

ASIAN DEVELOPMENT BANK

TAR: 32459

**TECHNICAL ASSISTANCE
FOR THE
PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE
2002**

September 2002

ABBREVIATIONS

| | | |
|-------|---|---|
| ADB | – | Asian Development Bank |
| IMF | – | International Monetary Fund |
| PDMC | – | Pacific developing member country |
| PFTAC | – | Pacific Financial Technical Assistance Centre |
| TA | – | technical assistance |
| UNDP | – | United Nations Development Programme |

NOTE

In this report, “\$” refers to US dollars.

I. INTRODUCTION

1. The Pacific Financial Technical Assistance Centre (PFTAC), to which the Asian Development Bank (ADB) granted technical assistance (TA) in 1994 and 1996,¹ was assessed as a successful operation in the Pacific for its services, by an independent evaluation in 1997 involving its major donors. Thereafter, ADB renewed its funding support in December 1998 under TA 5817² for a three-year period up to 2001. The approval was in principle for a total amount of \$1.3 million, with equal payments of \$433,000 to be allocated and approved yearly. Two payments of \$433,000 each were made in 2000 and 2001.³ The third payment was not made due to the expiry of the agreement.⁴

II. ISSUES

2. PFTAC is based in Suva, Fiji Islands. It provides advice to ADB's Pacific developing member countries (PDMCs) on improving budget management, tax administration, banking supervision, balance of payments, and national accounts statistics. It is managed by the International Monetary Fund (IMF) and is funded by IMF and other agencies, including the Australian Agency for International Development, New Zealand Agency for International Development, United Nations Development Programme (UNDP), and ADB. In late 2001, UNDP withdrew its participation in the project due to tight financial resources and a reassessment of its comparative advantage and priorities.

3. PFTAC was assessed as a successful operation by an independent evaluation in 1997 and by a tripartite review in 2001 involving the major donors and selected PDMCs.⁵ ADB support for PFTAC has included \$300,000 for training activities in 1994 under TA 5604, \$1.136 million under TA 5672 in 1996, \$433,000 under TA 5817, and \$433,000 under TA 6003.

4. Under TA 5817 it was agreed in principle to provide a total of \$1.3 million over the 3-year period 1999–2001 to continue ADB support. But it was also decided that actual funding would be allocated and approved on a yearly basis. The first payment, originally planned for 1999, was disbursed only in 2000 due to a delay in expending funds received in 1999. The in-principle agreement to contribute \$1.3 million over the 3 year period 1999–2001 expired with the second tranche payment in November 2001.

5. With a core team of four advisers under the direction of a project coordinator, PFTAC has contributed to strengthening all PDMCs' economic and financial management capacities in public financial management, tax administration, banking supervision, and statistics compilation. PFTAC operations have complemented and in some cases underpinned ADB operations in support of improved public sector economic and financial management in PDMCs. An increasing number of PDMCs are modernizing and improving their public sector financial management with the support of ADB's program loans and advisory TAs. For example, PFTAC

¹ ADB. 1994. *Technical Assistance Training Assistance with the IMF/UNDP Pacific Financial Technical Assistance Centre*. Manila; ADB. 1996. *Technical Assistance for the Pacific Financial Technical Assistance Centre*. Manila.

² ADB. 1998. *Technical Assistance for the Pacific Financial Technical Assistance Centre*. Manila. This RETA has an initial amount of \$433,000 payable in 1999.

³ ADB. 2000. *Technical Assistance for the Pacific Financial Technical Assistance Centre Second Tranche-2000-2001*. Manila.

⁴ Under TA 5817 there was an agreement in principle to provide a total of \$1.3 million over the 3-year period 1999–2001 to continue ADB support.

⁵ The annual tripartite reviews include all PDMCs who are fully supportive of PFTAC.

is assisting the economic and public sector reform program in Tonga to improve tax administration and tax reform that is an important element of the ADB-supported program loan⁶ of fiscal and public service reforms.

6. Modernizing and improving public sector financial management requires knowledge and understanding of public expenditure management; financial control principles and procedures; and principles and practices of contestability, transparency, good governance, and accountability. Given the limited number of qualified people in the region, and realizing that improving these skills takes time, PDMCs will continue to require professional help on a regular basis for some time to come, and PFTAC will be important for meeting these and other emerging needs.

7. Since its establishment in 1994, PFTAC advisers have helped strengthen economic and financial management capacities and improve the understanding of accountability principles in PDMCs. An efficient and knowledgeable public sector is an essential component leading to more effective public resource allocation, and effective and transparent government. This will translate into sustainable economic growth, social development, and good governance—the three pillars of ADB's Poverty Reduction Strategy.

8. PFTAC operations have complemented and, in an increasing number of cases, underpinned ADB operations, especially in support of improved public sector economic and financial management. The improvement in economic and financial management capacities will support public sector reforms, private sector development, economic growth, and poverty reduction, which is consistent with ADB's regional strategy in the Pacific and the country strategy and programs.

9. The TA will promote regional cooperation through regional seminars and workshops and the development of a database on current public financial management issues and practices relevant to the region.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

10. The objective of the TA⁷ is to ensure that PFTAC will continue to provide assistance to PDMCs so as to strengthen and improve their economic and financial management capacities. This will enable governments in the region to progress toward effective and efficient government, better public resource allocation, and macroeconomic stability. The TA logical framework is provided in Appendix 1.

B. Methodology and Key Activities

11. With funding support provided under this TA (together with financial support from other donors), PFTAC will provide advice and training to PDMCs through short-term visits by the resident advisers to PDMCs, and on a regional basis through seminars and workshops. In addition, the advisers will regularly provide timely and effective advice and guidance through

⁶ ADB. 2002. *Report and Recommendations by the President to the Board of Directors for the Proposed Loan to the Government of Tonga on the Economic and Public Sector Reform Program*. Manila.

⁷ The TA was first listed in *ADB Business Opportunities* on 13 June 2002.

direct communications from PFTAC. The provision of advice and training by PFTAC advisers will be supplemented by specific, well-defined, short-term consultancies as necessary.

12. Overall, the TA supports

- (i) advice on the design and implementation of information systems on public finance management, including effective budgeting and economic planning systems and processes, improved budget implementation and monitoring, and better financial reporting for accountability purposes;
- (ii) advice on legislative and regulatory policies and institutions to improve revenue administration and banking supervision to facilitate private sector development;
- (iii) on-the-job-training, and in-country and regional seminars and workshops to help government officials maintain and enhance public financial management capability;
- (iv) development and adaptation of tools and techniques that are appropriate to the limited needs and capacity of PDMCs;
- (v) maintenance of a database on current economic, fiscal, and public financial management issues and practices relevant to the region; and
- (vi) other related activities in support of the objectives of PFTAC.

13. The TA and PFTAC's overall work in the regions are complementary to ADB operations in the individual countries. The TA will, for example, support ongoing public sector and economic reform in Fiji Islands, Republic of the Marshall Islands, and Papua New Guinea.⁸ ADB and PFTAC work closely together in reviewing needs in individual countries and designing assistance programs that frequently include a PFTAC component.

C. Cost and Financing

14. The total cost of PFTAC for 2002–2004 is estimated at \$5.189 million. Australia has increased its contribution to \$1.02 million (a 50% increase) and New Zealand to \$403,000 (a 44% increase), respectively. IMF requested that ADB's aggregate contribution remain at \$1.3 million for the three years to 2004, or \$433,000 annually. However, ADB has only agreed to funding on a year-by-year basis subject to PFTAC performance. Assuming that the European Union will make up the shortfall created by the withdrawal of UNDP (E1 million or \$930,000 equivalent), IMF's contribution is estimated at \$1.54 million for the same period, an increase of about 10% over their 1999–2001 contribution.

15. The TA of \$433,000 will support PFTAC operations for 2002 only and will be financed by ADB on a grant basis from the ADB-funded TA program. Contributions by other donors for 2002 amounted to \$1.529 million. The detailed cost estimates and financing plan for PFTAC's 2002 operations are in Appendix 2.

⁸ For example, ADB is financing public sector reform and restructuring programs in Fiji Islands through (i) ADB. 1999. *Technical Assistance to Fiji for the Public Enterprise Reform Program*, TA 3242 for \$600,000; (ii) ADB. 2001. *Technical Assistance to Republic of the Marshall Islands for the Fiscal, Financial and Economic Advisory Services*, TA 3668 for \$950,000; and (iii) ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Papua New Guinea for the Financial Management*, Loan 1703 for \$25.8 million.

D. Implementation Arrangements

16. Following the arrangement in past years, IMF will be the Executing Agency for the TA. The resident advisers and short-term consultants are recruited and supervised by IMF in accordance with its standard practices. IMF's selection procedures are consistent with ADB's *Guidelines on the Selection of Consultants*. The advisers and short-term consultants partly financed out of ADB's grant are nationals of ADB member countries, selected by the Fiscal Affairs Department of IMF. ADB funding will be confined to benefiting PDMCs. PFTAC will continue to prepare half yearly reports for submission to ADB and other donors on its activities, as well as consulting on arrangements for workshops, seminars, and training attachments. ADB will participate in the annual tripartite performance review process to be organized by the steering committee.⁹

17. Funds under this TA will need to be disbursed before the end of 2002 in order to reimburse expenses incurred by PFTAC. ADB's financial support to PFTAC will be decided on a year-by-year basis subject to PFTAC performance and progress on implementing recommendations arising out of the tripartite performance review.

18. Appendix 3 summarizes activities of PFTAC advisers in 2001 to illustrate the kinds of activities being funded by ADB. The quarterly work plans provided by PFTAC to ADB and other donors contain details on the purpose of each country visit and have been useful in assessing PFTAC's effectiveness in meeting PDMC needs.

19. During the 2001 annual tripartite performance review, the issues of skill transfer and output/outcome orientation in PFTAC's planning, budgeting, and reporting were discussed to ensure that PFTAC will continue to achieve its objectives in spite of its resource constraints and the increasing demand for assistance from PDMCs. Although it has been difficult to measure PFTAC's capacity building impact, PFTAC has made an effort to establish more formal medium-term assistance programs, including the definition of outputs and performance indicators where the TA covers several years and objectives. However, PFTAC's approach to skills transfer is largely confined to short visits by PFTAC advisers and short-term regional seminars. This is an issue which will be further pursued in the course of the TA implementation with PFTAC and IMF.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$433,000 on a grant basis for the Pacific Financial Technical Assistance Centre, and hereby reports this action to the Board.

⁹ The steering committee comprises representatives from selected donor and recipient countries to support and advise PFTAC in between annual performance reviews.

TECHNICAL ASSISTANCE FRAMEWORK

| Design Summary | Performance Indicators/Targets | Monitoring Mechanisms | Assumptions and Risks |
|---|--|---|---|
| <p>Goal Sound financial, fiscal, and economic management in support of efficient government, effective economic resource allocation, and macroeconomic stability</p> | <ul style="list-style-type: none"> • Reduce budget deficits, balance budgets, or maintain budget surplus as appropriate • Appropriateness of performance indicators for budget allocations | <ul style="list-style-type: none"> • Gross domestic product, trade, and investment data and other economic statistics • Financial and budget reports | <p>Political commitment to, and community support for, good governance and financial management reforms</p> |
| <p>Purpose Improve institutional capacity for more effective financial and economic management in Pacific developing member countries (PDMCs)</p> | <p>Adopt internationally accepted standards and practices appropriate to PDMCs' needs</p> | <p>Content and format of budget, financial, and other statistical reports</p> | |
| <p>Outputs</p> <ol style="list-style-type: none"> 1. Capacity to produce budget and financial reports based on appropriate internationally accepted standards and practices 2. Timely and high quality financial and statistical reporting in PDMCs 3. Establishment of measurable performance indicators as part of budget and financial reports | <p>New content and format of budget papers and financial reports in accordance with appropriate internationally accepted standards and practices</p> <p>Observance of deadlines for report preparation and publication</p> <p>Achievement, or absence, of performance indicators in budget/financial reports</p> | <p>New manuals on budget process, expenditure control, revenue management and collection</p> <ul style="list-style-type: none"> • Systems to collect statistical data • Timely financial and statistical reports <p>Inclusion of performance indicators as part of regular budget/financial reporting</p> | <p>Availability of resources in PDMCs to carry out reforms</p> |
| <p>Activities Provide practical assistance through the following key activities:</p> <ol style="list-style-type: none"> 1. Specific advice on day-to-day operational issues through direct communications 2. Regular and ad hoc visits to PDMCs to assess adequacy of financial and regulatory systems, and to advise on issues of maintenance and | <p>In-country workshops, regional seminars, and arranging attachments of PDMC staff to relevant organizations in donor countries; use of available expertise of resident advisers by PDMC officials to resolve operational difficulties</p> | <p>Pacific Financial Technical Assistance Centre half yearly progress reports, yearly reviews of PFTAC performance by donor countries and PDMC governments</p> | <p>Low turnover of staff from relevant ministries in PDMCs</p> |

| Design Summary | Performance Indicators/Targets | Monitoring Mechanisms | Assumptions and Risks |
|---|---------------------------------------|--|---------------------------------|
| <p>enhancement</p> <p>3. Regular training seminars and workshops on economic and financial management</p> <p>4. On-the-job training through professional attachments of individual officials with relevant organizations in donor countries</p> | | | |
| <p>Inputs</p> <p>Availability of resident expert advisers and supportive infrastructure for direct communication and training</p> | | <p>Advisers' reports, PFTAC half yearly progress reports</p> | <p>Continuing donor funding</p> |

COST ESTIMATES AND FINANCING PLAN
(\$'000)

| Item | Foreign Exchange | Local Currency | Total Cost |
|---|---------------------|-------------------|---------------|
| A. Asian Development Bank Financing | | | |
| 1. Consultants | | | |
| a. Remuneration and Per Diem | | | |
| i. Resident Advisers | 250 | 0 | 250 |
| ii. Short-term Consultants | 80 | 0 | 80 |
| b. International and Local Travel | 30 | 0 | 30 |
| 2. Training, Seminars, and Conferences | | | |
| a. Professional Attachments | 20 | 0 | 20 |
| b. Seminar Participants | 10 | 0 | 10 |
| 3. Miscellaneous Administration and Support Costs | 43 | 0 | 43 |
| Subtotal (A)^a | 433 | 0 | 433 |
| B. Other Financing | | | |
| 1. Consultants | | | |
| a. Remuneration and Per Diem | | | |
| i. Resident Advisers | 750 | 0 | 750 |
| ii. Short-Term Consultants | 100 | 0 | 100 |
| iii. Administrative Support | 0 | 38 | 38 |
| b. International and Local Travel | 160 | 0 | 160 |
| c. Report and Communications | 0 | 30 | 30 |
| 2. Equipment | 0 | 10 | 10 |
| 3. Training, Seminars, and Conferences | | | |
| a. Professional Attachments | 40 | 0 | 40 |
| b. Seminar Participants | 60 | 0 | 60 |
| 4. Miscellaneous Administration and Support Costs | 0 | 321 | 321 |
| 5. Accommodation and Other Costs | 0 | 20 | 20 |
| Subtotal (B) | 1,110 | 419 | 1,529 |
| Total | 1,543 | 419 | 1,962 |

^aThis is subject to funding under this TA.

Note: Conversion rates are as follows: AUS\$1=US\$0.5667; NZ\$1=US\$0.4912; EU1=US\$0.93

Source: PFTAC estimates.

PFTAC PHASE II – DISTRIBUTION OF ASSISTANCE BY OUTPUT
Table A3.1: January – June 2001
(Number of Events)

| Country | Advisory Missions | | | | | Seminar Participation | | Short-Term Consultancies | |
|--------------------------------|-------------------|----------|----------------|----------|-----------|-----------------------|----------|--------------------------|----------|
| | Outputs | | | | | Outputs | | Outputs | |
| | 1 | 2 | 3 ^a | 4 | T | 1 | T | 1 | T |
| Cook Islands | 1 | | 1 | | 2 | 1 ^a | 1 | | |
| Federated States of Micronesia | | 1 | | | 1 | | | | |
| Fiji | 2 | 1 | | | 3 | | | | |
| Kiribati | 1 | | | | 1 | 2 | 2 | | |
| Republic of Marshall Islands | 1 | | 2 | | 3 | | | 1 | 1 |
| Nauru | | | | | | | | | |
| Niue | | | | | | | | | |
| Palau | | 1 | 2 | | 3 | | | | |
| Papua New Guinea | | | | 1 | 1 | | | | |
| Samoa | 1 | | | | 1 | | | 1 | 1 |
| Solomon Islands | | | 1 | | 1 | | | | |
| Tokelau | | | | | | | | | |
| Tonga | | 2 | | 2 | 4 | | | | |
| Tuvalu | | | | | | | | | |
| Vanuatu | | | | 1 | 1 | | | | |
| Total | 6 | 5 | 6 | 4 | 21 | 3 | 3 | 2 | 2 |

Output 1 Public Financial Management

Output 2 Tax Administration

Output 3 Banking Supervision

Output 4 Statistics

^a FEMM 2001 Ministerial Workshop on *Advancing Reform in Public Financial Management*

PFTAC PHASE II – DISTRIBUTION OF ASSISTANCE BY OUTPUT**Table A3.2: July-December 2001
(Number of Events)**

| Country | Advisory Missions | | | | | Seminar Participation Outputs ^a | Short-Term Consultancies | | Attachments | | |
|-----------------------------------|-------------------|----------|----------|----------|-----------|--|-----------------------------|----------|-------------|----------|----------|
| | Outputs | | | | | | Outputs | | Outputs | | |
| | 1 | 2 | 3 | 4 | T | 1 | T | 1 | 4 | T | |
| Cook Islands | | | 1 | | 1 | 2 | | | | | |
| Federated States of Micronesia | 1 | 2 | | 1 | 4 | 1 | 1 | 1 | | | |
| Fiji | | 3 | | 2 | 5 | 1 | | | | | |
| Kiribati | | | | | | 1 | | | | | |
| Republic of Marshall Islands | 2 | | 2 | 1 | 5 | | | 1 | | | |
| Nauru | | | | | | 1 | | | | | |
| Niue | | | 1 | | 1 | 1 | | | | | |
| Palau | | | 2 | | 2 | 1 | | | 6 | | 6 |
| Papua New Guinea | | | | 1 | 1 | 2 | | | | | |
| Samoa | | | | | | 1 | | | | | |
| Solomon Islands | | | | | | 2 | | | | | |
| Tokelau | | | | | | 1 | | | | | |
| Tonga | 1 | 2 | 1 | | 4 | 2 | 1 | 1 | | | |
| Tuvalu | | 1 | | | 1 | 1 | | | | | |
| Vanuatu | 1 | | | 1 | 2 | 2 | 1 | 1 | | 1 | 1 |
| Total | 5 | 8 | 7 | 6 | 26 | 19 | 3 | 3 | 6 | 1 | 7 |

Output 1 Public Financial Management

Output 2 Tax Administration

Output 3 Banking Supervision

Output 4 Statistics

^b Participation in PFTAC's Seminar on the Strategic Review of Technical Assistance in Economic and Financial Management in Pacific Island Countries on 22 November 2001.