

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: POHQ

TA NO./NAME: TA No. 2855-TON: Preparation and Implementation of a Strategic Plan for the Tonga Development Bank			TA AMOUNT APPROVED: \$280,000	Source: TASF
EXECUTING AGENCY: Tonga Development Bank			REVISED AMOUNT:	
			TA AMOUNT UNDISBURSED: \$22,796 (as of 7 Apr 98) ¹	TA AMOUNT UTILIZED: \$278,700 (as of 7 Apr 98) ¹
DATES: APPROVAL: 2 Sep 1997	SIGNING: 12 Nov 1997	FIELD: 20 Jan 1998	CLOSING ORIGINAL: 30 November 1998	ACTUAL: 15 March 1999

TA DESCRIPTION

The TA was designed to assist TDB by comprehensively reviewing TDB's operations and strategies. The review would provide a basis for preparing a Strategic Plan for the period 1998-2002.

TA OBJECTIVES AND SCOPE

The objective of the TA is to assist TDB in the formulation and implementation of a five-year strategic plan for 1998-2002. The TA scope includes (i) a review of the TDB Act and TDB's past strategies and operations; (ii) identification of strategic options and supporting objectives, organisation structure and policies; (iii) providing advice and training; (iv) enhancement of TDB's capacity in promoting business development, (v) review of the AusAid-funded Venture Capital Fund and (vi) review of alternative microcredit providers.

TA INPUTS/EVALUATION

The TA provided about 14 person-months of international consultant inputs over a fourteen-month period. The fields of expertise provided were: Strategic Planner/Team Leader, 7 p/m; Credit Specialist 5 p/m; and Business Development/Venture Capital Advisor, 2 p/m. Midway through TA implementation, the Credit Specialist and Strategic Planner/Team Leader were asked to probe deeper into the credit area when initial credit review revealed serious under-provisioning for losses that overstated TDB's financial performance. Their terms of reference were extended to allow a more detailed development of recommendations for additional loan loss provisions by TDB, and organizational restructuring to lift TDB's operating capability to an appropriate level. These recommendations were major considerations in the focus of the draft strategic plan and phasing of its implementation. The consultants' inputs were adequate to address the key matters identified in the review of TDB's operations.

TA OUTPUTS EVALUATION

The major findings of the TA and the draft Strategic Plan were presented by the Strategic Planner/Team Leader at a Tripartite/cum Donor meeting held on November 18, 1998, chaired by the TDB Chairman (who is also the Minister of Finance), and attended by TDB management and representatives of donor organizations currently providing credit lines and financial assistance to TDB. Meeting participants endorsed the TA findings and the direction and strategies set out in the draft Strategic Plan. Subsequently, the draft Strategic Plan was discussed in detail during the 1998 Donor Co-ordination Meeting, held 19-20 November 1998. The thrust of the draft Strategic Plan was strongly supported by Ministry of Finance, National Reserve Bank of Tonga, TDB Management and major TDB donors. Draft strategic plan was adopted at the TDB Board Meeting on 5 February 1999.

TA OVERALL ASSESSMENT/RATING

Generally successful. Key tasks in the consultants' initial terms of reference were achieved. The TA extensions provided the opportunity for detailed development of additional provisioning requirements, organizational restructuring proposals, revised lending interest rates, conservatively prepared supporting financial projections and recapitalisation assessment. Key recommendations arising from the TA findings in respect of additional loan loss provisioning, organization restructuring, and revised lending interest rates were substantially implemented by the end of the TA.

MAJOR LESSONS LEARNED

TDB is experiencing significant short-term difficulties which are complex and inter-related. In spite of the material weaknesses identified during the TA, it is possible to put the TDB on to a sound operational footing within the next five years, provided the TDB Act is amended to provide it more autonomy and TDB staff are able to develop greater banking acumen. Banking expertise can be achieved through additional targeted in-house training, selected high potential staff receiving overseas attachment training in commercial banks and technical assistance in asset recovery and credit risk review (lending inspection). The experience gained in this TA suggests that comprehensive reviews of development finance institutions supported by the Bank should be undertaken regularly by experienced banking consultants, say every five years, to ensure that appropriate lending operations and organisation structures are in place.

FOLLOW-UP ACTION AND RECOMMENDATIONS

Following a TA recommendation calling for clarification of TDB's organizational mandate, the TDB submitted a paper to the Ministry of Finance in December 1998 discussing its desired mandate. The paper also raised the matter of possible Government subsidies payable to TDB to offset costs incurred in undertaking lending to meet Government's development objectives, such as lending to high-cost and high-risk sectors, which do not conform to prudent banking practice. These issues should be resolved by mid-1999. Recommended donor funding of key technical advisers for asset recovery and credit risk review management positions has been offered by the New Zealand Government and recruitment is underway; these advisers will also provide targeted internal training. Some TA support is recommended in 1999 to assist TDB in monitoring and evaluating the implementation of its strategic plan, the ongoing development of supporting strategies, and capacity building. Donor funding is to be sought for attachment training for selected high-potential staff in overseas commercial banks.

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¹ Figure is tentative as final claim from consultant is awaited.