



Technical Assistance Report

PUBLIC

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Transaction Technical Assistance Facility (F-TRTA)
June 2022

Southeast Asia Public Management, Financial Sector, and Trade Policy Facility (Phase II)

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ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
DMC	–	developing member country
GDP	–	gross domestic product
MSME	–	micro-, small-, and medium-sized enterprise
SDG	–	Sustainable Development Goals
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 Number: 56047-001	
Project Name	Southeast Asia Public Management, Financial Sector, and Trade Policy Facility (Phase II)	Department/Division	SERD/SEPF
Nature of Activity Modality	Project Preparation Facility	Executing Agency	Asian Development Bank
Country	REG (CAM, INO, LAO, PHI, TIM, VIE)		
2. Sector		Subsector(s)	
✓ Finance	Finance sector development		ADB Financing (\$ million) 0.900
Industry and trade	Industry and trade sector development		0.600
Public sector management	Public administration		0.750
		Total	2.250
3. Operational Priorities		Climate Change Information	
✓ OP1: Addressing remaining poverty and reducing inequalities	GHG Reductions (tons per annum)		0.000
✓ OP2: Accelerating progress in gender equality	Climate Change impact on the Project		Low
✓ OP6: Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
		Cofinancing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.5, 1.a, 1.b	Effective gender mainstreaming (EGM)		✓
SDG 5.5, 5.a, 5.c			
SDG 9.1, 9.2			
SDG 10.4			
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization		Complex	
5. Safeguard Categorization Safeguard Policy Statement does not apply			
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		2.250	
Transaction technical assistance: Technical Assistance Special Fund		2.250	
Cofinancing		0.000	
None		0.000	
Counterpart		0.000	
None		0.000	
Total		2.250	
Currency of ADB Financing: US Dollar			

I. THE TECHNICAL ASSISTANCE FACILITY

A. Justification

1. The Proposal

1. The Asian Development Bank's (ADB) Southeast Asia Department's Public Management, Financial Sector, and Trade Division (SEPF) has an integrated program with focus on policy reforms covering capital market development and financial inclusion, public financial management, and trade and competitiveness.¹ These reforms are increasingly complex and demanding with additional challenges emerging from the coronavirus disease (COVID-19) pandemic. The proposed transaction technical assistance (TA) facility will allow ADB to provide project preparatory assistance, including policy advice, technical support, policy dialogue, capacity building, and due diligence to prepare the 2022–2024 lending pipeline. The ensuing programs and projects encompass a variety of government reforms to strengthen capital markets, financial inclusion, domestic resource mobilization, fiscal decentralization, labor markets, and industrial competitiveness in ADB's developing member countries (DMCs) in Southeast Asia.²

2. The proposed transaction TA facility builds upon SEPF's experience in implementing its first transaction TA since 2019,³ which has led to 18 ensuing programs and projects during 2019–2021, totaling \$5.5 billion. The transaction TA facility will enable ADB to continue to strengthen its engagement with the reform agendas of the Southeast Asian DMCs, and its responsiveness to address client requirements. It will contribute to ADB's Strategy 2030 by addressing 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 transaction TA facility embraces the recommendations of ADB's evaluation of policy-based lending during 2008–2017, which provided that policy outcomes should be strengthened by substantive policy designs and actions underpinned by ADB's engagement.⁵

2. Development Challenges and Opportunities

3. **Macroeconomic context.** Southeast Asia was hard hit by the COVID-19 pandemic as domestic lockdowns and a global recession stifled consumption and investment. Southeast Asia's gross domestic product (GDP) contracted by 3.2% in 2020, led by contractions of 9.5% in the Philippines and 6.2% in Thailand, in contrast to the remarkable growth at an average of 5.1% annually in 2010–2019. Women and girls were among the most vulnerable to job and income losses. While Southeast Asia was projected to bounce back strongly with growth forecast of 2.9% in 2021 and 4.9% in 2022, the prospect of economic recovery remains fragile and uneven.⁶ Rising oil and commodity prices caused by the Russian invasion of Ukraine and tightened lockdown measures in the People's Republic of China are likely to suppress domestic consumption. Inflation

¹ ADB's lending program in support of public management, financial sector, and trade policy in Southeast Asia is expected to reach \$6.3 billion in 2022–2024, from \$5.9 billion in 2019–2021. ADB. 2021. [Work Program and Budget Framework, 2022–2024](#). Manila. The amount in 2020 excludes the lending programs under the COVID-19 Pandemic Response Option.

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

³ ADB. 2019. [Technical Assistance for Southeast Asia Public Management, Financial Sector, and Trade Policy Facility](#). Manila.

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 ADB. 2022. [Asian Development Outlook 2022: Mobilizing Taxes for Development](#). Manila.

in Southeast Asia doubled from 1.2% in 2020 to 2.4% in 2021, and is notably higher in the Philippines, Timor-Leste, and Viet Nam. The hikes in policy rates in the European Union and the United States will likely trigger capital outflows and increase the cost of capital for households and micro-, small-, and medium-sized enterprises (MSMEs).

4. **Development challenges.** Southeast Asia has embarked on a wide array of structural and institutional reforms spanning several decades to improve governance, strengthen institutions, and embrace processes and tools to achieve long-term development objectives including poverty reduction and gender equality. As the road to recovery for the region has gone beyond COVID-19, structural and policy reforms that support accommodative fiscal stances, resilience of capital markets and banking sectors, and trade and industrial competitiveness will be crucial for the revival of pre-pandemic growth trajectories. Policies and reforms need to be well-designed, evidence-based, coordinated, and well-enforced to shield the poor and vulnerable against the external shocks and to support recovery efforts. Moreover, the looming global challenges such as the Russian invasion of Ukraine, disruptions of the global supply chains, inflation and monetary policy tightening in Europe and the United States, and global warming require governments to take timely policy responses and accelerate the pace of reforms. While these evolving economic headwinds make formulation of policy interventions complex and challenging, it also offers an opportunity for governments to innovate and harness reforms toward achieving long-term policy objectives such as the Sustainable Development Goals (SDGs) and climate change. Three key development challenges and opportunities have emerged against the backdrop of these uncertainties: (i) capital markets and financial inclusion, and climate finance; (ii) fiscal and public debt sustainability; and (iii) trade, competitiveness, and employment recovery.

5. **Capital markets, financial inclusion, and climate finance.** As Southeast Asia navigates its way into recovery, it will require greater access to capital and other financial services to lay the foundation for a sustainable economic recovery and tackle climate change. However, MSMEs and informal workers, which account for more than 70% of total workforces in Southeast Asia, often have limited access to formal credits, thereby constraining their potential to grow and contribute to economic recovery.⁷ Meanwhile, the digital economy has accelerated the uptake of digital financial services and payments, which provide new tools to solve these persistent barriers to financial inclusion, especially among women, the poor, and the vulnerable. At the same time, the narrowing fiscal space has imposed constraints on sustainable financing of climate-resilient infrastructure. It is estimated that Southeast Asia will require \$210 billion per year until 2030 to support investment in climate-resilient infrastructure.⁸ One way for governments to unlock the constraints is to expand the domestic institutional investor base and channel private capital for investments. Southeast Asia has been at the forefront of adopting digital tools and solutions for financial inclusion and mobilizing private capital for sustainable and climate-resilient investments and is well placed to benefit from deepening these reform efforts.

6. **Fiscal and public debt sustainability.** Almost all DMCs in Southeast Asia appropriately pursued countercyclical fiscal policy in response to COVID-19, posting fiscal deficits from 2% to 7% of GDP in 2020, depending on available fiscal space and accessible sources of deficit financing. The biggest challenge for the region is how to sustain the fiscal stimulus and step-up public services needed to restore pre-shock growth. Some DMCs such as Indonesia, the Philippines, and Thailand embarked on tax reforms and efforts to increase the efficiency of

⁷ ADB. 2020. [Asia Small and Medium-Sized Enterprise Monitor 2020: Volume I—Country and Regional Reviews](#). Manila.

⁸ ADB. 2021. [ASEAN Catalytic Green Finance Facility 2019–2020: Accelerating Green Finance in Southeast Asia](#). Manila.

revenue collection to strengthen domestic resource mobilization, including state-owned enterprise (SOE) reforms. Governments may have to reprioritize limited fiscal space to mount an immediate response to COVID-19, drawing resources away from the long-term priorities in infrastructure, education, gender equality, and climate change, all of which are related to economic growth and poverty reduction. A shortfall of public investment in these areas may permanently entrench the social and economic impacts of COVID-19 and engender a more sluggish economic recovery.

7. **Trade, competitiveness, and employment recovery.** Increasingly, the governments in Southeast Asia are looking beyond short-term measures to address the unfolding health and economic crises to long-term recovery strategies to reinstate their positions at the edge of competitiveness. For example, Indonesia and the Philippines seek to improve the business climate and encourage trade, foreign investment, and job creation by reducing the cost of doing business and promoting deregulation and a competitiveness agenda. In Thailand and Viet Nam, the recovery strategies ushered in measures to boost the digital economy and encourage foreign investment in fast-growing sectors such as smart devices, health tourism, electronic vehicles, robotics and automation, and biotechnology. At the same time, COVID-19 will have irrevocable effects on labor markets in terms of skill and job mismatches, especially among women and girls. Workers seeking to thrive in the post-pandemic economy will likely require different sets of higher-order skills. This calls for innovative, gender-sensitive human capital development strategies that regear schooling and vocational education and foster reskilling and reemployment.

3. Transaction Technical Assistance Facility Outcomes

8. The transaction TA facility will prepare SEPF's 2022–2024 lending pipeline, amounting to \$3.86 billion. It will help improve ADB's operational performance by: (i) strengthening the substance of policy actions and designs; (ii) improving the timeliness of ADB's responses to requests from DMCs; (iii) enhancing ADB's engagement and value addition to the programs and projects; and (iv) exploring innovative financial products and new reform areas to address the evolving development challenges of DMCs. In addition, the TA will ensure that ADB's programs and projects are underpinned by active policy dialogue, in-depth analytical work and diagnostics. It will catalyze resources and synergies to support preparatory activity through advisory services, policy dialogue, and related support activities.

B. Outputs and Activities

9. **Output 1: Capital market, financial inclusion, and climate finance reforms supported.** The transaction TA facility will prepare the ensuing programs and projects that create an enabling environment for long-term investments through government and corporate bonds, enhance finance sector resilience, increase access to finance, and strengthen climate finance to address climate change and achieve national net zero targets. In Indonesia, the transaction TA facility will support the next phase of policy and technology enablers to foster innovations and boost financial inclusion among the poor and vulnerable population, including women, and MSMEs. To accomplish this, the transaction TA facility will increase access to formal financial products and services, improve their quality, and encourage the financially underserved populations to use them (project 1). In the Philippines, the transaction TA facility will strengthen the institutional and policy environment for financial inclusion. It will improve financial infrastructure for digital payment, and increase the capacity and reach of service providers, especially rural banks, and non-bank financial institutions, as envisaged in the National Strategy for Financial Inclusion (project 2). The transaction TA facility will encourage inclusive participation in long-term contractual savings and capital market development by reforming both public and private sector pensions, providing an

enabling environment for the insurance sector, and further increasing liquidity and price transparency in domestic bond markets (project 3).

10. Output 2: Public financial management reforms and post-COVID-19-pandemic fiscal sustainability supported. This output will prepare the ensuing programs and projects that enable governments to strengthen domestic resource mobilization, enhance public expenditure and procurement frameworks, and deliver gender-sensitive social services to reinstate post COVID-19 pandemic fiscal sustainability and achieve the SDGs. In Cambodia, the transaction TA facility will push forward public financial management and fiscal decentralization by strengthening the capacities of subnational administrations (project 4). In Indonesia, the transaction TA facility will strengthen policies and institutional frameworks to enhance the capacities and financial performance of SOEs (project 5). In the Philippines, the transaction TA facility will support domestic resource mobilization by modernizing tax policy and administration (project 6). Support will also be provided to local government units (LGUs) to strengthen their public financial management, increase the collection of own-sourced revenue, and develop frameworks to enable them to more effectively utilize public–private partnerships. In Timor-Leste, the transaction TA facility will help develop e-government by undertaking due diligence for the national data center and e-government project (project 7). This support will strengthen the legal frameworks for e-government, including data privacy and cybersecurity, and develop gender-sensitive use cases and e-government services.

11. Output 3: Trade, competitiveness, and employment recovery policies supported. The transaction TA facility will prepare the ensuing programs and projects that help governments design and develop post-COVID-19-pandemic trade and industrial policies, skills development, and employment facilitation strategies. In Cambodia, the transaction TA facility will help the government formulate post-COVID-19-pandemic strategies and plans to diversify industries and key economic sectors, improve labor productivity, and strengthen industry linkages with global value chains (project 8). In Indonesia, the transaction TA facility will support the post-pandemic employment recovery reforms that help the government reach the health and education SDG targets; enhance skills training; boost employment among the youth and women; expand the social safety net; and reduce childhood stunting (project 9). The transaction TA facility will also support the Indonesian government’s efforts to foster a more competitive and investment-friendly business environment and accelerate COVID-19 economic recovery (project 10).

C. Cost and Financing

12. The transaction TA facility financing amount is \$2,250,000, which will be financed on a grant basis by ADB’s Technical Assistance Special Fund (TASF) (\$250,000 from TASF 7 and \$2,000,000 from TASF-other sources). The key expenditure items are listed in Appendix 1. Subject to applicable ADB policies and approvals, the scope of the transaction TA facility may be expanded to cover additional activities, consistent with the transaction TA facility’s outputs and outcome and funds may be replenished from time to time as required and identified. Governments will be informed that approval of the transaction TA facility does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

13. ADB will administer the TA. The TA activities will start only after the ensuing project is programmed for the relevant country. The TA facility is categorized as *complex* because most of the ensuing projects are categorized *complex*. SEPF will select, administer, and evaluate consultants. Because of the nature of the support, consultants’ terms of reference may be fine-

tuned as needed during implementation. The transaction TA facility may also recruit resource persons and service providers, and support training and workshops. SEPF will maintain regular contact with governments and consultants to ensure that work proceeds according to agreed schedules and expected outputs.

14. The implementation arrangements are summarized in the table.

Implementation Arrangements			
Aspects	Arrangements		
Indicative implementation period	July 2022–June 2025		
Executing agency	ADB		
Implementing agencies	Southeast Asia Department; Public Management, Financial Sector, and Trade Division		
Consultants	To be selected and engaged by ADB		
	Firm: QCBS	Financial sector specialists Tax specialists Legal experts	\$600,000
	Individual: individual selection	International: 185 person-months National: 170 person-months	\$1,500,000
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		

ADB = Asian Development Bank, QCBS = quality- and cost-based selection, TA = technical assistance.
Source: Asian Development Bank.

15. **Consulting services.** The transaction TA facility will require 195 person-months of international specialists and 180 person-months of national specialists, for a total of 375 person-months of specialist inputs.⁹ Consultants will provide support and technical inputs to prepare the ensuing programs and projects. National specialists will be recruited to complement the international expertise and ensure adequate knowledge of local conditions and regulations. All consultants will be engaged in accordance with the ADB Procurement Policy (2017, as amended from time to time) and its associated staff instructions.

E. Governance

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

II. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$2,250,000 on a grant basis for the Southeast Asia Public Management, Financial Sector, and Trade Policy Facility, and hereby reports this action to the Board.

⁹ 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	1,400.0
ii. National consultants	600.0
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 ^d	
a. Facilitators	5.0
b. Venue rental and related facilities	20.0
c. Participants	25.0
4. Miscellaneous TA administration costs ^e	80.0
5. Contingencies	20.0
Total	2,250.0

Note: The technical assistance facility is estimated to cost \$2,250,000, of which contributions from the Asian Development Bank (ADB) are presented in the table above.

^a Financed by ADB's Technical Assistance Special Fund (\$250,000 from TASF 7 and \$2,000,000 from TASF-other sources).

^b Include surveys, focus group discussions, Office365 licenses, and related logistical costs.

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

^d Budget includes in-country and international travel and allowance for ADB staff travel as resource persons, in accordance with the memorandum on Use of Bank Resources: Regional Technical Assistance and Technical Assistance vs. Internal Administrative Expenses Budget, issued by the Budget, Personnel, and Management Systems Department and the Strategy and Policy Department on 26 June 2013.

^e Include service providers, translation, and interpretation.

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, financial inclusion, and climate finance reforms supported			
Project 1: Promoting Innovative Financial Inclusion Program, Subprogram 2	Indonesia	Complex	\$300
Project 2: Inclusive Finance Development Program, Subprogram 3	Philippines	Complex	\$300
Project 3: Support to Capital Market Generated Infrastructure Financing, Subprogram 2 (post-program partnership framework)	Philippines	Complex	\$300
Output 2: Public finance management reforms and post-pandemic fiscal sustainability supported			
Project 4: Second Decentralized Public Service and Financial Management Sector Development Program, Subprogram 2	Cambodia	Low risk	\$100
Project 5: State-owned Enterprise Reform Program	Indonesia	Complex	\$200
Project 6: Domestic Resource Mobilization Program	Philippines	Complex	\$300
Project 7: e-Government Development and Infrastructure Project ^b	Timor-Leste	Low risk	\$150
Output 3: Trade, competitiveness, and employment recovery policies supported			
Project 8: Trade and Competitiveness Program, Subprogram 2	Cambodia	Low risk	\$100
Project 9: Boosting Productivity and Human Capital Program, Subprogram 2	Indonesia	Complex	\$300
Project 10: Competitiveness, Industrial Modernization, and Trade Acceleration Program, Subprogram 2	Indonesia	Complex	\$200
Total			2,250.0

^a Indicative budget allocations are based on technical assistance (TA) resources required in 2022 for preparing the ensuing projects. The budget allocations may increase upon replenishment of the TA facility in 2023 and 2024. The indicative ensuing programs and projects in the list require TA resources for project preparation activity in 2022. Subject to applicable ADB policies and approvals, the list may be changed for additional programs and projects consistent with the TA facility's outputs and additional funds identified in 2023 and 2024.

^b The preparatory activity under TA9766-REG covers due diligence works including financial management assessment, procurement risk assessment, and environmental and indigenous peoples and involuntary resettlement safeguards. The proposed TA will weigh in on the legal and institutional frameworks and capacity building for e-government, such as data privacy and cyber security.

Source: Asian Development Bank estimates.

TABLE A2.2: INDICATIVE CONSULTANTS' INPUT ALLOCATION
(person-month)

Item		Project 1	Project 2	Project 3	Project 4	Project 5
Indicative risk category	Total	Complex	Complex	Complex	Low Risk	Complex
International experts						
Finance sector specialists	65	25	20	20		
Public finance specialists	30				10	5
Economists	20	1	1	1	2	3
Tax specialists	15					
E-government specialists	10					
Gender specialists	25	3	3	2	2	2
Competitiveness policy specialists	14					
Skill Development/Human Capital specialists	16					
Total	195	29	24	23	14	10
National experts						
Finance sector specialists	60	20	20	20		
Public finance specialists	20				5	5
Economists	20	2	2	2	2	2
Legal experts	20	2	2	2	2	2
Tax specialists	20					
Gender specialists	20	2	2	2	2	2
Local government finance specialists	20				15	
Total	180	26	26	26	26	11

Source: Asian Development Bank estimates.

TABLE A2.2: INDICATIVE CONSULTANTS' INPUT ALLOCATION (CONTINUED)
(person-month)

Item	Project 6	Project 7	Project 8	Project 9	Project 10
Indicative risk category	Complex	Low Risk	Low Risk	Complex	Complex
International experts					
Finance sector specialists					
Public finance specialists	10	5			
Economists	3	2	2	3	2
Tax specialists	5		5		5
E-government specialist		10			
Gender specialists	2	2	3	3	3
Competitiveness policy specialists			7		7
Skill Development/Human Capital specialist				16	
Total	20	19	17	22	17
National experts					
Finance sector specialists					
Public finance specialists	5	5			
Economists	2	2	2	2	2
Legal experts	2	2	2	2	2
Tax specialists	12		4		4
Gender specialists	2	2	2	2	2
Local government finance specialists	5				
Total	28	11	10	6	10

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=56047-001-TARreport>

1. Terms of Reference for Consultants