



Technical Assistance Report

Project Number: 41180
Capacity Development Technical Assistance (CDTA)
November 2008

Tuvalu: Capacity Development for Public Financial Management

(Cofinanced by the Government of Australia)

CURRENCY EQUIVALENTS

(as of 20 October 2008)

Currency Unit	–	Australian dollar (A\$)
A\$1.00	=	\$0.69
\$1.00	=	A\$1.45

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
MFEP	–	Ministry of Finance and Economic Planning
MTFF	–	medium-term fiscal framework
PBI	–	performance benchmark indicator
PEFA	–	public expenditure and financial accountability
TA	–	technical assistance
TEC	–	Tuvalu Electricity Corporation
TTC	–	Tuvalu Telecommunications Corporation
TTF	–	Tuvalu Trust Fund
TTFAC	–	Tuvalu Trust Fund Advisory Committee

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Capacity development technical assistance (CDTA)
Targeting Classification	–	General intervention
Sector	–	Law, economic management, and public policy
Subsector	–	Public finance and expenditure management
Themes	–	Sustainable economic growth, private sector development
Subthemes	–	Promoting macroeconomic stability, private sector investment

GLOSSARY

<i>Te Kakeega II</i>	–	National Strategy for Sustainable Development 2005–2015
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NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars, unless otherwise stated.

Vice-President	C. Lawrence Greenwood, Jr., Operations 2
Director General	S. Hafeez Rahman, Pacific Department (PARD)
Regional Director	R.Keith Leonard, South Pacific Subregional Office, PARD
Team leader	E. Ferguson, Country Specialist, PARD

I. INTRODUCTION

1. The Government of Tuvalu (the Government) requested the Asian Development Bank (ADB) to provide technical assistance (TA) to support its fiscal stability and capacity-building initiatives, in conjunction with a proposed ADB program grant of \$3.24 million. The need to establish strategies and frameworks to identify, manage, and mitigate fiscal risk, as well as to review the ownership of government enterprises and improve their financial and management performance, has been recognized in *Te Kakeega II*¹ and ADB external assessment of Tuvalu.²

2. The Fact-Finding Mission³ visited Tuvalu during 1–8 July 2008 to assess the relevance and scope of this TA.⁴ Discussions were held with representatives of the Government and other stakeholders, and understanding was reached on the impact, outcome, outputs, implementation arrangements, cost, financing arrangements, and terms of reference for consulting services. The TA design and monitoring framework is in Appendix 1.

II. ISSUES

3. Tuvalu relies heavily on its public sector to drive growth, but it is inefficient and unwieldy. Tuvalu is unique in that its external earnings are twice the gross domestic product, leaving it vulnerable to global forces. Since 2003, Tuvalu has experienced a decline in key offshore revenues. Earnings from fish licenses have declined significantly as climatic conditions have suppressed the number of fish found in its exclusive economic zone. In addition, the returns on its popular “.tv” domain name have fallen. More recently, the value of external earnings denominated in US dollars have declined significantly with exchange rate movements, and Tuvalu faces steep inflation pushed by rising fuel and food prices.

4. Tuvalu is now under unsustainable fiscal pressure. In response, the Government has adopted a set of five fiscal performance benchmark indicators (PBIs), which track the achievement of desired social outcomes with a focus on improved financial management and fiscal consolidation (Appendix 2). These indicators, developed in close cooperation with key development partners, state specific, measurable, and annually updated requirements for a balanced budget, consolidated investment fund minimum balance, debt liability, and expenditure on basic education and primary health care. The Government is aware that broad reforms are needed to meet the PBIs.

5. One indication of commitment to meeting the targets was the Government’s repayment in May 2008 of A\$1 million to the outer islands agency suspense account overdraft with the National Bank of Tuvalu.⁵ Other positive actions include taxation reform commenced with the support of ADB, the legal changes for which Parliament is expected to approve in November 2008. The Public Accounts Committee has been reinvigorated to provide greater oversight and accountability for public financial management and, in July 2008, considered the 2006 audited accounts of all public corporations.

¹ Government of Tuvalu. 2005. *Te Kakeega II: National Strategy for Sustainable Development 2005–2015*. Funafuti.

² ADB. 2007. *Tuvalu 2006 Economic Report: From Plan to Action*. Manila.

³ The mission was joined by John Vaught, financial sector supervision advisor, Pacific Financial Technical Assistance Centre.

⁴ The TA first appeared in the business opportunities section of ADB’s website on 22 July 2008.

⁵ The overdraft was generated under a system, no longer in use, whereby the Government acted as an agency for the National Bank of Tuvalu, transferring funds deposited in the outer islands to the outer islands agency suspense account. These funds were misdirected into general government revenue, causing the overdraft.

6. The Government owns 11 public enterprises operating in key sectors of the economy.⁶ Policy, legal, and regulatory frameworks are lacking, including a broader policy on enterprise ownership that would clarify the Government's role and expectations. Decisions regarding enterprises made outside of any guiding framework risk being haphazard, uncoordinated, and conflicting. Each enterprise is governed by an individual act of incorporation, which provides little leverage for Government oversight. In practice, performance demands are not placed on enterprises. The concept of government-funded community service obligations has not yet been adopted. The subsidies paid are not clearly identified in budget papers, and responsibility for the corporations is spread across six ministries.

7. Debt is high across all enterprises, with several operating on overdraft. Several have going concern issues. Most prepare no accounts, financial statements, or annual reports.⁷ Board members do not always have either a clear understanding of their role or sufficient information with which to contribute meaningfully to management. The expectation in corporations is that the Government will bail them out rather than discontinue their services.

8. A number of government businesses are embedded in individual ministries.⁸ They do not produce financial and management reports with which to assess their revenue-earning potential. Synergies could be attained by subjecting these business activities to review regarding profitability and continued government ownership, management, and control.

9. Meeting the PBIs will require the Government to address, in addition to the weak performance of public corporations and government business enterprises, the findings of the public financial management system assessment carried out in 2007. It must do so using the framework for measuring public expenditure and financial accountability (PEFA) performance.⁹ Performance was assessed across six dimensions relating to budgetary achievement based on overall fiscal discipline, strategic allocation of resources, and efficiency of service delivery. The review concluded that ratings on all key indicators were low and that the lack of budget credibility, caused by weak budgetary control and poor in-year budget reporting, has hindered the efficient delivery of public services. To meet the PBIs, the Government needs to reach agreement on the necessary areas for capacity development in response to the PEFA report, their sequential order, and a monitoring framework to measure the impact of the individual interventions.

10. Despite capacity weaknesses, the Ministry of Finance and Economic Planning (MFEP) has made significant efforts to improve the budget process. This has been facilitated by the funding of a budget advisor by the Australian Agency for International Development (AusAID) since 2006 and various ADB TA. The Government has committed to, but not yet accomplished, developing a medium-term fiscal framework (MTFF), which would guide government decisions regarding sustainable expenditure priorities, debt management, and appropriate strategies for generating revenue.

⁶ These are the National Bank of Tuvalu, National Provident Fund, Development Bank, Tuvalu Telecommunications Corporation, Vaiaku Lagi Hotel, Tuvalu Electricity Corporation, Maritime Training Institute, Tuvalu Media Corporation, Copra Trading Corporation, Fishing Corporation, and Philatelic Bureau. The Tuvalu Media Corporation has recently been decorporatized, which has involved simply stripping the corporation of its act and taking back full responsibility, including debt, while allowing staff to transfer back to the Government under salaries and conditions that exceed those of their counterparts, despite the corporation's failure.

⁷ Government of Tuvalu. 2008. *Report of the Auditor General 2006*. June.

⁸ These additional businesses include the main port, stevedoring operations, a travel agency, two interisland vessels, housing, repair shops, outer island fisheries centers, and an internet facility.

⁹ ADB. 2007. *Tuvalu Public Expenditure and Financial Accountability Final Report*. Consultant's Report. Manila.

11. Lessons from previous ADB assistance to improve financial management in the Pacific point to the importance of not creating dependency on external consultants and to the need to strengthen the focus on capacity development. These lessons have been incorporated by including a capacity-development specialist and by providing consultant input only intermittently, to reduce the likelihood of consultants' being drawn in line work but still providing assistance as necessary. The small number of senior government staff and the relatively limited skills in areas related to this TA create risks in terms of capacity for sustained commitment. These risks will be mitigated by incentives in the proposed program grant and several TA design features: (i) close and ongoing management of the TA with significant in-country presence; (ii) a 3-year implementation period to allow a focus on long-term capacity building; (iii) development partner coordination mechanisms maintained throughout from TA design, particularly with the Pacific Financial Technical Assistance Centre, and the AusAID-funded budget advisor.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

12. The intended impact of the TA is sustained economic growth and fiscal stability, as prioritized in *Te Kakeega II*. The expected outcome is improved Government fiscal planning and management capacity. The achievement of the expected outcome will be reflected in the Government's capacity to achieve the policy, legislative, and institutional changes to which it has committed under the proposed grant for Improved Financial Management Program.¹⁰ The TA will go further by improving the management of finances and Government enterprises while considering issues of strategy and ownership.

B. Methodology and Key Activities

13. The TA takes both a top-down and a bottom-up approach. It will develop an MTFE and create the policy and legislative environment for improving the performance of public enterprises. It will simultaneously work with enterprises to put in place management and planning tools to help them understand and improve their performance and enable the Government and its enterprises to monitor and manage performance. The TA will provide capacity building and support through the four components.

1. Component 1: Management Services

14. The TA will be supported by augmented management services from the consultant firm, providing ongoing management, liaison, and mentoring, as well as the coordination of inputs, to ensure that inputs are directed toward the agreed objectives rather than fragmented. The expected output will be effective capacity building and management of public enterprise reforms.

15. The main activities will be to (i) support the establishment of a mechanism through which the Government can better manage enterprise monitoring, including a steering committee and a public enterprise unit; (ii) develop an overall strategy and implementation plan for the TA; (iii) coordinate all TA inputs including coordination with other externally-funded activities; (iv) help the Government review lessons in enterprise ownership and management and facilitate their application; (v) promote positive and productive relationships with the Government, enterprises, development partners, and ADB; and (vi) provide quarterly and annual monitoring of TA progress and associated reporting.

¹⁰ ADB. Forthcoming. *Report and Recommendation of the President to the Board of Directors on a Proposed Asian Development Fund Grant to Tuvalu for the Improved Financial Management Program*. Manila. The paper is scheduled for Board consideration on 11 December 2008.

2. Component 2: Strengthening Fiscal and Enterprise Management

16. This component will provide stronger and more coherent oversight of fiscal and public enterprise performance. The main activities will be to (i) help MFEP develop and implement an MTFP; (ii) provide training for staff of the public enterprise unit on its role; (iii) develop and implement a strategic policy on public enterprise governance reform, outlining the Government's position on enterprise ownership and options for divestment; (iv) prepare the Public Corporations Act as overarching legislation that sets out Government monitoring requirements and management and reporting requirements for all enterprises; (v) develop a regulatory framework for monitoring enterprises and a legal framework for both establishing and divesting enterprises; (vi) coordinate with the Pacific Financial Technical Assistance Centre regarding assistance to develop a financial institutions bill; and (vii) assess the tariffs required for the financial sustainability of the Tuvalu Electricity Corporation (TEC) and the Tuvalu Telecommunications Corporation (TTC) and provide options for how the financial requirements of these public enterprises can be balanced with the community services required of them by the Government.

3. Component 3: Results-Based Planning and Management Assistance for Enterprise Performance Improvement

17. The output of this component will be strengthened management capacity in public enterprises. The main activities will be to (i) work with general managers and boards of directors to develop and implement a corporate plan and an action plan for each enterprise, based on the Government's overarching public enterprise strategic policy and plan, and to help them meet the requirements of the Public Corporations Act; (ii) improve accounting and management by introducing basic accounting skills and disciplines to allow standardized and timely accounts to be submitted to boards and then to the public enterprise unit; (iii) provide assistance to support specific National Bank of Tuvalu policy and practice changes to improve performance; (iv) develop job descriptions for use in all enterprises, together with a performance appraisal format; and (v) support the Government's assessment of the private sector development potential in Tuvalu as a basis for decisions on appropriate private sector involvement in public enterprises.

4. Component 4: Capacity Building

18. This component will strengthen the capacity in MFEP and public enterprises to provide sustainable fiscal management, planning and monitoring, and public enterprise monitoring and management. The main activities are (i) a diagnostic analysis of MFEP capacity, building on the results of the 2007 PEFA review, and developing a framework to measure planned interventions to remedy budgeting and financial management problems (to be financed by the Government of Australia); (ii) formal training, informal on-the-job development and learning by doing, and mentoring for MFEP, the public enterprise unit, boards, and general managers; and (iii) raising public and stakeholder awareness undertaken in regard to specific issues.

C. Cost and Financing

19. The TA is estimated to cost \$982,750, of which \$57,750 will be financed on a grant basis by the Government of Australia¹¹ and administered by ADB, and \$800,000 will be financed on a grant basis by ADB's TA funding program. The Government of Tuvalu will finance \$125,000

¹¹ Through the Memorandum of Understanding on Channel Financing (Technical Assistance Program) between the Government of the Commonwealth of Australia and the Asian Development Bank.

equivalent by providing office space and facilities, legal services, counterpart staff, support services, and office supplies. Details of the cost estimates are in Appendix 3.

D. Implementation Arrangements

20. MFEP will be the Executing Agency and will, with TA support, establish a public enterprise unit comprising two professional staff and a secretary. This unit will be the focal point for TA and remain as the interface between enterprises and the Government after TA completion. The secretary for finance will provide guidance for TA implementation with the support of a steering committee comprising government representatives.

21. The TA will finance 25.5 person-months of intermittent international consulting and 8 person-months of national consulting services. ADB will recruit a firm based on a simplified technical proposal under the quality- and cost-based selection process, using 80:20 weighting for quality and cost. The consultant team will have a (i) team leader and advisor on institutional strengthening and public enterprise development (international, 12 person-months); (ii) specialist in developing public financial management capacity (international, 2.5 person-months); (iii) public financial management advisor (international, 8 person-months), (iv) planning and human resource development advisor (international, 3 person-months), and (v) project facilitator (national, 8 person-months). International advisors will be very senior technical specialists in their field, with extensive experience in small island states, as well as skilled trainers committed to capacity building. The outline terms of reference for consultants are in Appendix 4.

22. TA implementation will be supported with augmented management services from a project manager working approximately 3 person-months and provided by the firm for a lump sum. The management and administrative input of the project manager will be provided intermittently but according to an agreed plan throughout TA implementation. The project manager will be responsible for developing the detailed terms of reference for the three long-term advisors and the national consultant. The consultants will be engaged in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

23. The TA will be implemented intermittently, starting in December 2008 and ending in December 2011. TA implementation will commence with a diagnostic analysis of MFEP capacity. The implementation of remaining activities will commence with an inception report prepared for ADB and the Government by the team leader within 4 weeks of the start of field activities, which will include an overall work plan for the full period and a detailed work plan for the first year. Brief quarterly progress reports will be prepared in consultation with the public enterprise unit and provided to ADB. Semiannual progress reports will be submitted throughout the TA and a draft final report submitted by 30 October 2011. The final report will be submitted within a month of the incorporation of ADB and Government comments on the draft final report. The outcomes of the diagnostic analysis will be the subject of a separate report. ADB will help the Government share all reports with other development partners.

IV. THE PRESIDENT'S DECISION

24. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$57,750 to be financed on a grant basis by the Government of Australia, and (ii) ADB providing the balance of \$800,000 on a grant basis to the Government of Tuvalu for Capacity Development for Public Financial Management, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions And Risks
<p>Impact</p> <p>Sustained economic growth and fiscal stability</p>	<p>Meeting of annual targets agreed with development partners for performance benchmark indicators (PBIs) relating to budget balance, debt level, primary education, and basic health-care expenditure</p>	<p>Budget papers</p> <p>Tuvalu Trust Fund Advisory Committee reports</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Government maintains its commitment to the PBIs. • Economy will sustain continued demand for current or greater levels of service. <p>Risks</p> <ul style="list-style-type: none"> • Lengthy lag before improvement in fiscal achievements • Economy not sufficiently buoyant to enable significant private sector growth
<p>Outcomes</p> <p>Improved government fiscal planning and management capacity</p>	<p>Annual budget aligned with medium-term fiscal objectives</p> <p>Monitoring of government financial support to public enterprises</p> <p>Public enterprises in compliance with all aspects of the Public Corporations Act</p> <p>Improvements in key financial indicators for public enterprises</p>	<p>Fiscal year (FY) 2010 budget papers</p> <p>Medium-term fiscal framework (MTFF)</p> <p>Public enterprise management and performance reports</p> <p>Auditor's reports</p> <p>Quarterly TA reports</p> <p>Program grant monitoring reports</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Continued government commitment to reforms at the political bureaucratic level • Continuing assistance from the public enterprise unit and good advice <p>Risks</p> <ul style="list-style-type: none"> • Limited capacity of the public enterprise unit to monitor and ensure compliance • Expenditures inconsistent with budgets • Steering committee fails to meet or fails to provide effective oversight.
<p>Outputs</p> <p>Component 1</p> <ul style="list-style-type: none"> • Effective management of public enterprise reforms <p>Component 2</p> <ul style="list-style-type: none"> • Strengthened and coherent oversight of fiscal performance 	<p>Public enterprises unit and steering committee established</p> <p>TA implementation progresses according to work plan</p> <p>MTFF developed and included in budget documents</p>	<p>TA quarterly reports</p> <p>TA quarterly reports</p> <p>MTFF</p> <p>Budget papers</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Staff commitment to understanding and applying capacity-building input <p>Risks</p> <ul style="list-style-type: none"> • Staff changes compromise continuity and quality of planning • Skilled senior staff already have high workloads • Government proves unwilling to introduce or

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions And Risks
<p>and public enterprise performance</p> <p>Component 3</p> <ul style="list-style-type: none"> • Strengthened management capacity in public enterprises <p>Component 4</p> <ul style="list-style-type: none"> • Diagnostic analysis report • Strengthened capacity in MFEP 	<p>Public enterprise governance reform strategic policy endorsed by the cabinet by June 2009</p> <p>Public Corporations Act approved by Parliament by October 2009</p> <p>Enterprise monitoring framework utilized by public enterprise unit from June 2009</p> <p>Implementation of recommendations on Tuvalu Telecommunications Corporation (TTC) and Tuvalu Electricity Corporation (TEC) tariffs and scale of community service obligations from September 2009</p> <p>Corporate plan and action plan for each public enterprise developed and annually updated</p> <p>Progress against corporate plan targets reported to the board annually for each public enterprises</p> <p>Systems in place and being used for more effective fiscal management, planning, and monitoring</p>	<p>Cabinet minutes</p> <p>Parliamentary reporting</p> <p>TA quarterly reports</p> <p>TTC and TEC reports</p> <p>Budget documents</p> <p>Corporate plans</p> <p>TA quarterly reports</p> <p>FY2010 budget papers</p>	<p>fund community service obligations.</p> <ul style="list-style-type: none"> • Government fails to follow direction set by MTFF in its budgets.

Activities with Milestones	Inputs
<p>Component 1:</p> <ol style="list-style-type: none"> 1.1 Develop a TA implementation plan. 1.2 Support establishment of a public enterprise unit and steering committee. 1.3 Quarterly and annual monitoring reports. <p>Component 2:</p> <ol style="list-style-type: none"> 2.1 Support MFEP in the development and implementation of an MTFF. 2.2 Develop and implement a public enterprise strategic policy and plan 2.3 Prepare the Public Corporations Act with supporting regulatory framework. 2.4 Provide assistance to support specific National Bank of Tuvalu policy and practice changes. 2.5 Assess tariffs and community service obligation issues in regard to TEC and TTC. <p>Component 3:</p> <ol style="list-style-type: none"> 3.1 Work with general managers and boards of directors to develop and implement corporate plans and an action plan for each enterprise. 3.2 Support introduction of basic accounting skills in enterprises and boards of directors. 3.3 Develop job descriptions and performance appraisal format. <p>Component 4:</p> <ol style="list-style-type: none"> 4.1 Diagnostic analysis report 4.2 Formal and informal training and mentoring 4.3 Design and implement public and stakeholder awareness-raising activities. 	<ul style="list-style-type: none"> • ADB \$800,000 • ADB supervision and administration by the Pacific Subregional Office • Australia \$57,750 • Government \$125,000

ADB = Asian Development Bank, MFEP = Ministry of Finance and Economic Planning, MTFF = medium-term fiscal framework, PBI = performance benchmark indicator, TA = technical assistance, TEC = Tuvalu Electricity Corporation, TTC = Tuvalu Telecommunications Corporation.

PERFORMANCE BENCHMARK INDICATORS

1. The Government of Tuvalu (the Government) has adopted a set of five performance benchmark indicators (PBIs) developed jointly by it, the Asian Development Bank, the Australian Agency for International Development, and New Zealand International Aid and Development. The PBIs track the achievement of the stated social outcomes with a focus on improved financial management and fiscal consolidation. The PBIs are as follows:

- (i) **Benchmark 1.1.** The Government's recurrent expenditure each year should not exceed the total of its recurrent revenue plus a sustainable Tuvalu Trust Fund (TTF) distribution (consolidated investment fund drawdown).
- (ii) **Benchmark 1.2.** The target minimum value of funds retained in the consolidated investment fund should not be less than 16% of the maintained value of the TTF at the beginning of the TTF year, to ensure that sustainable distribution is available to help finance annual budgets.
- (iii) **Benchmark 1.3.** The Government's total debt liability, both domestic and external, should not at any time exceed 60% of the gross domestic product, as specified in *Te Kakeega II*.
- (iv) **Benchmark 2.1.** In 2008, the Government will increase its budgeted non-salary expenditure on basic education by at least 5%.
- (v) **Benchmark 2.2.** In 2008, the Government will increase its budgeted non-salary expenditure on primary and preventative health services by at least 5%.

2. The PBIs are updated annually, as required in consultation with development partners, to reflect broader fiscal conditions and affordability. More specifically, benchmarks 2.1 and 2.2 set clear targets for a specific year (the 5% targets for 2008 being the first such annual targets) with the intent that they be reset annually in consultation with development partners. It is notable that monitoring Tuvalu's performance against benchmark 2.1 (education), compared with the 2007 budget outturn, showed the proportion of the education budget spent on primary education and vocational training, excluding salaries, allowances, and scholarships, had increased significantly to 15.0%, more than double the 7.1% allocated in 2006. For benchmark 2.2, the proportion of the health budget spent on primary and preventative health care increased slightly in 2007 to 18.1% from 17.7% in 2006. The evolving nature of these last two PBIs allows appropriate and agreed adjustments to be made to the targets, which ensures that they continue to promote fiscally responsible action supportive of social objectives.

3. Fiscal performance against the PBIs is monitored by the Government through the Tuvalu Trust Fund Advisory Committee (TTFAC), which ensures impartiality, and is watched closely by the Government and development partners. Assessment in April 2008 by the TTFAC, compared with the 2007 budget outturn, found that the Government had met benchmarks 1.3, 2.1, and 2.2. Against benchmark 1.1, the TTFAC found that the recurrent budget, when added to the grants balance outturn for 2007, was a deficit of A\$2.06 million, which was then reduced to a A\$1.04 million deficit after deducting the Government's A\$1.02 million contribution to the TTF. As such, the 2007 budget outturn did not meet benchmark 1.1. The TTFAC stated that benchmark 1.1 was arguably the most important benchmark. TTFAC further noted regarding benchmark 1.2 that there was a marked improvement in Government efforts to achieve the target minimum balance.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	625.00
ii. National Consultants	15.00
b. International and Local Travel	80.00
c. Reports and Communications	25.00
2. Miscellaneous Administration and Support Costs	15.00
3. Contingencies	40.00
Subtotal (A)	800.00
B. Government of Australia Financing^b	
1. Consultants	
a. Remuneration and Per Diem	
International Consultants ^c	47.26
b. International and Local Travel	2.70
c. Reports and Communications	0.20
2. Workshops, seminars, conferences	0.30
3. Contingencies	4.54
4. Administration Fee	2.75
Subtotal (B)	57.75
C. Government of Tuvalu Financing	
1. Office Accommodation and Transport	30.00
2. Remuneration and Per Diem of Counterpart Staff	95.00
Subtotal (C)	125.00
Total	982.75

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

^b Financed through the Memorandum of Understanding on Channel Financing (Technical Assistance Program) between the Government of the Commonwealth of Australia and the Asian Development Bank, and administered by ADB.

^c The Government of Australia will fund the costs associated with the tasks undertaken by the public financial management capacity development specialist.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The consultants will work as a cohesive team to deliver the tasks below. The team will comprise five consultants: the (i) team leader and advisor on institutional strengthening and public enterprise development, (ii) specialist in developing public financial management capacity, (iii) public financial management advisor, (iv) human resource development advisor, and (v) project facilitator. There will be a project manager, who may be the team leader or a different person.

2. All advisors must have the interpersonal skills to undertake formal and on-the-job capacity building and mentoring throughout the project and work as a cohesive unit to best utilize the skills of the team and its counterparts. They must have extensive international experience, particularly in the Pacific, and be adept at applying lessons in reforms in a small, fragile environment.

3. TA implementation will commence with a diagnostic analysis of Ministry of Finance and Economic Planning (MFEP) capacity, and progress in this activity shall be reported to ADB and the Executing Agency through short monthly reports. This activity shall be the focus of a separate draft final report with an executive summary of not more than 5 pages, to be submitted to ADB and the Executing Agency for comments 1 week after the completion of the diagnostic analysis. A final report shall be submitted in one CD-ROM and three hard copies each to ADB and the Executing Agency with comments received incorporated.

4. The remaining activities will commence with an inception report prepared for ADB and the Government by the team leader within 4 weeks of the start of field activities, which will include an overall work plan for the full period and a detailed work plan for the first year. Brief quarterly progress reports will be prepared in consultation with the public enterprise unit and provided to ADB. Semiannual progress reports will be submitted throughout the TA, and a draft final report submitted by 30 October 2011. The final report will be submitted within a month of the receipt of ADB and government comments on the draft final report. The final report shall be submitted in one CD-ROM and three hard copies each to ADB and the Executing Agency with comments incorporated.

5. All reports shall be written in accordance with ADB's *Handbook of Style and Usage*.¹

1. **Project Manager** (international, lump sum, intermittent)

6. The project manager will ensure continuity for the 3 years of the project and that management and logistics are effectively organized throughout. The project manager may also be the team leader, but this is not essential. The project manager will provide professional, office, and logistical support and ensure continuity in all aspects of the project.

7. The project manager will oversee component 1 and provide coordination of all TA components. This will include establishing mechanisms for capacity building and coordination beyond just the tasks in the terms of reference. He or she will undertake or facilitate capacity-building and community awareness tasks as required to ensure the enterprise reforms and their rationale are widely understood.

8. More specifically, the project manager will

¹ ADB. 2002. *Handbook of Style and Usage*. Manila.

- (i) facilitate the establishment of a steering committee and define its role and composition;
- (ii) facilitate the establishment of a public enterprise unit, including helping the steering committee define the terms of reference for staff recruitment or reallocation and procedures and mechanisms necessary to establish a working unit;
- (iii) confirm an overall strategy and implementation plan for the TA in close consultation with the Government, steering committee, and TA team;
- (iv) coordinate all TA inputs, including coordination with other externally-funded activities;
- (v) help the Government review lessons in enterprise ownership and management and facilitate their application;
- (vi) promote positive and productive relationships with the Government, enterprises, development partners, and ADB; and
- (vii) ensure the provision of quarterly and annual reports of TA progress and associated reporting to the Government and ADB.

9. The project manager will have experience in managing international projects in long-term public sector reform. The manager will have extensive project management experience internationally and be able to ensure that management, technical, and reporting deadlines are met throughout the project. He or she will model the hands-on approach required for the success of the project and ensure that the TA team, steering committee, and new public enterprise unit operate cohesively. The manager will review TA inputs and may, with ADB agreement, reallocate the total person-months to best meet changing project requirements.

2. Team Leader and Advisor on Institutional Strengthening and Public Enterprise Development (international; 12 person-months, intermittent)

10. This person will have extensive experience in public sector reform and enterprise development across a range of geographic, technical, and possibly political settings. He or she will be able to handle broad technical requirements competently at both the Government level and regarding enterprise development. In addition, a deep understanding of the political economy dimension of reform is essential, with proven ability to navigate the interface between political and bureaucratic decision making.

11. More specifically, the consultant will undertake the following:
- (i) support the setting up of a public enterprise unit and provide initial and ongoing training for staff on its role and responsibilities;
 - (ii) facilitate the development and implementation of a strategic plan and policy outlining the Government's position on enterprise ownership and options for divestment;
 - (iii) prepare, with support from the Attorney General's Office and in conjunction with the public finance advisor, and after assessing best practice models, the Public Corporations Act as overarching legislation that sets out requirements for enterprises' monitoring, management, and reporting to the Government;
 - (iv) develop, in consultation with the public finance advisor, a regulatory framework for monitoring enterprises and a framework for both establishing and divesting enterprises;
 - (v) work with general managers and boards of directors to develop and implement a corporate plan and an action plan for each enterprise, based on the

- Government's overarching strategic policy and plan, and help them to meet the requirements of the Public Corporations Act;
- (vi) advise the steering committee on any issues within the scope of the TA.
 - (vii) collate and prepare inception, quarterly, annual, draft final, and final reports as required by ADB.

3. Specialist in Developing Public Financial Management Capacity
(international, 2.5 person-months, intermittent)

12. This person must have an appropriate background to undertake the task as outlined below but should, in addition, be able to act as an efficient facilitator. Knowledge of how to assess competency and measure it against set targets is essential.

13. More specifically, the specialist will undertake a participatory diagnostic analysis with the involvement of all staff of MFEP to reach agreement on the necessary areas for capacity development in public financial management, their sequential order, and a monitoring framework to measure the impact of individual interventions. This analysis will be a direct follow-on activity to the public expenditure and financial accountability (PEFA) review conducted in 2007.² The main role of the consultant should be facilitator, with MFEP in the driver's seat. The diagnostic should typically comprise a series of short workshops or discussion groups involving staff. They should use the questions below to guide investigation and help establish (i) where the institution is in regard to effectiveness, (ii) what prevents its improving performance, and (iii) what needs to be done to improve performance.

14. The analysis should use the following five sets of questions

- (i) Clarity of results
 - (a) Does the institution have clarity on the expectations of its clients? Does it know who its priority clients are in the first place?
 - (b) Are these expectations reflected in its key results areas and annual targets that it sets for itself periodically?
 - (c) Are its annual targets reduced to a select number of clear, monitorable, and achievable targets that are regularly updated?
 - (d) Does it monitor and assess its performance regularly? Is this monitoring and assessment built into its ongoing performance management systems?
 - (e) What are its current key performance gaps? These gaps have causes that can be found in one or more of the four areas described by the points below. The diagnostic needs to work back from these performance gaps to find the root causes of underperformance. Then the capacity-building exercise can be better targeted.
 - (f) Has budget credibility been established? To what degree has post-PEFA development work progressed? What remains to be done?
- (ii) Availability of resources
 - (a) Analysis of the answers to the questions above will reveal key performance gaps. Is inadequacy of budget, staff numbers and skills, or assets responsible for these gaps?
 - (b) Is there proportionality between expected results and available resources?
 - (c) Do results need to be pared down to fit the resources available?

² ADB. 2007. *Tuvalu Public Expenditure and Financial Accountability Final Report*. Consultant's Report. Manila.

- (iii) Strategy, structure, and systems (recognizing that the business of management is to facilitate the conversion of resources into expected results, which it does through strategy, staff structure, and systems)
 - (a) How effective is the institutional operating strategy? Does it recognize constraints in resources? Does it ensure the effective use of available resources? Does it ensure effective collaboration with stakeholders?
 - (b) Is the institution's structure suitable to its mandate? Does it promote efficiency and support delegation and responsiveness to clients?
 - (c) Are the systems of finances, human resources management, asset management, and performance management efficient (examine each set of systems for their efficiencies)?
 - (iv) Mobilizing stakeholder support
 - (a) Have key stakeholders been identified? Is there a clear strategy to mobilize their support?
 - (b) Which stakeholders are constraining the achievement of results? Why? How can they be persuaded to become collaborators?
 - (v) Leadership
 - (a) Does the leadership promote key values that improve performance?
 - (b) Does it lead by example?
 - (c) Does it provide clear direction to staff?
 - (d) Does it show commitment to meeting clients' needs and achieving results?
15. The consultant will produce
- (i) a detailed write-up of the diagnostic analysis exercise;
 - (ii) identified areas for capacity development and their sequential order, with more than one intervention implemented in parallel, if needed;
 - (iii) detailed terms of reference for the first capacity-development exercise; and
 - (iv) baseline competency levels in various areas for capacity development, with a clear methodology for measuring the achievement of the competency level required to implement the next intervention.
- 4. Public Financial Management Advisor** (international, 8 person-months, intermittent)
16. This person must have extensive experience in facilitating financial planning and fiscal management, both at the Government level and in reviewing and facilitating financial planning against reporting requirements within enterprises.
17. More specifically, the financial management advisor will
- (i) support the specialist in developing public financial management capacity in undertaking the diagnostic review;
 - (ii) facilitate the development of a medium-term fiscal framework, working in close consultation with MFEP;
 - (iii) review the debt-management strategy and risk analysis prepared by MFEP, integrate with MTFF as appropriate, and facilitate dialogue on the use and scope of the tools and their capacity for integration with other financial planning and management tools;
 - (iv) work with the public enterprise unit, in conjunction with the institutional advisor, to build understanding of financial analysis for improved enterprise monitoring;

- (v) develop, in consultation with the institutional advisor, a regulatory framework for monitoring enterprises and a framework for both establishing and divesting enterprises;
- (vi) work with general managers and boards of directors to help them to meet the financial reporting requirements of the Public Corporations Act;
- (vii) coordinate with the Pacific Financial Technical Assistance Centre regarding assistance to develop the Financial Institutions Act and provide support to National Bank of Tuvalu policy and practice changes to improve performance;
- (viii) assess the tariffs required for the financial sustainability of the Tuvalu Electricity Corporation and the Tuvalu Telecommunications Corporation and suggest how to introduce negotiations on community service obligations required of them by the Government.

5. Planning and Human Resource Development Advisor (international, 3 person-months, intermittent)

18. This person must have a broad human resources background and understanding of how to link strategic planning and human resources development. The advisor will

- (i) work with general managers and boards of directors to develop and implement a corporate plan and an action plan for each enterprise, based on the Government's overarching strategic policy and plan, and help them to meet the requirements of the Public Corporations Act, focusing particularly on issues of human resource planning;
- (ii) facilitate the preparation of appropriate organization structures for all enterprises, based on corporate plan requirements;
- (iii) develop a job description format for use by all enterprises;
- (iv) develop a basic performance appraisal system for use by all enterprises;
- (v) undertake a basic job evaluation to review current salaries and wages across all enterprises and make broad recommendations on wage and salary parity across enterprises and between enterprises and the public sector;
- (vi) make recommendations on staffing and skills requirements to meet performance outputs; and
- (vii) provide ongoing training to the enterprise staff on the rationale for and use of the tools listed above.

6. Project Facilitator (national, 8 person-months, intermittent).

19. The project facilitator will have a strong background in training, education, and participatory processes. He or she will have extensive experience in technical assistance in those fields in small island states.

20. Under the guidance of team leader or advisors, the project facilitator will

- (i) prepare and facilitate a series of participatory public workshops to develop awareness and understanding of the implications of public enterprise performance and reforms, and undertake similar outreach among parliamentarians and relevant Government and public enterprise staff;
- (ii) facilitate trainings in financial management for public enterprise staff and board members to develop their ability to understand and perform the financial tasks in keeping with their role; and
- (iii) reach out to the public through appropriate media on issues within the scope of the TA as identified by the team leader and/or advisors.