

# THE EUROSISTEM AS A PROVIDER OF TECHNICAL ASSISTANCE TO EU NEIGHBOURING REGIONS

## ARTICLES

The Eurosystem as a provider of technical assistance to EU neighbouring regions

*By sharing expertise and experiences among professionals through technical assistance, central banks ultimately support monetary and financial stability. In the Eurosystem, technical assistance to other central banks has developed into an important activity. In terms of person-years, staff members involved represent the equivalent of several dozens of full-time officers employed during the entire year, with around 30 person-years devoted to the direct support of central banks in those regions neighbouring Europe for which the Eurosystem collects data on technical assistance. In fact, a substantial part of the overall technical assistance is offered by the Eurosystem to the central banks of south-eastern Europe, Russia and the European CIS countries, the Mediterranean, the Middle East and Sub-Saharan African countries. The bulk of these activities are undertaken by the national central banks and take different forms, ranging from staff participation in single educational events to larger training programmes, or from staff secondments to central banks of third countries to EU-funded multi-year twinning programmes. A few large programmes are coordinated by the European Central Bank according to the modalities described in this article. These latter Eurosystem programmes have been also financed by the European Union as part of the EU policies to strengthen cooperation between Europe and the neighbouring regions.*

## I INTRODUCTION

In 2007 the Eurosystem concluded two major programmes giving technical assistance to the Central Bank of Bosnia and Herzegovina and the Central Bank of Egypt. In 2008 it started a new programme to support the Central Bank of Russia – the second one in the last five years – and began preparations for two other programmes. Each of these activities has been carried out jointly by several central banks of the Eurosystem – and at times with the support of central banks from non-euro area countries of the EU – with a coordinating role by the European Central Bank (ECB), which has taken contractual responsibility for the programmes and assumed the overall project management and administrative functions. The programmes are part of a broader policy through which, over recent years, the Eurosystem has consolidated its relationship with all the central banks in the neighbourhood of Europe, holding a systematic policy dialogue, for instance in the form of regular high-level seminars, with the central banks of EU accession countries, with the Central Bank of Russia, with the governors of the central banks of the Mediterranean, and with those of some regions of Sub-Saharan Africa or the Arab Peninsula. It is often in the course of these meetings that programmes of technical assistance have been conceived. The programmes have been funded by the

European Commission, in the framework of policies reinforcing cooperation between the European Union and its neighbours, including the countries which aim to join the EU.

These Eurosystem programmes are examples of an activity – technical assistance – which is well established among central banks worldwide. Section 2 of this article explains what technical assistance among central banks is, describes how it may be given, illustrates some important episodes in recent history and briefly refers to the role of international financial institutions. Section 3 turns to the Eurosystem and focuses on the role of its national central banks and of the ECB. Section 4 describes the above-mentioned major Eurosystem programmes. Section 5 concludes.

## 2 TECHNICAL ASSISTANCE AMONG CENTRAL BANKS

Cooperation among central banks is a well-established practice, which began with the creation of an international network among major central banks in the first half of the last century, at the time the Bank for International Settlements (BIS) was established in 1930. This article considers the specific category of central bank cooperation which may be defined as technical assistance. Technical assistance

comprises those supportive actions through which central banks transfer their expertise, share best practices, contribute to capacity building or make human capital available to each other. It therefore excludes usual practices of regular policy dialogue between central banks or more far-reaching types of cooperative activity, such as for instance the extension of lending facilities, the conclusion of agreements supporting exchange rate arrangements, or the collective definition of common standards and practices. While the essence of technical assistance among central banks is the transfer of expertise, its ultimate goal goes beyond it. When they put their expertise at the disposal of their peers, central banks do not only help each other to reach high levels of professionalism, independence and transparency, but also contribute to promoting monetary and financial stability globally.

In terms of modalities, technical assistance among central banks covers an extremely diverse set of activities. Assistance may be given by central banks through their training centres, offering a variety of training courses or other learning events, or it may take the form of conferences and seminars which are attended by representatives of other central banks worldwide. Technical assistance may also be given directly to the beneficiary institutions, e.g. through the permanent secondment of staff, support in institution building and policy set-up, or regular missions, either at technical or policy level. Central banks may act unilaterally or conclude agreements with non-central banks (such as international financial institutions,

EU institutions or their own governments) to coordinate activities and at times obtain external financing.

Historically, technical assistance among central banks has been particularly intense during phases characterised by institution building, where either new monetary institutions were being set up, or existing institutions had to cope with new challenges. This was for instance the case in Europe immediately after the Second World War, when the BIS provided its expertise to the restored or newly created central banks in western Europe. The United States authorities also helped central banks in western Europe to create institutional structures and operational mechanisms to reconstruct multilateral payments and establish external convertibility. Institution building was also particularly intense a few decades afterwards, during the decolonisation process of the 1960s, when European institutions helped establishing central banks in the new independent countries. A new wave was generated by the economic transition which began in the former socialist economies in the late 1980s. Central banks in central and eastern Europe moved from the earlier socialist model – in which the central bank and the state-owned lender were consolidated in a single institution without autonomy from government – to the model prevailing in market economies. The dissolution of the Soviet Union in 1992 and the creation of new states in need of their own central bank added to the challenges in this domain. Box 1 describes how the global central banking community took action from 1990 to support the central banks of transition economies.

#### Box 1

##### **COORDINATION OF TECHNICAL ASSISTANCE BY CENTRAL BANKS OF G10 COUNTRIES AFTER THE BEGINNING OF THE ECONOMIC TRANSFORMATION OF FORMER SOCIALIST COUNTRIES**

At their meeting in July 1990, the G10 central bank governors agreed that it would be useful to coordinate the technical assistance and training provided to central banks in central and eastern Europe and the Commonwealth of Independent States (CIS). The coordination process, as requested by the

governors, was not burdensome, focusing on bilateral networking and the exchange of information on technical assistance and training provided. The BIS was asked to facilitate the process.

A core group of donor central banks, consisting of representatives from central banks in the G10 countries, Austria and the International Monetary Fund (IMF), and later joined by the ECB, started meeting regularly from autumn 1991. Also, in order to facilitate the coordination process, a database was created by the BIS comprising activities in the field of technical assistance and training.

Initially two series of meetings were organised. The first one involved countries in central and eastern Europe (the Baltic countries and former Yugoslav republics were gradually invited to this meeting). The second series was held with recipient central banks from the CIS. This meeting was initially held in conjunction with a larger high-level meeting called by the IMF.

The governors have received regular progress reports on the group's activities, most recently in May 2003. They have also extended the mandate of the group (the current mandate ends in 2008). At their last review, the governors agreed that:

- the group would combine the two series of meetings and meet only once a year with the central banks from central and eastern Europe and the CIS;
- the group would meet occasionally with major global training providers to central banks worldwide (this was done in 2004 and 2007).

Over the last decades, central banking has been characterised by a rapid evolution in technology and techniques, with an impact on all operating systems. Beneficiary central banks have obtained the support of their peers to prepare for the introduction of stability-oriented monetary policy strategies, to enrich their intervention tools in money and foreign exchange markets, to increase the efficacy and security of payment systems, to deepen their capacity to analyse economic and financial developments, to enhance the use of forecasting techniques, to refine their supervisory systems, to fight against money laundering and financing of terrorism, to collect and disseminate wider and more accurate series of statistics, to enhance the quality and safety of banknotes, to strengthen central bank independence and – last but not least – to improve the quality of central bank governance.

In Europe the process of enlargement of the EU from 15 to 27 Member States, between 2004 and 2007, has imposed upon the central banks of accession countries the obligation to comply with a wide range of specific institutional and

operational requirements (often referred to by the broad denomination of *acquis communautaire*) and to enter into the European System of Central Banks (ESCB). This has prompted central banks of EU countries – and since 1998 the ECB itself – to make a considerable effort to support the central banks of countries joining the EU. For the central banks of Cyprus, Malta and Slovenia the entry into the euro area has created a further demand for support, in particular the sharing of experiences on the changeover to the single currency.

The Eurosystem has concurred with the collective effort of the central banking community. It goes without saying that several other central banks in the world have been a part of this display of solidarity, including vis-à-vis European central banks. They include the Federal Reserve System in the United States (with specialised training programmes offered by the Board of Governors in Washington and several Federal Reserve Banks), the Bank of England (with the Centre for Central Banking Studies in London) and the Swiss National Bank (with the Study Centre in Gerzensee).

## Box 2

### AN EXAMPLE OF COORDINATION BETWEEN INSTITUTIONS: THE JOINT VIENNA INSTITUTE

The continuous increase in requests and the multiplicity of donors call for international cooperation. One example of such coordination between institutions is the Joint Vienna Institute (JVI). The JVI provides training to public officials and selected private sector executives from transition countries in central, eastern and south-eastern Europe, the CIS and Asia. The JVI is sponsored by two Primary Members: the IMF and the Austrian authorities (the Federal Ministry of Finance and the Oesterreichische Nationalbank), and by four Contributing Members: the European Bank for Reconstruction and Development, the Organisation for Economic Co-operation and Development, the World Bank and the World Trade Organization. Generous financial support is also provided by a number of donor countries. The JVI offers a comprehensive programme of approximately 60 seminars per year, generally of short duration, on topics that reflect the expertise of its various sponsor organisations. These seminars focus primarily on practical policy issues relevant to economies in transition. Since its establishment in 1992, roughly 22,000 officials have been trained at the JVI.

To complete the picture, it should be mentioned that central banks are not alone in supporting their own peer institutions. The BIS has already been mentioned. The IMF and the World Bank have – since their inception – specialised in offering programmes of technical assistance and in setting up operational departments to make training available to their central bank membership. Box 2 gives one example of effective coordination between global and European institutions, including one Eurosystem central bank.

### 3 THE ROLE OF THE NATIONAL CENTRAL BANKS AND OF THE ECB

Within the Eurosystem, the bulk of technical assistance activity is performed by the national central banks. This reflects the fact that for decades the central banks of EU countries have developed strong links of cooperation with other central banks. These activities have remained in their domain after the start of Economic and Monetary Union (EMU). National central banks operate according to various procedures, following patterns reflecting their history, the configuration of their institutions and often the foreign

relations of their country. Overall, taking into account the entire wealth of experience in the Eurosystem (see Box 3) four different patterns can be described.

First, a few national central banks have become global providers of training activities: they dedicate staff to technical assistance activities on a full-time basis and dispose of a permanent infrastructure to organise and host training courses of general interest to the central banking community. At times they operate in coordination with their respective national foreign offices or public aid agencies. They also actively cooperate with multilateral global institutions, like the IMF or the World Bank.

Second, other central banks have restricted their activities to maintaining direct relations with fewer central banks, either because of specific historical relationships with them or because they belong to given language areas. While they do not have separate administrative structures specifically devoted to training, they dispose of smaller full-time coordinating units.

Third, a group of central banks have a primarily demand-driven approach and, without dedicating staff to technical assistance on a

permanent basis, they accommodate individual requests according to the availability of resources and the intensity of bilateral ties with the beneficiary institutions.

For a fourth group, consisting of some of the smaller national central banks, technical assistance activities are carried out on an ad hoc basis, owing to staff constraints.

## Box 3

## WEALTH OF EXPERIENCE IN SELECTED NATIONAL CENTRAL BANKS

**Nationale Bank van België/Banque Nationale de Belgique.** Outside the EU, technical assistance is provided to the Banque Centrale du Congo, as part of the bilateral cooperation with the Democratic Republic of the Congo.

**Deutsche Bundesbank.** The Deutsche Bundesbank has for many years considered it to be its responsibility to contribute to setting up and developing market-oriented central bank systems in many countries around the world. All its generally demand-driven activities are coordinated by the Centre for Technical Central Bank Cooperation.

**Central Bank and Financial Services Authority of Ireland.** Besides participating in Eurosystem activities, the Central Bank and Financial Services Authority of Ireland has also provided bilateral contributions in the areas of supervision and financial stability, as well as on a number of administrative and technical issues.

**Bank of Greece.** The Bank of Greece has a long-standing tradition of providing technical assistance to the central banks of south-eastern Europe, especially in the fields of banking supervision (including the promotion of multilateral agreements among the central banks of the region), payment systems and monetary policy.

**Banco de España.** From 2003, the focus of technical assistance has been enlarged from Latin America to include other regions. The cooperation – often in conjunction with international organisations or other central banks – is organised on a twofold basis, training and consultancy, involving both central banking and supervision.

**Banque de France.** The Banque de France's demand-driven approach very often relies on long-lasting relationships with other central banks. Technical cooperation is the responsibility of the Governor's office. The Banque de France's International Banking and Finance Institute organises approximately 50 seminars annually, in France and abroad.

**Banca d'Italia.** The Banca d'Italia provides training and capacity building to central banks of EU accession countries, other EU neighbours and selected emerging economies, on all institutional functions carried out by the bank (central banking, banking supervision, payment systems and treasury) and support activities (IT, internal auditing, etc.).

**Banque centrale du Luxembourg.** Over the last few years, the Banque centrale du Luxembourg has regularly extended technical assistance in various domains to central banks, notably in Africa and Asia, with which it entertains privileged relations.

**De Nederlandsche Bank.** Technical assistance is focused on transition economies (and members of the Dutch IMF Constituency) and is provided through the DNB International Seminar Series, regional seminars abroad and bilateral activities and commitments, involving around 90 “hands-on” specialists.

**Oesterreichische Nationalbank.** The Oesterreichische Nationalbank works together with the Joint Vienna Institute, co-sponsoring the Institute and offering training courses. The OeNB’s own bilateral technical cooperation takes the form of consultations, lectures and study visits, mostly focusing on south-eastern European countries.

**Banco de Portugal.** Cooperation activities, coordinated by the International Relations Department, are carried out mainly with the African Portuguese-speaking countries as well as East Timor, either on a bilateral basis or in regional courses (often with the IMF Institute’s participation), seminars and workshops.

**Banka Slovenije.** Banka Slovenije has delivered technical assistance to central banks in south-eastern Europe in particular, given the historical ties. Most recently, it has provided technical assistance on the euro changeover activities to the NCBs of EU Member States which have not yet adopted the euro.

**Suomen Pankki – Finlands Bank.** Suomen Pankki has provided technical assistance mainly to economies in transition, with special emphasis on Russia, in the form of regular training seminar series between 1993 and 2006, most recently replaced by the annual senior economist experts’ seminar.

Several dozens of staff are involved in these activities at the national central banks. An estimate, as indicated in Box 4, is available only for those activities performed to the benefit of central banks in those regions geographically closer to the EU, with which institutional relations are deeper partly as a result of common historical and institutional ties. For this reason the Eurosystem has created a Task Force on Central Bank Cooperation, as a flexible instrument for sharing information on past activities and on main orientations for the future. When the task force was first created in 2000, the geographical coverage consisted of the twelve European countries aspiring at that time to join the EU. Since their EU entry, cooperation with their central banks has become an integral part of the intra-institutional relationships within the ESCB. The geographical coverage of the task force was subsequently extended to the new candidate or potential candidate countries to the

EU in south-eastern Europe, and to a broader concept of “EU neighbourhood” encompassing Russia and the European countries of the CIS, the countries on the southern and eastern shores of the Mediterranean, the Middle East and Sub-Saharan Africa.

Where necessary, the task force also serves as a forum to help coordinate larger central bank cooperation projects in these regions, such as those mentioned in the following sections. Furthermore, the task force facilitates the voluntary reallocation of incoming requests for cooperation, when they cannot be accommodated exclusively by the receiving central bank. Although the task force has been set up by the Eurosystem, representatives of the central banks of EU countries not participating in the euro area have been increasingly involved in its activities.

## Box 4

## EUROSYSTEM TECHNICAL ASSISTANCE TO EU NEIGHBOURING REGIONS

Every year, the Task Force on Central Bank Cooperation of the ECB International Relations Committee gathers from the Eurosystem information about technical assistance activities provided to central banks in transition economies in Europe outside the European Union (including Russia), to non-EU countries around the Mediterranean, and to countries in the Middle East and in Sub-Saharan Africa. This is a composite part of the world – defined for the purpose of this article as the “EU neighbouring regions” – to which the Eurosystem devotes particular attention, and for which it considers necessary to share information. The reporting period starts in October of the previous year and ends in September of the current year. Between October 2006 and September 2007, an equivalent of around 30 person-years was engaged in technical assistance activities (missions, training courses, other consultations, long and short-term secondments, etc.) implying direct contacts with staff in central banks in EU neighbouring regions. The tables below offer a breakdown by region and central banking area of activities to the benefit of EU neighbouring regions.

Table A Regional breakdown of Eurosystem technical assistance to EU neighbouring regions

(by person-years)

	Sub-Saharan Africa	Non-EU Mediterranean countries*	EU candidate and potential candidate countries	Russia and European CIS	Middle East**	Cross-regional***	Total
Oct. 2006-Sept. 2007	7.0	6.3	5.7	4.6	0.4	6.4	30.4
Oct. 2005-Sept. 2006	5.9	7.3	9.4	5.7	1.0	5.7	35.0
Oct. 2004-Sept. 2005	5.0	3.8	7.5	7.3	0.4	5.5	29.5
Oct. 2003-Sept. 2004	5.7	3.5	3.1	6.2	0.2	5.9	24.6

\* Excluding Turkey, which is included among EU candidate and potential candidate countries.

\*\* Excluding Egypt, Israel, Jordan, Lebanon, Libya and Syria, which are included among “non-EU Mediterranean countries” as they are members of the so-called Barcelona process.

\*\*\* Cross-regional activities involve all regions of this table together.

Table B Breakdown by central banking activity of Eurosystem technical assistance to EU neighbouring regions

(by person-years)

	Supervision and Financial Stability	Monetary and Exchange Rate Operations	Monetary Policy Formulation	Regulations, governance and administration	Others	Total
Oct. 2006-Sept. 2007	8.7	5.4	4.9	4.1	7.3	30.4
Oct. 2005-Sept. 2006	9.9	7.0	4.6	5.2	8.3	35.0
Oct. 2004-Sept. 2005	9.8	5.5	4.4	4.8	5.0	29.5
Oct. 2003-Sept. 2004	4.3	5.7	2.7	4.9	7.0	24.6

Supervision and financial stability were the most requested topics for support, followed by monetary and exchange rate operations, monetary policy formulation, regulations, governance and administration.

The ECB does not systematically pursue an active technical assistance policy, but it receives and, when possible, accommodates a variety of requests, covering a very wide set of issues, and with a particular focus over recent years on payment systems, statistics and market operations. Like several other central banks, every year the ECB invites an extended number of central banks worldwide to attend specialised conferences organised for central bank staff. The ECB holds annual events on statistics and on payment and settlement issues and, every two years, a Central Banking Conference with high-level attendance from central banks and other institutions.

In a few areas ECB staff is systematically confronted with specific requests. ECB staff has regularly provided information and technical advice on how central banks and other authorities can suitably prepare the establishment of their own monetary unions, or reinforce those existing. Considerable interest has been shown by third country authorities on how preparations for EMU were coordinated by the European Monetary Institute between 1994 and 1998. The cooperation with the Committee of Governors of the Central Banks in the Gulf Cooperation Council<sup>1</sup> has been particularly intense, including the provision by staff of a report on the possible convergence criteria for the six member countries (2004) and the preparations to build common monetary institutions (2006). Requests to obtain policy advice from the ECB in the setting up of monetary unions have also been received since the start of EMU from authorities of several regional groupings in Africa (Common Market for Eastern and Southern Africa,<sup>2</sup> South African Development Community,<sup>3</sup> West African Monetary Zone,<sup>4</sup>

and the West African Economic and Monetary Union<sup>5</sup>).

Several authorities or peer central banks have also solicited the support of the ECB in their preparations for an update of central bank legislation or of relevant secondary legislation, and in view of the ECB's experience with the assessment of central bank independence in EU Member States with a derogation. In these cases, the ECB has responded through staff opinions, which could be brought to the attention of the legislator or other regulators. Similar requests have come mostly from the authorities of countries involved in the EU accession process, either as candidate or potential candidate countries (for instance, from Albania, Croatia, the former Yugoslav Republic of Macedonia, Serbia and Turkey). However, authorities from countries without the perspective of EU entry have requested and obtained ECB staff opinions on proposals for central bank legislation under discussion among authorities in their countries.

#### 4 LARGE EUROSISTEM PROGRAMMES

Well before the establishment of the Eurosystem, national central banks took part in large multi-

- 1 The Gulf Cooperation Council encompasses Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
- 2 COMESA consists of Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.
- 3 SADC consists of Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.
- 4 The members of the WAMZ are Gambia, Ghana, Guinea, Nigeria and Sierra Leone.
- 5 The Members of the WAEMU are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

year programmes of technical assistance, financed by the European Commission.<sup>6</sup> This form of technical assistance – called twinning – has proved particularly successful, because it creates a strong institutional link between institutions performing the same tasks, in the donor and beneficiary countries. Twinning agreements may be contracted by one public institution of an EU Member State – such as a national central bank – which may associate institutions of other Member States in consortia of up to a maximum of three institutions. Twinning agreements may last between six months (so-called “twinning light”) and three years, and are always based on a detailed work plan with a final obligation of result. This implies that, upon expiry of the twinning arrangement, the beneficiary institution must have been given the appropriate technical assistance to enable it to exercise its EU-relevant institutional responsibilities in the field concerned. Indeed – as explained in Box 5 – during the last decade twinning agreements have been instrumental in enhancing the preparedness of the central banks of several EU candidate countries to join the ESCB upon their countries’ entry into the EU.

Twinning agreements remain an important instrument to ensure compliance by the new EU candidate countries with the so-called *acquis communautaire*.<sup>7</sup> Recently, the geographic scope of twinning arrangements has been

expanded by the EU to include the broader category of those countries neighbouring the EU which do not have the prospect of joining the European Union.<sup>8</sup> For these countries, the objective of twinning agreements is to ensure the approximation of the domestic institutional and regulatory framework to EU standards. A few Eurosystem national central banks are currently implementing or considering entering into such contractual agreements, either with EU candidate or potential candidate countries or with EU neighbouring countries without an EU candidate status.

- 6 Also the European Investment Bank – albeit on a smaller scale – promotes and finances technical assistance. In particular, the EIB funds the Technical Assistance Support Fund of FEMIP (the Facility for Euro-Mediterranean Investment and Partnership), which finances among others studies on the financial infrastructure in the countries of the Mediterranean. So far, no Eurosystem central bank has taken part in EIB technical assistance activities.
- 7 The European Union offers comprehensive support to candidate or potential candidate countries, with funding of €11.5 billion earmarked for the period 2007-2013 to implement the Instrument for Pre-Accession Assistance (IPA). These countries are Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia, the former Yugoslav Republic of Macedonia and Turkey. The official status of Kosovo in the EU enlargement process is still under discussion.
- 8 €12 billion are available for the period 2007-2013 to support the European Neighbourhood Policy, which encompasses relations with Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Occupied Palestinian Territory, Syria, Tunisia and Ukraine. With Russia, the EU intends to create a single economic space, under an ad-hoc Strategic Partnership.

#### Box 5

#### TWINNING AGREEMENTS FINANCED BY THE EUROPEAN COMMISSION

At the beginning of the enlargement process, the Banque de France began a two-year twinning with Narodowy Bank Polski, leading a consortium together with the Banca d’Italia. Assistance was provided covering a broad range of central banking issues. A few years later, Česká národní banka benefited from an 18-month twinning with the Deutsche Bundesbank in the area of financial stability. Bulgaria and Romania also received technical assistance, in the form of two consecutive two-year twinning programmes covering multiple sectors of central banking, from a consortium led by the Banque de France and including the Banca d’Italia and De Nederlandsche Bank. The Deutsche Bundesbank and Narodowy Bank Polski are currently envisaging a twinning arrangement with the National Bank of Ukraine on a horizontal set of different central

banking issues, while the Deutsche Bundesbank is also envisaging a twinning arrangement with the Central Bank of Bosnia and Herzegovina on human resources issues.

In some cases, institutions other than central banks have benefited from the participation of Eurosystem national central banks as partners in twinning programmes. For instance, the Deutsche Bundesbank has advised the Turkish Capital Markets Board on capital market legislation as part of a twinning project, while the Banca d'Italia has participated in a twinning to the benefit of the Statistical Office of Bosnia and Herzegovina.

A variant of twinning is represented by the agreements through which the Eurosystem undertakes similar obligations, benefiting from the capacity of the ECB to enter into a single financing agreement with the European Commission on behalf of a number of Eurosystem central banks. This is in line with the Eurosystem's mission to perform its tasks effectively and efficiently, in a spirit of cooperation and teamwork.

The agreement is entered into by the ECB (which also signs on behalf of the participating national central banks) and the European Commission, to the benefit of the central bank of a third country. As in the case of twinning agreements, the programme is governed by a steering committee, chaired by the beneficiary central bank, with the participation of the European Commission, and has a clear contractual definition of obligations. The ECB undertakes the overall managerial responsibility and control of the budget, while the national central banks provide expertise through long and short-term expert visits to the recipient institution. A locally-based team programme coordinator, selected by a Eurosystem procedure, ensures programme coordination and assists the beneficiary central bank.

In policy terms, this model has four main benefits. First, it permits the Eurosystem to embark on larger programmes which would be too much of a challenge for individual Eurosystem central banks. Second, it gives an opportunity to the ECB and the partner national central banks to apply new forms of cooperation and to demonstrate to their external partners the Eurosystem taking cohesive action. Third, it further strengthens the quality of the

already existing central banking relationship between the Eurosystem and the beneficiary central banks. Fourth, it reinforces the EU's visibility in partner countries, as illustrated also by the cooperation between the two European institutions giving the assistance (the ECB and the Commission).

The first of these Eurosystem programmes was implemented at the Central Bank of the Russian Federation between November 2003 and October 2005, with the participation of the ECB and nine Eurosystem national central banks (the Banca d'Italia, Banco de España, Banco de Portugal, Banque de France, Central Bank and Financial Services Authority of Ireland, De Nederlandsche Bank, Deutsche Bundesbank, Oesterreichische Nationalbank and Suomen Pankki – Finland's Bank), and the assistance of three non-central bank supervisors: the Financial Services Authority (UK), Finansinspektionen (SE), and Rahoitustarkastus (FI). The programme involved training a total of 1000 supervisory staff working in branches of the CBR all over Russia and teaching them about the best supervisory practices applied in the EU. To this end, 60 training courses and four academic high-level seminars were organised. The training materials were compiled in a self-study book, published in English and Russian, on Russian and EU supervision experiences and practices for CBR staff.

The second programme involved the Central Bank of Egypt, on the one side, and the ECB, Banca d'Italia, Bank of Greece, Banque de France and Deutsche Bundesbank on the side of the Eurosystem. Between November 2005 and November 2007, the Eurosystem assisted

the Central Bank of Egypt in an overall revision of its administrative and operational procedures in banking supervision, aimed at moving from a compliance-based to a risk-based approach. Work proceeded along six work streams: ongoing surveillance, inspections and controls, macro-prudential analysis, regulation and standard setting, methodology and information technology and a training curriculum for supervisors. More than 70 events, including missions, study visits, training courses and other consultations took place over the two years.

The third programme – involving the Central Bank of Bosnia and Herzegovina – started in April 2007 and terminated in September of the same year. During those six months, the ECB and eight national central banks (the Banca d'Italia, Banco de España, Bank of Greece, Banka Slovenije, Banque de France, Deutsche Bundesbank, Eesti Pank and Oesterreichische Nationalbank) identified the specific topics in which the Central Bank of Bosnia and Herzegovina needed to make progress in order to reach a level comparable to that of a central bank of an EU Member State, in seven central banking areas (audit, coordination among banking supervisors, economic analysis and research, financial stability, monetary policy implementation under a currency board, payment systems and statistics). The Eurosystem identified 70 recommendations, which the Central Bank of Bosnia and Herzegovina has already started to implement.

A new multi-year programme to the benefit of the Central Bank of the Russian Federation was signed in Moscow on 20 March 2008 and started on 1 April this year. The programme, which will last until December 2010, has two components. In the area of audit, it aims to make the Central Bank of the Russian Federation acquainted with the audit practices of the Eurosystem, in particular in view of the transition from a compliance-based to a risk-based audit. In the area of banking supervision, the Eurosystem will support the implementation of the Basel II requirements in Russia in its own three pillars, in particular in the regulatory

framework. The programme will be carried out by specialists from the ECB, Banca d'Italia, Banco de España, Bank of Greece, Banque de France, De Nederlandsche Bank, Deutsche Bundesbank, Oesterreichische Nationalbank and Suomen Pankki – Finlands Bank, the latter in cooperation with the financial supervisor Rahoitustarkastus.

The ECB has also entered into negotiations for two further programmes which may begin in 2008.

A programme with the National Bank of Serbia will assess preparatory needs in view of the country's possible future entry into the EU: it will include extensive participation by ESCB national central banks and will focus on seven central banking areas: capital account liberalisation, consumer protection and education, harmonisation of regulations with the *acquis communautaire*, monetary and exchange rate policy, statistics, supervision of banks and other financial institutions.

A new programme with the Central Bank of Egypt will concern the implementation of Basel II requirements in Egypt. It is planned to last for three years and will be carried out by the ECB together with eight national central banks from the ESCB. It will support the Central Bank of Egypt's preparations for implementing the three pillars of Basel II, in particular in contact with the local banking and financial industry.

## 5 CONCLUSION

Technical assistance in the domain of central banking is an institutional practice – aiming at transferring expertise and sharing experiences among professionals of different institutions – dating back to the building of a network of cooperative relationships between central banks worldwide in the course of the last century. It is strongly in the interest of the central banking community, as it ultimately supports the extension of monetary and financial stability in a financially intertwined world.

The bulk of the technical assistance provided by the Eurosystem to central banks in third countries is given by the national central banks, which operate according to different institutional and operational modalities, taking into account their history and foreign relations. Information on activities to the benefit of regions geographically closer to Europe is exchanged on a regular basis by the Eurosystem Task Force on Central Bank Cooperation, which also coordinates a number of larger multi-year programmes organised by the ECB on behalf of the Eurosystem. Such programmes have been financed by the European Commission as part of the EU regional policies to increase integration between Europe and its neighbouring regions. All in all, the Eurosystem is an important provider of technical assistance to other central banks. Considering only those central banks of regions around Europe, the Eurosystem dedicates the equivalent of around 30 full-time person-years to this activity. This support has been instrumental in the past to prepare the central banks of new EU Member States for EU enlargement and is currently given to both new candidate countries and emerging economies in Europe's neighbourhood.

The Eurosystem is continuing and deepening activities which its national central banks had inaugurated long before its inception. The increasing volume of requests for support which the Eurosystem receives from central banks in third countries is ultimately proof of the capacity of Europe to render, in the central banking area, a service to countries outside the European Union, while illustrating that the EU model is attracting interest also in central banking. By acting in unison, the outreach of the Eurosystem has also considerably increased, compared with the period prior to the establishment of EMU, illustrating another, mostly overlooked, benefit of the creation of Monetary Union in Europe.