



Technical Assistance Report

Project Number: 53071-001
Transaction Technical Assistance Facility (F-TRTA)
June 2019

Southeast Asia Public Management, Financial Sector, and Trade Policy Facility

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
GDP	–	gross domestic product
SDG	–	Sustainable Development Goal
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

NOTE

In this report, “\$” refers to United States dollars.

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TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Name	Southeast Asia Public Management, Financial Sector, and Trade Policy Facility	Department/Division	Project Number: 53071-001 SERD/SEPF
	Nature of Activity Modality		Project Preparation Facility	Executing Agency	Asian Development Bank
	Country		REG (CAM, INO, LAO, MYA, PHI, VIE)		
2. Sector	Subsector(s)	ADB Financing (\$ million)			
✓ Finance	Finance sector development				0.80
	Inclusive finance				0.30
	Infrastructure finance and investment funds				0.30
Industry and trade	Industry and trade sector development				0.25
	Small and medium enterprise development				0.25
Public sector management	Decentralization				0.30
	Public expenditure and fiscal management				0.80
				Total	3.00
3. Strategic Agenda	Subcomponents	Climate Change Information			
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive			Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Disaster risk management				
Regional integration (RCI)	Pillar 2: Trade and investment Pillar 3: Money and finance				
4. Drivers of Change	Components	Gender Equity and Mainstreaming			
Governance and capacity development (GCD)	Public financial governance			Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Knowledge sharing activities				
Partnerships (PAR)	Bilateral institutions (not client government) Civil society organizations Implementation International finance institutions (IFI) Private Sector				
Private sector development (PSD)	Conducive policy and institutional environment				
5. Poverty and SDG Targeting		Location Impact			
Geographic Targeting	No			Nation-wide	High
Household Targeting	No				
General Intervention on Poverty	Yes				
SDG Targeting	Yes				
SDG Goals	SDG1, SDG5, SDG8, SDG9, SDG10, SDG12, SDG16, SDG17				
6. Risk Categorization	Complex				
7. Safeguard Categorization	Safeguard Policy Statement does not apply				
8. Financing					

TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

Modality and Sources	Amount (\$ million)
ADB	3.00
Transaction technical assistance: Technical Assistance Special Fund	3.00
Cofinancing	0.00
None	0.00
Counterpart	0.00
None	0.00
Total	3.00

Currency of ADB Financing: USD

I. THE TECHNICAL ASSISTANCE FACILITY

A. Justification

1. The Proposal

1. The Asian Development Bank's (ADB) lending program in support of public management, the finance sector, and trade in Southeast Asia is expected to reach \$4.64 billion during 2019–2021 from about \$4.29 billion during 2016–2018.¹ In addition to the expanded program size, the ensuing programs and projects are becoming more complex in terms of reform areas and lending modalities. The proposed transaction technical assistance (TA) facility will provide project preparatory assistance, including policy advice, technical support and inputs, and capacity building² to prepare the ensuing programs and projects. These programs cover a variety of areas including government reform programs to strengthen public financial management, to build domestic financial sectors, and to facilitate increased trade in ADB's developing member countries (DMCs) in Southeast Asia.³ In addition, the TA facility will enable ADB to: strengthen its engagement with Southeast Asian DMCs' reform agendas, and to shorten ADB's response times to address client requirements in the program and project preparation process.

2. The TA facility contributes to ADB's Strategy 2030 by addressing the remaining poverty and reducing inequalities (operational priority 1), accelerating progress on gender equality (operational priority 2), strengthening governance and institutional capacity (operational priority 6), and fostering regional cooperation and integration (operational priority 7).⁴ The TA facility is aligned with the findings and recommendations of ADB's evaluation of policy-based lending during 2008–2017⁵ that policy outcomes need to be further strengthened through substantive, outcome-oriented policy actions and designs that build upon ADB's engagement with reform agendas.

2. Development Challenges and Opportunities

3. **Macroeconomic contexts.** Southeast Asian DMCs have experienced remarkable growth and economic development since 2010. During 2010–2017, Southeast Asia's gross domestic product (GDP) grew at an average 5.2% annually—among the fastest-growing regions in the world. GDP per capita nearly doubled from \$2,716 in 2008 to \$4,308 in 2017.⁶ The growth brought about substantial poverty reduction and improved standards of living. The region's economic performance has also been characterized by great dynamism. Indonesia and the Philippines are among the world's fastest-growing economies and have become domestic demand-driven emerging markets. Malaysia, Thailand, and Viet Nam have established themselves as global manufacturing powerhouses. Frontier economies such as Cambodia, the Lao People's Democratic Republic, and Myanmar emerged from decades of central planning and have become integral to regional trade and investment.

4. Good macroeconomic management and structural reforms have played a pivotal role in Southeast Asia's economic performance. Since the Asian financial crisis in 1997, Southeast Asia

¹ ADB. 2018. *Work Program and Budget Framework, 2019–2021*. Manila.

² Relevant activities supported by the TA facility may include due diligence required for project processing.

³ A list of ensuing programs and projects supported by the TA facility is provided in Appendix 2.

⁴ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁵ ADB. 2018. *Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design*. Manila.

⁶ ASEAN Secretariat. 2018. *ASEAN Statistical Yearbook 2018*. Jakarta.

has become more resilient through a wide array of policies and reforms. The banking system was restructured, financial regulations improved, and regulatory oversight strengthened. Fiscal policy has become more prudent and targeted at achieving medium- to long-term national development goals and the Sustainable Development Goals (SDGs). Industrial and trade policies have fostered international trade and foreign investment and improved the ease of doing business. Governments continue to tackle corruption and improve governance and institutions. As a result, from 2010 to 2018, the Global Competitiveness Index rankings of many Southeast Asian DMCs improved, such as Indonesia (from 54th to 45th) and the Philippines (from 87th to 56th).⁷

5. **Development challenges.** While sound economic fundamentals will continue to uphold an optimistic outlook, Southeast Asia's growth prospects are not preordained. The Gini coefficient, a comprehensive gauge of economic inequality, is at an average of 42.0 and is the highest in Asia and the Pacific.⁸ Women remain behind in terms of labor force participation, poverty, financial inclusion, entrepreneurship, and access to markets. Openness to international trade and investment implies that the region is more exposed to external shocks. Climate change also means more frequent and severe natural disasters. These issues potentially undermine progress toward poverty reduction and the SDGs. Policy reforms need to be strengthened to address the evolving development challenges and build resilience against emerging uncertainties. These challenges include: (i) deepening capital markets to provide alternative sources of intermediation, and increasing financial inclusion, to foster equitable growth; (ii) strengthening public management to improve service delivery; and (iii) expanding trade and competitiveness.

6. **Deepening capital markets and financial inclusion.** Since the Asian financial crisis, Southeast Asian DMCs have made substantial progress in deepening capital markets. A variety of reforms have been implemented to encourage the use of domestic rather than international financial markets. Financial supervision, institutions, and regulations have been strengthened to make the financial systems more resilient to financial shocks. Despite these advances, capital markets have not grown evenly throughout the region nor do they currently provide a significant source of financing for infrastructure investments.⁹ Governments still rely on public funds and the banking sector, which results in a maturity mismatch and potentially contributes to financial instability.¹⁰ In addition, there is growing concern about financial inclusion. While large firms enjoy unfettered access to finance, small and medium-sized enterprises—a key contributor to growth and employment—experience limited access to finance and business opportunities, especially among businesses owned by women.

7. **Strengthening public management and service delivery.** Most Southeast Asian DMCs have attained middle-income status and aspire to achieve high-income status by 2030. To accomplish this, governments will need to ramp up the availability and quality of basic social services and investments such as health care, education, access to digital technologies, and social protection systems. Therefore, governments will need not only to mobilize more tax and nontax revenues, but also to spend public revenues more effectively. However, tax revenue mobilization in Southeast Asian DMCs is low at about 12%–18% of GDP, compared with more than 20% in middle-income countries in other regions and 30%–40% in advanced economies. This is attributed to complex tax laws and exemptions; weak tax administration, especially in local governments; narrow tax bases; and costly tax compliance. Concurrently, the efficiency of public

⁷ World Economic Forum. 2018. *Global Competitiveness Report 2018*. Geneva.

⁸ R. Kanbur, C. Rhee, and J. Zhuang. 2014. *Inequality in Asia and the Pacific: Trends, Drivers, and Policy Implications*. London: ADB and Routledge.

⁹ Local currency domestic capital markets in Southeast Asian DMCs are less than half the size of the emerging East Asia average of 71% of GDP: 35% in the Philippines, 18% in Indonesia, and 22% in Viet Nam.

¹⁰ ADB. 2017. *Meeting Asia's Infrastructure Needs*. Manila.

expenditures has been plagued by a lack of medium- to long-term fiscal planning, budget governance and transparency, and international best practices for public procurement.

8. **Expanding trade, industry, and competitiveness.** Openness to trade and investment has been a source of rapid industrialization and strengthened global competitiveness in Southeast Asia and will continue to be so. Southeast Asian DMCs need to push forward open trade policies and reduce entry barriers to foster a business environment that is conducive to fair competition. In addition, concerns about skill mismatches are growing. Enterprises do not have a sufficient pool of skilled workforce to innovate and stay competitive, and job seekers have difficulties finding decent employment. Women in particular do not enjoy equitable access to business opportunities and jobs. Therefore, it will be increasingly important for the region to bring about reforms and skill development strategies that equip in-demand skills and facilitate employment, especially among women and youth.

3. Technical Assistance Facility Outcomes

9. The TA facility will support the preparation of the ensuing programs and projects and improve the performance of ADB's operations by: (i) strengthening the substance of policy actions and policy designs; (ii) improving the timeliness of ADB's responses to DMCs' requests; (iii) enhancing ADB's engagement and its value addition to the programs and projects; and (iv) exploring innovative financial products and new reform areas to address DMCs' evolving development challenges. In addition, the TA will ensure that ADB's programs and projects are underpinned by in-depth analytical work and diagnostics. The TA facility is aligned with operational priorities 1–2 and 6–7 of ADB's Strategy 2030 in terms of poverty reduction, gender equality, strengthening governance and institutional capacity, and fostering regional cooperation and integration. It will directly contribute to SDGs 1, 5, 8-12, and 16–17. It catalyzes resources and synergies to support program and project preparation through, policy advisory services, and related policy support activities.

B. Outputs and Activities

10. **Output 1: Capital market and financial inclusion reforms supported.** The TA facility will support the preparation of programs and projects that create an enabling environment to support capital market development, enhance finance sector resilience and diversification and increase access to finance. In Indonesia (project 1), the TA facility will support activities that increase access to finance broadly, and specifically for small and medium-sized enterprises, including woman entrepreneurs. In the Philippines (project 3), the TA facility will support activities that lead to an increase in intermediation through the nonbank financial sector, including long-term finance to fund infrastructure. While the specific activities to be supported will be developed over time in consultation with the respective governments, this output will support the following thematic areas: (i) increase intermediation from the nonbank sectors; (ii) encourage public and private financing of infrastructure and social assistance through domestic capital markets; (iii) improve market surveillance and investor protection; (iv) promote the issuance of new and innovative financial instruments; (v) foster financial inclusion; and (vi) explore high-impact, innovative finance initiatives (e.g., disaster risk insurance pools and low-cost housing credit guarantees).

11. **Output 2: Public finance management reforms supported.** This output will support the preparation of programs and projects that enable governments to maintain sound fiscal positions and deliver social services effectively to achieve medium-term national development goals and the SDGs. In the Philippines (project 4), the TA will enable inclusive growth by increasing budget

efficiency and improving service delivery at the local level. In the Lao People's Democratic Republic (project 5), the TA will improve public debt and expenditure management. Specific activities to be supported will depend on the reform programs of the respective governments, but will focus on the following areas: (i) improving public debt management; (ii) strengthening tax policies and administration, including gender analysis; (iii) improving medium-term fiscal planning and budgeting with sex-disaggregated data; (iv) aligning public expenditures with SDGs; (v) supporting local public service delivery; and (vi) promoting governance in public expenditure. Gender equity will be enhanced through gender-responsive budgeting,¹¹ human resources development for women in the public sector, and more targeted budget allocations to priority social sectors.

12. **Output 3: Trade, industrial, and competitiveness policies supported.** The TA facility will support the preparation of programs and projects that help governments design and develop modern trade and industrial policies, skills development, and employment facilitation strategies. In Indonesia (project 6), the TA will improve the nation's competitiveness, and (project 7) reduce inequality and productivity by improving access to employment. This output will support project preparation activities in the following areas: (i) developing pro-growth enabling environments; (ii) facilitating cross-border trade and investment; (iii) improving the ease of doing business and reducing transaction costs; (iv) fostering fair competition through strong institution and legal frameworks; (v) maintaining a skilled workforce and improving employment facilitation services; and (vi) developing modern industrial policies in the era of the fourth industrial revolution.

C. Cost and Financing

13. The TA facility is estimated to cost \$3,000,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF) (\$400,000 from TASF 6 and \$2,600,000 from TASF-other sources). The key expenditure items are listed in Appendix 1. The scope of the TA facility may be expanded to cover additional activities, consistent with the outputs and outcome and be replenished from time to time as funds are required and identified.¹² Governments will be informed that approval of the TA facility does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

14. ADB will administer the TA. The TA activities for the ensuing projects will start only after the ensuing project is included in the country operations business plan for the relevant country. The TA facility is categorized *complex* because most of the ensuing projects are categorized *complex*. Southeast Asia Department's Public Management, Financial Sector, and Trade (SEPF) Division will select, administer, and evaluate consultants. Framework agreements will be used to ensure the timely mobilization of the firm or individual experts required by Southeast Asian DMCs.¹³ Single-source selection of firms or individuals will be used on a case-by-case basis for specialized fields of expertise not included in the framework agreements. The SEPF Division will maintain regular contact with governments and consultants to ensure that work proceeds according to agreed schedules and expected outputs.

15. The implementation arrangements are summarized in Table 1.

¹¹ Two aspects of the gender-responsive budgeting will be supported: (i) training and awareness raising among government officials; and (ii) implementation among the ministries relevant to budget planning and preparation.

¹² The indicative total TA resource needs for the 3-year period (2019–2021) are \$9,000,000.

¹³ For firm engagement, up to three firms will be empaneled based on a closed framework agreement. For individual consultant engagement, an open framework agreement will be used to allow for the possibility of adding new experts.

Table 1: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	July 2019–June 2022		
Executing agency	ADB		
Implementing agencies	Southeast Asia Department; Public Management, Financial Sector, and Trade Division		
Consultants	To be selected and engaged by ADB		
	Firm: Framework agreement	International: 40 person-months National: 20 person-months	\$1,500,000
	Individual: Framework agreement	International: 15 person-months National: 40 person-months	\$750,000
	Firm or individual: Direct selection	International: 15 person-months National: 40 person-months	\$750,000
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	Not applicable		

ADB = Asian Development Bank, TA = technical assistance.

Source: Asian Development Bank.

16. **Consulting services.** The TA facility will require 70 person-months of international specialists and 100 person-months of national specialists, for a total of 170 person-months of specialist inputs.¹⁴ Consultants will provide support and technical inputs in preparation for the ensuing programs and projects. National specialists will be recruited to complement the international expertise and ensure adequate knowledge of local conditions and regulations. Procurement will follow the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). Disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

E. Governance

17. ADB is the executing agency. So, the financial management, procurement, and integrity risks during implementation are assessed to be low. However, the TA facility will conduct thorough risk assessments of governance subjects as required for the ensuing projects.

II. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$3,000,000 on a grant basis for the Southeast Asia Public Management, Financial Sector, and Trade Policy Facility, and hereby reports this action to the Board.

¹⁴ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	1,500.0
ii. National consultants	1,150.0
b. Out-of-pocket expenditures	
i. International and local travels	80.0
ii. Reports and communications	10.0
iii. Miscellaneous administration and support costs ^b	5.0
2. Knowledge products ^c	5.0
3. Training, seminars, and conferences	
a. Facilitators	5.0
b. Venue rental and related facilities	20.0
c. Participants	25.0
4. Contingencies	200.0
Total	3,000.0

Note: The technical assistance facility is estimated to cost \$3,000,000, of which contributions from the Asian Development Bank (ADB) are presented in the table above.

^a Financed by ADB's Technical Assistance Special Fund (TASF 6 and TASF-other sources).

^b Includes surveys, focus group discussions, and related logistical costs.

^c To support knowledge sharing of policies and reforms for at least one knowledge product under the technical assistance facility.

Source: Asian Development Bank estimates.

INDICATIVE LIST OF PROJECTS UNDER TECHNICAL ASSISTANCE FACILITY

Table A2.1: Indicative Technical Assistance Budget Allocation^a

Item	Country	Indicative Project Risk Category	Budget Allocation (\$'000)
Output 1: Capital market and financial inclusion reforms supported			
Project 1: Financial Inclusion Sector Development Program	Indonesia	Complex	300.0
Project 2: Support to Infrastructure Finance	Indonesia	Complex	500.0
Project 3: Support to Capital Market Generated Infrastructure Financing, Subprogram 2	Philippines	Complex	500.0
Output 2: Public finance management reforms supported			
Project 4: Local Government Development Program, Subprogram 2	Philippines	Complex	300.0
Project 5: Strengthening Public Finance Management	Lao People's Democratic Republic	Low risk	400.0
Output 3: Trade, industry, and competitiveness policies supported			
Project 6: Competitiveness, Industrial Modernization, and Trade Acceleration Program	Indonesia	Complex	500.0
Project 7: Labor Market Activation	Indonesia	Complex	500.0
Total			3,000.0

^a Indicative budget allocations are based on technical assistance (TA) resources required in 2019 for preparing the ensuing projects. The budget allocations may increase upon replenishment of the TA facility in 2020 and 2021. The indicative ensuing programs and projects in the list require TA resources for project preparation activity in 2019. The list may be changed for additional programs and projects consistent with the TA facility's outputs and additional funds identified in 2020 and 2021.

Source: Asian Development Bank estimates.

Table A2.2: Indicative Consultants' Input Allocation
(person-month)

Item	Total	Project 1 Complex	Project 2 Complex	Project 3 Complex	Project 4 Complex	Project 5 Low risk	Project 6 Complex	Project 7 Complex
International experts								
Finance sector specialists	20	7	7	6				
Public finance specialists	10				5	5		
Economists	10	1	1	1	2	2	1	2
Tax specialists	5					2	3	
Gender specialists	10	2	1	1	1	2	1	2
Trade policy specialists	7						7	
Competition policy specialist	8						8	
Total	70	10	9	8	8	11	20	4
National experts								
Finance sector specialists	40	13	14	13				
Public finance specialists	10				5	5		
Economists	10	1	1	1	2	2	1	2
Legal experts	10	1	1	1	2	2	2	1
Tax specialists	10				5	5		
Gender specialists	10	1	2	2	1	1	2	1
Local government finance specialists	10				10			
Total	100	16	18	17	25	15	5	4

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=53071-001-TARreport>

1. Terms of Reference for Consultants