

ASIAN DEVELOPMENT BANK

TAR:VAN 36405

TECHNICAL ASSISTANCE

TO THE

REPUBLIC OF VANUATU

FOR THE

DEVELOPMENT OF A MEDIUM-TERM STRATEGIC FRAMEWORK

July 2004

CURRENCY EQUIVALENTS

(as of 14 July 2004)

Currency Unit	–	vatu (Vt)
Vt100	=	\$0.860
\$1.00	=	Vt116.34

ABBREVIATIONS

ADB	–	Asian Development Bank
CRP	–	Comprehensive Reform Program
DESP	–	Department of Economic and Sector Planning
GIP	–	Government Investment Program
MBC	–	ministerial budget committee
MFA	–	Ministry of Foreign Affairs
MFEM	–	Ministry of Finance and Economic Management
PAA	–	Prioritized Action Agenda
PCC	–	project coordination committee
PEM	–	public expenditure management
TA	–	technical assistance

TA CLASSIFICATION

Poverty Classification	–	Other
Sector	–	Economic growth
Subsector	–	Budget, policy and planning frameworks
Theme	–	Sustainable economic growth
Subtheme	–	Promoting economic efficiency and enabling markets

NOTE

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

This report was prepared by A. T. Vatucawaqa (mission leader).

I. INTRODUCTION

1. During the 2003 Country Programming Mission of the Asian Development Bank (ADB), the Government of Vanuatu requested technical assistance (TA) to help the Ministry of Finance and Economic Management (MFEM) prepare a medium-term strategic framework that will create the basis for setting priorities of sector development plans, corporate plans, departmental budgets, and project proposals. The TA was included in the 2003 TA Program to Vanuatu under the Country Strategy and Program Update. The Fact-Finding Mission, fielded on 21–30 April 2004, reached an understanding with the Government on the TA's purpose, scope, implementation, financing arrangements, and terms of reference.¹

II. ISSUES

2. Under the Government's Comprehensive Reform Program (CRP) of 1998, supported by ADB, fundamental reforms were achieved, particularly in public finance. The old line budgeting system was reformulated into a program budgeting format as a first step to adopting output-based budgeting. The development budget was integrated with recurrent budget documentation and reformulated as the Government Investment Program (GIP), which showed the value and source of all foreign aid—grants and loans. The budget documentation included a clear statement of the Government's objectives and policies in each key area of social and economic policy. Finally the planning period was extended from one to three years, reflecting the expected stream of revenue and expenditure. These changes have resulted in the production of a budget that has become more effective in aligning budget allocations with the Government's priorities.

3. While the reform has been ambitious and rapid, it has highlighted a number of gaps and inconsistencies in the policy framework and implementation. Areas that require examination and redefining are formulation and articulation of medium- and long-term priorities of the Government through the Prioritized Action Agenda (PAA), and the sequence and resourcing of critical policy interventions to realize the country's developmental goals. The PAA is a planning and budget formulation process that aims to link policy, planning, and resources at the Government-wide level. The PAA integrates strategic directions, sector policies, and priorities built on the Prime Minister's millennium goals, CRP matrix, business forum matrix, etc., formulated through stakeholder consultations. The PAA's objectives are to (i) identify and rank actions in terms of priorities that can help kick-start the economy on a sustainable basis, (ii) align external funding agency assistance with the priorities of the Government, and (iii) promote policy stability via the setting of priorities beyond a 12-month budget cycle and, ideally, across election cycles. The PAA document² has provided a lead in direction setting and priority mapping, but remains too broad and complex; lacks focus in some areas; and is fragmented, without any project cost estimates. Some sector policies are vaguely defined, resulting in some ambiguous project definition and/or difficulties in linking project proposals to the Government's national priorities. The Government has announced in its budget statement that the productive sectors³ should help kick-start the economy but lacks the analytical capabilities and institutional mechanisms for mainstreaming this into the budget and corporate and business planning exercises. Thus, a linkage has to be created between the broad strategic directions outlined in the PAA to the annual budget process through the GIP and evaluation of sector development plans. The GIP is the vehicle for (i) ensuring that macroeconomic sector strategies are translated into projects; (ii) strengthening the Government's negotiating position with the

¹ The TA first appeared in *ADB Business Opportunities* (Internet edition) on 7 October 2003.

² The Government presented the PAA at the Vanuatu Partners Meeting on 4 September 2003.

³ Productive sectors limited to tourism, agriculture, trade and investment, and infrastructure services.

development partners; (iii) improving aid coordination and channeling external resources to priority areas; (iv) assisting government financial management; and (v) strengthening the project cycle by providing a framework within which project preparation, implementation, and monitoring can occur.

4. External assistance is crucial to meet the Government's capital development needs. In 2003, it accounted for 86% of the expenditure development budget. Annual aid commitment, including grants, totaled Vt381 million (\$3.5 million) in 2003. As a major source of development financing, external assistance should support only prioritized policies and physical implementation of closely monitored and evaluated projects.

5. The GIP process has been overhauled and simplified over the years but needs continuous improvement. The GIP fails to direct resources to policy priorities partly because budgeting is treated as a simple funding rather than policy-based exercise, and partly due to the lack of authority and responsibility given to line managers to manage resources. Anecdotal evidence indicates that the GIP is a wish list of projects dating back to the 1990s that have neither been funded nor reassessed for relevance and consistency with national priorities, but instead have been carried over from year to year. The investment proposals submitted for inclusion in the GIP lack in-depth policy analysis, cost-benefit analysis, and project justification. The lead time between submission to approval of proposals takes longer than the norm because MFEM's lack of analytical skills. Communication and information flow between the ministerial budget committee (MBC), Department of Economic and Sector Planning (DESP), and line agencies is weak, partly due to the frequent changes in coalition government and the high turnover of staff. In the absence of effective leadership and decision-making processes, policymaking and planning are disconnected from each other and from budgeting, and are not connected by resource availability or strategic priorities. This leads to a mismatch between what is promised by government policies and commitments and what is affordable. Consequently, a strategic prioritization culture should be established within ministries and line agencies and awareness raising about this culture among political leaders. Political commitment, ownership, and understanding are central to the integrity of the system and budget discipline. Often, line agencies need to be forced to fund new activities or extension to existing activities by internally reprioritizing spending rather than adopting the softer approach of requesting additional funding from the budget. Thus, the culture of reprioritization as an effective alternative to budget augmentation should be continuously reinforced and with all the coalition members of Government.

6. The aid management and coordination unit in the Ministry of Foreign Affairs (MFA) is responsible for coordinating and dialoguing with Vanuatu's development partners for funding programs and updating the GIP. It is not regularly updated, and when it is, it is completed ad hoc. The updated GIP is then circulated to all ministries and line agencies, but the response rate has been disappointing, resulting in the clogging of the Government financing system. Tracking, monitoring, and evaluating externally assisted projects is manually done ad hoc. A systematic monitoring system needs to be developed to manage the information effectively, ensure that information is accurate and relayed on time, and evaluation of policies and programs outcomes are fed back to the line agencies and ministries.

7. In mid-2003, the aid management and coordination unit was transferred out of MFEM to the MFA. It was a tactical move to align the ministry's mandate of strengthening communication with aid agencies, but did not address (i) improving communication and coordination with sectoral ministries and line agencies, (ii) timeliness of disseminating information about projects being funded, and (iii) tracking of project implementation status. DESP now focuses only on

economic planning and sectoral policy responsibilities. The capacity of DESP and aid management coordination unit is slowly being addressed through contractual recruitment. The principal economist is on study leave while an economist and an assistant are managing the economics division in coordination with MFEM's budget section. Of the six sectoral analysts, two are full-time employees while four new graduates are on a contractual basis. The aid management coordination unit still has no head, and the position is likely to be advertised soon. Some observers have said that DESP and aid management coordination unit lack a proactive approach in dialoguing and coordinating across sectors with the line agencies and vice versa. This may be explained by the deficiencies in the financial and policy analysis skills of central and line agencies due to lack of technical capability, lack of skills and experience of existing staff, and shortage of resources to adequately staff and supply planning departments in line ministries and central agencies.

8. The role and linkages of DESP and the aid management coordination unit need to be clarified because the two departments are interdependent. DESP identifies high-priority projects, and aid management coordination unit seeks aid funding for them. A further complication is the different reporting requirements of most aid-funded public investment programs. DESP only monitors the approvals of investments against the program, but the aid management coordination unit needs to monitor implementation and disbursement. Therefore, a framework through the PAA can help strengthen the working relationship between the two agencies and harmonize coordination of donor priorities and reporting requirements with the overall development strategy and opportunities for growth sought by the Government.

9. Accordingly, four key areas need to be strengthened. First, the PAA document has to be mainstreamed at the departmental and provincial level as the main policy and planning document of the Government in support of the budget process. Its linkages to the corporate and business plans have to be established and understood. Political commitment and ownership are imperative. Second, the GIP and the financial and policy analysis skills of DESP and line agency staff need to be strengthened. Third, DESP needs to review its GIP processes and systems and develop proactive and effective links with productive sector ministries and line agencies. This will involve simplifying the GIP systems and procedures for (i) reviewing the relevance and consistency of all postdated projects in the system; (ii) identifying and appraising investment options in consultation with the line ministries and MBC; (iii) evaluating, selecting, and prioritizing 3–4 investments, which will constitute the annual GIP, as short, medium, and long term; and (iv) packaging the GIP in a form that will be useful for the development partners and in time for the annual consultative group meetings. Such links are necessary for DESP to fulfill its tasks of assembling the GIP and of building capacities within line agencies to implement externally funded projects. Fourth, the role of the aid coordination and management unit has to be refocused to ensure harmonization of donor programs and funding of approved prioritized policies and programs.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

10. The TA's purpose is to develop a medium-term strategic framework that will create a basis for setting priorities of sector development plans, corporate plans, departmental budgets, and project proposals. Specific outputs will include (i) a revised PAA that clarifies policy objectives and establishes linkages to budget outcomes, (ii) a simplified GIP that aligns with the PAA, (iii) well-focused project proposals, (iv) a project-costing manual, (v) strengthened capacity

of staff and implementing agencies, and (vi) improved coordination of externally assisted projects (Appendix 1).

11. This TA will focus on conceptualizing and entrenching the PAA framework, which will support improved management as well as policy development and capacity building consistent with Vanuatu's development strategy. By strengthening the medium-term strategic framework process of prioritizing policies and projects and allocation of resources to strategic priorities between and within sectors, the TA is expected to improve financial management and use of limited financial resources, which can ultimately lead to sustainable economic growth. The TA builds on previous and ongoing assistance from ADB and other development partners.⁴ Lessons learned from ADB work will be applied under this TA. In particular, Government officials will coordinate, manage, and implement change under the guidance of TA consultants, and initiate consultation and dissemination of TA results with Government and nongovernment stakeholders to entrench ownership.

B. Methodology and Key Activities

12. The TA will develop a medium-term strategic framework focused on developing capacity of the concerned agency staff through mentoring and training programs. Activities will include (i) refining the process of formulating medium- and long-term Government priorities and prioritizing development interventions through the PAA; (ii) reviewing all projects in the GIP and removing those that do not meet the costing guidelines for updating and resubmission by the sponsor agency; (iii) developing a process to regularly review and update the GIP; (vi) developing new costing procedures and requirements for Government projects to be included in the GIP; (v) clarifying the roles of and linkages between DESP and the aid management and coordination unit; (vi) strengthening the decision and coordination roles of the MBC; (vii) conducting a mentoring program to assist and train implementing agency staff to prepare and cost project proposals; and (viii) conducting training programs for staff of implementing agencies on the revised PAA process and policy development; GIP process; cost-benefit analysis; aspects of project identification, evaluation, selection, monitoring, and data gathering; effective leadership; project-costing manual; and best international practices in financial governance and sound public management. Counterpart staff will prepare regular reports to record daily activities and interactions with the consultants as part of the mentoring program.

13. For the PAA framework to be well entrenched and widely accepted by users, consultation and information dissemination workshops will be carried out in Port Vila and Santo for government institutions, the private sector, and civil-society organizations. Possible workshop topics will include, among others, understanding the workings of the PAA and its relationship to the GIP; practical case studies of good international practices on financial governance; public expenditure management; effective leadership and decision-making processes within the budget framework; how private sector and poverty reduction priorities can be set within the framework and integrating them within general economic policies, etc. Accordingly, participation and active engagement of Government ministers and officials, the private sector, and civil-society representatives will be ensured during TA implementation. The

⁴ ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Vanuatu for the Comprehensive Reform Program*. Manila; ADB. 2000. *Technical Assistance to Vanuatu for Institutional Support to Central Agencies for the CRP-Phase III*. Manila; ADB. 1999. *Technical Assistance to Vanuatu for Performance Enhancement of Selected Frontline Services*. Manila; ADB. 2001. *Technical Assistance to Vanuatu for Performance Improvements to Service Delivery Units*. Manila.

Government is envisaged to implement key recommendations under the TA as they evolve to ensure that TA outcomes are fed into the preparation of the 2005 budget-year cycle.

14. A parallel development relates to the development of a regional training program in public expenditure management (PEM) to complement the capacity building proposed under this TA as a means of building long-term sustainability. The Pacific Financial Technical Assistance Centre⁵ in Fiji is sponsoring the development of a PEM training program that will be one of five compulsory courses of a new master of arts in Governance at the University of the South Pacific, scheduled to start in the second half of 2004. The course will also be available as a stand-alone subject through distant learning, conferring a certificate in PEM. Accordingly, senior public sector executives seeking to further their management and financial skills appropriate to their new, more developed operating environment, can access the university.

C. Cost and Financing

15. The TA is estimated to cost \$650,000 equivalent, including foreign exchange costs of \$467,900 and local currency costs of \$182,100 equivalent. ADB will finance \$500,000 equivalent, covering the total foreign exchange cost, and \$32,100 equivalent of the local currency cost. The TA will be financed on a grant basis by ADB's TA funding program. The Government will provide \$150,000 equivalent to finance counterpart staff, office facilities, and other expenditures (Appendix 2).

D. Implementation Arrangements

16. The TA Executing Agency will be MFEM. The implementing agencies will be DESP, aid management and coordination unit in the MFA, and selected line agencies responsible for productive sectors. To facilitate coordination between the TA and implementing agencies, a project coordination committee (PCC) will be established, chaired by the director general, MFEM. The PCC will comprise the directors general from the Ministry of the Prime Minister; MFEM; MFA; Ministry of Agriculture, Fisheries, and Forestry; Ministry of Internal Affairs; Secretary to the Public Service Commission; directors from DESP; Department of Strategic Management; one private sector nominee;⁶ and ADB. Other members may be coopted to the PCC if needed. The PCC will oversee implementation of TA activities, and PCC chair will report to the central agency committee. The PCC will meet quarterly to review work in progress, review revisions to Government procedures and institutional changes, and guide interdepartmental training activities. Other donor agency representatives in the PCC will participate as observers as needed.

17. The TA will be implemented over 30 months, intermittently, from September 2004 to February 2007. It will require the services of three international consultants recruited from a firm for 16 person-months (i) public finance specialist cum aid management advisor for 10 person-months, (ii) institutional development specialist for 2 months, and (iii) project financial management specialist for 4 months. The public finance specialist cum aid management advisor will be the team leader. The outline terms of reference, including reporting requirements for the consulting team, are in Appendix 3. ADB will engage the consulting firm using the quality- and cost-based selection method, with simplified technical proposals, in accordance with ADB's *Guidelines on the Use of Consultants*.

⁵ ADB contributes to the operations and work of the Pacific Financial Technical Assistance Centre.

⁶ The private sector representative may be from either the Chamber of Commerce or Bankers' Association.

18. The consulting team will submit an inception report 1 month after commencement, monthly progress reports summarizing any issues and actions taken to address them, a midterm report, a draft final report, and a final report. A tripartite meeting between the Government, consulting firm, and ADB will be held to discuss the draft final report. Specific reporting requirements are in Appendix 3.

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 \$500,000 on a grant basis to the Government of Vanuatu for the Development of a Medium-Term Strategic Framework, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal Improve the Government's financial and aid management systems and develop linkages and procedures to use financial resources more effectively</p>	<ul style="list-style-type: none"> • Increased and sustainable economic growth resulting from effective policy-based budgeting 	<ul style="list-style-type: none"> • Monitoring of gross domestic product growth 	
<p>1. Purpose Help the Government prepare a medium-term strategic framework that will create the basis for setting priorities of sector development plans, corporate plans, departmental budgets, and project proposals</p>	<ul style="list-style-type: none"> • Acceptance of the Prioritized Action Agenda (PAA) as the policy and planning document at the departmental and provincial level by 2005 • Adoption of revised PAA and Government Investment Program (GIP) procedures to prepare the Government's annual budget in 2005 	<ul style="list-style-type: none"> • Provincial summit reports • Ministries' annual reports and budget documents • Consultants' progress report 	<p>Risk (R): The Government may take too long to adopt new procedures. Assumption (A): The Government is willing and committed to implement new procedures and processes on time.</p>
<p>2. Outputs</p> <p>2.1 Revised PAA</p> <p>2.2 GIP system simplified to align with PAA requirements</p> <p>2.3 Well-focused project proposals</p>	<ul style="list-style-type: none"> • New procedures for updating the PAA adopted by the Government by March 2005 • PAA revised annually • GIP revised, with non-sponsored and incomplete project proposals removed by second quarter, 2005 • 3–4 good project proposals identified for inclusion in the GIP 	<ul style="list-style-type: none"> • Review of the 2005 and 2006 PAAs • Review of the 2005 and 2006 GIPs • Revised GIP list 	<p>R: The Government may take too long to adopt new procedures. A: The Government will implement revised procedures on time.</p> <p>R: External forces will try to retain some favorite projects in the GIP. A: The new procedures are applied universally.</p> <p>R: Policies are ill-defined, resulting in unfocused project proposals. A: Revised formats for writing project proposals are incorporated in the Department of Economic and Sector Planning (DESP) forms.</p>

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TECHNICAL ASSISTANCE FRAMEWORK—*Continued*

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>2.4 Manual on preparation of project cost estimates</p> <p>2.5 Strengthened capacity of sector policy analysts and planners in central and line agencies</p> <p>2.6 Improved coordination of externally assisted projects</p>	<ul style="list-style-type: none"> • Manual completed by third quarter, 2005 • Manual distributed to line agencies by first quarter, 2006 • 4–5 workshops for 30 Government and nongovernment participants • At least two training programs delivered to line agencies every quarter for 10 staff members • New coordination procedures implemented by first quarter, 2005 	<ul style="list-style-type: none"> • Feedback from users of the manual • Quarterly staff work reports and consultants' progress report • Workshop reports • Consultative group meeting reports • Updated GIP reports 	<p>R: Some line agencies may resist change.</p> <p>A: Participatory workshops and training programs will overcome most resistance.</p> <p>A: Information networking between the aid management coordination unit and development partners is in place.</p>
<p>3. Activities</p> <ul style="list-style-type: none"> • Refine the process of formulating medium- and long-term Government priorities, and prioritize development interventions through the PAA • Develop a process to regularly review and update the GIP • Clarify the roles of and linkages between the Department of Economic and Sector Planning (DESP) and the aid management coordination unit • Conduct a mentoring program to assist and train Government staff members in preparing and costing project proposals 	<ul style="list-style-type: none"> • Training programs for 10 staff members conducted with DESP and line agencies staff within 2 months of TA starting date; 4–5 workshops conducted • GIP process drafted by first quarter, 2005 • GIP process adopted by May 2005 • Institutional review completed by third quarter, 2005 • Refocusing the institutional roles completed by 1st quarter 2006 • First set of mentors assigned by fourth quarter, 2004 	<ul style="list-style-type: none"> • Government reports • TA progress reports • Workshop reports • Government reports • TA progress reports • Consultants' reports • Individual staff reports, and TA evaluations of mentor program 	<p>R: Directors general and ministers do not participate in the TA implementation exercise.</p> <p>A: All Government and nongovernment stakeholders will embrace change.</p> <p>A: The aid management unit is committed to implement changes immediately.</p> <p>R: The Government resists implementing recommended changes.</p> <p>A: The Government will implement changes immediately.</p> <p>R: Some staff may resist mentoring and changing.</p> <p>A: Counterpart staff members cooperate with TA consultants.</p>

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TECHNICAL ASSISTANCE FRAMEWORK—Continued

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<ul style="list-style-type: none"> • Review all projects in the GIP and remove those that do not meet the costing guidelines for updating and resubmission by the sponsor agency • Develop costing procedures and requirements for Government projects to be included in the GIP • Conduct workshops for staff of DESP, line agencies, and other agencies 	<ul style="list-style-type: none"> • Projects reviewed and GIP revised by first quarter, 2004 • New costing procedures drafted, reviewed, and adopted by third quarter, 2005 • Costing procedures manual completed by third quarter, 2005 • 4–5 workshops conducted, plus at least 2 training sessions held each quarter on related topics 	<ul style="list-style-type: none"> • Government report on the GIP • TA reports • TA reports 	<p>R: External influence is exercised to retain some favorite projects in the GIP.</p> <p>A: New procedures are universally applied.</p> <p>A: The costing manual is detailed and easy to understand.</p> <p>A: Government and nongovernment stakeholders participate in the workshops and training sessions.</p>
<p>4. Inputs</p> <p>Asian Development Bank</p> <ul style="list-style-type: none"> • International consultants, 16 person-months • Training and seminars • Administration and contingency <p>Government</p> <ul style="list-style-type: none"> • Counterpart staff • Office space and local transport • Miscellaneous 	<p>\$500,000</p> <ul style="list-style-type: none"> • \$434,500 • \$ 15,000 • \$ 50,500 <p>\$150,000</p> <ul style="list-style-type: none"> • \$ 70,000 • \$ 30,000 • \$ 50,000 		

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank (ADB) Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	401.5	0.0	401.5
b. International and Local Travel	30.0	3.0	33.0
c. Communications and Reports	0.0	5.0	5.0
2. Training, Workshops, and Resource Personnel	0.0	15.0	15.0
3. Miscellaneous Administration and Support Costs	0.0	5.0	5.0
4. Contract Negotiations	5.0	0.0	5.0
5. Contingencies	31.4	4.1	35.5
Subtotal (A)	467.9	32.1	500.0
B. Government Financing			
1. Office Accommodation and Transport	0.0	30.0	30.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	70.0	70.0
3. Others	0.0	50.0	50.0
Subtotal (B)	0.0	150.0	150.0
Total	467.9	182.1	650.0

^a Financed from ADB's technical assistance funding program.
Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. **Public Finance Specialist cum Aid Management Advisor/Team Leader** (international, 10 person-months)

1. **Scope of Services**

1. The technical assistance (TA) will provide 10 person-months of the services of a public finance specialist cum aid management advisor, who will have experience in public investment planning, project management, and aid management. Experience in public investment planning will include identifying investment options in consultation with the line agencies; evaluating, selecting, and prioritizing investments that will constitute the annual Government Investment Program (GIP); and packaging the GIP submissions in a form that will allow external funding agencies to review them. Experience in project management will include planning, prioritizing, resourcing, training, directing, and coordinating the work of counterpart officials, monitoring, and reporting. Experience in aid management will include understanding the GIP process and the different donor products, services, and reporting systems; and negotiating and coordinating external assistance. The consultant should also have experience in fiscal and budget issues and economic analysis; thorough knowledge of the region, in particular Vanuatu; and experience in conducting workshops or training. The services of the team leader will include, but not necessarily be limited to, the following activities:

- (i) Help Government officials clarify the linkages between the Prioritized Action Agenda (PAA), business plans, GIP, and budget process and outcomes.
- (ii) Review the PAA document and recommend ways to strengthen and sharpen the focus and linkages between national priorities, policies, and priority projects in support of the Government's national priorities, in consultation with appropriate Government officials.
- (iii) Provide on-the-job training and mentoring to Government planners and sector analysts on how to limit and sequence policy measures to those that can most likely be achieved, given the administrative and political constraints in the PAA and budget. For each priority measure, specify what is to be done by which institution, and within what time frame.
- (iv) Provide on-the-job training to planners and sector analysts on the workings of the macroeconomic policy framework as the basis of planning and explain to them the sources of economic growth underpinning projections.
- (v) Review the GIP process in consultation with the appropriate officials and recommend ways to improve it, including the process to regularly update it.
- (vi) Review all GIP projects in consultation with the appropriate officials and remove those that do not meet PAA policy guidelines or the costing guidelines for updating and resubmission by the sponsor agency.
- (vii) Help sector analysts in Department of Economic and Sector Planning (DESP) and line agencies prepare quality project proposals that incorporate cost-benefit analysis and are linked to national priorities and sector policies. Proposal preparation should be followed by a cost-benefit analysis workshop for all users to reinforce the concepts and applications.
- (viii) Advise on improving the mechanisms for feedback to stakeholders during the GIP, including reviewing the submissions made to the MBC.
- (ix) Help review the information needs of line agencies by assessing the usefulness of GIP forms, and provide feedback to DESP for improvement.

- (x) Institutionalize the management systems and procedures for regular preparation and updating of the GIP.
- (xi) In consultation with the project financial management specialist, review the procedures for channeling external resources to high-priority areas, recommend ways to improve the procedures, and document them in the Project-Costing Manual.
- (xii) Help line-agency personnel implementing externally assisted projects.
- (xiii) Develop training programs and conduct workshops reflecting Government procedures on the revised PAA, the revised GIP, case studies on best international practices on good governance related to fiscal management and regulation, Government accountability, and transparent budget processes; effective leadership within the budget framework; and change management.
- (xiv) Review systems and procedures for foreign aid management and coordination and recommend ways to improve them.
- (xv) Prepare guidelines on how the aid management coordination unit will relate to sectoral as well as central agencies of the Government in preparing the annual GIP to be financed by external agencies.
- (xvi) Help aid management coordination unit design and establish a system for monitoring the physical and financial progress of all external assistance projects—grants and loans—including funds available and implementation schedules.
- (xvii) Guide aid management coordination unit and DESP personnel in preparing information materials and documents required by external funding agencies for their regular assistance programming, including materials submitted at the donors' group meeting.

2. Reporting Requirements

2. The consultant will prepare and submit various reports and documents to the project coordination committee (PCC) and to the Asian Development Bank (ADB): (i) an inception report after 1 month of fieldwork, describing the work plan and implementation arrangements agreed on with the PCC; (ii) monthly progress reports describing the activities carried out, issues to be resolved, and actions to be taken during the following period; (iii) a midterm report around November 2005, describing accomplishments during the period, issues to be resolved, and actions to be taken during the remaining period; (iv) a draft final report 1.5 months before termination date; and (v) a completion report within one month of completing services, summarizing the work carried out and recommendations for follow-up assistance to improve performance and coordination. A tripartite meeting between the Government, consulting firm, and ADB will be held to discuss the draft final report.

3. The team leader is also responsible for coordinating outputs and quality of reports submitted by the institutional development advisor and project financial management advisor.

B. Institutional Development Advisor (international, 2 person-months)

1. Scope of Services

4. For 2 person-months, the institutional development advisor will help the team leader improve the effectiveness of external aid portfolio management by reviewing the organizational setup of the Ministry of Foreign Affairs, Ministry of Finance and Economic Management (MFEM), and other relevant Government agencies involved in project implementation. The

advisor will be a qualified institutional development expert with extensive experience in institutional restructuring and familiarity with the guidelines of multilateral and bilateral funding agencies. Working knowledge of the Pacific environment or Vanuatu, in particular, is strongly recommended. The tasks of the advisor will include, but will not necessarily be limited to, the following:

- (i) In coordination with the team leader, review the functions and responsibilities of DESP, Aid Management, and other line and central agencies involved in implementing the external aid portfolio.
- (ii) Recommend changes, if any, in institutional arrangements and approval authority to expedite project implementation.
- (iii) Identify and recommend any follow-up assistance to improve the Government's organizational structure.

2. Reporting Requirements

5. The institutional development advisor will prepare and submit various reports and documents to the PCC and ADB: (i) an inception report within 2 weeks from the date the field visit starts, briefly describing the work program; and (ii) a final report on work performed, within 1 week of assignment completion. The report must be coordinated with and through the team leader.

C. Project Financial Management Advisor (international, 4 person-months)

1. Scope of Services

6. The TA will provide 4 person-months of services of a qualified chartered accountant or financial analyst with extensive international experience in public sector financial management systems. The advisor should be familiar with the guidelines of multilateral and bilateral funding agencies. Working knowledge of the Pacific environment or Vanuatu, in particular, is recommended. The tasks of the project financial management advisor will include, but not necessarily be limited to, the following:

- (i) In coordination with the team leader, help line agencies, DESP, and aid management cost their prioritized projects for the GIP.
- (ii) Assess project financial management capabilities of implementing agencies of externally assisted projects and recommend improvements to the PCC.
- (iii) Develop and conduct training programs/workshops on preparing project costing and project financial analysis for sector analysts in line agencies and DESP in coordination with the team leader.
- (iv) Review and recommend improvements to relevant government regulations and procedures on counterpart fund projections, allocation, warrant, and release mechanism. Help prepare disbursement and contract award projections.
- (v) Prepare a project-costing manual in consultation with the PCC and line agency staff. Conduct a training program on the use of the manual.
- (vi) Provide on-the-job training on subjects related to project management, monitoring, evaluating, and reporting, through workshops with stakeholders.
- (vii) In coordination with the team leader and appropriate Government officials in Aid Management, consult representatives of funding agencies and international financial institutions in Vanuatu about their systems and procedures for project financing. Document them as a reference guide.

- (viii) Identify and recommend any necessary follow-up assistance for further improvement of the Government's financial management system and the GIP.

2. Reporting Requirements

7. The project financial management specialist will prepare and submit various reports and documents to the PCC and ADB: (i) an inception report within 2 weeks after the field visit starts; (ii) a project costing manual and reference guide; (iii) a progress report within 1 week of completion of 2 months' services, explaining work achieved, any issues encountered, and actions taken to address them; and (iv) a final report within 1 week of assignment completion. The report must be coordinated with and through the team leader.

8. The consultant will work closely with the team leader in accomplishing the TA outputs.