

**ASIAN DEVELOPMENT BANK**

**TAR: 32459-02**

**TECHNICAL ASSISTANCE  
FOR THE  
PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE  
1999-2001 - SECOND TRANCHE**

**October 2001**

## **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,<sup>1</sup> 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 5817<sup>2</sup> for a three-year period up to 2001. The approval was in principle for a total amount of \$1,300,000, with equal payments of \$433,000 to be allocated and approved on a yearly basis. The first payment was made only in 2000.

## II. BACKGROUND AND RATIONALE

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 as well as other agencies, including the Australian Agency for International Development, New Zealand Official Development Assistance, United Nations Development Programme, and ADB.

3. PFTAC was assessed as a successful operation by an independent evaluation in 1997 and by a tripartite review in 1997 involving the major donors, with all recipient governments supporting its continued operation. ADB support for PFTAC has included \$300,000 for training activities in 1994 under TA 5604, \$1,136,000 under TA 5672 in 1996, and \$433,000 under TA 5817.

4. Under TA 5817 it was agreed in principle to provide a total amount of \$1,300,000 over the three-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. This TA will finance the second tranche.

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 the areas of 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.

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 continue to require professional help on a regular basis for some time to come, PFTAC will be important for meeting these and other emerging needs.

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<sup>1</sup> TA 5604-REG; *Training Assistance with the IMF/UNDP Pacific Financial Technical Assistance Centre*, for \$300,000, approved on 1 December 1994; TA 5672-REG: *Pacific Financial Technical Assistance Centre*, for \$1,136,000, approved on 6 February 1996.

<sup>2</sup> TA 5817-REG: *Technical Assistance for the Pacific Financial Technical Assistance Centre*, for \$1.3 million for the period 1999-2001 and for an initial amount of \$ 433,000 payable in 1999, approved on 10 December 1998.

7. **Poverty Reduction.** Strengthened economic and financial management capacities and a better understanding of accountability principles by civil servants will enable PDMC governments to make progress towards sound economic, fiscal, and financial management. An effective and efficient public sector is an essential component of macroeconomic stability, effective public resource allocation, and efficient and transparent government. This will translate into pro-poor sustainable economic growth, social development, and good governance—the three pillars of ADB's Poverty Reduction Strategy.

8. **Regional and Country Strategy.** 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. **Regional Cooperation.** 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. Objectives

10. The objective of the TA 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 make progress towards effective and efficient government, better public resource allocation, and macroeconomic stability. The TA logical framework is provided in Appendix 1.

#### B. Scope

11. With funding support provided under this TA, 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 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 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) support for reforms relating to public enterprises and civil service to rationalize the use of public resources and strengthen the effectiveness and efficiency of services to the community;
- (iv) on-the-job-training, and in-country and regional seminars and workshops to help government officials to maintain and enhance public financial management systems;
- (v) development and adaptation of tools and techniques that are appropriate to the more limited needs and capacity of PDMCs;
- (vi) maintenance of a database on current public financial management issues and practices relevant to the region; and
- (vii) other related activities in support of the objective of PFTAC.

13. The TA, and PFTAC's overall work in the region, are complementary to ADB work in the individual countries. The TA will, for example, support ongoing public sector and economic reform in Fiji Islands, Republic of the Marshall Islands, Nauru, and Papua New Guinea.<sup>3</sup> ADB and PFTAC work closely together in reviewing needs in individual countries and in designing assistance programs that frequently include a PFTAC component.

### **C. Cost Estimates and Financing Plan**

14. The total cost of PFTAC for the period 1999-2001 is currently estimated at \$2,890,000.<sup>4</sup> The actual expenditure in 2000 was higher than originally budgeted because of additional costs arising from the need to relocate PFTAC staff to Australia for a time because of political instability in Fiji Islands in 2000. The contribution by ADB remains unchanged at the approval in principle of \$1,300,000 over the three-year period, or \$433,000 per annum. ADB's second contribution of \$433,000 under this TA is to cover the costs of the public sector fiscal and financial management component including costs of international consultants (remuneration, per diem, and travel), associated professional attachments (temporary placements of staff with government agencies and institutions abroad), and training workshops and courses, plus a share of administration and operational support services as a contribution towards IMF's costs of administering PFTAC. The TA will be financed by ADB on a grant basis from the ADB-funded TA program. The detailed cost estimates and financing plan are in Appendix 2.

### **D. Implementation Arrangements**

15. Following the arrangement in past years, IMF will remain 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

<sup>3</sup> For example, ADB is financing public sector reform and restructuring programs in Fiji Islands through TA 3242-FIJ: *Public Enterprise Reform Program* for \$600,000, approved on 16 August 1999; Republic of the Marshall Islands, through TA 3668-RMI: *Fiscal, Financial and Economic Advisory Services*, for \$950,000, approved on 7 June 2001; Nauru through TA 3125-NAU: *Capacity Building for Financial & Economic Management* for \$600,000, approved on 16 December 1998; Loan 1661-NAU: *Fiscal and Financial Reform*, for \$5 million, approved on 16 December 1998; and Papua New Guinea through Loan 1703-PNG: *Financial Management*, for \$25.8 million, approved on 21 October 1999.

<sup>4</sup> The initial estimate of \$5.526 million was for the period 1996-2002. The latest budget for the same period is \$5.898 million. The increase was due mainly to the need to relocate PFTAC staff for a short time in 2000 because of the political situation in Suva.

*Guidelines on the Selection of Consultants.* The advisers are nationals of ADB member countries, selected by the Fiscal Affairs Department of IMF after appropriate consultation with ADB. ADB funding will be confined to benefiting PDMCs. PFTAC will continue to prepare quarterly 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 performance review process to be organized by UNDP.

16. Funds under this TA will be used to reimburse expenses incurred by PFTAC. It is expected that the reimbursement will be made before the end 2001.

17. Appendix 3 provides a summary of activities undertaken by PFTAC advisors in 2000 to illustrate the kinds of activities being funded by ADB. The quarterly reports provided by PFTAC to ADB and other donors contain more details on the purpose of each visit/communication and have been useful in assessing PFTAC performance in meeting PDMC needs.

18. IMF is currently supporting a strategic review of PFTAC by donor and PDMC representatives. IMF strongly supports the continuation of PFTAC for the foreseeable future as it has recently opened a "PFTAC-type" center in the Caribbean. A report from the IMF review team will be available prior to the annual tripartite meeting in late November 2001. As ADB support for PFTAC started in 1994, it is timely that an internal review be undertaken to determine whether ADB can and will continue to support PFTAC in the future.

#### **IV. THE PRESIDENT'S DECISION**

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance on a grant basis in an amount not exceeding the equivalent of \$433,000 for the Pacific Financial Technical Assistance Centre, 1999-2001- second tranche and hereby reports such action to the Board.

### TECHNICAL ASSISTANCE LOGICAL FRAMEWORK

<b>Design Summary</b>	<b>Performance Indicators/ Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<p><b>Goal</b> Sound financial, fiscal, and economic management in support of efficient government, effective economic resource allocation, and macroeconomic stability</p>	<p>Reduce budget deficits, balanced budgets where appropriate, improved public sector resource allocation</p>	<p>Gross domestic product, trade, and investment data and other economic statistics</p>	
<p><b>Purpose</b> Improve institutional capacity for more effective financial and economic management in Pacific developing member countries (PDMCs).</p>	<p>Adopting internationally accepted standards and practices in budget and financial management</p>	<p>New laws on budget, taxation, and financial reporting; new law/regulations on public sector management</p>	<p>A regional approach can achieve economies of scale. Political commitment to, and community support for, good governance and financial management reforms</p>
<p><b>Outputs</b></p> <ol style="list-style-type: none"> <li>1. Better understanding of financial and economic management principles and practices by public officials</li> <li>2. Timely and high quality financial reporting in PDMCs</li> <li>3. Improved resource allocation decisions</li> <li>4. Improved governance practices</li> </ol>	<p>New format of budget papers and public sector financial reports in accordance with internationally accepted standards and practices</p> <p>Clear definition of the roles and functions of ministers, civil servants and auditor general (i.e., review function)</p>	<p>New manuals on budget process, expenditure control, revenue management and collection; timely and high quality financial reports; new audit laws incorporating international auditing standards</p>	<p>Capacity to absorb new principles and business practices, continuing political commitment, sufficient human and financial resources for implementation</p>
<p><b>Activities</b> Provide practical assistance through the following key activities:</p> <ol style="list-style-type: none"> <li>1. Specific advice on day-to-day operational issues through direct communications</li> </ol>	<p>In-country workshops, regional seminars, and arranging attachments of PDMC staff to relevant organizations</p>	<p>PFTAC quarterly progress reports, yearly reviews</p>	<p>PDMC participation in PFTAC-organized activities, Willingness of appropriate</p>

(Reference in text: page 2, para. 10)

<b>Design Summary</b>	<b>Performance Indicators/ Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<p>2. Regular and ad hoc visits to PDMCs to assess adequacy of financial and regulatory systems, and to advise on issues of maintenance and enhancement</p> <p>3. Regular training seminars and workshops on financial management principles and to discuss regional issues of interest and relevance to all PDMCs</p> <p>4. On-the-job training through professional attachments of individual officials with relevant organizations in donor countries</p>	<p>in donor countries; use of available expertise of resident advisers by PDMC officials to resolve operational difficulties</p>	<p>of PFTAC performance by donor countries and PDMC governments</p>	<p>organizations within donor countries to participate in professional attachments, consistent donor funding</p>
<p><b>Inputs</b> Availability of resident expert advisers and supportive infrastructure for direct communication and training</p>		<p>Advisers' reports, PFTAC quarterly progress reports</p>	<p>Consistent donor funding</p>

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Asian Development Bank Funding			Other Donors 1999-2001	Total Cost 1999-2001
	1999-2000	2000-2001 <sup>a</sup>	2001-2002		
A. Project Personnel					
1. Resident Advisers	240	260	270	845	1615
2. Short-term Consultants	50	45	30	167	292
3. Administrative Support	15	23	24	36	98
4. Travel	58	25	29	208	320
<b>Subtotal (A)</b>	<b>363</b>	<b>353</b>	<b>353</b>	<b>1256</b>	<b>2325</b>
B. PFTAC Mission Costs					
1. Mission Costs (IMF)	0	0	0		
2. Steering Committee/TRP (UNDP)	0	0	0		
3. Evaluation (UNDP)	0	0	0		
<b>Subtotal (B)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>63</b>	<b>63</b>
C. Training Component					
1. Professional Attachments	40	23	23	71	157
2. Seminar Participants	10	37	37	93	177
<b>Subtotal (C)</b>	<b>50</b>	<b>60</b>	<b>60</b>	<b>164</b>	<b>334</b>
D. Office Equipment	0	0	0	63	63
E. Administration/ Communication	20	20	20	45	105
<b>Total</b>	<b>433</b>	<b>433</b>	<b>433</b>	<b>1591</b>	<b>2890</b>

a This is subject to funding under this TA.  
Source: Staff estimates.

(Reference in text: page 3, para. 14)

**PFTAC 1999-2001 - SECOND TRANCHE - DISTRIBUTION OF ASSISTANCE BY OUTPUT  
(Number of Events)  
January - June 2000**

Country	Advisory Missions					Seminar Participation					Short-Term Consultancies					Attachments				
	Outputs <sup>a</sup>					Outputs					Outputs					Outputs				
	1	2	3	4	T	1	2	3	4	T	1	2	3	4	T	1	2	3	4	T
Cook Islands																				
Fiji Islands							1			1										
Kiribati	1				1		2			2										
Republic of Marshall Islands																				
Federated States of Micronesia	1	1	2		4															
Nauru																				
Niue	1				1															
Palau			1	1	2															
Papua New Guinea	1			1	2															
Samoa	1		1		2															
Solomon Islands				2	2		3			3										
Tokelau																				
Tonga	1	1	1		3		3			3										
Tuvalu																				
Vanuatu		1	1	1	3		3			3							4			4
<b>Total</b>	<b>6</b>	<b>3</b>	<b>6</b>	<b>5</b>	<b>20</b>		<b>12</b>			<b>12</b>							<b>4</b>			<b>4</b>

<sup>a</sup> Output 1=public financial management , Output 2=tax administration, Output 3=banking supervision  
Output 4=statistics, T=total.

(Reference in text: page 4, para. 17)

**PFTAC 1999-2001 - SECOND TRANCHE - DISTRIBUTION OF ASSISTANCE BY OUTPUT  
(Number of Events/Participants)  
July – December 2000**

Country	Advisory Missions					Seminar Participation					Short-Term Consultancies					Attachments				
	Outputs <sup>a</sup>					Outputs					Outputs					Outputs				
	1	2	3	4	T	1	2	3	4	T	1	2	3	4	T	1	2	3	4	T
Cook Islands							4			4										
Fiji Islands							1			1										
Kiribati				1	1		2			2										
Republic of Marshall Islands	2		2		4		4			4										
Federated States of Micronesia		3	3	1	7		4	1		5										
Nauru																				
Niue							2			2										
Norfolk Island							2			2										
Palau			1		1		4			4										
Papua New Guinea	1			1	2		11			11										
Samoa			1		1		6			6										
Solomon Islands							3			3										
Tokelau																				
Tonga							3			3										
Tuvalu																				
Vanuatu	1	1	1	1	4		3	1		4										
<b>Total</b>	<b>4</b>	<b>4</b>	<b>8</b>	<b>4</b>	<b>20</b>		<b>49</b>	<b>2</b>		<b>51</b>										

<sup>a</sup> Output 1=Public Financial Management, Output 2=Tax Administration, Output 3=Banking Supervision, Output 4=Statistics, T=total.