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January 26, 1996

To: Members of the Executive Board

From: The Acting Secretary

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

There is attached the report of an independent panel evaluating technical assistance provided by the Monetary and Exchange Affairs Department, together with the letter of transmittal from Professor Alexander Swoboda. This matter will be considered by the Executive Board on a date to be announced.

Att: (1)

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LE DIRECTEUR

Mr Michel Camdessus  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
USA

18 January 1996

Dear Mr Camdessus,

We are pleased to submit to you our evaluation of the technical assistance provided by the Fund's MAE Department. The Department's Director, Mr Manuel Guitian, has kindly agreed to hand this letter over to you together with our report. We hope that you will find it useful.

The report was prepared by a panel composed of Messrs Adolfo Diz, Wolfgang Rieke, and Alexander Swoboda. The panel officially began its work on June 21, 1995; interviews with recipient institutions took place from end July to end November; the first draft of the report was completed by Christmas, minor revisions in the first half of January 1996. There are three points we should like to emphasize in submitting our conclusions.

First, the panel insisted on, and was granted, complete independence in the preparation and writing of its report within the constraints set by time and budget limits. As we state in the preface of the report, although we relied heavily on the advice and assistance of MAE in carrying out our task, all the decisions made in the process are entirely our own as are the conclusions we have reached.

Second, we wish to acknowledge the very helpful discussions we have had and the support we have received not only from the personnel of the Fund and other organizations but also from the staff of recipient central banks. In this context, we particularly wish to thank the personnel of the MAE Department for their time, frankness and cooperation.

Third, ours is not a "rapport de complaisance" even if our evaluation of the technical assistance activities of MAE is mostly very positive. We simply must acknowledge and salute the Department's remarkable record of achievement over the past few years. This being said, we do believe that there is, as always, room for criticism and improvement. There are also issues that arise for the future which, we believe, deserve the attention of the Fund's and the Department's managements. We have tried to suggest a number of such issues for discussion as well as areas for improvement. We hope our suggestions and criticisms will be taken in the constructive spirit in which they are made.

We thank you for your trust and remain at your disposal for any questions you may have on the report and for any follow-up that you may wish to suggest.

Yours truly,

A handwritten signature in black ink, reading "Alexander Swoboda". The script is cursive and fluid, with the first letter 'A' being particularly large and stylized.

Alexander Swoboda  
On behalf of the three members of the panel

cc: Mr Manuel Guitian, Director, MAE Department, IMF

**EXTERNAL EVALUATION**  
**OF**  
**TECHNICAL ASSISTANCE PROVIDED BY THE I.M.F.'S**  
**MONETARY AND EXCHANGE AFFAIRS DEPARTMENT**

Report of an independent panel composed of

Adolfo Diz  
Wolfgang Rieke  
Alexander Swoboda

January 1996



## PREFACE

The Panel wishes to acknowledge the logistic support provided by staff of the International Monetary Fund's Monetary and Exchange Affairs Department at all levels, but especially by Mr. Arne Petersen, the coordinator appointed by the Department, and Ms. Lidia Tokuda, staff assistant; the valuable discussions with staff from the MAE and area departments, the World Bank, central banks and other institutions; the helping hands extended by the resident representatives in the countries visited during the period July to November, 1995; the helpful discussions held with long-term experts and resident advisers in these same countries; and the logistic support provided by staff of the Fund's Office in Europe, Paris, during the final stage of preparation of the Report. The Panel also and especially wishes to express its sincere gratitude to the authorities and officers of central banks who agreed to participate actively in the evaluation and stood ready to answer questions in writing and during interviews.

Although it drew heavily on the advice and assistance of MAE in the preparation and execution of its task, the Panel wishes to underline that all the decisions that were made in the process, including those on the choice of countries to be included in the samples, the conduct of the interviews and the format of its Report were its own, and that the responsibility for the content and conclusions of the Report is entirely that of the Panel.





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## **1. INTRODUCTION**

### **1.1 Background and Terms of Reference**

This Report presents the results of an evaluation of the technical assistance provided by, or given under the guidance and control of, the Monetary and Exchange Affairs Department (MAE) of the International Monetary Fund (IMF). The evaluation was conducted by a Panel of independent experts commissioned by the Management of the International Monetary Fund.

The Panel was composed of Dr. Adolfo C. Diz, former President of the Central Bank of Argentina, and former Executive Director of the Fund; Dr. Wolfgang Rieke, retired Head of the International Relations Department of the Deutsche Bundesbank; and Professor Alexander Swoboda, Director of The Graduate Institute of International Studies in Geneva.

The Panel's Terms of Reference are appended to this document as Annex 1. They were drafted after consideration of a proposal by the MAE Department for the external evaluation of their technical assistance activities and after discussion with the management of the Department. To summarize briefly these terms of reference, the Panel was charged with evaluating the technical assistance activities of MAE, the quality of the advice given, its usefulness to the recipient authorities, its adaptation to the specific circumstances of the recipient country, its implementation (mainly in terms of the modes of delivery), and the coordination of technical assistance with other related activities of the Fund.

The evaluation was to be based on written material, interviews with staff from MAE and other IMF departments as well as from other institutions, and, last but not least, visits to a sample of recipient central banks. The panel officially began its work on June 21, 1995; interviews with recipient institutions took place from end July to end November; the first draft of the report was completed by Christmas and revisions in the first half of January 1996.

### **1.2 Scope and Method of Evaluation**

Time and budget constraints, as well as practical considerations, led the Panel to put limits on the scope of its evaluation as well as on the methodology used. As to scope, it was agreed at the outset that the evaluation would only deal with those aspects of MAE's activities that have a close bearing on its TA function, including their integration with the macroeconomic work of the Fund, but excluding other MAE activities such as jurisdictional work on exchange restrictions and arrangements, the Department's review and analysis of Fund monetary and exchange policy advice, as well as certain internal management and administrative aspects of its work. Furthermore, the Panel did not consider it appropriate, possible or even necessary, to enter into an extensive discussion of the merits of technical assistance or, for that matter, of its merits in comparison to other forms of support. In other words, the Panel did not question, in general, the appropriateness of the IMF providing technical assistance in the context of its broader mandate nor, in particular, the provision

of such assistance by MAE, supported as these activities are by intense demand from member countries and by the collective readiness of the Fund's membership to respond to such demand.

As to **method**, the Panel, given the constraints on its time and budget, had to choose between examining in depth a very few individual cases of technical assistance to central banks by MAE and examining a larger sample of cases in possibly more superficial but wider ranging manner. The Panel felt it neither practical nor indeed necessary, or desirable, to choose the first course and examine in excruciating detail two or three individual cases. Instead it chose to examine a larger number of instances of MAE technical assistance both to obtain insights useful in evaluating the TA process as a whole and to be able to propose general improvements in that process. The corollary of that choice was that the Panel has deliberately refrained from commenting on specific individual cases. An additional factor in that choice was that the members of the Panel 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.

As a consequence, the Panel chose to base its assessment on a broad sample of some twenty countries chosen from the group of roughly 130 Fund members that received technical assistance during the reference period, loosely defined as 1992-94 but including, where possible and relevant, some previous years to allow for a better perspective. The countries in the sample were chosen on the basis of several criteria: geographic location; economic size; type and importance of technical assistance received; absence or simultaneous existence of a Fund program; and some other considerations. Thus the aim was to select a sample that would include: countries in the main regions of the world; relatively old and relatively new central banks, with some of them located in economies in transition; large, medium and small economies; institutions that have benefited from comprehensive or specialized TA programs of different types and intensity, with or without the simultaneous use of Fund resources over a significant part of the reference period.

In a first step, a sample of twenty countries was selected according to these criteria. In a second step, the sample was divided into two groups: ten countries were chosen for visits to their respective central banks by members of the Panel; the other ten countries for interviews with governors and other officials of their central banks during the October 1995 Annual Meetings of the IMF and World Bank in Washington, DC. The list of countries included in these two groups is given in Annex II.

With respect to the **subject matter** covered, the emphasis, in line with both MAE's mandate and the Panel's terms of reference, was put on technical assistance of the institution-building type rather than on broader policy advice of the macroeconomic type. In this perspective, the role of technical assistance is to help recipient central banks in their decision-making process, to build their capacity where it does not exist, to develop necessary skills, or to reform or adapt existing structures and operating capabilities to enable them to execute their functions efficiently in a changed environment and without major recourse to outside advice in the future. This approach implies particular emphasis on institution building, on establishing an appropriate legal framework, and on staff training. In principle, it excludes direct policy advice such as that given to deal with acute situations, though some overlap between policy advice and TA proper is unavoidable and will

frequently occur. In many cases policy advice will be a by-product of TA discussions. In other cases, discussions between Fund staff and member country authorities on policy matters, in the context of regular consultations and even more so in that of adjustment and financial support programs, will give rise to demands for technical assistance to enable a country to act on the policy advice received. Although the Panel has not looked systematically into the nature of the policy advice generated in this fashion, it has paid attention to the consistency between general policy and specific technical assistance advice, as well as to compatibility with advice given in other areas of Fund competence, specifically fiscal policy and debt management.

In preparation for the **interviews** the Panel held extensive discussions with staff members of MAE responsible at different levels for technical assistance; with staff members of the Area Departments of the Fund covering the countries selected; and with staff of the World Bank responsible for the technical assistance provided in the area of banking and financial markets. The Panel also had the benefit of conversations with staff members from other Fund Departments as well as from other institutions, among them central banks of countries supplying technical assistance through MAE, bilaterally, or both. In addition, the Panel had access to a large volume of written material supplied by MAE including, among others, the reports on technical assistance provided to the countries included in the sample.

As further preparation for the interviews with officials from the central banks of the countries included in the sample, the Panel sent them a questionnaire with a request for advance written replies to the extent possible. The questionnaire sought to be comprehensive in its coverage of MAE technical assistance activities and included questions that did not necessarily apply to each individual case, making it difficult for some institutions to respond fully in advance of meetings with the Panel. Nevertheless, most central banks responded and the questionnaire proved quite useful in focusing the preparation for and the discussion during the interviews with officials. The text of the questionnaire is given in Annex III.

As mentioned above, the Panel strove to make it clear at the outset that their evaluation, though based on the experience of individual member countries with the technical assistance provided or organized by MAE, was not intended to pass judgement on the quality and success of such TA in any particular case, that the Panel would not discuss and evaluate such individual experience in their report, and that it would refrain from any recommendation on the appropriate level of TA in individual instances. Nor would the Panel use the information provided as part of a systematic and detailed cross-country evaluation, a task which the Panel did not consider feasible within the allotted time frame. Instead, the country data and in particular the interviews with the selected central banks were intended to provide the Panel with concrete evidence of the working methods of MAE, of the vehicles of delivery, of their relative effectiveness, etc., so as to help the Panel to arrive at general conclusions on which it might wish to base any recommendations for improvement. This generic, non-individual, aspect of the Panel's approach to its task sometimes proved quite difficult to transmit to the central banks interviewed and this may have biased some of their replies. The Panel is, however, confident that this has not prevented it from gaining valuable insights into the actual working of the technical assistance process.

### 1.3 Outline of the Report

The report begins in the next chapter with a brief reminder of the origins and evolution of the Fund's and of MAE's technical assistance activities. Chapter 3 opens with a description of the scope and instruments of MAE technical assistance and goes on to discuss some of the criteria that could be used in evaluating the Department's TA activities as well as some of the difficulties inherent in their application. The Report turns to findings in the next chapter. The presentation there is qualitative rather than quantitative, informal rather than rigorous, but a number of trends or patterns do emerge. These are assessed in chapter 5 which also draws on that assessment to broach a number of topics of interest to general Fund policy in the TA area. More specific recommendations, or suggestions, are offered in chapter 6 while chapter 7 summarizes and concludes.

## 2. ORIGINS AND EVOLUTION OF MAE TECHNICAL ASSISTANCE ACTIVITIES

Although technical assistance to the central banks of IMF member countries looms large in MAE's activities and may be deemed its principal *raison d'être*, it should be noted at the outset that the Department also performs other functions within the Fund's overall mandate. It advises other departments on central banking matters and participates in the mutual review process involving most departments in connection with the regular consultations conducted by the Fund with its members; in short, it forms an integral part of the Fund's structure. What concerns this Report, however, are first and foremost the TA activities of the Department and their role within the overall provision of technical assistance by the Fund.

Technical assistance to its member countries, though not listed among the IMF's purposes in the Articles of Agreement, has been one of the Fund's activities throughout its 50-year history. At the outset TA was essentially implicit in the Fund's other functions in that it was closely integrated within the Fund's overall relations with members, especially through its regular consultation missions. It was, in short, intimately bound up with the policy advice given by Fund staff in the context of the Fund's main purpose which is:

"To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems" <sup>1</sup>.

But as early as 1946 the issue of technical assistance was explicitly brought to the attention of the IMF's Board of Executive Directors when a request by the authorities of Ecuador was received for a technical mission to advise the government on its banking and monetary situation, in order for

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<sup>1</sup> IMF "Articles of Agreement", Art. I: "Purposes", page. 2, 1985..

appropriate reforms to be initiated<sup>2</sup>. From the mid-1950's requests for technical assistance rose considerably, a continuing process which less than ten years later led to the creation of a Fiscal Affairs Department and of a Central Banking Service, with a view to meeting the growing need for expertise in the fiscal and central banking areas through the mobilization of outside experts to supplement the Fund's own staff resources in carrying out TA assignments. From that time onward, "technical assistance provided by the Fund grew rapidly and became one of the Fund's primary endeavors"<sup>3</sup>. Beginning in 1968, an annual report describing and evaluating the Fund's TA activities, has been submitted to the Executive Directors.

In the specific area of central banking, many newly independent member countries sought the Fund's technical assistance for the drafting of central bank legislation and the setting up of new central banks, but also for reforming their banking structures and for other related purposes. Such requests have increased dramatically in recent years as "countries in transition" in Eastern Europe, the former USSR and Asia began to avail themselves of the facilities offered by Fund membership. As a consequence, substantially greater human and financial resources, both in absolute terms and in relation to other Fund activities, have come to be devoted to technical assistance through MAE (the successor, since May 1992, to the Central Banking Service/Department, with an expanded, broader role), as well as through other channels. Since 1990, i.e. over a five-year period, the total volume of Fund resources devoted to technical assistance has more than doubled, to 300 person-years in 1994/95, of which MAE accounted for roughly half. The financial cost of technical assistance to the Fund has also increased considerably; in 1994/95, the share of TA operations amounted to 10 per cent of total operational expenditures of the Fund with, again, roughly half of the total accounted for by MAE.

The sudden projection of TA activities to special prominence among the Fund's functions has found wide support by the membership for a number of reasons. Technical assistance was recognized early on as a major, indeed indispensable, component of the transformation process underway in many countries, and of the external support for that process. It has proved essential to the success of Fund-supported adjustment programs. It has helped pave the way towards closer cooperation with new members of the Fund. And, last but not least, Fund technical assistance promised to ensure greater efficiency of resource use in circumstances where TA was initially requested and offered in an uncoordinated manner, with obvious potential for duplication, contradiction and sheer waste of the resources devoted to it.

In the context of its newly expanded role as a provider and coordinator of technical assistance, the Fund, through MAE in particular, has entered into a close working relationship with central banks in industrial, newly industrializing, and "transforming" countries. It has taken on this

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<sup>2</sup> "The International Monetary Fund, 1945-65: Twenty Years of International Monetary Cooperation", (Washington, DC., 1969), Vol I: Chronicle, by J.Keith Horsefield, p.185.

<sup>3</sup> "The International Monetary Fund, 1966-71: The System Under Stress", (Washington, 1976), Vol I: Narrative, by Margaret Garritsen de Vries, p. 578.

role with gusto and, by all accounts, has been able to compile a substantial record of achievement, in some cases helping to take the process of reform and transformation to the point where donors and recipients agree that further outside assistance is no longer necessary. At the same time, new requests for TA have multiplied, making it impossible to satisfy a significant number of them in view of existing resource constraints and causing a significant regional redistribution of technical assistance. It is this evolution as well as various questions raised about the effectiveness, cost efficiency and lack of assured methods of evaluating the results of technical assistance that have caused the Fund's Management to commission the present independent evaluation of the technical assistance related activities of the MAE Department.

### **3. EVALUATING TECHNICAL ASSISTANCE: DIMENSIONS AND CRITERIA**

In evaluating technical assistance due attention has to be paid to at least two of its aspects: its "dimensions" or intrinsic characteristics and the criteria by which it can be evaluated.

#### **3.1 Dimensions**

The scope of technical assistance might be wide ranging or, on the contrary, quite narrow in terms of the areas covered. In the particular case of the 20 countries selected in the sample, the collective TA actually received was wide ranging indeed as it included advice in the following areas:

- central bank and financial sector reform and legislation;
- central bank organization, computerization, personnel training, and management methods;
- central bank accounting and audit;
- banking regulation, supervision, and liquidation;
- balance of payments analysis and research;
- foreign exchange systems, operations, and markets;
- foreign reserves management;
- monetary instruments, operations, statistics, and money market development;
- monetary analysis and research;
- payments, clearing, and settlement systems;
- public debt management and government securities market;
- introduction of a new currency.

Obviously, not every country received advice in every area, and some that did may have received advice in different subjects pertaining to the same area. This diversity of fields and subareas introduces the need for specialization, prerequisites, and sequencing of TA advice. For example, the



desire to introduce successful open-market operations may require prior satisfactory forecasting of monetary flows or up-to-date information on the structure and trends of interest rates in the money and debt markets. Thus, advice on those operations may not be effective until these or other prerequisites are satisfied.

The **modes of delivery** of TA are equally numerous. In the 20 countries included in the sample, MAE's technical advice has been conveyed through a large variety of techniques: comprehensive, multi-topic missions or individual expert visits carried out by the MAE Department's own staff; long-term or short-term outside experts; seminars or workshops; coordination of technical assistance provided by other donors; analytical papers of a general character or specific, ad-hoc, TA reports, etc. This diversity, again, introduces the question of the relative effectiveness and cost efficiency of alternative ways of providing technical assistance.

The **form** TA might take also varies. The sample of countries selected by the Panel provided numerous illustrations of a basic dichotomy in the form of technical assistance: the transfer of information (a catalog of instruments, technical papers, charts of accounts, ways in which a particular problem has been solved elsewhere, etc.) versus the transfer of know-how (how to proceed to implement a particular piece of advice, "hands-on" or "nuts and bolts" type of assistance). For example, the advice given may suggest open-market operations or, even more specifically, T-bill auctions or secondary market operations, but how does one proceed to organize and implement them? Although not quite identical, this distinction is similar to that between what to do and how to do it.

The **intensity** of the technical assistance provided to any individual country also varies widely and is a function, among other factors, of the number of missions as well as of the number of advisers involved and of the length and frequency of their participation.

The **duration** (length) of TA will vary as well from cases where it is designed to solve a once-and-for-all problem (introduction of a new currency, a new central bank charter, a new charter of accounts, etc.) to cases where it deals with a problem that will present itself on a continuous basis (monetary programming, banking supervision, foreign exchange management, etc.). In the former case, once the specific problem has been solved, technical assistance should no longer be required; while in the second, as skills can continuously be improved, it is more difficult to decide when TA is no longer required. Thus in the former case the time limit for TA would be clearer than in the latter.

Annex IV, kindly prepared by MAE at the Panel's request, provides information on the scope, modes of delivery and intensity of MAE technical assistance to the twenty countries in the sample over fiscal 92/3 to 94/5.

### 3.2 Criteria

The choice of criteria used to evaluate technical assistance and the weight to be attached to each will depend on the evaluator's scale of values and on the functions assigned to technical assistance. Were TA a marketed consulting service provided on a profit-making basis, the first criterion by which it should be evaluated would be its profitability, and the appropriateness of its individual components and delivery would be judged by its contribution to that bottom line. Relevant issues would then concern its pricing, the contribution of various modes of delivery to overall profits, the proper level of expenditure on, and form of, advertising, and so forth. The cost efficiency criterion would clearly dominate any evaluation, covering all aspects of the TA process from design and organization to monitoring and final control.

If technical assistance is seen to possess some of the characteristics of a public good available in principle on demand and at no cost (perhaps leaving aside some local cost contributions), effectiveness and cost efficiency will still be important criteria but may well take second place to, or be qualified by, other considerations. In the case of "countries in transition" from centrally planned to market-driven economies, the generous extension of technical assistance to help the process of change along was recognized at an early stage as an important and indispensable component of a comprehensive effort to facilitate and speed up the transition process. Massive technical assistance was expected to generate substantial externalities by helping avoid costly mistakes and set-backs, and by ensuring insofar as possible that the process, turbulent as it was bound to be, would still proceed in as consistent and orderly a manner as possible. This left less room than would otherwise have been desirable for careful consideration of a number of factors, notably some of those related to cost efficiency. As time passes, however, such considerations will inevitably gain ground, and the commissioning of the present evaluation project offers evidence of this trend.

Be that as it may, some criteria, however arbitrary they may seem, need to be retained to evaluate the quality, success and/or appropriateness of the technical assistance provided by the MAE Department. Three such broad criteria will be commented on here: relevance, effectiveness, and cost efficiency. It must be recognized at the outset, however, that these criteria overlap somewhat, that they include a number of not always well-defined subcategories and that they are not without their ambiguities themselves.

**Relevance** is a criterion that gives rise to a number of considerations such as: is a particular TA program relevant to a country's particular circumstances? Is it likely to be well integrated within the country's overall reform effort? With more specific reference to central banking, are, for instance, the advice to set up an independent central bank and the technical assistance offered to that end appropriate to the particular circumstances and reform effort of the country at the given time? These questions suggest that the issue of relevance encompasses several other (often but not always more specific) criteria including the appropriateness, the aptness, the pertinence, the timeliness, the quality, and the specificity of the advice or technical assistance under evaluation. As these considerations make clear, relevance also touches on questions of effectiveness and efficiency, although it will be

convenient to consider these as separate criteria for the evaluation of technical assistance. One possible distinction between relevance and effectiveness could be to consider the former to relate more to the design or early stages and the latter more to later or implementation stages of a particular TA program, although this distinction is obviously rather arbitrary.

Most aspects of relevance as just defined are fairly obvious. One slightly less obvious aspect of the issue deserves emphasis here, namely that the relevance and success of a particular piece of advice or TA strategy depends on whether and to what extent it matches the recipient authorities' own reform strategy. This in turn will greatly influence the authorities' commitment to any specific reform effort, its success, and, implicitly, the effectiveness of the technical assistance to that reform process. The authorities of the reforming countries will generally insist on retaining full control of all aspects of the transformation process including the implementation of technical assistance. This seems entirely appropriate if only because the transformation involves replacing deeply ingrained habits of thought and modes of behavior and will succeed only if the fullest possible commitment and participation within the recipient country can be assured. It therefore stands to reason that technical assistance will pass the relevance test and make a measurable contribution to achieving the objectives formulated for the transition if the strategy underlying the TA program is consistent with that of the authorities.

A notable example in the case of the transition economies arose in connection with the debate about whether to pursue a shock treatment strategy in the transition to a market-based economy or to opt for a more gradual approach. The decision was and is for the national authorities to take in the light of their special circumstances, political and economic. Relevance (appropriateness) of technical assistance then required that it be adapted to that decision. Shock-type change requires that a large number of conditions and reform measures be put in place very rapidly and simultaneously lest bottlenecks arise which could jeopardize the bulk of the reform process; more gradual change puts a premium on the correct sequencing of various measures that have to add up to a consistent whole to avoid the risk of interruption and backsliding, a risk attached to a gradual approach to transition in any case.

Whether technical assistance is "relevant" or not with respect to this particular strategic choice is quite clear when the choices of the authorities and of the suppliers of technical assistance are either consistent or inconsistent, and if one abstracts from the obvious fact that in some respects the same technical assistance may be appropriate for both. This would suggest the following matrix of outcomes:

		Authorities' Decision	
		Shock	Gradual
Technical Assistance Adapted To	Shock	positive	negative
	Gradual	negative	positive

TA will only make a meaningful or measurable positive contribution if it matches the authorities' decision on the choice of strategy, i.e. shock or gradual. The example above, however, is overly simple as in practice the "measure" of the contribution of technical assistance may range anywhere from zero (or even negative) to some hard to define maximum.

Another, perhaps somewhat more helpful approach would try to rank or quantify outcomes in terms of the match between the authorities' commitment to the transition process with the intensity of TA, as follows:

		Authorities' Commitment		
		A. Full	B. Medium	C. Nil
Magnitude of Technical Assistance Role	A. Full	100	80	20
	B. Medium	90	60	10
	C. Nil	80	40	0

The numbers attached to outcomes in this matrix attribute a predominant weight to the authorities' commitment, as can be seen most clearly in the case of "full commitment" combined with "nil" role of TA. The example also suggests that even with "full" contribution of TA, the outcome remains barely measurable if there is "nil" commitment to the process from the authorities. In short, TA will hardly be relevant in such circumstances. Variants of this matrix are conceivable, including some which would show values above 100 for "full" commitment of the authorities plus "full" role for TA. In real world situations the authorities' commitment is unlikely to be absolute; they will instead seek to combine available options, balancing the (political) costs of "full" commitment against the risks of "less than full" commitment. Most likely, therefore, an evaluation of TA and its contribution to the transformation process in an individual country will take place in a situation of less than "full" commitment by the authorities, and the role and relevance of TA will have to be assessed as best one can and in fairly ad hoc fashion.

**Effectiveness** is here taken to be narrower in focus than "relevance," in that it relates individual TA measures to their effects. Did the advice given to set up a research facility in the central bank lead to meaningful research being undertaken that serves a useful policy purpose? Did the introduction of Treasury bills through auctions enable the central bank to pursue its monetary objectives more effectively than otherwise? In the area of central banking, as in other areas, the effectiveness of technical assistance will be measured importantly by the achievement of "**self-sufficiency**" on the part of the recipient authority in carrying out particular functions. It will also be judged by the speed with which such "self-sufficiency" is achieved, and presumably by the ability of the authorities to build on that achievement when called upon to react to new situations and requirements of policy.

Effectiveness can be assumed in general to have increased over time as experience in planning, organizing, designing, implementing, monitoring and evaluating TA projects by MAE has increased. Nevertheless, effectiveness will remain variable from case to case, if only because it, like relevance, will depend on the responsiveness and absorptive capacity of recipients and the latter will vary widely. As a result, cross-country comparisons of effectiveness will be difficult, though they may still be appropriate for certain purposes.

Efficiency introduces the notion of cost and productivity into the exercise. Although technical assistance is extended largely cost-free,<sup>4</sup> the membership of the Fund, including the recipients of TA, ought to be concerned about cost efficiency if only because as members they contribute to its financing, especially insofar as they pay charges to the Fund under support operations. Contributors of funds like Japan, under its bilateral Japan Administered Account (JAA), UNDP, and others also have an obvious interest in the most productive use of their contribution.

Admittedly, the financial cost of TA may be judged to have remained tolerable when seen against the total cost of Fund operations, though there will be differences of views on this. There are nevertheless at least two issues of principle involved here.

First, there is a basic issue in defining cost efficiency in this context: the usual economic criterion for judging the efficiency of technical assistance would prescribe, in the absence of indivisibilities, that the last SDR spent on any TA activity in any member country yield the same return or benefit at the margin as that spent on any other TA activity in any other country. The problem that arises of course is the definition and measurement of the return or benefit of specific technical assistance activities, all the more so when there are externalities and social and private returns diverge. And supposing that the marginal benefit of any TA program could be measured in SDR terms, should it be computed on a per capita, per member country, or per voting power within the IMF, basis? These are obvious political issues that raise most delicate questions of interpersonal/intercountry utility comparisons. Suppose it costs three times as much in dollar terms to provide the technical assistance required to introduce a new banking law in China as in Fiji: should one renounce providing the assistance to Fiji on cost efficiency grounds? The answer clearly depends on political, equity-type considerations that are beyond the competence of this Report. This means, however, that what is being evaluated will end up being the "technico-economic" (are we on or inside the production frontier for technical assistance) rather than the full "political-economic" (are we both on and at the "right" point on the frontier) efficiency of the TA process. The latter is an issue worth serious consideration by the Fund's authorities.

Second, there is a question of both principle and efficiency involved in the pricing of technical assistance to recipient countries, an issue that has come up repeatedly at Fund Board

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<sup>4</sup> Present practice is to charge recipient countries for long-term experts only. The charge can be both in cash and in kind. It is very low and mainly in kind for low-income countries eligible for ESAFs, higher for middle-income countries, while high-income countries are in principle charged full cost.

Meetings. A recent Fund report summarizes the arguments that have been made at such meetings for and against charging for technical assistance as follows:<sup>5</sup>

The case for levying a significant charge has been supported with arguments for the need for a 'price mechanism' to ration demand, foster 'ownership', and set priorities, and for the Fund to raise revenue to cover its expanding TA costs. These proposals have been countered by other Directors who stressed the importance to the Fund and Fund-supported programs of providing timely and effective assistance, especially in low-income countries. They felt that a high level of contribution may deter requests from countries most in need. Some Directors made the point that many countries were already paying, as fund borrowers, for technical assistance through the rate-of-charge.

It is hard to see how less than full-cost charges to all recipients (effectively buyers) of technical assistance could serve as an effective rationing device for its provision. It is also hard to believe that adoption of such full-cost charges is likely (or even desirable in view of the externalities involved). It remains true, however, that some charge to all recipients could play a useful role in fostering "ownership" or what was called above the "commitment" of the authorities and force the latter to set some needed priorities. Such a charge could thus play an important role in enhancing the relevance and effectiveness of technical assistance and, hence, its efficiency.

At a practical level, the over-all cost effectiveness of the TA operations conducted by MAE will, of course, depend on the efficiency of individual programs and of their component parts. Hence an important part of any attempt to evaluate TA operations will have to be devoted to issues that relate to the choice made between alternative methods of planning, organizing, implementing, and monitoring individual programs; or, in other words, to the mode of delivery of TA. Would it be more efficient to use missions rather than long-term experts in a particular case? The effectiveness in terms of the result achieved may be the same, with perhaps some differences in the time required for completion, but the cost efficiency of alternative modes of delivery may differ substantially.

Evaluation criteria and considerations similar to those mentioned so far in this section of the report can be applied not only to the technical assistance provided directly by MAE but also to its role as a **coordinator** of technical assistance. This role arises as a result of the existence of multiple sources of supply, including in particular the central banks which have been offering their services to countries in need of technical assistance. Indeed, the increased involvement of MAE in this area in recent years is in good part due to the need, perceived by the various parties involved, for **coordination** and **cooperation** designed to minimize overlapping, multiple employment of available resources, sheer waste, unnecessary competition, inconsistencies and incompatibilities in the provision of technical assistance. MAE has assumed the role of coordinator of TA to the central

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<sup>5</sup> "Country Contributions for Technical Assistance," Draft Paper for the Budget Committee, June 1995, p.1.

banks of a large number of its members<sup>6</sup>. In assessing MAE's role in this respect due account must be taken of the well-known fact that coordination requires the active participation of all the parties involved; hence, in many cases, deficient outcomes cannot be attributed to one party only. Having said this, coordination no doubt constitutes an important part of MAE's function, absorbing considerable manpower, time, and budgetary resources. Thus, assessment of MAE's coordinating activities should be a part of an evaluation of its technical assistance activities.

## 4. FINDINGS AND ISSUES

The process of technical assistance can be divided into at least three aspects or steps: initiation and over-all design; choice of modes of delivery; implementation and follow-up (monitoring and control). These are the stages emphasized in the questionnaire drafted by the Panel and also the aspects of the TA process around which the description of findings below is organized. This description is impressionistic rather than rigorous, qualitative rather than quantitative. The evidence (in some instances more aptly labeled 'impressions') presented below is based on the Panel's reading of written materials, interviews with Fund and other organizations' staff, country visits and interviews with recipient authorities as well as with long- and short-term advisers, and on responses to its questionnaire. In sifting through this material, the Panel found that some issues -such as the possibility and desirability of separating technical from policy advice or the degree of acceptance of MAE advice- deserved special attention. This brings us to two further introductory remarks. First, the distinction between findings and issues is clearly not a hard and fast one: to each finding, at least one issue seems attached. Second, keeping the description of findings separate from the "assessment and recommendations" that are the subject of the next chapter is equally difficult and some overlap is unavoidable.

### 4.1 Initiation and Design of Technical Assistance

A first question that arises with respect to the technical assistance provided by MAE concerns the process by which it is initiated. One idealized model would have all requests for technical assistance originating independently with member countries, with MAE then deciding on the appropriate response on the basis of objective, "scientific" criteria. Indeed, in its initial interviews with MAE staff, the Panel was repeatedly told that TA extended to member country central banks was invariably initiated in response to a request from the respective member authorities: "The provision of TA is demand-driven". One advantage of such an initiation procedure would be to foster full commitment on the part of the authorities in contrast to cases where technical assistance is quasi imposed upon them, possibly as a condition for financial support from the Fund.

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<sup>6</sup> The set of 23 Cooperating Central Banks includes those of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

The reality of the initiation process, however, is often more complicated. In some instances, the need for technical assistance only emerges in connection with discussions about adjustment programs and, implicitly at least, elements of conditionality will thus be involved. In other cases, especially those involving new members embarking on radical reforms, the request for TA and advice was not easily formulated by the potential recipient, simply because the authorities, as they confirmed in several interviews, were not initially in a position to judge on their own what those needs were. They lacked the basic understanding of the workings of a market economy and of the scope and sequencing of the various required measures needed to achieve the transition. In other words, they needed technical assistance in formulating their own demands for technical assistance. "At the beginning we were only pupils". It is also true that they received multiple offers of assistance from various sides but, again, they were often wholly unprepared to choose among them. They needed help to decide what to accept and what to reject in order to arrive at a package of technical assistance that would effectively address their problems.

The way in which requests for technical assistance originate is not without bearing on a second question, namely by what process MAE, or the Fund more generally, choose which of these requests will be satisfied and which will not. Insistence on the initiative resting entirely with potential recipients could be seen as elevating a passive attitude by the Fund into a rationing device that would avoid explicit decisions by its management and would function as long as "spontaneous" requests stayed within limits that did not exceed the Fund's willingness and ability to commit manpower and financial resources to TA activities. There is, however, hardly any evidence that insistence on a request for technical assistance as a trigger does indeed operate as a rationing device. It thus appears as a largely formal requirement, perhaps mainly intended to demonstrate that technical assistance is never imposed on recipients by the Fund.

Moreover, once initiated, the process of technical assistance will in many cases require repeated renewals of requests by a member country's authorities. It is here, even more than at the outset, that the independent formulation of requests addressed to the Fund appears to be mainly of a formal nature. Indeed, it is at these more advanced stages of the process that questions about additional needs for TA with their consequent calls on Fund manpower, time and financial resources are raised and discussed among providers and recipients. It is also at these later stages that the issue of conditionality for TA arises with greater urgency than at the initial stage. Available evidence suggests that, in a great majority of cases involving comprehensive reform programs, both the initial structured application as well as such requests for further technical assistance are the product of consultation and negotiation between recipient and supplier.

Part of the rationing process, then, appears to be taking place during such negotiations and consultations. On what criteria is a complex and iterative process. Given the absence of quasi-automatic rationing mechanisms, MAE --like other Fund departments involved in technical assistance-- will have to rely on its own criteria for selecting among the many requests for TA from member institutions. Discussions with staff on this difficult issue suggest that a number of considerations are constantly being weighed in the process --within the over-all budget and resource



constraint on the Department's TA activities.<sup>7</sup> Among them are geographic and other factors relevant to ensuring uniformity of treatment among the Fund's membership, which may conflict with other more rational selection criteria but cannot be ignored. Other considerations and criteria can roughly be grouped under three categories: the relative urgency of a request in terms of its contribution to the global reform process and/or to a Fund-supported adjustment program; the constraints on MAE's own supply capacity, that is the calls on its own manpower and other resources; and the supply constraints imposed on MAE by the availability of expert advisers in the specific areas of technical assistance in question.

This rather informal rationing process seems to have been on the whole fairly effective in practice. The evidence available to the Panel indicates that MAE, over the reference period, has been able and willing to respond fairly promptly to the demonstrated TA needs of member countries' central banks. In addition, MAE has also responded to the calls of the Cooperating Central Banks for intensive Fund involvement in the TA coordination process to mitigate the inefficiencies created by the Banks' own, uncoordinated, multiple offers of technical assistance. In the process, however, considerable and rising demands have been put on MAE's professional staff, which has (on the whole admirably) managed to deal with the avalanche of additional work with the help of rapid additions to its expertise both in the form of additional personnel and through the rich experience gained in the process. Nevertheless and in spite of the many offers of secondment of staff by industrial country central banks, the availability of technical experts of the type required remains one of the main bottlenecks effectively constraining the choice among TA projects to be implemented. Whether this should be a dominant criterion for rationing TA is an issue to be addressed elsewhere.

Issues of choice and initiation also arise in the **design** of technical assistance, involving as it does decisions about the scope of technical assistance, the sequencing of its components, the means of delivery, its overall extent and intensity, and so forth. The design of technical assistance should ideally meet a number of potentially conflicting imperatives. It should be adapted to the special circumstances of the recipient country, to its stage of development, its overall reform strategy, its sensitivities at the political level, and its institutional set-up; at the same time, it should also meet the Fund's own criteria of excellence and consistency. There are basically two extreme models for advising recipients as to the design of technical assistance programs. The first is to propose a fully packaged program without giving a choice among alternatives; this may be called the "single-recommendation" model. The second is to provide the recipient with a list of all possible alternative approaches to program design without formulating specific recommendations; this may be called the "options-only" model. There are of course many possibilities in between these two extremes.

What form the advice on design will take in practice very much depends on the characteristics of the recipient and its relationship with the Fund. At one extreme will be those cases where the long experience of the Fund will be accepted by the recipient as a sound basis from where to start, leaving

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<sup>7</sup> The determination of the budget constraint on MAE's TA activities is itself determined through an iterative process which involves the Fund's Technical Assistance Committee. At the margin, it also depends on the urgency of requests mentioned further in the main text.

it for later stages of the process for the recipient to begin voicing clear preferences for one or the other option. At the other extreme will be those other cases where insistence on nationally independent decisions will dictate an approach that will have to put all the available options before the recipient authorities for their decision, not infrequently at a considerable cost in time and effort.

In the course of their visits and interviews the Panel had occasion to receive positive and negative comments about the role of MAE in technical assistance design. The positive reactions originated in those central banks that, having revealed their preferences for the "options-only" approach or the "single-recommendation" approach, received exactly the form of advice required. The negative reactions came from those that would have preferred to receive a wider spectrum of alternatives to choose from (including examples of failures, to learn from) than the one actually presented to them; and from those that felt rather confused and even somehow handicapped because the advice received failed to focus on specific recommendations. The Panel could not ascertain to what extent the critics did appropriately reveal their preferences for one or the other type of advice in advance.

That being said, the Fund appears to have avoided a number of pitfalls in TA program design where there has been a tendency, especially with respect to the countries in transition in Eastern Europe and the former Soviet Union, to propose uncritically the adoption of available models from highly industrialized economies in the countries seeking to reform their economies. The Fund seems on the whole to have successfully resisted this temptation, while at the same time insisting on certain essentials of any promising transition process towards a market-based economy.

One reason is that MAE has been able to draw heavily on the experience accumulated by a number of member countries in the seventies and eighties when designing technical assistance for the early nineties. Reform in these earlier instances followed no unique sequencing and the time frame for implementation varied substantially. Where deregulation of interest rates and credit controls proceeded rapidly, resource misallocation was quickly terminated; but at a greater risk of the central bank experiencing a loss of control over domestic financial aggregates than in countries where the reforms proceeded more gradually. Liberal entry policies for new banks and other financial institutions often resulted in greater competition among them, but also gave rise to situations characterized by bank failures and considerable vulnerability of the whole financial system. Early liberalization of exchange regimes also increased competition and helped accelerate the reform process, not least by eliminating the uncertainties about the intentions of authorities in this area, but at the same time made control over domestic monetary conditions more difficult. The need for effective prudential supervision was recognized late in the process and implementation was slow, adding to the risk of financial crisis occurring at some stage, although the real cause of crises most often lay elsewhere, prominently in the failure to control the fiscal deficit.

MAE also revisited familiar issues when dealing with the introduction of market type instruments of monetary policy, the choice among different exchange rate regimes and their implications for monetary policy and inflation control, and issues in debt management. And last, but not least, it met entirely new challenges of TA design in areas such as the introduction of a new

currency, dealing with enterprise arrears, or meeting a cash shortage arising during the reform process.

In fact, as we have already stressed, the scope of technical assistance in terms of areas and subareas covered has become extremely broad in the nineties. The "explosion" of technical assistance that took place during the last few years has encouraged the Fund to provide assistance in a number of fields which, while close to central banking, go beyond the traditional subjects of direct Fund concern or expertise. This may be warranted by the experience of previous periods which suggests for instance that the development of proper banking supervision should be an integral part of the design of a central banking reform program; but it also raises questions about the efficiency of such efforts (especially since progress in such areas has sometimes been singled out by the recipient institutions as particularly slow) and about the capacity of MAE to select, monitor and evaluate work in those areas.

## 4.2 Modes of delivery

This section deals with the choice among various modes or instruments of TA delivery: missions, long- and short-term experts, seminars and workshops, coordinating activities, publications and working papers, etc. Various papers produced by MAE and discussion with MAE staff, confirm that there is great awareness of the importance of an appropriate choice of means of delivery and, in particular, of the need for adaptation to changing circumstances.

On the whole, the authorities interviewed seemed to find it difficult, on the basis of their own experience, to rank their preferences among the various possible instruments of delivery. As might be expected, they offered positive as well as negative opinions about each but, with few exceptions, ended up wanting them all. To quote a high central bank official: "The choice among instruments of delivery is difficult to make. All have their role to play". Below-cost pricing may well contribute to this answer. That being said, a number of observations on each mode of delivery deserve reporting.

**Missions.** There has been a sizeable shift away from the early preference for multi-purpose missions designed to provide general advice over the whole range of central banking functions, instruments and operations; these responded to the perceived needs of most countries for basic understanding of the role of central banking in a market-based economy, of the required institutional changes, and of the policy options available in the various areas of central banking. The word "diagnostic" seems appropriate to qualify that early approach. In numerous interviews the point was made, in some cases forcefully, that the usefulness of such general purpose missions had diminished, and that there was a risk of serious repetitiveness of arguments, with little if any value added.

More generally, missions were considered useful but two characteristics were given poor marks: the excessive rotation of the persons involved in basically the same subject in successive missions, and the lack of an agreed schedule of missions, of all types and from all Fund departments (and possibly also other institutions), over the coming say, six to twelve months. Excessive rotation

was seen to diminish the usefulness of some missions by introducing repetitive discussions and explanations on subjects already covered and sometimes even agreed with previous missions. By contrast, the Panel also received high praise about some MAE staff whom the authorities considered "indispensable experts" in any mission. Advance establishment of an agreed schedule of missions was proposed to insure the availability of the appropriate officials at the recipients's end and to avoid clashes with other missions, visits or events.

**Long- and short-term experts.** A variety of views with respect to the assignment and selection of experts was expressed by officials of recipient central banks. The selection of experts, the uncertainties about the initial starting dates and contractual renewals, the writing of the terms of reference and their periodical revision were all mentioned to the Panel as areas where substantial improvements could be achieved. "We should play a greater role in selecting experts and defining terms of reference; even if we do not know enough, we will learn from the arguments for preferring one person to another or one reform path to another". This type of criticism seemed mostly to be attributable to a desire to participate more intensely in the largely preparatory stages of technical assistance, as a way of avoiding surprises and possible misunderstandings, and of increasing the probability of successful advice.

The case of the long-term advisor was the subject of several interesting observations. First, emphasis was put on the need for a meticulous choice of persons and a precise formulation of the terms of reference, shared with the authorities, without which the very length of the appointment would make mistakes very costly. Second, several respondents stressed the need for a clear understanding among the parties involved that the problem-solving of the long-term expert should not take precedence over his knowledge-transfer function. "They do their jobs but do not transfer their knowledge". "We are too busy to teach; have to do our work". "The advisor is gradually transformed into an executive person". The problem-solving should be carefully kept within reasonable bounds by both the recipient authority and the expert; the know-how transfer should be insisted upon by the expert and be duly supported by the authorities. The importance of the know-how transfer is of course that it makes the continuing presence of the long-term advisor redundant; for this to take place requires that local counterparts be chosen and assigned to collaborate with the expert. There have apparently been many cases of long-term experts leaving behind almost the same vacuum they initially came to fill and later, hopefully, remove. An important point to emphasize here is that the recipient authorities must share in this responsibility. Third, there is a distinct impression that long-term advisors tend to loose contact with MAE through time, despite their periodical reports and the exchanges during missions visits. "My experience is flying solo; they probably give us too much liberty". "We have very little feedback to our reports to MAE".

In general, the large majority of opinions, while underlining the initial need and usefulness of long-term experts on the spot, with whom a basic relationships of trust and confidence can be established, expressed the view that changing circumstances often brought about by technical assistance itself, pointed toward a relative increase in the use of specialized short-term experts in the future.

The short-term advisor seems increasingly appreciated, particularly in those countries and central banks where the economic transition or the financial reform have already taken hold. As expressed to the Panel, this increased appreciation of short-term advisors stems from the fact that as knowledge about, and experience with, the transformation or reform expands, new questions and unknowns present themselves; but unlike the broad, basic issues of the initial stage, the new questions increasingly belong to a more specialized and more diversified set of issues. Under those circumstances, a single long-term expert could probably provide useful advice, but the "encyclopedical" knowledge he may have to offer could go mostly underutilized. In such circumstances, several short-term specialized experts could serve more efficiently, by focusing more sharply on each single issue. Moreover, it is also not unlikely that a donor central bank will be readier to part with a highly qualified specialist for a shorter than a longer period.

**Fund Resident Representatives.** These members of the Fund's staff have a fairly wide brief. They act as "listening posts" for the IMF, especially in cases where adjustment and financial support programs call for close contact and involvement which, were it not for their presence, could not be assured except through very frequent missions under Area Department leadership. On other occasions they can very helpfully assist the authorities in monitoring the facts and figures of such support programs. However, looking after TA matters, and thus engaging in monitoring of MAE programs or experts is formally not one of their functions in most, if not all, cases.<sup>8</sup> Interviews with central bank officials suggested, however, that, to varying degrees, resident representatives did, or potentially could, play a role (sometimes judged "very useful") in the TA process, in a number of ways: as interlocutors for the authorities; as a source of advice; as initiators of technical assistance projects; and as a point of contact. In other cases complaints were heard, notably from resident long-term advisors, that the resident representative failed to play the integrative and coordinating role among various Fund activities in the recipient country that he should have. Moreover, some resident experts complained that they were not provided with enough information on IMF missions or on Fund-supported programs by the resident adviser. "They should talk to advisers; they do not consider us IMF". This, however, is not a universal view. Much seems to depend on the personality of the individual resident representative. Thus, in at least one instance, the Panel was told in some detail of the substantial and indispensable contribution made by the resident representative.

**Seminars and workshops.** As a means to convey general or specialized knowledge and information, seminars and workshops were widely considered useful. Seminars were singled out in a number of cases as particularly useful in increasing awareness and understanding of financial and monetary policy issues beyond the officials of the central bank and thus when they addressed a wider audience, including non-financial government officials, members of the banking and financial community, trade unionists, journalists, academics, political parties, and legislators. On more than one occasion these arrangements were characterized to the Panel as particularly apt to help promote understanding and acceptance of particular actions taken or planned by the central bank. Workshops, on the other hand, were mentioned as particularly useful when introducing new technologies.

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<sup>8</sup> The Panel understands that a broader brief, with additional coordinating functions, for Resident Representatives is currently under discussion within the Fund.

A number of officials, however, though recognizing that seminars were useful in improving basic understanding of issues, seemed somewhat skeptical that they could provide them with deep enough a knowledge of the issues to equip them adequately for practical applications. For those purposes they felt that some form of on-the-job training, either at home or abroad, was indispensable.

**Publications, analytical and working papers.** Enquiries with officials as to the use made of publications, working papers, etc., produced by MAE and by other Fund departments, or by institutions such as the BIS, frequently revealed a surprising measure of ignorance of the existence, contents, and availability of such material. It is not clear whether this is due to lack of interest or negligence on the part of the recipient central bank, to deficiencies in communications within the recipient central bank (notably between the department responsible for questions concerning Fund membership and other departments) or between the monetary authorities and their executive director's office, or to language and other limitations.

Even when there was awareness of their existence and availability, the papers and publications of MAE and of the Fund appear to be given much less attention in recipient institutions than might be desirable, not only as a valuable supplement to various forms of technical assistance but also as a possible substitute for parts of that technical assistance at less cost to the Fund. It may be that the format chosen for certain papers, with extensive references to academic literature and the use of mathematical tools, while certainly appropriate in some instances, detracts from the interest of those involved with the more practical aspects of monetary or other policy.

While such written material, much like seminars designed to disseminate basic knowledge, will not readily equip the central bank staff with the skills required to perform many practical duties without additional training, access to it will in many instances be a most useful and cost-effective means of deepening understanding of the issues involved. The availability of such material can also be a great use in the context of in-house training.

**Training.** Although training is not directly provided by MAE in the course of its TA activities, it was generally considered critical for increasing the recipients' capacity to absorb technical assistance. As such, then, training becomes a crucial element of the effort to transfer technical advice effectively. The role of long-term experts in this respect has been stressed above. With respect to in-house training, the degree of progress varied substantially among the cases examined by the Panel, although it was a concern in all but the smallest central banks. In a number of instances, in-house training appeared to have attained an impressive level of achievement, both quantitatively and qualitatively, over the full range of central banking activities. This appeared to be true in central banks which had reached a point where technical assistance was no longer absolutely essential to their effective functioning although it was still considered generally useful and desirable, and indeed necessary in certain areas. In other instances confidence was expressed in the capability of the respective central bank to undertake an increasing share of the training task on its own. That in-house training should rely increasingly and substantially on domestic staff seems indispensable notably for language reasons and also because normally only a limited number of personnel will be equipped to benefit from training provided by foreign experts, either at home or abroad. Language as well as computer training were, of course, stressed as a desirable and necessary part of the overall

development of human resources in central banking, given the international environment in which banking and finance are nowadays placed and the increased reliance on computerized means of transmitting and organizing information.

The aim of the majority of the recipient central banks interviewed was to achieve independence from reliance on foreign experts by training their own personnel. This is generally seen as a long-term process, to be performed both within the central bank and using the facilities offered internationally or regionally. Ideally, the personnel thus trained should in turn transmit the knowledge acquired, that is, become trainers within their own central bank. In this respect, the Panel was repeatedly told that one of the most efficient ways of training such personnel was for it to be invited to spend a substantial amount of time (from several weeks to several months) in an appropriate department of a foreign central bank, in addition to following intensive courses such as those offered by the IMF Institute. The Panel, however, could also ascertain that the most efficient use of such courses or internships (at home or abroad) was not always made; instead, they seem at times to be allocated as rewards for past services rather than according to future promise and to functional needs. In addition, a number of problems apparently arise when it comes to transmitting the knowledge thus acquired to colleagues in the recipient central bank. First, the person that has benefitted from the training may be hired away from the central bank. Second, the training is, often and quite sensibly, one step in the promotion of the person concerned; what is less sensible is that the promotion is not infrequently to a functional area that bears no relation to the training received. Third, as one individual told the panel: "knowledge is power; there is an incentive to keep a monopoly of it and not to share it with colleagues."

### 4.3 Implementation

It is often claimed that good preparation, organization, logistics, and design (some of the things just discussed) will of themselves be "the secret of success". The architect will stand back and watch his design being turned into a landmark. Technical assistance (as well as architecture in the real world) surely is different. Good preparation and design will be important ingredients of its success, but constant attention to all aspects of its implementation will likely be even more important in most instances. This, at least, is the impression gained by the Panel from the numerous interviews held with recipient authorities.

That the speed, degree and success of implementation of technical assistance should vary across countries as well as across functional areas is not surprising. After all, demands and initial conditions, the macroeconomic framework, institutional/political parameters all differ. And the "human" or "personal" factor plays an important role both at the giving and receiving end of technical assistance. Nevertheless there is broad agreement, expressed both in interviews with the Panel and at several conferences held on the contribution of technical assistance to "transition countries", that TA programs have on the whole moved successfully from the initial start-up phase to a consolidation phase in which technical assistance is gradually, and again on the whole successfully, shifting from general multi-topic missions to workshops and specific missions. There is also agreement that changing circumstances, in part as a result of the very success of technical

assistance, together with the latter's complexity in the central banking and financial area, have required and will continue to require great flexibility in implementation methods and tactics.

It is thus not easy to generalize about variations in the degree and speed of "compliance" in the implementation of TA advice. In several cases, wider political or legislative constraints delay the implementation of advice, independently of the acquiescence of the recipient institution itself. In other cases, the transition to indirect instruments of monetary policy creates its own difficulties: for not only does the adoption of such instruments open up new, uncertain and uncharted, if not totally unknown, territory; their successful implementation depends mainly on voluntary rather than "command" participation and it may take time for appropriate "market" behavior to be learnt. In yet other cases, the lag in response may not be the consequence of a reaction against the advice given by MAE, but an implementation lag on the part of the recipient authorities or of others, be they legislators, treasury officials, bankers, or what have you. Thus, lack of implementation should not always be interpreted as an indication of unwillingness to change or rejection of advice.

There are four aspects of implementation of MAE advice where comments made to the Panel and "evidence" it gathered may be of interest. They concern, respectively, the nature of the advice given in the process of technical assistance, the acceptance of this advice, the areas where implementation seems to have been more successful in contrast to those where it was less so, and the process of monitoring and control. These are taken up in turn below.

#### 4.3.1 Policy vs. technical advice

The theoretical model of the type of advice that is actually given, or should be, in the course of TA activities goes something as follows: it is advice about procedures, of the institution- or human capital-building type, and is thus distinct from "policy" advice. It is of the "how to do" and not of the "what to do" type. In this vein, the role of the resident advisor is not to be involved in the formulation of policy, nor to participate actively in policy decisions, but to advise from the sidelines on strategies and options and to train local counterparts. Here, as elsewhere, the reality departs from the model.

In numerous interviews the role of advisors, both short- and long-term, in helping the authorities to deal with immediate issues was underlined. The "need for an objective view" was stressed and the Fund adviser considered the best provider of such a view, as was the understanding of the wider aspects of issues that the expert could provide; the expert could also provide a valuable service by "checking our ideas or blueprints" and thus increasing their chances of being accepted by political authorities. Some central banks in interviews with the Panel readily admitted to still being at a stage of reform where hands-on advice was indispensable and in any case "highly valued". Most, however, were confident that they had reached, or were reaching, the stage where they could analyze a problem and formulate a solution, though they felt more comfortable having access to the greater experience of outside experts as well.



The officials interviewed were on the whole not inclined to draw a solid line between policy advice and technical assistance. One interpretation of this reluctance is suggested by the response given earlier with respect to the day-to-day advisory role of technical experts, namely that they helped gain a "full understanding of the wider implications of any decision taken". The perception seems to be that the policy advice received from Area Departments, particularly in the course of negotiations on adjustment programs, is of a rather general nature, relating to broad monetary and fiscal options and macroeconomic adjustment issues; this leaves ample room for policy advice on the choice between available monetary policy instruments and the arguments for or against their use. The Panel found that most officials from recipient institutions found it perfectly appropriate for the latter type of advice to be given within the framework of technical assistance, though most of them also insisted on the decision to accept the advice or not being theirs.

The interviews with central bank officials and others have convinced the Panel that it would be unrealistic to draw a narrow line that would prevent the recipient authorities from seeking advice on current issues and would limit experts to advice on improvements of a structural, institution-building nature. Inability or unwillingness to assist in acute circumstances could well undermine the authorities' confidence in the overall quality of technical assistance, which is often read from the quality of advice obtained when in dire need of it. The backside of the coin is, of course, that advice must only be offered on the basis of proper expertise in the area of need. Though donor central banks generally insist on broadly-based professional qualifications of the staff they second to recipient institutions, long-term involvement in banking supervision, payments systems, or accounting will not necessarily equip an expert with the competence to provide advice in monetary analysis, foreign exchange operations, or reserve management, even though he will have a basic understanding of the issues involved.

#### 4.3.2 Acceptance of Advice

The Panel found a surprisingly high degree of acceptance of advice offered by MAE staff or by experts assigned under MAE guidance and control. Even where, rather exceptionally, advice was rejected by the authorities, it was not on the grounds of poor quality of the advice, though incomplete adaptation to a country's or central bank's special circumstances occasionally played a role. For the major part, reasons originating in the recipient country, its institutional and/or political circumstances, stage of development, etc., were cited. At the same time, occasional inconsistencies of advice given by experts in related areas were cited as causing difficulties or delays which sometimes required own expertise to grow before they could be overcome. Mostly, however, experts were praised for having given "very practical advice", a form of words that underlines the frequent insistence on the need for hands-on assistance over general purpose advice. In some instances, advice was felt to be "ahead of time", as ingrained habits, vested interests, or other obstacles could only be overcome over time. The resistance to accept advice was most often seen to be located at the higher political levels outside the central bank itself. This explains why the need for broadly-based efforts to increase understanding of the urgency of the reform process was so often underscored. "There is a need to unify the thinking of officials".

The interviews also showed, in the majority of cases, great willingness to accept, or at least seriously consider, recommendations or proposals made in the context of mission reports, expert memoranda or oral advice, although there were also, in some cases instances of hesitation or even unwillingness. Some of the officials interviewed insisted on clearly formulated recommendations growing out of the work done by missions or experts; others voiced a preference for policy options to be submitted for their appraisal and decision.<sup>9</sup> Though in some cases the latter preference reflected varying degrees of politically motivated insistence on national decision-making power on all aspects of the reform process, in some cases down to every detail, it seemed more importantly a function of the institutionalized decision-making process in the recipient country. In one instance, it was explained (by the Resident Representative) that first consideration of particular measures had to take place at division level within the central bank, to be carried forward from there to higher and higher levels of the institution. Some officials and departments will prefer to be presented with a menu of available options based on the experience of other countries, that may only indirectly or implicitly point to the recommendations and proposals favored by the mission or expert. In the more frequent cases where higher management was more intensely interested and involved in the technical assistance process, and had developed close personal relations with MAE staff and advisers, readiness to base decisions directly on recommendations for action was usually found to be greater. The absence of clear-cut recommendations was then even judged negatively.

#### 4.3.3 Strong and Weak Areas

Implementation of technical assistance programs seems to have proceeded faster and more successfully in some areas than in others. This is particularly true if the criterion for success is taken to be the establishment of recipient self-sufficiency or graduation in the area in question. Although the ranking of functional areas by degree of success in implementation of technical assistance is not uniform across countries, a significant pattern seems to emerge from the interviews conducted by the Panel and its reading of the evidence.

It thus appears that, among the areas mentioned in section 3.1 of this report as falling within the scope of MAE assistance, more progress towards implementation has been made in those that bear directly on the monetary policy and foreign-exchange functions of central banks, including the bank's organization in these fields, to wit in: central bank legislation, central bank accounting; monetary analysis and policy including the introduction of indirect instruments of policy; international reserve management and foreign-exchange market organization; and monetary and payments statistics. In contrast, progress towards graduation from technical assistance has often been slower in areas such as bank supervision (and liquidation), clearing and payments systems, commercial bank accounting and reporting systems, and general organization and management systems.

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<sup>9</sup> This difference in attitude was already noted in section 4.1 above.

The Panel could ascertain three possible and not mutually exclusive reasons for this perceived difference. First, MAE's own expertise, as the Department's name indicates, lies more in the monetary and exchange field than in, for instance, banking supervision and organization. Second, crisis management has been the name of the game in areas such as banking supervision in several of the countries surveyed. This in turn has meant that the foreign resident experts have been pressed into performing urgent policy tasks themselves, sometimes pretty much on their own, leaving little time for training local counterparts or devising and implementing systems that could then be run without their help.<sup>10</sup> It should be noted here that in the vast majority of cases these foreign advisers have been highly praised by recipient authorities and have been credited with helping avoid or mitigate some major crises. Third, and perhaps most importantly, the satisfactory performance of functions such as banking supervision or the running of an efficient payments and settlements system requires that a fairly large number of qualified personnel be trained and, for the accomplishment of certain tasks, that cooperation from outside the central bank be forthcoming. These "people-intensive" tasks depend on a general training and "change-of-mentality" effort that is likely to take time and that technical assistance can encourage but not replace. In contrast, the success of broad measures in the monetary and exchange rate policy area can be insured by a few committed members of higher management who are willing, and will be rapidly able, to take over from outside advisers.

#### 4.3.4 Monitoring and Control

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

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

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<sup>10</sup> An additional problem that arises in areas such as banking supervision is that when local counterparts are effectively trained, they are frequently hired away by the non-central bank sector.

#### 4.4 Summary of Findings

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

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

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

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

- In the initial phase, the same lack of basic knowledge and experience which encouraged new members to avail themselves of the Fund's technical advice and assistance also limited their ability to judge the quality of advice critically or to express critical views forcefully. There is some evidence that in a few instances this "uncritical phase" is drawing to a close and that the willingness to be critical of the advice offered will increase correspondingly.

- In the interviews, it proved difficult to dispel the authorities' apparent belief that one of the objectives of the evaluation conducted by the Panel was to scale down technical assistance and make it the subject of greater scrutiny in the future. This may have led some officials to overemphasize TA's role and importance relative to that of the authorities' commitment and effort, to underscore the continuing need for assistance, and to express the wish that the Fund continue to match the undiminished demand for such assistance with adequate and if called for, increased supply. Admittedly, this does not fully explain the reluctance to voice criticism where such criticism might in fact help the overall effectiveness of technical assistance, and assist the Fund in meeting justified demands fully in the process.

Among the **strong points** of the role played by the MAE, based on the Fund's long and deep involvement in member countries' economic, fiscal and monetary affairs, the following were underscored during the interviews:

1. The ability to help create and further a basic understanding of the functioning of market processes, their interlinkages, the externalities involved, the policy issues confronting the authorities and the policy options available.
2. The ability to draw on a great store and variety of accumulated wisdom and experience within the Fund.
3. The great stock of practical experience which MAE has been able to muster through the coordinating role with which it was entrusted by the cooperating central banks.
4. The willingness to respond rapidly wherever possible to the demands expressed.
5. The flexibility of approach, while respecting the need to ensure consistency of advice.
6. The ability of MAE staff and advisers to formulate concrete proposals or recommendations where this is desired and appropriate.
7. The respect shown for national sensitivities and preferences, political conditions and their changes over time.
8. The demonstrated commitment of individual MAE staff and of experts seconded by central banks.

In turn, among the **weak points**--and to some extent showing the other side of the same coin-- the following were mentioned, and in a few cases underlined:

1. Inability or unwillingness, in some cases, to show an adequate understanding of the inadequacies and impediments inherent in a recipient country's meager capacity to absorb advice and technical assistance, particularly because of the shortcomings of its human capital base.
2. Too ready an acceptance of the standard market model as a basis for judging the need for TA.
3. A penchant for "theoretical" rather than "practical" advice well tailored to a central bank's requirements.
4. Insufficient flexibility of approach out of excessive respect for consistency or--in the case of individual experts--of their exclusive familiarity with their own country's practice.
5. Relatively large delays of response to requests for TA in urgent cases due to cumbersome bureaucratic procedures and requirements.
6. Excessive reliance on multi-purpose missions even at an advanced stage of a TA project where requirements for specific advice in separate areas take hold over comprehensive TA needs.
7. Shortcomings in the choice of experts able to live up to the requirements of particular assignments.
8. Inadequate monitoring of experts in the field.

## 5. ASSESSMENT

This section presents the Panel's evaluation of the quality of the advice given by MAE in the course of providing or organizing technical assistance, of the appropriateness of the chosen means of delivery of TA, and of the effectiveness of its implementation. It then also comments on the appropriateness of the scope of MAE technical assistance, its self-liquidating nature (or not) and on the possible introduction of conditionality into the technical assistance process. This evaluation is based on the findings reported above.

## 5.1 Quality of advice

Advice is given in a variety of forms: written, through seminars, by resident advisers, short-term experts, or in the course of a mission, to mention only the most important forms. We turn first to the quality of written advice contained respectively in MAE Operational Papers, Papers on Policy Analysis and Assessment, in Staff Memoranda, and in MAE Mission Reports.<sup>11</sup>

**MAE Operational Papers** bear on specific issues likely to be of importance to central banks in economies in transition or undergoing structural adjustment and/or with a stabilization program. The five operational papers issued in 1995 by the time of this writing deal respectively with reserve requirements on foreign currency deposits, treasury bill auctions, short-term absorption of capital inflows, liquid asset ratios as a policy tool, and central bank credit to government. They are brief, useful and focused. They provide simple general statements of the issues and are usually motivated by a very brief comparative review of country experience. With perhaps one exception, the writing shows a good capacity to "vulgarize" the appropriate recent analytical and policy literature. OP/95/04 (on liquid asset ratios) contains two quite interesting annexes, the first of which gives examples of MAE technical assistance advice on liquid asset ratios and courageously shows some inconsistencies in MAE advice both within and across countries. Operational papers, if the quality and topicality can be maintained, could prove a useful tool in forging a Fund view on structural central banking issues and in arming experts and advisers in the field with that view.

The contributions of MAE to the IMF Paper on Policy Analysis and Assessment (PPAA) series do not call for much comment from the Panel beyond stating that this seems a convenient outlet for timely discussion of issues of current concern to MAE's technical assistance work. Of more importance to this report are the **Staff Memoranda** issued by MAE. Only two recent issues of such papers came to the attention of the Panel:<sup>12</sup> one on "Issues and Developments in the International Exchange and Payments System" (August 1994) which contains an extensive annex on "Recent Technical Assistance in Exchange Systems," the other (November 1994) on "The Adoption of Indirect Instruments of Monetary Policy." It is notable that these papers are the only MAE papers that are submitted to the Fund's Board for discussion. This may suggest that Board awareness and control of the technical assistance work of MAE should be reinforced in some other supplementary way. That being said, the contents of these papers, the latter in particular, are on the whole uncontroversial and useful. They, like the operational and PPAA papers, do not show the

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<sup>11</sup> Much of the work of staff members of MAE appears in the IMF's Working Paper series and often reflects personal as well as departmental research concerns. It would go well beyond the capacities and mandate of the Panel to evaluate these papers beyond noting the generally high quality and interest of the series.

<sup>12</sup> A later Staff Memorandum on capital account convertibility was issued too recently for the Panel to take it into account.

dogmatic and primitive pro-market biases of which the Fund and its technical assistance, especially to the FSU and Eastern Europe, are sometimes accused. If anything, these papers as well as some of the output of individual members of the MAE Department as it appears in various places, the Fund's Working Papers among others, may appear too eclectic, ranging in sensibility from "contemporary keynesian" to rather strongly neoclassical.

The main written record of the technical assistance advice given by MAE or under its authority are the **Mission Reports**. These take a variety of forms ranging as they do from single to multi-topic missions, from broad subjects to narrow technical country-specific issues. In addition, they are sometimes prepared by one or two authors, sometimes by a large team of experts, the majority of whom often come from other departments than MAE as well as from outside the IMF. It is therefore not surprising that the reports vary in contents, quality, and presentation. As a result, it is somewhat difficult to offer a general assessment of the advice contained in these reports that does justice to the considerable individual contributions that they contain. A brief assessment of the overall quality of the advice contained in the papers in terms of their technical competence, effectiveness of presentation, relevance, and consistency is nevertheless offered below.

Although in a number of areas covered by the reports (such as accounting or payments systems) the Panel feels incompetent to pass judgement on whether the advice given is "state of the art" or not, the overall impression is that the advice is generally competent and sufficiently close to "best practice," or at least as close as the specific circumstances in which it is given warrant. There are, however, some dimensions in which the reports occasionally fail to reach what the Panel would consider "best practice." One concerns some of the presentations in annexes of procedures of control of the rate of monetary expansion: this is sometimes done in algebraic terms which are either too much or too little, and with implicit reference to Fund Financial Programming methods which may be most useful for monitoring programs but not necessarily for conducting monetary policy. More importantly, the link between monetary policy and foreign exchange policy, the nature of which obviously depends on the exchange-rate regime, is not always well brought out. As a matter of fact, in multi-topic comprehensive technical assistance reports, one has often the feeling that the various parts have been written somewhat independently by different members of the mission. This does not usually pose serious problems except for the monetary/exchange-rate policy nexus; here it is rather surprising that the two areas tend to be handled separately in view both of the fact that the choice of an exchange-rate regime is analytically equivalent to the choice of a particular type of monetary policy and of the fact that the MAE department's very name emphasizes the close connection between the two areas. The reason for this state of affairs is probably that the experts on the monetary policy side are more often than not economists while the experts on the foreign exchange side are more likely to be specialists of the practical organization of foreign-exchange markets (and not policy). We come back to these issues below as we discuss further criteria by which assess the quality of advice given in the mission reports.

One such criterion is the effectiveness of the presentation of the reports which bears on their persuasiveness and hence on their ease of implementation. Here, on the whole, the Panel has found these reports to be well presented and well written, as most of the staff members of recipient central banks who have read them would confirm. The problem is that not enough recipients have read them,



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

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

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

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

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

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

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

participation in oral discussions, and in the form of training of recipient institution staff. The quality of such advice, as judged by the criteria used for written advice, was obviously well nigh impossible to ascertain for the Panel. Judged by the responses of the staff of recipient institutions, the comments of various experts in the field, interviews with experts and advisers, the over-all quality of the advice is as good as that of the advisers, that is on average very good. There were of course the not unexpected cases where the adviser, whether short- or long-term, fell below the expectations of the advisee and, for that matter, of MAE management. But these seemed on the whole to be very rare occurrences. Some of the questions involved are better broached within the section dealing with assessment of the means of delivery immediately below.

## 5.2 Means of delivery

Discussions with MAE staff and various papers produced by MAE confirm that the department is keenly aware of the issues involved in choosing an appropriate mix of means of delivery and in particular of the need for adaptation to changing needs.

As mentioned in the findings, the officials interviewed seemed on the whole to find it difficult to establish a ranking of their own preferences over various instruments of delivery. Nevertheless, a judgement on the appropriateness of different types of missions at different stages of the transformation process was implicit in the comments of the authorities, a judgement with which the Panel largely concurs. At an early stage of a transition or reform process, the need is for advice of a general nature over a wide range of central banking issues: this can best be met by multi-purpose missions under the direction of MAE senior staff, thus ensuring consistency of the advice and technical assistance offered in individual areas in terms of quality, sophistication and methodology. As the process progresses, more targeted TA advice and assistance appears to be called for, for which multi-topic missions seem less well, or not at all, suited. Indeed, multi-purpose missions may prove wasteful in terms of manpower, time and financial resources at such later stage. Short-term expert visits focussed on specialized issues are likely to be more productive in such cases. Their effectiveness will clearly be enhanced if expert continuity can be assured, especially where an expert has been able to establish a basis of confidence with the recipient authorities and their staff. MAE has an important role in monitoring such short-term missions closely and integrating them in the over-all technical assistance process in order to insure continuity and consistency.

The choice of experts is, of course, crucial to the successful transmission of expertise, regardless of the length of assignment, but perhaps most definitely so in the case of long-term resident advisors. The latter will often need to have a wider command of central banking issues than short-term experts assigned to advise on a particular subject. In addition, precise formulation of the terms of reference, shared with the authorities, appears highly desirable. As already mentioned, a balance must be preserved between problem-solving and know-how transfer, lest the latter suffer. The systematic insistence on the designation of local counterparts by both the experts and MAE is of the essence here. Equally important is continued close monitoring and support of experts by MAE to avoid the real or imagined loss of contact with MAE mentioned previously.

If the preference for short-term advisors expressed to the Panel by central banks in countries where the reform process is already well advanced appears justified, it will also call for increased attention to the expert's qualification, in each individual case, to meet the precise requirements of the more targeted technical assistance sought by the recipient, including the ability to transmit specialized expertise effectively. In several areas of central banking, the ability of MAE to satisfy such demands through its own staff will presumably be limited and the need to rely on the willingness of cooperating central banks to assign competent staff will be the greater. Management constraints or "fatigue" at that end may well limit MAE's ability to respond to all requests of that type.

Workshops and seminars are likely to remain a popular feature of technical assistance in central banking. Over time, central banks in countries undergoing radical reform should, however, "graduate" to a level where specialized seminars for their staff will be replaced by participation in seminars of various kinds offered to central banks generally and designed to meet the need for upgrading rather than transmitting basic knowledge and expertise.

Finally, the Panel was impressed by the emphasis put on the need for training staff over the whole range of central banking functions and by the recognition that this will be a continuing task to be performed largely within central banks. The enthusiasm shown in this regard may be considered a key component of the recipients' commitment that, as has already been emphasized, is crucial to the success of all TA efforts. It may well be worthwhile to put added emphasis on technical assistance for that training function.

### 5.3 Implementation

As we have emphasized repeatedly, the successful implementation of technical assistance depends on a variety of factors, the quality (suitability) of the advice and an appropriate choice of means of delivery being only the first two. As essential are the commitment and ability to adopt the advice on the recipient's side. Monitoring and control in turn will play an important role in ensuring that willingness and ability are translated into actual implementation of technical assistance.

The single most important factor in the successful implementation of technical assistance may well be the **commitment** of the management and staff of recipient central banks to the reform process in their country and institution. The recipient's commitment is crucial and its absence cannot be made up by any volume or quality of technical assistance. This is confirmed by the Panel's finding that the extent of progress appears to be fairly well correlated with the degree of commitment on the part of recipient central banks. The latter, in turn, will be a function of upper management's interest and involvement in the TA process, of the receptiveness of its staff, as well as of factors outside the control of the central bank itself. It will be argued further below that all of these, as they are reflected in past performance, should be taken into account by MAE when choosing among competing requests for technical assistance. Insistence on full commitment of the recipient institution and its staff could also help ensure the "self-liquidating" character of technical assistance.

Attention to the recipient's full commitment to the TA process will not be a once-and-for-all task for MAE. Assurances obtained at the outset, possibly written into general terms of reference, will not do away with the need for continuing vigilance. It is indeed bound to be an important component of MAE's **monitoring and control** function, complementing the attention paid to the various aspects of the delivery process. That is, there are two equally relevant objects of monitoring and control: that of the progress and commitment of the recipient as well as that of MAE's delivery of technical assistance including the performance of its advisors in the field.

As for the methods to be employed in the monitoring and control process, the greatest danger is perhaps to rely on administrative procedures that become routine and the mere existence of which will be considered adequate, while in fact they are rather meaningless in terms of their contribution to effectiveness and cost efficiency. While a certain "routine" of reporting requirements imposed on advisors in the field, on mission heads and others, will and should be a feature of any monitoring and control mechanism, the latter's functions must reach well beyond administrative convenience and correctness. The comments received from advisors in the field about lack of contact with MAE attest to certain inadequacies of relying too much on regular (routine) reports as a means of "keeping in touch". Obviously, the inclination to build a huge control bureaucracy must be avoided, since its contribution to the effectiveness of the TA process will easily be outweighed by its cost, especially when monitoring and control develop their own routine. In the end, the function probably rests most emphatically with the top management of MAE itself and their readiness to apply an adequate portion of their time to spot-checks in the field.

#### 5.4 Coordinating function

As already mentioned, the Fund and MAE in particular have played an indispensable role in insuring coordination of donors of technical assistance in the central banking field. Its record in this respect, as well as its collaboration with other agencies such as UNDP has on the whole been excellent.

There is one respect, however, in which coordination, or perhaps more accurately information transmission, is somewhat deficient. The panel was struck by the fact that the beneficiaries of MAE technical assistance were sometimes unaware of the technical assistance provided by other IMF departments, Fiscal Affairs in particular, to treasury ministries among others. In one instance, for example, the managers of the department deals with budgeting and fiscal programming matters at one important central bank seemed unaware of either the existence of the Fiscal Affairs Department or of its involvement with that country's finance ministry. The coordination between departments in Washington is to the Panel's knowledge adequate and mostly insured by the Area departments; however, it does not seem to always trickle down to the field. This may well be mostly a problem of communications at the recipient's end. Nevertheless, the TA process may well benefit from the Fund looking into the matter; resident representatives may well play a useful role in overcoming such problems.

A related issue is to insure that mission members, resident advisers, and short-term experts of whichever Fund Department be informed of each other's briefs and missions and, where possible given time constraints, be given the opportunity to meet and discuss common problems. Here also there would seem to be room for improvement.

## 5.5 Scope

In view of the Panel's findings, the issue arises whether the wide range of technical assistance offered in the recent past under MAE guidance and control should remain as it is, and how it should best be satisfied in the future. One criterion would be to ask whether a particular area is fully relevant to the Fund's overall mandate, but also whether it falls within the mandate of MAE as it was defined in 1992. What are the subjects which are most relevant to the Fund's own mission? The "explosion" of technical assistance may have prevented MAE from paying full attention to this issue. As advice becomes less general and more targeted, MAE staff will prove to have, in the Panel's view, greater practical "own expertise" in some areas than in others:

- **More** in monetary policy analysis and policy; its interrelationship with fiscal policy, debt management, etc.; foreign exchange--regime issues and policy; monetary and payments statistics (in cooperation with the Statistics Department); legal issues of central banking (in cooperation with the Fund's Legal Department).
- **Less** in banking supervision; payments, clearing and settlement systems; accounting and auditing, organization and management, etc.

It appears that this listing of relative expertise corresponds fairly closely to the classification of strong and weak areas of TA implementation of section 4.3.3 above. As noted there, the degree of in-house expertise is only one reason for the degree of success. Be that as it may, the likelihood of "TA fatigue" on the part of the cooperating central banks may be one reason for aiming at greater reliance on "in-house" resources in areas where "own competence" exists and limiting recourse to secondment of experts by cooperating central banks ready to those areas where own personnel is not available and which are judged indispensable. Close cooperation with Area Departments in particular could help insure that the best possible use is made of available "in-house" resources throughout the Fund.

## 5.6 Self-liquidating nature

As mentioned, the Fund has during most of its history stood ready to assist members in a great variety of areas closely related to central banking. These activities have grown enormously in recent years, largely in response to the fundamental reform process engaged in new member countries, but it has intensified in other member countries as well. Given that technical assistance is in good part intended to help countries to build up their own capacity to perform the central banking tasks, it seems a reasonable proposition that the effort invested in capacity building should, at least in principle, be "self-liquidating" within a reasonable time span. (Learning to drive a car

would be the analogy that comes to mind.) Against this it is argued that the environment within which central banks will have to operate will undergo changes that are largely dictated from the outside. (To stay with the analogy, road traffic may undergo changes and traffic rules may have to be adapted in ways that suggest a need for refresher courses in driving.) This would justify the proposition that TA in central banking will remain an ongoing activity entrusted to the Fund, as it has been in the past albeit with possibly less intensity than in the most recent phase.

In interviews with the Panel, both propositions--that supporting the self-liquidating nature of technical assistance, and that supporting its continuation--found support. In some instances it was stated proudly that the central bank had "graduated" from the initial phase in which it had to rely on outside advice and technical assistance over the whole array of its functions. But it was also pointed out that there would be a continuing need for advice and technical support in various areas: to complete the process of learning; to ensure that the institutions remained able to respond to new challenges; and also to enable the authorities to check their own decisions and performance against international standards. "Volume should go down and specialization should go up as we move from basic TA to a more fruitful partnership"

Indeed, the rapidly increasing complexity of financial markets at the global level suggests that many central banks will experience a need for mechanisms to help them keep abreast of these developments. But the advice and technical assistance offered by or through the Fund surely is only one of the instruments to this end. Indeed, one may well ask whether Fund advice and assistance are likely to remain best suited to satisfy many such needs, and in what ways they would have to be adapted to changing circumstances. More specifically with respect to the role of MAE in the future, one should ask whether an ongoing demand for advice and technical assistance prompted by the desire to keep up with new developments in the art of central banking could and should, in part or whole, be satisfied instead through other channels, including regular contacts with experts from the Fund's Area Department, seminars, workshops, the IMF Institute, or through similar services offered by other international organizations or national institutions, including particularly the training centers of central banks, or for that matter the private sector.

That being said, the Panel feels that no radical trimming of the MAE Department's TA functions and resource use can be at issue at this stage, both in view of the very positive role played by technical assistance in central banking related areas in current circumstances and because undeniably legitimate needs for the type of technical assistance that the Fund can provide will persist for some time. At the same time, every effort should be made to insure that such assistance can be downsized significantly in the longer term and that, in the meantime it does not become

bureaucratically entrenched.<sup>14</sup> A number of factors making for expansion of technical assistance activities both on the demand and supply side are worth watching --and containing.

On the demand side:

- The provision of TA at a zero, or constant and low cost, will tend to create a permanent excess demand and increases in demand will not be checked by an increase in price;
- Recipient institutions may develop a bureaucracy-driven vested interest in TA related activities;
- As the inclination to rely on outside support becomes increasingly ingrained, it will act as a disincentive to own efforts.

On the supply side:

- Donor institutions may develop a bureaucracy-driven vested interest in TA related activities; too large and rising share of the Fund's own manpower and financial resources may become permanently committed to technical assistance;
- Central banks ready to assign highly qualified staff to TA projects upon request from the Fund may be prone to "fatigue" as time passes; as a result too high a portion of TA may be passed on to the Fund;
- Attention to effectiveness and cost efficiency may weaken over time.

Although constant critical awareness of the potential expansionary forces acting on the demand/supply equation for TA is likely to provide a good part of the answer to the concerns expressed above, it will not be the full answer. As time passes, it should also be feasible, as well as acceptable to potential recipients, to raise the standards applied in scrutinizing the urgency, extent, and timeliness of requests for technical assistance. The accumulated experience of MAE should allow the Department to challenge demands where this is indicated, to identify any perceived lack of own effort, and to suggest alternative ways to address a problem. It should at the same time be able to avoid the obvious danger of bureaucratic hubris and delay, which typically feeds on calls for more thorough scrutiny. Any bureaucracy is in danger of committing an increasing part of its resources to internal processes, allegedly serving the better preparation, organization, and

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<sup>14</sup> Similar conclusions were reached by the Fund's review of technical assistance of early 1994 referred to in the Annual Report for that year. The review concluded that no lessening in demand for technical assistance was in prospect, a judgement that still seems valid today. But the report also emphasized that it was critical "to reconcile the growing demand for this activity with diminishing resource availability. ... Efforts to prioritize requests for assistance are therefore particularly important..." IMF, Annual Report, p.125.



implementation of its activities; MAE is unlikely to be an exception. But it must be the responsibility of its top officials, and of Fund Management, to ensure that such tendencies are kept in check. Specifically, they must not allow the natural ( and in fact desirable) inclination of committed staff to justify their position within a large bureaucracy, and to seek and expect advancement, to generate new activity where this conflicts with cost/benefit concerns. These remarks are not made because they are novel or because MAE has been found to be particularly prone to the bureaucratic traits just mentioned, but rather because the fact that TA in the area of central banking, as in other fields, has become an area of rapidly growing activity and that it has played an extremely useful role in a critical phase of the Fund's history must not be allowed to foster an uncritical acceptance of continuation of its role at the same or even at a growing scale.

Among the possible methods of critical scrutiny of future TA needs are those elaborated in the course the 1994 Review of technical assistance, including "the need to take into account a recipient's past track record in making effective use of technical assistance...". The Panel concurs. It has come across cases where the amount of time and effort spent on the preparation and delivery of technical assistance seems quite out of proportion with the results achieved, at least in certain areas; where lack of own effort to build on such achievement, modest as it may have been, was all too evident; and where significant loss of past achievement was likely to have occurred. Similarly, the Panel found cases where the stock of human capital and technical qualifications obtained through staff training appear not to have been exploited effectively or efficiently. This suggests that some "conditions" be put on the continuation of technical assistance and that limits be put on the time allowed for reaching certain results.

Thus, on the basis of its stock of experience, MAE should be able to develop some rough "target ranges" for the time to be allotted to specific TA tasks in particular areas, beyond which further demand for technical assistance would be met only in exceptional cases, or at a cost paid wholly or partly by the recipient institution. While such "target ranges" would have to be sufficiently elastic to allow for a great variety of circumstances, they could nevertheless serve as an instrument of discipline, both within the Department and in its relations with recipients, on condition of course that they be made known. Another suggestion would be to consider the "privatization" of certain activities like assistance on foreign exchange management, information technology, computer or language training, etc.

## 5.7 Conditionality for technical assistance?

The discussion of means of insuring that technical assistance be self-liquidating brings to the fore the issue of whether it would be desirable to attach some form of conditionality to the technical assistance process. This is an issue which the Panel deems to be well worth the serious consideration of the Fund's and MAE's management.

In the history of the Fund, the application of conditionality to the use of its resources was originally motivated by the requirement that such use should remain temporary, that the revolving character of the use of Fund resources be preserved. Ideally, the technical assistance provided by

MAE should also be temporary, in the sense that institutions should be expected to "graduate" from it, even if, at a later stage, they may wish again to have recourse to TA. The word "graduation" aptly conveys the idea of the recipient institution having reached some threshold of information and skills that enables it to continue learning and solving problems on its own.

It should be stated at the outset that the Panel feels that of conditionality for technical assistance should be clearly separate from, and independent of, the conditionality that may be linked to the use of Fund resources (UFR). In particular, it does not mean that the UFR would be conditioned to the prior acceptance of technical assistance and to its effective implementation. This does not mean that the possibility and desire to accede to the use of fund resources could not act as a powerful incentive to voluntarily demand and effectively absorb technical advice; or that some of the conditions attached to a particular UFR could not be served by the parallel or complementary support of some specific TA (for instance, technical help with the quantification of target variables or with forecasting reserve money flows, etc.). However, the conditionality of TA envisaged by the Panel would only apply to the technical assistance itself, independently of the use of Fund resources.

Conditionality of technical assistance could, for instance, begin with a "Letter of Intent on Technical Assistance" where the recipient authorities would describe a new TA project or the extension of an ongoing project. Such a letter could include a description of the scope, components, and sequencing, of the project; an over-all calendar (and hence estimate of its total duration) with an annual (or other) tranching of its components; a schedule of missions, visits, seminars, expert assignments and their respective terms of reference, etc. An important element could be the cost estimate of the project (in the case of a renewal, it could include information about the original cost estimate and actual past spending) and the expected overall time horizon of TA (say, 5 to 8 years from the beginning of TA?). Including a cost estimate might also be useful when allocating resources by region, over member countries, etc. It may also serve to specify the required level of administrative rank for project approval.

The conditionality itself could take many forms. One could be a description and monitoring of the various commitments made by the recipient institution, be it in terms of the provision of local counterparts and in-house training, of the budgetary commitment to the various specific functional areas included in the project, to meeting the salaries necessary to avoid excessive rotation of personnel, etc. Compliance with prior recommendations, subject to all the caveats already mentioned in this Report, could also be incorporated as a criterion. This would require a relatively systematic follow-up of past compliance (which might also help allocate subsequent technical assistance). A rudimentary "tranche policy" could then usefully be incorporated into the TA program. It would cover the amounts and kinds of resources devoted to the project currently and prospectively, with many of the previously listed conditions gradually increasing in intensity as a function of past accumulated TA resource use, of the time elapsed since the inception of technical assistance, of the degree of compliance, etc. The conditionality could also incorporate commitments in terms of dates

for the initiation or termination of particular actions (legislation, regulation, operations, etc.) and conditions for the cessation of TA.<sup>15</sup>

## 6. RECOMMENDATIONS AND SUGGESTIONS

The recommendations and suggestions below are made by the Panel in the hope that they may help to deal with some of the problems highlighted in interviews with recipient authorities as well with Fund staff and other interlocutors. The Panel wants to emphasize at the outset that some of the points made in this section, as its title indicates, are more in the nature of suggestions or points for discussion and consideration than formal recommendations. These points have been, for lack of a better scheme, been divided into three main groups. The first regroups issues of main concern to the Fund's management and general membership; the second issues that have mainly to do with MAE operations and procedures; the third with procedures within, and the absorptive capacity of, recipient countries.

### 1. General Issues in the Provision of Technical Assistance

- 1.1 The Fund's and MAE's management will want to be aware of the constantly changing role of technical assistance, to central banks in particular. The emphasis on institution building and skill enhancement suggests that TA to central banks should be viewed as essentially "self-liquidating", at least insofar as the important part devoted to structural reform is concerned. Although important tasks will remain that will require more targeted TA in selected areas, technical assistance to central banks will likely be gradually phased out or at least substantially diminish over the long run (say, the next 20 years). This suggests that one should avoid building up a permanent staff in MAE that cannot be used for other tasks or in other departments. Instead, it would be advisable, when necessary and as already done at present, to rely on outsourcing and on the use of headquarter consultants in areas outside of the Fund's mainstream.
- 1.2 A corollary to the first point above is that the technical assistance provided by the Fund itself should be confined to the IMF's areas of expertise. This means in turn that Fund Management and MAE will want to pay critical attention to the scope of the technical assistance offered to central banks. Where in-house expertise remains limited and would be difficult to enhance to the levels required to provide the targeted and specialized TA required in areas such as accounting and audit, payments systems, or banking regulation and supervision, reliance should primarily remain on experts drawn from central banks, limiting the role of MAE essentially to that of coordinator and "theatrical agent."

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<sup>15</sup> Such commitments as to the timing of actions are similar to the "target ranges" suggested at the end of section 5.6.

- 1.3 As long as the Fund provides its technical assistance at a cost below the market price, there is likely to be an excess demand relative to the amount the Fund is able and willing to supply. An alternative rationing device, that preserves cost efficiency as well as possible, is therefore needed. In addition, it would seem very important to maintain the revolving character of Fund resources in the TA as much as in the financial area. The first of these considerations suggests some positive pricing, possibly rising beyond a certain point as well as conditionality based notably, but not only, on the recipient's past performance in implementing technical assistance. The second consideration again suggests conditionality and tranching of TA beyond some benchmark. The introduction of conditionality may prove useful not only in prioritizing initial requests but also, and, perhaps more importantly, repeated requests or renewals in the same or related areas.<sup>16</sup>
- 1.4 Fund Management and MAE may want to re-examine, and improve where necessary, the collaboration and internal coordination of various departments within the Fund. Close collaboration between MAE and the relevant Area department in the design of comprehensive TA programs is important and, as far as the Panel could determine, on the whole satisfactory. Conversely, it would seem important to involve MAE in the design of those adjustment programs that, although they fall under the responsibility of Area departments, necessitate a substantial structural reform component for their successful implementation. There would also seem to be scope for an increase in the institutional collaboration between MAE and the Fiscal Affairs Department (collaboration with the Statistics and Legal departments seems adequate at present), especially in the field where, in some cases, recipient institutions could and should be more aware of the existence and relation between the work of the two departments and of the need to discuss treasury-central bank issues.
- 1.5 Fund management may also consider whether to enhance the role of the Research department (in a way making it more of a research and economics department) in defining Fund positions, providing "state of the art" analysis of some issues arising in technical assistance to member country central banks, and insuring consistency of Fund doctrine across departments involved in technical assistance. Great care, however, would have to be taken not to take away in the process the incentive to keep up with the literature and write papers from economists in departments other than Research.

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<sup>16</sup> Conditionality also raises the question whether member central banks should lodge their requests for technical assistance directly with MAE. It may be argued that initiation of TA programs of more than minor importance should take place through contacts with Area departments in the context of annual consultations or discussions, and a basic decision to go ahead taken outside MAE lest that Department should encourage requests for its own services. However, such a procedure may be rather cumbersome and slow; it would also prevent the most knowledgeable Department from participating in the exploratory talks and the basic decision.

- 1.6 The definition of the role of resident advisers in the TA delivery process as well as in coordinating, monitoring, and transmitting information, notably to resident and visiting experts, deserves the Fund's management attention.
2. Issues relating to the provision of technical assistance by MAE
  - 2.1 MAE may wish to ensure that multi-topic missions consisting of staff competent in numerous areas of central banking should be limited to the initial, design stage of the technical assistance process. Such missions should be the exception at later stages.<sup>17</sup> With the observed shift to more targeted TA, short-term expert visits are likely to yield the best results, provided continuity in the experts involved can be assured. This also suggests a declining need for long-term resident experts. In some cases, MAE might also want to suggest a single-topic mission/expert in a specific area if it, or some other department, should determine that such a specific TA action might remove a crucial bottleneck.
  - 2.2 As for modes of delivery other than missions, several individual suggestions have been made in previous parts of this report and need not be repeated. Three remarks will be offered here instead. First, both the form and dissemination of written material may usefully be reviewed by MAE. Second, it is clear that the availability of the appropriate experts, their selection so as to match the requirements of the specific TA program, and their commitment are all crucial to the success of those programs. This suggests that MAE continue to invest in the constitution of a panel of such experts and in improving the process of matching experts with specific areas of need. In addition, training appears to be a key area on which to concentrate to foster the successful delivery of technical assistance.
  - 2.3 MAE may want to devise improved, more systematic, procedures for monitoring the progress of its TA programs. This could include the definition and monitoring of benchmarks and time limits for the implementation of specific parts of the TA program as well as the development of "standard" cost ranges (in terms of both time and financial resources) for the implementation of specific TA actions. Such benchmarks and monitoring would be useful not only in those cases where some form of conditionality might be attached to technical assistance, but also in systematic discussions with the recipient institutions' management and, more generally, in monitoring the cost efficiency and effectiveness of the Department's TA activities.
  - 2.4 MAE may wish to pay increased attention to monitoring and control of experts in the field. This should not be perceived by the experts as a "vote of no confidence" in their professional competence or ability to transmit their expertise to the recipient institution. It is, on the contrary, a measure designed to enhance confidence in MAE's involvement with the delivery

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<sup>17</sup> Over the life of a comprehensive TA program extending over several years, it might nevertheless prove appropriate to schedule additional, though distant in time, relatively comprehensive follow-up/final monitoring missions.

process and to ensure that the efforts of the expert in the field is adequately matched by the recipient central bank's ability to absorb it. It falls in good part upon MAE's monitoring function to ensure that the potential contribution of the expert be fully utilized by the host institution, if needed through the lodging of appropriate requests to that end with that institution.

- 2.5 As part of its monitoring and control procedures, MAE may wish to consider the possibility of more systematic pre- and post- mission briefings of experts. More extensive pre-mission briefings may help save time and repetition during the mission and would be appreciated by recipient institutions. Post-mission de-briefings would be appreciated by MAE and Fund staff.
3. Issues relating to the enhancement of recipients' absorptive capacity
  - 3.1 This Report has repeatedly insisted on the overriding importance of obtaining the commitment of recipient institutions if technical assistance is to be effectively "absorbed" or, if you prefer, successfully implemented. MAE should consider using both the carrot and the stick to achieve this end: it may, one hand, want to identify, demonstrate and "sell" the advantages to be gained by the recipient from reform and technical assistance; it may, on the other hand, insist on tranching and commitment as a condition for providing such technical assistance. It may also insist on being informed of all the obstacles that prevent implementation of the components of a program and should be allowed to take appropriate actions to remove them or, as a last resort, to terminate a program.
  - 3.2 It is particularly important to obtain commitment at the top management level of the recipient central bank. It may actually help the management if MAE were to insist on such commitment to be made concrete through such measures as non-promotion for non-performing staff. In other words, MAE should pursue all practical avenues towards achieving the highest degree of accountability for achievement on the part of the recipient institution.
  - 3.3 Commitment must be both to the objectives of the reform and to the principal means. Among the objectives, the achievement of self-sufficiency, "graduation," is particularly important. Among the means, training and the building up of human capital stand out, as should be obvious in view of the graduation objective. In this light, MAE may want to give high priority to the support of training schemes within TA programs and to the devising of incentives for the acquisition of various skills including computer literacy, languages or any other generally useful skill.<sup>18</sup>

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<sup>18</sup> One incentive scheme that might be considered has been implemented by one of the Panel's members, Adolfo Diz, during his tenure as President of the Central Bank of Argentina. This was to increase by a pre-announced amount the salary of all those members of the staff who

## 7. SUMMARY AND CONCLUSIONS

Based on the written material and the oral evidence collected by the Panel in interviews within the Fund, with other institutions and especially with the central banks of TA recipients, and after intensive discussion among the Panel, the following conclusions suggest themselves:

1. Technical assistance in the area of the MAE Department's special expertise has come to play a critical role in recent years in supporting member countries' efforts at structural reform in central banking and financial markets and has made a valuable and in many instances essential contribution to the success of the transition process to a market economy. This role is likely to remain important in the years to come, although the demand for technical assistance for basic institution- and capacity- building is expected to diminish as own expertise is gained, as it should, and can be built on. As a consequence, the character of technical assistance is expected to shift towards more targeted advice and assistance in specialized areas. It will gain in sophistication and accordingly call increasingly on skills of a more specialized nature. Training is seen as an area where demand will remain high and even increase, in recognition of the critical contribution of qualified personnel across the board, and especially in some functions which require relatively large numbers of such personnel for their execution. Examples of such functional areas are statistics, banking supervision, accounting, payments systems and administration, notwithstanding the increasing use made of computerized equipment. The latter will make additional demands on training for which technical assistance may be requested.

2. Technical assistance provided or coordinated by the MAE Department has on the whole been found to be relevant and useful to recipient country institutions: relevant on account of its being adapted to the circumstances of, and the developments in, specific countries and their financial markets; and useful as measured by its contribution in individual cases to the achievement of the objectives of structural reform, institution building and skill development. Cases are rare where relevance and usefulness, as defined here, have been shown to be absent or substantially lacking.

3. The analytical and technical quality of TA advice has generally been found to be of high standard, and reflects the Fund's general standards of excellence and accumulated wisdom. This is evident from the written material dealing with the design of technical assistance, its content and sequencing, as well as from reactions to questions raised with recipient central banks. This generally positive judgment is confirmed by the fact that advice given in written form or orally was generally found well-reasoned and adapted to a central bank's needs, even where it was not immediately accepted for reasons that more often than not rested with deficiencies in decision-making within the recipient institution or problems encountered with higher political authorities. The recipient central banks were, in most cases of non-acceptance of advice, ready to assume responsibility. There were

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could demonstrate, immediately or in the future, a given level of skills useful to the Bank (in this instance, fluency in a foreign language, but it could be, say, computer literacy) through certification by an outside body (for instance, the British Council). .

instances of inconsistent advice from different experts, causing some confusion and delay, but this could be cleared up relatively quickly in most cases if not all.

4. The relevance, usefulness and quality of the TA advice designed to build and improve member central banks' capacity to operate in a changing environment have made a measurable contribution to the countries' ability to cooperate with the Fund, including particularly their capacity to meet adjustment criteria under Fund programs and to participate in the Fund's surveillance function. However, full integration with the macro-economic work of the Fund appears still to be out of reach to different degrees in cases where the process of transformation is still not complete.

5. The methods of delivery of technical assistance have already undergone some changes as the process has moved through various stages, starting with work of an exploratory and diagnostic nature, through implementation to consolidation, at least in many instances. It is in the area of delivery and its monitoring that the MAE Department appears to have encountered, as might be expected, its greatest challenges and difficulties. This appears to be due in part to a number of constraints which the Department faces in the execution of its tasks: in selecting among and prioritizing requests for technical assistance; in its choice among experts from central banks willing to accept the often onerous working conditions in recipient countries; in having to respond to the preferences of recipient institutions and to broader local sensitivities; in having to deal with the 'human factor' that will often be critical to the effectiveness of the TA effort. And it is in this area that the flexibility and adaptability to changing circumstances that MAE has shown in the past will remain of singular importance.

6. Coordination with other Fund departments, with other donor institutions of TA in related areas, especially the World Bank, has been intensified in recent years. But it is not clear that the delineation of the respective responsibilities and activities has been fully insured, and duplication or unnecessary competition been entirely avoided. Written material that has come to the Panel's attention suggests the continued existence of such duplication; it should be avoided as much as possible even where it can be shown not to have impeded the success of the TA effort.<sup>19</sup> Duplication of TA activity in the field appears to have been reduced significantly through the coordinating role taken on by the Fund through its MAE Department, especially with central banks in industrialized countries, but also with other institutions.

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<sup>19</sup> One may cite the example of one country in the Panel's sample for which the World Bank has produced a report on financial sector structure and reform that deals at length and in detail with reorganization and reform of the central bank and covers much the same ground as two multi-topic mission reports issued by the Fund. Yet there is no reference to these two reports in the Bank's volume (or to the Bank's report in the Fund mission reports which, however, were probably written a few months earlier).



**Terms of Reference  
for the External Evaluation of the  
MAE Department's Technical Assistance Program**

Evaluate for the benefit of the Management of the Fund:

- the technical assistance activities of the Department, taking into account the analysis and review function related to it;
- the quality of the TA advice, including technical analysis, its consistency and coherence in the context of the Fund's overall policy advice;
- the usefulness of TA to the recipient authorities in conditioning to their policy and decision-making process, as well as the needed structural reforms and institution building;
- the adaptation of TA to the specific circumstances and requirements of the recipients;
- the implementation of TA (mode of delivery) with particular attention to in-house vs. outside experts, missions, skills building, etc.
- the coordination of TA with other related activities of the Fund, with particular emphasis on the macro-economic aspects, Fund programs, surveillance, etc.

The panel will wish to draw on:

- material supplied by the MAE Department;
- interviews with officials from MAE and other areas and other departments;
- interviews with outside advisers and officials from outside institutions, and
- in particular, visits to a sample of recipient institutions.

The results of the evaluation will be submitted to the Management in the form of a general report on the Department's TA activities, with the examination of the experience gained with a representative sample of countries serving as a basis for its conclusions. The findings are not intended as an assessment of the TA activities of MAE as they relate to any individual country.

## COUNTRIES IN THE SAMPLE

Bolivia <sup>1</sup>	Madagascar
Bulgaria	Mongolia
China*	Namibia*
Egypt	Poland*
El Salvador*	Russia*
Fiji	Solomon Islands
Guyana*	Tanzania*
Indonesia*	Thailand
Kyrgyz Republic	Viet Nam*
Lithuania*	Zambia

\* Countries visited by members of the Panel during the period July-November, 1995.

<sup>1</sup> Because of circumstances beyond the authorities' and the Panel's control, Bolivia did not participate in the interviews and the questionnaire.

**Questionnaire  
for the External Evaluation of the  
MAE Department's Technical Assistance Program**

The questions below relate to Technical Assistance (TA) provided by the IMF's Monetary and Exchange Affairs Department (MAE) over the period extending from 1991 to 1995. Where appropriate, background comments on earlier periods are welcome.

The questions relate to both the content and process of the provision of TA. They are divided into three groups:

- Initiation process
- Purpose, contents and delivery
- Evaluation

**I. Initiation**

1. **Initiative:** On whose initiative was the TA provided by MAE arranged?
  - a) Recipient authority (central bank, other)
  - b) IMF (MAE, Area Department, other)
  - c) Other
2. **Context:** In what context was the TA initiative taken?
  - a) Independent, i.e. no particular context
  - b) IMF Program, national program (explain nature)
  - c) Other
3. **Areas and sub-areas:** With respect to the particular areas (monetary, foreign exchange, payments systems, banking supervision, etc.) and sub-areas of TA (reserve requirements, interest rates, credit auctions, exchange market, convertibility, reserve management, etc.):
  - a) At whose initiative were they originally chosen (recipient authority; IMF, through MAE, area department or other; a combination of the previous two; other central banks; others)
  - b) Who established the priorities for the delivery of TA in each of the different areas?

4. **Instruments:** On whose initiative were the specific TA instruments (missions, individual short and long-term experts, regional and in-country seminars and workshops, etc.) chosen?

## II. Purpose, Contents and Delivery

1. **Main purpose:** Was the main purpose of the technical assistance initiative to
  - a) establish entirely new arrangements for monetary control, exchange policy, bank supervision, etc.?
  - b) fundamentally reform existing arrangements?
  - c) ensure better internal consistency and external compatibility of existing arrangements (e.g. with other aspects of financial policy and international practices or constraints)?
  - d) modernize parts of existing arrangements?
2. **Timing:** Give dates of
  - a) first contact on TA availability (with IMF, MAE, others)
  - b) first substantive discussion
  - c) formulation of terms of reference
  - d) start of TA program
  - e) implementation sequence
  - f) completion
3. **Conditions:** Were any conditions attached to TA being made available from MAE?
  - a) was TA made part of, or conditional to an IMF adjustment program
  - b) was IMF program made conditional on acceptance of TA?
4. **Delivery of TA:** What were the main channels used?
  - a) Assignments of personnel and missions:
    - (i) MAE staff missions
    - (ii) missions coordinated through MAE
    - (iii) short-term experts
    - (iv) long-term resident experts
  - b) supply of written material, draft legislation, etc.
  - c) training arranged by MAE
  - d) participation in workshops arranged by MAE

Indicate level of contacts with MAE in your organization (high, middle management, technical expert), etc.

5. **Outside experts:** Need for outside experts was determined
  - a) at what stage of TA program (outset, intermediate)
  - b) on whose initiative (recipient, MAE, other)
  - c) for what reasons (unavailability of required expertise within MAE, to supplement MAE expert availability, other)
  - d) other

### III. Evaluation

1. **Overall Evaluation:** What has been your experience with TA advice provided by, or under guidance of, MAE through
  - a) assignment of personnel and missions:
    - (i) MAE staff (or coordinated) missions
    - (ii) short-term experts
    - (iii) long-term resident experts
  - b) written material
  - c) training
  - d) workshops

Please comment with reference, among others, to the following criteria: General quality; adaptation to circumstances of recipient country (political, economic, other); avoidance of duplication or inconsistencies; adaptation to technical qualifications available in recipient agency; time sequencing of TA; language problems.

2. **Problem areas and inadequacies:** Please give examples of inadequacies in the design, organization, delivery, flexibility, etc. of TA as seen from your perspective.

In those cases where TA has not accomplished the results initially expected, were the poor results the consequence of

- a) recommendations difficult to implement for political, legal, technical or other reasons
  - b) poor technical quality of recommendations
  - c) diminished commitment on the part of new authorities
  - d) staff resistance to change in the recipient institution
  - e) excessive rotation of personnel
  - f) outside resistance (from commercial banks to inspections, reserve requirements, etc.; from other government agencies to enhanced credit discipline; others)
  - f) other
3. **Successful conclusion:** To what extent has TA provided by, or under guidance of, MAE contributed to improvements as measured by
    - a) macro-criteria: inflation performance, monetary control efficiency, financial system stability, exchange rate behavior, other.
    - b) micro-criteria: management efficiency, personnel motivation, cost efficiency, financial results, avoiding and coping with bank failures, avoiding and coping with payments system failures, other.

Please give examples of successful technical assistance and the reasons why it worked.

4. **Relative effectiveness:** How do you compare the improvements achieved through TA
- a) with the improvements that were expected at the beginning of the TA exercise
  - b) with the results that could have been achieved without TA

With reference to the above, we would appreciate your distinguishing among the different areas subject to TA (monetary policy, exchange developments, banking supervision, etc.), and comparing the relative effectiveness of the advice given in these areas.

5. **Other observations:** Please supply additional observations that may be relevant to the outside evaluation of TA provided by, or under the guidance of, MAE.

MAE Technical Assistance to 20 Sample Countries  
Fiscal 92/3 to 94/5

Countries	No. of Multi-topic Missions 1/	No. of Single-topic Missions	No. of Short-Term Experts		No. of Long-Term Experts		No. of Local Seminars and Workshops	No. of Seminars and Workshops Abroad	No. of Reports
			Expert	Days	Expert	Days			
BOLIVIA	2	1	4	270	1	257	0	0	2
BULGARIA	6	0	4	179	1	364	0	1	4
CHINA	8	3	0	0	0	0	3	4	4
EGYPT	1	2	0	0	1	407	0	0	2
EL SALVADOR	1	0	3	137	2	949	0	0	1
FIJI	1	1	1	62	3	1,399	0	0	2
GUYANA	1	1	3	71	3	2,103	0	0	2
INDONESIA	3	0	0	0	2	440	0	0	3
KYRGYZ REPUBLIC	8	2	5	76	1	364	0	16	9
LITHUANIA	7	1	4	138	2	823	0	13	4
MADAGASCAR	3	1	0	0	1	615	0	0	1
MONGOLIA	3	2	8	574	1	798	0	4	3
NAMIBIA	0	1	1	5	6	2,865	0	0	0
POLAND	5	4	5	146	0	0	0	4	3
RUSSIA	16	8	16	776	4	981	5	17	16
SOLOMON ISLANDS	0	2	1	41	0	0	0	0	0
TANZANIA	4	2	7	294	5	3,016	0	0	3
THAILAND	0	3	1	20	0	0	0	0	2
VIETNAM	4	2	5	315	4	1,166	0	4	2
ZAMBIA	4	2	2	74	7	3,388	0	0	5

1/ Covering two or more subjects. In most cases of comprehensive programs all the subjects referred to in section 3.1 were covered.

