

**BOARD
OF
DIRECTORS**

ASIAN DEVELOPMENT BANK

R345-00
26 December 2000

**TECHNICAL ASSISTANCE TO NAURU
FOR STRENGTHENING THE MINISTRY OF FINANCE
AND SUPPORTING THE BUREAU OF STATISTICS
(FINANCED FROM THE JAPAN SPECIAL FUND)**

The attached Report is circulated for the information of the Board. The President approved the technical assistance on 14 December 2000.

For Inquiries: Mr. C. Saldanha, Office of Pacific Operations
(Ext. 6125)
Mr. T. Sen, Office of Pacific Operations
(Ext. 6114)

ASIAN DEVELOPMENT BANK

TAR: NAU 34279

**TECHNICAL ASSISTANCE
(Financed from the Japan Special Fund)**

TO THE

REPUBLIC OF NAURU

FOR

STRENGTHENING THE MINISTRY OF FINANCE

AND

SUPPORTING THE BUREAU OF STATISTICS

December 2000

CURRENCY EQUIVALENTS

(as of 11 December 2000)

Currency Unit	=	Australian Dollar (A\$)
A\$1.00	=	\$0.525
\$1.00	=	A\$1.902

ABBREVIATIONS

ADB	-	Asian Development Bank
BOS	-	Bureau of Statistics
FFRP	-	Fiscal and Financial Reform Program
MOF	-	Ministry of Finance
TA	-	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June. FY in front of a calendar year denotes the year in which the fiscal year ends. For example FY2001 began on 1 July 2000 and ends on 30 June 2001.
- (ii) In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. During the 2000 Country Programming Mission, the Government of the Republic of Nauru (the Government) requested the Asian Development Bank (ADB) to provide technical assistance (TA) to strengthen the capacity of the Ministry of Finance (MOF) and to provide specific support to MOF's Bureau of Statistics (BOS). The concept of the proposed TA has been cleared by ADB's Management and the TA is included in the country assistance plan (CAP) for Nauru for 2000. The ADB Fact-finding Mission visited Nauru on 21-25 August 2000 and reached an understanding with the Government on the objective, scope, cost estimates, financing plan, implementation arrangements, and outline terms of reference for consultants for the TA.¹ Appendix 1 provides the TA framework.

II. BACKGROUND AND RATIONALE

2. ADB approved the Financial and Fiscal Reform Program (FFRP) loan to Nauru in late 1998.² The loan was made effective in February 1999 and reforms under the FFRP started at a fast pace. Considerable progress has been made, especially in expenditure control, through substantial downsizing of civil service and cutbacks in expenditure. However, progress has been stalled and in some areas gains have been reversed due to MOF's inability to sustain the budget controls and adequately monitor revenue and expenditure. Improving budget preparation, enforcing rigorous scrutiny and analysis of departmental budget submissions, setting budget parameters, adhering to budgets following accepted financial accounting standards, and monitoring cash flows need immediate attention. Clear systems must be established for annual and multiyear budgeting, financial controls, and better accounting and reporting within MOF. Currently, public resource management practices and internal audit systems are deficient and inadequate to meet the challenges faced by the country.

3. During the review of the FFRP loan, the new Government underscored the need for reorganizing MOF, staffing it with competent and qualified people, and training its staff. The Committee for Development Planning, comprised of ministers and chairmen of major Government corporations, has requested early implementation of the TA so that MOF is in a stronger position to pursue the reform agenda and carry out its mandate. ADB and the Government agree that strengthening the capacity of MOF and establishing proper standards for systems and procedures is central to the long-term objective of improving public finance management and accountability, leading to improved governance.

4. The paucity of up-to-date national statistics and basic economic and financial data has been a perpetual problem in Nauru. Poor statistics hampers analysis and consequently prevents financial and economic planning. In this respect the Government has requested ADB and other multilateral agencies such as the Pacific Financial Technical Assistance Centre for assistance to help support MOF's BOS. Adequate statistics and data are prerequisites to improved economic and financial planning and policy formulation.

5. In September 1999, ADB's Operations Evaluation Office produced a study titled *Effectiveness and Impact of ADB Assistance to the Reform of Public Expenditure Management*.³ The study stressed the importance of capacity building and governance. Within capacity

¹ The TA was first listed in the *ADB Business Opportunities* in June 2000.

² Loan 1661-NAU: *Fiscal and Financial Reform Program*, for \$5.000 million, approved on 16 December 1998.

³ Operations Evaluation Office. 1999. Special Evaluation Study: *Effectiveness and Impact of ADB Assistance to the Reform of Public Expenditure Management in Bhutan, India, Kiribati, and Lao PDR*. Asian Development Bank. Manila

building, it stressed the need for (i) ownership as the key ingredient to develop capacities; (ii) capacity mapping of the agencies involved, their functions, resources, interactions; and (iii) an action plan for implementing change, with priorities, sequencing, and interim targets. On governance, the study stressed efficiency, effectiveness, transparency, and accountability of the public expenditure management.

III. THE TECHNICAL ASSISTANCE

A. Objective

6. The objective of this TA is to strengthen MOF's capacity in budgeting and financial management by streamlining and enhancing the institutional capacity of the Finance Department and BOS. At the end of the TA, the Government will have enhanced economic and financial data collection compilation and analysis, an appropriate and effective budgeting and financial management system, the institutional setting required to manage public finance, and trained staff to provide them.

B. Scope

7. A key component of this TA is a comprehensive action plan for implementing changes to strengthen budgeting and financial management, which will include, prioritizing, sequencing, and setting of interim targets; and providing MOF with the capability to prepare multiyear budgets to support medium-term plans. The TA will help to provide on-the-job training to senior MOF staff, develop methodology to improve work efficiency and flow in MOF, and effect organizational changes as appropriate to attain desired results. Consultants will conduct training seminars for MOF and BOS staff and accounting staff of other line ministries.

C. Cost Estimates and Financing Plan

8. The cost of the TA is estimated at US\$375,000 equivalent comprising US\$293,000 in foreign exchange and US\$82,000 in local currency expenditures. ADB will provide a total of US\$300,000 to meet the entire foreign exchange cost of \$293,000 and \$7,000 in local currency. The ADB Financing will be provided on a grant basis from the Japan Special Fund (JSF), funded by the Government of Japan. The foreign exchange cost to be financed by ADB will mainly include international consultants' remuneration, per diem, and travel. The Government will finance the remaining \$75,000 equivalent, to cover local costs of office space for the consultants, counterpart staff, secretarial services, and official communications. The cost estimates are provided in Appendix 2.

D. Implementation Arrangements

9. MOF will be the Executing Agency for the TA. The TA consultant will work in close cooperation with the secretary of MOF, and in close coordination with officials of concerned Government departments. To facilitate the TA, a steering committee, chaired by the minister of finance and comprising senior MOF officials and selected members of the Committee on Development Planning will be responsible for guiding the TA and ensuring effective liaison, data gathering, and discussion between the Government and the consultants. The acting secretary of MOF will be the focal point for the consultants and provide coordination between the Government, its agencies, and the consultants. MOF counterpart staff with appropriate accounting knowledge will assist the consultants and become fully familiar with the TA details.

The TA will be implemented over a period of 20 months starting in December 2000 and covering two budget cycles (FY2002 and FY2003).

10. The TA will be carried out by international consultants to be engaged directly or from a firm, in accordance with ADB's *Guidance on the Use of Consultants*. The consultants will provide a total of approximately 12 person-months of services of (i) a financial management specialist (9 person-months), and (ii) a statistics and national accounts expert (3 person-months). The services will be spread over the 20 month TA implementation period, commencing no later than December 2000. The TA is expected to finish by the end of July 2002. The consultants will be briefed at the start of the TA. The outline terms of reference are given in Appendix 3. The consultants will conduct workshops and appropriate training of budget and finance officers in each ministry as well as core MOF staff. The consultant will be required to submit an inception report within the first three weeks of TA implementation, quarterly reports, a draft final report, and a final report at the end of the TA. The draft final report will be discussed in a tripartite meeting to be attended by the consultants, MOF, and ADB. Procurement of all office equipment under the TA will be in accordance with arrangements acceptable to ADB. The Government must identify suitable counterpart staff to work with international consultants and MOF staff to be trained prior to TA implementation. The consultants will report to the Minister of Finance.

IV. THE PRESIDENT'S DECISION

11. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of Nauru, in an amount not exceeding the equivalent of \$300,000 for the purpose of Strengthening the Ministry of Finance and Supporting the Bureau of Statistics and hereby reports such action to the Board.

TECHNICAL ASSISTANCE LOGICAL FRAMEWORK

Design	Project Targets	Monitoring Indicators	Risks/Assumptions
<p>1. Goal</p> <p>Sound financial and fiscal management in support of efficient and effective government.</p>	<ul style="list-style-type: none"> • Reduced or eliminated deficits • Improved public sector resource allocation 	<ul style="list-style-type: none"> • Government financial statistics • Technical assistance (TA) review missions 	<ul style="list-style-type: none"> • Political stability • Good governance • Private sector investment
<p>2. Purpose</p> <p>Streamline and enhance the Bureau of Statistics (BOS).</p> <p>Streamline and enhance the Finance Department.</p>	<ul style="list-style-type: none"> • Adoption of internationally accepted standards practices • Adoption of internationally accepted standards practices 	<p>Statistical data</p> <ul style="list-style-type: none"> • Budget and Accounting Statements • TA review missions 	<ul style="list-style-type: none"> • Political commitment and support • Good governance • Sound institutions • Appropriate statistics • Appropriate counterpart staff to the consultants
<p>3. Output</p> <p>Improve on a sustainable basis the basic capacity of the Government in data collection and analysis, budget formulation, and public finance accounting and control.</p>	<ul style="list-style-type: none"> • Enhanced economic and financial data collection, compilation, and analysis. • Appropriate and effective budgeting and financial system. 	<ul style="list-style-type: none"> • Statistical publications and budgets. • Budgeting and accounting statements. • TA progress reports and review missions 	<ul style="list-style-type: none"> • Lack of resources. • Broad technical ability to implement improved data collection and compilation and budgetary practices
<p>4. Activities</p> <p>Review organizational structure of Ministry of Finance (MOF) and BOS.</p> <p>Recommend changes in procedures and controls to improve data collection and analysis, and fiscal management.</p> <p>Preparation of multiyear budgets</p>	<p>Consultant working with counterpart in MOF and BOS.</p> <p>Assist MOF and Government in planning and formulating budget parameters</p>	<p>Records of meetings and consultant's reports</p> <p>Set of recommendations to be prepared and agreed within 3 months of inception</p> <p>Comparative budget presentation</p>	<ul style="list-style-type: none"> • Staff participation • Government acceptance • Consultant performance • Staff participation • Government acceptance <p>Poor planning and forecasting changes in Government priorities</p>

Capacity mapping of all agencies involved in public expenditures management process	Consultant working with counterpart in the different agencies	Records of meetings and consultant's reports	
Training program for MOF and BOS, and other agencies on budgeting and financial management	In-country workshop and training seminars	Records of meetings and consultant's reports	Adequate participation
Consolidate and reconcile the financial information	Consultant working with counterpart in MOF and line ministries	Review budget	<ul style="list-style-type: none"> • Consultant performance • Staff participation
Formulate budget and upgrade accounting and financial reporting	Consultant working with counterpart in MOF	Review budget and financial documents	<ul style="list-style-type: none"> • Consultant performance • Staff participation
Analysis of budget cycle for governance assessment	Consultant working with counterpart in related agencies	Records of meetings and consultant's reports	<ul style="list-style-type: none"> • Consultant performance • Government acceptance
Action plan to enhance budgeting and financial management	Consultant working with counterpart	Records of meetings and consultant's reports	<ul style="list-style-type: none"> • Consultant performance • Government acceptance
5. Inputs	Resources		
<ul style="list-style-type: none"> • Consultants • workshops and seminars 	<ul style="list-style-type: none"> • 12 person-months • \$6,000 	<ul style="list-style-type: none"> • Disbursement reports • ADB TA review mission reports 	<ul style="list-style-type: none"> • Timely submission of withdrawal applications • Availability of counterpart funds

COST ESTIMATES AND FINANCING PLAN
(US\$)

Item	Foreign Exchange	Local Currency	Total
A. Asian Development Bank Financing^a			
1. Remuneration (12 person-months)	198,000	0	198,000
2. Per Diem (360 days)	40,000	0	40,000
3. International and Local Travel	16,000	4,000	20,000
4. Seminars, Workshops, and Training	3,000	3,000	6,000
4. Communication and Documentation	5,000	0	5,000
5. Miscellaneous Administration	5,000	0	5,000
6. Contingencies	26,000	0	26,000
Subtotal A	293,000	7,000	300,000
B. Government Financing			
1. Counterpart Staff	0	37,500	37,500
2. Office and Support Services	0	15,000	15,000
3. Domestic Travel	0	7,500	15,000
4. Contingencies	0	15,000	5,000
Subtotal B	0	75,000	75,000
Total	293,000	82,000	375,000

^a Grant basis, from the Japan Special Fund (JSF).
Source: Staff estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. General

1. The objective of this technical assistance (TA) is to strengthen the capacity of the Ministry of Finance (MOF) in budgeting and financial management by streamlining and enhancing the institutional capacity of the Finance Department and the Bureau of Statistics (BOS). At the end of the TA, the Government will have enhanced economic and financial data collection and compilation and an appropriate and effective budgeting and financial management, and the institutional setting and the officers to provide them.

2. A key component of this TA is a comprehensive action plan for strengthening budgeting and financial management, which will include priorities, sequencing, and interim targets. The TA will help to provide on-the-job training to senior MOF staff and develop methodology to improve work efficiency and flow in MOF. Consultants will conduct training seminars for MOF staff and accounting staff of other line ministries. Under the TA, the consultants will provide the following reports on paper and in electronic files to the Government and the Asian Development Bank (ADB):

- (i) An inception report will be submitted three weeks after the start of the TA, giving the work plan and setting out initial findings.
- (ii) Quarterly reports will be provided on TA progress in meeting performance targets.
- (iii) A draft final report will be provided at the end of the TA implementation period. The report will be the subject of a tripartite review meeting attended by the consultants, the Government, and ADB. The report will address progress under the TA, and problems encountered and resolved, and will contain a detailed outline of the proposed action plan to strengthen economic and financial data collection and management.
- (iv) Final report to be submitted one month of receipt of comments from the Government and ADB taking into account the comments received.

3. Under the TA, a team of two specialists (person-months in parenthesis) will be engaged for a total of 12 person-months to assist the Government of Nauru in strengthening its statistics compilation and budgeting and financial management through institutional and capacity development. The consultants will be a (i) financial management specialist (9) and (ii) statistics and national accounts expert (3). The consultants will have relevant academic qualifications and experience in their disciplines, and institutional and capacity development assistance in small island countries. Good interpersonal skills and sensitivity in working in the Pacific islands' sociocultural environment are required.

B. Specific Terms of Reference

1. Financial Management Specialist (9 person-months) – Team Leader

4. The specialist's will:

- (i) review the organizational structure and institutional capacity of the Finance Department in general accounting, budgeting, and economic and financial management, so that it can better fulfill its functions;

- (ii) advise on improvements in the organizational structure of Finance Department in order to increase its delivery capability;
- (iii) consolidate and reconcile the Government's financial information to provide the basis from which to improve the reporting and budgetary systems;
- (iv) formulate budget and upgrade accounting and financial reporting practices to internationally accepted standard practices;
- (v) prepare a comprehensive action plan for implementing changes to strengthen budgeting and financial management, which will include priorities, sequencing, and interim targets;
- (vi) improve the financial management skill of Government staff by formulating and implementing a training program for Government officials in the analytical techniques required for proper budgeting and financial management; and
- (vii) assist in the preparation of multiyear budgets to support medium-term planning.

2. Statistics and National Account Expert (3 person-months)

5. The expert will:

- (i) review BOS' organizational structure and institutional capacity in data collection and compilation, so that BOS can better fulfill its functions;
- (ii) advise BOS on the reorganizational process for improving systems and procedures, and developing a comprehensive work program;
- (iii) assist BOS to improve the compilation of national account statistics by identifying data gaps and developing methodology for estimating government and informal sector contributions to the economy; and
- (iv) train designated BOS staff on compiling and automating the processing of trade, income, and expenditures, and labor force statistics from the available report forms.