

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PAHQ

TA No. and Name TA 2710-RMI: Improved Financial Management		Amount Approved: \$600,000	
		Revised Amount: \$600,000	
Executing Agency: Ministry of Finance	Source of Funding: JSF	TA Amount Undisbursed \$29,603.10	TA Amount Utilized \$570,396.90
Date Approval Signing Fielding of Consultants 13 Dec 1996 23 Jan 1997 1 Jun 1997		TA Completion Date Original: Oct 1998 ¹ Actual: Dec 2001 Account Closing Date Original: Oct 1998 Actual: Aug 2002	
Description The TA aimed to address two important fiscal issues. On the expenditure side, Government needed to improve the efficient and effective use of available budget resources in an effort to accommodate reduced spending and decreased reliance on external sources of spending. Outputs needed to be fully costed to reflect their true worth and performance measures developed to monitor achievements. Adoption of modern budget management systems should ensure that funds are allocated on the basis of the Government's policies and priorities, that expenditure levels are properly monitored, and that there is a means of evaluating performance. On the revenue side, and in the context of the Policy Reform Program (PRP), the Government wanted to replace the revenue system, that consisted of import duties and Gross Revenue Tax (GRT), with a combination of a value-added tax (VAT) and excise duties. The Revenue and Taxation Division (RTD) of the Ministry of Finance (MOF) needed to be reorganized and staff trained, to enable smooth and effective introduction of the new revenue system. There were also shortcomings in the Division's performance, resulting in significant loss of revenue. An earlier study of revenue collection recommended a new organization be adopted, including new positions and procedures. A separate study was also undertaken on the introduction of the VAT. This study recommended that a new organization, administration, and training were required for RTD to implement the new VAT system.			
Objectives and Scope The TA consisted of two parts: (i) an expenditure component, involving the introduction of performance-based budgeting, including design and installation of a computer-based budget system; and (ii) a revenue component, involving the reorganization and strengthening of the RTD to increase collection efficiency and prepare the division for the introduction of a VAT. At the end of the project, it was expected that all central Government agencies should use the performance-based budgeting system effectively, and the RTD should have a new organization with better-trained people. Policy objectives and sector priorities would be developed with the assistance of the existing Policy Advisory Team (PAT).			
Evaluation of Inputs With regard to the expenditure component, little progress had been made one year after inception, and it was clear that Government ministries and agencies, including the MOF, were not ready to accept an advanced and sophisticated performance-based budgeting system as proposed. By the time ADB review missions had realized that the TA design was too advanced, and that the TA was unlikely to achieve its objectives, a substantial part of the TA funds for this component had been utilized. The performance of the TA consultants for this component was also less than satisfactory. The team leader's frequent absences resulted in replacement and the replacement's performance was also unsatisfactory. By early 1999, MOF was requesting assistance to carry out basic budget preparatory work and to strengthen the accounting and financial management capability of MOF. This request was considered to be a more fundamental pre-requisite to implementing a performance-based budgeting system. The performance-based budgeting system was shelved, and a major change of scope was made in June 1999. Accounting trainers were recruited to help MOF to reconcile accounts, develop a fixed-asset system, streamline procedures, etc. MOF staff were provided hands-on training in all aspects of accounting. The MOF was much more receptive to these latter improvements in accounting and budgeting work. Although the performance of both ADB and the EA with respect to the original expenditure component was less than satisfactory, their performance in connection with the accounting and budgeting work was satisfactory. The revenue component worked comparatively well. RTD was reorganized with new positions established and new procedures designed and eventually implemented. RTD operations were also strengthened, staff trained, and the			

¹ Completion date extended to 31 December 1999, as indicated in major change of scope approved in June 1999.

overall administration improved. The performance of the consultants, ADB, and the EA for this component was satisfactory. Preparations were made for RTD to introduce VAT, although the Government decided to postpone VAT implementation.

Evaluation of Outputs

On the expenditure side, the performance-based budgeting has not been implemented. The consultant's work has been archived for future use. After the change of scope, the new TA consultants provided substantial assistance to MOF and helped improve and update accounting work, as well as train several staff in MOF. Simplified procedures were developed and use of computers was enhanced. Both Minister and Secretary of Finance were provided with good quality monthly reports.

The work related to the second component of the TA, which included reorganization and strengthening of the RTD of MOF, was completed satisfactorily. RTD was restructured and preparatory work for VAT implementation was undertaken.

Overall Assessment and Rating

Partly successful. Under the first component, performance-based budgeting was not implemented at the time, and the PAT policy objectives and sector priorities were not taken up by Government in the manner envisaged. However, as a result of the change of scope, basic accounting was strengthened. The second component of RTD strengthening was successful.

Major Lessons Learned

TAs must be developed in close consultation with the user and a better, more realistic assessment of the capabilities of the recipient is needed. Output or performance-based budgeting can be too sophisticated for some government capacities and requires a much longer time period to implement. Proposed changes must take account of staff capabilities to sustain systems. Review missions also need to be more sensitive to progress and prepared to make radical changes to TA scope, if so required. RTD assistance was more in keeping with current capacities and time frames.

Recommendations and Follow-Up Actions

Subsequent TAs, which are helping MOF to put in place a simpler version of an input/output budgeting system and a new computerized accounting system, appear to be effective. The current Government and MOF are now more receptive to new ideas and changes. These are required to meet the financial procedure agreement under the new Compact of Free Association with the US Government. A more realistic interpretation of good governance and actual Government support for such reforms is essential.

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