PD-ABH-789

Regional Inspector General for Audit
Bonn

Audit of the Department of the Treasury's Technical Assistance Activities in Bulgaria

Report No. 8-183-94-003
February 25, 1994

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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INTERNATIONAL
DEVELOPMENT

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MEMORANDUM

TO: A-DAA/ENI/PO, Carlos Pascual

FROM: for RIG/A/Bonn, John P. Competello

SUBJECT: Audit Report on the Department of the Treasury's Technical Assistance Activities in Bulgaria (Audit Report No. 8-183-94-003)

Enclosed is the subject audit report. Our audit found that although the Department of Treasury's technical assistance in Bulgaria was achieving some significant results, some aspects of this assistance could be improved.

Our audit found, for example, that assistance being provided to Bulgaria's International Banking Institute, under a Treasury contract with KPMG Peat Marwick, had made little progress towards achieving the overall goal of development of a sustainable banker training facility. Responding to our audit finding and recommendations, the Department of the Treasury and Regional Mission for Europe decided to terminate further assistance to the Institute and find alternative uses for equipment and materials purchased for the Institute but not delivered, resulting in estimated savings of $563,000. We also found that Treasury's technical assistance activities in Bulgaria lacked progress indicators, making it difficult to measure the results of this assistance. Treasury agreed with this finding and indicated it was determined, in coordination with USAID, to develop a clear and useful system of progress indicators.

We made three recommendations to improve Treasury's technical assistance activities and one recommendation to improve the USAID Representative for Bulgaria's monitoring of Treasury's activities in Bulgaria. Based on the Regional Mission for Europe and the Department of Treasury comments, Recommendation Nos. 1 and 2.1 are closed and the remaining recommendations are resolved and will be closed upon completion of planned actions. The comments are summarized after each audit finding and presented in their entirety as Appendices II and III.

Please provide us information within 30 days indicating any actions planned or taken to implement the open audit recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

Enclosure: a/s

EXECUTIVE SUMMARY

A large portion of USAID's Central and Eastern European (CEE) program funding is transferred to other U.S. government agencies. As of September 30, 1993, USAID transferred approximately $464 million of CEE funds, to 19 U.S. government agencies. Of this amount, the Regional Mission for Europe transferred approximately $42.8 million under interagency agreements to the Department of the Treasury to implement financial sector reform programs in seven CEE countries and the three Baltic States.

The Office of the Regional Inspector General for Audit/Bonn audited the Department of the Treasury's technical assistance activities in Bulgaria to determine: (1) what USAID funds were used for and what results were being achieved in relation to the project purposes; and (2) whether the USAID Representative for Bulgaria carried out its oversight responsibilities for the Department of the Treasury interagency agreements in accordance with applicable legislative and internal requirements. The audit was conducted from August 23 through February 12, 1994. (see Appendix I).

As of September 30, 1993, Treasury spent approximately $1.7 million of USAID funds on technical assistance activities in Bulgaria. The majority of Treasury's expenditures went for: (1) salaries, transportation and support costs for long- and short-term advisors who provide assistance to the central and commercial banks and the Ministry of Finance; and (2) salary and indirect costs associated with a contract that Treasury has with KPMG Peat Marwick for a long-term advisor to the International Banking Institute. (see page 4).

While Treasury's technical assistance activities were achieving some significant results, the audit identified areas where Treasury's assistance activities can be improved. For example, the audit found that assistance being provided by KPMG Peat Marwick to the International Banking Institute, estimated to cost approximately $2 million, had made little progress towards achieving the overall goal of development of a sustainable banker training facility (see page 6). The audit also found that Treasury's technical assistance activities in Bulgaria lacked progress indicators, making it difficult to measure the results of this assistance (see page 13).

The audit found that the USAID Representative in Bulgaria was carrying out its oversight responsibilities for Treasury's technical assistance activities in accordance with applicable legislative and internal requirements. However, the USAID Representative lacked some key documents needed to facilitate its monitoring responsibilities (see page 19).

This report contains four recommendations to: determine whether technical assistance to the International Banking Institute should continue (page 6); ensure that training materials and computer equipment are not delivered to the International Banking Institute and that no further purchases be made until it is determined whether technical assistance will continue (page 7); ensure that Treasury's annual workplan for Bulgaria provides for the development of progress indicators so that progress and results can be measured (page 13); and, ensure that the USAID Representative for Bulgaria obtains key documents (such as interagency agreements, contract scopes of work, memoranda of understanding, and Treasury quarterly country progress reports) needed to monitor Treasury's technical assistance activities (page 19).

The Department of the Treasury agreed with our report findings and recommendations, commenting that the report makes a useful contribution to the management of its technical assistance program. Treasury decided to terminate its assistance to Bulgaria's International Banking Institute, saving an estimated $497,000, and find alternative uses for equipment and materials, costing approximately $66,000, that had been purchased for the Institute but not delivered (see pages 11 to 13). Treasury also agreed that it needed a more systematic effort to assess progress of its assistance activities and stated that it was determined to develop a clear and useful system of progress indicators (see page 17). The Regional Mission for Europe also concurred with the audit findings and recommendations. The Regional Mission for Europe and the Department of the Treasury comments are summarized after each finding and presented in their entirety as Appendices II and III, respectively.

Corrective actions are underway on all recommendations. Recommendation Nos. 1 and 2.1 are closed and the remaining recommendations are resolved and can be closed upon completion of planned actions.

Office of the Inspector General

Office of the Inspector General
February 25, 1994

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INTRODUCTION

Background

A large portion of U.S. Agency for International Development (USAID) funding for the Central and Eastern European (CEE) program is transferred to other U.S. government agencies using interagency agreements. As of September 30, 1993, USAID had transferred approximately $464 million, representing approximately 37 percent of USAID funding for the CEE program, to 19 U.S. government agencies. Of this amount, the Regional Mission for Europe had transferred approximately $42.8 million,[1] under interagency agreements, to the Department of the Treasury for technical assistance to the financial sectors of CEE countries.

Using USAID funds, Treasury is implementing activities under three projects in seven CEE and the three Baltic countries.

- The Treasury component of the Competition Policy, Laws and Regulations project (No. 180-0026) provides for assistance in designing and implementing market-oriented tax systems.

- The Treasury component of the Business Services project (No. 180-0027) provides for financial advisors to assist in the areas of economic policy, banking and public finance to facilitate conversion to private sector-based economies.

- Treasury activities under the Bank Training project (No. 180-0035) provide for the establishment and expansion of commercial banker training institutes and augment the training capabilities of existing commercial bank training institutes.

As of September 30, 1993, Treasury reported spending approximately $16.3 million under the three projects, as shown in the chart on the following page.

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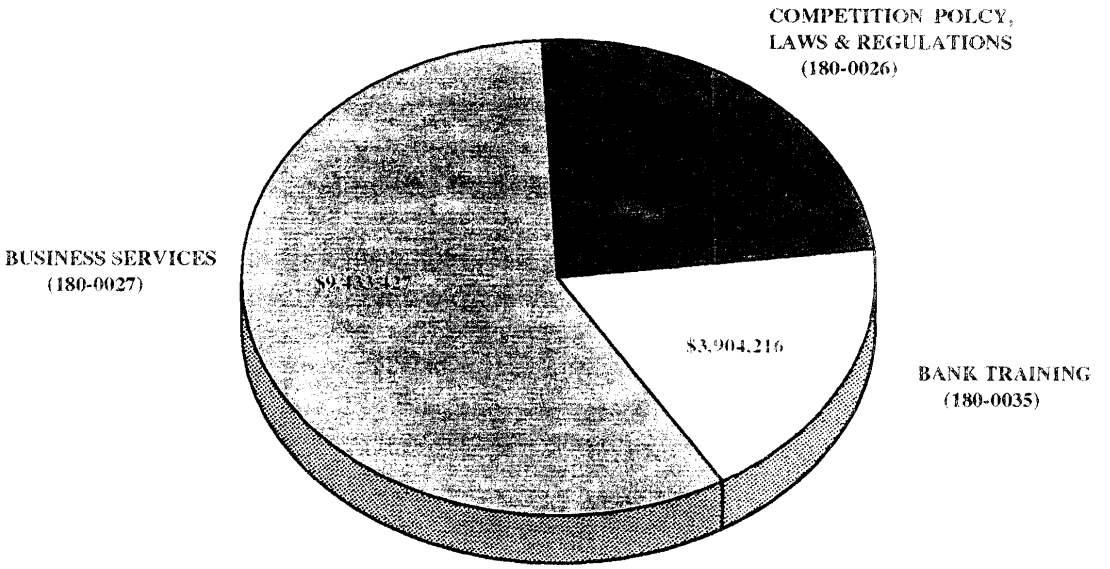
[1] *An additional $199.1 million was provided by USAID to the Department of the Treasury to establish the Polish Bank Recapitalization Fund under the Central and Eastern European Program. The Fund was not included in this audit.*

TREASURY EXPENDITURES AS OF SEPTEMBER 30, 1993



Bulgaria is one of the CEE countries where Treasury is providing assistance. A USAID-funded evaluation characterized Bulgaria's financial sector as weak and undercapitalized with banks that are burdened with nonperforming loans. According to the evaluation, although initial attempts have been made to address these concerns, Bulgaria remains unique in that no approximation of the extent of the problem has been made, leaving much speculation about the actual instability of the financial sector.

To assist the Government of Bulgaria with growing problems in its financial sector, the Department of the Treasury began providing technical assistance to the Government in late 1990, primarily through long- and short-term advisors to the Ministry of Finance, central and commercial banks, and through banker training.

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Audit Objectives

As part of its revised Fiscal Year 1993 audit plan, the Office of the Regional Inspector General for Audit/Bonn audited the Department of the Treasury's technical assistance activities in Bulgaria to answer the following questions:

- What were USAID funds used for and what results were being achieved in relation to the project purposes as stated in the Regional Mission for Europe's interagency agreements with the Department of the Treasury in Bulgaria?

- Did the USAID Representative for Bulgaria carry out oversight responsibilities for the Department of the Treasury interagency agreements in accordance with applicable legislative and internal requirements?

Appendix I contains a discussion of the scope and methodology for the audit.

REPORT OF AUDIT FINDINGS

What were USAID funds used for and what results were being achieved in relation to the project purposes as stated in the Regional Mission for Europe's interagency agreements with the Department of the Treasury in Bulgaria?

Of the Department of the Treasury's $16.3 million in total expenditures under the three USAID project components, approximately $1.7 million was spent in Bulgaria as of September 30, 1993. USAID funds were used primarily (1) in support of long- and short-term advisors to Bulgaria's central and commercial banks and the Ministry of Finance; and (2) for a contract with KPMG Peat Marwick to provide assistance to a banker training institute, the International Banking Institute. A more detailed description of these expenditures, results achieved, and problems encountered follows.

Under the Competition Policy, Laws and Regulations (180-0026) and Business Services (180-0027) project components, USAID funds have been used by Treasury primarily to pay for salaries, transportation costs, and support costs for six long-term and 26 short-term advisors. Five of the six long-term advisors were hired by Treasury under personal services contracts. The other long-term advisor was contracted for by Treasury from the Internal Revenue Service. Base salaries for the advisors ranged from approximately $58,000 to $87,000 per year.

Under the Bank Training (180-0035) project, Treasury awarded KPMG Peat Marwick a competitively bid $9 million contract to provide assistance to banker training institutes located in several Central and Eastern European countries, including Bulgaria. Assistance to the banker training institute in Bulgaria, the International Banking Institute, consisted of a long-term technical advisor, short-term advisors, and computer equipment and training materials. The long-term advisor was being paid a base salary of approximately $87,000 per year. Also, at the time of our visit, KPMG had purchased $77,000 in computers and training materials for the Institute, although most of this equipment and material had not been turned over to the Institute. We estimate that the total costs associated with the advisor (salary,

housing, differential, and allocated portion of the total contract) through the contract period ending September 30, 1994 will be approximately $2 million.

Bulgarian, USAID Representative, U.S. Embassy, and other donor officials we interviewed believed that the technical assistance provided by the Department of the Treasury long- and short-term advisors for the Competition Policy, Laws and Regulations (180-0026) and Business Services (180-0027) project components has contributed significantly to strengthening the financial sector in Bulgaria. For example:

- The tax policy advisor participated in drafting the recently adopted value added tax legislation for Bulgaria and in drafting proposed income tax legislation.

- The tax administration advisor has provided training in tax auditing to local tax collectors who, in turn, will train others using a handbook that the advisor is developing.

- The advisor to the Bulgarian National Bank in the area of bank supervision has provided training to bank examiners in examination methodologies and procedures. He has also arranged for visits by short-term consultants from the Federal Reserve Bank of Chicago and for Bulgarian participants to go to the U.S. for training.

- The advisor to the United Bulgarian Bank has assisted in establishing a central credit policy and control function and a bad loan work out function. In addition, he arranged for a short-term advisor funded by Treasury to assist the bank in developing a management information system. The advisor also acted as liaison between the bank and the European Bank for Reconstruction and Development.

- The advisor to the research department of the Bulgarian National Bank analyzed the consequences of introducing open market operations in Bulgaria.

Also, an August 1993 evaluation report[2] on USAID's financial sector reform programs pointed out that the U.S. Government's initial rapid response to needs within the Bulgarian financial sector was commendable, and noted that despite a volatile and rapidly changing environment, Treasury was able to place competent

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[2] *"Bulgaria's Emerging Financial System: Progress and Prospects", dated August 1993, prepared for the U.S. Agency for International Development under the Consulting Assistance for Economic Reform subcontract (PDC-0095-Z-00-9053-12).*

advisors within the system at an early stage of financial sector changes and reform. But the report also concluded that the success of these advisors in strengthening their respective entities has been mixed, depending on the receptivity of the entity and the role that it might be expected to play in the future of the Bulgarian financial sector.

In the case of Treasury's activities under the Bank Training project (180-0035), our audit raised serious questions concerning the value of Treasury's technical assistance being provided to the International Banking Institute through the KPMG Peat Marwick contract. This assistance has made little progress towards achieving the overall objective of assisting in the development of a sustainable banker training facility. Further, while the assistance being provided by Treasury's long-term advisors under the Competition Policy, Laws and Regulations (180-0026) and Business Services (180-0027) project components was well received, the absence of progress indicators made it difficult to measure the impact and effectiveness of these assistance activities.

These problems are discussed more fully below.

Need to Reassess Assistance Being
Provided to the International Banking Institute

Treasury's contract with KPMG Peat Marwick requires the contractor to provide assistance to Bulgaria's International Banking Institute so that the Institute will continue to provide training to Bulgarian bankers after the contract period ends without further external support from the U.S. Government. Our audit found that the assistance provided by KPMG Peat Marwick has made little progress in achieving the objective of establishing a sustainable institution. This situation occurred because Treasury had not: (1) identified the most effective and cost efficient method for delivering technical assistance to the International Banking Institute; (2) ensured that KPMG Peat Marwick developed a strategy for providing technical assistance to the Institute; and (3) ensured that KPMG Peat Marwick reached agreement with the Institute's director concerning the role of the technical assistance advisor. As a result, benefits derived by the International Banking Institute from that portion of Treasury's $9 million contract with KPMG Peat Marwick to support activities in Bulgaria–which we estimate to be $2 million–have been limited, and we question whether continuation of assistance to the Institute is warranted.

> **Recommendation No. 1: We recommend that the Bureau for Europe and the New Independent States, in consultation with the USAID Representative for Bulgaria, ensures that the Department of the Treasury determines whether technical assistance, estimated at $497,000, to Bulgaria's International Banking Institute should continue, and if so, what is the most appropriate and cost effective method for delivering that assistance.**

<u>Recommendation No. 2:</u> We recommend that the Bureau for Europe and the New Independent States, in consultation with the USAID Representative for Bulgaria ensures:

2.1 that training materials and computer equipment, estimated at $66,000, purchased for the International Banking Institute under Treasury's contract with KPMG Peat Marwick, are not delivered and that no further purchases be made until the determination required by Recommendation No. 1 is made; and

2.2 appropriate alternative uses are found for the equipment and materials purchased for but not delivered to the Institute, if a determination is made that assistance will no longer be provided to the Institute.

The Department of the Treasury's contract with KPMG Peat Marwick calls for the contractor to provide assistance to Bulgaria's International Banking Institute so that the Institute can continue to provide training to the Bulgarian national banking community without additional external support from USAID and Treasury once the contract period ends. To accomplish this, KPMG Peat Marwick was to provide a long-term technical advisor, training materials, computer equipment, and instructors to the Institute.

Our audit found that the assistance provided by KPMG Peat Marwick under the contract had made little progress toward establishing the International Banking Institute as a sustainable training facility for bankers, as evidenced by the following:

According to the KPMG Peat Marwick contract, it was envisioned that the KPMG advisor would assist the Institute in such activities as:

- developing a practical education curriculum;
- selecting candidate instructors who would be trained locally and/or in the United States and return to assume positions as instructors in the Institute;
- setting standards for selecting participants for admission to training courses at the Institute;
- administering the Institute, including procuring goods for the Institute; and
- serving as an instructor for training courses at the Institute.

However, the KPMG Peat Marwick advisor told us that he was unable to perform many of the above tasks and that the Institute's director continually rejected his advice and assistance. For example the KPMG advisor had:

- little input into developing a training curriculum in the Bulgarian language suited to the needs and requirements of Bulgarian bankers;
- limited input into selecting and training Bulgarian instructors; and
- his proposal to abandon the Institute's open admissions policy by establishing admission requirements for bankers rejected by the Institute.

The KPMG advisor said that, basically, he teaches courses and is not involved in the management or development of the Institute.

Problems concerning the effectiveness of the assistance being provided to the International Banking Institute have occurred for a number of reasons. To begin with, we found no evidence to indicate that Treasury considered alternatives to providing technical assistance to the Institute through the long-term advisor. Possible alternatives could include using short-term advisors, participant training programs, or Peace Corp volunteers. The method chosen by Treasury is expensive and, unless alternatives were considered, there is no assurance that the least costly and most effective method may have been considered.

Secondly, Treasury's contract with KPMG Peat Marwick does not require KPMG to develop a country-specific workplan which includes: (1) goals and objectives to be achieved; (2) descriptions of activities to be undertaken; (3) progress indicators for measuring progress and results; and (4) plans for evaluating the technical assistance activities. In our view, it is imperative that a workplan be developed to ensure that assistance activities are appropriately focused and that information is available with which to measure progress and results.

Finally, and most importantly, Treasury did not ensure that KPMG Peat Marwick reached a formal understanding with the International Banking Institute's director as to the role of the KPMG advisor. Treasury entered into a memorandum of understanding with the Bulgarian National Bank (the Institute's sponsor) on September 23, 1992. This memorandum stated that within ninety days, or by December 23, 1992, KPMG Peat Marwick was to negotiate an agreement with the Institute–subject to approval by Treasury and the Bank–that would set forth an implementation plan for activities and the services to be undertaken by KPMG, KPMG's advisor, and the Institute. However, no such agreement was negotiated.

We could not determine exactly why KPMG Peat Marwick did not negotiate an agreement with the Institute. KPMG officials in Washington, D.C. told us they knew of but were not provided with a copy of the memorandum of understanding between Treasury and the Bulgarian National Bank until recently–over a year after the agreement was signed. Treasury officials maintain that they continually pressured KPMG to negotiate an agreement with the Institute but that such an agreement could not be negotiated because there was never a "meeting of the minds" between the KPMG advisor and the Institute's director.[3]

Thus, the KPMG Peat Marwick advisor has been operating in Bulgaria since January 1993 without any formal understanding or agreement with the International Banking Institute. It was inevitable that problems would occur and they did. For example, it was envisioned that the Institute would provide the KPMG advisor with office space and housing. The provision of office space and housing had not happened at the time of our visit in October 1993–10 months after the advisor arrived in Bulgaria. The KPMG advisor was living in a hotel which also served as his office.

As another example, Treasury instructed KPMG Peat Marwick to purchase computer equipment and training materials for the International Banking Institute, valued at approximately $77,000. At the time of our visit, most of the training materials and computer equipment, estimated at $66,000, had not been delivered to the Institute. The training materials and some of the computer equipment were being stored in the advisor's hotel room (see picture on the next page), and other computer equipment remained with the local distributor. According to the KPMG advisor, after the items were purchased, Treasury directed KPMG that the majority of the items not be delivered until the Institute could provide a secure facility. According to the Institute's director, permanent offices and classrooms for the Institute, which was operating out of two rooms at the Bulgarian National Bank, would not be available until early 1994.

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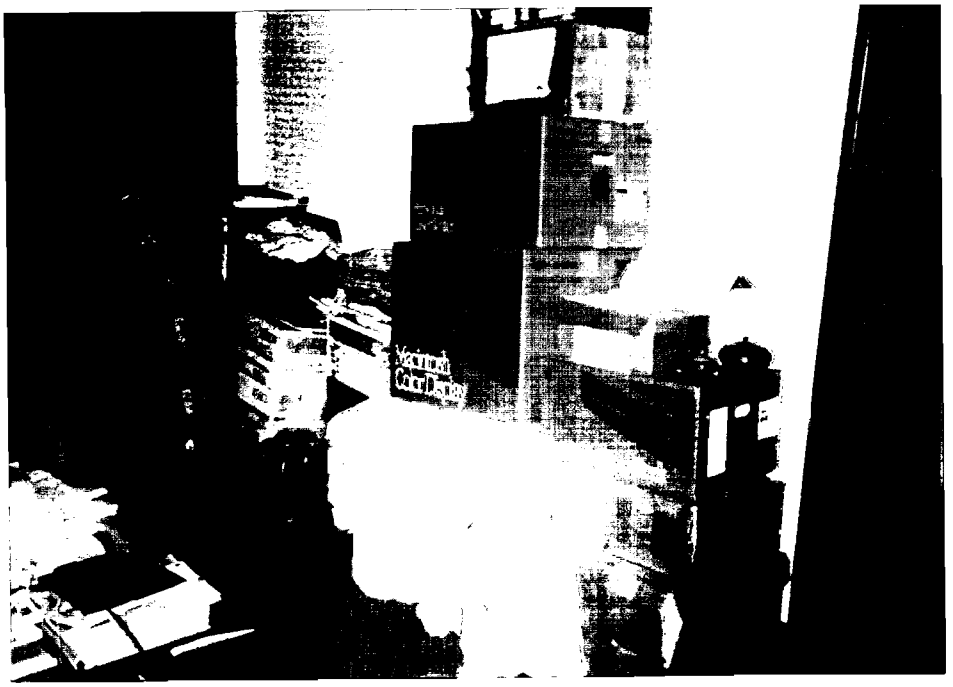
[3] *Treasury officials subsequently found the memorandum of understanding between KPMG Peat Marwick and the International Banking Institute that was signed on May 24, 1992. However, at the time of our field visits in October and November 1993, none of the KPMG, Institute or USAID officials we interviewed had a copy of the memorandum or were aware of its existence.*



Training materials and computer equipment purchased for Bulgaria's International Banking Institute stored in a hotel room in Sofia and not being used for the project. (October 1993)

Treasury was not the only donor encountering problems with the International Banking Institute. The British-Know-How Fund also provided some technical assistance to the Institute. However, a Fund official told us that they decided to discontinue their assistance because of problems with the Institute's director and that the Fund plans to provide training assistance directly to bankers.

Although Bulgarian, USAID Representative, Treasury, and other donor officials we interviewed acknowledged that there is a great need for banker training programs in Bulgaria, the International Banking Institute does not appear to be fulfilling this need, and there is little evidence that the goal of having the Institute achieve self-sufficiency by the end of the KPMG Peat Marwick contract period (September 1994) will be achieved. As a result of the problems encountered, the long-term advisor has proposed that Treasury's technical assistance in the area of banker training be redirected. Under the proposal, the advisor would provide training directly to bankers and not through the International Banking Institute.

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In view of the cost of the technical assistance being provided to the International Banking Institute, the short period of time remaining under the KPMG Peat Marwick contract, and the fact that the assistance is currently restricted to the Institute, we believe it is imperative that USAID and the Department of the Treasury reassess whether continued assistance to the International Banking Institute is warranted. Unless actions are taken to quickly reassess this effort, valuable assistance resources will have been wasted.

Management Comments and Our Evaluation

In responding to the draft audit report, the Department of the Treasury stated that our observations and recommendations are useful contributions to the management of the Treasury technical assistance program. Concerning our report statement that we found no evidence to indicate that Treasury considered alternatives to provide technical assistance to the International Banking Institute, Treasury stated that prior to initiating the banker training program, it consulted with USAID and the Department of State to determine the most effective means of providing training to commercial bank employees in Central and Eastern Europe. According to Treasury, several alternatives were considered:

- first, providing training through well-established and competent banker training institutes in the U.S. to provide intensive professional training which could be combined with other work-related internships;

- second, an individualized approach of responding to the needs of specific commercial banks by conducting training programs in individual banks; and

- third, a centralized approach of supporting a single institute as a focus for industry-wide professional training to become a clearinghouse for future professional training needs.

Weighing the advantages and disadvantages of each alternative, Treasury elected to proceed with the centralized approach–supporting establishment of banking institutes. According to Treasury, the primary disadvantage of this approach was that it might discourage banks from pursuing human resource development efforts tailored to their business strategies and it could encourage government control of the program. To mitigate these potential problems, Treasury sought to provide professional training, including internships, in the United States for a small group of trainees and encouraged establishment of joint stock companies, controlled by the commercial banks, to govern the institutes.

To implement the banker training project, Treasury provided each institute with long- and short-term advisors, short-term instructors, participant training opportunities in

the U.S., and limited amounts of equipment and training materials. According to Treasury, each type of assistance was designed to enhance the capacity and standing of the institute in the eyes of the local commercial banking community. With reference to participant training, Treasury said that in the future it may be more appropriate to use USAID participant training projects to train banker, as opposed to including participant training in banker training projects.

Treasury also said that the idea of using Peace Corps volunteers in its projects merits consideration. According to Treasury, the Peace Corps has demonstrated the ability to deliver high-quality professionals for long-term services abroad. Treasury commented that the key to using Peace Corps talent is whether such talent can be coordinated with activities of other donors and U.S. policy goals.

Treasury stated that our recommendation that Treasury reassess its assistance relationship with the International Banking Institute (Recommendation No. 1) is timely and accurate. Treasury concluded that such assistance should be discontinued, and advised that it so informed the Chairman of the Bulgarian National Bank in a letter dated December 15, 1993. Treasury technical assistance to the Institute was based on provisions of two memoranda of understanding–between Treasury and the Bulgarian National Bank, and the Institute and KPMG Peat Marwick. According to Treasury, the decision to terminate assistance was based on non-compliance with key provisions of these memoranda of understanding. Treasury stated that it had four separate communications with the Bank and the Institute seeking resolution of this issue, but to no avail. Accordingly, Treasury has informed the Institute that the assistance will end on February 15, 1994, and that undelivered materials and equipment will be allocated to other uses.

In its comments on our draft report, the Regional Mission for Europe agreed with our recommendations and stated that the Bulgarian Government had been notified that assistance to the International Banking Institute will be terminated. In commenting on the decision to terminate assistance to the Institute, the Mission pointed out that Treasury and the Mission recognized that the Institute was not complying with requirements of its memorandum of understanding with Treasury as early as March 1993. According to the Mission, because of the importance of providing banker training to the Bulgarians, the Institute was given several opportunities to comply with the memorandum of understanding–noting that as late as November 1993, the U.S. Embassy in Sophia requested that Treasury consult with the Bulgarian Government before discontinuing assistance to the Institute.

Concerning the training materials and computer equipment which were purchased for the Institute but were being stored in the KPMG advisor's hotel room, the Regional Mission for Europe pointed out that the Mission and Treasury decided not to deliver the materials and equipment to the Institute shortly after problems arose

with the Institute's compliance with the memorandum of understanding, specifically when the Institute failed to provide office space to the KPMG advisor.

The Regional Mission for Europe did not agree with the estimated savings we included in our draft report that would result from terminating assistance to the Institute and finding alternative uses for the materials and equipment originally purchased for the Institute. The Mission provided alternative estimates, approximately $497,000 for terminating the assistance to the Institute–comprised of savings of $157,553 for the resident advisor and $339,605 for courses–and approximately $66,000 for the equipment and materials purchased for the Institute but not delivered, which we accept (see Appendix II, page 3). We have revised our report's estimated savings accordingly.

Based on the actions taken or planned by the Department of the Treasury and the Regional Mission for Europe, Recommendation Nos. 1 and 2.1 are considered closed and Recommendation No. 2.2 is resolved. Recommendation No. 2.2 can be closed once actions to find alternative uses for the training materials and computer equipment are completed.

Indicators for
Measuring Progress Are Needed

Although, until recently, there was no specific requirement for the Department of the Treasury to do so, sound management practices dictate that certain program design elements be established to ensure that technical assistance activities are properly focused and that information is available with which to measure progress and results. The Department of the Treasury had not established progress indicators for technical assistance activities in Bulgaria. Progress indicators had not been established because Treasury believed that the advisors knew what tasks were required to accomplish their goals and objectives and, therefore, assigned a low priority to establishing progress indicators. Without such indicators, however, it is difficult to measure the impact of Treasury's technical assistance activities and for the USAID Representative to carry out monitoring responsibilities.

> **Recommendation No. 3: We recommend that the Bureau for Europe and the New Independent States in consultation with the USAID Representative for Bulgaria ensure that the Department of the Treasury's annual workplan for Bulgaria provides for the development of progress indicators for technical assistance activities conducted by each long-term advisor so that progress and results in achieving specific objectives established for the technical assistance activities can be measured.**

Prior to the most recent interagency agreement between USAID and the Department of the Treasury dated July 22,1993, there was no specific requirement that Treasury establish specific objectives and progress indicators for its technical assistance activities. However, sound management practices dictate that specific objectives and progress indicators be established so that program results and impact can be determined. Discussions with Treasury and USAID officials, including advisors in the field and their counterparts, and reviews of available documentation revealed that Treasury had not established indicators against which progress in achieving specific objectives could be measured.

In developing the statements of work for each advisor, Treasury provided overall goals and objectives to be achieved. However, Treasury did not specify any progress indicators. Treasury felt that the advisors knew what tasks were required to accomplish the goals and objectives. Treasury also believed that the lack of specificity would allow advisors to adjust the activities to meet local needs.

Treasury requires that its advisors in the field submit reports on a quarterly basis. These reports are one of Treasury's means of monitoring its technical assistance to Bulgaria. The reports describe the advisors' activities during the period, any obstacles encountered by the advisors, and the advisors' coordination efforts with other donors. However, Treasury does not require that the reports assess activities against specific progress indicators.

We reviewed quarterly reports prepared by Treasury's five long-term advisors for the quarter ended September 30, 1993. Our review disclosed that reports for two advisors compared the advisors' activities during the quarter to progress indicators. The other three advisors' reports, although identifying specific goals, did not identify benchmarks or targets against which to measure progress as illustrated below.

- The progress report for the bank supervision advisor listed five overall goals for his technical assistance activities: (1) develop a handbook for use by the bank supervision staff; (2) develop training opportunities for qualified staff members in the U.S.; (3) help improve the organization and administration of the bank supervision department; (4) continue training programs in the major areas of banking; and (5) continue to become familiar with regulations effecting bank supervision.

  The report listed the advisor's achievements during the quarter as: (1) three Bulgarian staff attended training seminars in bank supervision in the U.S. and are sharing their experiences with others; (2) a generic lending policy which could be used as a model by banks was completed; (3) the advisor participated in a training seminar for bank supervisors from Central and East Europe; and (4) various forms and schedules were prepared for use by the bank in conducting employee

evaluations and organizing work flow. However, the report did not specify progress indicators. Although the accomplishments during the quarter appear to be significant, it is difficult to measure progress towards overall goals without indicators against which to assess achievements.

- The progress report prepared by a long-term tax advisor identified six overall goals. These were: (1) prepare training material for audit selection, pre-audit and auditing techniques; (2) prepare training materials based on Bulgarian tax policy and business practices; (3) train auditors in a pilot tax office in auditing techniques; (4) develop tax auditing techniques based on the Bulgarian accounting system; (5) prepare a classroom training program for tax auditors; and (6) respond to requests for assistance from tax officials in the Bulgarian Ministry of Finance.

  The report listed the following achievements during the quarter: (1) audit selection materials were prepared with practical exercises and examples; (2) visits were made to Bulgarian companies to become familiar with recordkeeping procedures; and (3) scheduled a meeting with the commissioner and head of Sofia's tax administration. However, the report did not identify benchmarks or targets to be achieved during the period against which performance could be measured. As a result, it is difficult to assess progress in achieving the overall goals.

- The progress report prepared by the advisor to the research department of the Bulgarian National Bank identified two overall goals: (1) develop background papers that facilitate the adoption of informed decisions in the area of monetary and macroeconomic policy; and (2) develop forecasting techniques to enhance central bank monetary control.

  Achievements during the quarter were: (1) continued work on an assessment of whether the Bulgarian exchange rate unduly impedes exports and encourages imports; (2) completed a study of the likely market price of bonds to be issued by Bulgarian banks; (3) provided comments on the bank's semi-annual report; (4) began preparing bimonthly forecasts of the factors affecting bank reserves; (5) continued research to determine the indicators the bank should use in making monetary policy decisions; and (6) in cooperation with another long-term Treasury advisor, began building a Bulgarian economic data bank. As in the prior two reports, the advisor did not relate his achievements to specific progress indicators. As a result, it is difficult

> to assess progress in achieving the overall goals. Further, we question whether the goals as stated are directed toward institution building. The advisor appears to be conducting research rather than developing the bank's research capabilities.

As noted above, two of the five advisors' progress reports reviewed identified the overall goals of the advisors' technical assistance activities, listed achievements during the quarter, and related them to specific progress indicators. As a result, an assessment of the advisor's progress towards program goals can be made. However, we determined that the progress indicators were established by the advisors and their Bulgarian counterparts without input from Treasury, thus there is no assurance that the assistance activities are congruent with the overall Treasury program.

Additionally, during our interviews with the Treasury advisors they said that they received little feedback from Treasury on the quarterly reports they submit. Such feedback, they believe, is important to ensure that their technical assistance activities are meeting Treasury objectives. Treasury approved progress indicators could be a foundation for such feedback, give greater direction to the advisors in planning and carrying out their activities, and provide an early indication of problems so that prompt corrective action can be taken.

The development and use of progress indicators will help Treasury eliminate some vulnerabilities identified by the Treasury Office of the Inspector General. In its March 15, 1993 report on the results of its general assessment of Treasury's implementation of the Support for East European Democracy (SEED) Act in Central and Eastern Europe, the Treasury IG identified several areas where it believed additional management focus was warranted.

One area identified as needing improvement related to technical monitoring of in-country personnel through oversight of contractors. The Treasury IG found that although Treasury performed its in-country activities through contract personnel, only one Contracting Officer's Technical Representative existed for all the contracts issued by Treasury under its interagency agreements with USAID. The Treasury IG further found that the Contracting Officer's Technical Representative was not receiving sufficient information from the contractors to monitor their progress. We believe the development and use of progress indicators for Treasury's long-term advisors will facilitate Treasury's ability to monitor the progress of these advisors.

Another area identified as needing improvement related to the lack of short- and long-range program goals and objectives and a methodology for assessing progress in meeting those goals. The Treasury IG found that, at the time the assessment was done in 1992, neither USAID nor Treasury had clearly defined how the interagency agreements would be accomplished, the time frame for their completion or how success in these areas could be measured. Actions are being taken to address these

deficiencies through the new interagency agreement's requirement that Treasury develop country specific workplans containing benchmark indicators of progress toward achieving the program goals and objectives. The development of progress indicators for the long-term advisors will also contribute towards addressing this vulnerability.

In summary, without Treasury approved progress indicators it is difficult to measure the impact of Treasury's technical assistance activities. Progress indicators are benchmarks against which progress and results in achieving technical assistance goals and objectives can be monitored and measured and impact can be demonstrated.

Management Comments and Our Evaluation

In its response to the draft audit report, the Department of the Treasury agreed that it needed a more systematic effort to assess progress toward reform and the contribution to reform which emanates from Treasury-managed technical assistance. Treasury stated that it was determined to develop a clear and useful system of progress indicators in close consultation with USAID management.

Treasury indicated that each resident advisor–the basic unit of the Treasury-managed program–will be asked to prepare specific goals and milestones within four weeks of his/her arrival at post. These goals and milestones will be reviewed and accepted or modified by Treasury, in cooperation with USAID. Progress toward achieving these goals will also be periodically evaluated.

The Regional Mission for Europe also concurred with the audit recommendation and stated that the recommendation would be implemented in the next year's workplan for Bulgaria, as well as for all other advisors in the region. The Mission pointed out that while the emphasis in the early stages of the program was on placing advisors in the field, emphasis now should be placed on providing concentrated and properly directed assistance to financial institutions in the region. The Mission also stated that clear objectives and operational benchmarks provide the most effective means to achieve this goal.

Based on actions planned by the Department of the Treasury and the Regional Mission for Europe, Recommendation No. 3 is considered resolved. The Recommendation can be closed once evidence is provided that progress indicators are being developed for the technical assistance activities conducted by Treasury's long-term advisors, indicators which are acceptable to the Regional Mission for Europe and which provide a basis to measure progress and results.

Did the Office of the USAID Representative for Bulgaria carry out its oversight responsibilities for the Department of the Treasury interagency agreements in accordance with applicable legislation and internal requirements?

Our audit found that, although it needed to obtain some additional information from Treasury and USAID/Washington, the Office of the USAID Representative for Bulgaria was carrying out its oversight responsibilities in accordance with applicable legislative and internal requirements. Our discussions with USAID Representative and U.S. Embassy officials, Treasury technical advisors, and other donors indicated that the USAID Representative was monitoring Treasury technical assistance activities through frequent contact with the advisors, participation in monthly group meetings of the advisors, and reviews of the advisors' quarterly progress reports.

An American Embassy official (not shown in the picture) chairs a monthly meeting of Treasury and other financial sector advisors held in the Office of the USAID Representative for Bulgaria. These monthly meetings are one method used by the USAID Representative to monitor Treasury's technical assistance activities in Bulgaria. (October 1993)

BEST AVAILABLE COPY

However, as we discussed under the first audit objective, the absence of progress indicators makes it difficult for the USAID Representative to effectively monitor the performance and accomplishments of Treasury's technical assistance. Once the Department of the Treasury submits its annual workplan for Bulgaria that includes progress indicators for its technical assistance activities, the USAID Representative's ability to oversee and monitor Treasury's activities will be greatly enhanced.

In addition, although the Office of the USAID Representative was carrying out its responsibilities, our audit found that improvement in the area of records maintenance was needed. This issue is discussed below.

Documents Needed to Monitor
Treasury Activities Not Available

Implementing guidance gives the USAID Representative responsibility for oversight and monitoring of all in-country activities financed with funds appropriated to USAID. We found that key documents needed to carry out this responsibility for Treasury technical assistance activities in Bulgaria were not available at the Office of the USAID Representative for Bulgaria. The documents were not available because, prior to the issuance of the implementing guidance, there was no requirement for the USAID Representative to oversee and monitor Treasury activities. Therefore, Treasury and USAID/Washington did not routinely provide key documents to the USAID Representatives. As a result of not having key documents, the ability of the USAID Representative for Bulgaria to oversee and monitor Treasury activities to ensure that goals and objectives are achieved could be impaired.

> **Recommendation No. 4: We recommend that the Bureau for Europe and the New Independent States ensure that the USAID Representative for Bulgaria obtains key documents (such as interagency agreements, contract scopes of work, memoranda of understanding, and the Department of the Treasury's quarterly country progress reports) needed to monitor the Department of the Treasury's technical assistance activities in Bulgaria.**

The Fiscal Year 1993 Foreign Operations Appropriation Act states that, under the general direction of the President's Coordinator for United States Assistance for Eastern Europe and under the guidance of the Ambassador in each respective country in Eastern Europe and the Baltic States, the USAID Representative would be responsible for coordinating the implementation in the field of the overall activities of all U.S. government agencies in Eastern Europe and the Baltic States. In response to this legislation, the Regional Mission for Europe issued Mission Order No. 103, dated December 1, 1992, containing guidance for the USAID Representative on how to comply with this and other requirements contained in the

Appropriation Act. With respect to activities carried out by other U.S. government agencies, the Mission Order stated that USAID Representatives will continue to be responsible for in-country oversight and monitoring of all activities financed by or through USAID in their countries.

Key documents needed to carry out oversight and monitoring of Treasury technical assistance activities in Bulgaria were not available at the Office of the USAID Representative for Bulgaria. A review of the official project files revealed that they did not contain key documents including:

- interagency agreements between USAID and the Department of the Treasury for technical assistance activities in Bulgaria;
- contract scopes of work for Treasury's technical assistance advisors working in Bulgaria;
- memoranda of understanding related to Treasury technical assistance to Bulgaria's International Banking Institute; and
- the Department of the Treasury's quarterly country progress reports concerning technical assistance to Bulgaria.

Key documents were not available at the Office of the USAID Representative for Bulgaria because prior to Mission Order No. 103, there was no specific requirement for the USAID Representative to oversee and monitor Treasury activities. Therefore, Treasury and USAID/Washington did not routinely provide key documents to the USAID Representative. However, now that oversight and monitoring responsibilities for Treasury activities have been established, the USAID Representative for Bulgaria needs the key documents to carry out these responsibilities. Without key documents the ability of the USAID Representative for Bulgaria to effectively oversee and monitor Treasury activities to ensure that goals and objectives are achieved could be impaired.

Management Comments and Our Evaluation

The Regional Mission for Europe concurred with the recommendation and stated that action is being taken to provide the documents specified in the report to the USAID Representative for Bulgaria. Recommendation No. 4 is resolved and can be closed upon acknowledgement by the USAID Representative for Bulgaria that the documents have been received.

SCOPE AND METHODOLOGY

We audited the Department of the Treasury's technical assistance activities in Bulgaria conducted under interagency agreements with the Regional Mission for Europe. The audit was conducted in accordance with generally accepted government auditing standards. We conducted the audit from August 23 through February 12, 1994, and covered the three projects active in Bulgaria under which the Department of the Treasury received funds: Project No. 180-0026 (Competition Policy, Laws and Regulations); Project No. 180-0027 (Business Services); and Project No. 180-0035 (Bank Training). Expenditures for those projects in Bulgaria amounted to $1.7 million through September 30, 1993. We conducted our audit in the offices of the Department of the Treasury and the Regional Mission for Europe in Washington. Our field work in Bulgaria included visits to the Office of the USAID Representative, the Bulgarian National Bank, the International Banking Institute, and the offices of Treasury's long-term advisors, Bulgarian counterpart and other donor organization officials.

We reviewed Treasury and USAID project documentation to: (1) determine the specific technical assistance objectives for activities being conducted in Bulgaria; (2) identify the amount of USAID funds budgeted for and expended by Treasury; and, (3) determine if progress indicators had been established. We interviewed USAID, American Embassy, Treasury and other donor officials in the U.S. and Bulgaria to obtain their views on the effectiveness and usefulness of Treasury's technical assistance activities. Additionally, we

- reviewed the results of (1) a Treasury Office of the Inspector General March 1993 assessment of Treasury's technical assistance to Central and Eastern Europe and (2) an August 1993 evaluation of USAID's financial sector reform programs in Bulgaria;

- interviewed all Treasury's long-term advisors in Bulgaria to discuss their assistance activities, accomplishments and problems being experienced, and views on the effectiveness of Treasury's monitoring of their activities;

- interviewed Bulgarian counterparts for Treasury's long-term advisors to determine how the assistance was being received and whether the assistance was meeting their needs;

- interviewed International Banking Institute officials to discuss the assistance being provided under Treasury's contract with KPMG Peat Marwick;

- interviewed KPMG Peat Marwick's long-term advisor in Bulgaria and KPMG Peat Marwick representatives in Washington, D.C. to discuss the KPMG assistance to the International Banking Institute being provided under a contract with Treasury; and

- interviewed USAID Representative officials in Bulgaria to determine how the office was carrying out its oversight responsibilities for Treasury's technical assistance activities.

For the first audit objective, we asserted criteria for the finding concerning the lack of progress indicators for Treasury technical assistance activities in Bulgaria. The interagency agreements in effect at the time of our audit did not require that Treasury establish specific objectives and progress indicators for its technical assistance activities. We believe certain program design elements, such as specific objectives and progress indicators, are critical to the success of any assistance program and without them it is difficult to measure the results of this assistance. The Regional Mission for Europe's new interagency agreement with Treasury, signed on July 23, 1993, now requires Treasury to develop country-specific workplans containing, among other things, benchmark indicators of progress towards achieving the program goals and objectives.

The objectives of this audit did not allow for sufficient testing to comment on the internal controls of either the Regional Mission for Europe or the Office of the USAID Representative for Bulgaria. Therefore, we did not prepare a separate report on internal controls, although we did assess the Office of the USAID Representative for Bulgaria's internal controls for monitoring the Department of the Treasury's activities in Bulgaria.

Further, our audit work testing for compliance dealt only with whether the Office of the USAID Representative for Bulgaria was carrying out its oversight responsibilities for Treasury's interagency agreements in accordance with requirements of the Fiscal Year 1993 Foreign Operations Appropriation Act and Regional Mission for Europe Mission Order No. 103, dated December 1, 1992. We found no evidence that the

Office of the USAID Representative was not in compliance with these requirements. However, we found that the USAID Representative was lacking key documentation needed to monitor Treasury's activities.

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

February 3, 1993

MEMORANDUM

TO: RIG/A/EUR/W, James Bonnell

FROM: (A)DAA/ENI/EUR, Robert Nachtrieb

SUBJECT: Draft Comments of the RIG Audit of the Department of Treasury's Technical Assistance Activities in Bulgaria

After reviewing the Regional Inspector General Draft Audit Report pertaining to the International Banking Institute (IBI), dated 13 January 1994, my staff and I have additional comments pertaining to the recommendations stated therein.

Regarding Recommendation No. 1, the report should indicate that the Bulgarian government has been notified that assistance to the IBI, and the related Memorandum of Understanding (MOU) will be terminated. Governor Vulchev of the Bulgarian National Bank (BNB) has acknowledged receipt of notification from Dr. Zelikow of the Department of Treasury (Treasury), and has proposed alternate assistance by Treasury to the IBI.

The Draft Report should also indicate that Treasury and the Regional Mission for Europe (RME) recognized that there were problems associated with the assistance program to the IBI early on. The report should also provide some reference to events that preceded the current situation. In fact, RME and Treasury were aware of problems associated with the IBI as early as March 1993. Treasury met with officials from the IBI and the BNB in March 1993 in order to resolve IBI's non-compliance with the terms and conditions of the MOU. Despite these meetings, the Bulgarians continued their noncompliance with the requirements of the MOU. However, because of the importance of providing banker training to the Bulgarians, the IBI was given several additional opportunities to comply with the MOU. As late as November 1993, the Embassy in Sofia requested that Treasury should thoroughly consult with the Bulgarian government before discontinuing assistance to the IBI.

Regarding Recommendation No. 2, the Draft Report should also indicate why and when the decision was made not to deliver the computer equipment and training materials to the IBI. Treasury and RME decided not to deliver the computer equipment and training materials to the IBI shortly after problems arose with the Institute's compliance with the MOU; specifically when the IBI failed to provide office space to the KPMG advisor.

James Bonnell
February 3, 1994
Page 2

Recommendation No. 3 advises that Treasury workplans contain progress indicators for technical assistance activities of the long-term advisors. This recommendation will be implemented in the next year's workplans for Bulgaria, as well as for all other advisors in the region. While the emphasis in the early stage of the program was to place advisors in the field, the emphasis now should be placed on providing concentrated and properly directed assistance to financial institutions in the region. Clear objectives and operational benchmarks provide the most effective means to achieve this goal.

Recommendation No. 4 advises that RME ensure that the USAID Representative for Bulgaria obtain key documents needed to monitor Treasury's technical assistance activities in Bulgaria. All of the documents specified in the report have been compiled and will be sent to the Representative by the end of week.

My staff and I concur with all of the recommendations made by the Regional Inspector General regarding Treasury's technical assistance program in Bulgaria. We have, in fact, begun to implement the recommendations outlined in the Draft Audit Report.

We do not, however, concur with the estimate of potential savings that could be realized from terminating the program, as stated on page 10 of the report. Specifically, you estimate that approximately $643,000 could be saved by terminating assistance to the IBI, in addition to $77,000 worth of computer equipment and training materials. We believe that the potential savings would be less- approximately $497,158 for expenses and training and $66,158 in equipment. An Annex is attached to this memo showing our calculations.

My staff and I would like to thank the Regional Inspector General Office for their excellent work on this audit. We hope that you find our comments to the Draft Audit Report helpful, and that they are included in the final draft.

ANNEX

The following are estimates of the savings that will be realized by Treasury resulting from the termination of assistance to the Bulgarian International Banking Institute. Note that these estimates are based on actual costs of equipment, and forecasts of service expenditures based on the proposed termination date (15 February 1994; 15 March 1994 for relocation).

Estimation of Potential Savings from Termination of Assistance to IBI

Equipment & Materials	$ 66,158
Resident Advisor	157,553
Courses	339,605
TOTAL POTENTIAL SAVINGS	**$563,316**

The differences between the budgeted and actual savings can be attributed to the following factors: (1) Some of the equipment was delivered to the IBI upon the arrival of the KPMG advisor to Sofia; (2) the Post differential was reduced to 10% in November, 1993; and (3) Treasury is planning to gradually phase-out assistance to the IBI english courses through May 1994, so that all of the students may finish the 12-week course.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 12, 1994

Mr. James R. Bonnell
Resident Audit Office
Europe/Washington
Agency for International Development
Washington, D.C. 20523

Dear Mr. Bonnell:

Thank you for your letter of January 13, 1994 to Deputy Assistant Secretary Lipton, which solicited our comments concerning your draft audit report on AID oversight of Department of the Treasury technical assistance activities in Bulgaria.

Your observations and recommendations are useful contributions to the management of the Treasury technical assistance program. I believe we will be able to respond positively to most of the recommendations which would require Treasury action.

However, I believe it might be useful to discuss three subjects raised in the report: (1) alternative approaches to providing banker training assistance, (2) future assistance for the International Banking Institute in Bulgaria, and (3) the development of program impact indicators.

Alternative Approaches to Banker Training

Your draft report notes that no evidence was found "to indicate that Treasury considered alternatives to providing technical assistance to the International Banking Institute through the long-term advisor. Possible alternatives could include using short-term advisors, participant training programs or Peace Corps volunteers."

Prior to starting the Banker Training Project, Treasury consulted with the Agency for International Development and the State Department to reach conclusions regarding the most effective means of providing training to commercial bank employees. We considered several alternatives.

First, the United States has a number of well-established and competent banker training institutions, several of which offered to provide specially tailored courses for trainees from Central and Eastern Europe. The advantage of this approach was that trainees could obtain relatively intensive professional training experiences, often combined with internships or other work-related activities. The disadvantages of this approach were that it was substantially more expensive than other alternatives --

since trainee travel and living expenses in the United States would generally need to be covered -- and that trainees could probably only be drawn from the relatively small portion of banking professionals that had an effective command of spoken and written English.

Second, training programs in individual commercial banks could have been supported. This approach had the advantage that programs would be most likely to be responsive to the needs of commercial banks. The disadvantage was that the management of the program would be extremely complex, since, even in the same country, training programs in different banks would evolve in different directions at their own pace. Programming several parallel training programs in each country would have been relatively expensive.

Third, support for a single institute as a focus for industry-wide professional training had the advantage of establishing a clearinghouse for future professional training needs. The disadvantage was that the centralized approach to training might discourage banks from pursuing human resource development strategies that were tailored to their business strategies and might retain a dominant governmental role in managing the program.

Weighing the advantages and disadvantages, Treasury elected to proceed with the third approach by supporting establishment of banking institutes. As an added benefit, Treasury believed that an institute to serve the entire industry would furnish a goal for the entire commercial banking industry, with the hope that the industry would pursue other common commercial goals in the future.

The approach was modified to take advantage of strengths of other approaches and to try to overcome the disadvantages of a centralized training program. To enrich the key "train-the-trainers" component, Treasury sought to provide professional training, including internships, in the United States for a small group of trainees. To encourage commercial banks to play a decisive role in managing the institutes, Treasury envisioned obtaining the agreement of respective governments to a plan to establish joint stock companies to govern each institute, with the companies eventually fully controlled by commercial banks. In principle, the institutes would specialize in advanced banking subjects, with commercial banks responsible for entry-level training, although in the early years there might be some overlap in the curricula.

To implement the banker training project, the Treasury provided each institute with long-term advisors, short-term instructors, limited training opportunities for trainers in the United States,

and limited amounts of equipment and training materials. The long-term advisors assisted with curriculum development and business management and taught a limited number of courses. A limited quantity of equipment and teaching materials was provided. Each assistance delivery mechanism was designed to enhance the capacity and standing of the institute in the eyes of the local commercial banking community.

Your draft report asks about alternative techniques to deliver assistance and notes that long-term advisors and short-term instructors have been used. Where appropriate, short-term advisors have also been used. For example, after the initial separation between the Czech and Slovak Republics, the Institute in Bratislava was serviced by short-term advisory visits from the Prague-based KPMG resident advisor. Similarly, short-term advisors have been used in Romania to assist the Institute to develop effective business planning techniques.

Although the AID participant training project was established after the banker training project design was completed, participant training techniques are evident in the "train-the-trainer" component. It may be more advantageous in the future to use the already established participant training project, rather than building U.S.-based training programs into the banker training project. However, the participant training project should develop a specific curriculum designed to service the banking industry.

Finally, the idea of utilizing Peace Corps volunteers was not investigated and merits consideration in this and other bilateral assistance activities. The Peace Corps has demonstrated the ability to deliver high-quality professionals for long-term services abroad. Whether such professional talent can be closely coordinated with other donor activities and with U.S. Government policy goals should be weighed.

Assistance to Bulgarian International Banking Institute

Your call to reassess the assistance relationship with the International Banking Institute is timely and accurate (pp. 6-10 of the draft report).

The Department of the Treasury has concluded that the assistance should be discontinued and so informed the Chairman of the Bulgarian National Bank in a letter dated December 15, 1993 (enclosed).

Your draft report alludes to (p. 7), but does not fully discuss the basis for this decision. The Memorandum of Understanding between the Department of the Treasury and the Bulgarian National Bank signed on September 23, 1992 called for the Bank or the Institute to:

-- Establish the Institute as a separate, non-profit corporation under the laws of Bulgaria. This was not accomplished. Instead, the Institute has been established as a for-profit corporation for reasons that are not entirely clear.

-- Devolve control of the Institute to a Board of Directors controlled by the Bulgarian commercial banking community by June 30, 1993. The goal of placing commercial banks in the leadership role in the Board of Directors has not been achieved.

-- Designate, maintain and support a suitable, qualified person as an Executive Director, responsible to the Board of Directors for the policy, strategy, and operations of the Institute, with substantial commercial bank experience, if possible. Again, the role of the Board of Director has not been what had been envisioned.

-- Designate an appropriate National Bank official to be responsible for Project coordination through the Institute's Board of Directors. Vice Governor Mladenov served in this capacity.

-- Provide the appropriate location for the Institute. A permanent location was identified, but construction and occupancy have been delayed, hindering the capacity of the Institute to establish its professional reputation and impairing our confidence that such equipment or training materials as the United States might provide will be safeguarded.

-- Provide the necessary office space and support staff, including secretaries, translators, and messengers, for the Institute, the Contractor and the Contractor's Advisor. This was not accomplished. Indeed, the Contractor's Advisor was excluded from the premises.

-- Provide appropriate housing for Contractor personnel and their families. The Treasury Department elected to provide housing comparable to that of government employees or other contractors.

-- Provide appropriate trainers and students to attend programs in the United States. Bulgarian trainees have not been sent to the United States, in part because issues related to screening potential trainees for courses provided in Bulgaria were not satisfactorily resolved.

-- Provide other support as mutually agreed.

In a Memorandum of Understanding concluded shortly after contract award on May 24, 1992 between KPMG Peat Marwick and the International Banking Institute of Sofia, the parties agreed to:

-- Deliver two course prior to the end of July 1992. KPMG Peat Marwick accomplished this.

-- Provide a long-term resident advisor to assist with a management plan, day-to-day operations, curriculum development, skills certification, staff and educational material evaluation and course instruction. The KPMG Peat Marwick resident advisor was only allowed by the Institute to provide course instruction and had very restricted access to Institute staff.

-- Procure training materials, with full support beginning after the Institute has the necessary space and staff. The Institute does not have the necessary space and staff.

As you can see, on five major points -- non-profit corporate structure, Board control over the program, screening of trainees, the role of the resident advisor, and the adequacy of the Institute facilities -- the situation has not met our expectations. Despite four separate communications to the Institute and the Bulgarian National Bank seeking resolution of these issues, no action or responses by the Bulgarian authorities were made. Accordingly, we have informed the Institute that our assistance will end on February 15, 1994 and that further delivery of training materials and equipment will not occur. Undelivered materials and equipment will be allocated to other uses as may be agreed with the Department of State and the Agency for International Development.

Program Impact Indicators

In the first years of the U.S. technical assistance program in Central and Eastern Europe and the former Soviet Union, the Treasury Department placed a high priority on putting in place assistance efforts in order to advance and solidify the changes that were occurring in these countries.

The priority which the President and the Congress placed on delivering assistance quickly brooked no reflective thinking by program managers to develop systems to assess progress to reform goals. Complete failure would have been painfully obvious: governments could have reversed the democratic and market-oriented reforms and could have returned to a reconstituted Soviet bloc. This did not happen. Complete failure did not occur.

In that environment, Treasury, too, gave a relatively low priority to a systematic program to assess progress. Now, with several years of effort, we agree that it is time to take a hard look at the impact that the technical assistance program is having in order to move resources from marginal to more effective activities.

In counseling us in a March 13, 1993 memorandum, the Treasury Department Inspector General (TIG) offered several principles and good practices that should be incorporated in this type of program, including program impact indicators. We expect that the TIG will look for these management principles and practices as part of its planned FY 1994 audit of the technical assistance program.

Early in the current Administration, we concluded that assistance to improve the operations of individual state-owned banks, while useful, was having only a marginal impact on reforming the economic and financial systems in these countries. As a result, we initiated a phased reallocation of resources away from commercial banking and toward extending assistance to policy forming components of finance ministries where successful reform can have a broad impact on economic and financial systems.

Similarly, the progress toward reform in some countries, such as the Czech Republic and Estonia, and weak momentum toward reform in other countries, such as Belarus, suggested the need to reallocate technical assistance resources to areas where they would be most useful. This process has begun.

However, as your draft report suggests, we need a more systematic effort to assess progress toward reform and the contribution to reform which emanates from Treasury-managed technical assistance. We are determined develop a clear and useful system of progress indicators in close consultation with AID management.

The goal of the Treasury-managed technical assistance program is to facilitate market-oriented policy and institutional reforms in the financial institutions of the countries of Central and Eastern Europe and the former Soviet Union. Your report notes that program impact indicators "are benchmarks against which progress and results in achieving technical assistance goals and objectives can be monitored and measured and impact can be demonstrated."

The policymaking process in every government involves a debate over the direction of policy and the interaction of interest groups to influence the outcome. In Central and Eastern Europe, foreign advisors can make a contribution to the advance of market-oriented reforms, but the contribution is likely to have only a marginal impact on the outcome. Moreover, in the policy

process, the impact of the most successful agents is often not clearly visible. Indeed, quiet work behind the scenes is often the most effective means to promote reform.

The impact of the technical assistance program depends on more than the quality and timing of the Treasury-provided assistance services. It depends on the receptivity of the country and its institutions to adopt reforms.

As a consequence, it seems logical to measure three distinct variables in order to assess the impact of the technical assistance program:

1. The Conceptual Soundness of the Institutional Reform Program. Is the quality of the reform program sound? Will the goals of the government's reform program advance the development of market-oriented private sector-led activity?

2. The Institution's Track Record in Implementing Reform. Is the government or agency implementing its reform program effectively and in a timely manner? Are obstacles being overcome?

3. Contribution of the Treasury Technical Assistance Program. Are Treasury technical assistance providers conveying useful ideas, that are not readily available in the country? Are working relationships sufficiently satisfactory to transmit ideas effectively? Are Treasury technical assistance providers exhibiting initiative and imagination to convey ideas?

Each resident advisor -- the basic unit of the Treasury-managed technical assistance program -- will be asked to prepare specific goals and milestones within four weeks of his/her arrival at post. These goals and milestones will be reviewed and accepted or modified by Treasury, in cooperation with AID. Progress toward achieving these goals will be evaluated periodically.

To evaluate the impact of its technical assistance program, the Treasury Department will convene an evaluation panel every six months to measure progress towards technical assistance goals for each of its activities. The panel will normally consist of the Director of the Office of Technical Assistance, the Director of the appropriate regional office, the country officer responsible for managing the assistance program for the country, the country desk officer responsible for analyzing reform efforts in the country, and functional Senior Advisor responsible for the activity. Under the Chairmanship of the Senior Advisor, the panel will review the suitability of the work plan and recommend adjustments where needed.

The results will be provided to the technical assistance providers and to the Agency for International Development and to the State Department Coordinator for assistance to the region, in confidence.

Conclusion

Your draft report makes a useful contribution to the management of our technical assistance programs. It calls attention to several areas where the Treasury-managed assistance program merits review and revision.

We also appreciate the several positive comments in your draft report about the program. The Treasury Department has had the good fortune to find and field excellent professionals in advisory and training positions. With strengthened management techniques, the output of the field personnel will doubtlessly be even better.

Sincerely,

Robert Dangaix for

Daniel M. Zelikow
Director
Office of Technical Assistance

Enclosure

DEPARTMENT OF THE TREASURY
WASHINGTON
December 15, 1993

Professor Todor Vulchev
Governor
Bulgarian National Bank
1 Knyaz Alexander Battenberg Square
1000 Sofia
Bulgaria

Dear Governor Vulchev:

As you know, we at the Treasury Department have been concerned for some time about the value of our assistance to the International Banking Institute. On several occasions since early May of this year, we brought these concerns to the attention of officials of the IBI and the Bulgarian National Bank, including yourself. When we met in my office in September, we agreed to defer a final decision to discontinue Treasury's relationship with the IBI so that you would have another chance to confer with your associates in Sofia. You proposed then to let me know by October 15 as to how we should proceed.

Having heard no word from Sofia since, and having recently had our concerns confirmed by an audit of the U.S. Agency for International Development, we feel obliged to address the situation. We have reluctantly concluded to end our assistance in the area of banker training and our relationship with the IBI, effective February 15, 1994. This is pursuant to Article XIV (2) of the Memorandum of Understanding between the U.S. Department of the Treasury and the Bulgarian National Bank, signed September 23, 1992.

I wish to stress that our decision to terminate support for the IBI is not a comment on the importance of the Institute's work. Moreover, the Treasury Department remains committed to assisting financial and economic reform in Bulgaria, as well as the BNB as an institution. The Treasury Department is pleased to have been part of the effort to promote banker training in Bulgaria, and we would welcome opportunities to provide technical assistance in other areas of the financial sector.

Yours sincerely,

DM Zelikow

Daniel M. Zelikow
Director
Office of Technical Assistance

copy to: M. Georgieva, IBI
M. Mladenov, BNB
Ambassador Montgomery, U.S. Embassy, Sofia
J. Zarr, USAID/Sofia

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APPENDIX IV

REPORT DISTRIBUTION

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IG	1
AIG/A	1
IG/A/PPO	3
IG/LC	1
IG/A/FA	1
IG/A/PSA	1
AIG/RM	12
AIG/S&I	1
RIG/As	1