



# Technical Assistance Report

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Project Number: 44360  
Capacity Development Technical Assistance  
November 2010

## Brunei Darussalam: Strengthening the Public Financial Management

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 9 November 2010)

Currency Unit	–	Brunei dollar (B\$)
B\$1.00	=	\$0.7766
\$1.00	=	B\$1.288

## ABBREVIATIONS

ADB	–	Asian Development Bank
IT	–	information technology
MTEF	–	medium-term expenditure framework
MTFF	–	medium-term fiscal framework
MOF	–	Ministry of Finance
PFM	–	public financial management
RKN	–	Rancangan Kemajuan Negara
TA	–	technical assistance
TAFIS	–	Treasury Accounting and Financial Information System
TOR	–	terms of reference

## TECHNICAL ASSISTANCE CLASSIFICATION

<b>Type</b>	–	capacity development technical assistance (CDTA)
<b>Targeting classification</b>	–	General intervention
<b>Sector (subsector)</b>	–	Public sector management (public expenditure and fiscal management)
<b>Themes</b>	–	Economic growth, governance, capacity development
<b>Location impact</b>	–	Urban (high), national (high)

## NOTES

- (i) The fiscal year (FY) of the government ends on 31 March 2011.
- (ii) In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. During the official visit of the President of the Asian Development Bank (ADB) to Brunei Darussalam in September 2009, and during the ADB annual meeting in Tashkent, Uzbekistan, 1–4 May 2010, the Government of Brunei Darussalam requested technical assistance (TA) for strengthening its public financial management (PFM).<sup>1</sup> This would complement ADB's earlier support to help develop the capital market master plan.<sup>2</sup> ADB fielded a consultation mission in November 2009, followed by a scoping mission (converted to a fact-finding mission) in May 2010 to discuss and reach an understanding with the government on the objectives and scope of the proposed TA, the terms of reference for consultants, and cost and implementation arrangements. The design and monitoring framework is in Appendix 1.<sup>3</sup>

## II. ISSUES

2. **Strengthening fiscal management is a longer-term challenge.** The recent economic crisis underlined the vulnerabilities of the country's economy and their impact on long-term growth prospects. Brunei Darussalam is heavily reliant on oil and gas production, which accounts for 70% of gross domestic product, 95% of exports, and 90% of government revenues. The reliance on oil and gas greatly influences the country's output growth. In 2008, the economy contracted by 1.9% as oil and gas production declined by 6.2%. However, economic growth is set to resume, forecast at 1.1% in 2010 and 1.5% in 2011, supported by higher global energy demand and prices, and the start of exports from a \$450 million methanol plant under construction.<sup>4</sup> Overall, "while growth has slowed recently due to a decline in hydrocarbon production, economic activity is expected to increase gradually as production rebounds and supportive government spending comes on stream".<sup>5</sup>

3. **The government is accelerating efforts to diversify its economy.** The significant contraction in hydrocarbon production, for a second year in a row, reflected the maturity of the country's oil fields and a government decision to use reserves more sparingly to extend the life of energy production. Against this background, the government has engaged in diversifying the economy by promoting the downstream and petrochemical industry, tourism, financial services, and, most recently, the development of *halal* products. However, the extent of the success of the diversification process depends on how fast projects under the national development plan, Rancangan Kemajuan Negara (RKN) 2007–2012, are rolled out. The government needs sound fiscal management to ensure that the efforts to achieve the RKN 2007-2012 goals are sustainable and do not lead to a fiscal crisis that may extend to the rest of the economy if output growth slows again or even contracts. The main longer-term challenges are to expand oil and gas reserves, diversify the production base by boosting private sector activity, and enhance fiscal management to improve expenditure efficiency. Experience in other countries confirms that strong budget institutions shape and regulate policy and the process of generating and allocating public resources for carrying out government functions. The design and implementation of a medium-term fiscal framework (MTFF) accompanied by a medium-term

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<sup>1</sup> The TA project first appeared in the business opportunities section of ADB's website on 29 September 2010.

<sup>2</sup> ADB. 2008. *Technical Assistance to Brunei Darussalam for the Development of the Capital Market and a Modernized Payment and Settlement System*. Manila (TA 7075-BRU).

<sup>3</sup> Brunei Darussalam joined ADB in 2006. It has been an active participant in and supporter of Brunei, Indonesia, Malaysia, Philippines-East Asian Growth Area and its programs since the subregional economic cooperation initiative was finalized in 1992.

<sup>4</sup> ADB. 2010. *Asian Development Outlook*. Manila.

<sup>5</sup> International Monetary Fund. 2009. *Recommendations from the Conclusion of the Article IV Consultation with Brunei Darussalam*. Washington D.C.

expenditure framework (MTEF) would assist the government in achieving budget realism and robust fiscal management.

4. **Brunei Darussalam is ready to adopt a modern fiscal framework and a modern public financial management system.** Both are needed to ensure sustainable development and effective use of public resources. They will also help establish strategic priorities and monitor impact. Sustainability and credibility of a fiscal framework are largely determined by implementation of a budget that is based on realistic economic and fiscal projections; by taking into account the budgetary cost of policy decisions; and by effective oversight and monitoring of the budget process. In the absence of an MTFF and an MTEF, the discrepancy between planned and actual spending can be large, thereby undermining fiscal prudence and development effectiveness. It is essential to build within the Ministry of Finance (MOF) the institutional focus and capacity for macroeconomic policy analysis that enables it to prepare a fiscal strategy to underpin the annual budget. A fiscal strategy will support proper planning and help achieve the government's overall macroeconomic policy objectives—high private sector-led real gross domestic product growth, low inflation, comfortable levels of international reserves, and debt sustainability. Besides, an MTEF links policy, planning, and budgeting. Experience suggests that an MTEF can help improve budget process and outcomes through greater clarity of policy objectives, predictability in budget allocations, comprehensiveness of coverage, and transparency in the use of resources. Reporting is particularly important to satisfy the principles of transparency and accountability.

5. A sound PFM system supports aggregate control, prioritization, accountability and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives. In Brunei Darussalam, the current practice in fiscal planning and budgeting does not provide a sound basis for aligning resources with the policies of the 5-year RKN. First, the budget formulation process lacks a coherent medium-term strategic framework. Capital and recurrent expenditures are not adequately linked to national policies and sector budgeting. Second, budget allocation is essentially incremental, and budgetary decisions are not yet policy-driven or program-oriented. Expenditure allocations are broad and concern just three areas – personal remuneration, operation, and special expenditure (for both current and capital expenditures). The budget takes the form of aggregate ministerial allocations with exhaustively detailed line item classifications but limited information on the purpose of spending. Requests by spending agencies for supplementary budget allocations are frequent. There is no effective forward planning of recurrent spending. Finally, the capacity to undertake effective independent economic and fiscal forecasting is weak, and there is a tendency toward optimistic macroeconomic and revenue projections.

6. Introducing a medium-term perspective into the annual budget process and costing sector strategies to determine whether multiyear current and new sector policies can be financed within annual aggregate fiscal targets is a challenge for the government. In view of this, the government is committed to ensure that (i) the process for translating public policies into budgets is satisfactory; (ii) budget and fiscal risk oversight is comprehensive; (iii) the budget is realistic and implemented as planned, and in an orderly and predictable manner; and (iv) there is a multiyear perspective in budget planning, and expenditure policy and budgeting. It is expected that the MTFF and MTEF will not only take into account the volatile nature of resource revenues, but also align expenditures with the priorities of the RKN. It is important that future budgets are based on both an MTFF and an MTEF.

7. The MTEF will be a 3-year framework that details policy priorities and informs decisions on allocation of resources across the government and within spending agencies. The MTEF

consists of a top-down resource envelope consistent with macroeconomic stability and resource availability. The MTFF is underpinned by a fiscal strategy that helps strengthen the capacity for economic and fiscal forecasting, and includes the assumptions behind macroeconomic and revenue projections. Policymakers can use the MTFF and MTEF to analyze different scenarios to match aggregate expenditure with resource availability and assess the costs and benefits of policy options and implementation of national priorities over the medium-term. This will ensure predictable and effective budget allocations to the priority sectors as envisaged in the Brunei Darussalam Long-Term Development Plan, and RKN 2007–2012.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Impact and Outcome**

8. The impact of the TA will be more efficient allocation and management of public resources within MOF, in accordance with international standards and good practice for PFM. The TA outcome will be stronger fiscal planning and capacity for budget formulation.

#### **B. Methodology and Key Activities**

9. The key outputs of the TA will be to (i) prepare a strategy for PFM capacity building, (ii) develop and institutionalize MTFF within the government, (iii) develop and implement MTEF within the government, and (iv) strengthen the monitoring and evaluation skills of ministerial staff.

10. **TA approach.** Adoption of a gradual approach to reform in budget planning, formulation, and coordination through a participatory process will ensure government ownership. The TA will strengthen coordination between MOF, the Department of Economic Planning and Development (JPKE), and the line ministries. The TA will identify training needs and recommend capacity-building measures, with particular attention to pertinent operational staff. It will bolster the capacity of MOF, the JPKE, and the line ministries to build skills and adopt a change management and communication strategy. There will be greater use of action-learning or learning-by-doing approaches, so that people experience the new processes as they learn, which will improve the process of socialization. Guidelines and manuals will be developed and staff trained. On-the-job training will be widely used. In coordination with the Information Technology (IT) Department, the TA will help formulate the MTFF and MTEF, and the accompanying database. In so doing, the TA will make recommendations on the upgrading of the integrated Treasury Accounting and Financial Information System (TAFIS). The TA will organize study tours, workshops and seminars, using the training infrastructure and resources of academic institutions locally and overseas.

#### **C. Cost and Financing**

11. The TA project is estimated to cost \$1.5 million.<sup>6</sup> ADB will finance an estimated amount of \$800,000 on a reimbursable basis and the Government of Brunei Darussalam will directly finance \$700,000 for TA activities.<sup>7</sup> The cost estimates and financing plan are in Appendix 2.

<sup>6</sup> The methods of payment for the TA will be based on the procedures adopted for ADB's earlier TA (footnote 2).

<sup>7</sup> ADB will recruit consultants, review and comment on consultant deliverables, and pay the consultants, which the government will reimburse. Direct government financing will include costs incurred in training, overseas training and study tours, administrative and logistical support, workshop facilities, training, equipment, and contingency expenditure relating to training and workshops.

#### **D. Implementation Arrangements**

12. The TA will be implemented from November 2010 to December 2012. MOF will be the executing agency; the Department of Economic Planning and Development (JPKE), Expenditure Division, IT Unit, and Treasury Department will be the implementing agencies. A small, high-level steering committee under the chairmanship of the permanent secretary (fiscal) of MOF, and comprising members from JPKE, Expenditure Division, IT Unit, and Treasury department will oversee the implementation of the TA. It will meet regularly to review implementation progress.

13. The TA will require three international consultants for a total of 34 person-months working intermittently (a PFM and budget management specialist/team leader, a macroeconomist (fiscal), and a monitoring and evaluation specialist). The indicative terms of reference of the team of consultants is provided in Appendix 3. The consultants will be recruited by ADB as individual consultants according to its Guidelines on the Use of Consultants (2010, as amended from time to time). All service payments under the project will conform to ADB's Procurement Guidelines (2010, as amended from time to time). Disbursements under the TA will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The consultants may organize study tours and the countries will be carefully selected for their relevance to the economic and financial status of Brunei Darussalam. The consultants will prepare detailed work plans within 2 weeks of mobilization. The work plans will contain timetables for deliverables defined for each component of the TA in consultation with MOF and coordinated by the team leader. The consultants shall report monthly on the progress of implementation of key activities in their workplans. Draft final reports will be submitted by the deadline specified in the work plans after incorporating comments from MOF and ADB. Tripartite meetings will be held before the draft final report is finalized. The final report, incorporating the comments of MOF and ADB during and after the tripartite meeting, will be submitted at the end of the services.

14. The government will provide complementary inputs. It will directly finance overseas training and study tours, procure IT equipment, provide administrative and logistic support, and organize workshops (with support from the team of consultants).

15. TA implementation will be monitored through continuous communication with MOF, the implementing agencies, and other stakeholders, as well as through regular missions, consultations and reviews.

#### **IV. THE PRESIDENT'S DECISION**

16. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$800,000 on a reimbursable basis to the Government of Brunei Darussalam for Strengthening the 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
<b>Impact</b> More efficient allocation and management of public resources within MOF, in accordance with international standards and good practice for PFM	Better performance by MOF against PEFA indicators relating to multiyear perspective in fiscal planning and budgeting within 5 years after TA completion <sup>a</sup>	Review of successive annual budgets and national development plans. Brunei Darussalam Long-Term Development Plan, and RKN 2007–2012  IMF Article IV consultation reports  MOF annual macroeconomic data	<b>Assumptions</b> MOF commitment and strong leadership in introducing budget reforms  Macroeconomic stability  <b>Risks</b> Volatility of oil and gas prices in the world markets  Slow pace of reform because of capacity constraints
<b>Outcome</b> Better quality of fiscal planning and stronger capacity for budget formulation	Multiyear fiscal forecasts and budget allocations prepared by the end of 2012  At least 75% of primary expenditures (recurrent and capital) are fully costed  (Baseline: line items in the 2010 budget)	IMF Article IV consultation reports and economic reports  MOF official statistics  Reports by TA consultants	<b>Assumption</b> Effective coordination within MOF and with the Department of Planning and Development  <b>Risk</b> Not enough time and/or capacity to implement budget reforms
<b>Outputs</b> 1. A strategy for PFM capacity building  2. MTFF developed and institutionalized within the government  3. MTEF developed and implemented	A strategy for PFM capacity building adopted  Number of staff trained (Baseline: 0 in 2010)  An MTFF, based on fiscal strategy, prepared  Fiscal Policy Department with capacity to undertake macro fiscal analysis established at MOF (Baseline: 0 in 2010)  An operational model for MTEF developed and implemented by 2012  Budget ceilings for priority sectors, based on sector analysis and recurrent expenditure estimates, adopted in selected line departments by FY2012	Reports by TA consultants  Budget data  Reports from MOF and the Department of Economic Planning and Development  MOF  Budget data  Reports by TA consultants	<b>Assumption</b> Good coordination among consultants and stakeholders  <b>Risk</b> Delay in government adopting the strategy for PFM capacity development  <b>Assumption</b> Availability of fiscal and budget data from the Department of Economic Planning and Development, Revenue Department, and Budget Department  <b>Assumptions</b> Good coordination among consultants and stakeholders  Budget ceilings for priority sectors enforced at the level of individual line departments  MOF committed to MTEF being

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks																
4. M&E capability strengthened	<p>Conduct workshops to build capacity, and train all relevant staff by 2012</p> <p>(Baseline: 0 in 2010)</p> <p>M&amp;E framework established by 2012</p> <p>Relevant staff in MOF and the Department of Economic Planning and Development trained in M&amp;E framework by 2012</p> <p>(Baseline: 0 in 2010)</p>	<p>Reports by TA consultants</p> <p>MOF and Department of Economic Planning and Development publications</p>	<p>linked to national development plans and sector and/or program planning</p> <p><b>Risk</b> More time needed to build capacity to sustain budget reforms</p>																
Activities with Milestones			Inputs																
<p><b>1. strategy for PFM capacity building</b></p> <p>1.1 Assess the current budget preparation process, and capacity needs of executing and implementing agencies for fiscal planning, and for preparing MTFF and MTEF, and the transitional arrangements necessary to progress from conventional budgeting to a medium-term budget framework (first 2 weeks after TA start)</p> <p>1.2 Conduct a consultative workshop on analysis of training and future needs (third week)</p> <p>1.3 Prepare a strategy for PFM capacity building (sequenced and prioritized) with a training plan for budget formulation/planning that will include MTEF and MTFF</p> <p>1.4 Prepare detailed work plan consistent with the TA objectives and TOR</p> <p>1.5 Develop training modules and design capacity training programs and identify relevant staff for training consistent with the TOR for the team of consultants</p> <p>1.6 Discuss draft TA work plan with the government and ADB and finalize work plan</p> <p>1.7 Identify which unit in MOF would be a good coordinator for MTFF and MTEF</p> <p>1.8 Prepare implementation strategies, including projected cost of implementing MTFF and MTEF (especially hardware, software, capacity building, cost of workshops, printing of manuals, and study tours), and include these in the inception report.</p> <p>Activities 1.1–1.8 will be accomplished within first 4 weeks of TA commencement.</p> <p><b>2. MTFF developed and institutionalized within the government</b></p> <p>2.1 Undertake an assessment of the macroeconomic–fiscal understanding, fiscal planning, budgeting, and expenditure allocation processes, identifying major challenges and opportunities related to the current fiscal planning and expenditure framework. (within 2–3 weeks of TA start)</p> <p>2.2 Design the MTFF, which will include a statement on fiscal policy objectives and a set of integrated medium-term macroeconomic and fiscal targets and projections (within 8 weeks of TA start).</p> <p>2.3 Prepare a fiscal strategy, and support capacity building in the preparation of a macro-fiscal model for the design of the fiscal strategy that is simple to use and links the external accounts, monetary accounts, fiscal accounts, and national accounts (within 10 weeks of TA start).</p> <p>2.4 Train staff on application of macroeconomic principles of public finance, teaching of macroeconomic accounts and understanding of the links between them, and the use of a macroeconomic consistency framework—such as financial programming—throughout the implementation period of the TA (details to be worked out during TA implementation).</p>			<p><b>ADB:</b> on a reimbursable basis</p> <table><tr><th>Item</th><th>Amount (\$'000)</th></tr><tr><td>Consultant's remuneration</td><td>721.00</td></tr><tr><td>Airfare</td><td>54.00</td></tr><tr><td>Reports and communications</td><td>10.00</td></tr><tr><td>Contingency</td><td>15.00</td></tr><tr><td><b>Total</b></td><td><b>800.00</b></td></tr></table> <p><b>Government:</b></p> <table><tr><th>Item</th><th>Amount (\$'000)</th></tr><tr><td>Others</td><td>700.00</td></tr></table> <p>Note: Training, workshops, study tours, procurement of IT equipment, software, administrative and logistic expenses.</p>	Item	Amount (\$'000)	Consultant's remuneration	721.00	Airfare	54.00	Reports and communications	10.00	Contingency	15.00	<b>Total</b>	<b>800.00</b>	Item	Amount (\$'000)	Others	700.00
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Activities with Milestones	Inputs
<p><b>3. MTEF developed and implemented</b></p> <p>3.1 Formulate a simple operational model for the MTEF—expenditures in the context of the rolling MTEF (3–5 years).</p> <p>3.2 Specify technical and policy issues in the implementation of MTFF and MTEF for all ministries (including agreeing on data, assumptions, parameters, and the structure of the model; formulating procedures and baseline projections over the medium term).</p> <p>3.3 Encourage each ministry to do sector costing for its own plan.</p> <p>3.4 Implement capacity development to help institutionalize MTFF and MTEF.</p> <p>3.5 Work with the IT Department for training in Microsoft Access or Microsoft Excel and spreadsheet exercise, including MTFF and MTEF spreadsheets.</p> <p>3.6 Prepare manuals to guide MOF staff in the objective and use of the frameworks and spreadsheet models developed.</p> <p>3.7 Assist the Department of Treasury and the Department of Budget in preparing regulation on medium-term budgets, following the Financial Regulations of 1983.</p> <p>3.8 Conduct extensive participatory discussions and workshops with stakeholders to build consensus and ownership of MTEF and MTFF and related budget frameworks.</p> <p>3.9 Establish a project management structure, such as a steering committee of stakeholders and an implementation committee for project implementation and oversight, to ensure the most effective outcome of the project (within first 4 weeks of TA start).</p> <p>3.10 Assist the government in implementing MTEF and MTFF (on a pilot basis) and refine the frameworks before completion of the TA, including assisting in determining pilot areas.</p> <p>3.11 Organize study tours to countries with a relatively successful MTFF and MTEF experience in budget formulation (at a time mutually agreed with the government).</p> <p>Activities 3.1–3.11 will be undertaken throughout the period of TA implementation, and specific milestones will be determined during TA inception period.</p> <p><b>4. M&amp;E capability achieved</b></p> <p>4.1 Help upgrade monitoring and reporting systems for implementing the MTDP and the annual fiscal budget (within 3 weeks of fielding the consultants).</p> <p>4.2 Develop a framework with accompanying guidelines for evaluating the effectiveness of MTDP, MTFF, MTEF, and the annual fiscal budget (within 6 weeks of fielding the consultants.)</p> <p>4.3 Provide training and on-the-job guidance (after 6 weeks of fielding the consultants).</p>	

<sup>a</sup> PEFA indicators: PFM outturns (credibility of the budget = PI 1–4), Key crosscutting issues (comprehensiveness and transparency = PI 5–10); and budget cycle (policy-based budgeting = PI 11–12). Source: World Bank. 2005. *Public Financial Management Performance Measurement Framework*. Washington, DC

ADB = Asian Development Bank, IMF = International Monetary Fund, IT = information technology, M&E = monitoring and evaluation, MOF = Ministry of Finance, MTEF = medium-term expenditure framework, MTDB = medium-term development plan, MTFF = medium-term fiscal framework, PFM = public financial management, PEFA = public expenditure and financial accountability, RKN = Rancangan Kemajuan Negara (national development plan), TA = technical assistance, TOR = terms of reference.

Source: Asian Development Bank.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

<b>Item</b>	<b>Total Cost</b>
<b>A. Government Financing through the Asian Development Bank (ADB) (reimbursable)<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem (international consultants)	721.00
b. International airfares	54.00
c. Reports and communications	10.00
d. Contingency	15.00
<b>Subtotal (A)</b>	<b>800.00</b>
<b>B. Direct Government Financing</b>	
1. Others <sup>b</sup>	700.00
<b>Subtotal (B)</b>	<b>700.00</b>
<b>Total</b>	<b>1,500.00</b>

<sup>a</sup> Financed by ADB's Ordinary Capital Resources (OCR).

<sup>b</sup> Includes training, overseas training and study tours, administrative and logistic support, workshop facilities, training, equipment, and contingency expenditure relating to training and workshops. Such costs will be incurred in ADB member countries.

Source: Asian Development Bank.

## **OUTLINE TERMS OF REFERENCE FOR CONSULTANTS**

### **A. Introduction**

1. Consultants will formulate a well-sequenced, prioritized action plan for reforms in budget management systems, including a budget planning process that would contribute to the preparation of a medium-term fiscal framework (MTFF) and a medium-term expenditure framework (MTEF), and strengthen the monitoring and evaluation capacity of ministerial staff. Overall guidance will be based on technical assistance (TA) methodology and activities as outlined in the TA paper. The TA project will build on good international public financial management (PFM) practices, including public expenditure and financial accountability performance indicators. Training needs to build PFM skills and competencies will be assessed and will form the basis of capacity development, with agreed milestones to be included in the action plan. The consultants will be providing inputs on policy issues and must exercise flexibility in the design and implementation of TA activities. They also must ensure participation of all stakeholders to build consensus and ownership of the reform process.

2. The consultants will work in coordination with the team leader and report to the Department of Budget within the Ministry of Finance (MOF), and will also coordinate activities with the Asian Development Bank (ADB) project team (through the team leader) to ensure quality, integration, and timelines of outputs. The major reports will be inception, midterm, draft final, and final, containing the required TA outputs in draft or final form. In addition, quarterly reports on status of implementation and any other issue will be produced.

### **B. International Consultants (34 person-months)**

#### **1. Public Financial Management and Budget Expert/Team Leader (18 person-months, intermittent)**

3. The PFM and budget expert/team leader will have 15 years of international experience and knowledge of PFM systems in developing countries with substantive experience of creation and implementation of MTFF and MTEF/budget systems. Specific experience of the PFM systems in Asia and developing member countries is preferable. The expert will have demonstrated ability to develop and implement fiscal policy, budgeting, and expenditure frameworks, in the context of international PFM standards. As the team leader, he or she will also (i) have demonstrated experience with capacity development and change management in developing countries and transitional economies, preferably within the region; (ii) show a good understanding of the history and development of PFM reforms; and (iii) have demonstrated project management capabilities. The expert will report to MOF and perform the role of a chief technical adviser to the Department of Budget in implementing the TA activities, and work in close coordination with other relevant departments in MOF, other line ministries, and the Department of Economic Planning and Development.

4. The tasks will include the following:

- (i) Undertake an assessment of the fiscal planning, budgeting, and expenditure allocation processes, identifying major challenges and opportunities related to the current fiscal planning and expenditure framework.
- (ii) Prepare a strategy for PFM capacity building (sequenced and prioritized) based on best international practice with a training plan covering MTEF and MTFF (on a pilot basis).

- (iii) Carry out an assessment and outline measures necessary to introduce performance budgeting in the long term.
- (iv) Assist the Department of Budget in improving the comprehensiveness of the existing budget formulation process, and relevant public expenditure and financial accountability indicators.
- (v) Design the MTFF, including a statement on fiscal policy objectives, and a set of integrated medium-term macroeconomic and fiscal targets and projections.
- (vi) Formulate a simple operational model for the MTEF, which shall include:
  - (a) sub-frameworks for estimating revenues and costing expenditures of key activities and priority sectors,
  - (b) clear links between policy priorities and actual resource allocation decisions,
  - (c) clear links between expenditure funding allocations and resource availability, and
  - (d) a mechanism to support decisions on prioritization and sequencing of budgetary expenditures in the context of the rolling MTEF (3–5 years).
- (vii) Coordinate with the macroeconomist in preparing a fiscal strategy, and support capacity building in the preparation of a macro-fiscal model for the design of the fiscal strategy that is simple to use and links the external accounts, monetary accounts, fiscal accounts, and national accounts. The fiscal strategy should contain the following:
  - (a) forecast for the budget year and 2 out-years of gross domestic product from the demand side and the supply side, or by sector approach (e.g., agriculture, industry, and services);
  - (b) forecast for the budget year and 2 out-years for the fiscal sector, i.e., revenues and expenditures;
  - (c) forecast for the budget year and 2 out-years of public debt;
  - (d) forecast for the budget year and 2 out-years for the external sector, i.e., balance of payments (current account and capital account);
  - (e) analysis on the impact of changes in the world oil prices on government revenue;
  - (f) analysis of the impact of changes in revenue measures, such as changes in tax policy, on the budget for the current and 2 subsequent years;
  - (g) analysis of the impact of changes in expenditures, such as savings from reductions, on the budget for the current and 2 subsequent years;
  - (h) alternative scenarios with risk analyses covering changes in economic conditions from lower economic growth, inflation, and other issues deemed important for the budget year and 2 subsequent years;
  - (i) an explanation of the outlook, the budget plan, and the goals that the budget aims to achieve; and
  - (j) assumptions behind macroeconomic and revenue projections.
- (viii) Training under the TA will focus on application of macroeconomic principles of public finance, teaching of macroeconomic accounts and the understanding of the links between them, and the use of a macroeconomic consistency framework (such as International Monetary Fund financial programming). Building capacity for a fiscal strategy will focus on economic and fiscal forecasting and empirical macro-fiscal analyses.
- (ix) The project team will work with the IT Department for training in Microsoft Access or Microsoft Excel and spreadsheet exercise, including the MTFF and MTEF spreadsheet. MTFF spreadsheets will link four sectors: real, monetary, external,

and fiscal. The MTEF spreadsheet model will show forward/baseline estimates for each central government ministry for the broad components of the costs of providing services: Personnel remuneration, non-wage recurrent costs, subsidies and transfers, and capital expenditure.

- (x) Assist the Department of Budget and the Department of Treasury in preparing regulations for medium-term budgets, based on the Financial Regulations of 1983. The regulations will require estimates for medium-term revenues and expenditures. The team leader will assist the departments in preparing regulations, manuals, and other guidance notes for implementation of MTEF and MTFF.
- (xi) Assist major spending agencies in coordinating with the departments of Budget, Economic Planning and Development, and Treasury, and encourage each ministry to undertake costing of sector plans. The expenditure estimates will be an input for a fiscal model to be developed, and will provide guidance to MOF on fiscal issues.
- (xii) Assist MOF in establishing project management structures, such as a steering committee and a technical committee of stakeholders, and an implementation committee for project implementation and oversight, to ensure the most effective outcome of the project.
- (xiii) Assist the government in implementing MTEF and MTFF (on a pilot basis) and refining the frameworks before completion of the TA, including assistance in determining pilot areas. The team leader will be responsible for the capacity development to help institutionalize MTEF and MTFF.
- (xiv) Prepare manuals to guide MOF staff on the objectives and use of the frameworks and spreadsheet models developed.
- (xv) Conduct extensive participatory discussions and workshops with stakeholders to build consensus and ownership of MTEF, MTFF and other budget frameworks.
- (xvi) Organize study tours to countries with relatively successful MTEF and MTFF experience in budget formulation.
- (xvii) Prepare an implementation strategy, including the projected cost of implementing MTEF (especially hardware, software, capacity enhancement, cost of workshops, printing of manuals, and study tours).
- (xviii) Prepare a draft work plan, progress reports, and a final report in draft and final form, and submit the outputs as follows:
  - (a) the work plan to be submitted to ADB and MOF for comment by the end of the second week after mobilization, before it is finalized;
  - (b) summary monthly progress reports to ADB and MOF highlighting the status of key deliverables (to be submitted according to the schedule given in the work plan), implementation issues, and proposed changes;
  - (c) a draft version of the final report to be submitted to ADB and MOF 1 month before the end of the project; and
  - (d) the final report to be submitted at the end of the project to ADB and MOF.
- (xix) Lead, manage, coordinate, and facilitate all aspects of the TA.
- (xx) Perform any other tasks required, including assisting ADB missions, to help achieve the objectives and goals of the TA within the approved budget.

5. The PFM and budget expert/team leader will produce inception, progress, and final reports. The inception report will be submitted within 4 weeks of the start of services and will contain a

time-bound work plan of activities and deliverables. The progress reports will be submitted at the completion of each field visit, and the draft final report submitted at least 2 weeks before completion of the contract. The final report, incorporating comments by ADB, the Department of Economic Planning and Development, and MOF, should be submitted upon completion of the services. The reports should assess impact, outcome, and outputs against the performance targets indicated in the design and monitoring framework of the TA report. The activities and milestones indicated in the design and monitoring framework should be the basis of the work plan and personnel schedule, which should be finalized in consultation with ADB and MOF.

## **2. Macroeconomist (Fiscal) (12 person-months)**

6. The macroeconomist should have an advanced degree in economics with an accent on macroeconomics; well-developed analytical, quantitative, and empirical skills; skills in applying this method to policy analysis in a resource-dependent country; and ability to impart knowledge and skills to counterpart staff.

7. The specific task will include the following:

- (i) Assess the current capacity for macroeconomic analysis to support revenue and expenditure forecasting, including assessment of human resources, information sources, and roles of various government agencies.
- (ii) Help monitor and report on the economy and the implementation of the statement on the economic and fiscal conditions.
- (iii) Help counterparts analyze and report on real, fiscal, monetary, and balance-of-payment developments, and prepare the Department of Budget inputs into the planning and budget cycle.
- (iv) Develop the capacity within MOF (Department of Budget) and Department of Economic Planning and Development for macroeconomic monitoring and analysis (i.e., fiscal, monetary, external, and real sectors), for relevant forecasts in revenue and expenditure.
- (v) Set up a macroeconomic consistency framework that allows to capture all the relevant macroeconomic indicators that are needed for the fiscal strategy;
- (vi) Prepare a macro-fiscal outlook, including revenue projections.
- (vii) Define macroeconomic forecasting needs for a multiyear budget framework and an MTFF, and support the development of capacities and systems that enable this forecasting.
- (viii) Coordinate with MOF and the Department of Planning for integration of the annual budget process with the development priorities of the line ministries as envisaged in the national development plans.
- (ix) Assist the team leader in any other tasks to ensure the successful implementation of the TA project. and
- (x) Provide input into TA reports, as requested by the team leader.

## **3. International Monitoring and Evaluation Expert (4 person-months)**

8. The international monitoring and evaluation expert must have extensive work experience in the areas of national planning and fiscal budgeting, and experience in instituting systems for monitoring and evaluating national plans and fiscal budget results. Strong background in economics, finance, commerce, or national statistics will be required. Work experience in the region and familiarity with international standards and best practice will be an advantage.



9. The primary purpose of this assignment is to help strengthen the monitoring and evaluation capability of MOF and the Department of Economic Planning and Development to enhance the effectiveness of the national planning and budget formulation processes. The expected key outputs are: (i) adoption of a more comprehensive monitoring and reporting system to help monitor progress on implementing the medium-term development plan (MTDP) and the annual fiscal budget; (ii) adoption of a framework with accompanying guidelines for evaluating the effectiveness of the implementation of the MTDP, the medium-term fiscal framework (MTFF), medium-term expenditure framework (MTEF), and the annual fiscal budget; (iii) adequate training of staff at DOP, MOF, and line ministries in implementing the monitoring and reporting system, the framework for evaluation, and in sharing results to support the national planning and fiscal budget processes; and (iv) inception, progress, and final reports of the consultancy.

10. Over three field visits, the international expert will carry out the following tasks:

- (i) In consultation with DOP, MOF, and relevant line ministries, and in close coordination with the budget management expert, assist the IT units of DOP and MOF in upgrading the monitoring and reporting systems to help monitor progress on implementing the MTDP and the annual fiscal budget. The proposed systems upgrade is to be approved by DOP and MOF management as early as possible to allow implementation to proceed.
- (ii) In close coordination with the budget management expert and the fiscal macroeconomist, develop a framework with accompanying guidelines for evaluating the effectiveness of MTDP, MTFF, MTEF, and the annual fiscal budget. Recommend improvements of coordination between MOF and DOP in sharing the evaluation results to strengthen the planning and budgeting processes within the national development goals and available fiscal resources.
- (iii) Based on the results of tasks (i) and (ii), provide training and on-the-job guidance to help staff of MOF, DOP, and line ministries implement the monitoring and reporting system, and the framework for evaluation of the effectiveness of the MTDP, MTFF, MTEF, and the annual fiscal budget.
- (iv) Provide inception, interim, and final reports as required to ADB, DOP, and MOF.