

ASIAN DEVELOPMENT BANK

TAR:OTH 32459

TECHNICAL ASSISTANCE

FOR THE

PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE 2004

December 2004

ABBREVIATIONS

ADB	–	Asian Development Bank
IMF	–	International Monetary Fund
PDMC	–	Pacific developing member country
PFTAC	–	Pacific Financial Technical Assistance Centre
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Law, economic management, public policy
Subsector	–	Public finance and expenditure management, economic management
Theme	–	Sustainable economic growth
Subtheme	–	Promoting macroeconomic stability

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. Weak management of public finances, including imprudent capital expenditure, remains at the core of inefficiencies seen in almost all Pacific island countries. Accordingly, supporting regional efforts to improve the management of public finances is at the heart of the Asian Development Bank's (ADB's) Pacific Regional Cooperation Strategy and Program 2004–2006.¹ The Pacific Financial Technical Assistance Centre (PFTAC) helps Pacific developing member countries (PDMCs) enhance financial and administrative reforms through building capacity, providing policy advice, and offering practical technical assistance (TA) for public financial management, tax policy and administration, banking regulation and supervision, and economic and financial statistics. The aim of ADB's Pacific Regional Cooperation Strategy and Program 2004–2006 is to focus on improving public financial management by supporting PFTAC, which provides an efficient and cost-effective way for extending technical support in these critical areas. The program includes TA to support PFTAC operations for 2004.² The TA's objectives, scope, cost estimates and financing, and implementation arrangements were agreed on during the PFTAC tripartite review meeting held in Suva on 5–6 August 2004.

II. ISSUES

2. The establishment of PFTAC was an outcome of the observation that economic growth and development in the Pacific islands were being hampered by a lack of technical skills and institutional capacity to formulate and implement appropriate economic and financial policies to remove structural distortions, increase efficiency, and reduce macroeconomic imbalances. PFTAC, located in Suva, the Fiji Islands, is a regional TA institution operated by the International Monetary Fund (IMF). It was jointly established in 1993 by the United Nations Development Programme and the IMF to implement the Fiscal and Monetary Management Reform and Statistical Improvement Project in 15 Pacific island developing countries.³ PFTAC currently operates with financial support from ADB, IMF, and the governments of Australia, Japan, and New Zealand. Since 1994, ADB has provided a total of \$32 million for six regional TAs to support PFTAC operations.⁴ Five of these six regional TAs were completed and were rated as successful, particularly on the grounds of PFTAC being a cost-effective mechanism for providing assistance and ensuring the consistency of advice.

3. PFTAC's aim is to build skills and institutional capacity for effective economic and financial management in Pacific island developing countries that can be sustained at the national level. To this end, by means of responsive and ad hoc help, proactive assistance with reforms, and personnel capacity building, PFTAC provides advice and training in four key areas: (i) public financial management, (ii) tax administration and policy, (iii) banking sector regulation and supervision, and (iv) economic and financial statistics. PFTAC staff consist of a project coordinator and four resident advisers with expertise in each of the four areas, assisted by short-term consultants as required.

¹ ADB. 2003. *Pacific Regional Cooperation Strategy and Program 2004–2006*. Manila.

² The TA first appeared in *ADB Business Opportunities* (Internet edition) on 9 January 2004.

³ These countries are Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu.

⁴ ADB. 1994. *Training Assistance with the International Monetary Fund/United Nations Development Programme Pacific Financial Technical Assistance Centre*. Manila (\$300,000); ADB. 1996. *Pacific Financial Technical Assistance Centre*. Manila (\$1,135,650); ADB. 1998. *Pacific Financial Technical Assistance Centre*. Manila (\$433,000); ADB. 2001. *Pacific Financial Technical Assistance Centre 1999–2001 - Second Tranche*. Manila (\$433,000); ADB. 2002. *Pacific Financial Technical Assistance Centre 2002*. Manila (\$433,000); and ADB. 2003. *Pacific Financial Technical Assistance Centre 2003*. Manila (\$433,000).

4. The PFTAC operations that the regional TAs supported were subject to two independent evaluations in 1997 and 2004 conducted by panels of experts representing the external funding agencies and the countries involved.⁵ The 1997 evaluation concluded that PFTAC was a successful operation. The 2004 evaluation assessed the extent to which PFTAC had achieved its objectives and produced its intended outputs, and commented on the relevance of the TA and the training provided, its effectiveness in addressing countries' capacity constraints, and the efficiency of the delivery of the TA and training.

5. The report on the 2004 evaluation was discussed and endorsed at the annual tripartite review meeting held in Suva on 5–6 August 2004. The report reiterated that PFTAC has been well executed by IMF and appreciated by other regional bodies, the recipient countries, and the external funding agencies. It also concluded that PFTAC is well integrated within the region and fills a niche that other organizations cannot fill, and that its activities are of high professional quality and are timely and appropriate. In addition, the report observed that PFTAC's reform interventions are most effective when they are fully integrated into a process consisting of a gap analysis, reform strategy, and work plan. The report noted that some external funding agencies would like to see better results in relation to capacity building, but acknowledged that this task would require significant dedicated resources. The report also made recommendations in other areas, including TA framework, strategic planning, and performance reporting.

6. PFTAC's activities complement and support ADB's operations in the Pacific. For instance, PFTAC is providing a TA to the economic and public sector reform program in Tonga and Tuvalu in the area of tax administration and tax reform, which are important elements of the ADB-supported program of fiscal and public sector reforms. PFTAC also continues to contribute significantly to improving financial and economic statistics, which enhances the effectiveness of ADB's ongoing program in the region.⁶ PFTAC assistance complements ADB's efforts to support the implementation of a new financial management system in the Fiji Islands and enhance good governance in budget preparation across the region.⁷ PFTAC is also supporting initiatives to prevent money laundering and the financing of terrorism, including providing assistance to the Cook Islands for verifying compliance with the anti-money-laundering recommendations of the Financial Action Task Force.

7. PFTAC's activities contribute to regional cooperation through regional seminars and workshops. Its regional approach also allows PFTAC to actively assist in setting up and implementing regional and international initiatives. Given the commonality of many of the problems facing the PDMCs, PFTAC's regional approach to TA also allows it to exploit positive externalities.

8. PFTAC has increased its emphasis on skill transfers to PDMC staff by means of professional attachments and training seminars. It is currently working on a case study of public expenditure management to be used in courses at the University of the South Pacific, including a possible distance learning training tool for officials. This initiative supports ADB's governance activities and the objectives of ADB's proposed Pacific regional governance strategy.

⁵ A strategic review of TA for economic and financial management in Pacific island countries was undertaken in 2001 to assess the nature and adequacy of current levels and forms of TA, including that provided by PFTAC, to the region and the appropriateness of current arrangements for TA programming and delivery.

⁶ ADB. 2002. *Regional Technical Assistance for Capacity Building and Regional Cooperation for Economic Statistics in Selected Pacific Developing Member Countries*. Manila.

⁷ ADB. 2003. *Regional Technical Assistance for Civil Society Participation in Budget Formulation*. Manila.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

9. The objective of the TA is to continue the provision of ADB support to PFTAC so that the center can continue to focus on strengthening and improving the PDMCs' economic and financial management capabilities. PFTAC's institutional strengthening support to improve financial and administrative reforms through capacity building, policy advice, and practical TA will help the PDMCs progress toward more effective and efficient economic and financial governance, better public resource allocation, and improved macroeconomic stability. The TA framework is presented in Appendix 1.

B. Methodology and Key Activities

10. Based on PDMCs' needs and requests in relation to the four key result areas, PFTAC will provide assistance, including policy advice and training, to PDMCs by means of short-term visits by the resident advisers, and regional seminars and workshops. The advisers will also provide timely and effective advice and guidance through direct communications from PFTAC, supplemented by specific, well-defined, short-term consultancies, as necessary.

11. Overall, the TA supports the following activities:

- (i) providing advice on public financial management, including effective budgeting preparation systems and processes, improved budget implementation and monitoring, and better financial reporting for accountability purposes;
- (ii) providing activities to strengthen authorities' capacity to design efficient revenue systems and improve administrative processes and procedures to increase compliance;
- (iii) assisting with the establishment and effective management of legislative and regulatory systems for supervising banks and other financial institutions to improve banking supervision so as to facilitate private sector development; and
- (iv) strengthening statistical systems and practices to enable regular and timely collection, compilation, analysis, and dissemination of critical economic and financial statistics.

12. In each of these four key result areas, PFTAC will pursue

- (i) the development and adaptation of tools and techniques that are appropriate to the PDMCs' needs and limited capacity, and
- (ii) the provision of on-the-job-training and in-country and regional seminars and workshops to help government officials maintain and enhance their management capability.

13. The TA and PFTAC's overall work in the PDMCs complement ADB's operations in the respective PDMCs. ADB, PFTAC, and other external funding agencies work together closely in reviewing needs in the PDMCs and designing assistance programs to complement and support activities in PFTAC's four key result areas. ADB, along with other external funding agencies, will also help PFTAC and the recipient countries formulate strategic plans and implement the recommendations of the 2004 evaluation.

C. Cost and Financing

14. The total cost of PFTAC's operations for fiscal years 2003–2005 is estimated at \$5.7 million equivalent.⁸ The Government of Japan's contribution amounts to \$1.9 million equivalent, the Government of Australia's to \$1.1 million equivalent, IMF's to \$1.0 million equivalent, and the Government of New Zealand's to \$0.4 million. IMF has requested that ADB's aggregate contribution remain at \$1.3 million for the 3 years from 2004 through 2006, or \$433,000 per year. ADB has agreed to provide financial support to PFTAC on a year-to-year basis, subject to an annual tripartite review of performance and the availability of funds.

15. The TA of \$433,000 will support PFTAC operations for 2004 (January through December) and will be financed by ADB on a grant basis from ADB's TA funding program. The overall structure of PFTAC's financing is carried out through an IMF framework account. The detailed cost estimates and financing plan for PFTAC in 2004 are in Appendix 2.

D. Implementation Arrangements

16. IMF continues to be the executing agency for the TA. All accounting, reporting, and auditing procedures are consistent with the provisions set forth in IMF's overall framework account. PFTAC continues to provide half-yearly reports on its activities and progress to ADB and other external funding agencies. PFTAC will consult with ADB and other external funding agencies and recipient countries on a strategic plan to implement the recommendations of the 2004 evaluation and arrangements for workshops, seminars, and training attachments. ADB receives the quarterly work plans of PFTAC advisers for comments and suggestions to ensure that PFTAC's assistance complements and supports ADB's assistance to the PDMCs and to assess PFTAC's effectiveness in meeting the PDMCs' needs. ADB will coordinate closely with PFTAC, particularly through ADB's newly established South Pacific Subregional Office in Suva, on the activities undertaken in the four key result areas. ADB will also participate in the annual tripartite performance reviews organized by the Steering Committee.⁹ Appendix 3 summarizes PFTAC's activities.

17. IMF recruits and supports PFTAC's international resident advisers and short-term consultants in accordance with its standard practices. IMF's selection procedures are consistent with ADB's *Guidelines on the Selection of Consultants*. The international advisers and short-term consultants, partly financed out of ADB's grant, are nationals of ADB member countries engaged by the IMF's Asia and Pacific Department¹⁰ after appropriate consultations with ADB. ADB funding will be confined to benefiting ADB's PDMCs. Outline terms of reference for consulting services are in Appendix 4.

18. Funds under this TA will need to be disbursed before the end of 2004 to reimburse PFTAC for expenses incurred during 2004. The TA covers the period January to December 2004.

⁸ PFTAC's budget is based on IMF's fiscal year of 1 May through 30 April, while ADB's contributions are made on a calendar year basis.

⁹ The Steering Committee comprises representatives from external funding agencies and recipient countries and supports and advises PFTAC between annual performance reviews.

¹⁰ In coordination with other pertinent IMF departments.

IV. THE PRESIDENT'S DECISION

19. 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 2004, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators and 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>	<p>Reduced budget deficits, balanced budgets</p> <p>Improved public sector resource allocation, accountability, and transparency</p>	<p>Gross domestic product, trade and investment data, and other economic statistics</p> <p>Financial and budget reports</p>	
<p>Purpose Improve institutional capacity for more effective financial and economic management in PDMCs</p>	<p>Adopt internationally accepted standards and practices appropriate to PDMCs' needs</p>	<p>Content and format of budget</p> <p>Financial and other statistical reports</p>	<p>Political commitment to, and community support for, good governance and financial management reforms</p>
<p>Outputs Capacity to produce budget and financial reports based on appropriate internationally accepted standards and practices</p> <p>Timely and high-quality financial and statistical reporting in PDMCs</p> <p>Improved financial governance</p> <p>Establishment of measurable performance indicators as part of budget and financial reports</p>	<p>New content and format of budget papers and financial reports in accordance with internationally accepted standards and practices</p> <p>Observance of deadlines for report preparation and publication</p> <p>Achievement of performance indicators in budget/financial reports</p>	<p>New manuals on budget processes, expenditure control, revenue management, and collection</p> <p>Statistical data</p> <p>ADB review of budget and financial documents</p>	<p>Lack of political will and availability of resources in PDMCs to carry out reforms</p> <p>Low staff turnover in relevant ministries and departments</p>
<p>Activities Provide practical assistance through</p> <p>(i) specific advice on day-to-day operational issues through direct communications with PDMCs;</p> <p>(ii) regular and ad hoc visits to PDMCs to assess the adequacy of</p>	<p>Use of expertise of resident advisers by PDMC officials to resolve operational difficulties</p> <p>In-country workshops, regional seminars, and attachments of PDMC staff to relevant organizations in contributors' countries</p>	<p>Semiannual progress reports by PFTAC</p> <p>Tripartite review committee meetings</p>	

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	Performance Indicators and Targets	Monitoring Mechanisms	Assumptions and Risks
Design Summary financial and regulatory systems and to advise on maintenance and enhancement issues; (iii) regular training seminars and workshops on economic and financial management; and (iv) on-the-job training through professional attachments of PDMC officials to relevant organizations			
Inputs Full-time international resident expert advisers Infrastructure for direct communication and training Short-term consultants	\$284,872 \$49,983 \$46,312	Reports of PFTAC advisers Semiannual progress reports	Continuing funding support by external funding agencies

ADB = Asian Development Bank, PDMC = Pacific developing member country, PFTAC = Pacific Financial Technical Assistance Centre.

COST ESTIMATES AND FINANCING PLAN
(\$)

Item	Total Cost ^a
A. Asian Development Bank Financing^b	
1. Consultants	
a. Remuneration and Per Diem	
i. Resident Advisers	284,872
ii. Short-Term Consultants	46,312
b. International and Local Travel	18,998
2. Training, Seminars, and Conferences	
a. Professional Attachments	7,000
b. Seminar Participants	25,835
3. Miscellaneous Administration and Support Costs	49,983
Subtotal (A)	433,000
B. Government Financing^c	
1. Consultants	
a. Remuneration and Per Diem	
i. Resident Advisers	810,788
ii. Short-Term Consultants	108,062
iii. Administrative Support	36,444
b. International and Local Travel	44,330
2. Training, Seminars, and Conferences	76,624
3. Miscellaneous Administration and Support Costs	128,527
4. Rent, Equipment, and Communications	50,381
Subtotal (B)	1,255,156
Total	1,688,156

^a The total costs shown for the 2004 calendar year are estimated by averaging the Pacific Financial Technical Assistance Centre's budgets for its fiscal years 2003 and 2004, which end on 30 April each year.

^b Financed by the Asian Development Bank's technical assistance funding program.

^c Expected financing by the governments of Australia, Japan, and New Zealand, and by the International Monetary Fund.
Source: Pacific Financial Technical Assistance Centre.

**PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE, DISTRIBUTION OF ASSISTANCE BY OUTPUT
MAY 2003–SEPTEMBER 2004**

Country ^a	Advisory Missions					Seminar Participation					Short-Term Consultancies					Attachments				
	KRA 1 ^b	KRA 2 ^c	KRA 3 ^d	KRA 4 ^e	Total	KRA 1 ^b	KRA 2 ^c	KRA 3 ^d	KRA 4 ^e	Total	KRA 1 ^b	KRA 2 ^c	KRA 3 ^d	KRA 4 ^e	Total	KRA 1 ^b	KRA 2 ^c	KRA 3 ^d	KRA 4 ^e	Total
Cook Islands	0	1	3	1	5	1	2	4	0	7	1	0	2	0	3	0	0	2	0	2
Fiji Islands	4	1	0	3	8	2	4	8	0	14	1	1	4	0	6	0	1	1	1	3
Kiribati	1	2	1	1	5	1	2	0	0	3	0	0	0	0	0	0	0	0	0	0
Republic of Marshall Islands	1	2	0	1	4	1	2	1	0	4	0	0	1	0	1	0	2	0	0	2
Federated States of Micronesia	0	3	0	0	3	1	1	1	0	3	1	2	2	0	5	0	0	0	1	1
Nauru	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0
Palau	0	1	1	2	4	1	1	2	0	4	0	0	2	0	2	0	2	0	1	3
Papua New Guinea	0	2	1	1	4	1	4	4	0	9	0	0	0	1	1	0	0	0	0	0
Samoa	0	0	1	3	4	2	3	7	0	12	0	0	0	1	1	0	0	0	1	1
Solomon Islands	0	2	1	1	4	4	3	4	0	11	0	0	0	0	0	0	0	0	2	2
Tonga	2	3	2	3	10	2	37	2	0	41	0	0	2	0	2	0	0	1	1	2
Tuvalu	0	1	0	1	2	2	2	2	0	6	0	0	0	1	1	0	0	0	1	1
Vanuatu	1	0	0	5	6	3	1	7	0	11	0	0	2	0	2	0	0	1	0	1
Regional	1	5	5	3	14	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	10	23	15	25	73	23	67	44	0	134	3	3	15	3	24	0	5	5	8	18

KRA = key result area.

^a Pacific developing member countries that are members of the Pacific Financial Technical Assistance Centre.

^b Public financial management.

^c Tax policy and administration.

^d Banking supervision.

^e Economic and financial statistics.

Source: Pacific Financial Technical Assistance Centre.

OUTLINE TERMS OF REFERENCE OF CONSULTING SERVICES

A. Public Financial Management Adviser

1. The adviser's overall objective is to help Pacific developing member countries (PDMCs) improve their authorities' capacity to effectively control and efficiently manage public finances, including domestic and external public debt. To that end, assistance by the adviser will help PDMCs strengthen their budgetary, cash management, and accounting systems on the basis of well-defined strategic plans. In particular, improvements will be sought in budget planning and preparation; budget execution and monitoring; and auditing and evaluation of public expenditure, including, where appropriate, expenditures by government entities and enterprises and extrabudgetary funds. The adviser will encourage PDMCs to adopt or improve the use of such modern budgetary tools as program-oriented budget systems that can be sustained at the national level. In addition, the adviser will provide assistance with establishing or strengthening effective treasury and cash management systems and accounting practices that can help control expenditure and rationalize and streamline budget financing. Finally, the adviser will seek to improve the transparency of budget processes and public expenditure and strengthen the accountability of ministries and officials by promoting key principles of the International Monetary Fund's Code of Good Practices on Fiscal Transparency.

B. Tax Policy and Administration Adviser

2. The adviser's overall objective is to help PDMCs strengthen their authorities' capacity to enhance the economic and administrative efficiency of domestic revenue systems and increase their yield. In particular, the adviser will help the authorities formulate and implement policy reforms and improvements in tax and customs administration. This will include assistance with the redesign of revenue systems that becomes necessary as a result of international and regional trade policy initiatives, such as World Trade Organization rounds and the Pacific Island Countries Trade Agreement, but will also include reforms intended to streamline and simplify existing regimes, increase their efficiency, and broaden tax bases, for example, in the case of a general value added tax, where this is feasible. In the area of revenue administration, the adviser will concentrate on providing assistance in improving administrative processes and procedures, and increasing compliance by strengthening collection, auditing, and taxpayer service functions. The involvement of and consultation with stakeholders within the administration and outside will be emphasized in advance of reforms.

C. Banking Regulation and Supervision Adviser

3. The adviser's overall objective is to help the authorities establish and effectively manage legislative and regulatory systems for the supervision of banks and other financial institutions that meet high international standards, and support sound banking practices and financial sector stability. This will involve assistance with the formulation and adaptation of prudential regulation for banks and nonbank financial intermediaries, as well as the building of institutional capacity and skills for their effective supervision through appropriate reporting systems, on-site and off-site inspections, and audits. The adviser will pay particular attention to licensing procedures, risk assessment, capital adequacy, and provisioning. Given the increasing range and complexity of the issues involved in this area of activity, the adviser will continue to encourage and assist regional cooperation in the establishment of coordination frameworks and regional support mechanisms that permit effective supervision even in resource-constrained PDMCs. Assistance will also address the regulation and supervision of offshore financial centers and their banking

operations, as well as measures to control money laundering and other financial crime. Where appropriate, the adviser will seek cooperation with specialized agencies involved in dealing with financial crime and assist with regional efforts to stem such crime.

D. Economic and Financial Statistics Adviser

4. The adviser's overall objective is to help strengthen statistical systems and practices in the PDMCs to enhance governments' evaluation and decision making capacities, and support private sector development. Assistance will focus on regular and timely collection, compilation, analysis, and dissemination of critical economic and financial statistics—complemented by fundamental social indicators—on the basis of international standards for consistency, definitions, coverage, and accuracy, such as the International Monetary Fund's general data dissemination system. This will involve, above all, the establishment of processes and procedures that ensure effective cooperation and coordination between statistics offices and other government agencies producing key statistics or administrative data. It will also involve the design of appropriate reporting forms and survey templates in support of the production of statistics. Given the PDMCs' limited resources, the adviser will pay particular attention to identifying resource constraints and priorities, and designing core sets of statistics in collaboration with the authorities and other providers of technical assistance.