



# Technical Assistance Report

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Project Number: 49457-001  
Regional—Capacity Development Technical Assistance (R-CDTA)  
October 2016

## Pacific Financial Technical Assistance Centre, 2016–2022

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Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
IMF	–	International Monetary Fund
PFM	–	public financial management
PFTAC	–	Pacific Financial Technical Assistance Centre
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

## NOTE

In this report, “\$” refers to US dollars unless otherwise stated.

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## CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 49457-001	
<b>Project Name</b>	Pacific Financial Technical Assistance Centre, 2016-2022	<b>Department /Division</b>	PARD/PAUS
<b>Country</b>	REG	<b>Executing Agency</b>	International Monetary Fund
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ Public sector management	Economic affairs management	0.32	
Finance	Public expenditure and fiscal management	0.32	
	Central banking systems	0.16	
		<b>Total</b>	<b>0.80</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Disaster risk management		
Regional integration (RCI)	Pillar 3: Money and finance Pillar 4: Other regional public goods		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional development Institutional systems and political economy	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Public financial governance Application and use of new knowledge solutions in key operational areas		
Partnerships (PAR)	Knowledge sharing activities Bilateral institutions (not client government) Implementation		
Private sector development (PSD)	International finance institutions (IFI) Regional organizations South-South partner Conducive policy and institutional environment		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty and SDGs	No	Regional	High
<b>6. TA Category:</b>	B		
<b>7. Safeguard Categorization</b>	Not Applicable		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>0.80</b>	
Capacity development technical assistance: Technical Assistance Special Fund		0.80	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>0.80</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems			No
Use of country public financial management systems			No

## I. INTRODUCTION

1. The Pacific Financial Technical Assistance Centre (PFTAC) of the International Monetary Fund (IMF) was established in 1993 to support Pacific countries with improving economic management and achieving sustainable economic growth.<sup>1</sup> The PFTAC provides technical assistance (TA) and training in five core areas: (i) public financial management (PFM), (ii) revenue administration, (iii) macroeconomic management, (iv) financial sector supervision, and (v) macroeconomic statistics. During the most recent PFTAC steering committee meeting in February 2016, the PFTAC presented a concept paper for the fifth financing cycle, 2016–2022, based on an external midterm review of Phase IV and consultations with the representatives of various institutions of Pacific developing member countries (DMCs) and development partners, including the Asian Development Bank (ADB). This was subsequently developed into a program document.<sup>2</sup> The design and monitoring framework is in Appendix 1.<sup>3</sup>

2. This TA is consistent with the Pacific Approach, 2016–2020 of the ADB, as the PFTAC contributes to reducing costs and managing risks through improved regulatory frameworks, government systems, and capacity—creating efficiencies in public management and enabling private sector value creation.<sup>4</sup> ADB’s Pacific Regional Operations Business Plan, 2016–2018 provides for continued ADB support for the PFTAC, with an \$800,000 contribution over the PFTAC’s Phase V, 2016–2022. This support leverages total expected financing of \$35 million from other partners (Australia, the European Union, New Zealand, and potentially other sources) and PFTAC member countries.<sup>5</sup> Since 1994, ADB has provided \$6.4 million to the PFTAC under 10 consecutive regional TA projects, complementing other development partners’ support. The most recent support provided was for 2011–2016.<sup>6</sup> ADB’s continued funding is justified given long-term capacity gaps in the Pacific and PFTAC’s record, and ability to efficiently and effectively deliver timely, high-quality technical advice, along with successful capacity development programs, to Pacific DMCs.

## II. ISSUES

3. Shortfalls in capacity and gaps in regulatory frameworks, systems, and processes continue to undermine sound macroeconomic management; PFM; revenue administration; financial sector management; and the production, dissemination, and use of statistics in ADB’s Pacific DMCs. Most of these countries are among the smallest globally, resulting in small, thinly stretched public administrations. Geographical dispersion stretches limited resources further by increasing the cost of public service delivery. Remoteness, limitations in the quality of life, and lack of adequate job opportunities lead to frequent out-migration. These challenges also undermine quality education and training of civil servants. As a result, public administrations in Pacific DMCs often face issues of weak and highly volatile capacity in policy making,

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<sup>1</sup> The PFTAC member countries are the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, and Vanuatu. Except for Niue and Tokelau, all countries are Asian Development Bank (ADB) developing member countries. A request for a waiver by ADB’s Board of Directors regarding the inclusion of Niue and Tokelau in the technical assistance (TA) is in para. 20(ii).

<sup>2</sup> PFTAC. Forthcoming. *Pacific Financial Technical Assistance Centre Phase V Program Document, 2016–2022*. Washington, DC.

<sup>3</sup> The TA first appeared in the business opportunities section of ADB’s website on 20 September 2016.

<sup>4</sup> ADB. 2016. *ADB’s Pacific Approach, 2016–2020*. Manila.

<sup>5</sup> ADB. 2015. *Regional Operations Business Plan: Pacific, 2016–2018*. Manila.

<sup>6</sup> ADB. 2011. *Technical Assistance for the Pacific Financial Technical Assistance Centre, 2011–2014*. Manila. Accommodating a change in the PFTAC’s programming cycle from 3 to 5 years, the TA duration was extended until 2016.

management, and in administrative and technical functions. Particularly affected are technical functions that are not routinely used and require specific expertise, but high staff turnover and lack of adequate skills can also affect basic capabilities. Subsequently, weak and volatile capacity negatively affects the application, maintenance, and regular review and updating of regulatory frameworks, systems, and processes.

4. In the public sector, this contributes to weaknesses in economic governance, and inefficient and ineffective public service delivery, as evidenced by little change in country performance assessment scores across core government functions since 2006. This aggravates the economic vulnerability that Pacific DMCs face as a result of their small economic base, limited economic diversification, import dependency, and exposure to natural hazards and climate change, among others. In view of the constraints, Pacific DMCs will require assistance in the development, supplementation, and substitution of public administration capacity, and TA to address specific problems, in the long term.

### III. THE PROPOSED CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

#### A. Impact and Outcome

5. The impact will be (i) macroeconomic and fiscal resilience to natural disasters and adverse economic developments strengthened, (ii) macro-financial sustainability promoted, and (iii) growth and inclusiveness facilitated. The outcome of the TA will be improved capacity to design and implement prudent macroeconomic, PFM, and financial sector policies and systems.

#### B. Methodology and Key Activities

6. The TA will deliver outputs in line with the PFTAC's key areas of advisory services and capacity building over the TA period (2016–2022). The outputs reflect all activities proposed by the PFTAC and are detailed in the program document for the fifth financing cycle (footnote 2).

7. These are the project outputs and associated key activities:

- (i) **Public financial management systems strengthened.** Activities under this output include (a) improving legal frameworks and PFM institutions; (b) strengthening budget preparation toward more comprehensive, credible, and policy-oriented budgets; (c) improving budget execution and control, coverage and quality of fiscal reporting, and integrating the asset and liability management framework; and (d) strengthening the identification, monitoring, and management of fiscal risks.
- (ii) **Broader-based and more efficient revenue systems established.** Activities under this output include (a) strengthening revenue administration management and governance arrangements; and (b) strengthening core tax functions, evidenced by an accurate taxpayer base, taxpayer services supporting voluntary compliance, and improvements in filing, payment, and audit activities.
- (iii) **Macroeconomic analysis and policy improved.** Activities under this output are (a) enhancing monitoring, forecasting, and policy analysis tools, including financial programming frameworks for policy analysis, as well as indicators and processes for assessing macroeconomic and financial stability; (b) strengthening capacity to develop sustainable policies, including the incorporation of medium-

term trends and risks into forecasting and policy analysis; and (c) strengthening capacity to build greater resilience to shocks, including the management of the fiscal consequences of significant shocks (including natural disasters) and improvement of the soundness and efficiency of financial systems.

- (iv) **Management and resolution of risks in financial institutions improved.** Activities under this output include (a) strengthening financial sector oversight by upgrading the regulatory framework in line with international standards; (b) promoting financial stability by strengthening the financial sector's legal and regulatory framework; and (c) supporting more efficient use of supervisory resources to improve oversight of key risks in the banking system.
- (v) **More timely and reliable economic statistics produced.** Activities under this output include (a) putting in place compilation methodologies in line with international standards for national accounts and government finance statistics; (b) making available accurate and reliable macroeconomic statistics; and (c) producing timely and consistent data that is readily available, presented clearly, and well documented.

8. ADB adds value by providing strategic and operational guidance to the PFTAC through the program design, annual steering committee, and work planning processes; and on a day-to-day basis at the country level. PFTAC support complements other TA projects undertaken by ADB at regional and country level across the PFTAC's core areas.<sup>7</sup> PFTAC support also contributes directly to the design and implementation of ADB projects and programs. For example, PFM reform road maps developed with PFTAC support guide ADB engagement in this area; countries' increased PFM capacity benefits ADB project implementation; and TA across all five areas, especially in PFM, revenue administration, and macroeconomic management, provides implementation support for policy actions under ADB's policy-based lending operations. Both institutions continue to work closely to avoid duplication and gaps in their support.

9. The PFTAC contributes to ADB's strategic agenda of regional cooperation and integration. Regional cooperation and integration is an important avenue for cost-effective delivery of TA, as well as for countries to overcome capacity limitations, share experiences, and achieve (some) economies of scale. The PFTAC increases efficiency through pooling of resources from several development partners, and by providing a one-stop shop for technical specialized economic and financial advisory services in the Pacific. The PFTAC supports regional cooperation and integration through regional workshops and the establishment and promotion of regional organizations or associations, and is a convening forum for its regional members. PFTAC support includes some gender elements by providing gender-balanced training opportunities. Specific activities, for example in support of nonbank financial institutions, are expected to benefit women and disadvantaged groups particularly.

10. Risks to successful program implementation include external shocks (e.g., disasters) as well as internal bottlenecks (e.g., high staff turnover), which erode supported capacity and undermine policies and systems. Loss or lack of political and/or bureaucratic support could undermine effective implementation of reform activities and the sustainability of outcomes. In

<sup>7</sup> ADB. 2013. *Technical Assistance for the Pacific Economic Management (Phase 2)*. Manila; ADB. 2013. *Technical Assistance for Implementing the Pacific Regional Audit Initiative (Phase 2)*. Manila; ADB. 2013. *Technical Assistance for the Pacific Private Sector Development Initiative, Phase III*. Manila; ADB. 2013. *Technical Assistance for Strengthening Public Sector Management in the North Pacific*. Manila; ADB. 2014. *Technical Assistance for Sector and Thematic Analyses in Policy Development*. Manila; and other country TA projects.

highly capacity-constrained environments, staff and other resources may be lacking to absorb capacity development and specialized TA. Lastly, insufficient financial contributions to the PFTAC and/or complementary TA activities by development partners could undermine results.

11. The program document for the PFTAC's Phase V recognizes such overarching risks, as well as risks under each of the program areas, and mitigates or minimizes these through program design and risk management during implementation. Excessively complex technical advice and assistance that create capacity gaps, especially in the most fragile Pacific DMCs, is avoided in the design. Annual work planning processes are integrated in regional and country-level coordination mechanisms to avoid duplication or gaps, and monitor and address evolving risks during Phase V. Recipient countries and development partners have pledged adequate and timely financial support to ensure funding for the baseline budget scenario, and allow for a smooth transition from Phase IV to V.

12. Financial management, procurement, and corruption risks under the TA are considered low. Activities carried out under the TA are contributing to strengthened PFM, procurement, and anticorruption capabilities of Pacific DMCs. The first output targets improvements in controls over expenditure commitments and payments (including commitment control linked to procurement), risk-based internal audit functions, and the central fiscal oversight of public corporations, which aim at reducing the misuse of public funds and improving value for money in procurement. Activities to strengthen the planning, appraisal, selection, and implementation of public investments, as well as public asset management, also aim at reducing political corruption and other misuse of funds and public assets.

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

13. The TA is estimated to cost \$800,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). The cost estimates and financing plan are in Appendix 2.

14. The total budget of PFTAC's Phase V is estimated to cost \$35.0 million in the baseline budget scenario (footnote 2). Pacific DMCs have committed to contribute 10% of the total budget required for the PFTAC's Phase V, equivalent to \$3.5 million. DMC contributions and financing arrangements are being finalized. The Government of New Zealand finalized its contribution agreement for Phase V and will provide the equivalent of NZ\$12.0 million. Other partners are expected to provide financing to cover the gap. The European Union and the Government of Australia have pledged continued support to the PFTAC and are finalizing their funding commitments. The IMF is exploring potential financial support from other partners, including the Republic of Korea, which contributed to the PFTAC Phase IV.

### **D. Implementation Arrangements**

15. The IMF is the executing agency and the PFTAC is the implementing agency. The implementation period of the PFTAC's Phase V, and therefore of the TA, is from November 2016 to April 2022. Arrangements for funding of the PFTAC will be consistent with the requirements established under previous ADB TA to the PFTAC (footnote 6). ADB's funds will be pooled with those from other development partners and the IMF will manage them.<sup>8</sup> The IMF

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<sup>8</sup> PFTAC Phase V will support activities in two ADB non-member countries, Niue and Tokelau. To ensure compliance with eligibility restrictions under the Regulations of the Technical Assistance Special Fund, expenditures for assistance to ADB member countries under PFTAC Phase V will exceed the amount of financial assistance to be provided by ADB.



will provide ADB with a letter of understanding that governs ADB's contribution to PFTAC activities. ADB funding will be provided in one installment to the PFTAC upon effectiveness of the letter of understanding. The IMF will be responsible for PFTAC's managerial, technical, and administrative arrangements along with the relevance and quality of PFTAC assistance.

16. The IMF (i) assigns the center coordinator (full-time staff member); (ii) selects resident advisors from its professional staff; (iii) hires short-term experts using IMF procedures, and draws on experts from its approved rosters; (iv) provides supervision and backstopping services; (v) provides administrative support; and (vi) manages the cost-sharing contributions of the development partners. The IMF's institutional, organizational, procurement, and financial management arrangements are considered adequate. Outline terms of reference for the PFTAC's five areas of support are in Appendix 3.

17. The Board is requested to (i) approve the use of IMF recruitment guidelines for the engagement of consultants under the TA and (ii) waive Section 3.04(a)(iii) of the Regulations of the Technical Assistance Special Fund<sup>9</sup> so as to permit the use of TASF resources to finance expenditures incurred in non-member countries, all as set out in para. 20 of this TA report.

18. Monitoring of the TA will draw on annual PFTAC reports against the program document's results framework for Phase V and quarterly activity updates. The IMF's results-based management system (Capacity Development Projects, Outputs, and Results Tracking System), to be implemented at the start of Phase V, will provide information on objectives, outcomes, verifiable indicators with baselines, milestones, and outputs. In addition, the program document for Phase V includes budget for an independent midterm evaluation, whose recommendations will feed into Phase V's second half and the design of Phase VI, subject to the continuous need for PFTAC assistance. ADB, together with other partners, will participate in the annual steering committee meetings to monitor and provide direction on strategic and operational issues. ADB liaises regularly with the PFTAC through regional and country-level coordination groups to avoid duplication and overlap in activities.

19. The PFTAC maintains its own website, providing regular updates against activity plans and country strategies.<sup>10</sup> Lessons, good practices, and training materials will be disseminated throughout the TA via the PFTAC website; during regional workshops that are part of the PFTAC work program; and other knowledge sharing events of the IMF, ADB, and other partners.

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

20. The President recommends that the Board (i) approve the use of IMF recruitment guidelines for the engagement of consultants, and (ii) permit the use of TASF resources to finance expenditures in the territories of non-member countries of ADB for services and facilities supplied from such territories, for the Pacific Financial Technical Assistance Centre, 2016–2022.

21. If the Board approves the proposal in para. 20, the President, acting under the authority delegated by the Board, will approve the provision of technical assistance not exceeding the equivalent of \$800,000 on a grant basis for the Pacific Financial Technical Assistance Centre, 2016–2022.

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<sup>9</sup> Section 3.04 of the Regulations provides in relevant part: "Except as otherwise provided or permitted in these Regulations ... the resources of the Fund may be used to finance expenditures in the territories of any member country of the Bank ... for services and facilities supplied from such territories.

<sup>10</sup> PFTAC. [www.pftac.org](http://www.pftac.org)

## DESIGN AND MONITORING FRAMEWORK

<b>Impacts the TA is Aligned with<sup>a</sup></b> Macroeconomic and fiscal resilience to natural disasters and adverse economic developments strengthened, macro-financial sustainability promoted, and growth and inclusiveness facilitated (PFTAC Phase V Program Document) <sup>b</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines<sup>c</sup></b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<b>Outcome</b> Capacity to design and implement prudent macroeconomic, PFM, and financial sector policies and systems improved	By the end of 2023: a. At least a one-step increase in the score of PFTAC's Pacific-specific capacity development benchmarks <sup>d</sup> across all five program outputs for each country benefitting from a particular type of support  (Scores: 0 = no capability, 1 = very limited progress, 2 = basic progress, 3 = substantial progress, 4 = outcome largely or fully achieved)	a. PFTAC program document, annual reports and final report; and IMF CD-PORT	External shocks (e.g., disasters) and/or internal bottlenecks (e.g., high staff turnover) erode capacity and undermine policies and systems.
<b>Outputs</b> 1. PFM systems strengthened	By the end of 2022: 1a. A more comprehensive and unified annual budget is published in at least 8 Pacific DMCs  1b. Improved controls over expenditure commitments and payments implemented in at least 3 Pacific DMCs	1a–1b. PFTAC program document, annual reports and final report; and IMF CD-PORT	Loss or lack of political and/or bureaucratic support undermines effective implementation of reform activities and the sustainability of outcomes.  Lack of staff and other resources in Pacific DMCs to absorb capacity development and specialized technical assistance.
2. Broader-based and more efficient revenue systems established	2a. Clear organizational structure along functional lines and/or taxpayer segments established and operating in at least 9 Pacific DMCs  2b. On-time filing and payment ratio improves over time in at least 10 Pacific DMCs	2a–2b. PFTAC program document, annual reports and final report; and IMF CD-PORT	Excessively complex and inappropriate technical advice and assistance that create capacity gaps, especially in the most fragile Pacific DMCs.
3. Macroeconomic analysis and policy improved	3a. Budgets contain consistent macroeconomic and fiscal medium-term forecasts in at least 8 Pacific DMCs  3b. Budget documents	3a–3b. PFTAC program document, annual reports and final report; and IMF CD-PORT	Financial contributions to PFTAC do not materialize in a timely and/or in the required

<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines<sup>c</sup></b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
	contain a discussion of macroeconomic and fiscal risks in all Pacific DMCs		amount.
4. Management and resolution of risks in financial institutions improved	4a. Risk-based processes and manuals are implemented in all Pacific DMCs with a banking sector	4a. PFTAC program document, annual reports and final report; and IMF CD-PORT	Complementary technical assistance activities by development partners do not materialize, which undermines results from PFTAC support.
5. More timely and reliable economic statistics produced	5a. Good quality national accounts produced regularly and deviations from international standards identified in all Pacific DMCs  5b. Good quality government financial statistics and public sector debt statistics produced regularly in at least 11 Pacific DMCs	5a–5b. PFTAC program document, annual reports and final report; and IMF CD-PORT	

### **Key Activities with Milestones**

#### **1. Public financial management systems strengthened (2016–2022)**

- 1.1 Improve legal frameworks and PFM institutions
- 1.2 Strengthen budget preparation toward more comprehensive, credible, and policy-oriented budget
- 1.3 Improve budget execution and control, coverage and quality of fiscal reporting, and integration of asset and liability management framework
- 1.4 Strengthen the identification, monitoring, and management of fiscal risks

#### **2. Broader-based and more efficient revenue systems established (2016–2022)**

- 2.1 Strengthen revenue administration management and governance arrangements
- 2.2 Strengthen core tax functions, evidenced by an accurate taxpayer base; taxpayer services supporting voluntary compliance; and, improvements in filing, payment, and audit activities

#### **3. Macroeconomic analysis and policy improved (2016–2022)**

- 3.1 Enhance monitoring, forecasting, and policy analysis tools, including financial programming frameworks for policy analysis; and indicators and processes for assessing macroeconomic and financial stability
- 3.2 Strengthen capacity to develop sustainable policies, including to incorporate medium-term trends and risks into forecasting and policy analysis
- 3.3 Strengthen capacity to build greater resilience to shocks, including to manage the fiscal consequences of significant shocks (including natural disasters), and improve the soundness and efficiency of financial systems

#### **4. Management and resolution of risks in financial institutions improved (2016–2022)**

- 4.1 Strengthen financial sector oversight through upgrading of regulatory framework in line with international standards
- 4.2 Promote financial stability by strengthening the financial sector's legal and regulatory framework
- 4.3 Support the more efficient use of supervisory resources to improve oversight of key risks in the banking system

<b>5. More timely and reliable economic statistics produced (2016–2022)</b>	
5.1 Put in place compilation methodologies in line with international standards for national accounts and government finance statistics	
5.2 Make available accurate and reliable macroeconomic statistics	
5.3 Produce timely and consistent data that is readily available, presented clearly, and well documented	
<b>Inputs</b>	
ADB: \$800,000	
<b>Assumptions for Partner Financing<sup>e</sup></b>	
Pacific DMCs	\$3.5 million (amounts per DMC are being finalized)
European Union (grant)	TBD
Government of Australia (grant)	TBD
Government of New Zealand (grant)	\$8.7 million (NZ\$12.0 million equivalent)
Other partners	TBD
<b>Total</b>	<b>TBD</b>

ADB = Asian Development Bank; CD-PORT = Capacity Development Projects, Outputs, and Results Tracking System; DMC = developing member country; IMF = International Monetary Fund; PFM = public financial management; PFTAC = Pacific Financial Technical Assistance Centre; TA = technical assistance; TBD = to be determined.

<sup>a</sup> The design and monitoring framework is aligned with the PFTAC's results-based management logical framework for Phase V. PFTAC. Forthcoming. *Pacific Financial Technical Assistance Centre Phase V Program Document, 2016–2022*. Washington, DC. CD-PORT, the IMF's results-based management system to be implemented at the start of Phase V, will provide information on objectives, outcomes, verifiable indicators with baselines, milestones, and outputs. The PFTAC's results-based management logical framework has been adjusted in the above design and monitoring framework to match ADB's results chain, and only selected indicators have been included.

<sup>b</sup> PFTAC. Forthcoming. *Pacific Financial Technical Assistance Centre Phase V Program Document, 2016–2022*. Washington, DC.

<sup>c</sup> The PFTAC will determine baselines for all indicators at the onset of Phase V as part of the IMF's results-based management system CD-PORT.

<sup>d</sup> The Pacific-specific capacity development benchmarks and status at the end of the PFTAC's Phase IV are included in Annex 1 of the program document for Phase V. These will be further developed, refined, and made available to partners at the beginning of Phase V.

<sup>e</sup> All partner financing is parallel and non-ADB administered. ADB's funds will be pooled with those from other development partners and managed by the IMF.

Source: Asian Development Bank.

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

Item	Amount
<b>Asian Development Bank<sup>a</sup></b>	
1. Consultants <sup>b</sup>	
a. Remuneration and per diem (international consultants)	475.0
b. International and local travel	75.0
2. Training, seminars, and conferences <sup>c</sup>	125.0
3. Miscellaneous administration and support costs <sup>d</sup>	125.0
<b>Total</b>	<b>800.0</b>

<sup>a</sup> Financed by the Technical Assistance Special Fund (TASF-other sources) of the Asian Development Bank (ADB). ADB funding will be provided in one installment to the Pacific Financial Technical Assistance Centre (PFTAC) upon effectiveness of the letter of understanding between ADB and the International Monetary Fund (IMF). Allocations across cost items are indicative and based on allocations in accordance with PFTAC's total budget (baseline scenario).

<sup>b</sup> Represents PFTAC resident advisors and short-term experts. Travel includes diagnostic missions of short-term experts and IMF staff.

<sup>c</sup> Tentatively, 200 trainings, seminars and workshops will be conducted by PFTAC from 2016–2022, targeting an estimated 3,000 participants. The events will be held at the country, subregional, and regional level at various locations in the Pacific. The total estimated training budget is \$6.1 million (baseline budget scenario).

<sup>d</sup> Represents PFTAC office costs, governance costs (external evaluation and steering committee meetings), IMF backstopping and evaluation, project management, and trust fund management.

Source: Asian Development Bank and International Monetary Fund estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. General

1. The Asian Development Bank (ADB) funds are pooled with those from other development partners and managed by the International Monetary Fund (IMF). The IMF is responsible for the managerial, technical, and administrative arrangements of the Pacific Financial Technical Assistance Centre (PFTAC) along with the relevance and quality of PFTAC assistance. The IMF (i) assigns the center coordinator (full-time staff member); (ii) selects the resident advisors from their professional staff; (iii) hires short-term experts using IMF procedures, and draws on experts from its approved rosters; (iv) provides supervision and backstopping services; (v) provides administrative support; and (vi) manages the cost-sharing contributions of the development partners. The IMF is therefore responsible for the terms of reference for the program advisors and the short-term experts engaged. The following are a synopsis of the activities for each program advisor's area. The indicated number of advisors in each program area is based on the baseline budget scenario of the PFTAC Phase V program document.<sup>1</sup> Additional advisors may be added if sufficient funds become available during Phase V.

2. All advisors are expected to provide direct technical assistance (TA) on a range of issues for their specialist areas to the Pacific developing member countries (DMCs) covered by the PFTAC. They will also supervise the TA work of short-term experts financed by the PFTAC for those areas.

### B. Scope of Consulting Services

#### 1. Program Area 1: Public Financial Management (2 advisors)

3. The public financial management (PFM) advisors' work program should cover all PFM areas: (i) legal and regulatory framework; (ii) budget preparation (including budget classification, medium-term budgetary frameworks, program-oriented budgeting); (iii) budget execution (including expenditure control, treasury operations, cash management, accounting, fiscal reporting, and financial management information system); (iv) internal control; and (v) internal audit. It will also include the realization or supervision of assessments under the Public Expenditure and Financial Accountability Performance Measurement Framework. The advisors should have regular interaction and cooperation with development partners and the Pacific DMCs on regional and country-specific PFM reform activities.

4. Working closely with Pacific DMCs and development partners, the advisors will be guided by, and, where not already available, support preparation of, country-specific PFM reform strategies (e.g., road maps, action plans). The advisors will promote formal capacity development activities through the development of training materials, the conduct of PFM training programs relevant to the region, and by supporting the Pacific Islands Financial Managers' Association as a regional practitioner's forum. In addition, the PFTAC will coordinate closely with existing and new capacity-building initiatives of all major development partners, including ADB.

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<sup>1</sup> PFTAC. Forthcoming. *Pacific Financial Technical Assistance Centre Phase V Program Document, 2016–2022*. Washington, DC.

## **2. Program Area 2: Revenue Administration (1 advisor)**

5. The revenue advisor work program should cover all revenue areas, including support to revenue reform planning and implementation, strategic plans and frameworks, legislation, organizational setup, revenue administration systems and processes, compliance and risk management, and the use of information technology. Strengthening revenue administration management and governance arrangements, and core tax administration functions is expected to increase tax revenues in a sustainable way, lower administrative costs, and improve the fairness of the tax system. The program area includes assistance on improving the effectiveness of tax administration including via risk-based compliance; strengthening collection, audit, and taxpayer services; establishing special collection arrangements for larger business taxpayers; advising on implementing new taxes; and introducing measures to bring medium-sized and small taxpayers into the tax net.

6. The revenue advisor will coordinate with Pacific DMCs, development partners, and other agencies to ensure that advice is coordinated and well targeted. The PFTAC will promote formal capacity development activities, including through continued support to the Pacific Islands Tax Administrators Association, which benefitted from support during Phase IV and is functional, with appointed secretariat staff, a formalized constitution, and annual subscriptions from members.

## **3. Program Area 3: Macroeconomic Management (1 advisor)**

7. The macroeconomic management advisor will focus on building capacity in central banks and ministries of finance to monitor and analyze macroeconomic developments, conduct model-based macroeconomic analysis and forecasts, and strengthen understanding of macroeconomic and financial linkages and vulnerabilities. A principal focus of capacity development during Phase V will be to assist with the development of medium-term policy frameworks. The second major focus of activity will be to assist members to strengthen monitoring and analysis of financial system developments; and assess the implications of such developments for financial system and macroeconomic stability, and the effectiveness of policy transmission.

8. To increase the sustainability of capacity development activities, model frameworks will be kept simple and easy to maintain, processes for integration of forecasting into budget processes will be strengthened, and sharing of experience and knowledge across countries will be promoted. Close cooperation between ministries of finance and central banks on data sharing and modeling will be promoted, consistent with respecting the independence of each in the use of models to develop their own projections and analyses. In some of the smallest Pacific DMCs, capacity building in macroeconomic analysis is not realistic and some method of capacity supplementation will need to be considered. All capacity development and supplementation activities will be closely coordinated with partners, including ADB, the Graduate School USA, and bilateral partners. To support and complement its capacity development activities, as well as to promote sustainability, the PFTAC proposes to establish a Pacific Islands Macroeconomic Analysis and Modeling Association during Phase V.

## **4. Program Area 4: Financial Sector Supervision (1 advisor)**

9. The financial sector supervision advisor work program will cover legal and regulatory frameworks for banks, supervisory processes, and legal frameworks and supervision of

nonbank financial institutions (credit unions and finance companies). Capacity development activities will focus on strengthening the resilience of Pacific DMCs' financial systems. Improved resilience of banking systems and sound regulation will help promote financial stability and assist in better access to finance. Given resource constraints under Phase V, priorities in capacity development delivery will be based on the risk profiles of Pacific DMCs' financial systems. Support will be tailored to the needs of the countries, which include jurisdictions where basic off-site and on-site supervisory capabilities are appropriate and countries that require consolidated or group and cross-border supervision. In all cases, the goal will be to achieve at least foundational competence in the area addressed.

10. Strengthening legal and regulatory frameworks will encompass technical advisory support to ensure that supervisors have adequate legal powers and the ability to exercise them, and to identify and advise on the changes required to make regulation commensurate with the risk profile of the banking systems. Supervisory processes will be strengthened by supporting bank reporting and identifying emerging risks and areas of weakness. The main elements include an on-site examination program and off-site supervision of financial institutions. Support to the supervision of nonbank financial institutions will include a continuation of the credit union reform program started under Phase IV and assistance to improve the legal framework of nonbank financial institutions. Capacity development will focus on expanding the regulatory perimeter and the level of oversight available, including legal and financial reporting.

11. Capacity building will focus on key risk areas such as credit risk, liquidity risk, and operational risk, including the development and introduction of policies and procedures. A comprehensive capacity development needs assessment for banking supervision, based on the Basel Core Principles of Banking Supervision, will be undertaken for each Pacific DMC to guide annual work programs. To increase the sustainability of the TA, greater focus will be placed on developing up-to-date supervision manuals and supervisory guidance, and the adequate documentation of processes and procedures for a comprehensive oversight regime. In addition, hands-on technical support in on-site examination will be continued and supplemented with specialized workshops on key banking risk components. Phase V will also continue its support to regional initiatives, including the Association of Financial Supervisors of Pacific Countries, the annual governors' meeting, and the regional financial sector development partners meeting. Regional priorities will also be addressed through the incorporation of thematic objectives such as development bank supervision and building financial sector resilience to, and preparedness for, natural disasters.

## **5. Program Area 5: Macroeconomic Statistics (1 advisor)**

12. The macroeconomic statistics advisor will provide advice at regional and national level to strengthen the compilation (especially methodological soundness and reliability) and timely dissemination of macroeconomic statistics. Support under Phase V will see broadened coverage of PFTAC TA to include both national accounts and government financial statistics. Further, Phase V will consolidate and build on the gains achieved in Phase IV. The support areas of the work program include improving the methodological soundness of statistical outputs, improving the reliability of macroeconomic statistics, and strengthening statistical serviceability and accessibility. Capacity development will continue to be provided aligned to the 10-Year Pacific Statistics Strategy, 2011–2020.<sup>2</sup>

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<sup>2</sup> The strategy is based on Cook and Paunga. 2010. *A Pacific Island Region Plan for the Implementation of Initiatives for Strengthening Statistical Services Through Regional Approaches*. The plan was endorsed by the 3rd Regional Conference of Heads of Planning and Statistics in 2010. The 10-Year Pacific Statistics Strategy, 2011–2020 is



13. All support will be carried out in close coordination with other capacity development providers and development partners following the primary responsibilities for each agency agreed at the 8th Meeting of the Pacific Statistics Steering Committee. A focus will be placed on improving the sustainability of data production through a combination of hands-on staff training in best practice methodology, and improved and extended documentation, which ensures ongoing institutional memory and continuity as staff changes occur. Recognizing resource and capacity limitations in many statistics offices across the Pacific, priority will be placed on building self-sufficiency in basic functions and maintaining the quality and timeliness of data produced. The development of simple, well-documented systems has the potential to increase local input and develop capacity. Subregional training courses—based on countries' levels of capacity, methodologies applied, or common activities—will allow for efficiencies in training delivery and sharing of experiences and expertise.