

ASIAN DEVELOPMENT BANK

TAR:OTH 32459

**TECHNICAL ASSISTANCE
FOR
THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE 2003**

November 2003

ABBREVIATIONS

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

NOTE

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

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I. INTRODUCTION

1. Preliminary findings of the country governance assessments (CGA) conducted in six Pacific developing member countries (PDMCs),¹ indicate that economic development in the PDMCs continues to be hampered by lack of technical skills and institutional capacity to formulate and implement appropriate economic and financial policies. While many PDMCs have introduced economic and financial management reforms, their small population, geographical isolation, and low stages of development means that capacity (in terms of skills and number of qualified people) to undertake and sustain economic and financial management reforms remains limited.

2. The main rationale for establishing the Pacific Financial Technical Assistance Centre (PFTAC) was to permit the pooling of external resources to assist PDMCs in meeting the operational requirements of economic and financial reforms that can be sustained at the national level through a consistent, systematic, and regional approach of skills and institutional capacity building. PFTAC, established in 1993 and based in Suva, Fiji Islands, advises PDMCs on improving budget management, tax administration, banking supervision, balance of payments, and national accounts statistics. Despite progress in these areas in several PDMCs, there remain substantial scope and demand for further improvement and continuing technical assistance for capacity and institutional strengthening.

3. PFTAC's Executing Agency is the International Monetary Fund (IMF). PFTAC is funded by IMF and other development partners, including the Australian Agency for International Development, New Zealand Agency for International Development, Japan, and ADB. ADB, which had granted technical assistance (TA) in 1994 and 1996,² renewed its funding support in December 1998 for 3 years up to 2001 after an independent evaluation involving the major contributors and selected PDMCs assessed PFTAC as a successful operation. The in-principle agreement to contribute \$1.3 million, with equal payments of \$433,000 to be allocated and approved annually, expired with the second tranche payment in November 2001. Under TA 6049 Pacific Financial Technical Assistance Centre 2002, ADB contributed another \$433,000 for PFTAC's activities in 2002. The current TA covers ADB's contribution for 2003 (January to December). The TA's goals, purpose, and scope are summarized in the TA framework (Appendix 1).³

II. ISSUES

4. PFTAC provides technical assistance to (i) strengthen public expenditure management and control through improvements in budgetary and accounting arrangements; (ii) improve the formulation and implementation of tax policy reform and strengthen tax administration and collection; (iii) ensure financial sector stability and the soundness of the banking system through adequate regulatory systems and effective prudential supervision; and (iv) improve capability to produce on a timely basis basic economic and financial statistics that are accurate and

¹ Republic of the Fiji Islands, Federated States of Micronesia, Papua New Guinea, Samoa, Tonga, and Vanuatu and observations from RETA 6065 (ADB. 2002. *Regional Technical Assistance for Assessing Community Perspectives on Governance in the Pacific*. Manila).

² ADB. 1994. *Regional Technical Assistance for Training Assistance with the IMF/UNDP Pacific Financial Technical Assistance Centre*. Manila; ADB. 1996. *Regional Technical Assistance for Pacific Financial Technical Assistance Centre*. Manila.

³ The TA first appeared in *ADB Business Opportunities* on 4 March 2003.

coherent. The Centre is staffed with a project coordinator, four resident advisors with expertise in each of the four areas and assisted by short-term consultants, as required.

5. An independent evaluation by major contributors and selected PDMCs in 1997 assessed PFTAC as a successful operation. The last tripartite review committee meeting held in May 2003 as well as previous meetings expressed consensus that the quality of assistance provided to PDMCs continues to meet high standards. The meeting was well attended by five senior IMF representatives, reflecting the strong support of IMF for PFTAC. IMF has opened similar centers in the Caribbean (CARTAC) and in Africa.

6. PFTAC's activities complement and underpin ADB operations in the Pacific. For instance, PFTAC is providing technical assistance to the economic and public sector reform program in Tonga in the area of tax administration and tax reform, which are important elements of the ADB-supported program loan of fiscal and public service reforms. PFTAC continues to contribute significantly to the improvement of financial and economic statistics, which are important for ADB's operation and support of the objectives of RETA 6009.⁴ Although Timor-Leste is currently not a member of PFTAC, PFTAC has agreed, upon the request of ADB, to conduct an analysis of staffing needs and training requirements in the Bureau of Statistics of Timor-Leste. The needs assessment will be instrumental in designing ADB's assistance in the area of statistics for the country. The introduction of the General Data Dissemination System (GDDS) in several PDMCs also contributes in enhancing the quality and coverage of statistical data. The establishment of the Association of Financial Supervisors of Pacific Countries (AFSPC) is another notable achievement of PFTAC. The Centre is also supporting anti-money laundering and anti-terrorism financing initiatives.

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

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

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

9. The TA aims to permit PFTAC to continue to provide assistance to PDMCs so as to strengthen and improve their economic and financial management capacities. This institutional strengthening will enable them to progress toward effective and efficient economic and financial

⁴ ADB. 2002. *Regional Technical Assistance for Capacity Building and Regional Cooperation for Economic Statistics in Selected Pacific Developing Member Countries*. Manila.

governance, better public resource allocation, and macroeconomic stability. The TA framework is in Appendix 1.

B. Methodology and Key Activities

10. With funding support provided by this TA (together with financial support from other sources), PFTAC will advise and train to PDMCs through short-term visits by the resident advisors, and through regional seminars and workshops. The advisors will also provide timely and effective advice and guidance through direct communications from PFTAC. Advice and training by PFTAC advisors will be supplemented by specific, well-defined, short-term consultancies, as necessary.

11. Overall, the TA supports the following:

- (i) advice on public financial 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.

12. The TA and PFTAC's overall work in the PDMCs complement ADB operations in the individual countries. 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

13. The total cost of PFTAC's operations for FY2003–2005⁵ is estimated at \$5,448,612 equivalent. Australia's contribution amounts to \$1.02 million equivalent, New Zealand's to \$424,253 equivalent, Japan's to \$1.56 million equivalent, and IMF's to \$987,000 equivalent. IMF requested that ADB's aggregate contribution remain at \$1.3 million for the 3 years to 2004, or \$433,000 per annum. ADB has agreed to provide financial support to PFTAC on a year-to-year basis, subject to performance and progress in implementing recommendations arising from the tripartite review.

⁵ Note that while PFTAC's budget is based on the IMF fiscal year (1 May–30 April), ADB contributions are made on a calendar year basis.

14. The TA of \$433,000 will support PFTAC operations for 2003 (January to December) and will be financed by ADB on a grant basis from ADB's TA funding program. The detailed cost estimates and financing plan for PFTAC in 2003 are in Appendix 2.

D. Implementation Arrangements

15. Following the arrangement in past years, IMF continues to be the Executing Agency for the TA. The resident advisors 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 advisors 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 after appropriate consultation with ADB. ADB funding will be confined to benefiting PDMCs.

16. PFTAC will continue to prepare half-yearly reports on its activities for submission to ADB and other contributors as well as consulting on arrangements for workshops, seminars, and training attachments. ADB receives the quarterly work plans of PFTAC advisors for comments and suggestions, to ensure that PFTAC's assistance complements and supports ADB's assistance to PDMCs and to assess PFTAC's effectiveness in meeting PDMC needs. ADB will participate in the annual tripartite performance review process organized by the steering committee.⁶ Appendix 3 summarizes the activities carried out by PFTAC advisors.

17. Funds under this TA will need to be disbursed before the end of 2003 to reimburse expenses incurred by PFTAC during 2003. The TA covers the period January to December 2003.

18. The 2003 tripartite meeting proposed an external review of PFTAC as the last such review occurred in 1997. While the reports of PFTAC to its contributors constitute a good basis for monitoring and evaluating its activities, it was noted that a more performance-based approach to reporting would be helpful and that measuring the success of PFTAC would benefit from a more rigorous definition of objectives and evaluation of results. This is an issue that is currently being addressed by the new PFTAC coordinator. The proposed external review will be a useful indicator of the success of PFTAC since the last independent review, and will help in establishing strategies for PFTAC's activities, and determining whether ADB will continue to contribute to PFTAC (and if so, at what level) beyond the current funding cycle. The evaluation is proposed to take place around end-2003 or early 2004.

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, and hereby reports this action to the Board.

⁶ The steering committee comprises representatives from selected aid agencies and recipient countries to support and advise PFTAC 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>	<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>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</p> <p>Financial and other statistical reports</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 process, expenditure control, revenue management and collection</p> <p>Statistical data</p> <p>Asian Development Bank (ADB) review of budget and financial documents</p>	<p>Willingness of and availability of resources in PDMCs to carry out reforms</p> <p>Low staff turnover in relevant ministries and departments</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Activities Provide practical assistance through (i) specific advice on day-to-day operational issues through direct communications with PDMCs; (ii) regular and ad hoc visits to PDMCs to assess adequacy of financial and regulatory systems, and to advise on issues of maintenance and enhancement; (iii) regular training seminars and workshops on economic and financial management; (iv) on-the-job training through professional attachments of PDMC officials with relevant organizations.</p>	<p>Use of available expertise of resident advisers by PDMC officials to resolve operational difficulties</p> <p>In-country workshops, regional seminars, and arranging attachments of PDMC staff to relevant organizations in contributors' countries</p>	<p>Semiannual progress reports by the Pacific Technical Assistance Centre (PFTAC)</p> <p>Tripartite review committee meetings</p>	
<p>Inputs Full-time resident expert advisers and supportive infrastructure for direct communication and training</p> <p>Short-term consultants to complement activities</p>		<p>Reports of PFTAC advisers</p> <p>Semiannual progress reports</p>	<p>Continuing funding support by aid agencies</p>

COST ESTIMATES AND FINANCING PLAN
(\$)

Item	Total Cost
A. Asian Development Bank Financing (ADB) ^a	
1. Consultants	
a. Remuneration and Per Diem	
i. Resident Advisers	250,000
ii. Short-Term Consultants	30,000
b. International and Local Travel	30,000
2. Training, Seminars, and Conferences	
a. Professional Attachments	25,000
b. Seminar Participants	55,000
3. Miscellaneous Administration and Support Costs	43,000
Subtotal (A)	433,000
B. Other Financing ^b	
1. Consultants	
a. Remuneration and Per Diem	
i. Resident Advisers	783,000
ii. Short-Term Consultants	16,000
iii. Administrative Support	38,000
b. International and Local Travel	43,000
2. Training, Seminars, and Conferences	21,000
3. Miscellaneous Administration and Support Costs	100,000
4. Rent and Other Costs	20,000
Subtotal (B)	1,021,000
Total	1,454,000

^a Financed by ADB's TA funding program.

^b Financed by Australia, Japan, New Zealand, and the International Monetary Fund.

Source: Estimates based on the Pacific Financial Technical Assistance Centre financial statement for fiscal year 2003.

Note: PFTAC's budget is based on the International Monetary Fund's (IMF's) fiscal year (1 May 2002 to 30 April 2003) while ADB's contribution is provided on a calendar year basis.

**PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE PHASE II
DISTRIBUTION OF ASSISTANCE BY OUTPUT^a**

January 2002 – March 2003
(Number of Events)

Country	Advisory Missions					Seminar Participation					Attachments				
	1	2	3	4	Total	1	2	3 ^b	4 ^c	Total	1	2	3	4	Total
Cook Islands	0	1	1	0	2	0	0	1	2	3	0	0	0	0	0
Fiji Islands	3	1	1	1	6	0	0	4	3	7	0	0	0	0	0
Kiribati	0	1	3	0	4	0	0	1	2	3	1	0	0	0	1
Republic of the Marshall Islands	4	0	3	1	8	0	0	1	0	1	0	0	0	0	0
Federated States of Micronesia	1	6	3	1	11	0	0	1	1	2	0	0	0	0	0
Nauru	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Papua New Guinea	0	0	0	0	0	0	0	1	3	4	0	0	0	0	0
Samoa	0	2	2	1	5	0	0	4	2	6	0	0	1	0	1
Solomon Islands	1	0	2	1	4	0	0	3	3	6	0	0	0	0	0
Tonga	3	5	4	1	13	0	0	1	3	4	0	0	0	0	0
Tuvalu	0	0	3	0	3	0	0	1	1	2	0	0	0	0	0
Vanuatu	0	3	0	1	4	0	0	3	3	6	0	2	0	0	2
Total	12	19	22	7	60	0	0	21	23	44	1	2	1	0	4

^a Output 1: public financial management, output 2: tax administration, output 3: banking supervision, output 4: economic and financial statistics.

^b Regional Workshop on the Regulation and Supervision of Banks/Nonbanks sponsored by PFTAC - 21–28 Nov. 2002.

^c General Data Dissemination System Workshop, 4–14 Nov. 2002.

Source: The Pacific Financial Technical Assistance Centre.