. The report focuses appropriately on the fact that Fund technical assistance is almost free to most recipients, and the report suggests technical assistance charges could vary based on duration and intensity of assistance. As the exchange that we have just had indicates, this is a contentious issue but I think there is value in considering this matter further when we review the recent changes to technical assistance charges.

I also note that the author's expectation is that technical assistance will increasingly be short-term rather than longer term and, at present, we do not charge anything for technical assistance less than six months and I think that is a serious flaw. There is certainly some experience in this constituency of inefficiency and counterproductive behavior when technical assistance is free to the recipient. There are externalities very often in the provision of technical assistance and I think they need to be recognized, but I do not think it rules out the need for some partial cost recovery.

I am also attracted to the report's suggestion that stronger conditionality be introduced to ensure the commitment of recipients. For example, it seems to me it would be useful to ensure the appointment of local counterpart staff for long-term advisors, and I think this is consistent with the point that has just been made by Ms. Lissakers to ensure that the expertise is passed on and there is someone on the local scene to carry the work forward. This is a standard practice for many aid agencies, so I would be grateful for the staff's comments on current Fund practice in this area.

I certainly strongly endorse the report's stress on the need for a much clearer focus on the self-liquidating objective of technical assistance, and I note that Mr. Wijnholds and Mr. Jonáš both believe that demand for transitional countries will gradually decline and also become more specific. I also endorse the report's comments on the need to focus the scope of Fund technical assistance. The specific example cited where the Fund should rely on outside experts' work

in banking supervision and payments systems are consistent with the Board's views on the need to limit the role of the Fund in these areas.

Staff comments on the degree of knowledge required for a coordinating role in these sorts of areas seemed to imply a required level of expertise that is deeper than I suspect is warranted. In these specialized areas, we need to rely as much as possible on the self-help arrangements that central banks provide one another. As Mr. Jonáš suggests, some of the transition countries could usefully assist those where reform is less advanced.

The report suggests MAE needs to do more monitoring and control of experts in the field, which seems sensible. The 1994 staff report on technical assistance identified as a key resource issue the balance between monitoring ongoing technical assistance projects and meeting new technical assistance requests. The report suggests we may not quite have the right balance in this area.

The report also refers to the impact of both supply and demand factors impacting on the level of technical assistance. If they are in a position to comment, I would be interested, as Mr. Fernández just asked, for the Panel's views on how effectively they believe the Technical Assistance Committee is working in terms of allocating technical assistance to priority areas. In places, the report seems to imply that there is room for improvement in internal decision-making.

A possible alternative model would be to allocate or locate the budget for technical assistance with the area departments that may be in the best position to ensure the commitment and ownership of technical assistance by recipient governments and to ensure that technical assistance is integrated appropriately into programs where they exist. In any case, I would be interested in the views of the Panel on whether they see scope for improving decision-making in this area.

As Ms. Lissakers remarked, in principle, improving internal coordination should be relatively straightforward, but I am reminded of a time at home when we in the Finance Ministry were having problems with our colleagues in the equivalent of the foreign office. I remember complaining to a colleague of mine about all these difficulties. He said to me, "Yes, you are correct, but you need to remember and be comforted by the fact that the problems that we have with them are nothing like the problems they have with one another."

The report also refers to the more difficult issue of duplication and coordination problems between the Fund and the World Bank and other international institutions. This is a perennial problem that we are all familiar with. I would be interested in any thoughts the Panel might have on how things could be improved in this area. Like others, I would be interested in staff reaction to the report's suggestion that resident representatives play a more active coordination role in technical assistance.

Taking a somewhat broader view of the issue, I think building more evaluation into the fabric of MAE's work has attractions. The combination of a very brief ex post documentation completed by desk staff, together with selective audits of a few cases by, say, the newly revamped internal Audit Office, could yield significant benefits and could be a relatively cost-effective way of reviewing progress. The results of internal audit work would then be considered by the Board in regular periodic reports. This would be one way of strengthening Board oversight of technical assistance as suggested by the report.

Finally, the report raises some important issues about the accessibility of Fund working in research papers, noting that they can play an important role in the Fund's broader technical assistance efforts, and I agree very much with that. I also agree that these reports could be made useful to the membership by making them more readable and policy-orientated, and having a very clear audience focus in mind.

Mr. Schoenberg made the following statement:

We very much welcome the report of the distinguished Independent Panel on the Evaluation of Technical Assistance Provided by MAE. Since the findings of the Panel and the statement of a staff representative on these findings show no major areas of disagreement, I can focus my remarks on procedural aspects and only touch upon some of the questions raised in the report.

Concerning the procedural aspects, I would like to note that the panel was instituted and its mandate defined before the Board had its discussion on the evaluation function in the Fund. We therefore cannot, obviously, measure the format and outcome of this investigation against the benchmarks which were set during the Board discussion on the evaluation function. Considering the rather high cost of this investigation, it would obviously have been preferable if the Board had been included at a very early stage, as I trust will be the case in future operations of a similar nature. The mandate of the Panel might also have been defined somewhat differently, had the Board been included in the deliberations from the very beginning. I am, of course, well aware that the notions of an Independent Panel and the setting of a mandate by the Board could come into conflict if the Board should decide to define the mandate too narrowly. In reality, however, I think this is a rather hypothetical problem. Coming back to this report, I for one would have put more emphasis on the success of technical assistance in a narrow sense, in other words, whether the advice was fully and promptly adhered to and implemented and whether the performance of the institutions that received the technical assistance increased in line with expectations. I do not fully share the concerns Mr. Mohammed has expressed in this connection in his statement. Surely technical assistance is more about institution building in general than policy advice. However, most policy implementation depends on the existence of adequate institutions, therefore the two remain tightly linked. It should nevertheless be possible to define desirable policy action beforehand (for instance during an Article IV consultation) and then request technical assistance to help build the institutions and implement the desired policies. In any case, the non-observance of advice from a technical

assistance mission should be clearly stated and explained, to make sure that scarce resources are concentrated on those areas with the highest marginal returns. The Panel's findings contain some interesting related thoughts on this under the heading of "Conditionality." This is by all means an avenue we should explore much further, as long as the supply and demand for technical assistance are not price regulated. In the absence of cost or near-cost pricing it is hard to imagine that recipients of such free technical assistance will be willing to offer substantive criticism of this free good. As for the supply side, it is well known that bureaucracies never run out of work, even if their original mandate should long ago have expired. This is the main reason why I would have preferred a more results-oriented approach of the study. Related to this is the question of whether there should be formal arrangements between area departments and other technical assistance departments, I share Mr. Shaalan's positive assessment of the increased role of area departments and I would recommend that this "four-eyes-approach" be made mandatory.

Concerning the question of coordination of technical assistance, I fully share the Panel's findings that there is probably further scope to clearly delineate respective responsibilities and activities of various technical assistance suppliers and avoid duplication or unnecessary competition between them. Since both the receiving countries and the giving institutions are evolving, coordination is also an ongoing process, which has to be kept up constantly, and frequently reviewed and, if necessary, adapted.

Ms. Srejber made the following statement:

I think it is fair to conclude that the relevance, usefulness and quality of the technical assistance provided or coordinated by the MAE Department has been high and has contributed positively to the countries' development. But this does not mean the technical assistance could not be improved.

Hence—presumably—the initiation of this external evaluation of technical assistance provided by the MAE Department. It cannot immediately be read from the Terms of Reference for the evaluation, but the Panel, in the report, notes that various questions about the effectiveness, cost efficiency and lack of assured methods of evaluating the results of technical assistance caused Management to commission the independent evaluation.

While the report sheds some useful light on the technical assistance activities and is skillfully written, like some other speakers I think it also leaves something to be desired with regard to the degree of penetration it has chosen for its recommendations and suggestions. I found these conclusions unnecessary general in their formulation.

Like Mr. Mohammed, I was also for various reasons somewhat troubled by the method "given" to the Panel for the conduct of the evaluation. Its only leeway was to decide upon "a representative sample of countries" to derive at its conclusions. Could it be that another approach (the in depth analysis of a few cases) would have yielded different results? If the aim is to improve activities in

any organization, sometimes a critical review coupled with a "down to earth" approach, where all existing weaknesses are sorted out, in the end might serve the purpose better. Could it be that the Terms of Reference for this particular exercise were set too ambitious? Or could it be, that the fact that the Panel (as they say themselves) did not feel sufficiently expert in all fields of central banking to enable it to undertake an in-depth detailed examination of all aspects of individual countries' experiences, in the end also affected the results?

To prove the effectiveness and efficiency of the technical assistance is a major undertaking. We have discussed the measurement problems involved before, and concluded that it is not easy to find appropriate operational methods for appraising the effectiveness of technical assistance. The Panel itself notes—perhaps with a trace of yearning—that were technical assistance a marketed consulting service provided on a profit-making basis, the one criterion by which technical assistance should be evaluated would be its profitability. Cost efficiency would dominate any evaluation.

It probably holds true, on a very general level, that the authorities' commitment to adjustment and a reform program is one of the main determinants of how effective the technical assistance will be (and at least is the best guarantee there is for efficient implementation of technical assistance). As the Panel's criteria for evaluating the technical assistance centered around the concepts of effectiveness and efficiency, they also raised the issue of pricing of technical assistance again.

We still think, as in 1994, that some system of charges to all recipients could play a useful role in fostering "ownership" or "commitment" of the authorities, forcing them to set some priorities and at least on the margin perhaps then achieve the result that the total amount of incoming requests for technical assistance is somewhat reduced, which could be useful, as long as it in any event is necessary to ration the demand and prioritize requests.

The presently existing system of contributions seems to me somewhat non-transparent and difficult to predict for member countries asking for assistance. In this regard, the newly issued (April 26, 1996) management's guidelines on country contributions for long-term technical assistance might help, although I am somewhat uncertain as concerns their status and practical implementation in the overall policies applied. For example how will one in practice apply that countries should be encouraged to exceed the listed contribution levels whenever possible. And we are still left with the present, to me, somewhat unclear system as far as shorter term assistance is concerned.

The Report's main focus is on the interaction between the Fund and member countries receiving technical assistance (recipients), and I will comment on a few points regarding that aspect.

I share the Panel's views that technical assistance should gradually shift away from multi-purpose missions. In the future there will likely be an increase in the use of specialized short-term experts, although already at this point I feel

compelled to add that the choice of an appropriate mix between for instance long-term and short-term expert advice will continue to vary from country to country. When we discussed these matters in 1994, our chair pointed to the fact that the efficiency of technical assistance probably depends on the length and degree of involvement of the experts in their task—highly generalizing “the longer the involvement, the better the results.” The tailoring of forms of technical assistance delivery to the member's absorptive capacity is another very important factor to always keep in mind, as is the identification of the proper sequence of technical assistance.

In the same way, achievement of self-sufficiency or “graduation” is a good determinant for the efficiency of technical assistance, but even here, there are so many aspects to consider, that self-sufficiency certainly cannot be applied straightforward as an operational criterion for the effectiveness of technical assistance.

The Panel favors in its analysis the approach that technical assistance (at least in principle and with regard to capacity building) should be “self-liquidating,” i.e., downsized significantly within a reasonable time span. Possibly the Panel's focus has been too closely on the transition economies during a very specific period between 1992-1994. Like the staff, we would rather see that much of the technical assistance is revolving, because of a continued need to help members to adapt their policy instruments and structures.

As the authorities commitment is paramount in ensuring success of the technical assistance effort, the past record is of some relevance—although not always as an environment can changes as pointed out by other speakers. The concept of conditionality is interesting and merits further considerations. Conditionality need not mean more than formulation of a specific timetable for technical assistance inputs in support of an action plan. Conditionality should, however, of course never be brought to the line where the authorities have to commit to implement every detail of the advice given. A part of an improved process is establishing more formal written procedures for members' requests for technical assistance, and for how the Fund handles these requests, including some kind of status report on their processing, and increased possibilities for country authorities to influence the setting of terms of reference, which might reduce the room for misunderstandings and delays.

The report also touches upon fields where more needs to be done, without suggesting explicit solutions. The Panel calls for increased attention on communication issues, between the Fund and Fund staff in the field, be they resident representatives or experts on assignments. These problems could be discussed more in detail, were we to have the review of Resident Representatives.

The staff statement deals with these issues as well, pointing among other things out that there is scope for improvement in strengthening procedures for monitoring and evaluating long-term experts. But just as much as the Fund sees

a need for enhanced expert monitoring, the flip side of the coin from the expert's point of view is insufficient contact with the Fund while in the field.

On the issues of monitoring and control, I find the Panel report very laconic. It offers few suggestions, apart from the general impression that there was room for improvement, with respect to communications between experts in the field and headquarters, as well as with respect to follow-up of mission reports and monitoring of progress in the implementation of recommendations. Apart from that, we only learn that the Panel was informed by MAE staff about the "several methods applied to ensure adequate monitoring, control, feedback and follow-up of technical assistance in the field."

The Panel advises cautiously that the management may want to re-examine and improve where necessary the technical assistance collaboration and internal coordination of various departments within the Fund. In particular, there appears to be scope for an increase in the institutional collaboration between MAE and the Fiscal Affairs Department.

Finally, the report notes the need there is for increased involvement of MAE in the area of coordination and cooperation between various parties involved with technical assistance (to minimize overlapping, multiple employment of available resources, sheer waste, unnecessary competition, inconsistencies and incompatibilities in the provision of technical assistance). We fully agree on the need to focus on the coordinating role of the Fund, precisely because of its importance, but wonder why the Panel did not look more closely into these matters? Cooperation with other assistance providers is an area where we see a clear need for continued efforts to improve the flow of information and the coordination process.

Mr. Autheman made the following statement:

This is a carefully worded and balanced report. One could, therefore, miss the excitement of sharper criticism, which could have made the headlines. But overall I am pleased to learn that the Panel draws the conclusion that MAE technical assistance is of good quality. This is rather comforting. I also appreciate the fact that the Panel's conclusions are both substantive and well nuanced. I also welcome the well thought answer provided by the MAE Department. I will limit myself to five comments, three on points where I agree with the Panel and two on points where I think that MAE raised some pertinent objections.

The Panel points to some significant weaknesses and I would like to comment on three of them, which have already been identified by previous speakers. First, some weaknesses on the substance of our advice. I share Mr. Shaalan's concern about the observation made on page 30 of the report that sometimes Fund advice has shown a lack of consistency about and understanding of the interrelation between exchange rate and monetary policies. There are other references to the issue of quality. There is no need to engage in a witch

hunt to point to bad cases, but I think that there is an invitation to MAE to secure the quality of its advice.

Second, on monitoring, the Panel's conclusion is rather strong, since the style of the report is that of understatement, when it says that "MAE appears to have encountered its greatest challenges and difficulties in this area." All experience shows that in technical assistance projects the capacity to monitor and assess their implementation is key to their success. I was incidentally interested by Mr. Shields's emphasis on one related issue, which is self-assessment. I hope that management will closely follow MAE's recent action in improving its monitoring; and I would be interested to know whether Mr. Guitián could tell us more about the existing practices of self-assessment.

The third point which has also been noted by many speakers is the issue of coordination with the World Bank. The Panel's observations confirm my experience, and I am sometimes at a loss. I am not troubled by the fact that the World Bank has at times provided advice on issues which are best covered by the Fund. After all, if they have the capacity to spend resources on that, why not? I think that the issue is the lack of proper coordination in areas where there are cases for mutual intervention. For instance, issues such as supervision are relevant both from the point of view of macroeconomic policy and also from the point of view of financial sector reform. Here, my sense is that we are missing a good understanding between the managements of the two institutions on how they should sometimes cooperate and distribute their responsibilities.

This leads me to two other points where my views are closer to the staff's response. The first is the exact scope of MAE technical assistance. I like the metaphor of a theatrical agent, and I think it should be a good guideline to assess where we should intervene and where we should not. The two key criteria, in my view, are: are we within our mandate and our expertise; and second, can we draw on the network of central banks with whom we are cooperating?

While I share the opinion that payments systems and accounting issues could be better left to private expertise, I think that we cannot ignore the issue of banking supervision; indeed we have on several occasions in the recent past emphasized its importance for macroeconomic policy. Therefore, we need to be sure that our staff is sufficiently knowledgeable on the subject in order to be able to identify what needs to be done and to call upon the right experts from the cooperating central banks, as well as to assess the completed work. On this specific item, I would slightly disagree with the Panel, with the exception that I think we could rely very often on the World Bank itself.

Finally, on this interesting question of conditionality, which deserves exploration, as stated in the staff's statement, my views are closer to the ones which have been expressed by Mr. Wijnholds and Mr. Fukuyama. We cannot be too formal and we must remain cautious because our advice is not always excellent. But I like the proposal that countries should be more explicit in their request and always justify their disagreement.

Mr. Daïri made the following statement:

I found this report useful since it raises a number of important issues related to the design and delivery of Fund's technical assistance, and I join other Directors in expressing my appreciation to the Panel members. I am particularly pleased with the generally positive assessment of the Panel regarding the design and delivery of MAE's technical assistance. I have a few comments on the scope of the report, as well as on some of its main findings and recommendations.

As indicated by Mr. Shaalan, the Panel had to choose between assessing a large number of technical assistance cases with the risk of drawing only general conclusions and a more detailed assessment based on smaller number of cases. In my view, both approaches have merits and could be conducted successively. However, it is important that in the former approach, the sample of countries be chosen appropriately, in order to reflect the overall technical assistance activities of the Monetary and Exchange Affairs Department. Even though the choice of countries in the sample sought an acceptable distribution from a geographical point of view, the distribution of technical assistance missions, expert assignments, and seminars, or workshops indicate that the sample is heavily focussed on transition economies: 74 percent of the multi-topic missions, 58 percent of single topic missions, 67 percent of short-term experts, 69 percent of short-term expert days, 64 percent of technical assistance reports, as well as 100 percent of seminars and workshops were related to transition economies. Only in the case of long-term technical assistance did we see a larger share of other developing countries with a strong concentration on a few countries.

In these circumstances, although the findings and conclusions can be useful for assessing technical assistance in transition economies, I am not confident that they are as relevant when assessing the overall activities of the department. Incidentally, it would have been useful to have information on the department's activities distributed by country and type of technical assistance. I concur with the Panel that it would be helpful to increase Board's awareness and control of the technical assistance of MAE. I also share Ms. Lissakers's and Mr. Schoenberg's view that the Board should be more involved in the selection and design of terms of reference of evaluation missions. In addition, and as referred to by Mr. Shaalan, a more detailed assessment over a small number of countries for a much longer period would give a better idea of the relationship between the technical assistance and progress achieved in these countries in policy design and implementation and ownership of the reform process.

Turning to the findings of the report, it is not clear on what criteria the MAE's response to requests are based. It is important to assure uniformity of treatment of Fund's membership, taking into consideration the poor administrative and budgetary resources of the less-developed countries, compared to the large tasks they face. The availability of technical experts is an extremely important issue, and it would be useful to assess to what extent it affected MAE's decisions. It is also important to ensure that availability of experts should not be affected by the identification of beneficiary countries as in the case with availability of resources for Fund's financial support. One way of

dealing with this issue is to seek secondment of experts to the Fund for a few months and to take decisions on assignments to countries, based on the sole judgment of MAE. It would also be advisable to seek experts outside industrial countries' central banks, as well as whenever possible. This would both increase availability of experts and work as a further learning process for experts from developing and transition countries.

I share the Panel's concern regarding excessive rotation among experts and subsequent repetitive discussions. This puts additional emphasis on the need for the department to have more flexibility in the choice of experts. I am also of the opinion that the bulk of technical assistance, particularly at an early stage, should be in the form of workshops that include and effectively involve a relatively large number of officials so as to avoid excessive concentration of knowledge. I also share the Panel's emphasis on the "how to do" type of technical assistance. I concur with Mr. Geethakrishnan on the need to concentrate technical assistance on trainers in recipient countries whenever there is a need to spread knowledge among a large number of officials. However, it is important to secure that such trainers be discharged from other activities.

I do not agree with the Panel's assessment that below pricing may explain why the authorities in recipient countries would be interested in all means of technical assistance delivery. In view of the heavy weight of transition economies in the sample, I am not surprised that at an earlier stage, they were not in a position to spell out clearly their preferences as the Panel recognized in the report. I am not surprised either by their keen interest in seeking Fund technical assistance in view of their immense needs in the earlier stage of the transformation process.

Acceptance of advice is an important issue that needs to be clarified. Such acceptance would depend on the degree of specification of the technical assistance task in the terms of reference. It would also depend on the degree of understanding reached with the authorities on the possible outcomes of the technical assistance and the availability of alternative choices. Acceptance of technical assistance is also likely to increase if the reports were streamlined and presented in a manner that can meet the needs and availability of different levels of decision-makers in the recipient country. I do not share the view that securing acceptance of technical assistance recommendations should be taken as a rule when deciding on technical assistance requests. Such advance acceptance can only be realistically required in a few cases. In any case, the importance of this criterion would decline substantially if technical assistance were more focussed on "how to do" than on "what to do."

I am somewhat concerned by the report's indication that consistency in multi-topic missions is not always achieved. I thought it was the responsibility of the mission chief or MAE's front office to check it. I am also concerned by the apparent lack of coordination in some cases between departments in the Fund and between the Fund and other institutions, including the World Bank, and I would call for a clearer distribution of responsibilities between the two institutions.

While I agree that some consideration should be given to the degree of commitment of the authorities when deciding on requests, excessive reliance on this criterion should be avoided since one of the major purposes of technical assistance, as indicated during the 1984 Board review, is to enhance the authorities' commitment to the reform process.

As regard the report's recommendations, I have the following comments.

Even though I agree that technical assistance can be self-liquidating over the long term, there is little we can do at present in assessing future needs on the basis of this assumption. First, we lack a long-term analysis of individual country technical assistance cases. Second, we need to have a long-term technical assistance program for each country that could be adjusted, depending on the changes in circumstances and the authorities's degree of cooperation. Third, this self-liquidating nature cannot be hastily translated into a possible reduction in the overall need for technical assistance; some countries may graduate from such use, others may have greater need in view of their progress in the reform process.

I agree with the Panel on the need to rely more on outsourcing, particularly in areas outside of the Fund's mainstream. However, this can be achieved effectively only when the MAE is able to have easier access to high-level experts. I also support the view that for areas outside Fund's expertise, the Fund should play mainly a coordinating role.

I do not agree with the Panel's assessment that the revolving nature of Fund's financial resources should be applied to technical assistance. Except for ESAF countries where longer Fund involvement may be required, recourse to Fund's financial resources should be for a short period, whereas the need for technical assistance may last for longer and is less predictable. I therefore do not support the introduction of conditionality or tranching in technical assistance. This would only reduce the flexibility of the department in meeting member countries' needs in a changing world. However, I am not against measures aimed at enhancing technical assistance effectiveness. Greater coordination between MAE's technical assistance and other departments can be achieved both through early involvement of MAE in the design of Fund's programs, or in advice and the follow up of technical assistance recommendations.

Finally, I do not agree with the introduction of cost recovery schemes, particularly in the case of low or low-middle income countries. As indicated by other Directors, technical assistance is a key component of Fund's advice and support to member countries. If we were to charge for technical assistance as a rule, we would need to charge for surveillance as well, as indicated by Mr. Berrizbeitia. I also point to the numerous studies carried out in the context of the WEO and other research, or policy and country specific studies that benefit mostly industrial countries and that can easily be considered as free technical assistance. For a decision to be taken, we need to assess how different countries benefit from the various activities of the Fund, and to take full account of member countries resource availability. Like Mrs. Cheong, I feel that there is

room for reducing the cost of technical assistance in different manners. Savings in the technical assistance costs can be achieved by avoiding repetition or duplication with other institutions and by closer follow up of the delivery of technical assistance.

The challenge of globalization and the universal acceptance of market economy put additional pressures on developing and transition economies. We should expect industrial countries to bring about their financial and expert resources for technical assistance. At a time when ODA's flows to developing countries decline, the least we could expect is an acceleration of transfer of knowledge and skills. In this context, I would reiterate my deep appreciation to the Japanese authorities for their generous efforts in this regard.

Mr. Han made the following statement:

I welcome this opportunity to evaluate the provision of technical assistance. The report of the independent panel and the staff buff serve as a good basis for our discussion.

It is appropriate to fully recognize at the outset the importance of technical assistance. The increasing demand speaks for itself. However, its importance is often seen in terms of how the recipient members benefit from it, rather than how the Fund and the entire membership become better-off through such an exercise. The provision of technical assistance should not be perceived as a one-way street. The discharge of Fund responsibilities depends on the quality of its advice, which, in turn, hinges on the expertise of its staff. Technical assistance missions offer good opportunity to replenish such expertise. Given the diversity of the membership and intensified needs for smoothing the path of institutional changes in many members, our surveillance and policy advice would have been far less effective without vigorous technical assistance. With this general observation, I would like to comment on a few specific issues.

First, the criteria for evaluation have been appropriately identified, namely relevance, effectiveness and cost efficiency. However, the report would have been more informative if it had included the analysis of some representative cases.

Second, given the high and increasing demand for technical assistance and intensifying personnel and budget constraints, I agree that there is a strong case for prioritization. But prioritization should take place within and across requesting countries as well as within and across Fund departments. And it is necessary for the Fund to weigh the efficiency of resources for technical assistance against that for other uses. In this regard, we encourage the staff and the management to explore ways and means for increasing technical assistance resources. Overall, prioritization should be based on the potential net benefit the limited resources may bring to the membership.

Third, there seems to be further scope for strengthening coordination at various levels. We appreciate the further coordination and cooperation between

the two Bretton Wood institutions in keeping each other informed of technical assistance plans, progress and outcomes. Coordination among Fund departments will also contribute to efficiency and effectiveness of technical assistance provision. Close involvement of desk economists and resident representative in technical assistance initiation, delivery and monitoring is also conducive and should be encouraged, while excessive rotation of persons in the same successive missions on the same subject should be avoided. We endorse the MAE's practice of designating someone as a country coordinator, who stays involved in most technical assistance missions to a particular member. This practice helps shorten the process of reverse education.

Fourth, with regard to the suggestion for a certain form of conditionality, I share Mr. Shaalan's concern. Quite often member countries come to the Fund for an enrichment of their menu of policy options to suit their changing circumstances and for expert analysis of possible implications of a particular choice of options. In such cases, it would be indeed unadvisable to expect recipient authorities to make a prior commitment to implement unknown policy recommendations. And, as "the Panel found a surprisingly high degree of acceptance of advice offered by MAE staff or by experts assigned under MAE guidance and control," we do not see any need for conditionality.

Finally, I wish to express my authorities' appreciation for the efforts of the departments in having provided the best possible assistance with limited resources in the context of China's economic reform. We also wish to thank the central banks that have provided financial support and qualified experts to meet the increasing demand for technical assistance.

After adjourning at 1:00 p.m., the Executive Board reconvened at 2:30 p.m.

Mr. Calderón made the following statement:

A first broad conclusion, which we welcome and agree with, is that the analytical and technical quality of technical assistance advice has generally been of high standard, and on the whole relevant and useful to recipient country institutions.

We will now go on to make some comments on some recommendations and suggestions.

The report suggests that technical assistance to central banks should be seen as "self-liquidating," and that therefore such assistance could be downsized significantly over time. This will be eventually true of the structural type of assistance given to transition countries. Nevertheless, we do not think we can yet extend this conclusion at the aggregate technical assistance level. First, it is not clear that the Fund will not continue to have excess demand for technical assistance in the future. As long as we maintain the high standards and relevancy of the assistance, the demand for technical assistance should be satisfied. Second, as the staff representative writes, most of the technical assistance given to other countries is revolving because of the continuing need to adapt central

bank policy to the evolution of markets. Finally, transition countries will eventually become users of this more specialized and dynamic type of advice.

A related suggestion is that technical assistance provided by the Fund should be confined to the IMF's areas of expertise. We think that this is a sound general recommendation. Still, this does not mean that MAE should not acquire greater expertise in areas that become increasingly more important for the Fund. For example, strong banking regulation and supervision have been seen for some time now as essential for a country's macroeconomic stability and therefore for adequate surveillance by the Fund. Therefore, MAE should build or strengthen its "in-house expertise" in crucial areas such as this one.

The idea of some sort of positive pricing mechanisms for the additional assistance in particular areas is interesting. On the other hand, we do not agree with the idea of tranching technical assistance. Although there are some general ideas of how to proceed, for example, with banking regulation or foreign reserve reforms, no two processes are alike. Some countries can advance quicker in one area—i.e., supervision, others find their greater obstacles precisely in that same area. So, it is not only difficult but may also be counterproductive to introduce conditionality in matters such as date of initiation or termination of particular legislative actions. This said, the staff should take into consideration the implementation of previous technical assistance, before proceeding with additional assistance projects.

A useful suggestion is that all reports should include a section analyzing how it differs from the preceding one(s)—this idea could be extended to reports prepared by the World Bank—and how well the recommendation(s) contained in the previous report(s) have been implemented.

There may be some room for improving the procedures for monitoring the progress of technical assistance programs and of experts in the field. This enhanced monitoring would also contribute to improve the implementation efforts of the recipient countries.

Finally, the report tells us that duplication or unnecessary competition of assistance between Fund departments and with other donor institutions such as the World Bank has not been entirely avoided. This calls for even greater coordination efforts. Also, the idea that every report should include a summary of the main findings of previous reports should help eliminate such duplication.

Mr. Vernikov made the following statement:

Before all else, let me support the conclusion of the Independent Panel about the high standard of the technical assistance provided in the area of the MAE Department's expertise. It is true that such assistance has played a valuable, and sometimes critical, role in structural reforms of central banking and financial markets in a large number of transition and developing countries. With regard to our discussion, I have several short points to make.

The role of technical assistance within the context of a member's relations with the Fund. Sometimes, especially in program countries, the experts providing technical assistance are perceived by the recipient country staff as friends and colleagues whose advice is not binding, while area department staff are viewed as strict supervisors and controllers whose advice is highly binding. In order to increase the efficiency of policy advice provided by the MAE Department, it would be productive to integrate more deeply the technical assistance activities into the overall scope of relations between the Fund staff and the member. An important reason to do so is the lack of capacity of the recipient country to receive so many different missions.

On the proposed methods of rationing of technical assistance, I have doubts with regard to the imposition of charges for the use of technical assistance. Since we know little about the elasticity of demand for technical assistance resources on their price, such a measure might altogether discourage some members from the use of the Fund's technical assistance, which we do not intend to do. These members would then most likely look for free technical assistance from friendly central banks, which might affect the Fund's role of overall coordinator. With respect to conditionality to be attached to the use of technical assistance as a method of rationing, we need to give further thought to this matter. However, I do not think that it is a good idea to seek a prior commitment of recipient central banks to accept and implement the advice they receive. Firstly, the degree of responsibility of experts providing technical assistance and policymakers who receive that technical assistance, is uncomparable. Secondly, there is nothing wrong in seeking advice from different sources, including from the Fund, and then adopting whatever is most convenient for the given country.

The report rightfully argues in favor of a coordinating role to be played by resident representatives. I think that cases when resident representatives fail to play this role, must be looked at seriously by the management and respective area departments heads. I would even go a little further to suggest that in some cases resident representatives might increase their contribution as providers of technical assistance, particularly in countries where there is more than one resident representative (just for reference: there are four resident representatives of the Fund in Russia).

It is fair to praise the coordinating and integrating role of MAE in the area of technical assistance provided by central banks of a number of industrial countries. Perhaps efforts need to be reinforced with a view to avoiding duplication with bilateral actions and those taken by other international institutions, and in order to ensure a fair distribution of technical assistance resources among members.

As for most suitable methods of presentation of recommendations, I would see merit in a menu option that would integrate several countries' comparative experiences. This point is especially relevant if an external expert's background is only with his home country central bank. Just to add here, I was attracted to Mr. Jonáš's idea that central banks of countries more advanced in

transition could play a role in providing technical assistance to other transition economies, because their experience is very recent and highly relevant.

As for the report itself, I would support those Directors who believe that the Independent Panel has achieved its goal and, in general, done a good job. The quality of analysis is high, and the conclusions and recommendations are well focussed and relevant. This being the case, it once again proves that in our February discussion we had good reason to consider independent external reports to be a useful vehicle of evaluation. Moreover, it shows that evaluation procedures existing in the Fund are broadly appropriate and can work well without the existence of a special "evaluation unit." At the same time, let me mention that, as we did at the meeting on the evaluation function in the Fund, this chair would favor greater Board involvement in external evaluation exercises, and on this matter we would endorse the remarks of Messrs. Mohammed, Al-Tuwaijri, and Schoenberg.

Mr. N'guiamba made the following statement:

We join previous speakers in recognizing the high quality of the work done by the independent panel in the evaluation of technical assistance provided by MAE. At this stage of the discussion, there is no need to repeat the main points already made by Directors on the importance of the department's technical assistance, and I would like to make only a few comments for emphasis.

All countries of my constituency urgently need technical assistance in almost all areas that are useful in macroeconomic management. The advice on issues related to the functioning of a financial sector and to the central bank's formulation of monetary policy has been very useful for countries of my constituency. The role of MAE technical assistance has been, and continues to be, highly appreciated by this chair.

Like previous speakers, however, we would like to encourage MAE and other departments of the Fund to increase the coordination of their advice with that provided by other bilateral and multilateral agencies, particularly the World Bank. Such an approach will help to avoid conflicting messages to recipient countries.

On the issue of conditionality, we recognize that it will help to provide technical assistance primarily to countries which have shown willingness to translate recommendations into concrete actions. However, one should avoid causing unnecessary delays in the provision of technical assistance and risk making a difficult situation worse.

On the possibility of imposing charges to users of Fund technical assistance, we tend to share the views of Directors who have expressed their reservation because such charges will penalize mainly the developing countries who are the main recipients of such assistance in the first place.

Ms. Patel made the following statement:

We welcome this opportunity to discuss the findings and suggestions submitted by the independent panel, of their assessment of technical assistance provided by the MAE. It reconfirm the high quality of the technical assistance provided by the MAE and its valuable contribution to strengthen the administrative capacity of many member countries, particularly, in the context of reform processes.

On a general note, we must point out that the report is concise and interesting in its presentation. However, as some Directors have already indicated, it adds little to the conclusions of the review of the Fund technical assistance which the Board discussed about two years ago. It would have been useful, therefore, if this evaluation would have focused instead, on an in-depth analysis of the quality and effectiveness of the technical assistance in question, based on a reasonable sample of countries. As a second remark, we would indicate that from reading the report one also may get the impression that the main findings are related essentially, to the experiences of the economies in transition, despite the balanced representation, in the sample, of countries from other regions.

Regarding the specific issues, we have the following remarks:

Because of the substantive gap between the large demand for technical assistance and the limited human and financial resources, some criteria for prioritizing technical assistance requests need to be set. We cannot however, agree with the assertion made in the report that the excess demand for technical assistance is a result of below the market prices at which it is provided by the Fund. Technical assistance provided so far has not been totally free of charge. Imposing a price recovery mechanism will prevent access to technical assistance by those members that are most in need.

For many countries the pace and even the success of their adjustment programs or transformation process is greatly dependent on the adequacy and timeliness at which the required technical assistance is provided. Such assistance is fundamental and need to be maintained, at a stage when institutional building and skill enhancement need to go hand in hand with the processes of adjustment and transformation. Its effectiveness could also be strengthened if the recipient country's needs were incorporated as an integral part of the reform programs.

We have reservations on some of the conditionalities suggested in the report as a means to prioritize the technical assistance requests. The authorities' commitment to adjustment and reform is, no doubt, a critical factor to prioritize such requests. However, we are not convinced about using the recipient's past performance in implementing the technical assistance, as a valid criterion for determining its effectiveness. We do not see, therefore the introduction of additional conditionalities as a useful mechanism. On the contrary, it can prevent countries from requesting technical assistance, and thus affect their implementation capacity. On the other hand, it is important to note that its

effectiveness depend in addition to the recipient's absorption capacity, also on the quality of expertise provided, the feasibility of the advice given to the authorities and the extent to which the know-how is transferred to local counterparts.

On the modes of delivery, they will necessarily have to be adapted to the specific requirements at specific stages of program implementation, of each individual countries. However, we continue to believe that providing adequate training to local staff is the best cost effective solution, in the longer run.

We agree with the suggestion made in the paper, that is important to monitor the progress of the technical assistance programs, including those of the experts in the field, as part of the process of evaluating its effectiveness and efficiency. Procedures for such monitoring may need to be improved and made more systematic.

Coordination of technical assistance supplied from various sources is fundamental to avoid duplication of efforts. While the Fund's cooperation with other institutions, particularly the World Bank and regional multilateral banks, as well as bilateral providers of technical assistance will be useful, we think that the overall coordination of the technical assistance should ultimately, rest with the recipient country.

Mr. Daïri noted that the Monetary and Exchange Affairs Department did apply some judgment and selectivity in deciding on the technical assistance that it offered. For that reason, technical assistance was not totally demand driven, and that should be borne in mind in any consideration of possible cost recovery methods.

The Director of the Monetary and Exchange Affairs Department noted that actions had already been taken to implement some of the panel's recommendations. In the areas where the Monetary and Exchange Affairs Department held a different view from the panel, guidance from Directors would be most welcome.

With regard to the issue of coordination within the Fund, there was already a strong degree of interdepartmental cooperation, the Director said. There was a Technical Assistance Committee, which was composed of representatives of all the technical assistance departments as well as the area departments. That committee met regularly to set priorities in the context of available resources. Resources were broadly allocated on a regional basis, and within the regional allocations, the Monetary and Exchange Affairs Department established priorities. Very often demand exceeded the ex ante regional allocations, in which case further consultation with the area departments helped to redefine priorities. While there was room for improvement, there was not much scope for further exchange of information. There was also already a well-established tradition of information exchange between the Fiscal Affairs Department and the Monetary and Exchange Affairs Department. With that in mind, the panel's recommendation for greater coordination between those two departments was a little baffling. The two departments not only communicated frequently on a regular basis, but they had undertaken joint missions, and at present, they were preparing a paper together on bank restructuring.

Mr. Fernández queried whether technical assistance was also coordinated with the Fund's surveillance and program activities, and whether the panel had made any recommendations in that regard.

The Director of the Monetary and Exchange Affairs Department said that, to a large extent, technical assistance was geared toward area department priorities, whether in the area of surveillance or of financial programming. In fact, the degree of integration of technical assistance advice in other aspects of Fund policy advice had increased dramatically. However, there was still scope for improvement. For example, technical assistance in the area of banking soundness and related domains of regulation and supervision needed to be integrated more effectively into the surveillance and programming frameworks.

Mr. Shields suggested that a clearer view of priorities might emerge if the area departments had to "purchase" technical assistance from the functional departments.

The Director of the Monetary and Exchange Affairs Department said that Mr. Shield's suggestion was too broad to be discussed effectively in the present context.

The Monetary and Exchange Affairs Department devoted a significant amount of resources to coordination, the Director continued. With specific regard to coordination with outside donors of technical assistance, a tradition of close coordination with the World Bank and regional development agencies had been established for a long time. In connection with the countries of the former Soviet Union, information had been exchanged with 23 participating central banks, in periodic meetings held in Basle, to ensure that bilateral technical assistance did not significantly overlap. In addition, a tradition of coordination with the Basle Committee on Bank Supervision in the areas of its competence had been well established. In that regard, MAE technical assistance had served to disseminate and report the supervisory standards of the Basle Committee.

Although the Monetary and Exchange Affairs Department was already undertaking a certain amount of self-evaluation, there was also scope for improvement in that area, the Director noted. However, over time, resources had become so stretched that evaluation activities in the department, for example in relation to the backstopping of experts in the field, had been curtailed. It needed to be borne in mind that the Monetary and Exchange Affairs Department undertook about 130 missions a year, with 100 long-term advisors in the field, and a further 500 short-term experts engaged in mission work. Clearly, there was a trade-off between delivery of technical assistance and the monitoring of its quality. In addition to the monitoring of advisors in the field that was already taking place, the department had an internal review process for the advisory reports of the technical assistance missions of the department.

Some forms of technical assistance were self-liquidating, the Director remarked. But other needs for technical assistance had also tended to emerge, especially as the world economy was changing so rapidly. However, it was not the intention of the Monetary and Exchange Affairs Department to maintain a permanent presence in any one country.

Mr. Shields said that the process of self-evaluation could be formalized by making an assessment of each mission's goals and achievements when it returned to headquarters. Also, the cost effectiveness of missions could be monitored to ascertain where savings might be

possible. Such assessments could, in turn, form the basis of annual reviews of the overall technical assistance program.

Mr. Diz, a member of the panel of outside experts, said that he considered it a special privilege to return to the Executive Board after 28 years, and that it was an honor to have been selected to be part of the panel. The independence granted the panel brought with it a strong sense of responsibility.

The panel's mandate was to evaluate the activities of the Monetary and Exchange Affairs Department from the perspective of its technical assistance process as a whole, rather than to assess technical assistance in a particular country, Mr. Diz remarked. That explained why the panel had chosen a representative sample of countries to examine. Time and budgetary considerations had limited the total sample size to 20 countries, 10 of which were visited by panel members.

The use of some form of "conditionality" with regard to technical assistance had several purposes, Mr. Diz said. First, it was intended to make the use of technical assistance resources temporary. Temporary use was, however, not meant to imply a once-and-for-all allocation of resources. Second, the purpose of conditionality was to enhance monitoring and follow-up. Third, conditionality would serve to clarify a recipient's contribution to the technical assistance process through, for example, the provision of counterparts, physical equipment, an agreed budget, and so on. Finally, conditionality would help to strengthen a recipient's commitment to implement recommendations. On the basis of the above, the panel had introduced the notion of a "letter of intent" for technical assistance, which would spell out the actions and measures that the authorities should adopt in support of the technical assistance they were to receive. Agreements on technical assistance conditionality need not have a legal formality, but would act indirectly to monitor the performance of the recipient country. The panel also recommended the use of "tranching," in the special sense that conditionality would increase in line with the duration of the technical assistance provided. However, conditionality was not, and could not, be a commitment to unknown recommendations.

Ms. Srejber said that it would be unrealistic to expect that conditionality would guarantee that a central bank would be capable of retaining a certain number of staff for a specified period of time.

Mr. Swoboda, another member of the panel of experts, confirmed that the panel's idea of conditionality involved the recipient institution making a commitment to build up competent staff to support the Fund's efforts. In that sense, the term "conditionality" implied an agreement on, and monitoring of, an action program.

With regard to the evaluation method adopted, the various correspondents had been informed that the panel was to focus on procedures and modes of delivery rather than on the absorptive capacity or implementation record of individual countries, Mr. Swoboda added. Such a method, which avoided the impression that any one country might be targeted for corrective action, ensured frank talks with the recipient authorities. However, the confidentiality and frankness of discussions also meant the panel's report could not contain many of the details that several Directors had sought.

The panel was of the view that the Fund's Technical Assistance Committee, a cross-departmental coordinating body, appeared to be a fairly effective rationing device for technical assistance, Mr. Swoboda said.

The panel considered it inadvisable for the Monetary and Exchange Affairs Department to develop in-house expertise in all monetary, banking, and financial fields, Mr. Swoboda remarked. For example, in the area of banking regulation and supervision, it would be sufficient to have only a few staff familiar with relevant issues rather than establishing a separate banking regulation division. A small number of staff could adequately perform the coordinating function. In the same vein, while it was important to maintain a body of expertise for accounting and payment systems now, demand for technical assistance in that area would likely taper off, thereby obviating the need for permanent capabilities in that area in the future. The Monetary and Exchange Affairs Department also needed to remain aware that individual technical assistance programs should be self-liquidating as much as possible. In that sense, technical assistance programs should have clearly defined end points.

With regard to appropriate rationing methods, pricing should play an important but not exclusive role, Mr. Swoboda said. It was the panel's view that charging for technical assistance should not be motivated by budgetary considerations, but rather should be a device for building performance incentives into technical assistance programs.

In order to improve the Monetary and Exchange Affairs Department's monitoring and control function, the role of self-evaluation should be enhanced, Mr. Swoboda added. In that regard, panel members had made specific recommendations to staff members during the course of their work. The panel's report also highlighted a number of areas where improvements could be made.

The notion of "tranching" used by the panel was closely associated with the use of technical assistance benchmarks, Mr. Swoboda noted.

The panel had noted several areas where coordination could be improved, Mr. Swoboda continued. First, there was a need to enhance internal coordination between departments, and between the policy recommendations of technical assistance programs and those provided during the Fund's normal surveillance activities. Second, there was a need to improve the coordination between the Fund and other technical-assistance-providing institutions and agencies.

Ms. Lissakers remarked that it would have been possible to preserve the anonymity of individual countries while providing a more detailed commentary if the panel had simply identified the frequency of certain types of problems. Such a reporting approach would have strengthened the panel's recommendations. In that sense, there was a clear trade-off between confidentiality and the impact of the panel's recommendations.

The Acting Chairman made the following summing up:

Directors welcomed the opportunity to discuss the external evaluation of MAE technical assistance activities. It was noted that this was the first evaluation conducted by a panel of outside experts to be discussed by the Board since the report on Mexico by Sir Alan Whittome last year. Noting that the Panel

had full independence in its evaluation, and had drawn up its own terms of reference, several Directors stressed that in future evaluations the Executive Board should play a larger role in defining the objective, scope, and terms of reference of the evaluation exercise. We have noted carefully the views of speakers on procedural aspects on which we should reflect further in the context of the development of the evaluation function in the Fund, perhaps during the discussion of the work program of the Executive Board tentatively scheduled for May 22, 1996. In the following remarks I will, therefore, focus on the substantive aspects of the Panel's report.

Most Directors commended the high quality of the work of the External Evaluation Panel, and expressed broad agreement with the report's overall conclusion that the delivery of technical assistance by MAE had been of high quality and had been helpful to recipient institutions. In particular, in the transition economies, the MAE-coordinated technical assistance program, delivered with the assistance of the cooperating central banks, had made an essential contribution to the process of transition to a market economy. There was also broad agreement among Executive Directors that certain areas of delivery should be strengthened further. In that context, some Directors thought the report could have been more precise in its critical comments, and observed that an in-depth study of a smaller sample of MAE technical assistance over a longer period might well have given a different picture from the one that emerged from the broad sample chosen by the Panel members. However, most speakers believed that the report was well balanced in its findings and that the Panel had not hesitated to point to, albeit politely, areas for improvement in MAE technical assistance, such as the nexus of exchange rate policy and monetary policy, on which some Directors commented.

While there was broad agreement with the view that specific technical assistance activities should in principle be self-liquidating, Directors generally recognized that over the next several years demand would continue to strain available resources. They observed that there would remain a continuing demand for technical assistance as many member central banks would have a revolving need for advice to continue to adapt their policy instruments and structures to the evolving needs of the market. However, it was noted that as demand from the transition economies for basic institution-building tapered off, resources could be redirected to other geographical regions, which had experienced a decline in technical assistance in recent years, or to other Fund activities.

A number of Directors believed that MAE, in its technical assistance activities, should function to a large extent as a coordinator and organizer of outside experts rather than attempt to build up comprehensive in-house expertise. Directors therefore agreed with the need identified in the Panel's report to carefully review the scope of technical assistance in order to ensure that it pertained to areas of core interest to the Fund. They agreed that continued technical assistance in such areas as banking supervision and restructuring, accounting, and the payments system, in which the Fund would play largely a coordinating role, would be appropriate. They observed that progress in those areas would contribute to the effective implementation of macroeconomic policy,

particularly by enhancing the efficiency of monetary policy and by limiting the fiscal impact of banking problems. Directors underlined the need to avoid duplication with efforts of other institutions in those areas, such as the Basle Committee in the case of banking supervision, and the World Bank in the case of banking system restructuring, and urged the staff to strengthen coordination with these and other institutions.

Directors agreed with the recommendation of the Panel that the monitoring and evaluation of technical assistance should be improved, and urged the staff to enhance its practices of self-evaluation. Directors stressed that it was important for individual expert advice to be integrated into well-formulated technical assistance programs, and that enhanced briefing and backstopping were therefore necessary. They endorsed the staff's plans to ensure that experts were appropriately matched with identified needs.

Directors gave considerable attention to the proposals outlined in the report on how to ration the excess demand for technical assistance resources, including through the introduction of Letters of Intent, and of a certain measure of conditionality. Many Directors initially took a negative view with regard to conditionality for technical assistance. Others, however, believed that the subject merited further consideration while agreeing that this was an area where great caution should be exercised. The two Panel members present provided further clarification of the nature of their proposal, which could be described more accurately as a broad understanding between the Fund and the recipient member on the nature and goals of the technical assistance. The Panel also saw it as desirable to set "markers" or benchmarks for progress with technical assistance that would make possible interim evaluations of the effectiveness of the effort, and an evaluation of the advisability of proceeding or amending the chosen course of action.

A number of Directors stressed that further consideration should be given to the issue of the pricing of technical assistance. Others recalled that technical assistance was recognized as one of the core activities of the Fund alongside surveillance, to which no charge was applied. It was further pointed out that it was precisely those countries which could least afford to pay that needed technical assistance the most. They recalled that recipient institutions already made a contribution to the cost of long-term experts, which they viewed as adequate to ensure that only truly needed assistance was requested. A few Directors noted the recently-instituted system of charges for technical assistance delivered by long-term resident advisors, and requested further consideration of the pricing issue.

There was broad agreement on the importance of carefully assessing a member's track record in acting on the recommendations of past technical assistance before agreeing to additional requests. That assessment could be an important indication of a country's commitment to reform, which Directors agreed was crucial in ensuring the effectiveness of technical assistance delivery. Lack of implementation or nonobservance should be clearly taken into consideration, and technical assistance should become more results-oriented. To

that effect, it was thought to be important to associate the area departments and resident representatives more closely with follow-up activities.

Action plans should be developed to provide a basis against which progress could be measured. While action plans were already being used by the staff in the context of technical assistance in support of comprehensive programs of structural reforms, their use could be broadened. Use of such action plans would be beneficial not only in monitoring the effectiveness of technical assistance, but would be an important tool in setting priorities and in clarifying interrelationships between reforms in various areas. A few Directors stressed the importance of ex-post self-evaluation of technical assistance, both as a valuable discipline in itself, and to more generally serve as the basis for evaluation of the overall effectiveness of a particular technical assistance exercise.

Directors agreed with the importance that the Panel attached to training the staff of the institutions receiving technical assistance. They thought that the current framework of courses in the context of activities of the IMF Institute and the Joint Vienna Institute, MAE workshops, and MAE-coordinated training projects executed by cooperating central banks—typically with European Community financing—all provided a solid basis on which to build and adapt to changing needs.

Finally, Directors expressed their gratitude to all three members of the Panel for their important contribution, and management and the staff seconded that view.

3. MADAGASCAR—1996 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1996 Article IV consultation with Madagascar (SM/96/93, 4/20/96). They also had before them a background paper on selected issues and a statistical annex (SM/96/105, 5/3/96).

The staff representative from the African Department reported that the Malagasy parliament had passed a motion of no confidence in the Malagasy government. It was expected that a new government would be formed shortly.

Mr. Koissy made the following statement:

Madagascar's economy, which stagnated in 1994, recovered somewhat in 1995, achieving a rate of real GDP growth of 2 percent. The end-of-period rate of consumer inflation, while remaining high at 37 percent, was reduced by almost half. The external current account deficit (excluding official transfers) widened only slightly. While these modest improvements are encouraging, the authorities are in full agreement with the staff that, in order to bring Madagascar on a sustainable noninflationary growth path, the implementation of a package of policy and structural measures is needed urgently.

Such measures should particularly aim at creating favorable conditions for a market-based system, through the liberalization of both domestic and external trade and the reform of the public enterprise sector, including the privatization of some government-owned firms and banks. At the same time, in order to create a noninflationary environment, the authorities recognize the need to pursue the application of tight financial policies during the years ahead. To address the economic problems facing the country, the authorities initiated the implementation of a wide range of policy and structural measures in 1995 and have already begun to implement other measures during the course of this year.

In the fiscal area, the authorities intend to continue to make efforts in order to reduce the rate of consumer inflation. To that end, a combination of revenue-increasing and expenditure-reducing measures were introduced in 1995. Consistent with the inflation objective and government's plan to significantly reduce the level of outstanding bank credit to the government at the end of 1995, measures were taken to achieve an increase in revenue equivalent to 2 percent of GDP. These measures included the elimination of all ad hoc tax exemptions, the removal of implicit wheat flour subsidies, and sharp increases in petroleum enterprise taxes. Unfortunately, revenue performance was far below the budgetary target, mainly because of lagging tax payments by the public petroleum companies and increasing tax arrears, and weaknesses in the system of tax collection.

In response to this relatively weak revenue outcome, the authorities further tightened expenditures through a reduction of the size of the civil service, including armed forces, and cuts in other non-interest expenditure components. However, to maintain the living standards of low income population, the authorities granted minimum wage increase during the year. Despite this wage increase and the revenue shortfall, the government was successful in improving its net position vis-à-vis the banking system.

Looking ahead, the authorities are determined to alleviate the widespread poverty that has resulted from the steadily declining real per capita incomes, increase investment through reforms that will attract foreign direct investment, and allocate more government resources to infrastructure development. Attempts to address these important issues will necessarily have fiscal implications.

For 1996, the government is pursuing efforts to increase revenue and improve the structure of its expenditures. Revenue is projected to rise as a consequence of increases in specific petroleum taxes and taxes on cigarettes and alcoholic beverages which will more than offset the revenue loss that is expected from the lowering of some taxes. On the expenditure side, efforts aim at improving the control system and further reducing the wage bill, particularly through attrition. Public investment is projected to increase only slightly, mainly because of the lack of resources. To make the use of available resources more efficient, the allocation of investment funds will, henceforth, be done on a regional basis.

Madagascar's tight monetary policy in combination with nonexpansionary fiscal policy is designed to achieve price stability. To that end, the control of broad money expansion is increasingly done through the use of indirect instruments. The decline in the rate of monetary expansion in 1995 was exactly as programmed by the authorities. Despite this slowdown in money supply growth, the rate of inflation remained higher than expected, mainly because of the slow transmission mechanism and the weak financial intermediation system. For the current year, the authorities have already signaled their intention to continue to tighten monetary conditions. However, they would like to proceed with a downward adjustment of interest rates only after the rate of inflation has fallen substantially. Taking advantage of the deceleration in the rate of inflation last year and the appreciation of the exchange rate, the central bank annual base rate was reduced to 30 percent early this year. All credit ceilings have also been removed.

External sector policies are intended to increase Madagascar's integration into the global economy. To that end, the tariff objectives of the Cross-Border Initiative in Southern Africa are close to being met. As regards exchange rate policy, the Malagasy franc was under a free floating system from April 1994 through most of 1995. Late in the year, the appreciation of the exchange rate led to an intervention of the Central Bank. Future policy is for the Central Bank to intervene whenever there are abrupt movements in the exchange rate. This policy and further liberalization of the exchange system are expected to facilitate the diversification of Madagascar's production base and a substantial increase in its non-traditional exports.

In the area of structural reforms, my authorities are pursuing efforts to establish a sound banking system, improve the functioning of the rice market, and further liberalize the economy. To increase the efficiency of the domestic banking system, the first step was taken in 1995 with the appointment of independent managers in two government-owned banks. In addition, a new banking legislation was enacted early this year. The need to improve the marketing system for rice has been prompted by the spread of poverty. In order to make rice available to the low income population, the authorities have liberalized the import of rice and thus increased competition in the rice market. Progress has also been made in the area of liberalization of other sectors of the economy and the restructuring of the public enterprise sector. Particularly noteworthy is the fact that an independent privatization commission has been established. Other measures, including the revision of the investment code and a program of divestiture are also under review.

My Malagasy authorities wish to thank the Managing Director for his recent visit of Madagascar and for his helpful advice, encouraging them to address the pressing challenges facing the country. They would like to reiterate their intentions to accelerate and deepen structural reforms that would create a favorable environment for private sector activity. They hope that, with increased private sector activity, the mobilization of domestic savings will rise, allowing for higher level of capital accumulation. It is, however, important to note that Madagascar's current level of external debt and debt service obligations,

including payments arrears will remain high in the absence of external financial support. In order to address their debt problem and bring the economy to a sustainable growth path, the authorities are prepared to continue the implementation of market-oriented policies in the framework of a comprehensive adjustment program supported by the Fund. They are confident that the recent adoption of a new constitution will facilitate the building up of a national consensus toward the formulation of such a program.

Extending his remarks, Mr. Koissy said that it was likely that the new government would be committed to the rapid implementation of necessary reform measures in the framework of a comprehensive adjustment program.

Mr. Kannan made the following statement:

Considering the difficult situation faced by Madagascar in the last two to three years, the performance during 1995 could be considered as encouraging. The GDP grew by 2 percent and the fiscal deficit was reduced to 5.9 percent of GDP from 8.4 percent in 1994. However, the inflation rate has shot up to 49 percent in 1995 compared to 39 percent in the earlier year and external debt has increased to 142 percent of GDP. The current account deficit has also widened to 7.8 percent of GDP in 1995. The staff has projected some improvement in these parameters in 1996 but it is not clear at this stage whether these benefits could be sustained.

In this connection we welcome the visit of the Managing Director to Madagascar and we fully share the views expressed in his speech dated May 3, 1996. As rightly observed, there are a few critical decisions that must be made if Madagascar is to be put back on "high quality" growth which is planned, sustainable and equitable.

We are encouraged to note that the inflation rate has gone down from a peak of 65 percent in April to 37 percent in December, even though this is well in excess of 15 percent target. The key element in controlling inflation is to reduce the budget deficit and the deficit of public enterprises and to ensure appropriate budgetary decision making.

Total revenue as a percentage of GDP at 8 percent is one of the lowest in the region. As rightly observed by Mr. Koissy, in his useful statement, the revenue performance was far below the budgetary target due to delayed tax payments by the public petroleum companies, increased tax arrears and weakness in the system of tax collection. Attempt must be made to address these issues on an urgent basis. There is a need to increase the revenue base, especially, by implementing the tax and customs administration measures suggested by the FAD mission.

As regards the monetary policy, the tight stance must be continued for some more years. We are happy to note that the excess liquidity is being successfully absorbed. Better control of monetary aggregate has contributed to

the improved credibility of the monetary authorities and all credit ceilings were removed by December 1995.

In the process of moving towards indirect instruments of monetary policy, the interest rates have increased to very high levels. These high real interest rates have a deleterious effect on investment and interest rates must be reduced, once a sustainable reduction in inflation is witnessed.

In order to increase the efficiency of indirect instruments of monetary control, we encourage the authorities to move towards market determined interest rates and to strengthen the secondary market for bills. In this respect, reserve maintenance period may also be reduced from one month to fortnight/weekly basis so as to smooth the volatility in interest rates and to improve market turnover of T-bills.

With reference to strengthening foreign exchange market, while we encourage the authorities to strengthen the recently created inter bank market for this purpose, we would caution the authorities in their move towards creating a forward market at this hour, in view of, (1) lack of adequate skills in the banking system, (2) need to preserve the presently available foreign exchange reserves, and (3) supervision and control of banks are yet to strengthened adequately.

Only through a real GDP growth at an average rate of over 6 percent a year, over a substantial period, could Madagascar expect to return to its 1970 real per capita GDP level. With this objective in mind the investment needs to be increased substantially from the current level of 11 percent. In this respect, improvement of the level of savings, largely at 3 percent of GDP is to be given top priority. Dependence on foreign savings must be reduced. In mobilizing financial savings the present banking system must be fully utilized.

In the last article IV discussion many Directors emphasized that well targeted social safety nets need to be implemented with a view to restoring the confidence of the people in the reform process. However, the budget for 1996 reflects a reduction of resources for social safety net purposes!

Finally, at the time of last discussion, many Directors suggested that ESAF would be more appropriate for Madagascar to address the prevailing issues. We also support this view. In the near future, we hope that we will have an opportunity to discuss this.

With this, we wish the authorities success in their endeavors.

Mr. Kaufmann made the following statement:

Over the last 20 years, the economic performance of Madagascar has been deplorable. GDP has fallen dramatically, inflation has been high, domestic savings almost nonexistent, and investment in physical infrastructure and human skills very low. The main reason behind this negative development was an absent commitment to sound financial policies and a lack of confidence in market

forces. Although the authorities tried to re-orientate their economic policies on several occasions, all attempts to stabilize and reform the Malagasy economy failed.

Now, there is new hope. I welcome the authorities' decision to undertake a renewed attempt. The first steps in this endeavor have been encouraging. However, if Madagascar wants to enjoy higher growth rates, the authorities will have to strengthen stabilization measures substantially, and accelerate reforms aimed at providing more oxygen for the private sector.

On financial policies, I welcome the emphasis put on reducing inflation by a prudent monetary policy and a reduction of the budget deficit. However, to secure a minimum level of expenditures for infrastructure and social spending, the government should urgently aim at increasing revenues through raising petroleum taxes, broadening the VAT base, and improving custom and tax administration.

On exchange rate policy, it is essential to maintain a liberal regime. Moreover, the authorities should not concentrate too much on the exchange rate level. I do not think that time is ripe to fine-tune exchange rate policy and would therefore advocate to focus attention on heavy currency fluctuations. If necessary, the authorities should let the real exchange rate appreciate, especially as an appreciation within a reasonable extent would not pose major problems as regards external competitiveness.

The external debt situation of Madagascar is worrisome and the medium-term outlook difficult. Staff's medium-term scenario may be too optimistic in assuming rescheduling agreements with non-Paris Club creditors on Naples terms, especially when taking into consideration that Madagascar's arrears toward Russia amount to SDR 300 million, and a willingness of Russia to agree to Paris Club terms is so far nowhere in sight.

On structural reforms, I am concerned about the slow speed in the area of public enterprise restructuring, privatization, and financial sector reform. In my view, a rapid and comprehensive orientation toward private market forces is urgent. Only such a move will significantly improve domestic and foreign investments, resource allocation, economic growth, and budgetary revenues.

However, the objective of letting private entrepreneurship play a prominent role in the Malagasy economy has to be accompanied by a strong commitment of the Malagasy authorities to establish a well functioning social safety net to protect the most vulnerable groups of the society. It is worrisome that only few efforts have been undertaken in this respect. Moreover, the situation is getting even worse as budgetary resources reserved for strengthening the social net are substantially lower in the current budget than in the previous one.

Given the slow move toward a growth oriented economic policy so far, I welcome recent signs that the President wants to accelerate reforms. On

April 20, 1996, he stated for the first time publicly that he is willing to reach an agreement with the Bretton Woods Institutions. In this context, the Managing Director's visit was certainly very helpful, and I much appreciate his polite, but frank and candid speech before the National Assembly of Madagascar, containing the highly important messages that, firstly, external assistance will only prove to be helpful if Madagascar is determined to mobilize its own resources, and, secondly, that only actions and not mere words will improve the economic situation and reduce poverty. I take it as a good sign that the Malagasy press dealt with the Managing Director's visit in detail. If I am rightly informed, two speeches of the Managing Director have been published word-by-word.

To conclude, I hope the authorities are well aware that the journey lying ahead will be little comfortable. While stabilization may be achieved rather quickly if fiscal and monetary policies are tight, domestic and foreign investment will only grow slowly for the time being. This is the price Madagascar has to pay for numerous policy slippages during the last years. Potential investors tend to think the planned adjustment measures will again be reversed at half the way. In such a situation, it is important that the authorities issue clear signals on their future intentions. Unfortunately, this is not yet fully the case in Madagascar. On the one hand, they seem committed to bring back the Malagasy economy on a growth path. On the other hand, whenever difficulties occur, their first reflex is to rely again on administrative measures. Let me in this context only recall the discussions between the staff and authorities on the problem of rice price fluctuations. I hope that the authorities will eliminate any doubts about their future intentions within a short-time period, and thus clear the way to negotiate on a Fund-supported adjustment program.

With these remarks, I wish the authorities good luck in their difficult endeavor.

Mr. Fayolle made the following statement:

There is an amazing contrast between the attention paid to Madagascar by our institution and the limited responsiveness of the countries authorities to the Fund's advice. I am not convinced that the authorities are "in full agreement with the staff," as stated by Mr. Koissy in his statement.

The Fund has provided important technical assistance to Madagascar: seven missions in less than two years. A resident representative has been assigned to Madagascar. Most importantly, the Managing Director has recently made a four-day trip to the "Big Island". I regret that Mr. Koissy has not been able to convey to us the readiness of the Malagasy authorities to respond positively to such a solicitude.

What is expected today from the Malagasy authorities?

First, they have to demonstrate their clear commitment to a market-oriented economy, without any parallel financing arrangement.

There is at the present time a growing consensus in Africa on the necessity of macroeconomic reforms, even though many countries are still far from the policy frontier or are experiencing uneven performances. But there is a widespread recognition that adjustment policies are needed because they are the only ones which can lead to social progress. Madagascar does not seem to share this consensus yet although the significant progress that Mr. Koissy is referring to, deserves to be acknowledged, notably on the exchange rate, monetary and price policies.

But uncertainties are still dominant. For instance, apart from presenting two competing versions of the budget for 1996 to Parliament, the government prepared the early budget drafts contemplating an overvalued exchange rate. In the same vein, providing tax reliefs in order to reduce costs as well as intervening on the rice market were envisaged.

A clear statement of policy should be accompanied by up-front measures. These have been mentioned by the Managing Director in his recent report. These necessary measures include adopting a supplementary budget consistent with the staff's projections, adopting and implementing FAD's technical assistance recommendations, a transparent framework for privatization and rapid progress in divesting from the two state-owned banks.

The authorities should realize that implementing an adjustment program is a demanding and difficult task. There are three challenges ahead: mobilizing Government revenue, reducing inflation and promoting private investments.

The staff's objectives for government revenue have been revised downward but they still require a considerable effort. The revenue objectives will impose a sharp constraint on the level of noninterest expenditures to accompany a recovery of economic growth. This implies an even greater effort to restructure public expenditures. In this regard, I am concerned by the difference of views with the World Bank on the composition of public expenditures.

To reduce inflation, the country's authorities will have to enforce tight monetary policy. The background paper explains this rather usual problem of projecting the behavior of velocity in a situation of liquidity overhang, resulting from excessive monetary expansion in the past. This should have certainly called for a sharper-than-targeted reduction in money growth in 1995. At the very time that tighter monetary conditions begin to bear fruit, I am somewhat concerned that the authorities consider avoiding further appreciation of the exchange rate by intervening in the foreign exchange market: large interventions in the last quarter of 1995 have resulted in money growth surpassing the revised targets. I think that continued focus on money growth is warranted, especially in light of uncertainties regarding the level of Bank financing to the Government, while excessive concern on the level of the exchange rate might signal that exchange rate controls could be reimposed. I must confess that the staff's advice on exchange rate policy is not sufficiently clear.

To promote private investment, Madagascar has resorted to ad hoc measures, such as free trade zones or tax exemptions. What is needed is to build an enabling environment including a secure legal framework for local and foreign investors.

Mr. Gaspard made the following statement:

The Malagasy authorities are to be commended for their stabilization efforts during the past year. Restrained financial policies have resulted in increased international reserves and significantly lower inflation, albeit in excess of the target originally envisaged for 1995. The benefits of these achievements, however, are threatened by insufficient fiscal consolidation efforts and by signals pointing to a reversal in economic liberalization. Moreover, the submission of competing budget proposals and the slowdown in the reform of the public sector have had further adverse effects on the markets' confidence. I have identified three issues that deserve attention and upon which I will focus my remaining remarks.

First, Madagascar's social indicators are characteristic of a poverty-ridden country. Although the Government correctly emphasizes the need to reduce inflation through a tight monetary policy and a sound fiscal policy, the government budget should provide for adequate expenditures for social safety nets. In this regard, it is disappointing to note that social safety net resources were reduced in the 1996 budget recently approved by the Parliament. Also, the staff notes that the level and composition of the government's expenditures are at variance with the World Bank's recommendations. It is essential to address this problem head-on by a better targeting of social safety net expenditures.

Second, regarding fiscal policy, the revenue enhancing measures contained in the recently approved 1996 budget appear unrealistic, especially in light of the envisaged tax reliefs. As noted by previous speakers, consideration should be given to broadening the VAT base and implementing the tax and customs administration measures recommended by the FAD technical assistance mission. However, I wish to underscore the importance of the country's administrative capabilities to implement these reform measures. I would appreciate the staff views on the feasibility of introducing these measures.

Third, I can well appreciate staff's concern about the adverse impact that a monitoring of trade margins may have on the domestic production of rice. Higher levels of production may well materialize in the medium term thereby relieving the pressure on this widely consumed commodity particularly if transportation bottlenecks are addressed. However, in the transition to higher levels of production, it is important to devise a temporary mechanism to alleviate the pressures on price for this basic commodity.

Finally, given Madagascar's heavy external debt burden, I encourage the authorities to persevere with their stabilization efforts in order to ensure adequate concessional assistance as well as to pave the way for faster economic

growth. I hope that the authorities will soon be in a position to enter an ESAF arrangement with the Fund.

Mr. Duenwald made the following statement:

Both the staff and Mr. Koissy have provided a rather somber description of economic developments and prospects in Madagascar. While real GDP is estimated to have risen modestly last year, following a year of no growth, and a significant degree of inflation reduction was achieved, placing the economy on a sustainable medium-term growth path will require the sustained implementation of a strong package of adjustment measures, possibly supported by an ESAF arrangement. In this regard, I fully share the staff's policy recommendations, and therefore would only contribute a few points of emphasis.

In their pursuit of sustainable non-inflationary growth and higher living standards for the Malagasy people, the authorities have chosen, quite appropriately in our view, as their strategy policies directed at creating an outward-looking market economy. With this strategy in mind, they have taken certain steps to liberalize the economy and implemented tight fiscal and monetary policies. However, as highlighted by the staff, some of the authorities' efforts have not borne fruit as envisaged, in part reflecting doubts about the government's degree of commitment to sustained reform. The uncertainties related to the future course of economic policy will continue to undermine private sector confidence, and in this way frustrate efforts towards genuine and lasting reform. The adoption of a credible and strong adjustment program would provide a signal to the private sector, both domestic and foreign, that the government is committed to reform.

I commend the Malagasy authorities for their steadfast implementation of a prudent monetary policy, which has contributed greatly to the reduction in inflation. However, I would caution against premature lowering of interest rates as inflation continues to exceed the target, and given the potential pass-through to domestic prices of the Malagasy franc's depreciation in real effective terms in both 1994 and 1995. In achieving further disinflation, monetary policy should adopt an appropriately prudent stance, conditional in part on exchange rate developments, and the government should further reduce its bank credit outstanding.

On fiscal policy, the main objective is to raise the revenue-to-GDP ratio. The authorities have taken some steps in this direction, notably the increase in fuel excise taxes, but revenue outcomes have been disappointing, suggesting a need to strengthen tax administration. The expenditure compression that has been necessary in order to reduce the fiscal deficit in the face of weak revenue performance is not sustainable. In this context, it is somewhat disturbing that unproductive expenditures have increased while those enhancing the welfare and productivity of the country have been cut. I would stress, like Mr. Kaufmann, that a well-targeted social safety net will be crucial to protect the most vulnerable groups of society during the adjustment process, while expenditure on education is productivity-enhancing. I therefore urge the authorities to improve

revenue performance, which will make room for readjusting both the level and composition of public expenditure.

Finally, let me briefly address the external debt situation. In this regard, I found the staff's debt sustainability analysis quite useful. The upshot of this analysis is that Madagascar's external debt sustainability would be possibly stressed over the medium and long term. The staff correctly cautions that this assessment of debt sustainability is subject to a high degree of uncertainty. Indeed, some of the assumptions underlying the medium-term scenario, for example projected real GDP growth, could be considered optimistic. In that regard, the staff might have undertaken a fuller sensitivity analysis. In any event, the analysis reinforces the need for the authorities to adopt a credible adjustment program as a basis for resolving the difficult debt situation. Once Madagascar has demonstrated a commitment to reform and has established a track record of good performance under a program, an assessment could be made in the future whether the country might be eligible for treatment under the debt initiative once the latter heavily indebted poor country has been fully elaborated and defined.

With these remarks, we wish the authorities success in tackling the difficult challenges that lie ahead.

Ms. Kouprianova made the following statement:

The economy's performance during the past year was mixed. While real GDP growth recovered somewhat to 2 percent in 1995, and some positive developments, especially with respect to monetary policy have taken place, the economy is still characterized by extremely low levels of saving and investment, and the developments on the fiscal and structural fronts have been disappointing.

We join other speakers in the view that the main challenge currently facing the authorities is the formulation of the comprehensive strategy of macroeconomic adjustment and structural reforms, as recent developments have shown that the lack of consistency in implementation of the policy measures could cause a fall in confidence in the reform process of both the general public, and investors.

We broadly share the assessments and recommendations contained in the staff report. At this point of the discussion I will be brief, and comment on the most important elements of the reform strategy—namely, on the fiscal stance and on the structural measures.

First, on the authorities' fiscal stance. Although the level of the overall fiscal deficit (excluding grants) was reduced by 2 percent of GDP compared with the 1994 figure, there is still the need not only to decrease it further, but to improve the quality of the underlying factors associated with this reduction. On the revenue side, the overall performance in 1995 has been disappointing due not only to structural factors but also to the lack of discipline in tax collection. The revenue-to-GDP ratio of 8.3 percent of GDP is still extremely low. We agree with the staff's assessment that the authorities' fiscal efforts need to be

concentrated on the revenue side, and should be aimed both at broadening the tax base, and at improving tax collection. Thus, we support the recommended increase in petroleum taxes in real terms together with a broadening of the VAT base. On the expenditure side, there is not much room to compress the current expenditure further in the event of a revenue shortfall, taking into consideration its already low level at 11.2 percent of GDP, and the long list of needed spending priorities. We share other directors' concern about the trend in reduction of social current expenditures, such as those in the area of education and health from 3.1 percent of GDP in 1992 to 2 percent in 1995. The main task is to improve the structure of expenditures, not to compress them. We urge the authorities to clearly demonstrate a strong commitment to fiscal adjustment, and to take advantage of the World Bank expenditure review recommendations, and those of the FAD's technical assistance.

Second, on structural reform. Although the authorities have taken additional structural measures in 1995, a more aggressive pace is needed to accelerate structural transformation. Development of the financial sector is of crucial importance for maintaining effective monetary policy conduct, and we welcome the authorities' intentions to restructure the two public banks in the coming year. We also urge them to adopt the privatization legislature early on to open an avenue to the restructuring of the state sector.

Finally, a short remark on Madagascar's external debt. My authorities stand ready to discuss the unresolved issues of Madagascar's external debt to the Russian Federation, and we urge the Malagasy authorities to resume the negotiations at the earliest possible date.

We urge the authorities to reestablish their credibility by making a strong effort to put the economy back on the road to sustainable growth, and we hope to discuss the case of Madagascar in the context of the medium-term program supported by Fund resources in the near future. To achieve this, the authorities need to clearly demonstrate their commitment to reforms, and to take strong prior actions.

Mr. Berrihun made the following statement:

Since the Board last discussed Madagascar about a year ago, there has been encouraging progress in several areas. Output growth has started to pick up, inflation is on the downward path, and the fiscal position has continued to improve. These results are noteworthy since they have been achieved under very difficult circumstances. While a promising beginning seems to be under way, Madagascar still faces a formidable challenge to attain high sustainable growth and macroeconomic stability. In this regard, there is a clear need for sustained action to promote private sector activity, achieve external sector viability, and also to strengthen the fiscal position. I broadly share the staff's views and policy recommendations, and would therefore only make a few brief remarks.

The Malagasy authorities face a difficult situation in their endeavor to continue to improve fiscal operations. This is because the scope for further

expenditure cuts appears to be limited, as total expenditures are already at a very low level. The prospects of increasing revenue through tax measures do not also appear bright in the short run in a country which has seen the living standards of its people reduced sizably over the past two-and-a-half decades as a result of continued decline in real GDP per capita.

I note that even within the limited room for maneuver, the authorities intend to reduce the fiscal deficit in 1996 by almost 1 percent of GDP. As in 1995, the burden of adjustment is expected to fall on noninterest expenditure. In my view, such an approach could endanger the authorities' objectives to address the issues of poverty and to make progress toward the attainment of high sustainable economic growth. As the staff also suggests, it might be appropriate to rather shift the focus to the revenue front, particularly through the strengthening of tax administration, and the fighting of fraud.

Madagascar has been accumulating external debt payments arrears since 1991 and its debt service burden remains very high. Thus, the debt overhang continues to threaten the very process of economic adjustment. Debt rescheduling on generous terms, or even debt forgiveness, will be necessary to help Madagascar undertake effectively the difficult tasks that lie ahead. The challenges that Madagascar faces are so great, and the need to succeed so crucial, that it should continue to take bold policy measures that would improve both the immediate and long-term prospects of the economy. Indeed, it has the potential to do so. In this regard, foreign assistance in the context of an ESAF-supported program is crucial.

Mr. Rouai made the following statement:

In his recent speech in Madagascar, the Managing Director concluded by saying to the authorities, 'the ball is in your court.' After reading the staff report, I cannot but share the Managing Director's assessment and I believe that the authorities need to demonstrate a strong and unified commitment to reforms in order to instill irreversible confidence within the country and also within the international financial community.

The authorities should also realize that the time is not on their side. First, with a debt-service ratio of 55 percent and a debt to exports ratio of 610 percent at end 1995, Madagascar is clearly a HIPC in need of a substantial stock of debt reduction. To be eligible, however, the authorities should agree rapidly on a ESAF program which could form the basis for a debt reduction operation. Second, with the encouraging signs of economic revival in Africa, any delay in introducing a comprehensive adjustment program will further marginalize the country even vis-à-vis the rest of the African countries.

For these considerations, and while I commend the authorities for the progress made in 1995 in reducing inflation through a prudent monetary policy and for their actions to deal with the budget deficit, I urge them to reach understandings with the staff on a comprehensive ESAF program that could be supported by the Fund and the donor community. Since the staff projections

assume a Paris Club rescheduling at end-1996, I would appreciate if the staff could comment on the prospects for an agreement on an ESAF program in the coming months.

Finally, I missed in the staff report the usual section about the World bank relations with the country and I welcome any comment from the staff on these relations.

With these comments, I wish the authorities every success.

Mr. Daco made the following statement:

A year ago Mr. Koissy introduced the 1995 Article IV consultation's discussion by noting that economic developments in Madagascar reflected "the difficulties in achieving the necessary internal consensus to embark on a comprehensive program of adjustment." Unfortunately I gather from the Managing Director's report of his recent visit that the very same comment applies today. Unless there is progress toward an internal political consensus, Madagascar's economy will continue to under perform and the living standards of its population will continue to deteriorate. I fully share the staff's conclusions and recommendations, which were again stressed by the Managing Director during his recent visit. I have little to add besides enumerating the areas where rapid and determined efforts are most urgently needed if there is to be progress toward good governance.

Beyond question, the first priority of the next government will be to regain control over the fiscal deficit. The staff report reveals that government revenues are already extremely low. I was therefore shocked to learn that the authorities had intended to provide tax relief by cutting taxes and excises, by lowering the VAT rate and reducing the import taxes on rice. I understand that excessive tax rates can contribute to tax evasion in some countries. The justification of these intentions seemed to be: the lower the taxation, the less fraud. But without taxation, the government would be unable to finance the basic needs of the population. Luckily, the Parliament has taken a more responsible attitude than the government by amending the Government's proposals. However, these modifications will not be enough to increase the government's revenues. I therefore urge the authorities to implement rapidly the measures recommended by the FAD technical assistance mission, in particular broadening the VAT base, increasing petroleum taxes in real terms, and strengthening the tax and customs administration to combat tax evasion. On the expenditure side, there is an apparent a need for prioritization and for ensuring that enough resources are allotted to the social safety net. All these measures together would form an appropriate set of prior actions to precede a new ESAF arrangement.

Amazingly enough, the central bank has been able, in this environment, to make some progress toward restoring price stability while monitoring a liberal exchange system. The staff notes that targeting monetary aggregates could be quite effective in controlling inflation because of the existence in Madagascar of a stable long-term money demand. But this strategy requires that monetary

policy be supported by a strong and credible package of tight financial policies. Without such a package, the credibility of the tight monetary policy of the central bank cannot long be maintained.

The authorities also need to act more consistently in promoting an open market environment. The government's intention of tightening its control over the economic activities of foreigners, monitoring trade margins, and even targeting the appreciation of the exchange rate, are all at odds with this strategy. This is another area where the staff has given the authorities good advice that they should hasten to adopt.

I have a final word, on the staff's debt sustainability analysis. Once more we see that for Madagascar the key to achieving a sustainable level of debt is the steady implementation of sound and synergistic policies. External assistance can only smooth a country's adjustment efforts. It cannot take the place of sound policies. In his speech to the National Assembly, the Managing Director again expressed the Fund's willingness help the adjustment efforts of the Malagasy authorities with an ESAF program. I, too, hope that the next time this Board discusses Madagascar, it will be able to approve such a program because the authorities will have understood the urgency of addressing the problems created by years of procrastination and half measures.

Mr. Ryan made the following statement:

We are in full agreement with the remarks made by the Managing Director recently to the Expanded Office of the National Assembly. I can also subscribe to many of Mr. Fayolle's remarks. To pick up on a key theme of the Managing Director's speech, Madagascar must make an unambiguous commitment to reform that is backed by steady and firm implementation of stable demand policies and structural liberalization. Muddling through will not suffice. Given the heavy debt overhang, low per capita income level, and poor track record on policy performance, Madagascar needs bold actions in order 1) to put the country firmly on a sustainable growth path and 2) to catalyze the necessary international support.

The staff report is clear on what needs to be done. The authorities must move on public enterprise reform; must resist the temptation to intervene directly in the rice market; must allow the exchange rate to achieve market-clearing levels; must pursue sound, coherent fiscal policies; and must open-up the economy more fully to foreign investment. Raising the living standards of the Malagasy people requires a growing, dynamic economy. This means freeing up market mechanisms and laying the foundation for investment, growth, and jobs.

The most constructive role of the government in this process is not to manipulate prices, exchange rates, or resource allocation, but rather to facilitate a stable macroeconomic environment and to orient budget outlays toward social services. We appreciate and fully concur with the staff report's emphasis on social spending. For our part, we are concerned that scarce budgetary resources are being devoted to various non-productive activities, such as a munitions plant

and the Francophone games, presumably at the expense of social sector priorities. Given low government revenues—barely above single digits—expenditure priorities must be more clearly established. More broadly, the authorities must come to terms with what the government can do (for example, provide safety nets) and what the market can do better (for example, produce jobs, investment and growth).

Ms. Dagustun made the following statement:

First of all, I can share with colleagues the concern over poor social poverty indicators of Madagascar. An improvement in these indicators will best come through an early and sustained commitment to solid adjustment. In this context, I would like to give credit to the authorities for the steps they have made so far, but also note that they have got a long way to go. We very much encourage them to come forward and make progress with an ESAF arrangement with the staff, if they are able to do so.

Second, I would like to support the comments made on the external debt situation by colleagues, especially by Mr. Duenwald.

Finally, I would like to repeat for emphasis the question which I thought was very well posed by Mr. Fayolle about the extent to which we have been providing a lot of scarce Fund resources to this country with little return. In this context, I simply note the cost of a resident representative as quite a high one, and I would hope that we would have sufficient procedures in place for a review of those positions at regular intervals. I guess when the review comes up, we are always on the edge of seeing some progress from countries, but we can't go on endlessly with that expensive resource in place.

Mr. Galicia made the following statement:

Madagascar's stagnation could be overcome only through a coherent, consistent and well designed economic program. It is very clear, both from Mr. Koissy's statement and the staff report, that the authorities' efforts to stabilize the economy during 1995 yielded only scattered results which were insufficient to promote a sustained and equal economic recovery in Madagascar, and therefore, a well orchestrated program is urgently needed.

The present scenario for the country is not an easy one. The Malagasy authorities will be facing two challenges in the economic arena: one will be the actual implementation of a solid package of economic measures, and the other, the importance of embarking upon a serious effort of institution-building. Under this very complicated scenario, the country should follow two parallel paths in order to achieve the desired results and advance toward a sustained economic growth. The authorities have witnessed with frustration that the recent implementation of fiscal revenue measures showed a partial outcome, in part, due to the lack of a solid bureaucracy. While the policies may be pointing in the right direction, their implementation is hampered by an inadequate administration and enforcement in the field.

In order to confront these two challenges, the authorities will need to monitor very closely both the correct implementation of economic measures and the performance of all administrative branches within the public sector. While the improvement in the public sector administration could take some time to develop, the authorities should opt to start applying economic policies that are simple, easy to administer, fully enforceable, and appropriately targeted. On this line, we concur with the staff's suggestions that the country needs to improve dramatically the revenue to GDP ratio, and three basic measures are warranted at this time: increase petroleum prices in real terms, broaden the tax base, and improve the tax and administrative measures as recommended by the FAD department. In addition, since the problem in this field has been the continued deterioration of the tax compliance, the authorities should focus first, on regaining policy credibility and second, on enforcing the tax rules in the country.

On the expenditure side, similar comments like those of the staff's apply in this case. It is worrisome that the scarce budgetary appropriations are directed unevenly to other goals different than education and health. One of the few elements that the government has to combat poverty, is through an adequate expenditure policy, and that is why it is extremely important to improve the composition of expenditures. Therefore, if the authorities reach an ESAF agreement with the Fund, which we also consider desirable, the program should address a safety net to protect the most vulnerable sectors in the Malagasy society.

Turning now to the financial sector, the monetary authorities should be commended for their important role in reversing the inflation trend. Nevertheless, it is evident that the present use of direct monetary instruments and the use of moral suasion, are solving only part of the monetary policy needs because some distortions still impede the equalization of market forces in the financial sector. In this vein, two aspects should be tackled, one to avoid the presence of negative real interest rates, and the other to improve the transmission mechanisms which will contribute to raise the elasticity of interest rates to movements in base money. The recent use of indirect instruments to control broad money is welcome, but if the authorities, in the short run, still detect slow reaction of interest rates to the monetary policy, further analyses and technical assistance from the Fund may be warranted.

On exchange rate policy, it seems that the suggestion by the staff to eventually promote a forward market for the exchange rate is not justified at this moment since the market is not large enough to require this kind of sophisticated mechanism. Policy credibility and tight monetary policy are good substitutes to promote a stable foreign exchange market. In addition, if some resources are going to be applied to improve the financial mechanisms, we would suggest that the effort should be concentrated in means to overcome the low elasticity of interest rates.

Finally, we think that the Malagasy authorities are reacting positively to the encouragement from the financial community, and in particular, from the Fund. This should contribute to a revision of their economic strategy and

eventual economic program supported by an ESAF agreement. The country will need important support to reschedule its external debt and the assurance of a continued and steady flow of foreign grants. Nevertheless, the most important assurance should come from within the authorities to convince both the domestic and external markets that the change in economic direction is consistent and permanent. We sincerely hope that a national consensus is reached soon to work fast towards the formulation of a comprehensive adjusted program supported by the Fund.

Mr. Tahara made the following statement:

Since I broadly share the staff's assessment and most of the previous speakers' views, this statement will be very brief.

First, it is welcome that there were some positive developments in both economic performance and policy implementation in 1995. Monetary policy was significantly tightened and this led to a deceleration of inflation. Also, unrestricted access to foreign exchange was maintained for current transactions. I commend the authorities' efforts in these respects.

Regrettably, however, there have been several policy setbacks in both the structural and fiscal area. The continuing deterioration in tax compliance is also a source of concern. In light of the fact that most of the population is still in poverty and that the expenditure level is already too low, the room for expenditure cutting is extremely limited. I share the staff's view that the issue is how to increase government revenue, and in this respect the authorities should implement the tax and customs administration measures recommended by the FAD technical assistance mission and take new tax measures, including an increase in excise taxes on petroleum products and a broadening of the VAT tax base.

Finally, on the external front, I would like to convey my authorities' concern on the continuing accumulation of arrears to most of the external creditors, including Japan. I urge the authorities to make every effort to resolve this problem as early as possible.

With these remarks, I wish the authorities' every success.

The staff representative from the African Department said that the Malagasy tax administration was in a state of disarray, and that was a serious concern for the staff. However, the Fiscal Affairs Department had studied the matter in detail, and had made very specific recommendations for the improvement of tax administration, which would become particularly important should Madagascar enter into a program with the Fund.

On exchange rate policy, the staff's dominant concern was to ensure that there should be no restriction on access to foreign exchange for current account transactions, the staff representative remarked. That had been the central theme of discussions with the authorities. Should market conditions turn out to be too disruptive, with the risk of sharp appreciations of the exchange rate, selective intervention could be allowed for, but for the specific purpose of

stabilizing the exchange rate in the short run and not to alter its medium-term trend. Recent behavior of the central bank had been consistent with the advice provided by the staff.

On the prospects for a Paris Club arrangement, the ball was essentially in the Malagasy court, the staff representative said. It was now up to the government to signal that it would be willing to proceed with a Fund program. It would then take three to four months to bring the matter to the Paris Club.

Cooperation with the World Bank concerning Madagascar had been close and fruitful, the staff representative said. The World Bank had been extensively involved in the adjustment effort, and had undertaken substantial work toward a possible structural adjustment credit for Madagascar.

The resident representative in Madagascar had played a vital and effective role in the ongoing policy dialogue with the authorities, the staff representative stated.

Mr. Koissy made the following concluding statement:

As Directors have noted, Madagascar's economic and financial situation remains difficult and requires quick action on the part of the authorities. I can assure Directors that my authorities share many of the concerns expressed today, and they intend to strengthen their efforts to reduce the imbalances in the economy as well as to regularize their relations with creditors. However, I would point out that, despite the period of political uncertainties, many important policy measures were implemented in 1995 and these measures have helped to reduce inflation and give stability to the exchange rate. Moreover, several important structural measures have been taken, which go in the direction of further improving the functioning of the market. Nevertheless, I recognize that there is much more that the Malagasy authorities need to do, and you can rest assured that I will impress this on the authorities.

I would also like to add that my Malagasy authorities remain committed to the reform process, and this commitment was reiterated at the highest level to the Managing Director during his recent visit to Madagascar. These reassurances, together with the important policy and structural measures implemented in 1995, should help convince Mr. Fayolle and Mr. Rouai of the commitment of my authorities.

Nevertheless, I would like to indicate that political difficulties and institutional weaknesses have contributed to the slow pace of the implementation of market-oriented policy. Now with the adoption of a new Constitution, I have no doubt that the government to be appointed shortly will speed up the implementation of needed reform in the framework of a comprehensive adjustment program that could be supported under ESAF. In this regard, the comments and suggestions made by Directors today are very appropriate, as this will help in guiding the authorities in the design of the program.

Let me conclude by thanking Directors once more for their interest in Madagascar. I would also like to take this opportunity to thank the Managing

Director, in the name of my authorities, for his visit to Madagascar, a visit that has been highly appreciated by everyone at all levels. There is no doubt that the Managing Director's personal contact has had an important catalytic effect and has helped to achieve a consensus on the benefits of a Fund-supported program.

Finally, I would like to thank the staff representative of the African Department and his team for their advice and for the invaluable assistance that they have provided to my Malagasy authorities.

The Acting Chairman made the following summing up:

Executive Directors were in broad agreement with the thrust of the staff appraisal. They observed that some progress was made toward recovery in 1995, and welcomed the adoption of a prudent monetary policy. The trend of inflation had been reversed, and pressures in the exchange market were reduced.

Directors regretted that the benefits of those improvements had been frustrated by continuing uncertainties about the course of economic policy. Directors urged the new government, that will soon be constituted, to declare a firm commitment to an open and market-oriented economy. To that end, the new Government should encourage private sector activity, avoid any intervention in the price mechanism, strengthen the tax and customs administrations following the advice of a recent Fiscal Affairs Department mission, and combat tax fraud. Directors stressed that a credible demonstration of commitment to sound macroeconomic policies and market-oriented structural reform would help dispel prevailing uncertainties and would provide a basis for negotiations on a comprehensive adjustment and reform program that could be supported by a new ESAF arrangement.

Directors expressed concern with the present fiscal strategy for 1996, mainly with respect to projected revenues and the composition of expenditure. They noted that, with the various tax reliefs in the approved 1996 budget, government revenue was likely to fall markedly short of budgetary projections. Moreover, the deterioration in tax compliance and the poor recovery of government loans were also regrettable sources of uncertainty and fiscal weakness. Therefore, they urged the new government to implement as a matter of priority specific new tax measures, including an increase in petroleum taxes in real terms and a broadening of the value-added tax base, in addition to a sustained commitment to improving the tax and customs administrations. Regarding expenditure, the allocation of resources among the different ministries should be thoroughly reviewed in order to give a clear priority to combating poverty, taking into account the recommendations of a recent World Bank expenditure review. Directors also urged the new government to put in place a permanent and targeted social safety net, and to devote increased resources to priority sectors such as health and education, and economic infrastructure.

On the structural front, Directors welcomed the strengthening of management in the two remaining state-owned banks, as well as the initiatives taken in liberalizing important economic sectors. However, they were concerned

with the tentative and hesitant manner in which those reforms were being implemented. They advised the new government to complete without delay the privatization of the state-owned banks and adopt a privatization bill in the context of a comprehensive structural reform program.

Directors emphasized the need to maintain a prudent monetary policy to make further progress in reducing inflation and support the liberal exchange regime. In addition, they advocated the use of an active policy of issuing Treasury bills to the nonbank public to help shift the structure of deposit rates to positive real levels.

Directors welcomed the fact that the interbank exchange market had continued to provide unrestricted access to foreign exchange for current account transactions. Regarding exchange rate policy, Directors were concerned with the high volatility in the exchange market. They urged the central bank not to attempt to influence the trend in the exchange market. Directors noted the importance of normalizing relations with external creditors and the need to avoid recourse to external financing other than on highly concessional terms. The fundamental weakness of Madagascar's external position added to the urgency of pursuing financial discipline and more market-oriented structural reforms that the Fund could support with its financial resources.

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

4. EXECUTIVE DIRECTOR

The Acting Chairman bade farewell to Mr. Fukuyama on the completion of his service as Alternate Executive Director for Japan.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/96/46 (5/15/96) and EBM/96/47 (5/17/96).

5. RELEASE OF INFORMATION—MULTILATERAL DEVELOPMENT BANKS AND OECD

The Executive Board approves the proposal as set forth in EBD/96/60 (5/8/96).

Adopted May 15, 1996

6. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 94/108, 95/23, and 95/24 are approved.

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/96/78 (5/14/96) and EBAM/96/79 (5/13/96) is approved.

APPROVAL: April 23, 1997

REINHARD H. MUNZBERG
Secretary

