

ASIAN DEVELOPMENT BANK

TAR: TRA 36124

TECHNICAL ASSISTANCE

FOR

TECHNICAL TRAINING AND CAPACITY BUILDING IN SUPPORT OF THE

ASEAN ECONOMIC SURVEILLANCE PROCESS

PHASE III

December 2002

ABBREVIATIONS

ADB	–	Asian Development Bank
ASCU	–	ASEAN Surveillance Coordinating Unit
ASEAN	–	Association of Southeast Asian Nations
ASP	–	ASEAN surveillance process
ASTSU	–	ASEAN Surveillance Technical Support Unit
DMC	–	developing member country
EWS	–	early warning system
IMF	–	International Monetary Fund
Lao PDR	–	Lao People's Democratic Republic
REMU	–	Regional Economic Monitoring Unit
TA	–	technical assistance
TOU	–	Terms of Understanding for the Implementation of the ASEAN Economic Surveillance Process

NOTE

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

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I. INTRODUCTION

1. At a meeting in Jakarta in February 1998, finance ministers of the Association of Southeast Asian Nations (ASEAN) broached the concept of an ASEAN economic surveillance process. The concept was predicated on assistance from the Asian Development Bank (ADB). Extensive consultations on the objectives and scope of this assistance subsequently took place between ADB and officials of ASEAN member governments. ADB also consulted with the International Monetary Fund (IMF) on its support for the ASEAN economic surveillance process.

2. In October 1998, the ASEAN finance ministers assented to a "Terms of Understanding for the Implementation of an ASEAN Surveillance Process" (TOU). The process as outlined in the TOU anticipates close collaboration between ASEAN, ADB, and IMF. The TOU also directs that the ASEAN surveillance process (ASP) be supported by the establishment of an ASEAN Surveillance Coordination Unit (ASCU) within the ASEAN secretariat in Jakarta. ASCU will be responsible for coordinating, reviewing, consolidating, and preparing all surveillance materials for consideration by the ASEAN Select Committee (comprising deputies of finance ministries and central banks) and by the ASEAN finance ministers' meetings. ASCU will also coordinate surveillance matters between individual ministries, central banks, and other institutional structures within ASEAN.

3. The ASEAN finance ministers' meeting formally requested ADB on 10 November 1998 to provide technical assistance (TA) for training and capacity building in support of ASP. Following a Fact-Finding Mission to ASCU in December 1998, ADB approved a regional TA¹ in the same month. In this program, 3-5 ASEAN officials were seconded to ADB for approximately 3 months to undergo training in surveillance-related issues. The TA ended in May 2002 after training 27 officials from the ASEAN countries. To complement the training program, TA 6019² was processed in 2002. This TA provides shorter (3 weeks) but more intensive and structured training for busy mid-level ASEAN officials from the ministries of finance and central banks. As of October 2002, 32 officials (in two cohorts) have been trained under this TA.

4. The deputy finance ministers of ASEAN have requested the continuation of ADB support for enhancing surveillance-related capacity in their respective countries. In particular, the deputies asked that the longer, on-the-job type training component be retained in any future ADB program to complement the shorter and more structured training program. The format and scope of the training program in the proposed TA was discussed with the ASEAN deputy finance ministers at the October meeting in Myanmar, and all deputies supported the proposal. The capacity to conduct economic surveillance activities effectively in many of the ASEAN countries, particularly in the new member countries, remains weak, and further support is warranted. The TA is designed to bring together the strengths identified in the two previous capacity-building TAs, while addressing their shortcomings. The objectives, scope, financing plans, and implementation arrangements are reflected in this paper. The TA framework is attached as Appendix 1.³

¹ ADB. 1998. *Technical Assistance for Technical Training and Capacity Building in Support of the ASEAN Economic Surveillance Process*. Manila.

² ADB. 2001. *Technical Assistance for Technical Training and Capacity Building in Support of the ASEAN Economic Surveillance Process, Phase II*. Manila.

³ The TA first appeared in *ADB Business Opportunities* on 21 March 2002.

II. ISSUES

5. The ASEAN economies participate in both national and global surveillance processes that are led by IMF. The results of the national surveillance activities undertaken by IMF are largely confidential and are shared only with the concerned governments, and focus mainly on domestic policy concerns. While global surveillance activities provide an important context for domestic policy formulation, they do not contain the detailed analyses that are needed to support effective policy dialogue among regional economic partners. ASP seeks to fill these gaps by facilitating the exchange of crucial economic and financial information among countries, by developing an institutional process that will permit more effective coordination of responses to evolving economic and financial circumstances both within the region and outside, and by focusing on sectoral and structural as well as macroeconomic issues. Through the opportunities it offers for peer monitoring consultation and dialogue, ASP will also act as a vehicle to help improve national policies and facilitate economic reform.

6. For ASP to meet its stated objectives, the capacity to undertake economic surveillance activities in ASEAN countries needs to be enhanced. ADB was requested to play a key role in enhancing capacity and has been responding since the inception of ASP. The first phase of the training program had ASEAN officials from Brunei Darussalam (on a full cost recovery basis, see footnote 4), Cambodia, Indonesia, Lao People's Democratic Republic (PDR), Myanmar, Philippines, Thailand, and Viet Nam. The training program focused mainly on developing on-the-job experience of economic surveillance and policy analysis. Each cohort of ASEAN officials spent approximately 3 months at ADB as secondees undergoing training. The focus was on the following activities: managing macroeconomic and financial information systems; monitoring global economic developments that affect opportunities and create risks for the region; developing country macroeconomic and financial frameworks; conducting country policy reviews and consultations; and identifying sound institutional practices for macroeconomic and financial management.

7. ADB staff and consultants closely supervised and regularly evaluated the work of the secondees. The feedback was overwhelmingly positive, with secondees expressing the general view that the training has been very beneficial in building their capacity to perform surveillance-related tasks in their home countries.

8. The shorter and more structured second phase 3-week training program (footnote 2) had participants from all 10 ASEAN countries. It is worth noting that Singapore and Malaysia, who had not participated in the 3-month program, sent representatives to the shorter program.

9. The feedback from the participants of the 3-month program and the 3-week program will be an important input in preparing the training course for the second phase. Indeed, the third phase will bring together the strong points of both the 3-month and 3-week program and try to avoid their shortcomings. For example, the structured refresher course in macroeconomics, focusing on conceptual and policy aspects, from the 3-week program will be retained in a slightly modified form, as will the problem-solving type exercises using the case study approach. The on-the-job type training used in the 3-month program will also be retained although in a more compact and refined manner, and much of this will form the special topics (or second) part of the training program. The feedback suggests that various aspects of the 3-month program can be either remodeled or restructured to fit into a shorter time frame. Responses from participants in the 2 programs suggest that the duration of the third phase program should lie somewhere between 3 weeks and 3 months. With the changes proposed, the third phase

course can be conducted in a time frame of 6 weeks. Much of the course and training material developed in the first and second phases can be used, with minor alterations.

10. ADB is uniquely positioned to assist ASEAN in developing its regional economic surveillance initiative through the proposed training program. ADB has accumulated extensive experience in an area that its charter expressly mandates—the promotion of regional cooperation. ADB has also worked widely with its developing member countries (DMCs) to promote structural reform of their financial sectors and is continuing to build expertise in this area. In a context where change and reform at the global, regional, and national levels are needed, regional development organizations, such as ADB, have an important role to play in complementing the resources of IMF and the World Bank. ADB's technical assistance resources are a particularly effective modality for capacity building and institutional strengthening that are essential for a credible surveillance process, as well as meeting the broader challenge of building more robust financial and economic systems.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

11. The TA's principal objective is to train officials from ASEAN member countries in economic and financial surveillance and related policy-making activities, in support of ASP. Since the training program is also available to ASCU staff, the TA will also assist ASCU in its economic surveillance activities. A by-product of the training program will be the improved information flows and ADB's knowledge of the opportunities and risks facing its DMCs.

B. Methodology and Key Activities

12. The proposed 6-week training program can be broadly divided into 2 parts. In the first part, which will run for approximately 2 weeks, participants will have an intensive review of macroeconomic analysis and the interrelated accounting and analytic framework used by government authorities in establishing their macroeconomic and financial policies. The material will be developed from a practitioner's perspective and will discuss the various important economic issues that policy makers have faced in recent years. Problem-solving workshops in fiscal, monetary, and balance-of-payments issues and in overall economic and financial programming will allow participants to use concepts developed in the lecture material. Building on this background, the second part of the program will focus on specialized topics of economic surveillance. The topics will include the development of macro and micro prudential indicators of financial system soundness, formulation of early warning systems (EWS) of economic crisis, analysis of leading economic indicators, use of global and regional surveillance information systems, issues and progress in developing a new international financial architecture, and issues relating to macroeconomic policy and poverty reduction.

13. Although participation in this training program will be open to all ASEAN countries,⁴ it is expected, and indeed intended, that the new member countries of ASEAN participate to a high degree. The capacity to conduct economic monitoring and surveillance activities in countries

⁴ Brunei Darussalam is a member of ASEAN, but not of ADB. Should Brunei Darussalam elect to participate in this TA, such participation would be subject to bilateral negotiation between ADB and the Government of Brunei Darussalam and would require full cost recovery. Singapore is a member of ASEAN and ADB but has graduated from ADB assistance. Singapore may elect to receive ADB assistance on a reimbursable basis.

such as Cambodia, Lao PDR, and Myanmar, and to a lesser extent, Viet Nam is still relatively weak, and additional assistance is required. Participation in all TA activities will however, be on a purely voluntary basis.

14. Officials will be selected from the finance ministries and central banks of ASEAN countries or from the ASEAN secretariat in Jakarta. They will have these minimum qualifications:

- (i) a bachelor's degree (or the equivalent) in economics or finance from a recognized university, and preferably a postgraduate qualification in the same,
- (ii) at least five years relevant professional work experience, and
- (iii) fluency in written and spoken English.

15. While governments will initially select candidates for training and forward their nominations to ASCU, ADB will retain the right to decline nominations that do not meet the criteria. It is expected that officials who are selected for training at ADB will be assigned responsibilities for ASEAN surveillance activities on completion of the training. A precondition for participation in the training program will be the commitment of the participants to resume duties with either their governments or ASCU in Jakarta.

16. The TA will finance the training of approximately 30 mid-level officials in 3 batches of 10 ministry of finance and central bank officials within 1 year. ADB staff and consultants will handle the training. ADB will provide round-trip airfare, per diem, and mission travel expenses for the trainees. During the training period, the respective governments will meet the salaries of the trainees. The trainees will not be employees of ADB. Any privileges and immunities that the Philippine Government grants to trainees will be a matter for negotiation between ASEAN and the Government of the Philippines.

17. The activities will expose trainees to economic and financial data systems, emerging data standards, EWS and macroeconomic models, methods of policy analysis, codes of conduct for monetary and fiscal policy, and international standards in areas such as bank supervision and securities regulation. Taken together, these activities will help develop the technical skills and practical experience needed to sustain and support full ownership of ASP.

C. Cost and Financing

18. The total estimated cost of the TA is \$390,000, of which \$300,000 will be financed on a grant basis by ADB's TA funding program. The ASEAN secretariat and ASEAN member governments will provide counterpart support including salaries of participants estimated at \$90,000. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

19. The ASEAN secretariat will be the Implementing Agency for the TA. Implementation will be conditional on ASEAN's formal agreement—contained in a Letter of Agreement—to the structure and conditions of this TA.

20. ASCU within the ASEAN secretariat is responsible for ASP and will be responsible for implementing the TA. ASCU's responsibilities are to screen and make the final list of trainees for ADB's consideration, and to maintain all official contact with national governments and their respective agencies.

21. The trainees will be located in the ASEAN Surveillance Technical Support Unit (ASTSU) within ADB. ASTSU will have no autonomous implementation responsibilities for the TA, and its operational assignments will be determined by Regional Economic Monitoring Unit (REMU) in collaboration with ASCU. ADB staff and consultants will train ASTSU trainees, and ADB will provide other resources needed for the routine operations and viability of ASTSU.

22. Responsibility for executing the TA will rest with ADB. REMU, in consultation with the regional departments and the Economics and Research Department, will take the lead in executing the TA. The TA will be for 12 months, starting in January 2003; it is scheduled to be completed by the end of December 2003.

23. The terms of reference for two international consultants to be engaged for the training program are in Appendix 3. One international consultant will have experience in all aspects of macroeconomics and financial monitoring activities and will have taught macroeconomics and financial programming to developing country officials of various backgrounds in a short-course/workshop environment. The other international consultant will be an expert in developing financial and capital markets including developing indicators of financial soundness and models of EWS, as well as financial and corporate governance matters included in the current effort to strengthen the international financial architecture. The TA provides for 3 person-months of international consulting services, with each international consultant to be engaged for 1.5 person-months over the period of the TA. Recruitment will follow ADB's *Guidelines on the Use of Consultants*.

IV. THE PRESIDENT'S DECISION

24. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$300,000 on a grant basis for Technical Training and Capacity Building in Support of the ASEAN Economic Surveillance Process Phase III, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal Reduce economic and financial vulnerability</p>	<p>Early indications of impending economic shocks Full reports available with clear macroeconomic action plans at the outset of such shocks</p>	<p>Indicators of financial and economic vulnerability Macroeconomic and financial performance indicators Semiannual ASEAN finance ministers and deputy finance ministers' meetings, where recent economic developments will be reviewed and discussed</p>	
<p>Purpose Strengthen economic policy making and institutions in the Association of Southeast Asian Nations (ASEAN) community</p>	<p>Complement International Monetary Fund surveillance with structural and sectoral monitoring Accelerate reforms and build a platform for sustainable growth in the region</p>	<p>Semiannual ASEAN finance ministers and deputy finance ministers' meetings, where recent economic developments are reviewed and discussed. Quality of surveillance reports being produced by the surveillance units in the ministries of finance Macroeconomic and financial performance indicators</p>	<p>Continued support and commitment to the ASEAN surveillance process (ASP) from ASEAN member countries Sustained interest of ASEAN finance and deputy finance ministers in the surveillance process Internal divisions within ASEAN</p>
<p>Outputs Support the training of officials from ministry of finance and central banks of eligible ASEAN member countries in economic and financial surveillance, and related policy making activities and assist in ASP</p>	<p>Thirty officials trained in economic and financial surveillance, and related policy-making activities Assessment of needs and capability at completion of training to determine further requirements</p>	<p>Screening of secondees by the ASEAN Surveillance Coordination Unit (ASCU) and Asian Development Bank (ADB) Evaluation of secondee performance by ADB staff Completion of secondment program Identification of qualified consultants and resource persons ADB staff presence and participation in the program Feedback from trainees at completion of training</p>	<p>Participating governments to nominate relevant staff, i.e., those who will be involved with the ASP Lack of interest by suitably qualified candidates Delays in recruiting secondees Reluctance of secondees to take up surveillance responsibilities Adequate supervision by ADB staff</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Activities Training of ministry of finance and central bank officials in economic and financial surveillance and related policy-making activities	Assessing specific training requirements Recruiting officials involved in economic and financial surveillance for the training program Engaging consultants and resource persons to conduct the training	Feedback from consultants, resource persons, and secondees on the training program Evaluation of secondee performance by ADB staff Consultants' performance evaluation reports	Consultants recruited in a timely manner Productivity of consultants and ADB staff Insufficient cooperation from governments or ASCU
Inputs Consulting services Supervision from ADB staff ASCU staff inputs	International consultants for 3 person-months	Consultants' performance evaluation reports	Consultants with the right expertise recruited in a timely manner Productivity of consultants and ADB staff Insufficient cooperation from governments or ASCU

COST ESTIMATES AND FINANCING PLAN

Item	Amount (\$'000)
A. Asian Development Bank Financing	
1. International Consultants	
a. Remuneration and Per Diem	70.0
b. International Travel	20.0
2. Travel and Accommodation of Participants	170.0
3. Miscellaneous Administration and Support Costs	10.0
4. Contingency	30.0
Subtotal (A)	300.0
B. ASEAN Secretariat And Member Government Financing	
1. Remuneration of Secondees	90.0
Subtotal (B)	90.0
Total	390.0

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. Two international consultants will be engaged. One will prepare and present the module on macroeconomics and financial programming. The consultant will have experience in teaching macroeconomics and financial programming to developing country officials of various backgrounds, in a short-course/workshop environment. The consultant will be engaged for approximately 1.5 person-months.

2. The second international consultant will prepare the materials and present the special topics sessions. The consultant will be an expert in developing financial and capital markets, including designing indicators of financial soundness, models of early warning systems, and leading economic indicators, as well as financial and corporate governance matters included in the current effort to strengthen the international financial architecture. The consultant will be engaged for approximately 1.5 person-months.