INTERNATIONAL MONETARY FUND

Background Paper for MFD Technical Assistance to Recent Post-Conflict Countries

Prepared by Staff of the Monetary and Financial Systems Department

Approved by Stefan Ingves

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Contents Page

List of Acronyms

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AsDB	Asian Development Bank
BPA	Banking and Payments Authority
BPK	Banking and Payments Authority of Kosovo
CBI	Central Bank of Iraq
CPO	Central Payments Office
DAB	Da Afghanistan Bank, the central bank of Afghanistan
DFID	U.K. Department for International Development
DRC	Democratic Republic of the Congo
FTB	Foreign Trade Bank of Cambodia
IT	Information technology
LEG	Legal Department of the IMF
MFD	Monetary and Financial Systems Department of the IMF
MoF	Ministry of Finance
PDR	Policy Development and Review Department of the IMF
PRGF	Poverty Reduction and Growth Facility
Sida	Swedish International Development Cooperation Agency
STA	Statistics Department of the IMF
TA	Technical assistance
UN	United Nations

Introduction

This paper provides background information to the paper "MFD Technical Assistance to Recent Post-Conflict Countries." The paper presents case studies on eight countries: Afghanistan, Cambodia, the Democratic Republic of the Congo, Iraq, Kosovo, Serbia, Sierra Leone, and Timor-Leste.

The information provided in this paper supplements the information presented in the main Board paper. Each case study is on four pages and follows a structured format to allow for cross-country comparisons. It starts with two pages of information background and indicators of TA implementation and progress, which are followed by three figures with graphic presentations illustrating the use of MFD technical assistance (TA). Each country case study is concluded by summary comments on the figures.

Afghanistan—Summary Case Study[1]

Nature of conflict. Since the intervention by the Soviet Union in December 1979, Afghanistan has experienced war, civil war, and internal ethnic hostilities. During this quarter-century, some 4–7 million Afghanis were made refugees, mostly in Pakistan and Iran. The conflicts are now more contained than a few years ago, but they remain a matter of concern.

Political situation. Following the fall of the Taliban regime in late 2001, a constitution was passed providing for presidential rule with a parliament and a juridical branch. Strong regional leaders, often with military followings and funding from the drug trade, limit the effective reach of government. An armed insurgency has support in the south and east. Presidential elections were held in October 2004, while parliamentary elections have been postponed to the spring of 2005.

Infrastructure and security. In most parts of the country, including Kabul, the infrastructure was greatly damaged by war and neglect. However, the headquarters of the central bank—Da Afghanistan Bank (DAB)—and the banks remained largely intact. The branches outside the capital were often severely affected. The volatile security situation across the country limits redevelopment efforts. A bomb incident in Kabul, prompted Fund management to evacuate all Fund staff and visiting experts from Kabul during the presidential election period. The Fund's resident representative office has been reopened since mid-October 2004 with Fund staff and experts visiting Kabul.

Macroeconomic conditions. For years, the economy has been badly hit, not only by the wars and severe droughts, marginalizing most agricultural production except the growing of poppies. Opium-related informal economic activities are estimated to correspond to between 40 and 60 percent of the official GDP. In the cities, the economy is recovering, supported by an upturn in construction and services. The GDP is estimated to have grown by 29 percent in 2003 and by 16 percent in 2004 with consumer price inflation falling from about 52 to 10 percent per year. The budget remains highly dependent on donor aid.

Financial sector. The financial sector earlier consisted of DAB with 89 branches and six state-owned banking institutions—three development and three commercial banks with some 50 offices. DAB's primary tasks were cash currency operations and financial services for the state. The six banks had very limited financial operations during the Taliban rule from 1996. In major reforms since 2002, DAB has been transforming itself into a central bank in a two-tier banking system. Of the state-owned banks, three have been relicensed and the rest will be liquidated. Since the adoption of key financial sector legislation in September 2003, three domestic and eight foreign-owned banks have been licensed, four of which are branches of foreign banks.

Fund-supported programs. The first Fund visit since 1991 occurred in January 2002, led by the area department with representation from the TA departments. It took place in parallel with a World Bank-led diagnostic mission. Arrears to the Fund were cleared in March 2003. A Staff Monitored Program was initiated in March 2004. The Article IV mission in November 2003 was the first in 12 years.

MFD TA. Based on earlier diagnostic and advisory missions since January 2002, MFD prepared a blue print in July 2002 for rendering early TA to the central bank. Shortly thereafter, the

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[1] Prepared by Åke Lönnberg (Deputy Division Chief, MFD).

U.S. authorities allocated very considerable funds for the restoration and development of the central bank through USAID. Since then, MFD's role has focused on targeted advice, including participation in the expert committee to review the balance sheet structure and capital adequacy of the central bank. Comprehensive Fund support of training of central bank staff and the establishment of a DAB training center is funded through the Sweden TA Subaccount, financed by the Sweden International Development Cooperation Agency (Sida).

Indicators of TA implementation and progress

Currency reform. From mid-2002 to early 2003, MFD advised and assisted DAB on the banknote exchange whereby all old banknotes were replaced by a new series of re-denominated currency. Consequently, the major problem of significant amounts of counterfeit and illegal banknotes circulating could thus be eliminated. The U.S. and UN have provided massive logistical assistance.

Payment system reform. In 2002, MFD advised on how to improve an emergency cash-based payment system, built on six regional DAB hubs; assisted DAB in contacts with the Kabul moneychangers, who were the key players in the Afghan part of the Hawala informal funds transfer system; and provided advice at a joint workshop between MFD and LEG in December 2002, on the main points of a modernized payment law.

New financial sector legislation. LEG and MFD prepared a new DAB Law, which was enacted in September 2003.

Monetary policy and operations. In May 2002, DAB introduced foreign exchange auctions directed to the moneychangers, based on advice from primarily MCD and PDR. MFD advice supported the banknote exchange from October 2002 to January 2003, which provided a sounder foundation for implementation of monetary policy. MFD provided advice in 2003 on introduction of a DAB short-term debt instrument.

Foreign exchange reserves management. No MFD TA has been provided.

Central bank institutional reform. MFD provided TA in central bank organization and governance, accounting, financial reporting, and internal audit functions, and advice on an appropriate central bank building configuration for DAB. In late 2004, DAB's training function was supported by an international advisor acting as training coordinator.

Legal/institutional framework for commercial banking. In 2002–03, LEG and MFD prepared draft banking legislation, which was enacted in September 2003.

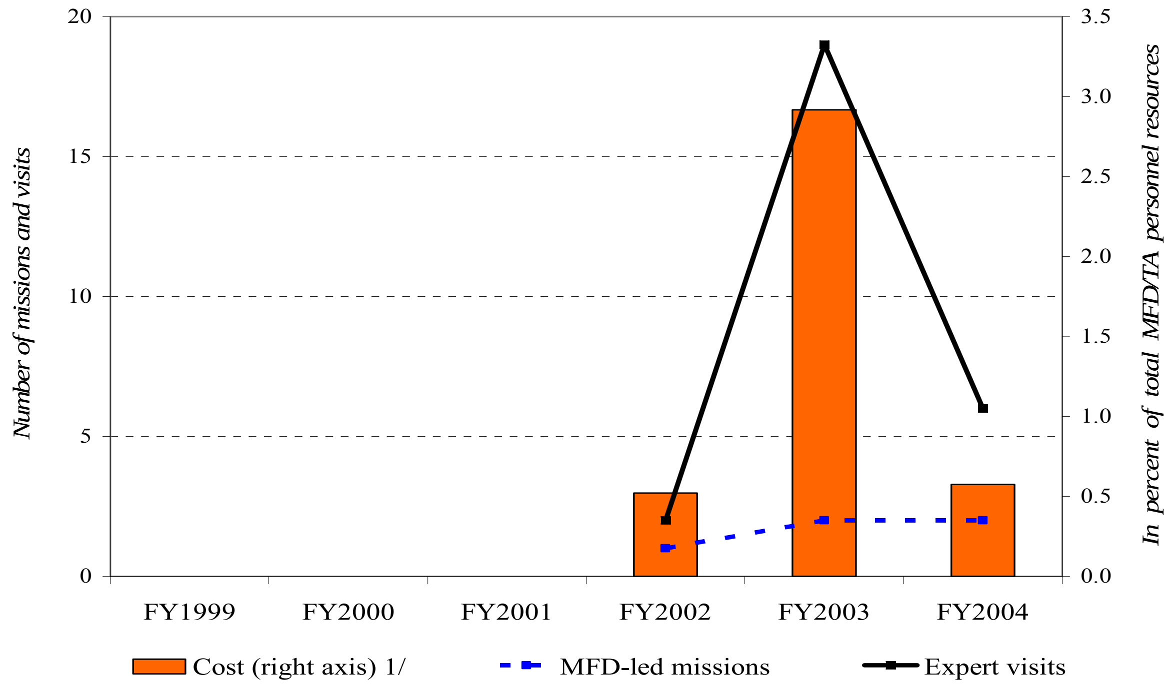
Financial system supervision. MFD assisted in strengthening banking supervision in collaboration with experts contracted by the U.K. Department for International Development (DFID).

AML/CFT. MFD provided input into the draft AML law which was prepared by LEG and enacted in September 2004.

Bank restructuring. In an agreed delineation, this became the World Bank's area.

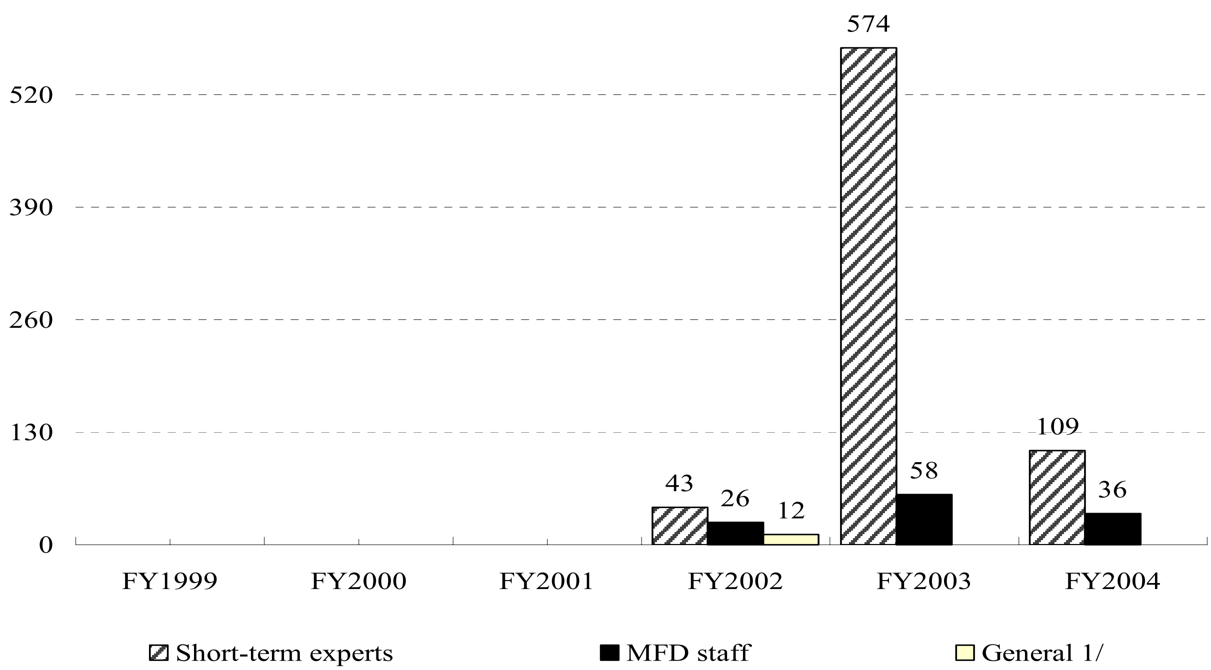
Nonbank financial intermediaries. No MFD TA has been provided.

Figure 4. Afghanistan: MFD Technical Assistance Resources and Cost, FY 1999–2004



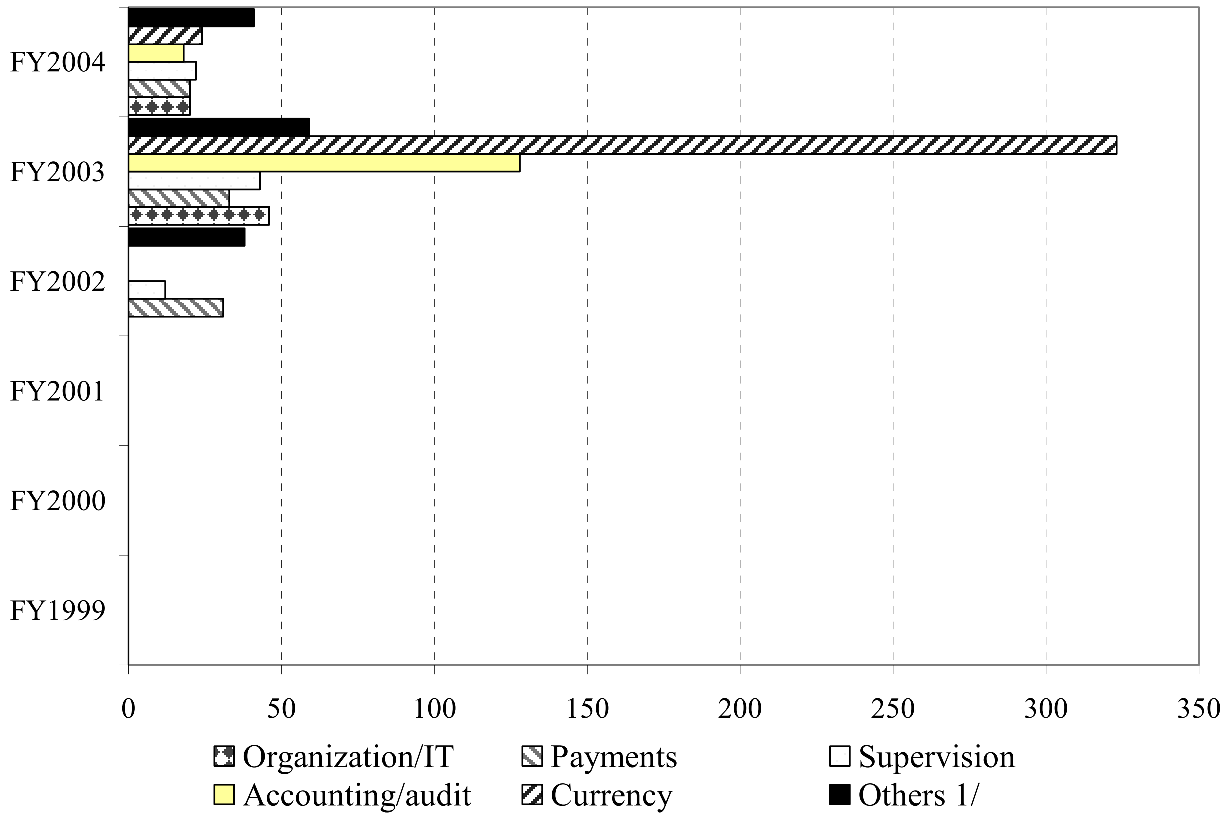
Sources: TIMS and BRS.
1/ Total cost in person-years is calculated as a percent of MFD/TA personnel resources total cost.

Figure 5. Afghanistan: MFD Staff Assignments, FY 1999–2004
(number of days in the field)



Source: TIMS.
1/ Staff from EUR.

Figure 6. Afghanistan: MFD Technical Assistance Areas, FY 1999–2004
(number of days in the field)



Source: TIMS.
1/ Includes the following: TA coordination, legal, general, monetary policy/operations, and AML/CFT.

Afghanistan: Comments on Figures

FY 2002. MFD was represented in an area department-led acquaintance mission in January 2002. An MFD-led diagnostic mission was launched in February and included experts from DFID and the World Bank. Short-term expert visits were initiated in the payments area.

FY 2003. Two MFD-led advisory missions in May–July 2002 prepared a blue print for strengthening the central bank and to establishing an emergency payment system. Peripatetic expert visits covered initially accounting, banking supervision, organization, and payment matters. During the last quarter of 2002, the TA shifted to supporting the central bank in the banknote exchange. USAID also arranged for a massive TA program for the central bank, leading to a reduction of MFD support to avoid overlap. By end-2002, a third MFD-led advisory mission assisted in the preparing of a new central bank law and banking legislation.

FY 2004. Two MFD missions provided TA in areas such as central bank accounting, organization, and monetary policy instruments. Work was initiated in AML/CFT.

Cambodia—Summary Case Study[2]

Nature of conflict. Since the 1970s, starting with the Vietnam war, the country has suffered a series of wars, invasions, and internal hostility.

Political situation. In October 1991, an agreement ended the Vietnamese occupation that began in 1979, and which had led to the overthrow of the Khmer Rouge. A UN transitional authority arranged elections in May 1993 that resulted in a fragile consensus government. In July 1997, that government collapsed, leaving the country diplomatically isolated, and national protests virtually paralyzed the country. As a result of a political agreement in November 1998, a measure of stability has returned.

Infrastructure and security. During Khmer Rouge rule, the economic/financial infrastructure was destroyed and the economy reverted to agrarian barter. In the 1990s, insufficient transportation and communications infrastructure and other factors hindered the spread of banking services nationwide. Post-conflict demobilization of the military was also a chronic problem, as dispersed groups of soldiers created security risks in the countryside.

Macroeconomic conditions. Prior to the peace agreement, Cambodia experienced triple digit inflation. The loss of confidence in the currency from the inflation combined with the massive inflows of dollar-based aid during the period of UN administration resulted in the country becoming one of the most highly dollarized economies in the world. Monetary policy was nonexistent and domestic credit targets were met by administrative guidance. Fiscal policy, mostly funded by aid, was restrained, macroeconomic conditions stable, inflation low, and growth was in the 6 percent range.

Financial sector. A central bank law was enacted in 1996, setting up a two-tier banking system. In 1999, a financial institutions law was passed, requiring relicensing of banks. At that time, many were insolvent or effectively dormant. Even strong and capable banks were barely engaged in financial intermediation since the legal and institutional framework was weak. Secured lending was hampered by a lack of collateral and creditor protections and a malfunctioning judicial system. In short, banking was undeveloped and bank assets to GDP among the lowest in the world. The state held a significant presence in the banking sector through the Foreign Trade Bank (FTB), which was considered a department of the central bank.

Fund-supported programs. A Poverty Reduction and Growth Facility (PRGF) started in 1999 was successfully completed in February 2003.

MFD TA. MFD undertook a complete relicensing exercise for the banking system, enhanced supervision and, with LEG, improved the legal/institutional framework for commercial banking, foreign exchange reserves management, and payment matters. MFD also supported efforts in banking system restructuring, a key component of the PRGF. A resident central bank advisor assisted in the drafting of financial sector legislation and the development of supervisory and regulatory capabilities. TA missions provided advice on promoting de-dollarization, developing a deposit insurance system, and promoting improved financial intermediation. The World Bank did not engage in the financial sector. The Asian Development Bank (AsDB) initiated a long-term financial sector program and

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[2] Prepared by Edward J. Frydl (Senior Economist, MFD) and Åke Lönnberg (Deputy Division Chief, MFD).

efforts were made to provide coordination of Fund and AsDB TA. The central bank indicated a preference for Fund assistance because it could be more flexibly adjusted to their emerging needs. The AsDB, however, provided useful TA in the development of supervision for microfinance institutions.

Indicators of TA implementation and progress

Currency reform. Although de-dollarization was a long-term objective, it did not get an early priority. The central bank took only limited actions within its domain, and dollarization actually increased during the PRGF period.

Payment system reform. MFD assisted in the development of USD-check clearing and worked with LEG on the drafting of a payments transaction law and related legislation on negotiable instruments. The draft legislation was stalled by an impasse emerging from the 2003 elections.

New financial sector legislation. The Central Bank Law and the Financial Institutions Law were drafted with MFD assistance, but other legal/financial infrastructure is weak, particularly creditor rights, bankruptcy law, and operations of the judiciary.

Monetary policy and operations. Prospects for improved monetary operations were limited in the highly dollarized economy. The MoF was reluctant to regularly issue treasury bills and the banking system remained in a condition of high chronic liquidity.

Foreign exchange reserves management. MFD TA led to a reorganization of reserves management functions in the central bank, improved information set for decision making and the first steps toward implementing a more active management of reserves.

Central bank institutional reform. MFD assisted in central bank accounting, which met a safeguards assessment. MFD also advised on separating the FTB from the central bank so that it could be prepared to be licensed and capitalized as a state commercial bank.

Legal/institutional framework for commercial banking. Efforts to implement a chart-of-accounts for the banking system. On-site reviews developed by MFD TA, discovered accounting irregularities and substantive noncompliance with regulations.

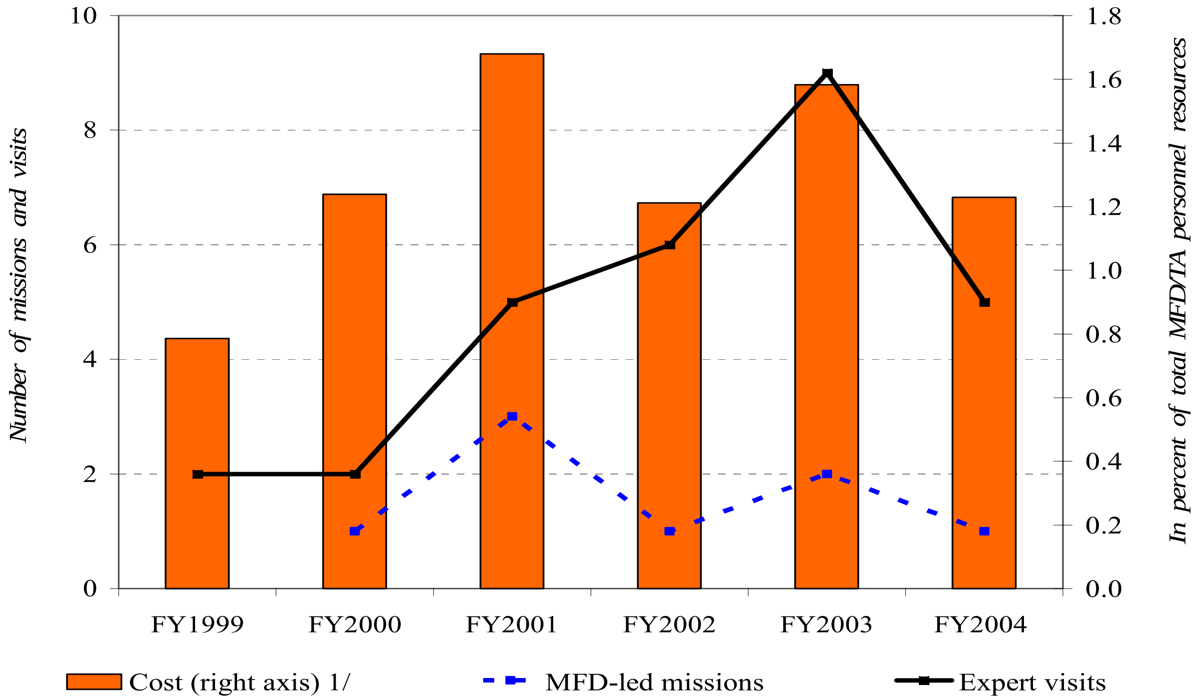
Financial system supervision. MFD reviewed prudential regulations, implementation of a CAMEL-based methodology, and improvements in the capabilities of supervisory staff.

AMF/CFT. A joint MFD/LEG mission in December 2003 provided legislative drafting assistance. An awareness-raising mission visited in July 2004, while a MFD mission in October 2004 provided assistance in the development of new AML/CFT supervisory guidelines.

Bank restructuring. The bank minimum capital was increased, and together with liquidation of insolvent and inactive institutions, the number of banks was reduced from 31 to17. In general, the quality of banking sector participants was significantly improved.

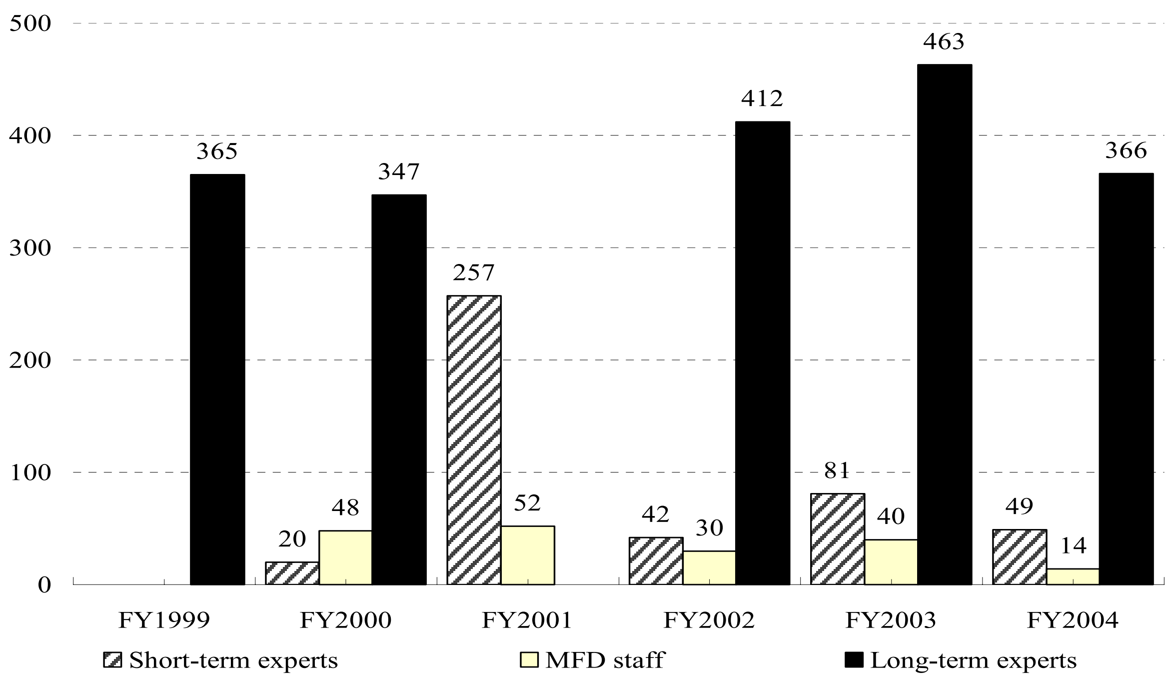
Nonbank financial intermediaries. No MFD TA has been provided.

Figure 7. Cambodia: MFD Technical Assistance Resources and Cost, FY1999–2004



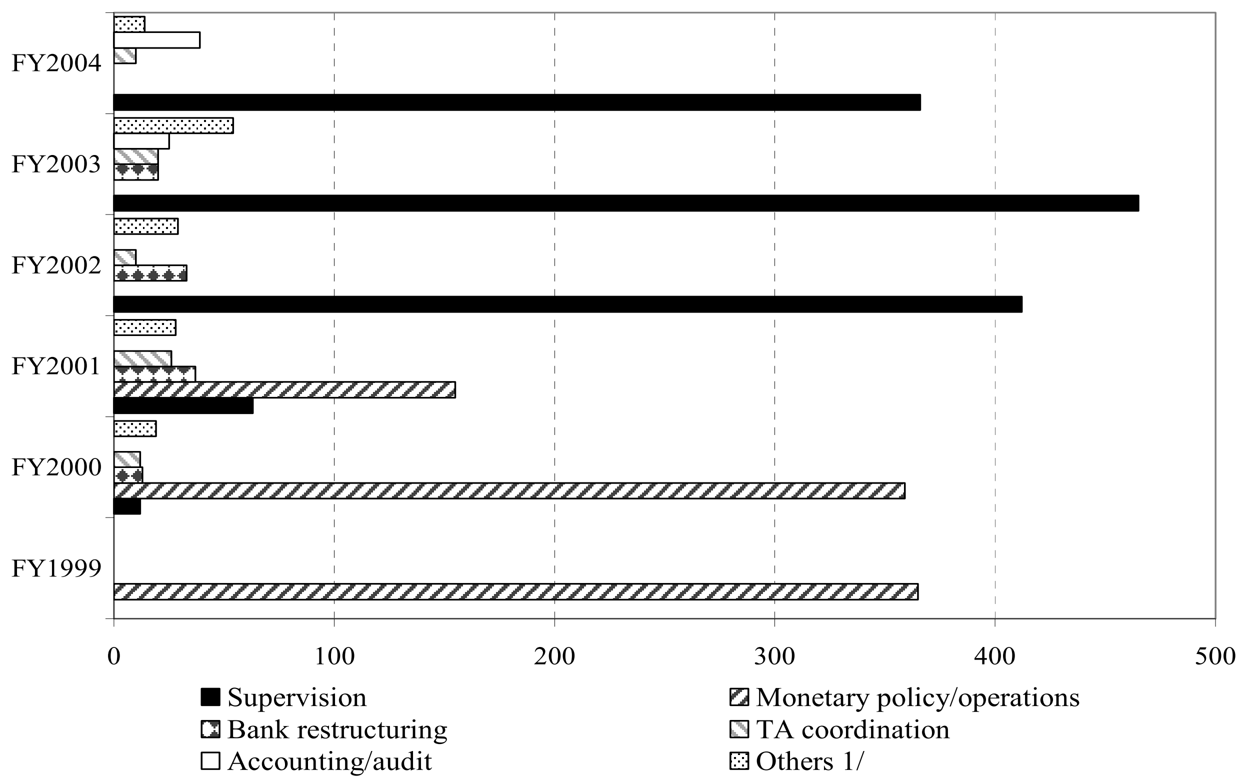
Sources: TIMS and BRS.
1/ Total cost in person-years is calculated as a percent of MFD/TA personnel resources total cost.

Figure 8. Cambodia: MFD Staff Assignments, FY 1999–2004
(number of days in the field)



Source: TIMS.

Figure 9. Cambodia: MFD Technical Assistance Areas, FY 1999–2004
(number of days in the field)



Source: TIMS.
1/ Includes the following: Foreign exchange/reserves management, payments, general, legal, and AML/CFT.

Cambodia: Comments on Figures

FY 1999. A long-term position as General Advisor in monetary policy was extended.
FY 2000. An MFD mission reviewed reform priorities in the banking and payment systems, and prepared a TA program. The General Advisor continued for another 12 months.
FY 2001. Three MFD missions focused on bank relicensing, liquidation of nonviable banks and restructuring of the FTB, banking supervision, payments, and monetary operations. A new resident advisor in monetary policy/banking supervision served for 10½ months.
FY 2002. An MFD mission dealt with banking system restructuring, development of payments, and a deposit insurance system. The General Advisor for banking supervision was extended for 12 months. A peripatetic expert in payment legislation made two visits.
FY 2003. Two MFD advisory missions reviewed progress in bank restructuring, banking supervision, implementation of a new chart-of-accounts and other accounting issues, a deposit insurance system, and foreign exchange reserves management. The General Advisor in banking supervision served another 9½ months and was succeeded by another expert.
FY 2004. An MFD advisory mission followed up earlier TA and also examined developments in bank credit growth, FTB privatization, and dollarization issues. A first visit was made regarding AML/CFT. The new resident General Advisor in banking supervision continued for another 12 months. One short-term expert provided peripatetic advice in accounting.

The Democratic Republic of the Congo (DRC)—Summary Case Study[3]

Nature of conflict. Since independence in 1960, periodic outbreaks of violence and political instability emerged, fueled in part by differences between the peoples and regions that colonial rule had brought together in one country. The 1994 genocide in Rwanda started a series of events that led to a regime change in ex-Zaire[4] in 1997, as well as to a regional and civil war.

Political situation. From early 2001 onwards, troops were disengaged and UN observers were deployed. A wide-ranging political agreement was signed between warring factions, leading to the promulgation of the transitional constitution in April 2003 and installation of an interim government and parliament including representatives of former rebel movements.

Infrastructure and security. In addition to the deaths of some 3 million people and displacement of many others, the war had inflicted major damage on what was left of the DRC's infrastructure and exacerbated every other challenge the country was facing, including the HIV pandemic. The Congolese authorities, with support from the UN, have continued to secure peace in the country, but the situation in the eastern part of the DRC remains volatile.

Macroeconomic conditions. Fueled by budget deficits and conflicts, the DRC has known almost continuous hyperinflation from 1990 until 2001, as well as currency depreciation, increasing dollarization, declining production, a lack of international reserves, and mounting external debt. Heavy-handed efforts to control the exchange rate and domestic prices had produced major distortions without succeeding in turning the situation around. In mid-May 2001, the gap between the official and parallel market exchange rates was 545 percent. By 2000, per capita GDP had dropped to $85, while other development indicators had deteriorated as well. With Fund support, the authorities managed to stabilize the macroeconomic situation using a combination of measures, including a tight fiscal policy built around a monthly treasury cash-flow plan, a restrictive monetary policy, a floating of the exchange rate, and a liberalization of the exchange regime. This package of measures brought inflation down rapidly in 2003. The exchange rate was unified, growth resumed, and both the current and capital accounts of the balance of payments turned positive, allowing a buildup of reserves.

Financial sector. The central bank was technically insolvent and suffered losses owing to its large foreign debts, negative seigniorage, and no remuneration on its credits to government. It did not have the necessary autonomy nor the financial resources to conduct a market-based monetary policy aimed at price stability. For about a decade, its main task had consisted of monetizing fiscal deficits. The remaining banks were in a precarious financial state, focused mainly on surviving, and had become largely irrelevant in a context marked by disintermediation, dollarization and a general lack of savings. Rationing of banknotes had resulted in bank deposits being traded at a discount against cash currency in an unofficial secondary market. Banknotes were not only in short supply, their practical usefulness was also limited by their poor physical state and the fact that denominations had not kept

[3] Prepared by Wim Fonteyne (Economist, MFD) and Bernard J. Laurens (Deputy Division Chief, MFD).

[4] The Democratic Republic of the Congo became independent from Belgium in 1960. It was renamed "Zaire" in 1971, but reverted to its former name in 1997.

up with inflation. The initial success of the 1998 currency reform was reversed by continuing hyperinflation until 2001–02.

Fund-supported programs. The DRC had been in continuous arrears with the Fund since November 1990. Fund involvement resumed with a Staff Monitored Program during June 2001–March 2002, followed by a three-year PRGF, approved in June 2002. The PRGF was made possible by an arrears-clearing bridge loan.

MFD TA. Initially, MFD advised on floating the exchange rate and drafted with LEG a new central bank law. MFD's further involvement was based on a TA program that focused on strengthening the institutional capacity and operations of the central bank in a broad range of areas, including monetary policy, foreign exchange operations, accounting and internal auditing, banking supervision, and information technology (IT).

Indicators of TA implementation and progress

Currency reform. MFD assisted in the reunification of the national currency.

Payment system reform. No MFD TA has been provided.

New financial sector legislation. LEG and MFD drafted new central bank legislation.

Monetary policy and operations. MFD assisted in an overhaul of monetary operations, aimed at eliminating currency rationing, introducing short-term central bank bills, modifying the system of reserve requirements, developing liquidity forecasting, and increasing coordination with the MoF. It also advised on reorganizing the Foreign Exchange Department, addressing deficiencies in intervention methodology and lack of training. MFD assisted in the "cleaning up" of the balance sheet of the central bank.

Foreign exchange reserves management. MFD assisted in improving the management and strengthening intervention practices.

Central bank institutional reform. To enhance the central bank's internal control system, an Internal Audit Department was formed, international accounting standards and external audits introduced, and an Account Restructuring Committee set up. Together with the World Bank, MFD assisted in modernizing the central bank's information systems and assessing its IT needs.

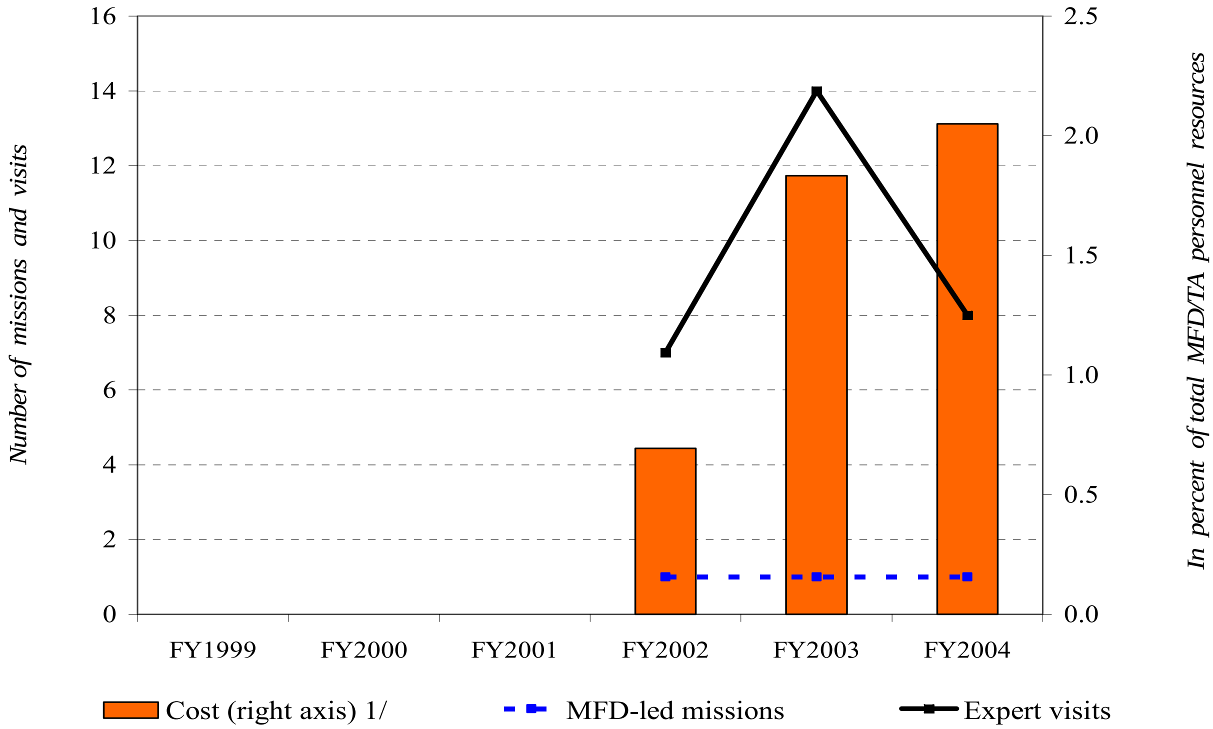
Legal/institutional framework for commercial banking. No MFD TA has been provided.

Financial system supervision. MFD assisted in reorganizing the banking supervision function, drafting a new set of prudential regulations in line with international standards, introducing a new chart-of-accounts for the banking system, and training of staff.

Bank restructuring. TA in this area has been provided by the World Bank.

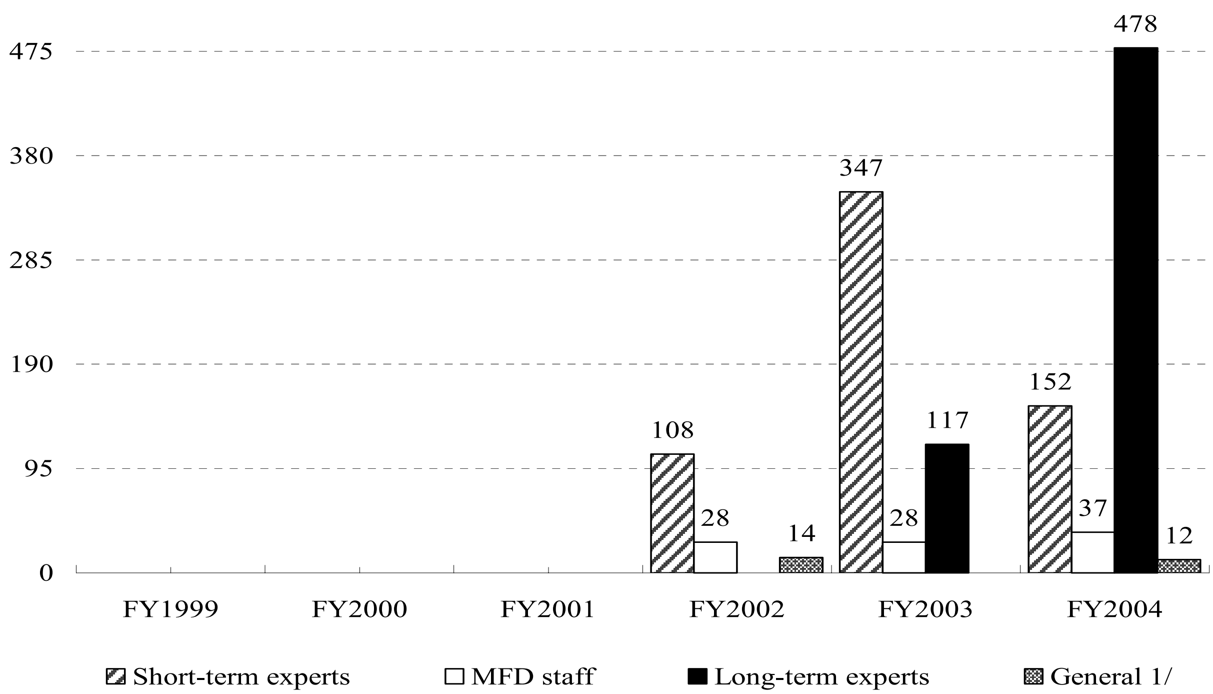
Nonbank financial intermediaries. MFD advised on making an inventory of microfinance institutions.

Figure 10. DRC: MFD Technical Assistance Resources and Cost, FY 1999–2004



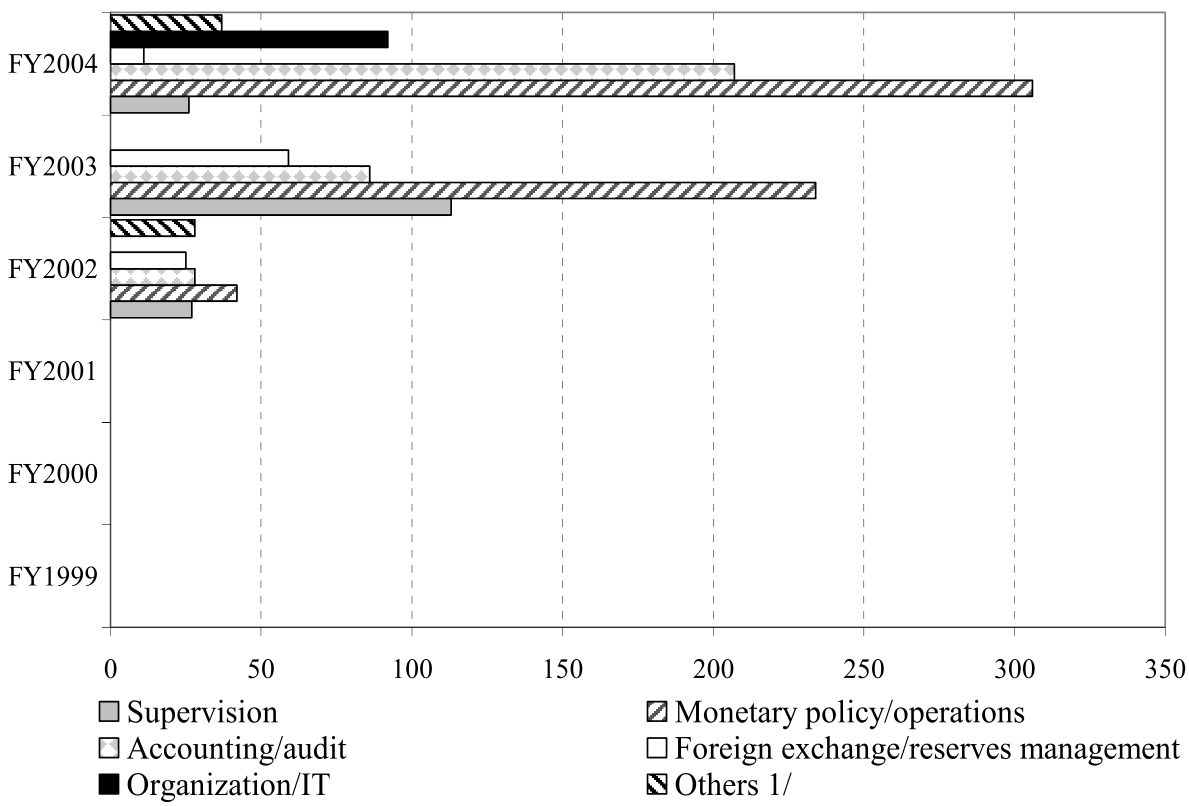
Sources: TIMS and BRS.
1/ Total cost in person-years is calculated as a percent of MFD/TA personnel resources total cost.

Figure 11. DRC: MFD Staff Assignments, FY 1999–2004
(Number of days in the field)



Source: TIMS.
1/ Staff from AFR and LEG.

Figure 12. DRC: MFD Technical Assistance Areas, FY 1999–2004
(number of days in the field)



Source: TIMS.
1/ Includes the following: Currency, general, and TA coordination.

The Democratic Republic of the Congo: Comments on Figures

FY 2002. An MFD mission in October 2001 identified measures needed to revive financial intermediation, defined a framework for implementing monetary and exchange rate policy, and examined the central bank's organization and internal controls. Peripatetic expert visits took place in the areas of supervision, monetary and foreign exchange operation, and internal audit.

FY 2003. An MFD mission continued to support the central bank's capacity building in accounting, internal audit, monetary and exchange policy implementation, and banking supervision. Peripatetic visits were arranged for short-term experts in these areas. A long-term assignment was set up for a General Advisor to the Governor.

FY 2004. An MFD advisory mission continued support in areas initiated by previous missions, in addition, special attention was given to financial intermediation in the context of the DRC's reunification and the high degree to which the economy is dollarized. The General Advisor was extended and a position of resident Advisor for internal audit was set up. Short-term individual visits were made by experts in IT, banking supervision, and accounting.

Iraq—Summary Case Study[5]

Nature of conflict. Since 1980, Iraq fought a war with Iran, invaded Kuwait, lost the first Gulf War, fought ethnic and religious conflicts in the north and the south, and came under UN economic sanctions. The second Gulf War, starting in March 2003, led to destruction of infrastructure, which was compounded in the immediate aftermath by looting and the breakdown of public authority in key areas of the country.

Political situation. The formal transfer from the Coalition Provisional Authority of power to Iraqi leadership place in June 2004. Parliamentary elections are planned for January 2005.

Infrastructure and security. After the first Gulf War in 1990–91, Iraq came under UN sanctions, freezing its international assets and restricting its sale of oil and importation of goods and services. This led to deterioration in social conditions and a lower level of investment in the country, affecting the infrastructure in the widest sense. The subsequent military and civilian hostilities have further undermined the physical, social, and economic infrastructure. The new Baghdad headquarters of the Central Bank of Iraq (CBI) cannot be used, and the branches in Basra and Mosul are severely damaged. Many bank branches have also been damaged or destroyed. In addition, there is s shortage of trained personnel.

Macroeconomic conditions. The economy has been under severe stress and stagnation for decades, and is in great need of investment and growth. The external debt burden is estimated to be around $125 billion or seven times GDP. GDP is estimated to have fallen by about 35 percent in 2003 with a consumer price inflation of about 36 percent. The budget is highly dependent on revenues from the sale of oil and natural gas, in addition to international aid.

Financial sector. The financial sector earlier consisted of the CBI with its two branches, two large state-owned commercial banks accounting for more than two-thirds of total banking assets, four smaller state-owned banking institutions, and 16 privately owned commercial banks. The private banks tend to be small, poorly capitalized, and often connected to family-based trading houses. After recent changes in financial legislation, one domestic and three foreign banks have been licensed, but none of the latter has started operations. In addition, the Trade Bank of Iraq has been established to facilitate international trade.

Fund-supported programs. The first Fund visit since 1983 occurred in June 2003, led by the area department with representation from the TA departments. The arrears to the Fund were cleared in September 2004. Emergency Post-Conflict Assistance for Iraq was approved in September 2004.

MFD TA. During the period 2003–04, MFD provided considerable TA in the form of policy papers on a number of key issues, including central bank institutional reform, financial sector legislation, and currency reform to the Coalition Provisional Authority and the CBI. The first MFD mission, in July 2004, was largely of a diagnostic nature. Other TA missions planned to Baghdad were cancelled after the bombing of the UN headquarters on August 19, 2003. In October 2003, agreement was reached with the Governor of the CBI on a TA program which has since been carried out through

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[5] Prepared by Åke Lönnberg (Deputy Division Chief, MFD).

meetings, seminars, and workshops organized for CBI management and staff. Normally, they have occurred in the Middle East region. Such TA has on a case-by-case basis been coordinated with other major TA providers to Iraq and have to major extent been funded by the TA Subaccount for Iraq.

Indicators of TA implementation and progress

Currency reform. During 2003, MFD advised the Coalition Provisional Authority and the CBI on technical aspects of the banknote exchange whereby all old banknotes were replaced by a new series. A major problem was the large amount of counterfeit banknotes in circulation.

Payment system reform. The July 2003 TA mission advised on an analytical framework for addressing payment issues. A symposium on payment and settlement systems was organized by MFD in Cairo in July 2004 with the World Bank. Subsequently, a detailed program was prepared for future work in these areas.

New financial sector legislation. LEG and MFD prepared various versions of a new CBI Law, which was enacted in March 2004.

Monetary policy and operations. In Amman, MFD prepared a framework which was discussed in November 2003 at a seminar. In October 2003, the CBI introduced foreign exchange auctions for banks. In June 2004, a workshop in Abu Dhabi, with the Bank of England, focused on treasury bill auctions and operational monetary instruments. In July 2004, the CBI, acting on behalf of the MoF, organized the first auction of treasury bills.

Foreign exchange reserves management. No MFD TA has been provided.

Central bank institutional reform. MFD TA was provided through workshops in areas of central bank accounting (Amman in December 2003), and central bank governance, organization, and management (Amman in January 2004).

Legal/institutional framework for commercial banking. LEG and MFD prepared various versions of a new Banking Law, which was enacted in October 2003.

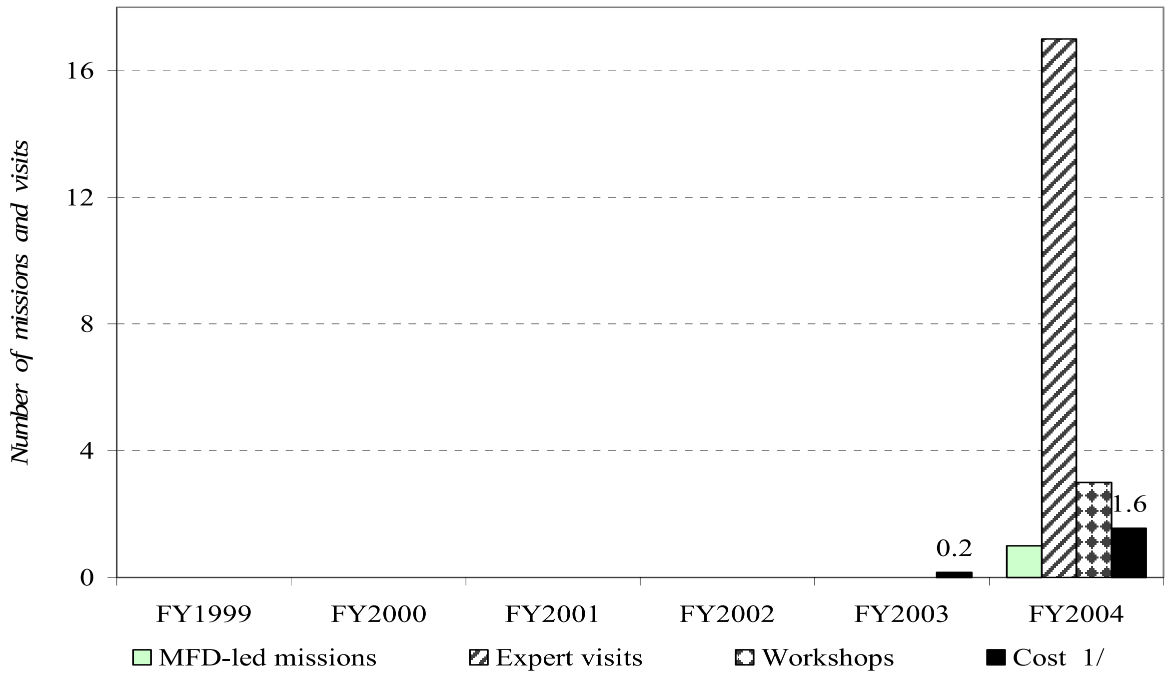
Financial system supervision. During 2004, MFD advised on the framework and operations of modern banking supervision at a workshop (Bahrain in June) and a symposium (Cairo in July) with the World Bank.

AML/CFT. MFD and LEG provided comments on a draft AML law in March 2004.

Bank restructuring. In an agreed division of labor, this became the World Bank's area of responsibility.

Nonbank financial intermediaries. No MFD TA has been provided.

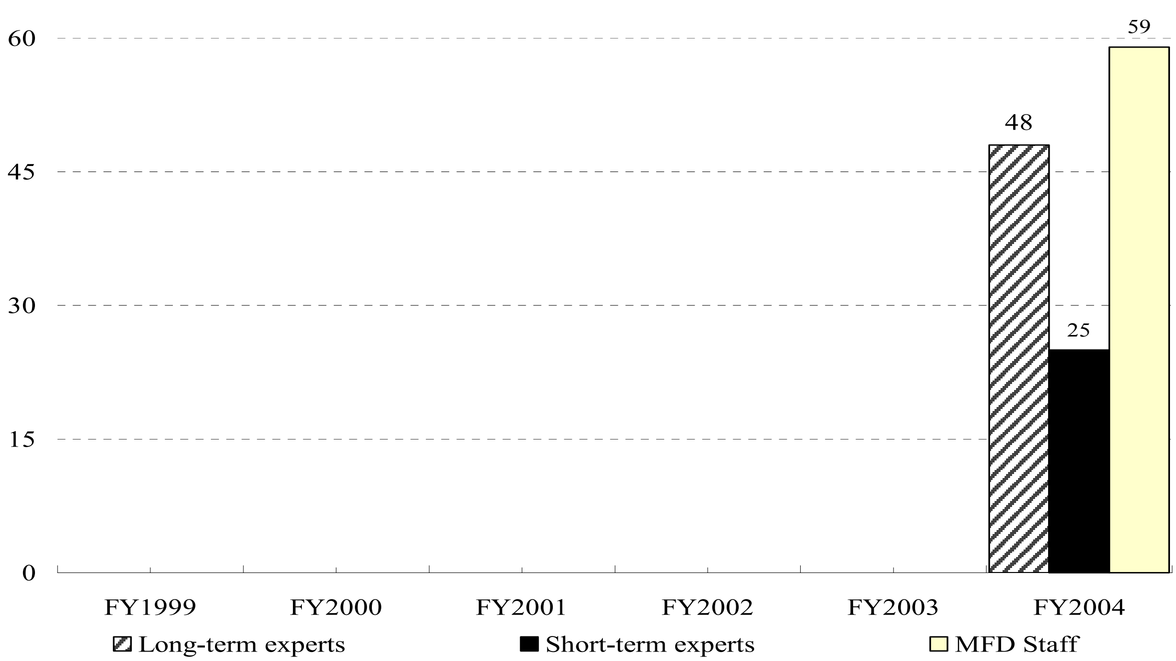
Figure 13. Iraq: MFD Technical Assistance Resources and Cost, FY 1999–2004



Sources: TIMS and BRS.

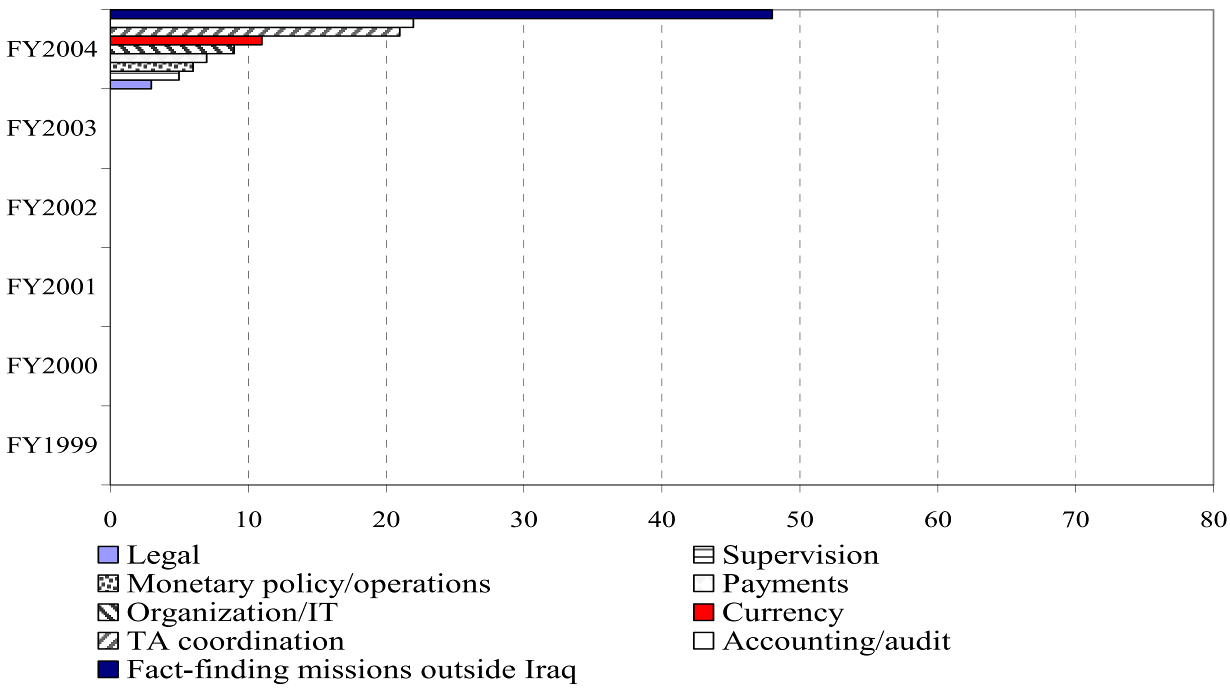
1/ Total cost in person-years is calculated as a percent of MFD/TA personnel resources total cost.

Figure 14. Iraq: MFD Technical Assistance Staff Assignments, FY 1999–2004
(number of days in the field)



Source: TIMS.

Figure 15. Iraq: MFD Technical Assistance Areas, FY 1999–2004
(number of days in the field)



Source: TIMS.

Iraq: Comments on Figures

FY 2003. During the early months of 2003, extensive work was carried out at headquarters in disseminating information. MFD also assisted in the preparations for the banknote exchange.

FY 2004. In June 2003, a series of fact-finding missions were launched together with MCD in western Europe and the Middle East to meet with parties that had knowledge of the financial sector. MFD was represented in an area department-led acquaintance mission in June 2003. The first MFD-led mission took place in July, covering primarily financial sector legislation, the banknotes exchange, payment system issues, and future TA needs. After the bombing of the UN headquarters in Baghdad in August, Fund travel to Iraq was no longer permitted. Work on a central bank law, a banking law and currency legislation continued from headquarters during the fall of 2003. Workshops were arranged for central bank accounting, central bank organization, banking supervision, and monetary policy. Close cooperation with the World Bank, DFID and USAID. From March to September 2004, a long-term MFD expert based in Amman, Jordan, served as a resident TA coordinator for Fund assistance for Iraq that is delivered in the region.

Kosovo—Summary Case Study[6]

Nature of conflict. Long-standing tensions between the majority Albanian-speaking Kosovars and ethnic Serbs and other minorities in Kosovo escalated in open hostilities in 1998–99, initially forcing nearly 1 million Albanian Kosovars to become temporarily dislocated in neighboring states. After NATO military action against Serbia and the UN-brokered peace agreement of June 1999, most of these people returned, while many Serbs and minorities in turn fled or became internally displaced.

Political situation. In 1989, the autonomy of Kosovo's provincial administration within Yugoslavia was curtailed, effectively placing control in the hands of the ethnic Serb minority. A UN Security Council Resolution in June 1999, placed Kosovo under a UN interim administration. Following elections to a regional assembly, a government dominated by two Kosovar parties now shares power with the Special Representative of the UN. The future as a province of Serbia remains a divisive and unsettled issue.

Infrastructure and security. Much of the infrastructure suffering from earlier neglect was devastated by the conflict. The capital was an exception with only a few key government buildings having been bombed. Unfortunately, the National Bank of Kosovo was one of them, and in the subsequent looting, virtually all commercial banks in Kosovo were destroyed. The depletion of human capital was major and serious. The extensive dislocation of people during the period 1998–99 also created major uncertainties about property rights and security was hampered by ethnic tensions and violence against minority groups.

Macroeconomic conditions. After relative prosperity during autonomy period, the economy stagnated during 1980s and 1990s. After 1989, Kosovo experienced massive disinvestment, industries collapsed, and real output contracted. Since 2000, the economy has bounced back, supported by growth in construction and the service sector. Although early prudent fiscal policies resulted in budget surpluses, aid flows which financed much of the current account deficit declined, putting pressure on the balance of payments. Unemployment continues to be high.

Financial sector. Before the war, the National Bank of Kosovo was a branch of the National Bank of Yugoslavia. Through the traditional Yugoslav payment bureau system, Kosovo was covered with network branches and sub-branches. Some 50 banks used to operate in Kosovo, of which four were considered Albanian Kosovar. The financial sector was small since ethnic Serbs were the main users of the banking system, with Albanian Kosovars preferring the informal financial sector including informal payment transfer systems. With the war behind it, the Banking and Payments Authority of Kosovo (BPK), as the financial supervisory authority, has performed many central banking tasks and is the financial supervisory authority. In 2004, seven banks have been in operation, two of which are foreign-owned. In addition, eight insurance companies have been licensed as of end-2004, four of which are branches of foreign companies.

Fund-supported programs. The first mission to Kosovo occurred in July 1999 and was of a diagnostic nature. Several surveillance and advisory missions have since been fielded. In view of Kosovo's political status, no Fund programs have been considered.

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[6] Prepared by Åke Lönnberg (Deputy Division Chief, MFD) and Karl Driessen (Senior Economist, MFD).

MFD TA. The first MFD TA mission took place in August 1999 followed by additional nine missions in the next five years. At the request of the UN, the Fund took on the task of setting up the BPK, starting with the surviving facilities of the Yugoslav payments bureau and parts of the National Bank of Yugoslavia. The Fund provided international experts to lead the BPK as managing director, funded by the Japanese TA Project Account. USAID and the European Community provided other experts as resident managers in key BPK positions. Over time, those positions have been taken over by local staff. MFD has also provided peripatetic and short-term experts to advise in targeted areas.

Indicators of TA implementation and progress

Currency reform. In 1999, MFD assisted the UN on choice of de facto currency and related legislation and later assisted the BPK in planning the exchange of DM for euros.

Payment system reform. In 1999/2000, MFD advised on the transformation of the payment bureau system into the BPK. In 2002/03, MFD assisted in divesting the BPK's commercially-oriented payment services and selling all BPK branches to local banks. From 1999, LEG and MFD assisted in preparing a draft payment transactions law (enacted in 2002).

New financial sector legislation. MFD prepared with LEG a UN Regulation (=law) setting up the BPK (enacted in November 1999).

Monetary policy and operations. Since the DM/euro currencies were selected, no independent monetary policy has been undertaken by the BPK. No short-term or long-term Kosovar debt instruments exist and no monetary operations are taking place in other instruments.

Foreign exchange reserves management. In 2000, MFD advised on assets management and in 2002 on the draft guidelines for foreign exchange reserves management.

Central bank institutional reform. MFD TA was critical to the establishment of the BPK and its subsequent development as an organization, in coordination with assistance from the United States, the European Union, and others.

Legal/institutional framework for commercial banking. LEG and MFD prepared a UN Regulation for banking (enacted in November 1999).

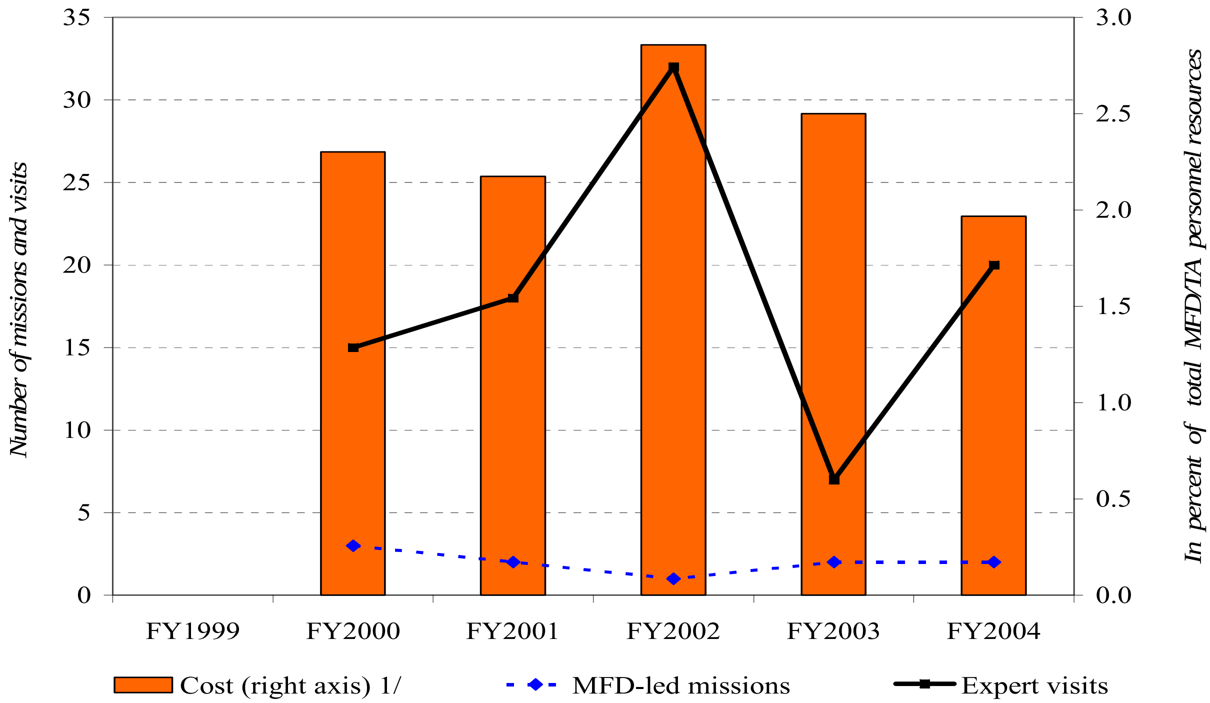
Financial system supervision. TA in banking supervision was initially provided by MFD but was taken over by USAID resident experts. During the period 2001–04, an MFD expert advised on accounting and supervision for insurance, collaborating with a USAID resident expert.

AML/CFT. MFD assistance was provided in drafting an AML/CFT inspection manual in March 2004 and, in August 2004, assistance was provided by LEG, with the support of MFD, in the establishment of a Financial Intelligence Unit.

Bank restructuring. As none of the original banks survived, no restructuring was needed.

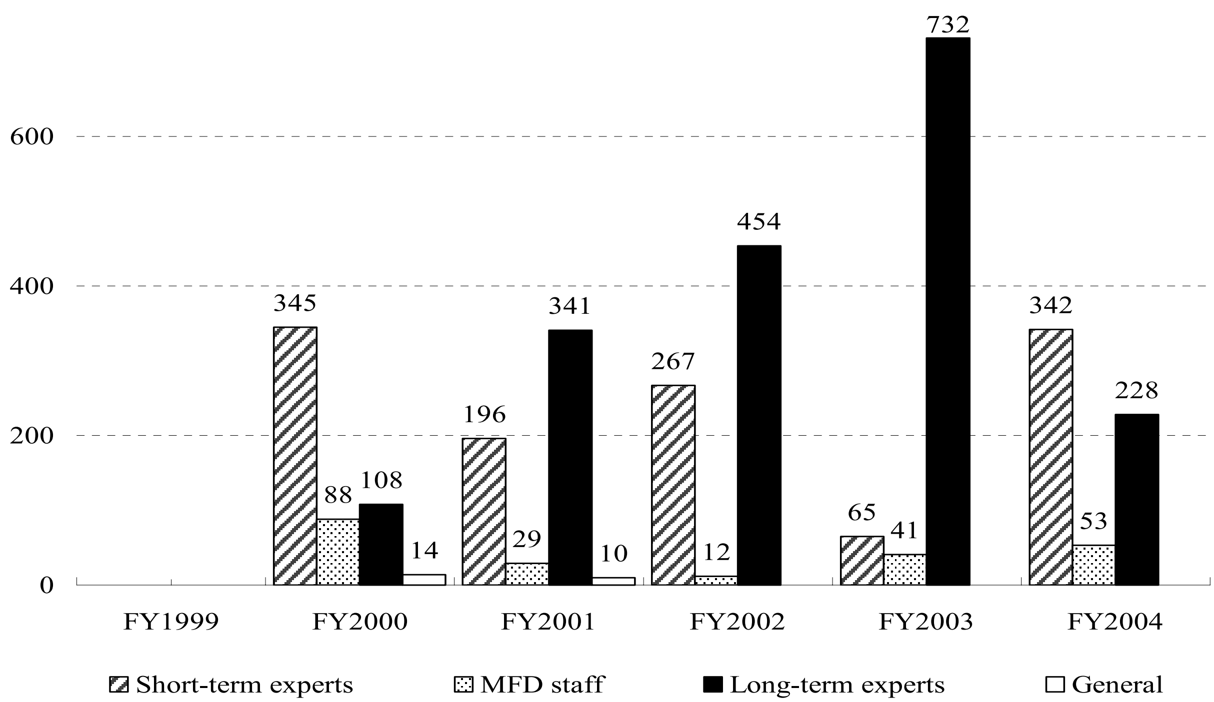
Nonbank financial intermediaries. No MFD TA has been provided, but the World Bank supported the creation of such institutions.

Figure 16. Kosovo: MFD Technical Assistance Resources and Cost, FY 1999–2004



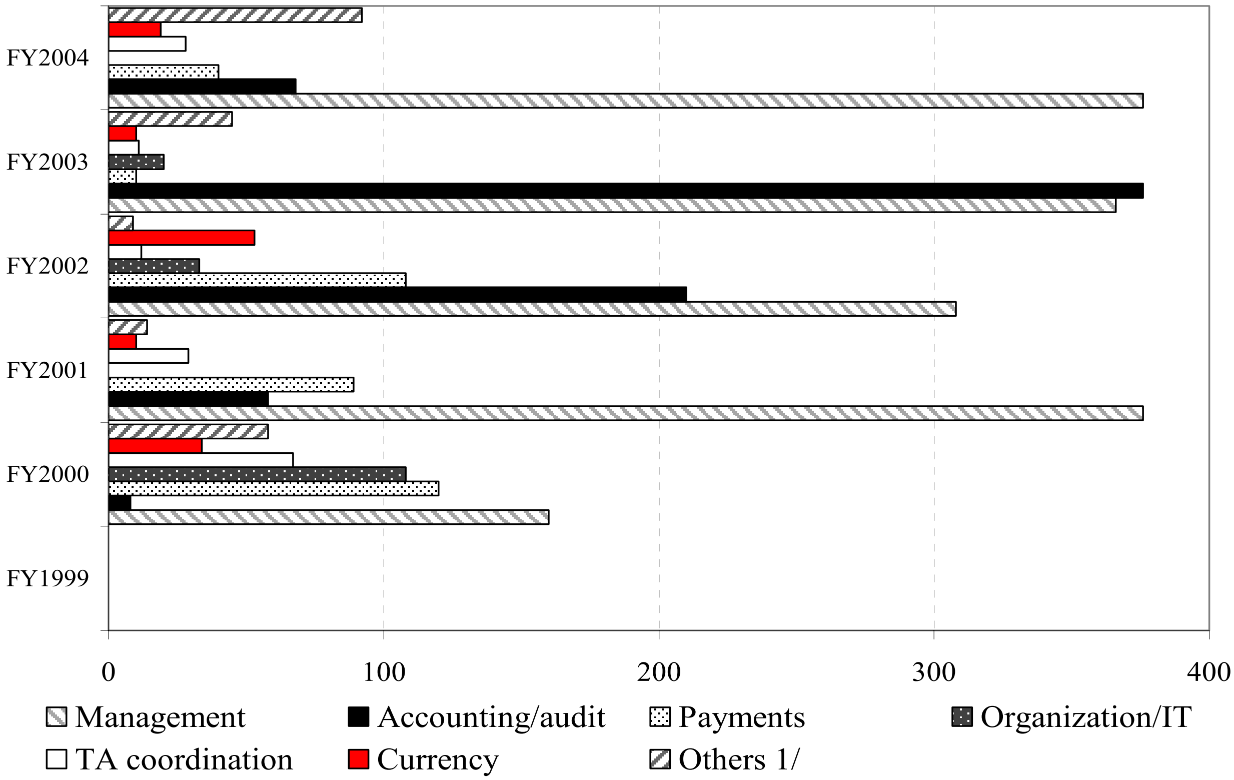
Sources: TIMS and BRS.
1/ Total cost in person-years is calculated as a percent of MFD/TA personnel resources total cost.

Figure 17. Kosovo: MFD Technical Assistance Staff Assignments, FY 1999–2004
(number of days in the field)



Source: TIMS.

Figure 18. Kosovo: MFD Technical Assistance Areas, FY 1999–2004
(number of days in the field)



Source: TIMS.
1/ Includes the following: AML/CFT, supervision, general, monetary policy/operations, legal, and foreign exchange/reserves management.

Kosovo: Comments on Figures

FY 2000. In mid-1999, preparatory work was carried out at headquarters with the World Bank. An MFD-led diagnostic mission followed in August and advisory missions in October and March 2000. With the area department, MFD advised on the choice of currency. A resident expert started to serve as Managing Director of the BPK from January 2000. This long-term position has been maintained through 2004 with different experts. Peripatetic short-term expert visits continued in the areas of management, payments, and organization.

FY 2001. Two MFD missions took place, with intensive peripatetic expert visits in payment and accounting.

FY 2002. This year was similar to FY 2001, but with only one MFD mission. Work expanded with supervision of insurance companies and on the replacement of DM cash currency with euros.

FY 2003. This was similar to FY 2002, but with more emphasis on reducing the number of BPK branches. New TA areas included economic research and internal audit.

FY 2004. This was similar to FY 2001, but priorities were placed on audit, payment, and research issues.

Serbia—Summary Case Study[7,8]

Nature of conflict. The dissolution of the Federal Republic of Yugoslavia began in June 1991 and included an internal conflict during the mid-1990s, followed by NATO air strikes against Yugoslavia in March 1999. Yugoslavia's acceptance of a peace plan and the withdrawal of Serbian security forces from Kosovo restored peace. The defeat of the regime of Slobodan Milošević in October 2000 marked the end of the conflict period.

Political situation. The 18-party coalition that took control in October 2000 managed to attain economic stability but soon became embroiled in policy and personality clashes. The assassination of Prime Minister Djindjić in March 2003 weakened the government and a general election was held in December. A minority coalition government was formed in March 2004 consisting mainly of reform parties but needed the support of the Milošević socialists in Parliament in order to remain in power.

Infrastructure and security. The NATO air strikes severely damaged Yugoslavia's infrastructure and production facilities but these have mostly been rebuilt.

Macroeconomic conditions. Since late 2000 government policy has aimed at several measures: (i) restoring growth and reintegrating Serbia into the world economy through general liberalization and the removal of price and trade controls, (ii) wide-ranging privatization, (iii) fiscal reforms, (iv) tight monetary policy, and (v) reform of the banking and financial system. As a result, growth has been in the 3–4 percent range (although the real economy is still much smaller today than in 1990), inflation declined to single digits, and reserves have been rebuilt.

Financial sector. The politicization and international isolation of the financial sector during the 1990s led to underdevelopment and severe distortions. The management of the National Bank of Yugoslavia was replaced in October 2000 but there was an urgent need for institutional reform of the bank. In particular, the banking supervision department was understaffed and primarily undertook off-site supervision. The financial sector legal framework was relatively modern and was able to support reform. The banking system itself was dominated by four large state-controlled banks that effectively allocated credit on behalf of the government. By early 2001, they were highly illiquid and provided few banking services. Confidence in the banking sector had been undermined by two hyperinflations and several pyramid schemes during the 1990s. Monetary operations were not market-based. Finally, the successor to the central payment agency of Yugoslavia held a monopoly on domestic non-cash payments for bank customers.

Fund-supported programs. In May 2002, Serbia and Montenegro completed a 12-month, SDR 200 million (US$286 million) stand-by arrangement with the IMF, followed by the current SDR 650 million extended arrangement that runs until 2005.

MFD TA. MFD TA began in late 2000 and covered a wide range of areas. The TA was delivered through multiple multi-topic missions by mixed teams of Fund staff and external experts and visits by external experts.

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[7] Prepared by Mark R. Stone (Deputy Division Chief, MFD).

[8] Although Serbia and Montenegro were joined in a union that replaced the Federal Republic of Yugoslavia under a Constitutional Charter that took effect in February 2003 their financial systems are separate and thus only Serbia is considered here.

Indicators of TA implementation and progress

Safety net. MFD provided advice and assistance in the area of liquidity support for banks in late 2000 and early 2001 and helped establish the modalities of the safety net.

Currency reform. MFD provided technical assistance in the conversion of the large domestic cash holdings of physical DM into euros.

Payment system reform. MFD provided considerable technical assistance in support of the complex and lengthy shift of payment operations from the central payment agency to the commercial banks, as well as in the reform of that agency itself.

New financial sector legislation. MFD and LEG provided technical assistance in the drafting of new central bank, banking, foreign exchange, securities, and capital market development legislation. In late 2004, assistance is being provided in the drafting of the insurance legal framework.

Monetary policy and operations. MFD assisted in the shift of monetary operations from direct controls to market-based instruments. MFD has also helped with modifying the system of reserve requirements, developing liquidity forecasting, increasing coordination with the MoF, decision-making, and enhancing the play of market forces in the foreign exchange market.

Foreign exchange reserves management. An expert from a central bank that provided assistance to the National Bank of Yugoslavia/National Bank of Serbia participated in MFD missions.

Central bank institutional reform. MFD provided assistance in streamlining and rationalizing the organization of the National Bank of Yugoslavia/National Bank of Serbia.

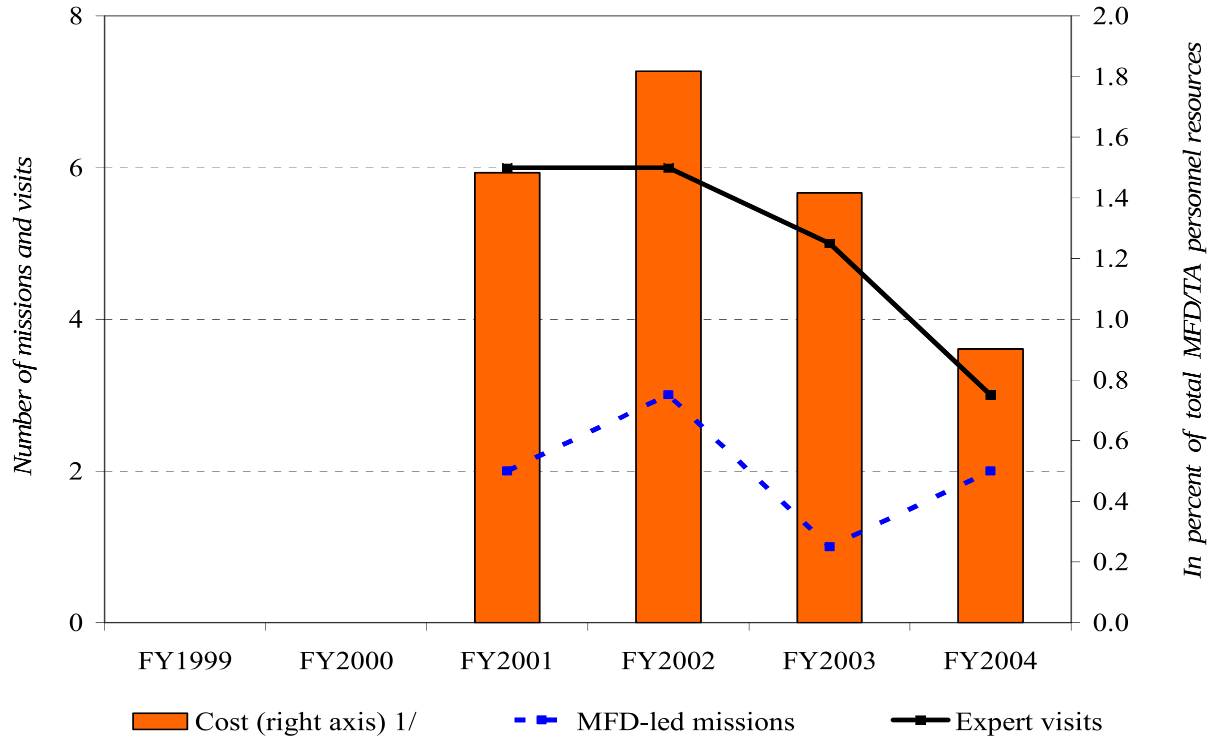
Financial system supervision. Together with the World Bank, MFD provided assistance in improving banking supervision.

AML/CFT. LEG and MFD provided comments on the draft AML law.

Bank restructuring. MFD assisted in the resolution of large state-owned banks in January 2002 and has worked closely with the National Bank of Serbia and World Bank in the ongoing control and resolution of intervened banks.

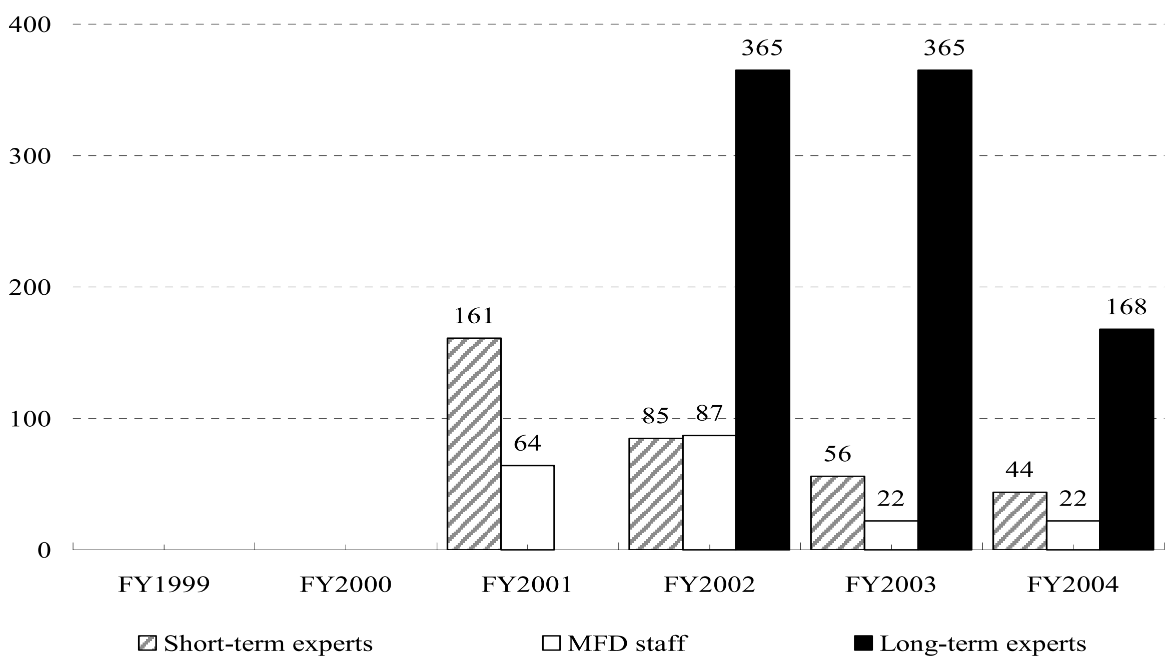
Nonbank financial intermediaries. MFD provided technical assistance in capital market development and insurance market development.

Figure 19. Serbia: MFD Technical Assistance Resources and Cost, FY 1999–2004



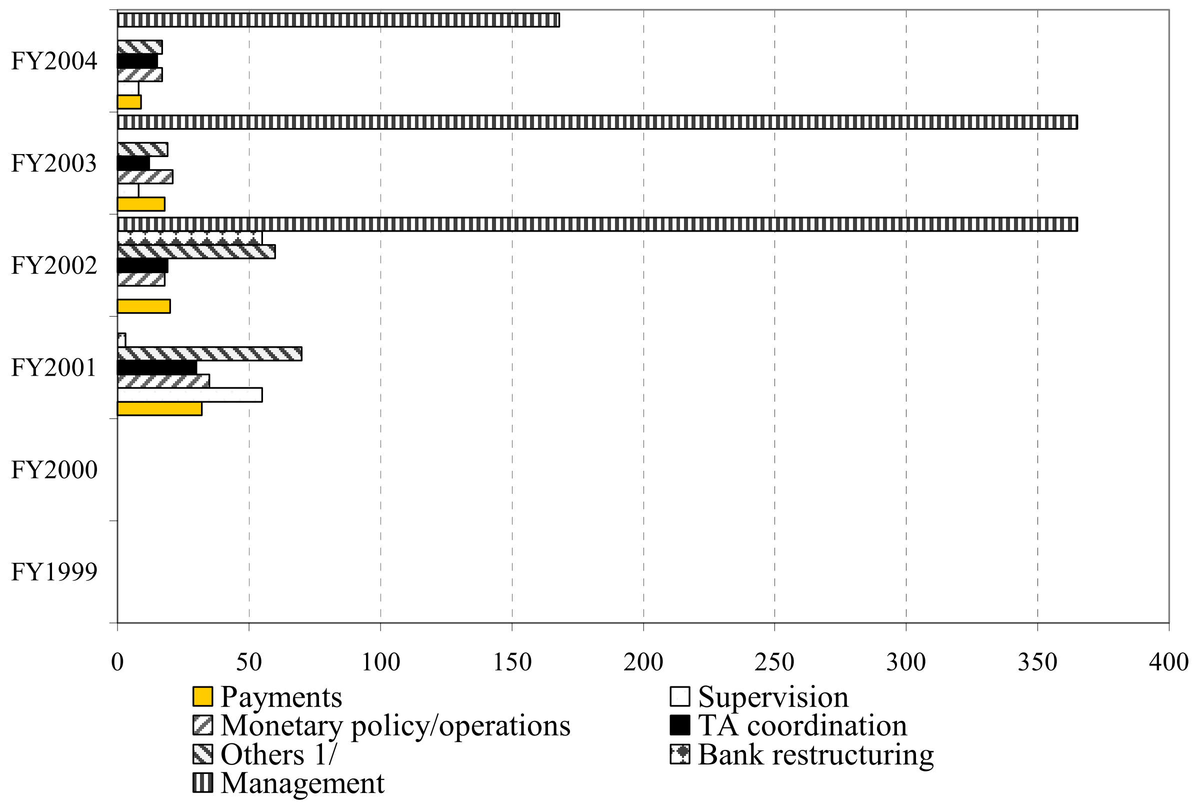
Sources: TIMS and BRS.
1/ Total cost in person-years is calculated as a percent of MFD/TA personnel resources total cost.

Figure 20. Serbia: MFD Staff Assignments, FY 1999–2004
(number of days in the field)



Source: TIMS.

Figure 21. Serbia: MFD Technical Assistance Areas, FY 1999–2004
(number of days in the field)



Source: TIMS.
1/ Includes the following: Legal, foreign exchange/reserves management, general, organization/IT, currency, and accounting/audit.

Serbia: Comments on Figures

FY 2001. Two MFD multi-topic missions advised on monetary and exchange rate policy, bank restructuring, supervision, payment systems and legislation, capital markets, foreign exchange reserves management, and accounting. In addition, peripatetic visits on banking supervision took place and solo visits in monetary policy and bank restructuring.

FY 2002. Three MFD missions focused on bank resolution, payment reform, monetary operations, foreign exchange operations and foreign exchange law, securities law and capital market development, and central bank reform. A long-term expert was appointed for a senior line position. Individual short-term expert visits advised on financial legislation.

FY 2003. An MFD mission dealt with integrated reform policies for a market-based financial system with payment reform, monetary operations and money markets, foreign exchange operations, capital market development, insurance and supervision. The long-term expert's assignment was extended. A short-term payment expert made peripatetic visits.

FY 2004. Two MFD missions covered monetary policy and operations, banking supervision, payment reform, and central bank organization. The assignment of the long-term expert ended in November 2003. Short-term visits took place in financial legislation and monetary policy.

Sierra Leone—Summary Case Study[9]

Nature of conflict. Between 1991 and 2002, the country suffered a protracted civil war between the government and a domestic insurgency movement. Deaths numbered in the tens of thousands and well over one-third of the population became refugees, many of whom have since been returning from neighboring countries.

Political situation. Prior to the civil war, Sierra Leone had a reasonably stable government that was democratically elected.. However, the country's rich endowment with raw minerals attracted geopolitical interests from neighboring countries, fomenting internal divisions. With the signing of the Lomé Peace Agreement in July 1999, a process of disarmament, demobilization, and reintegration began with assistance of peacekeeping troops from African states and the UN. Presidential and parliamentary elections were held in May 2002 and the government continues to slowly re-establish its authority.

Infrastructure and security. The infrastructure was devastated by the war, especially with the occupation of the capital. Government buildings were destroyed or seriously damaged, electricity and water supplies were disrupted, and roads were not maintained. At the same time, the demand for education increased and schools (with very limited resources) continued to operate throughout the conflict. The central bank was damaged when one of its buildings was occupied by the insurgents. Some staff were lost, but by late 2001, the facilities were being restored and staff were returning.

Macroeconomic conditions. Sierra Leone is a highly indebted poor country with extremely low per capita income (US$143 in 2000). It ranked last among the 174 countries surveyed in the 2000 UN Human Development Index. During the war years, agricultural activity suffered from the widespread migration of refugees from the rural areas to the capital. Communications with the rural sectors are still difficult, but improving. Recent economic activity has been relatively robust, reflecting a recovery of agricultural output following the continued resettlement of the displaced population, an increase in diamond production, and an expansion of activity in the public and private sectors. Since 2001, the economy has experienced a substantial rebound. Annual average consumer price inflation has increased from a rate of negative 3.7 percent in 2002 to 8.2 percent in 2003. In October 1999, Sierra Leone was granted external debt relief by the Paris Club on Naples terms.

Financial sector. The financial sector is very small. At the end of 2002, broad money was equivalent to less than 23 percent of GDP. The seven commercial banks together had a deposit to GDP ratio of over 11 percent at year-end 2002. There were numerous bank closures in 1998–99. The banking system is now highly concentrated with the three largest banks controlling about 90 percent of total assets. Banks have established only a few branches in the rural areas. Laws governing banking and financial activities were revised in June 2000, increasing regulatory capital requirements and authorizing licensing of deposit-taking nonbank financial institutions.

Fund-supported programs. In September 2001, a three-year PRGF was approved.

[9] Prepared by Philip F. Bartholomew (Senior Economist, MFD) and Åke Lönnberg (Deputy Division Chief, MFD).

MFD TA. Overall, the authorities have been highly receptive to Fund and MFD policy advice, going back to the early 1990s. However, during the mid-1990s, MFD TA came to a halt as a result of civil unrest. In November 2001, an MFD TA assessment mission provided advice in the areas of banking supervision, monetary operations, and central bank organization, and established a broad-based long-term TA program. Most of the TA is provided under post-conflict conditions but not in a post-conflict mode. This is because the central bank has a highly qualified staff with good resources. No liquidity shortages were incurred and, though Sierra Leone's is a cash economy, cash management problems did not occur during or after the war. Almost all challenges faced by experts and Fund staff delivering TA are related to normal issues occurring in less developed countries. TA has been provided directly by MFD or through FIRST Initiative-financed projects with Fund involvement.

Indicators of TA implementation and progress

Currency reform. No MFD TA has been provided.

Payment system reform. MFD TA on payment systems is being delivered in what is envisioned as a very long-term program that will ultimately allow Sierra Leone's system to both stand alone and integrate into the anticipated West African Monetary Zone.

New financial sector legislation. No MFD TA has been provided.

Monetary policy and operations. MFD TA provided in 1999 set up an auction system for the central bank's foreign exchange sales.

Foreign exchange reserves management. No MFD TA has been provided.

Central bank institutional reform. MFD TA was provided in 2001 on central bank organization and management.

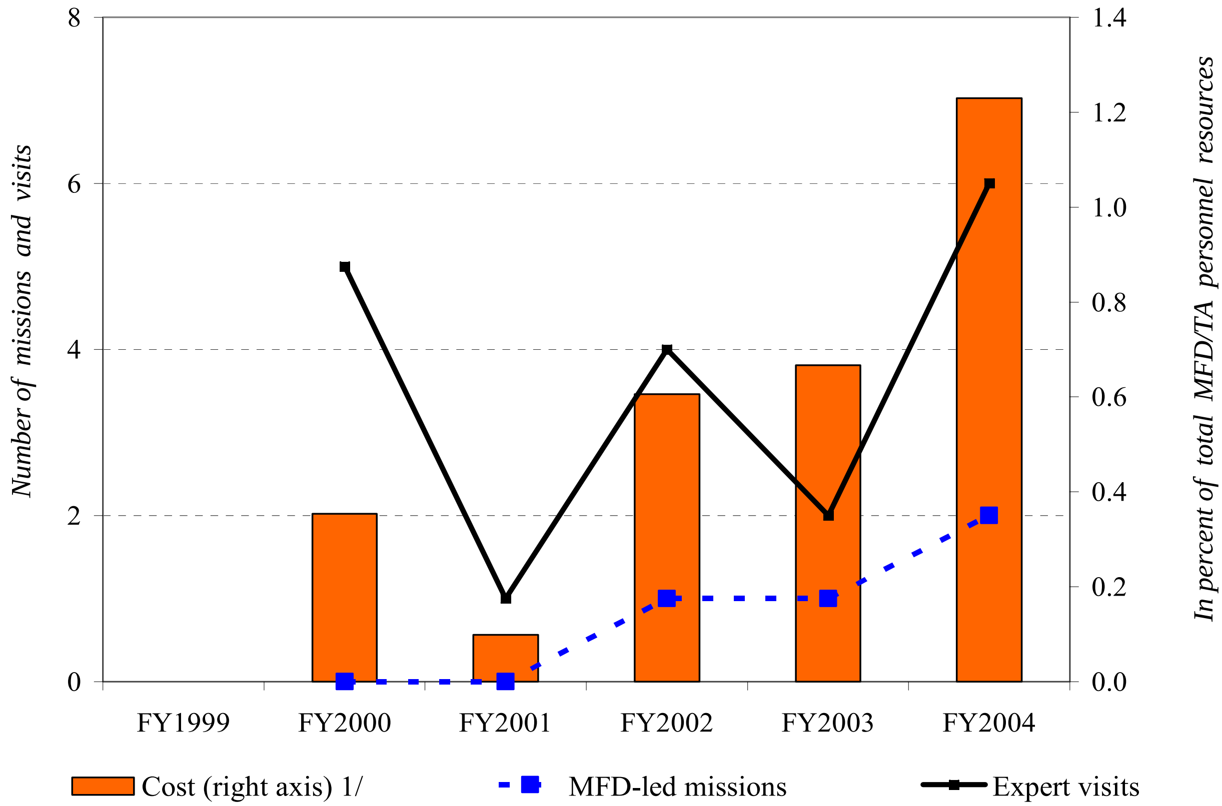
Legal/institutional framework for commercial banking. MFD TA since 1992 has focused on making the promulgation of regulations more efficient.

Financial system supervision. MFD TA was initiated in 2001 to bring supervision in compliance with Basel Core Principles, and has progressed to also include improving licensing activities and rendering intensive training on on-site and off-site supervision.

Bank restructuring. No MFD TA has been provided.

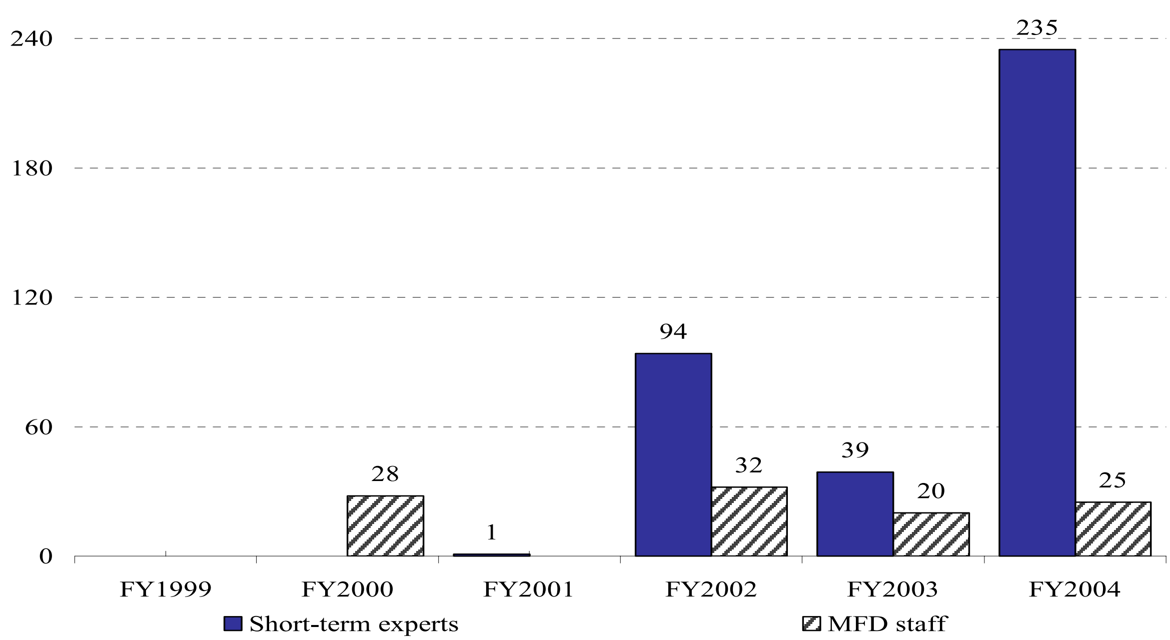
Nonbank financial intermediaries. MFD has worked with the FIRST Initiative to develop a capital market, develop pension funds and the insurance sector, and develop capacity at the central bank for nonbank financial institution supervision and regulation.

Figure 22. Sierra Leone: MFD Technical Assistance Resources and Cost, FY 1999–2004



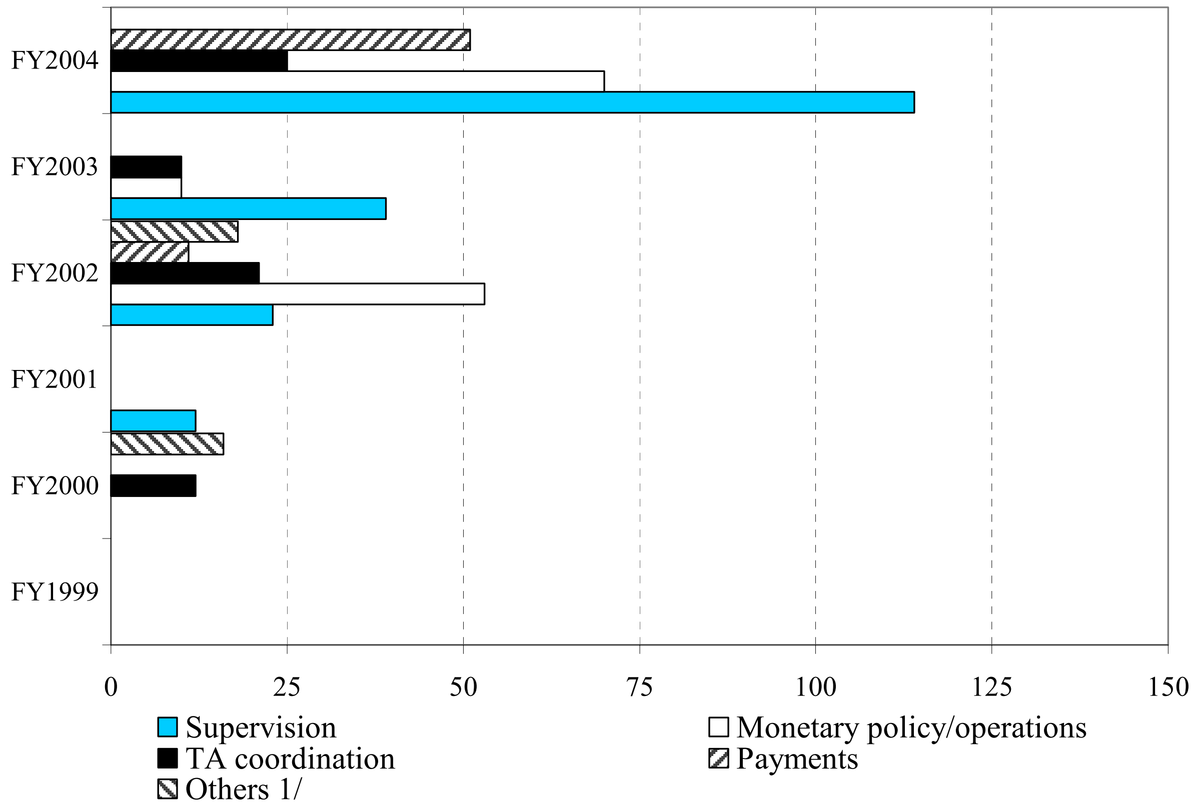
Sources: TIMS and BRS.
1/ Total cost in person-years is calculated as a percent of MFD/TA personnel resources total cost.

Figure 23. Sierra Leone: MFD Staff Assignments, FY 1999–2004
(number of days in the field)



Source: TIMS.

Figure 24. Sierra Leone: MFD Technical Assistance Areas, FY 1999–2004
(number of days in the field)



Source: TIMS.
1/ Includes the following: Organization/IT, general, and foreign exchange/reserves management.

Sierra Leone: Comments on Figures

FY 2000. Two brief visits were made by MFD staff reviewing the situation in the foreign exchange area.

FY 2001. In October 2000, one MFD staff participated in an area department mission, assessing the banking system, prudential regulations and supervision, and the central bank's foreign exchange operations. A short-term expert provided advice in banking supervision.

FY 2002. An MFD multi-topic mission in November 2001 provided a TA assessment of the central bank's organization/management and banking supervision, with a less detailed review of monetary operations, the central bank's fiscal debt management, foreign exchange reserves management, payment systems, and the central bank's development finance. Peripatetic experts advised in monetary policy, banking supervision, and payment systems.

FY 2003. Similar to FY 2002, the focus was on monetary operations and banking supervision.

FY 2004. Two MFD missions took place, both on monetary operations, banking supervision, and payment system issues. In addition, peripatetic expert visits in the same areas.

Timor-Leste—Summary Case Study[10]

Nature of conflict. In December 1975, the Indonesian army invaded East Timor which had been left by the Portuguese four months earlier. During a 24-year long guerilla war, some 200,000 Timorese were killed, representing about a quarter of the population. After regime change in Jakarta in 1998, a referendum was agreed to determine the future of East Timor. When three-quarters of the population chose independence in August 1999, riots resulted with widespread devastation. About 250,000 people left or were forced to leave for Indonesian West Timor.

Political situation. A UN transitional administration was established in October 1999 to rule the country until political independence. A constitutional assembly was transformed into a national parliament and, in May 2002, independent Timor-Leste was proclaimed and a Timorese government took office. Many refugees have since returned.

Infrastructure and security. During Indonesian rule, the institutional and physical infrastructure were greatly improved. In the unrest following the referendum, most of the buildings in Dili, the capital, were looted and burned. The same occurred to many official buildings in the districts. Virtually all commercial banks were also physically destroyed. The extensive dislocation of people since 1999 continues to be a problem, in particular, since armed insurgents make occasional attacks in border areas.

Macroeconomic conditions. During Indonesian rule, the Timorese economy was heavily subsidized by the national budget. After UN transitional control, this was replaced by considerable aid from international donors. In addition, the initial significant presence of UN and other international staff in Dili increased demand which since 2002 has been declining sharply. The economy as a whole has recovered, supported by a strong upturn in construction and services and orderly monetary conditions resulted from dollarization. GDP during 2002–04 is estimated to have been flat over the period with consumer price inflation falling from 10 to 4 percent per year. The exploration and development of the oil and natural gas fields in the Timor Gap have started to yield substantial fiscal revenues in 2004.

Financial sector. The earlier financial sector consisted of Bank Indonesia branch, seven commercial banks licensed from Jakarta, and a provincial bank. The branch of Bank Indonesia was largely involved in cash currency operations, while the remaining banks provided normal deposit, credit, and payment services through a total of 33 offices. None of these institutions survived the destruction. Currently, the Banking and Payments Authority of Timor-Leste (BPA), performs many central banking tasks and is the financial supervisory authority. As of September 2004, four banking institutions were in operation, all of which are foreign-owned. The insurance law has not been finalized and no insurance company has yet been licensed.

Fund-supported programs. No Fund program but intense surveillance and substantial TA in all areas of Fund expertise. A Fund visit occurred in October 1999, led by the area department with representation of TA departments. In parallel, a World Bank-led diagnostic mission took place.

MFD TA. The first mission took place in January 2000 which has been followed by seven multi-topic TA missions. At the request of the UN, the Fund took on the task of establishing a Central Payments

[10] Prepared by Åke Lönnberg (Deputy Division Chief, MFD).

Office (CPO), later the Banking and Payment Authority (BPA), to be in charge of critical banking and payments functions. From the beginning, the CPO/BPA was managed by international experts employed by the Fund in four key positions: General Manager, Deputy General Manager for Supervision, Deputy General Manager for Payments, and Chief Accountant. The costs for these positions were normally co-shared by the Japanese TA Project Account and the UN. By the end of 2004, all managerial positions at the BPA have been filled by Timorese nationals, supported by international experts. MFD has also provided peripatetic and short-term experts to advise in targeted areas.

Indicators of TA implementation and progress

Currency reform. In FY 2000, the Fund assisted the UN on the choice of legal tender and related legislation. In 2000–02, MFD assisted the CPO/BPA in planning and implementing a complete dollarization of the economy. In 2003, MFD advised on the issue of introducing national coins.

Payment system reform. In 2000, MFD set up the CPO to run an emergency cash-based payment system. As commercial banks reappeared, subsequent advice has focused on making the payment system increasingly noncash-based. From 2003, LEG, with input from MFD, advised on a comprehensive law on payment transactions and settlement systems, yet to be enacted.

New financial sector legislation. MFD and LEG prepared UN Regulations (=laws) setting up the CPO (enacted in January 2000) and the BPA (enacted in November 2001).

Monetary policy and operations. Since the U.S. dollar is legal tender, no independent monetary policy has been undertaken by the BPA. No short-term or long-term Timorese debt instruments exist and no monetary operations are taking place in other instruments.

Foreign exchange reserves management. In 2001, MFD advised the BPA on establishing a foreign exchange reserves management function.

Central bank institutional reform. MFD TA was critical to the establishment of the CPO and its transformation into the BPA. Also, accounting, financial reporting, and internal audit functions were set up in line with international best practices for central banks.

Legal/institutional framework for commercial banking. In 1999–2000, LEG and MFD prepared a UN Regulation for banking licensing, enacted in February 2000.

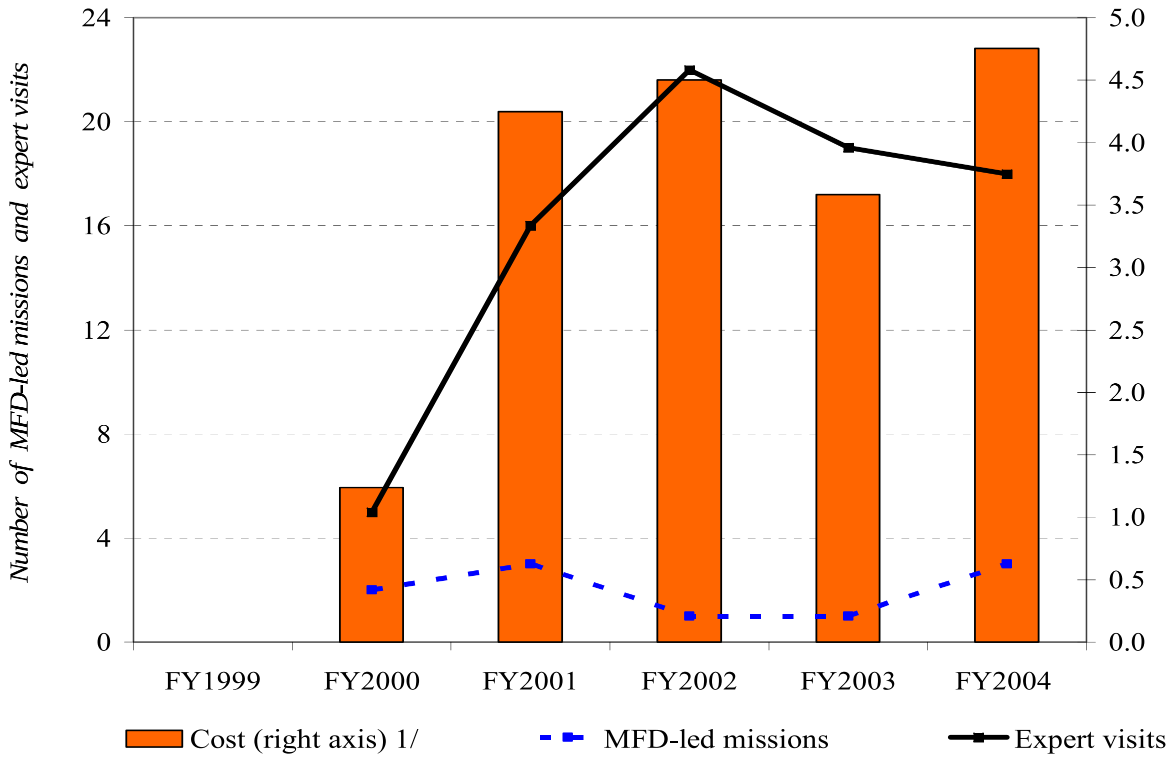
Financial system supervision. MFD assisted in establishing banking supervision from the beginning with a resident long-term expert and two short-term experts. During the years 2003–04, an MFD expert advised on accounting and supervision for insurance.

AML/CFT. MFD and LEG undertook joint missions in March and in July 2004 with legislative drafting and developing the supervisory framework for AML/CFT compliance.

Bank restructuring. As none of the original banks survived, no restructuring was needed.

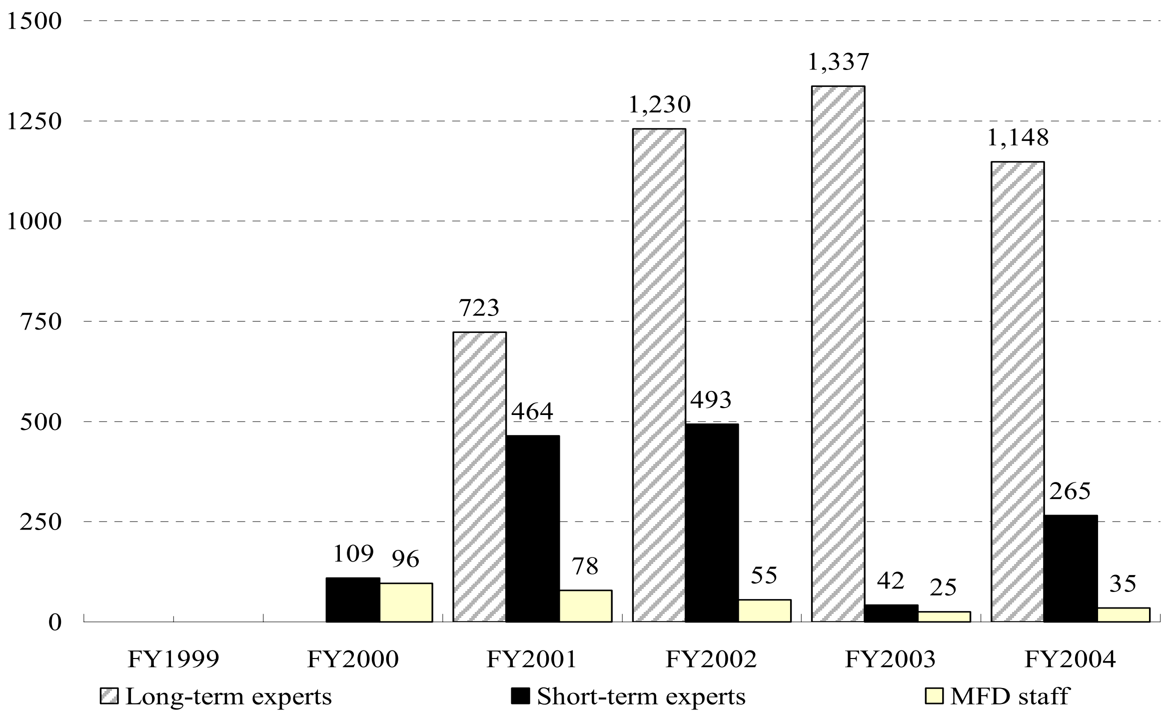
Nonbank financial intermediaries. MFD assisted with an early draft to a UN Resolution, work which was passed on to the AsDB.

Figure 25. Timor-Leste: MFD Technical Assistance Resources and Cost, FY 1999–2004



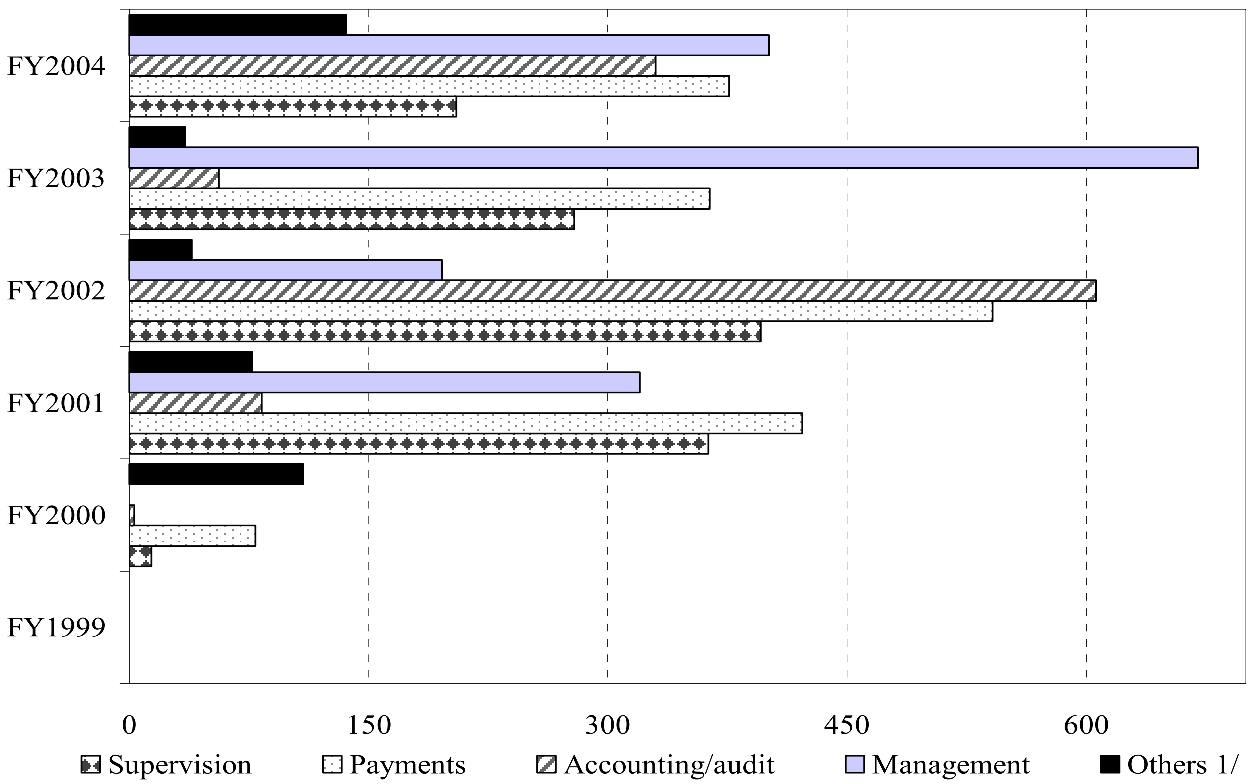
Sources: TIMS and BRS.
1/ Total cost in person-years is calculated as a percent of MFD/TA personnel resources total cost.

Figure 26. Timor-Leste: MFD Staff Assignments, FY 1999–2004
(number of days in the field)



Source: TIMS.

Figure 27. Timor-Leste: MFD Technical Assistance Areas, FY 1999–2004
(number of days in the field)



Source: TIMS.
1/ Includes the following: TA coordination, organization/IT, general, legal, AML/CFT, foreign exchange/reserves management, and currency.

Timor-Leste: Comments on Figures

FY 2000. MFD was represented in an area department-led acquaintance mission, followed by an MFD multi-topic advisory mission and peripatetic short-term expert visits on payments.

FY 2001. Three MFD missions advised on payments, banking supervision, management of the CPO, and accounting. Three core line positions, General Manager, Deputy General Manager for Supervision, and Chief Accountant, were staffed with MFD long-term experts. A fourth, Deputy General Manager for Payments, was initially shared by two peripatetic short-term experts. Four key functions remained co-financed with the UN through FY 2004.

FY 2002. An MFD mission and the fourth core line position was taken over by a resident expert. The CPO was transformed to the BPA. Peripatetic experts promoted the use of the U.S. dollar.

FY 2003. An MFD mission advised on insurance supervision. Bank of Portugal supported a position of General Manager through FY 2004. The position of Deputy General Manager for Supervision was Timorized. Peripatetic TA in internal audit and organization was provided.

FY 2004. An MFD mission evaluated earlier TA work. Two MFD missions focused on new payment legislation, IT, and encouraged the appointment of local staff to key line positions. Targeted peripatetic support was provided in the areas of organization and insurance supervision.