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February 6, 1996

To: Members of the Executive Board

From: The Secretary

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

There is attached the executive summary of the report of an independent panel evaluating technical assistance provided by the Monetary and Exchange Affairs Department. This matter will be considered by the Executive Board on a date to be announced.

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

EXECUTIVE SUMMARY

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 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 is based on written material (in particular various papers and reports prepared by MAE), interviews with staff from MAE, and other IMF departments as well as from other institutions, and, last but not least, interviews with a sample of some twenty recipient central banks and visits to ten of the latter. 1/ The panel's work began in June 1995 and was completed in early January 1996. Although it drew heavily on the advice and assistance of MAE in its work, all decisions concerning methods, countries to be visited, and so on, as well the format of its Report are the Panel's own, and it bears full responsibility for the content and conclusions of the Report. 2/

1/ Of the twenty countries chosen for interviews, the Panel visited those countries marked with an asterisk and interviewed officials from the others (with the exception of Bolivia) at the 1995 Annual Meetings of the Fund and World Bank; Bolivia, Bulgaria, China*, Egypt, El Salvador*, Fiji, Guyana*, Indonesia*, Kyrgyz Republic, Lithuania*, Madagascar, Mongolia, Namibia*, Poland*, Russia*, Solomon Islands, Tanzania*, Thailand, Viet Nam*, Zambia.

2/ The Panel wishes to acknowledge the logistic support provided by staff of MAE at all levels, but especially by Mr. Arne Petersen, the coordinator appointed by the Department, and Ms. Lidia Tokuda, staff assistant; 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 it visited; helpful discussions with long-term experts and resident advisers in these countries; and the logistic support provided by staff of the Fund's Paris Office 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.

The technical assistance activities of the Fund in general, and of the MAE (formerly Central Banking) Department in particular, 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. Not only the volume but also the scope of technical assistance offered by MAE has increased substantially, covering as it does areas as diverse as central and private banking legislation, foreign exchange market development, foreign reserve management, instruments and objectives of monetary policy, banking supervision, payments, clearing and settlements systems, to mention but a few. At the same time, the means of delivery of technical assistance have become increasingly diverse ranging from comprehensive multi-topic missions to the seconding of long-term resident advisers, seminars, training courses, and so forth. In the wake of this expansion in the scope and means of delivery of technical assistance, the role of MAE has also undergone a number of significant changes. Most notably, MAE has come to play an important role both in the selection of outside experts to be sent on short and longer-term missions to recipient countries on topics beyond the Fund's main area of competence, and as a coordinator of the technical assistance provided by the cooperating central banks of 23 industrialized countries to countries in transition. The second and third chapters of the Report briefly document the explosion in the demand and supply, the volume, scope and modes of delivery of technical assistance in the central banking area.

The third chapter also discusses the criteria by which technical assistance in general and in the central banking area in particular can and should be evaluated. The criteria depend partly on one's view as to the role and objectives of technical assistance; in particular, whether it partakes of the characteristics of a public good; and whether it should be self-liquidating or, if you prefer, whether recipients are expected and required to graduate from technical assistance. The answer to these questions influences the way in which the three general criteria that the Panel discusses more thoroughly, namely relevance, effectiveness, and cost efficiency, are applied. These criteria, as well as *ad hoc* considerations were used by the panel to evaluate each of the three main steps in the TA process: initiation and design; delivery through various instruments (implementation); and monitoring and control. A questionnaire bearing on these three steps was sent to the sample of twenty countries selected by the Panel and discussed with their officials.

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, 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 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 and can be build 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 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 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. 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.

Chapter 6 of the Report contains the suggestions and recommendations of the Panel. These are subdivided into three groups and are summarized below. Nuances and a fuller motivation can be found in the main text.

1. General Issues in the Provision of Technical Assistance

- 1.1 The constantly changing role of technical assistance, the emphasis on institution building and skill enhancement suggests that TA to central banks should be viewed as essentially "self-liquidating." 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.
- 1.2 A corollary 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 the role of MAE should essentially be confined to that of coordinator.
- 1.3 Provision of technical assistance by the Fund below market price entails excess demand and the necessity of introducing an alternative rationing device that preserves cost efficiency as well as possible. In the same vein, it would seem important to maintain the revolving character of Fund resources in the TA as much as in the financial area. These considerations suggest 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. They also suggest 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.

- 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. For instance, there may be scope for some increase in the institutional collaboration between MAE and the Fiscal Affairs Department 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.
- 1.5 Fund Management may also wish to consider whether to enhance the role of the Research 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.
- 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 Management's 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.
- 2.2 As for modes of delivery other than missions, the Report contains various suggestions and remarks, among them: both the form and dissemination of written material may usefully be reviewed by MAE; 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.
- 2.4 MAE may wish to pay increased attention to monitoring and control of experts in the field.
- 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.

3. Issues relating to the enhancement of recipients' absorptive capacity

- 3.1 As the commitment of recipient institutions is of overriding importance if technical assistance is to be effectively "absorbed," MAE should consider using all available means to that effect, positive incentives, as well as conditioning of further TA on concrete demonstration of such commitment.
- 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.
- 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.