ASIAN DEVELOPMENT BANK

TPA: RMI 2001-23
TPA: PNG 2001-23
TPA: SAM 2001-23
TPA: VAN 2001-23

TECHNICAL ASSISTANCE PERFORMANCE AUDIT REPORT

ON

ADVISORY TECHNICAL ASSISTANCE TO

SELECTED DEVELOPMENT FINANCE INSTITUTIONS

IN

PACIFIC DEVELOPING MEMBER COUNTRIES

December 2001

CURRENCY EQUIVALENTS

	At TA Approval	At TA Completion	At Operations Evaluation
Papua New Guinea Currency Unit — Kina (K)			
TA 1661-PNG	(15 January 1992)	(24 August 1994)	(31 July 2001)[a]
K1.00 =	1.044	1.057	0.296
$1.00 =	0.958	0.946	3.384
TA 2446-PNG	16 November 1995	(30 September 1999)	(31 July 2001)
K1.00 =	0.759	0.341	0.296
$1.00 =	1.318	2.933	3.384
Samoa Currency Unit — Tala (ST)			
TA 1399-SAM	(25 October 1990)	(31 October 1992)	(31 July 2001)
ST1.00 =	0.444	0.396	0.285
$1.00 =	2.250	2.526	3.507
TA 2989-SAM[b]	(19 February 1998)	—	(31 July 2001)
ST1.00 =	0.362	—	0.285
$1.00 =	2.762	—	3.507
Vanuatu Currency Unit — Vatu (Vt)			
TA 2961-VAN	(12 December 1997)	(31 May 1998)	(31 July 2001)
Vt1.00 =	0.008123	0.007859	0.006777
$1.00 =	123.110	127.250	147.550

— = not available.
[a] Reevaluation.
[b] Active project.

NOTES

(i) Fiscal years (FY) of the governments end as follows: the Republic of Marshall Islands, 30 September; Papua New Guinea, 31 December; Samoa, 30 June; and Vanuatu, 31 December. FY before a calendar year denotes the year in which the fiscal year ends.
(ii) In the Republic of Marshall Islands, the unit of currency is the US dollar.
(iii) In this report, "$" refers to US dollars.

ABBREVIATIONS

ADB	–	Asian Development Bank
AMU	–	Asset Management Unit
CBS	–	Central Bank of Samoa
CRP	–	Comprehensive Reform Program
DBS	–	Development Bank of Samoa
DBV	–	Development Bank of Vanuatu
DFI	–	development finance institution
DMC	–	developing member country
EA	–	Executing Agency
FSPL	–	Financial Sector Program Loan
GFI	–	government financial institution
MIDA	–	Marshall Islands Development Authority
MIDB	–	Marshall Islands Development Bank
MIS	–	management information system
MRD	–	Ministry of Research and Development
NBFI	–	nonbank financial institution
NBV	–	National Bank of Vanuatu
NPF	–	Samoa National Provident Fund
NPL	–	nonperforming loan
OEM	–	Operations Evaluation Mission
PNG	–	Papua New Guinea
PNGBC	–	PNG Banking Corporation
RMI	–	Republic of Marshall Islands
RDB	–	Rural Development Bank of Papua New Guinea
SBDC	–	Small Business Development Corporation
TA	–	technical assistance
TCR	–	technical assistance completion report
TID	–	Trade and Investment Division
TOR	–	terms of reference
TPAR	–	technical assistance performance audit report

CONTENTS

BASIC TECHNICAL ASSISTANCE DATA

TA 1453-RMI: Institutional Strengthening of the Marshall Islands Development Bank

Cost ($'000)[1]	Estimated	Actual
Foreign Exchange	215	183
Local Currency	5	0
Total	220	183
Number of Person-Months (Consultants)	9	9.4

Executing Agency: Ministry of Finance
Marshall Islands Development Bank

Milestones		Date
President's/Board Approval		26 Dec 1990
Signing of TA Agreement		10 May 1991
Fielding of Consultants		15 Jul 1991
TA Completion:	Expected	Mar 1992
	Actual	30 May 1992
TCR Circulation		N/R

Mission

Type	Number	Date
Fact-Finding	1	23-26 Oct 1990
Review	—	—
Operations Evaluation[2]	1	9-13 Jul 2001

TA 2204-RMI: Institutional Strengthening of the Marshall Islands Development Bank—Phase 2

Cost ($'000)[3]	Estimated	Actual
Foreign Exchange	191	181[4]
Local Currency	11	0
Total	202	181
Number of Person-Months (Consultants)	6	6.9

Executing Agency: Marshall Islands Development Bank

— = not available, N/R = not required, TA = technical assistance, TCR = technical assistance completion report.
1 Financed by the Asian Development Bank (ADB).
2 The Mission comprised A. Qureshi, Senior Evaluation Specialist and Mission Leader; R. Lumain, Senior Evaluation Analyst; and S. Mirza, Staff Consultant.
3 Financed by ADB from the Japan Special Fund.
4 Includes local currency cost of domestic travel.

Milestones		Date
President's/Board Approval		23 Nov 1994
Signing of TA Agreement		27 Jun 1995
Fielding of Consultants		20 Jan 1996
TA Completion:	Expected	Mid-Sep 1996
	Actual	19 Mar 1997
TCR Circulation		20 Oct 1997

Fact-Finding	1	30 Jun-8 Jul 1994
Review[5]	1	16-21 Mar 1996
Operations Evaluation [2]	1	9-13 Jul 2001

[5] Multiproject mission.

TA 2205-RMI: Small Enterprise Development

Cost ($'000)[6]	Estimated	Actual
Foreign Exchange	282	263[7]
Local Currency	15	0
Total	297	263
Number of Person-Months (Consultants)	21	10.4

Executing Agency: Division of Trade and Industry, Ministry of Resources and Development

Milestones		Date
President's/Board Approval		23 Nov 1994
Signing of TA Agreement		27 Jun 1995
Fielding of Consultants		22 Jan 1996
TA Completion:	Expected	Jul 1996
	Actual	Jun 1997
TCR Circulation		9 Dec 1997

Mission Type	Number	Date
Fact-finding	1	30 Jun-8 Jul 1994
Review[8]	1	16-21 Mar 1996
Operations Evaluation [2]	1	9-13 Jul 2001

TA 2961-VAN: Strategic Plan for the National Bank of Vanuatu

Cost ($'000)[9]	Estimated	Actual
Foreign Exchange	150	128
Local Currency	0	0
Total	150	128
Number of Person-Months (Consultants)	11	12.4

Executing Agency: Ministry of Finance
Office of the Prime Minister

— = not available, N/R = not required, TA = technical assistance, TCR = technical assistance completion report.
[6] Footnote 1.
[7] Includes local currency cost of domestic travel, reports, and communication.
[8] Footnote 5.
[9] Footnote 1.

Milestones		Date
President's/Board Approval		12 Dec 1997
Signing of TA Agreement		N/R
Fielding of Consultants		26 Feb 1998
TA Completion:	Expected	End-Apr 1998
	Actual	May 1998
TCR Circulation		N/R

Mission Type	Number	Date
Fact-finding	1	10-26 May 1997
Review	1	9-10 Mar 1998
Operations Evaluation [2]	1	23-26 July 2001

TA 1399-SAM: Rehabilitation of Development Bank of Western Samoa

Cost ($'000)[10]	Estimated	Actual
Foreign Exchange	203	160
Local Currency	0	0
Total	203	160
Number of Person-Months (Consultants)	6	4.0

Executing Agency: Development Bank of Western Samoa

Milestones		Date
President's/Board Approval		25 Oct 1990
Signing of TA Agreement		14 Dec 1990
Fielding of Consultants		6 Jan 1991
TA Completion:	Expected	End-Dec 1991
	Actual	Oct 1992
TCR Circulation		N/R

Mission Type	Number	Date
Fact-finding	1	Jan 1989
Review	1	7-9 Mar 1991
Operations Evaluation [2]	1	21-26 Jul 2001

— = not available, N/R = not required, TA = technical assistance, TCR = technical assistance completion report.

[10] Footnote 3.

TA 2989-SAM: Institutional Strengthening of Government Financial Institutions

Cost ($'000)[10]	Estimated	Actual
Foreign Exchange	904	579
Local Currency	46	45
Total	950	624
Number of Person-Months (Consultants)	28	25.4

Executing Agency: Central Bank of Samoa

Milestones		Date
President's/Board Approval		19 Feb 1998
Signing of TA Agreement		26 May 1998
Fielding of Consultants		18 Jul 1998
TA Completion:	Expected	Mid-Feb 2002
	Actual	—[11]
TCR Circulation		—

Mission Type	Number	Date
Fact-finding	1	19 Jul-1 Aug 1997
Inception[12]	1	30 Mar-3 Apr 1998
Review[12]	3	8-24 Oct 1998
		1-4 Nov 1999
		25-29 Jun 2001
Operations Evaluation [2]	1	21-26 Jul 2001

TA 1661-PNG: Institutional Strengthening of Agriculture Bank of Papua New Guinea

Cost ($'000)[13]	Estimated	Actual
Foreign Exchange	580	493
Local Currency	2	8
Total	582	501
Number of Person-Months (Consultants)	24	24

[11] TA implementation has been completed, except for output related to prudential supervision of nonbank financial institutions that is expected by February 2002.
[12] Footnote 5.
— = not available, TA = technical assistance, TCR = technical assistance completion report, TPAR = technical assistance performance audit report.
[13] Footnote 1.

Executing Agency: Rural Bank of Papua New Guinea

Milestones		**Date**
President's/Board Approval		15 Jan 1992
Signing of TA Agreement		29 May 1992
Fielding of Consultants		6 Jul 1992
TA Completion:	Expected	End-Mar 1993
	Actual	27 Sep 1994
TCR Circulation		24 Aug 1994
TPAR Circulation		27 Dec 1996

Missions

Type	**Number**	**Date**
Fact-finding	1	21-30 May 1991
Review	1	19-22 Jan 1993
Operations Evaluation	1	19-26 Mar 1996
Reevaluation [2]	1	30 Jul-1Aug 2001

TA 2446-PNG: Small Business Development Corporation Accounting and Management Information Systems

Cost ($'000)[13]	**Estimated**	**Actual**
Foreign Exchange	235	201[14]
Local Currency	20	0
Total	255	201
Number of Person-Months (Consultants)	9	9

Executing Agency: Department of Trade and Industry
Small Business Development Corporation

Milestones		**Date**
President's/Board Approval		16 Nov 1995
Signing of TA Agreement		15 May 1996
Fielding of Consultants		1 Jan 1998
TA Completion:	Expected	Jun 1996
	Actual	Sep 1999
TCR Circulation		26 Apr 2000

[14] Footnote 4.

Mission Type	Number	Date
Fact-finding	1	12-17 Nov 1994
Review	—	—
Operations Evaluation [2]	1	30 Jul-1Aug 2001

EXECUTIVE SUMMARY

The Asian Development Bank (ADB) has a long-standing relationship with most development finance institutions (DFIs) in its developing member countries (DMCs) in the Pacific. Indeed, ADB was instrumental in establishing a number of these DFIs in the 1970s. Over the years, ADB has provided them with extensive advisory technical assistance (TA), approving 46 TAs for a total of $9.2 million. The first generation of TAs focused on building the DFIs' basic development banking capabilities such as project appraisal and supervision, accounting, and management information systems (MIS); the second, mostly on credit recovery, portfolio management, and rehabilitation of DFIs in financial distress; and the third, on institutional restructuring and capacity building to reorient the DFIs to operate in a liberalized financial environment, and to finance small enterprises. TA was also provided to establish or strengthen institutions responsible for developing small enterprises in several Pacific DMCs. This technical assistance performance audit report (TPAR) covers eight third-generation advisory TAs approved in the 1990s, involving nine institutions in four Pacific DMCs—the Republic of Marshall Islands (RMI), Papua New Guinea (PNG), Samoa, and Vanuatu.

The basic objective of all the TAs covered by the TPAR was to strengthen the institutions involved in development financing and small-business development. The TAs generally aimed to build capacity in medium-term strategy formulation and corporate planning, business development, review of policies and procedures, upgrading of accounting and MIS, portfolio management, and resource mobilization. Two TAs were specifically designed to assist small-business development in RMI and PNG, while one TA to Samoa included a significant component to enhance the capability of the central bank in monetary policymaking, corporate planning, prudential supervision, and other institutional aspects. All the TAs included training.

The objectives of the TAs under evaluation were appropriate and in line with the governments' sector goals and ADB's operational strategies for the DMCs concerned. The TA designs were generally compatible with their respective objectives. However, some TAs—such as those provided to the Marshall Islands Development Bank (MIDB) in RMI and to the Rural Development Bank (RDB) in PNG—could have been better tailored, at the formulation stage or through midcourse adjustments in scope, to the capacity-building needs of the institutions. TA 2989-SAM to Samoa exemplifies the effectiveness of such adjustments, which were made possible by proactive participation of Central Bank of Samoa (CBS), and the pragmatic and timely response of ADB.

There were front-end delays in six TAs but once consultants were recruited, implementation was generally smooth. TA inputs generally followed the consultants' terms of reference. TA outputs varied in quality and sustainability, partly due to changes in the internal and external environment of the institutions. Among the institutions targeted by the TAs, the National Bank of Vanuatu (NBV), Development Bank of Samoa (DBS), CBS, and Samoa National Provident Fund benefited most mainly because of their institutional autonomy, clear government policy, and a favorable financial sector environment. In contrast, the TAs to the Small Business Development Corporation (SBDC) in PNG and to the Marshall Islands Development Authority (MIDA) proved wasteful, and the benefits were largely lost due to sudden change in government policy in the case of SBDC and lack of follow-up by the Government in the case of MIDA. The benefits of TAs to MIDB and RDB remained below expectation.

The TAs under evaluation have substantially enhanced the institutional capacity and financial viability of DFIs in Samoa and Vanuatu. Freedom to choose borrowers and set interest rates within liberalized and competitive financial sectors, competent management, and generally sound credit policies are the main reasons for the better performance of these DFIs. However, their reform is not yet complete. DBS and NBV have yet to demonstrate an ability to sustain lending to small and rural businesses without putting their own financial performance at risk and while adhering to prudential portfolio classification and provisioning norms. DBS has yet to enforce such norms while NBV has avoided lending to small and rural borrowers. CBS also needs to be provided the means to meet the cost of servicing the monetary control instruments on a sustained basis. The future of DFIs in RMI and PNG will remain uncertain in the absence of clear government policy and necessary recapitalization.

Lessons from this evaluation strongly suggest the need for upfront government action as a condition of TA approval where the problems of a DFI are well known and where their resolution depends on such action. Related to this is the lesson that TA outputs conditioned on or leading to policy change should be produced at an early stage of TA implementation. Second, TA designs should be flexible to permit midcourse adjustments in scope and activities to enhance efficiency of TA implementation and optimize outputs. Third, governments should maintain critical institutional arrangements to ensure that the capacity built by such TAs is put to good use to sustain benefits. The evaluation has also reaffirmed a well-known lesson from previous evaluations: a liberalized financial environment, institutional autonomy, and avoidance of subsidized directed lending are necessary to sustain the financial viability of DFIs.

Out of the eight TAs evaluated, three are rated successful, another three partly successful, and the remaining two unsuccessful. Both unsuccessful TAs—2205-RMI and 2446-PNG—were in the area of small-enterprise development and failed because the governments did not sustain the required institutional arrangements. On the whole, the advisory support provided by ADB to Pacific DFIs in the 1990s has been partly successful.

The Pacific DFIs have a potentially useful role in creating jobs and reducing poverty by helping small and rural enterprises and promoting private sector development in general. The most important challenge for these DFIs is to sustain themselves as viable institutions while meeting the credit needs of small and rural borrowers, which involves higher risk and cost. The Pacific DFIs have been unable to meet this challenge, mainly because it has been difficult to keep loan defaults within manageable limits in the absence of mechanisms to collateralize communal land. Since this problem is faced by practically all Pacific DMCs, ADB should encourage them to explore a common solution. To that end, ADB should provide a regional TA: first, to bring the relevant government authorities, DFIs, and communal leaders to a roundtable to debate the issue and consider alternative solutions; and second, to provide expert assistance to make the required legal and policy changes in the participating DMCs. Without the conditions that permit collateralization of communal land and transfer of land-use rights, future ADB assistance to Pacific DFIs will not be efficacious.

I. BACKGROUND

A. Introduction

1. Since the early 1970s, the Asian Development Bank (ADB) has approved a large number of advisory technical assistance (TA) projects for development finance institutions (DFIs) in its developing member countries (DMCs) in the Pacific.[15] ADB's past experience with Pacific DFIs has not been particularly successful. With few exceptions, these institutions engaged in directed lending were poorly managed, and piled up bad loans. The earliest TAs were provided to establish development banks in the small Pacific islands. Subsequent TAs were designed to strengthen institutions and build capacity in development lending, bad-debt management, accounting, and management information systems (MIS). More recent advisory TAs have mainly focused on business development and/or venture capital, corporate planning, and domestic resource mobilization. ADB's assistance in the future may be directed to reorient viable Pacific DFIs to provide microfinance and extension services, particularly in rural areas and the outer islands, to reduce poverty.

B. Scope of the Technical Assistance Performance Audit Report

2. This Technical Assistance Performance Audit Report (TPAR) covers eight advisory TAs approved in the 1990s, involving nine institutions in four Pacific DMCs—the Republic of Marshall Islands (RMI), Papua New Guinea (PNG), Samoa, and Vanuatu. These TAs are briefly described in Appendix 1. To make the TPAR valuable and relevant to ADB's future operations in Pacific DMCs, the choice of the TAs and DFIs covered has been guided by two principal considerations: (i) DFIs' potential development role in ADB's Pacific strategy and program; and (ii) DFIs' potential to help reduce poverty and develop the private sector. It is anticipated, however, that this evaluation's lessons will be generally relevant to all DFIs in Pacific DMCs.

3. Three of the advisory TAs covered by the TPAR were also evaluated by operational departments. The self-evaluation, contained in the relevant technical assistance completion reports, has been independently confirmed or modified by the TPAR, which has also reevaluated an advisory TA previously evaluated in 1996.[16]

1. Major Objectives of Technical Assistance

4. The selected TAs aimed to (i) build the capacity of the targeted institutions in areas such as business development, support of small enterprises, provision of extension services to small businesses, credit appraisal, portfolio management, and debt recovery;[17] (ii) review and upgrade organizations, systems, procedures, and manuals; (iii) review policy and prepare and/or implement corporate plans, business strategies, and resource mobilization plans; (iv)

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[15] ADB has provided 46 advisory TAs for a total of $9.2 million to DFIs in 11 Pacific DMCs.
[16] TPA: 1661-PNG: *Institutional Strengthening of Agriculture Bank of Papua New Guinea*, December 1996.
[17] In Samoa, the capacity building also covered central banking and monetary policy functions.

develop skills and provide training and advisors; and (v) improve portfolio quality.[18] Some of the TAs had a broad range of objectives and activities that went beyond the role and function of the DFI concerned. In such cases,[19] the TPAR evaluated only those components that applied to DFIs or had an impact on their business environment.

2. Approach and Methodology of Evaluation

5. In general, the TPAR is based on a review of relevant documentation, including review mission reports; data evidencing impact of TAs; and discussions with governments, DFIs, and other stakeholders. The TPAR assesses whether (i) TA design was appropriate to the TA's objectives and informed by the lessons of experience; (ii) TA inputs achieved the desired outputs; (iii) TA outputs were adequate and of sufficient quality to meet TA objectives; and (iv) consultants, governments, and executing agencies performed adequately. The TPAR particularly looks into the impacts and efficacy of the TAs in light of long-standing issues facing Pacific DFIs, including (i) high staff turnover, critical shortage of domestic managers, and continued dependence on expatriate advisors; (ii) debt-recovery problems; and (iii) difficulties in accepting communal land as security for bank loans. Finally, the TPAR visits the issue of sustainability of TA benefits in light of these problems as well as the geographical characteristics of Pacific DMCs.

6. The TPAR synthesizes the findings of the Operations Evaluation Mission (OEM)[20] on (i) TA objectives, design, scope, inputs and implementation, and outputs and impacts; (ii) sustainability of TA benefits; and (iii) TA lessons and issues. The eight TAs are evaluated individually in detail in Appendixes 2 to 7.

[18] Each TA has its own focus and so not all these objectives apply to all the TAs.
[19] TAs 2205-RMI, 2446-PNG, and 2989-SAM.
[20] The OEM comprised A. Qureshi, Senior Evaluation Specialist; R. Lumain, Senior Evaluation Analyst; and S. Mirza, Staff Consultant.

II. TECHNICAL ASSISTANCE FORMULATION AND IMPLEMENTATION

A. Objectives, Design, and Scope

7. Of the eight TAs under evaluation (i) six aimed to build capacity and/or restructure seven financial institutions—the Marshall Islands Development Bank (MIDB), Rural Development Bank of Papua New Guinea (RDB),[21] Development Bank of Samoa (DBS), Central Bank of Samoa (CBS), Samoa National Provident Fund (NPF), and National Bank of Vanuatu (NBV); and (ii) two aimed to strengthen the agencies responsible for promoting small business—the Marshall Islands Development Authority (MIDA) and Ministry of Research and Development (MRD) in RMI, and the Small Business Development Corporation (SBDC) in PNG. All these agencies sought to promote and finance small and medium private businesses. In Samoa, a component of TA 2989-SAM was targeted to strengthen the capacity of CBS in monetary management and prudential supervision.

8. The basic objective of all the TAs was institution building. In general, the rationale and concept of all the TAs were relevant and their objectives consistent with sector goals of the governments and ADB. At formulation, TA designs were appropriate and compatible with their objectives. However, some of the TAs could have been tailored to maximize the desired outputs and to better meet institutions' capacity-building needs. The three TAs to RMI illustrate this point (Appendix 2). The time to implement TA 1453-RMI proved to be inadequate and, as a result, staff training had some gaps. These shortcomings became the basis for a second TA to MIDB (TA 2204-RMI). However, ADB and MIDB management perceived its scope differently. MIDB management believed that improving its MIS should have been the TA's primary focus. The TA design also became irrelevant when MIDB decided to stop development lending and concentrate on recoveries. A midcourse review of the TA scope by mutual agreement among the government, ADB, and the consultant would have optimized TA benefits. Similarly, the purpose and structure of TA 2205-RMI were mismatched. This TA focused on developing and promoting small enterprises by providing business advisory services and improving the external environment. During its formulation, ADB and the RMI Government disagreed on the definition of small enterprises but eventually agreed that they meant enterprises with up to 50 employees. In the context of RMI's small economy, this definition was inappropriate and took the focus away from small enterprises (Appendix 2, para. 8). A more in-depth institutional analysis could have led to a TA design that was better attuned to MIDB's needs.

9. The design of TA 1661-PNG relied on on-the-job training of RDB staff but ignored the need to provide measures to check subsidized and behest lending, which was the main cause of RDB's portfolio problems (Appendix 3, para. 11). During the TA, it was uncertain whether RDB would be restructured as recommended by the consultants or merged with PNG Banking Corporation (PNGBC), which cast doubt on the efficacy of the training program formulated by the consultants. This situation called for a midcourse adjustment of the TA scope. A review of the correspondence suggests that considerable time was lost in reaching agreement on the needed adjustment because of ADB's reluctance to make a "major variation" in the TA (Appendix 3, para. 12). In the case of TA 2446-PNG, the design and scope were appropriate but

[21] Formerly known as the Agriculture Bank of Papua New Guinea.

consensus between ADB and SBDC on the implementation scheme took a long time to develop (para. 13).

10. In Samoa, even though the Government and ADB had adequate time to formulate TA 2989-SAM, during its implementation major and minor changes in the consultants' terms of reference (TORs) were required in relation to institution building of CBS.[22] One such change led to replacement of the liquidity management advisory component of the TA, compromising CBS's capacity building in using alternate instruments of indirect monetary control (other than issuance of CBS securities). However, ADB demonstrated flexibility and pragmatism in accommodating minor changes in TA scope. Some redundancy existed in the consultants' TORs and between TA components, which made it difficult to assess whether the consultants complied with their TORs (Appendix 4).

11. TA 2961-VAN was designed to strengthen NBV as a part of a comprehensive program to restructure and rehabilitate government financial institutions (GFIs). The TA aimed to develop a strategic plan for NBV, but its design did not consider the need for measures to sustain development lending activities of the Development Bank of Vanuatu (DBV) following its merger into NBV. As a result, NBV has not maintained supply of credit to small businesses and farmers. The consultants' TORs also did not fully address the key issues of the critical shortage of skilled ni-Vanuatu[23] bankers, and financing arrangements for nonperforming loans (NPLs) of GFIs transferred to the Asset Management Unit (AMU; Appendix 6, paras. 3–4).

12. All the TAs, except 2204-RMI (para. 8), were formulated with adequate participation of the governments, executing agencies (EAs), and beneficiary institutions, and were generally owned by them.

B. Engagement of Consultants

13. The engagement of consultants in all the TAs was generally satisfactory and in line with ADB's *Guidelines on the Use of Consultants*. The consultants were selected with full participation of the governments and EAs. However, in the case of TA 2446-PNG, while the minutes of understanding of the TA Fact-Finding Mission had foreseen the need for services of a consulting firm operating in PNG to ensure back-up services for hardware maintenance, the TA as approved provided for only two individual consultants. After protracted negotiations between ADB and SBDC, a consulting firm was engaged but the input for the consulting work was reduced from 270 to 160 person-days. The consulting firm, however, had agreed to deliver the services according to the TORs within the reduced input and would have done so but for a subsequent Government decision to close down SBDC (Appendix 5). The OEM has not found any evidence that the change in the original plan to engage a consulting firm was made by agreement of all concerned, i.e., the Government, SBDC, and ADB. The main intended output of the TA was an integrated accounting system and MIS. Since the implementation scheme based on hiring individual consultants did not provide for a team leader to coordinate TA inputs and outputs under the accounting and MIS components, engagement of a firm was desirable to ensure the TA's smooth implementation. A quick resolution of the issue, therefore, would have considerably reduced an avoidable delay in the start-up of the TA and optimized its output.

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[22] This TA was formulated in conjunction with Loan 1608-SAM(SF): *Financial Sector Program*, for $7.5 million, approved on 19 February 1998.

[23] "ni-Vanuatu" means a citizen of Vanuatu.

C. Technical Assistance Inputs and Implementation

14. Because of front-end delays, six of the eight TAs were completed behind schedule. Once the consultants were recruited, implementation was in accordance with the timeframes specified in the consulting contracts, except for TA 2446-PNG, which was shortened following the reduction of the consultants' person-days (para. 13). All TAs were completed within their original cost estimate and budget. The consultants complied with their TORs in varying degrees of success. There were shortcomings in the consultants' work under TA 1453-RMI (insufficient amendments to the MIDB Act and inadequate training); TA 2204-RMI (poor implementation of computerized MIS); and TA 2989-SAM (incomplete portfolio reviews of DBS and NPF) [24].

15. TA 2446-PNG was approved in November 1995 and scheduled to be completed by June 1996. However, actual implementation was delayed considerably. Although the TA agreement was signed in May 1996, implementation got under way only in January 1998 due to the delay in engagement of consultants. Implementation was slowed further when the selected consulting firm changed project personnel. In November 1998 the Government closed down SBDC and transferred some of its assets and services to other agencies, resulting in the suspension and eventual termination of TA activities in March 1999. By then, all the computer hardware had been procured and accounting system software developed and substantially installed. MIS software had been developed considerably but not enough to be delivered. The TA could have been completed if not for the long front-end delay.

D. Performance of the Asian Development Bank

16. ADB's performance in TA administration was mixed. A joint inception mission was fielded to start implementing TA 2989-SAM and the Financial Sector Program Loan (FSPL), followed by three review missions, which helped smoothen the progress of the TA and loan. No review missions were fielded for TAs 2446-PNG and 1453-RMI, while one review mission each was fielded for the remaining five TAs. In most cases, ADB accommodated changes in TA activities proposed by the EAs. However, quicker responses in the case of TA 1661-PNG and TA 2205-RMI would have optimized TA outputs, efficacy, and impacts. ADB did not hold tripartite meetings to discuss draft final reports with consultants, EAs, and/or government officials in any of the DMCs except Samoa. More intensive administration could have improved the quality of the outputs of TA 1453-RMI, particularly amendments to the MIDB Act and policy guidelines, and conversion of the Government's contribution into MIDB's paid-in capital.

E. Performance of Governments and Executing Agencies

17. The organization and management of the TAs was generally satisfactory. The EAs fully supported the consultants. Adjustments in TORs and implementation arrangements were usually accommodated without much difficulty. However, in the case of TA 2205-RMI, the Government did not clearly define and maintain the role of MIDA and MRD in small-enterprise

[24] TA 2989-SAM is complete in all aspects except that the framework for prudential supervision of nonbank financial institutions is expected to be finalized by February 2002.

development and did not ensure that the staff trained under the TA was retained by these agencies. Similarly, the abrupt closure of SBDC and its subsequent revival with reduced mandate seriously compromised the output and sustainability of TA 2446-SBDC.

III. EVALUATION OF OUTPUTS AND IMPACT

A. Adequacy and Quality of Reports and Services Provided

18. The consultants generally prepared adequate and, in some cases, fairly detailed reports. The consultants also prepared detailed manuals on operations and procedures for MIDB, RDB, as well as GFIs in Samoa. The consultants for TA 2989-SAM submitted detailed reports, which were useful for follow-up on implementation and for reference purposes. However, the consultant under TA 2446-PNG did not prepare a separate report, perhaps because the TA was preterminated after the Government closed down SBDC (para.15).

19. The strategic plan to rehabilitate GFIs and transfer their NPLs to the AMU under TA 2961-VAN was appropriate and easily implemented, and enabled the restructured NBV to operate profitably. However, the TA did not address the long-standing management and staffing problems of the domestic banking sector. The advisory services provided under various components of TA 2989-SAM were particularly beneficial in building CBS's capacity. In other cases, the quality of consultants' services was less than satisfactory. The consultants for MIDB under TA 1453-RMI shifted the emphasis of the training from project analysis to basic accounting and development banking. The gap had to be filled by TA 2204-RMI. MIDB management considered the corporate plan prepared by the consultants to be too ambitious and not in accord with MIDB's expanded mandate covering the housing loan program, which affected MIDB's ownership of the corporate plan. The consultants under TAs 2204-RMI and 1661-PNG did not respond in a timely manner to the need for a change in training emphasis from appraisal to project supervision and monitoring after MIDB discontinued development lending activities and RDB shifted its focus to rural banking. The consultants under TA 2205-RMI concentrated on business surveys and identification of medium-sized and larger projects in export-oriented sectors, such as fishing and tourism, rather than on small enterprises as required under the TORs. Finally, the consultants did not complete portfolio reviews of DBS and NPF under TA 2989-SAM. The performance of consultants under other TAs was satisfactory, complied with the TORs, and had a significant impact on institutions.

B. Training

20. Training of EA staff was an essential component of all the TAs. The consultants' performance was mixed. Training under TAs 1399-SAM and 2989-SAM was particularly effective. The scope of training under four TAs had to be changed due to (i) limitations on the staff's absorptive capacity (TAs 1453-RMI and 2205-RMI) and (ii) changes in roles and mandates of the institutions (TAs 2204-RMI and 1661-PNG). The consultants generally made these changes without much difficulty and the revised training program worked well for the EAs, except under TA 1661-PNG as ADB took considerable time to concur with the changes in scope of training, and under TA 1453-RMI, which left gaps in training in project appraisal and supervision. In general, the TAs to DFIs emphasized project supervision and monitoring, particularly handling problem projects and the loan recovery system, since almost all the DFIs had high default ratios on their loan portfolios.

C. Institution Building

21. All the TAs had institution building as their main objective and achieved it with varying degrees of success in terms of quality of outputs, overall impact, and sustainability. The two TAs to MIDB involved assessing the adequacy of the MIDB Act, drafting policy guidelines, formulating a five-year operational strategy and corporate plan, drafting systems and procedures manuals, and training staff, covering almost the entire range of operations of a development bank. The TAs had a significant impact on MIDB, contributing to its institution-building efforts. The same was true for RDB in PNG, albeit with some delay. The RDB management gradually adopted and implemented various recommendations of the consultants embodied in the corporate plan. DBS in Samoa also benefited from a new corporate plan, organizational changes, staff training and institutionalized training arrangements, and introduction of new procedures and manuals. The TA to strengthen GFIs in Samoa (CBS, DBS, and NPF) also had a significant impact on these institutions. CBS has become better equipped to perform its central banking functions, has institutionalized its own corporate planning and output budgeting systems, and is exercising effective prudential supervision over banks. The TAs also helped DBS and NPF improve their corporate planning, credit appraisal procedures, investment guidelines, project supervision, handling of bad loans, and loan-loss provisions.

22. In other institutional development aspects, however, some of the TAs have been less than successful. MIDB could not learn the skills of corporate planning because it did not adopt the plans recommended by the consultants under the two TAs. Institution-building efforts of the consultants under TAs 2205-RMI and 2446-PNG became irrelevant when the role of the beneficiary institutions was changed radically. TA 2989-SAM left gaps in identifying for CBS the sources of financing the cost of operating indirect monetary instruments, and in outlining a resource mobilization strategy for DBS.

D. Sustainability of Technical Assistance Benefits

23. Even though most of the TAs evaluated were well designed and satisfactorily implemented, their end results in terms of efficacy and sustainability were mixed. DBS derived and sustained substantial benefits from TA 1399-SAM in the form of a streamlined and functionally efficient organization, the beginning of a systematic corporate planning process, an improved and computerized MIS, and progress in rehabilitating the institution on a self-sustaining basis (Appendix 7). TA 2989-SAM has been beneficial to all three GFIs (CBS, DBS, and NPF) and helped adapt the corporate plan and operational strategies of DBS and NPF to Samoa's liberalized financial environment. Accordingly, the GFIs' loans are now priced at market-based, risk-adjusted interest rates. The TA has also helped improve the GFIs' collection performance and reduce bad debt expense. However, provisioning policies have yet to be tested under a rigorous prudential supervision regime. DBS did not benefit from the formulation of a viable resource mobilization strategy.

24. TA 2989-SAM has significantly enhanced the governance capacity of CBS, which now uses indirect measures to control money supply. The TA has also institutionalized on a sustainable basis performance-based corporate planning and budgeting in CBS in line with ongoing public sector reforms, and enhanced CBS's transparency and accountability. However, the benefit of the TA in the design and implementation of a sound regime of prudential

supervision of NBFIs is not yet apparent, since this activity will only be completed in February 2002. The TA was deficient in devising a system of financing the cost of servicing CBS securities.

25. The major objective of TA 2961-VAN—restructuring and rehabilitating GFIs—was substantially achieved. It helped rehabilitate and reestablish NBV on sound footing. Its current operations reflect prudent commercial banking practices, and its financial position is steadily improving. NBV has been profitable since the transfer of NPLs to the AMU in 1998, if at the cost to small enterprises, particularly in rural areas. NBV has practically stopped lending to such enterprises, since this involves higher risk and administrative cost. The TA also did not address the long-standing management and staffing problems of the domestic banking sector. As a result, NBV will continue to be dependent on expatriate managers, which may not be financially sustainable in the long run. NBV operates on a tight budget, which means that cost saving is as necessary as generating operating income. NBV is the weaker of the three commercial banks in Vanuatu, which include two foreign banks, and the success factors for its long-term viability include operational streamlining and cost efficiency, sustained high quality of loan portfolio, development and retention of competent ni-Vanuatu staff, and eventual replacement of expatriate by local management (Appendix 6).

26. Despite a number of desired outputs, the benefits of institutional strengthening of RDB and SBDC in PNG, and MIDB and MIDA in RMI have not been fully sustained. Although TA 1661-PNG contributed significantly to RDB's capacity building, it did not institutionalize sustainable training arrangements, nor did RDB sustain the benefits of staff training. RDB has not even maintained a record of TA-trained staff members, some of whom may have been retrenched or left the institution on their own. The corporate plan prepared under the TA has still not been fully implemented. RDB's operations have been greatly curtailed due to lack of government funding, and its future remains uncertain because of unclear government policy. An example of indecisiveness of the Government is that it first appointed a common board of directors to RDB and PNGBC and then made both institutions subsidiaries of a holding company (Finance Pacific), signaling an intention to merge the two institutions, which did not materialize.

27. In the case of SBDC, the TA benefits have been substantially lost because the Government wound up the corporation in November 1998. Although the new Government subsequently revived SBDC, its mandate was substantially reduced and did not include lending activities. The computerized accounting system designed under the TA did not fit SBDC's reduced mandate and, therefore, remains unused. SBDC did not receive the MIS software from the consultants, presumably because the TA was preterminated following the decision to close SBDC. Thus, its only benefit from the TA was computer hardware (Appendix 5).

28. MIDB's five-year operating strategy and corporate plan prepared under TA 1453-RMI were never implemented. MIDB's management and staff were not taken into full confidence on the main thrust of these documents. This meant that the plan lacked ownership by those who were supposed to implement it. The assumptions underlying the plan were also ambitious and could not have been implemented without considerable promotional work. MIDB's management and staff were neither familiar nor trained to undertake it. Institution-building activities during the subsequent TA 2204-RMI were not fully consistent with MIDB's new operational focus on consumer lending (including housing loans) and discontinuation of development lending. Nonetheless, this TA contributed significantly to reducing Government interference in operations of MIDB and making it an autonomous institution under the supervision of an independent board

of directors. However, sustainability of TA benefits remains in doubt as MIDB cannot raise the resources to resume development lending (Appendix 2). The benefits of TA 2205-RMI have also been substantially lost. The TA had envisaged MIDA to be at the forefront of developing and promoting small enterprises, but it did not take on this role, and staff trained under the TA is no longer assigned to MIDA or the Trade and Investment Division of MRD, which is responsible for promoting small enterprises.

IV. CONCLUSIONS

A. Overall Assessment

29. The TAs' main objectives were (i) to strengthen DFIs and other organizations that develop, promote, and finance small business; and (ii) to build CBS's capacity in monetary management and prudential supervision, and enhance NPF's institutional capacity in general. The objectives were generally consistent with sector goals of the governments and ADB. At formulation, designs of the TAs were appropriate and compatible with their objectives. However, the following design flaws are discernible: (i) inadequate implementation time provided for TA 1453-RMI; (ii) underestimation of MIDB's MIS needs under TA 2204-RMI; (iii) ambiguous definition of small enterprises and scope of TA 2205-RMI; (iv) lack of upfront measures to mitigate loss of development lending by DBV after its closure under TA 2961-VAN; and (v) inadequate assessment of CBS's capacity-building needs and lack of clear division of responsibility between individual consultants handling different components under TA 2989-SAM.

30. TA inputs were inadequate in five out of eight TAs evaluated: 1453-RMI (amendment of the MIDB Act and training), 2204-RMI and 2446-RMI (computerized MIS), 2205-RMI (small-enterprise development), and 1661-PNG (training). Inputs under the remaining three TAs were adequate. In terms of outputs, impacts, and achievement of goals, TA outcomes have also been mixed. The TAs to rehabilitate DBS (1399-SAM) and to strengthen institutional capacity of GFIs in Samoa (2989-SAM) have been largely successful despite inadequacies in identifying means to finance the cost of issuing indirect monetary instruments, development of alternative monetary control instruments, and resource mobilization strategy for DBS. Overall, institutional capacity of CBS has been substantially enhanced, and DBS and NPF have benefited substantially. NBV has been successfully rehabilitated under TA 2961-VAN. These three TAs were thus successful. TAs 1453-RMI, 2204-RMI, and 1661-PNG—covering MIDB in RMI, and RDB in PNG—were only partly successful. The two TAs to promote small enterprises in RMI and PNG (2205-RMI and 2446-PNG) did not achieve their objective and are considered unsuccessful. The small benefits that accrued to RMI from business surveys and feasibility studies conducted by the consultants, and to SBDC in the form of hardware obtained with TA funds have not been cost-effective.

31. Table 1 summarizes the evaluation of TAs covered by the TPAR:

Table 1 : Summary of Evaluation

TA	Beneficiary	Design	Inputs Rating	Implementation	Outputs Rating	Impact	Overall
1453-RMI	MIDB	++	++	++	++	++	PS
2204-RMI	MIDB	++	++	++	++	++	PS
2205-RMI	MIDA	++	++	++	++	+	US
	MRD	++	++	++	++	+	
1661-PNG	RDB	++	++	++	++	++	PS
2446-PNG	SBDC	+++	++	++	+	+	US
1399-SAM	DBS	+++	+++	+++	+++	+++	S
2989-SAM	CBS	++	+++	+++	+++	+++	S
	DBS	+++	+++	+++	+++	+++	
	NPF	+++	+++	+++	+++	+++	
2961-VAN	NBV	++	+++	+++	+++	+++	S

+ = limited achievement/inappropriate, ++ = partly achieved/partly appropriate, +++ = substantially achieved/appropriate, S = successful, PS = partly successful, US = unsuccessful.
Source: Operations Evaluation Mission.

32. The most important factors that contributed to the success of TAs 1399-SAM, 2989-SAM, and 2961-VAN were (i) government commitment and clear policy direction; (ii) institutional autonomy, particularly in the choice of borrowers and setting interest rates within a liberalized and competitive financial sector environment; (iii) competent management; and (iv) sound credit policies. The most important factor behind the unsuccessful performance of TAs 2205-RMI and 2446-PNG was that the governments did not maintain institutional arrangements critical to small-enterprise development.

B. Lessons Learned

33. The TAs were formulated and implemented in environments that were not identical but had many common elements. This permits a synthesis of the evaluation. The lessons from these TAs are useful for ADB and governments in charting the course for beneficiary institutions. The first major lesson is that, to the extent that the problems confronting the institutions are already known, and to the extent that their resolution requires policy changes by the government, it is desirable to obtain, during TA formulation, a confirmation that the government is indeed willing to implement difficult policy decisions. A related lesson is that TA outputs conditioned on anticipated or recommended policy change should be produced early on. Thus, an upfront commitment of the PNG Government to give RDB operational autonomy and liberalize interest rates would have been more useful than repeating these concerns in the corporate plan. MIDB’s rehabilitation depended as much, if not more, on insulating its lending activities from government interference and political influence as on removing institutional weaknesses. Similarly, in Samoa, the benefit of liberalizing interest rates cannot be fully realized unless GFIs are subjected to the same prudential norms as those applied to commercial banks.

34. Another important lesson is that TAs can be implemented more efficiently if changes in their scope and implementation arrangements are dealt with flexibly and pragmatically. In the case of TA 2989-SAM, for example, changes were made in the consultants' TORs. CBS credits the success of the TA to, among other factors, ADB's flexibility in agreeing to these changes. In the case of TA 1661-PNG, TA outputs could have been optimized had ADB and RDB quickly reached agreement on midcourse changes in TA scope. Similarly, TA 2204-RMI could have been more efficacious if ADB and the consultants had accommodated MIDB's request to divert consultant inputs from the review of the operations manual (which, in any case, was not used because development lending was stopped) to computerization of MIS. Better understanding with consultants and institutions at the inception stage could have facilitated such midcourse adjustments. It is also desirable to provide some built-in flexibility in consultants' TORs and allocation of budget for various TA components. At the same time, careful attention to detail is required during TA design and formulation to obviate the need for major midcourse changes. One such change was the addition of an information technology component under TA 2989-SAM, which was accommodated at the expense of the liquidity management advisory component (para. 10).

35. A third lesson highlights the importance of maintaining critical institutional arrangements existing or envisioned at TA formulation. The closure of SBDC in PNG and the failure of MIDA and MRD in RMI to continue small-enterprise development are illustrative cases in point. Active follow-up by ADB and the government is necessary to ensure that the capacity built by the TA is put to good use. For this purpose, tripartite discussions on TA outputs and active post-completion follow-up could have been useful. For instance, such actions would have helped implement the five-year operating strategy and corporate plan prepared under TA 1453-RMI, and sustain MIDA's capacity for small-enterprise development under TA 2205-RMI.

C. Key Issues

36. The most important challenge for Pacific DFIs is to sustain themselves as commercially viable institutions while meeting the credit needs of small and rural enterprises. None of the institutions receiving TA accomplished this although some performed better than others. By far the most serious problems are those faced by RDB in PNG (para. 26). Government policy toward RDB has lacked clarity and consistency, and RDB's future remains uncertain. The Government has stopped further funding of RDB, which is unable to raise resources on its own. Since RDB will find it difficult to survive for much longer under these conditions, the Government needs to decide soon whether RDB is to be recapitalized and rehabilitated or wound up or privatized.

37. MIDB in RMI has abandoned development lending and operates in the less risky consumer and housing loans market, thus substantially changing its nature but not sufficiently to restore its financial strength and ensure long-term sustainability. MIDB is competing with commercial banks in the consumer finance market but, with an annual turnover of only about $3 million, its operational activities will remain limited. MIDB insists that it has suspended, not given up, development lending; however, the fact is that MIDB will remain unable to operate as a development bank, given its resource constraints. MIDB should thus redefine its role. If not, then it may be worth considering merging MIDB with the Government-owned commercial bank, the Bank of Marshall Islands. The merged bank could be a stronger institution capable of offering a

wider range of banking services and would have a better outreach and good prospects of privatization. However, if MIDB's development lending is to be revived, the bank will require a fresh infusion of capital.

38. The main problem of DBS in Samoa, given the lack of transparency of its portfolio quality, and perceptibly inadequate loan-loss provisions, is its long-term sustainability as a viable financial institution in the liberalized and competitive financial environment. To a lesser extent, these concerns also apply to NPF. In order to be able to mobilize resources independently, DBS should bring its portfolio quality and capital adequacy up to par with those of a sound commercial bank. Otherwise, in the absence of a feasible resource mobilization strategy, DBS will continue to depend on government help and credit lines from institutions such as the European Investment Bank and the ADB. DBS and NPF should also be subjected to the same prudential regulations on loan classification and provisioning that apply to commercial banks. DBS has argued for softer provisioning requirements because it serves the credit needs of small businesses, which the commercial banks do not finance. It is conceivable that once subjected to a more rigorous provisioning standard, DBS may not remain profitable.

39. Finally, the Development Bank of Vanuatu was closed down and the new NBV makes only collateral-based loans while credit needs of small enterprises and agricultural sectors remain grossly underserved. NBV's long-term sustainability will also depend on development of ni-Vanuatu management, for which no plans seem to have been put in place as yet.

40. The DFIs' key role is providing loans to urban and rural small enterprises, particularly in the agriculture sector, where collateral-based lending is difficult due to the customary land-holding system, and lending without collateral is highly risky. The governments have not allowed the DFIs to charge market-based and risk-adjusted interest rates when lending to small enterprises. As the administrative cost of handling these loans is very high, the DFIs find it difficult to undertake viable development lending. It cannot be overemphasized that loans are needed to improve the productivity and income levels of small enterprises and the rural sectors to eradicate poverty. Solving these problems remains a formidable challenge for governments, DFIs, and development institutions such as the ADB.

D. Follow-Up Actions and Recommendations

41. To improve the viability and sustainability of operations of DFIs in the Pacific DMCs, governments should ensure the following:

(i) DFIs should be financially sound and capable of raising resources on their own.

(ii) DFIs should be allowed operational autonomy and freedom from political interference and influence.

(iii) DFIs should be professionally managed and have adequate numbers of skilled staff.

(iv) DFIs should be provided a conducive financial sector environment where interest rates are based on market conditions and transaction risks.

(v) Once DFIs have the right macro environment, operational freedom, and financial strength, governments should expose them to a rigorous prudential regulations regime, subjecting them to financial discipline and holding them accountable for poor credit decisions.

42. DFIs' major challenge is to manage rural lending risks, mainly loan defaults due to lack of collateral because of the customary land-holding system. Governments should study this problem and all its implications to find a regional solution suited to the cultural and socioeconomic conditions of the Pacific DMCs. ADB may consider providing a regional TA to convene a result-oriented workshop or roundtable of senior government officials, DFI representatives, and communal leaders to debate the issue and consider alternate solutions. ADB may then provide advisory TA to implement the policy and legal changes in the participating DMCs.

43. Another problem is the high administrative cost of handling a large number of small and widely dispersed loans. In theory, these costs are recoverable through higher interest rates. However, it is doubtful that small rural businesses can afford to absorb DFIs' loan administration costs. The governments may have to recognize such costs as a continuing social obligation to achieve poverty reduction and other development goals, and find a practical way to compensate DFIs without creating distortions in the financial environment. A possible way to achieve this goal is to provide DFIs with one-time grant funds on the basis that income generated on such funds would be sufficient to meet the reasonable cost of administering rural loans.

44. ADB should remain involved in the financial sectors of the Pacific DMCs at two levels. First, ADB should conduct policy dialogue with governments to create the proper environment for DFIs through measures that may include (i) allowing transferable medium- and long-term leases over communal land; (ii) choosing between closing down, privatizing, merging, or recapitalizing underperforming DFIs; (iii) liberalizing interest rates; and (iv) finding enduring solutions to meet high administrative costs of servicing a large number of small, particularly rural, customers. Second, ADB should assist DFIs that operate in a conducive policy environment and meet minimum eligibility criteria (para. 41). Few DFIs covered by this study, such as NBV and DBS, meet these criteria. However, both institutions have yet to demonstrate their ability to sustain rural lending while remaining financially viable.

45. Based on the foregoing, the recommendations of the OEM are summarized below.

Policy Area	Recommended Action	Responsibility	Time Frame
1. Development of a regional framework for collaterization transfer of usage right of communal land	1. Convene a roundtable of government officials, DFI representatives, and communal leaders to debate and decide on the required changes in policy and legal framework.	1.1 ADB's Pacific Department to consider providing a regional TA to finance the cost of the roundtable	June 2003
		1.2 ADB's Pacific Department to consider providing advisory TAs to individual Pacific DMCs to help implement the roundtable recommendations	December 2003
		1.3 Pacific DMCs to enter into agreements and understandings with ADB to demonstrate commitment to overcome the problem	December 2003
2. Clarification of government policy	2.1 Clarify the future role and responsibility of RDB, SBDC, and MIDB	2.1 Governments of PNG and RMI	2002
	2.2 Provide complete operational autonomy to RDB, including authority to choose borrowers and set interest rates.	2.2 Government of PNG	2003
3. Improvement of resource capacity of DFIs	3. Either recapitalize RDB or privatize it within an agreed-upon deadline.	3. Government of PNG	2003
4. Financing cost of servicing small and rural borrowers	4. Provide DBS, NBV, MIDB, and RDB one-time grants to enable them to generate sufficient recurring income to absorb the cost of administration of small and rural loans.	4. Governments of Samoa, Vanuatu, RMI, and PNG	2003
5. Prudential supervision of DFIs	5. Apply the same prudential regulations on portfolio and provisioning to DFIs as those applied to commercial banks under acceptable international standards.	5. Governments of PNG (for RDB) and Samoa (for DBS and NPF)	2002

APPENDIXES

PROJECTS COVERED BY THE TECHNICAL ASSISTANCE PERFORMANCE AUDIT REPORT

	Amount ($)	Date of Approval	Description
Republic of Marshall Islands			
TA 1453-RMI	220,000	26 Dec 90	**Institutional Strengthening of the Marshall Islands Development Bank** The main objectives of the technical assistance (TA) were to (i) review and recommend, if necessary, any revisions to the Marshall Islands Development Bank (MIDB) Act, By-Laws, and Statement of Policies and Guidelines; (ii) help MIDB prepare a five-year operating strategy and corporate plan for FY1991–FY1995; (iii) prepare appropriate accounting, systems, and credit management manuals; (iv) familiarize MIDB staff with and assist them in implementing the systems and procedures under item (iii) when adopted; (v) provide inhouse training to MIDB staff based on an assessment of their current level of professional skill; and (vi) prepare a brief feasibility study for the establishment of a MIDB branch in Kwajalein.
TA 2204-RMI	202,000	23 Nov 94	**Institutional Strengthening of the Marshall Islands Development Bank—Phase 2** The main objectives of this six-person-month advisory TA were to (i) further strengthen the institutional capacity of MIDB to operate in accordance with sound development banking principles; and (ii) formulate a plan covering financial, business development, staff training, and resource planning aspects to support MIDB's lending program for private sector development. To achieve these objectives, the TA consultants were to perform the following tasks: (i) provision of inhouse and on-the-job training to MIDB staff to strengthen their knowledge in project appraisal and supervision using the Operating Manual; (ii) initiating review and, if necessary, updating the Operating Manual; and (iii) helping MIDB prepare an updated corporate plan and operating strategy for 1995–1999.
TA 2205-RMI	297,000	23 Nov 94	**Small Enterprise Development** The Government's Second National Development Plan assigned priority to the development of small enterprises, especially in the outer islands, to achieve equitable regional and social development. The TA's primary objectives were to (i) identify ways to improve the external environment for small enterprises and (ii) strengthen the capacity of the Ministry of Resources and

	Amount ($)	Date of Approval	Description
			Development and Marshall Islands Development Authority (MIDA) in the area of project appraisal and supervision to ensure continuity of assistance provided to new entrepreneurs and to existing small enterprises intending to expand operations. The TA envisaged providing advisory services and training to owners, operators, and employees of existing and new small enterprises in business skills. In addition, a module was to be provided to Government staff for project appraisal and implementation skills. Different possibilities of channeling funds to small enterprises were to be assessed and an appropriate credit delivery mechanism recommended. The TA was also to examine various mechanisms to link producers in the outer islands with markets and buyers in the two main economic centers and recommend alternative means of transporting freight between the outer atolls and the main economic centers.
Papua New Guinea TA 1661-PNG	582,000	15 Jan 92	**Institutional Strengthening of Agriculture Bank of Papua New Guinea** The main objectives of the TA were to strengthen institutional and operational aspects of the Rural Development Bank (RDB, formerly the Agriculture Bank of Papua New Guinea), and to enhance the skills of its national staff by providing on-the-job training in project promotion, identification, appraisal, processing, implementation, and monitoring. The TA scope included (i) review and improvement of institutional and operational procedures manuals and management information systems (MIS); (ii) enhancing RDB's loan portfolio quality through improved collection and reduction of arrears; (iii) preparing a corporate plan, including detailed implementation strategies; (iv) recommending the implementation of an integrated and computerized MIS; (v) exploring new avenues of resource mobilization and business development; and (vi) improving RDB's structure and internal efficiencies.
TA 2446-PNG	255,000	16 Nov 95	**Small Business Development Corporation Accounting and Management Information Systems** The Government established the Small Business Development Corporation (SBDC) to promote indigenous entrepreneurs and to provide a focal point of communication, giving small business a voice within the Government, and disseminating information about and to small business. SBDC was also to provide direct assistance to and training for small-scale entrepreneurs through various loan and guarantee schemes. The purpose of the TA was to help enhance the ability of SBDC to monitor and manage its activities by establishing an efficient computerized accounting system and MIS, and training SBDC staff and future trainers in the use of these systems.

	Amount ($)	Date of Approval	Description
Samoa TA 1399-SAM	203,000	25 Oct 90	**Rehabilitation of the Development Bank of Western Samoa**[a] The main objectives of the TA were to develop a format for future operations of the Development Bank of Samoa (DBS) to reorient the institution along more commercial lines, and to upgrade its computer system.
TA 2989-SAM	950,000	19 Feb 98	**Institutional Strengthening of Government Financial Institutions** The TA aimed to help the Government manage the financial sector reform program by strengthening the institutional capacity of Central Bank of Samoa (CBS), Samoa National Provident Fund (NPF), and DBS. The TA consisted of seven components: (i) building the capacity of CBS to apply indirect instruments of monetary policy by developing a liquidity management framework and designing instruments to supplement the auctions of CBS securities; (ii) institutional strengthening of CBS and providing it with a secure long-term income stream; (iii) helping CBS develop a plan to remove remaining foreign exchange controls; (iv) strengthening the prudential framework by developing prudential standards for nonbanks and implementing an onsite examination system; (v) undertaking a detailed feasibility study for domestic resource mobilization by DBS, including an assessment of the potential for issuance by DBS of its own securities, to increase DB's market orientation; (vi) enhancing the credit appraisal, portfolio management, and debt-recovery capabilities of DBS and NPF; and (vii) introducing and developing investment management capability in NPF.
Vanuatu TA 2961-VAN	150,000	12 Dec 97	**Strategic Plan for the National Bank of Vanuatu** The objectives of the TA were to (i) help the Government develop a restructuring and business development plan for the National Bank of Vanuatu, taking into account its mandate to service the banking needs of the ni-Vanuatu, especially in rural and remote areas, and the need to remain commercially viable on a sustained basis; and (ii) initiate a development program to address the critical shortage of technical skills, particularly in credit appraisal, credit supervision, and debt recovery.

[a] The name was subsequently changed to Development Bank of Samoa.

EVALUATION OF TAs 1453-RMI AND 2204-RMI: INSTITUTIONAL STRENGTHENING OF THE MARSHALL ISLANDS DEVELOPMENT BANK (MIDB-1 AND MIDB-2) AND TA 2205-RMI: SMALL ENTERPRISE DEVELOPMENT

A. Background

1. Rationale and Concept

1. The economy of the Republic of Marshall Islands (RMI) has a limited productive potential and is dominated by a semi-subsistence sector largely based on copra production. The Marshall Islands Development Bank (MIDB) was set up to finance viable development projects. To strengthen MIDB capacity to do so, the Government requested Asian Development Bank (ADB) technical assistance (TA) in 1990 and again in 1994, resulting in the approval of TAs 1453-RMI and 2204-RMI, respectively.[1]

2. The TA for small enterprise development (TA 2205-RMI)[2] was intended to assist the sustainable development of the private sector, particularly small enterprises which had been constrained by lack of business skills, restricted access to financing, and limited marketing and logistic structures. The need for this TA arose from a high failure rate of small businesses against a backdrop of Government's policy to foster growth and create jobs, especially in the outer islands, by promoting small scale-scale industry.

2. Objectives and Scope

3. The main objectives of the two TAs for MIDB were (i) to strengthen its institutional capacity to operate on sound development banking principles and (ii) develop the private sector. Since MIDB was a nascent institution, the TAs had to reassess and redefine the bank's objectives and mandate, develop operational strategies, formulate corporate plans, and provide institutional support to implement these strategies and plans. The scope of the TAs included preparing operations manuals for loan processing and monitoring, reviewing management information system (MIS), identifying training needs, and designing and conducting a training program for MIDB staff. TA 1453-RMI provided for preparation of a feasibility study for the establishment of a branch in Kwajalein, and for the services of senior development banking and accounting specialists for a total of nine person-months. The consultants were to have experience at the senior management level in development finance institutions, with some training experience in small island economies.

4. TA 2204-RMI provided for the services of a development banking expert for six person-months. When the TA began in January 1996, MIDB was already in deep financial crisis. Almost all of MIDB's large development financing and commercial loans, provided largely at the behest of Government, had failed. The liquidity and resource position of MIDB was seriously impaired. It was practically unable to undertake any development financing and by September 1995, had stopped all such activities and decided to start consumer financing. These developments

[1] TA 1453-RMI: *Institutional Strengthening of the Marshall Islands Development Bank,* for $220,000, approved on 26 December 1990. TA 2204-RMI: *Institutional Strengthening of the Marshall Islands Development Bank-Phase 2,* for $202,000, approved on 23 November 1994.
[2] TA 2205-RMI: *Small Enterprise Development*, for $297,000, approved on 23 November 1994.

significantly altered MIDB's perspective and role and prompted the bank to seek a change in the scope of work under the TA with primary emphasis on making the new MIS fully operational. As a result, ADB approved a two-week extension in the TA to provide the services of an expert on banking MIS. The staff training program was refocused to emphasize handling problem projects.

5. The Government's Second National Development Plan emphasized regional and social development through the development of small enterprises, particularly in the outer islands. The primary objective of TA 2205-RMI was thus to identify ways to improve the external environment for small enterprises and strengthen the capacity of the Ministry of Resources and Development (MRD) and Marshall Islands Development Authority (MIDA) in project appraisal and supervision to ensure continuity in assistance to potential and existing small entrepreneurs. Under the TA, a total of 21 person-months of consultant services were to be provided to (i) train owners, operators, and employees of established and new small enterprises in business skills, and (ii) develop a module for training potential entrepreneurs. Government staff were to be trained to improve their project appraisal and implementation skills. Consultant services were also required to assess possibilities of channeling funds to small enterprises and recommend a mechanism to deliver credit. Finally, the TA scope included (i) examination of various mechanisms to link producers in the outer islands with markets and buyers in the two main economic centers, and (ii) recommendation of alternative means of transporting freight to and from the outer atolls.

B. Assessment of Implementation Performance

1. TA Design

a. TAs for Institutional Strengthening of the Marshall Islands Development Bank

6. The scope of TA 1453-RMI included (i) review of the MIDB Act, policies, and guidelines; (ii) preparing a five-year operational strategy and corporate plan, and accounting, systems and credit manuals; (iii) training staff in-house to implement these systems and; (iv) preparing a brief feasibility study for setting up an MIDB branch on Kwajalein island. The objectives of the TA were relevant considering MIDB's status and need for institutional strengthening. The Government and MIDB management lacked development banking experience, and the Government directed MIDB's day-to-day lending operations without providing the bank with policy guidelines or regulations. MIDB needed systems, procedures and manuals both for implementation and training, and management and staff needed training to develop their project appraisal and supervision skills. The TA was designed to meet these needs, and the terms of reference (TORs) of the consultants spelled out these aspects clearly. Government and MIDB officials were involved in the TA design and formulation of the TA. However, the consultants' time to complete these tasks was inadequate; and so a second TA largely covering the same areas was needed (para.7).

7. The main objective of the second TA (2204-RMI) was to further strengthen MIDB's institutional capacity to operate in accordance with sound development banking principles. The TA covered three major areas: (i) preparation of an operational strategy and a five-year corporate plan, (ii) revision of the operations manuals, and (iii) staff training. The TA objectives were relevant and partly corrected the shortcomings of the first TA. The second TA was appropriate at the stage of formulation and approval. However, following MIDB's abandonment of development financing activities (para. 4), the consultants' TORs were amended to

emphasize handling of problem accounts and collection performance based on hands-on exercises and real-life case studies. The TA design provided for MIS-related training but not the development of MIS itself. The design appears to be based on the incorrect assumption that an MIS was already in place. MIDB management believes that setting up an MIS should have been the main TA task, and undertaken by consultants knowledgeable in computer programming and with experience in setting up MIS for banks. A more incisive institutional analysis of MIDB could have led to proper assessment of MIDB's MIS needs. To address MIDB's requirement for MIS, ADB eventually made available 10 person-days of services of the project appraisal specialist engaged under TA 2205-RMI. His task was to review MIDB's MIS needs and identify the actions needed to complete an MIS that had been under development by a local consultant for almost three years. MIDB dispensed with TA input for corporate planning.

b. TA for Small Enterprise Development in the Marshall Islands

8. The objectives of TA 2205-RMI were appropriate considering the need to provide business advisory services for investors in RMI and familiarize MRD and MIDA staff with project appraisal and supervision techniques and procedures. The TA design was compatible with these objectives. However, during TA formulation ADB and the Government disagreed over what comprised small enterprises. In response to the Government's request, a small enterprise was defined as one with 50 or fewer employees. Government officials and others interviewed by the Mission believed that, in the context of RMI, this number was excessive and covered a large majority of all private sector enterprises. It is probable that the Government desired to target a broader spectrum of enterprises as TA beneficiaries. In deference to the Government's priority at that time, and with the consent of ADB, the consultants expanded the focus of the TA to cover the private sector as a whole rather than focus on small enterprises.

9. The TA emphasized identification of opportunities in the export sector in line with the Government's policy reform program. It was agreed further that the TA should concentrate on Majuro and less so on the outer islands as provided in the original TORs. The TORs for the marketing expert were also changed to focus on developing exports rather than integrating the small farmers into RMI's market centers. The project appraisal specialist focused on generating a list of viable projects that may interest financiers, which proved to be at the expense of helping private enterprises develop business ideas into bankable proposals for financing. Similarly, the development finance specialist focused on business activity surveys, leaving little time to consider a credit delivery scheme for small businesses. Thus, the nature of the work done, services provided, and reports prepared by the consultants changed considerably. On the whole, the consultants spent less time on the original TORs and more on the tasks added later, compromising the main objective of small-enterprise development.

10. TA implementation arrangements needed clarity, particularly the role of MIDA. MIDA was a business arm of the Government responsible for operating and managing Government enterprises and public-private joint ventures. TA implementation arrangements through the Executing Agency (EA), the Trade and Investment Division (TID) of MRD, proved ineffective. TID has not promoted small enterprises, possibly because its personnel have changed several times since TA completion. None of the staff members trained under the TA have been retained in TID or MIDA. TID consists of a four-member staff, all fresh recruits. Until recently TID had been operating under the Ministry of Foreign Affairs, which had no involvement in the small enterprise sector.

11. The consultants trained MRD and MIDA staff in project appraisal, project supervision and provision of advisory services to business enterprises. However, the consultants concentrated on (i) raising the knowledge base in basic accounting concepts as a prerequisite to developing further skills; (ii) formulating simple modules; and (iii) preparing a handbook for project analysis, appraisal, and supervision. The Government subsequently limited MIDA's role to managing existing projects, including activities carried out with private enterprises. While the Operations Evaluation Mission (OEM) was in the field, MIDA had no staff other than the general manager, who was new to the job. With all MRD and MIDA staff members trained under the TA transferred to other areas, the institutional memory of this TA has been lost.

c. Engagement of Consultants

12. Two consultants were engaged for a total of nine person-months under TA 1453-RMI, and one consultant for six person-months under TA 2204-RMI. TA 2205-RMI involved four consultants for a total of 21 person-months, including 12 months of services of a United Nations volunteer. With the exception of this volunteer, all the consultants were provided by consulting firms. The process and procedures followed to engage consultants were generally appropriate and in conformity with ADB's *Guidelines on the Use of Consultants*.

d. Implementation Schedule and Financing Arrangements

13. Under TA 1453-RMI, consultant selection, signing of contract, and fielding of consultants were accomplished in a timely manner, while the consultants under TAs 2204-RMI and 2205-RMI were fielded about 18 months following the TA Fact-Finding Mission. In the intervening time, the circumstances under which MIDB, MRD, and MIDA were operating changed substantially. As result, a number of TA components and related TORs became irrelevant. The consultants had to adjust their work accordingly, which changed the TA outcomes and impact. The TORs underestimated the time required to implement the two MIDB TAs and did not fully take into account MIDB's expectations on setting up an MIS. Disbursements under the three TAs were 85–95 percent of the approved amount with extensions in consultant services accommodated against provisions for contingencies.

e. TA Administration

14. Effectiveness of ADB's supervision of the three TAs varied. No review mission was sent for TA 1453-RMI. A joint inception-cum-review mission was mounted for TAs 2204-RMI and 2205-RMI. The OEM has not seen documented evidence of efforts to follow up on actions required to implement the consultants' recommendations under TA 1453-RMI. Implementation of a number of these recommendations, particularly the amendment of the MIDB Act, policy and guidelines, took longer than expected. Other recommendations, including conversion of the Government's contribution into MIDB's paid-in capital, have not been implemented. The inception-cum-review mission was instrumental in adjusting the scope and nature of work under the consultants' TORs to the changed circumstances (paras. 7, 9, 18). No evidence exists of ADB and Government efforts to refocus the two TAs on the original objectives or to adopt measures to ensure sustainability of the TAs' outputs.

15. All three EAs—MIDB, MRD, and MIDA—provided adequate support during the TAs. The scopes of TAs 2204-RMI and 2205-RMI were changed at the initiative of these agencies. However, the Government did not demonstrate continued commitment as the staff members trained under TA 2205-RMI were transferred out of MRD and MIDA.

C. Evaluation of Outputs and Impact

1. Performance of the Consultants and Quality of Reports

16. The consultants under TA 1453-RMI prepared a detailed report on the work performed. The quality of their work on policy guidelines and project appraisal and monitoring procedures was satisfactory and served MIDB's needs adequately. The consultants also drafted amendments to the MIDB Act to enhance its operational autonomy by removing the provisions that opened the door to Government interference in the bank's day-to-day affairs. The consultants observed that MIDB staff members did not understand basic accounting concepts and, therefore, were unlikely to benefit from advanced training in project appraisal and supervision. Accordingly, the content of training programs was adapted to suit the capability of MIDB staff members. However, the consultants' work lacked precision and depth in operational strategy and corporate planning, and staff training. This strategy and corporate plan did not take into account MIDB's new operational activity, i.e., the housing loan program. Most of the assumptions used for the corporate plan were ambitious and could not be implemented without proper promotional work. MIDB management and staff were neither familiar nor trained for such work and were not taken into full confidence on the main thrust of the operational strategy and corporate plan. As a result, MIDB never owned or implemented the strategy and corporate plan.

17. The consultants trained MIDB staff members to implement the systems and procedures specified in the TORs. However, the training left gaps in project appraisal and supervision. The consultants also prepared a feasibility study for opening an MIDB branch on Kwajalein Island. The report concluded that a full branch was not economical, and that MIDB staff should conduct operations through regular periodic visits to Kwajalein. These recommendations were appropriate under the circumstances and were implemented by MIDB.[3]

18. TA 2204-RMI faced problems right from the start and was not implemented fully as originally designed. The consultants could not fulfill the three major components of the TORs due to circumstances largely beyond their control. MIDB's business had undergone a fundamental change by the time the TA got underway. MIDB's loan portfolio had become largely nonperforming since most projects showed signs of permanent failure and recovery prospects looked bleak. MIDB thus suspended its development lending and took up consumer lending in 1995. In the absence of any prospects to resume development lending, the need to review the operations manual became less urgent, and the requirement to prepare the five-year corporate plan under the original TORs became redundant. Accordingly, MIDB requested the consultant to focus on handling problem accounts, on-the-job staff training, and implementation of a computerized MIS. MIDB believed that this request was in line with the TA scope agreed upon with the TA Fact-Finding Mission. However, these activities required, among other things, the services of a consultant knowledgeable in computer programming (especially D-Base and Lotus 1-2-3). Evidence shows that the consultant's response to MIDB's request was inadequate, partly because the person assigned did not have the requisite expertise and also because the consultant was reluctant to deviate from the contractual TORs. The training program conducted by the consultant mainly focused on computerized spreadsheet analysis using the Excel program, which MIDB's management felt could be arranged locally. However, training in project supervision and monitoring proved useful in MIDB's handling of problem projects and recovery

[3] A branch in Kwajalein has become feasible only now and will be opened shortly based on the core business generated by a rural housing project funded by the US Government.

of nonperforming loans (NPLs). The consultant wrote the final report on the modified assignment on corporate planning, project supervision procedures, training in project supervision, and monitoring and handling of problem accounts. These documents were useful for the staff.

19. The consultant did not attempt to revise the operations manual prepared under TA 1453-RMI, presumably because MIDB changed its business focus. However, in response to the requirement to formulate a five-year corporate plan, the consultant prepared an action plan for three scenarios: no major change, progressive change, and radical change. MIDB, however, has not implemented the action plan. Provision of MIS expert services for 10 person-days also proved inadequate and fell short of MIDB's expectation of a computerized and properly operationalized MIS. MIDB could not implement the new MIS recommended by the consultant because it was considered too expensive. MIDB management, however, valued the consultant's positive contribution in successfully impressing upon the Government authorities the need to give MIDB complete operational autonomy. This autonomy has been in evidence in recent years.

20. The consultants' work and the reports under TA 2205-RMI did not focus on small enterprises' development. Even though the Government and the ADB Fact-Finding Mission disagreed on the definition of a small enterprise, consultants should have devoted significant attention to the small enterprise sector. The change in scope of the consultants' work, which occurred with ADB's implicit approval, was, in effect, at the expense of the TA's main objective. The consultants' performance was thus not entirely unsatisfactory. The projects identified by the consultants did not materialize for lack of required substantial infrastructure investments. However, the consultants did train MRD and MIDA staff, but the training benefits were lost because of staff transfer and change in the role of these agencies. The consultants submitted detailed reports on the three main aspects of the TA: project appraisal, marketing, and development financing. The project appraisal specialist concentrated on identifying a list of viable projects that might interest financiers, instead of training and assisting private entrepreneurs in translating project ideas into bankable proposals. The marketing specialist prepared a detailed report, which focused more on export-oriented projects, particularly in the fisheries and tourism sectors, and less on bringing the small farmers' produce to the market centers. The development finance specialist conducted a detailed survey of business enterprises in the country but did not devote adequate time to study credit delivery schemes for small businesses. The consultants' reports remained largely unimplemented. The main proposal of the consultants, which created substantial controversy and eventually proved to be impractical, was to establish a privately owned and managed private enterprise development corporation. The mandate of this corporation would have been to provide advisory services for project analysis, promotion and financing to mainly private sector investors. The consultants envisaged that this corporation would need the services of outside experts for a number of years, possibly financed by ADB. ADB staff members considered this proposal to be unrealistic. Eventually, it was neither accepted by the Government nor by ADB.

2. Training

21. All three TAs included significant training components. The consultants adjusted the training content to familiarize the trainees with basic concepts of accounting, and systems and procedures of development financing. Staff training under TA 1453-RMI was particularly important because MIDB was in its nascent stages and its staff was unfamiliar with even the basic concept of development financing. Six MIDB staff members were trained under this TA.

The consultants also drafted operational manuals for the staff. However, the training left some serious gaps, mainly due to time constraints. Accordingly, TA 2204-RMI filled such gaps. The training program under this TA focused on computer training in spreadsheet analysis, which was not regarded as particularly useful by MIDB management, and training in project supervision and monitoring of problem accounts, which proved useful in MIDB's handling of problem projects and recovery of NPLs. It is difficult to assess the quality and impact of the training provided under TA 2205-RMI since all of the MRD and MIDA staff members who had participated in the training program have been transferred from or have left these agencies.

3. TA Impact

22. The TAs to MIDB were partly successful in institution building. TA 1453-RMI empowered MIDB through amendment, albeit delayed, of the MIDB Act and drafting of policy guidelines, systems, and procedure manuals. Operational guidelines are still in effect and the staff members trained during the TA are still working in MIDB. However, the operational strategy and corporate plan prepared under the TA were not implemented, while staff training was useful but incomplete. TA 2204-RMI consolidated the training of staff, particularly in handling of problem projects. However, the five-year operational strategy and corporate plan were not implemented because of MIDB's decision to discontinue development lending and focus on consumer lending.

23. TA 2205-RMI aimed to focus on small enterprises' development and envisaged a key implementation role for MRD and MIDA. MRD was expected to promote private sector investments by providing advisory services to entrepreneurs and MIDA was expected to work with private investors in promoting investment and developing enterprises. Because the TA focus changed to cover private enterprises as a whole (para. 20), TA outputs and consultants' reports and proposals did not pay adequate attention to small-enterprise development and have remained unutilized. The objective of institution building of MRD and MIDA has not been realized because of subsequent changes in their role and staff.

24. The broad objective of the three TAs was to promote balanced and diversified economic development by promoting private sector investment through (i) creating mechanisms for new business opportunities, (ii) providing business advisory services, (iii) facilitating private sector initiatives by enabling entrepreneurs to generate their own bankable investment proposals, and (iv) strengthening institutional mechanisms to finance investment projects. MIDB was expected to be the main vehicle for development finance, MRD for main investment advisory services, and MIDA for converting private initiatives into investment opportunities. On balance, institution-building efforts under TAs 1453-RMI and 2204-RMI were partly successful. The roles of MRD and MIDA have changed and the advisory function of TID within MRD remains rudimentary. Institution-building under TA 2205-RMI has thus not made any notable impact.

4. Conclusions

a. Key Issue

25. The key issue emerging from the study is the critical importance of the role of the Government policy framework in sustaining TA benefits. Rehabilitation of MIDB depended as much, if not more, on insulating its lending activities from Government interference and political influence as on removing institutional weaknesses. Thus, institution building under TAs 1453-RMI and 2204-RMI would have been frustrated had the Government not agreed to amend the

MIDB Act. However, under TA 2205-RMI, changes in Government decisions regarding the role of MRD and MIDA practically ruled out sustainability of the TA benefits. In such cases, an upfront assurance from the government on the continuity of policy environment can be useful to sustain TA benefits.

b. Overall Assessment

26. Despite some shortcomings in the outputs of TAs 1453-RMI and 2204-RMI, their overall impact was positive (Table A2, attached). Consultants helped MIDB formulate its operational strategy, exposing staff to the basic concept, requisites, and procedures of development banking, and improving project processing, appraisal, and monitoring procedures. The manuals produced under the TAs were useful. It was MIDB's decision to discontinue development lending that diluted the TA benefits. The consultants' advice and training in project monitoring and handling of problem projects and loan recovery were useful. On balance, TAs 1453-RMI and 2204-RMI are rated as partly successful. Under TA 2205-RMI, the benefit of staff training has been lost, and the envisaged institutional arrangements for small enterprise development have not been sustained. Accordingly, this TA is rated as unsuccessful.

5. Lessons Learned

27. The first lesson from the three TAs is that TA objectives and scope should be clearly defined, and understood and owned by all concerned, i.e., the Government, EA and consultants. Second, ADB and the Government should monitor TA implementation closely and remain alert to the need for midcourse adjustment in the TA scope and implementation arrangements in response to unforeseeable changes that could undermine TA objectives and efficacy. TA 2204-RMI illustrates this point. For the same purpose, it is desirable to build-in flexibility in consultant TORs and allocation of budget for various TA components. However, minimizing the time lag between the conceptualization and implementation of the TA would obviate the need for midcourse adjustments. By the same token, in the event of substantial delay in commencement of TA implementation, it is desirable to review and reconfirm TA scope, consultant TORs, and implementation arrangements with all concerned. Finally, the implementation capacity, transfer of technology, and sustainability of TA impact at the recipient agencies is also important.

28. The TORs of TAs 2204-RMI and 2205-RMI were not clearly spelled out. Better understanding with the consultants and recipient agencies should have been developed at the inception stage when the need for substantial changes in TA scope had became apparent. Also, tripartite discussion on TA impact and follow-up actions upon completion of the TA could have enhanced its effectiveness. Such a discussion would have highlighted MIDB's MIS needs on completion of TA 1453-RMI and in time for necessary provision in TA 2204-RMI. The OEM is unable to determine whether such tripartite discussions had indeed been held on the TAs.

6. Sustainability of the Marshall Islands Development Bank

29. MIDB's experience in financing development projects has been highly unsatisfactory. The bank has not been able to recover from the serious setbacks caused by lending at Government's behest in the initial years. Large write-offs of such loans have severely limited the bank's financial capacity to undertake development lending. MIDB has made just two such loans since 1995. Instead, it has increased its housing loans and is depending on consumer

loans to sustain itself financially since such loans attract a higher interest rate and are less risky and easier to recover.

30. These developments have changed the nature of MIDB's operations substantially but are not sufficient to restore the bank's financial strength and ensure long-term sustainability. Although MIDB is competing with commercial banks in the consumer finance market, with an annual turnover of loanable funds of just about $3 million, the bank's financing activities will remain modest. MIDB insists that it has not given up development lending; however, the fact is that it is unable to undertake such operations, given its poor resource position. In view of this, there is a need for MIDB to redefine its future role and explore a resource mobilization strategy that is not dependent on government funding. Continuation of the status quo, i.e. consumer lending within the existing loanable resources, may not be sustainable in the long run. In the absence of a viable resource mobilization strategy, it may be worth considering for Government whether MIDB should be merged with the Bank of the Marshall Islands. The merged bank could be a stronger institution with a wider range of banking services, better outreach, and good prospects of privatization in due course.

Table A2: Marshall Islands Development Bank Financial Highlights, 1989-1999
($'000 and percent)

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
TA Milestones		TA-1453 Approval		TA-1453 Completion		TA-2204 Approval			TA-2204 Completion		
Balance Sheet											
Liquid assets[1]	106	666	2,413	3,282	1,689	1,198	409	166	635	141	1,992
Loans (net)	3,134	2,905	7,576	13,644	7,963	6,321	6,219	6,162	5,844	6,796	8,098
Investments[2]	8,250	6,907	0	1,994	1,300	1,456	1,489	1,398	1,002	1,108	611
Current assets	11,862	10,633	11,433	19,436	11,249	9,106	8,259	7,952	7,740	8,516	11,050
Total assets	11,913	10,685	11,474	19,497	11,302	9,166	8,331	8,034	7,830	8,571	11,433
Total shareholders' equity	11,910	10,668	11,374	13,905	11,154	8,978	7,946	7,667	7,077	7,705	8,172
Income Statement											
Interest income	1,104	1,007	1,186	1,414	1,342	1,156	901	972	1,119	1,234	798
Other operating income	4,046	390	84	714	31	50	34	55	1,095	1,188	733
Interest expense	0	0	98	125	63	20	15	20	24	46	65
Other operating expenses	422	2,939	466	601	9,055	3,362	2,153	1,544	1,761	634	609
Bad debts expense	108	2,747	255	215	8,622	2,954	1,617	981	1,218	85	2,369
Net income (losses) after tax	4,728	(1,542)	706	(1,402)	(7,745)	(2,176)	(1,059)	(422)	(620)	620	443
Ratios (%)											
Liquid assets/Total assets	0.9	6.2	21.0	16.8	14.9	13.1	4.9	2.1	8.1	1.6	17.4
Earning assets[3]/Total assets	95.6	91.8	74.7	80.2	82.0	84.8	92.5	94.1	87.4	92.2	76.2
Total equity/Total assets	100.0	99.8	99.1	71.3	98.7	97.9	95.4	95.4	90.4	89.9	71.5
Interest income/Total revenues	21.4	72.1	93.4	66.4	97.7	95.9	96.4	94.6	96.1	94.9	71.4
Net income/Total revenues	91.8	neg.	55.6	neg.	neg.	neg.	neg.	neg.	neg.	48.0	39.7
Net income/Total assets	39.7	neg.	6.2	neg.	neg.	neg.	neg.	neg.	neg.	7.3	3.9
Net income/Total equity	39.7	neg.	6.2	neg.	neg.	neg.	neg.	neg.	neg.	8.2	5.4
Operating expenses/ Operating income	8.2	210.4	36.7	34.1	664.1	280.4	231.9	152.3	153.3	52.3	60.5
Bad debts expense/ Operating expenses	25.6	93.5	45.2	29.6	94.6	87.3	74.6	62.7	68.3	12.5	0.3

— = not available, neg. = negative, TA = technical assistance
[1] Comprise cash and cash equivalents.
[2] Comprise loans and investments.
[3] Comprise time deposits and investments.
Source: Marshall Islands Development Bank.

Appendix 2, page 10

REEVALUATION OF TA 1661-PNG: INSTITUTIONAL STRENGTHENING OF AGRICULTURE BANK OF PAPUA NEW GUINEA

A. Background

1. Rationale and Concept

1. The Rural Development Bank of Papua New Guinea (RDB), formerly the Agriculture Bank of Papua New Guinea, has the important role of promoting the development of private enterprise in the agricultural, industrial, and commercial sectors. However, the bank is hobbled by institutional weaknesses. Poor staff capability in project appraisal and supervision and an inadequate management information system (MIS) have caused RDB's nonperforming loans (NPLs) and arrears to increase over the years. Poor portfolio performance was translated into large accumulated losses, threatening the bank's financial viability and survival. A drastic reduction in Government funding also created a serious resource problem. Multilateral funding agencies stopped supporting RDB pending satisfactory improvement of its institutional and operational capabilities as an efficient conduit to channel funds to small and medium private enterprises. The technical assistance (TA) was approved in 1992 against the backdrop of these adverse developments.[1]

2. Objectives and Scope

2. The main objectives of the TA were to (i) strengthen the institutional and operational aspects of RDB; and (ii) enhance the skills of its national staff by providing on-the-job training in project promotion and identification, appraisal, processing, implementation, and monitoring. The TA scope included (i) reviewing and implementing improved institutional and operational systems, procedures, and manuals; (ii) enhancing loan portfolio quality by improving collection and reducing arrears; (iii) preparing a corporate plan, including detailed implementation strategies; (iv) reviewing the MIS and recommending improvements, including integrated electronic data processing and review of the terms reference (TORs) prepared by RDB for an MIS study; (v) investigating new avenues of resource mobilization and business development; and (vi) improving organizational structure and internal efficiencies. The TA provided for the engagement of four consultants for a total of 24 person-months: a development expert (10 person-months) for training, the corporate plan, and management; a commercial banking expert (6 person-months) for financial aspects, systems and procedures, and preparation of manuals; a rural banking expert (6 person-months) to focus on systems and procedures for processing and monitoring agricultural and rural credit operations; and an MIS expert (2 person-months).

3. Findings of the Technical Assistance Completion Report and Technical Assistance Performance Audit Report

3. A technical assistance completion report (TCR),[2] prepared in August 1994, and a technical assistance performance audit report (TPAR),[3] prepared in December 1996, evaluated

[1] TA 1661-PNG: *Institutional Strengthening of Agriculture Bank of Papua New Guinea*, for $582,000, approved on 15 January 1992.
[2] TCR: 1661-PNG: *Institutional Strengthening of Agriculture Bank of Papua New Guinea,* August 1994.
[3] TPA: 1661-PNG: *Institutional Strengthening of Agriculture Bank of Papua New Guinea,* December 1996.

TA implementation. The TCR confirmed that the TA concept, objectives, and scope, and the consultants' TORs were appropriate and adequate. The TCR rated the TA as partly successful as consultants had completed their assignment under difficult circumstances with active participation of RDB management and staff. The TCR noted that formal acceptance of the final report by the Government and the implementation of the corporate plan prepared under the TA would have rendered it generally successful. Formulation of the corporate plan for 1993–1997, completion of the MIS plan, preparation of lending guidelines, and rationalization of manuals were considered the TA's major achievements.

4. The TPAR also rated the TA as partly successful and concluded that the consultants had performed generally satisfactorily, except in training RDB staff, and that the RDB management had demonstrated commitment to implementing TA components for which it had the requisite authority. The TPAR noted, however, that TA benefits were not fully realized as the Government had not adopted the TA final report, particularly the recommendations to financially restructure RDB, which would have made it a viable institution and provided the basis for rating the TA as fully successful. With regard to the lessons learned, the TPAR emphasized the importance of the Government's resolve, and commitment to the TA and its findings. Finally, the TPAR also concluded that during TA formulation, the Government should have shown that it was prepared to give RDB greater autonomy to undertake its financial restructuring, and to liberalize the interest rates.

5. The TPAR recommended that the Asian Development Bank (ADB) should (i) continue to pressure the Government to adopt the consultants' report and its recommendations, (ii) seek an unambiguous indication from the Government as to the future role of RDB, and (iii) ensure that RDB operates autonomously according to normal commercial banking practices. Recapitalization of RDB through injection of fresh capital and conversion of Government loans to equity was considered a crucial step in that direction. The TPAR also highlighted the need for the Government to continue liberalizing interest rates and not obligate RDB to provide noncommercial services on behalf of the Government. Where a need for such services is established and RDB is considered to be the most effective delivery channel, the bank should be involved only on the basis of full cost recovery. Finally, the TPAR called on ADB to use its influence to reduce political interference in RDB's operations and appointments to the bank's board of directors and senior management, and encourage the Government to privatize or corporatize RDB.

4. Reevaluation

a. Developments since the Technical Assistance Performance Audit Report

6. In recent years, significant developments in the financial environment and the framework under which RDB operates have raised fundamental questions as to the bank's sustainability as a viable financial institution. First, RDB assumed its name by an amendment to the Agriculture Bank (Change of Name) Act 1993, which also mandated the bank "to serve the rural population through the provision of rural credit," although the bank maintains that the scope of its activities is not limited to rural credit. Second, although the Government did not formally approve or adopt the corporate plan, which was a key output of the TA, it belatedly started acting on many of the plan's recommendations. RDB's balance sheet was restructured in 1996 through conversion of

the debt of Kina (K)54.4 million into capital and provision of K400,000 equity in cash. These measures made RDB solvent and it has since adopted policy guidelines requiring that 75 percent of its loans should be directed to rural areas. RDB disposed of most of its surplus assets and nonviable subsidiaries, closed down one branch and 22 representative offices, and gradually reduced staff from 410 members in 1993 to 234 in June 2001. Third, in 1998, the Government stopped subsidizing RDB's nonbanking services.[4] RDB has also adopted a new portfolio management strategy—the "bottom-up approach"—which gives lower-level officers more authority and responsibility to enable RDB to promote viable investments and focus on new business activities. Finally, RDB started applying the profit-center concept in its regional operations in 1996. However, these measures have not been fully effective and RDB's operating expenses remain high, mainly due to inflation. RDB has also increased its weighted average interest rates on agricultural loans to 14 percent (9 percent in 1993), and on industrial and commercial loans to 18.5 percent (16 percent in 1993), although cash-flow constraints have reduced its capacity to undertake new business activity on a significant scale. Finally, the staff at the profit centers still lack the knowledge and commercial orientation to fully realize the benefits of the centers.

7. RDB did not implement the computerized MIS recommended by the consultants but introduced a modified MIS in 1996 and a loan-monitoring system in 1999, replicating the system used by the PNG Banking Corporation (PNGBC). RDB has installed a local area network system incorporating accounting, human resource, and payroll systems software. The consultants' recommendations regarding RDB's operational autonomy, term of office of the board members and chief executive, legal framework for managing loan defaults, etc. have yet to be implemented.

8. The TPAR noted that the delay in Government decisions on the draft corporate plan could not have been foreseen. However, action on matters involving policy decisions or Government actions should have been initiated in the early stages of the TA. Government response was delayed, probably because the corporate plan had touched on sensitive policy issues such as RDB's future role, operational autonomy, recapitalization, staff and assets retrenchment, etc. Government delay could have been minimized by dealing with these matters upfront during the TA.

9. In 1993, when it was reconsidering RDB's role, the Government decided to place RDB and PNGBC under a common board of directors.[5] Subsequently, both institutions were made parts of a holding company called Finance Pacific, which was disbanded recently, but the common board of directors continues to exist. The Government has decided to privatize PNGBC soon, but RDB's future remains uncertain: it is doubtful that RDB can be privatized and it is not reasonable to expect that a privatized RDB would continue to engage in small and rural credit activities.

b. Reevaluation of Impact

10. Because the Government delayed action on the corporate plan, it was not fully implemented during the TA. Still, as the TPAR noted, the draft corporate plan greatly influenced

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[4] In 1993–1997 the Government provided a cash subsidy of about K14 million to RDB.
[5] The institutions retained their respective boards, but these were composed of the same people.

management's reform of RDB. Thus, closing a branch and representative offices and unprofitable subsidiaries, reducing staff, maximizing technology use, and converting debt into equity were done according to the corporate plan although much more slowly than expected. A part of the corporate plan has yet to be implemented: RDB has failed to (i) significantly reduce operating cost, (ii) fully benefit from the profit centers, and (iii) stop making loans at less than market interest rates, and is carrying a large number of fully provided loans without regard to their collectibility.

11. The TA emphasized on-the-job training on the assumption that inadequate staff skills and lack of familiarity with modern project appraisal and monitoring techniques were the main causes of poor portfolio performance. However, the TA design did not consider the fact that so long as RDB continued to make subsidized loans, whether under Government direction or not, the bank would not be able to insulate itself from external pressures to make behest loans to politically favored borrowers. It is also difficult to assess the sustainability of the benefits of on-the-job training provided under the TA as RDB has no record of the 87 staff members who were trained and whether they are still with RDB, given the large retrenchment over the years.

12. Consequent to the Government's signal in early 1993 that RDB and PNGBC may be merged, it was uncertain whether the training program as originally envisaged should be continued. The RDB management suggested that TA resources be diverted to consolidate manuals, portfolio valuation, and business identification, which ADB saw as a major variation from the TA scope. Following further consultation among ADB, RDB, and the consultants, it was agreed that the training program be modified to center on (i) loan account review (including reappraisal); (ii) security assessment; and (iii) supervision, workout, and recovery strategy. The issue was thus satisfactorily resolved but valuable time was lost in the process. Greater flexibility on the part of ADB and RDB would have optimized TA inputs.

13. Despite these limitations, the TA contributed significantly to strengthening RDB's institutional capacity (Table A3). Since the very sustainability of RDB has been in question for a number of years, this capacity has not been put to good use. The Government's decision to appoint, in December 1992, a common board for RDB and PNGBC, and subsequent placement of both institutions as subsidiaries of Finance Pacific signaled the Government's intention to merge the two institutions. However, the merger has not materialized and uncertainty has continued. Furthermore, the Government has stopped funding RDB, and RDB's own funds are largely locked in NPLs. As a result, the bank's loanable funds are limited to only about K10 million per year, which is not enough to generate revenue even to support the bank's annual operating expenses. Finally, the Government has not come out with a clear policy statement on whether RDB is to be privatized, which affects staff morale and productivity. RDB may be unable to sustain itself if present conditions continue for too long.

c. Overall Assessment

14. RDB's institutional and policy environments have undergone significant changes since the preparation of the TPAR. A number of TA recommendations have been implemented with positive effect. However, a part of the corporate plan prepared under the TA remains to be implemented while uncertainty continues to loom over RDB's sustainability. The Operations Evaluation Mission thus does not find any grounds to modify the partly successful rating of the TA.

d. Lessons and Issues

15. The TPAR highlighted the importance of Government commitment to the TA, and the desirability of obtaining, during TA formulation, some indication that the Government was prepared to financially restructure RDB, give it operational autonomy, and liberalize interest rates. These conclusions remain valid since little progress has been made in these areas. Timely Government policy decisions and actions are as critical, perhaps even more so than institutional capability. Critical components of the corporate plan could not be implemented due to Government indecision on the future of RDB, particularly regarding its operational autonomy, capital adequacy, and resource mobilization.

16. Another important lesson is that staff and management capability and proper procedures and systems are necessary but not the only conditions for building a sound portfolio. Operational autonomy to make loans at risk-adjusted market rates of interest and freedom from political pressures are equally important to avoid behest lending. The TA did not effectively address these concerns.

Table A3: Rural Development Bank Limited
(K'000)

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
TA Milestones		TA-1661 Approval		TA-1661 Completion		TA-1661 Post Evaluation				
Balance Sheet										
Current Assets	9,851	13,566	21,942	17,409	20,477	34,631	39,744	39,830	36,987	23,918
Investment	3,446	3,293	3,042	856	616	—	—	—	—	—
Loans (Net)	62,264	44,280	41,811	45,559	45,868	46,860	46,690	29,852	37,872	53,959
Fixed assets	12,240	11,825	11,671	11,463	10,971	11,231	11,192	17,811	17,459	16,283
Total assets	87,801	72,964	78,466	75,287	77,932	92,722	97,626	87,493	92,318	94,160
Total liabilities	80,357	84,245	93,126	95,232	101,669	34,988	40,002	43,441	46,288	45,190
Total shareholders' equity	7,444	(11,281)	(14,660)	(19,945)	(23,737)	57,734	57,624	44,052	46,030	46,970
Income Statement										
Interest income	14,187	12,797	8,692	9,027	12,067	11,107	10,304	13,088	14,271	16,417
Other operating income	—	—	—	—	—	3,002	5,854	4,359	6,413	3,324
Operating expenses	13,503	31,114	11,025	11,761	13,292	15,275	17,087	38,334	18,313	15,357
Net income (losses) after tax	684	(18,667)	(3,132)	(5,260)	(3,753)	(1,166)	(929)	(20,887)	2,371	4,384
Loan in arrears	—	—	—	—	—	17,031	18,857	20,828	21,901	15,490
Ratios (%)										
Current assets/Total assets	11.2	18.6	28.0	23.1	26.3	37.3	40.7	45 .5	40.1	25.4
Loans/Total assets	70.9	60.7	53.2	60.5	58.9	50.5	47.8	34.1	41.0	57.3
Total debt/Total equity (x)	10.8	neg.	neg.	neg.	neg.	0.6	0.7	1.0	1.0	1.0
Loan loss provision/Total loans	—	—	—	—	—	62.5	62.7	77.4	72.4	64.0
Net income/Total revenues	4.8	neg.	neg.	neg.	neg.	neg.	neg.	neg.	11.5	22.2
Net income/Total assets	0.8	neg.	neg.	neg.	neg.	neg.	neg.	neg.	2.6	4.7
Net income/Total equity	9.2	neg.	neg.	neg.	neg.	neg.	neg.	neg.	5.2	9.3
Operating expenses/operating income	95.2	243.1	126.8	130.3	110.2	108.3	105.7	219.7	88.5	77.8
Provision for Bad debts/Total operating expenses	22.7	65.4	14.1	21.2	27.4	—	—	—	—	—

— = not available, K = kina, neg. = negative, TA = technical assistance.

Source: Rural Development Bank of Papua New Guinea.

EVALUATION OF TA 2989-SAM: INSTITUTIONAL STRENGTHENING OF GOVERNMENT FINANCIAL INSTITUTIONS

A. Background

1. Rationale and Concept

1. The technical assistance (TA) was formulated in 1997 under difficult macroeconomic conditions.[1] The Government's reliance on direct monetary control instruments was becoming costly. Interest rate controls hampered efficient resource allocation, stifled growth of the banking sector, and caused financial disintermediation. The inequities entailed by direct instruments led to a substantial shift of resources from banks to nonbank financial institutions (NBFIs), which remained outside the purview of prudential regulations, thereby increasing inherent risk in the financial system. Finally, the dominance of mostly inefficient state-owned enterprises exerted considerable budgetary pressures and constrained economic growth. To address these constraints, the Government in 1996 requested the assistance of the Asian Development Bank (ADB) to support major structural reforms in the public and financial sectors. ADB approved a financial sector program loan (FSPL)[2] in support of these reforms. The TA under evaluation was provided in conjunction with the FSPL to strengthen the institutional capacity of three government financial institutions (GFIs): Central Bank of Samoa (CBS), Development Bank of Samoa (DBS), and Samoa National Provident Fund (NPF).

2. Objectives and Scope

2. The main objective of the TA was to help the Government manage financial sector reform by strengthening the institutional capacity of CBS, DBS, and NPF to enable them to adjust to the liberalized financial environment. The TA consisted of seven components: (i) building the capacity of CBS to apply indirect instruments of monetary policy by developing a liquidity management framework and designing instruments to supplement the auctions of CBS securities; (ii) improving CBS's efficiency, transparency, and accountability by extending the principles underlying ongoing reforms elsewhere in the public sector, and by assessing alternatives for providing CBS with a secure long-term income stream; (iii) helping CBS develop a plan to remove the remaining foreign exchange controls; (iv) developing prudential standards for NBFIs and implementing an onsite examination system; (v) undertaking a detailed feasibility study for domestic resource mobilization by DBS, including an assessment of its potential to issue its own securities, to increase the bank's market orientation; (vi) enhancing the credit appraisal, portfolio management, and debt-recovery capabilities of DBS and NPF; and (vii) introducing and developing investment management capability in NPF.

3. The TA was to be implemented through advisory services of eight international consultants and experts for a total of 28 person-months: (i) liquidity management adviser; (ii) central banking adviser; (iii) organization and management specialist; (iv) monetary economist; (v) prudential supervision adviser; (vi) strategic planning and/or resource mobilization specialist

[1] TA 2989-SAM: *Institutional Strengthening of Government Financial Institutions*, for $950,000, approved on 19 February 1998.
[2] Loan 1608-SAM(SF): *Financial Sector Program*, for $7.5 million, approved on 19 February 1998.

(for DBS); (vii) credit specialist (for DBS and NPF); and (viii) funds management specialist. The component to be handled by the liquidity management adviser was dispensed with, since an expert from the International Monetary Fund (IMF) could give advice with the help of the central banking expert. This component was then replaced by an information technology (IT) component to help CBS computerize its accounting and management information system (MIS).

B. Assessment of Implementation Performance

1. TA Design

4. TA design was consistent with the objectives of the Government's ADB-supported reform program, which gave CBS greater responsibilities, requiring it to enhance its capability. The TA design was compatible with its objectives, but could be improved in a number of areas. First, even though the Government and ADB had adequate time to formulate the FSPL and the TA, significant changes in TA scope were required during implementation. These included (i) replacement of the liquidity management advisory component with the IT component, (ii) inclusion of foreign exchange reserves management as an additional area of external training and secondment for CBS, and (iii) assistance in implementing the privatization program under the FSPL. The development of alternative instruments of indirect monetary control is one area where CBS has not made visible progress, probably because the liquidity management advisory component was excluded. Second, some of the terms of reference (TORs) of the TA consultants to CBS lacked clarity, while some others were repetitive. The Operations Evaluation Mission (OEM) learned that minor changes in the consultants' TORs were made from time to time at the instance of CBS, whose record is not readily available. Third, since the TA to CBS had five major components where the consultants required active interaction, it may have been useful to appoint a team leader to coordinate their work and reporting. Finally, based on the evidence available to the OEM, it is not clear whether the consultants adequately met reporting requirements.

5. DBS is considered a major supplier of credit to primary industry and has the potential to contribute more to economic development if properly integrated into the banking system and financial markets after the financial sector is liberalized. TA to DBS was considered necessary to strengthen it, particularly in strategic and corporate planning and resource mobilization, to enable it to compete effectively in a liberalized financial environment. The TA objectives were relevant considering the challenges DBS would have to face in such an environment. The TA was designed to make DBS more competitive and able to adjust to market discipline. The design was compatible with TA objectives and focused on key areas of DBS operations. The consultants' TORs were generally appropriate and DBS management was fully involved in their formulation.

6. Like DBS, NPF is also a major supplier of credit and was to become increasingly linked to the banking system and financial markets after the FSPL. As the largest lender in Samoa, NPF had potentially considerable influence on interest rates, lending volume, and growth of the financial sector. The TA to NPF was considered necessary to sustain its role in the liberalized environment. The objectives of the TA were relevant to this rationale and the TA design was compatible with the objective.

2. Engagement of Consultants

7. Three international consultants were hired for the five TA components relating to CBS. The consultants were hired on time and started their field work in mid-1998. CBS contracted one expert for two roles: organization and management specialist (three person-months) and prudential supervision advisor (two person-months). This arrangement worked satisfactorily. The central banking specialist was hired for 6 person-months, the monetary economist, for 1.5. One expert handled two assignments, as strategic planning and resource mobilization specialist for DBS for 2.5 person-months and as fund management specialist for NPF for 4 person-months. The credit specialist worked for DBS and NPF for a total of four person-months. The consultancy contracts for DBS and NPF were awarded to a firm—an arrangement that worked well. All three GFIs participated in the selection of consultants, which conformed to ADB's *Guidelines for the Use of Consultants*.

3. Implementation Arrangements

8. CBS acted as the Executing Agency (EA) for the TA in close cooperation with the Treasury Department, DBS, and NPF. CBS satisfactorily managed and supervised the work of the consultants and gave them all the necessary support. The consultants worked closely with each other as well as with the GFIs. The organization and management specialist also worked closely with the IMF expert on liquidity management, although the advice did not produce immediate tangible results. Actual implementation schedule was close to expectations and no major delays occurred. The IT specialist was hired for three person-months to evaluate IT tender documents. However, contrary to the original plan, his assignment did not include finalizing arrangements to computerize CBS accounts and conduct staff training.

9. ADB supervised the TA from the headquarters and the South Pacific Resident Mission. An inception-cum-review mission was fielded in time upon consultants' arrival in the field. Comprehensive annual reviews of the FSPL, which also included the review of the TA, were carried out. In general, the implementation arrangements worked satisfactorily.

C. Evaluation of Outputs and Impact

1. Adequacy and Quality of Consultant Services and Reports

10. The central banking specialist advised CBS, with support from the IMF adviser, in issuance of securities to indirectly manage monetary policy and market liquidity, and trained CBS staff members to forecast the volume of securities issues and on the securities auction system. The consultant also studied the cost of CBS's securities issues as well as the means to finance the cost without adversely affecting the bank's financial health. The expert prepared a detailed report on long-term funding for CBS, use of market-based monetary policy instruments and their effect on CBS's financial condition, and alternatives to finance the costs related to CBS securities. These alternatives included compensating CBS through annual budget allocations, and transferring foreign exchange holdings of the Treasury Department to CBS with authority to retain 100 percent profit thereon instead of the 50 percent permissible now.

11. The organization and management specialist acting as prudential supervision advisor helped CBS prepare a corporate plan, review the organization structure, introduce an output budgeting system for greater accountability and performance measurement, and improve the format of CBS's annual report to make it more transparent and informative to the public. The consultant wrote a comprehensive report on corporate planning and output budgeting system for CBS. The consultant helped CBS formulate prudential guidelines for commercial banks as provided in the Financial Institutions Act of 1996, including an onsite examination system and staff training. The consultant also helped CBS formulate an amendment to this act to bring the NBFIs under CBS's prudential supervision. While prudential standards adopted by CBS for domestic banks are broadly consistent with the core principles of the Basle Committee on Banking Supervision, the prudential guidelines for NBFIs that would also apply to DBS and NPF are still under discussion[3]. The main issue that remains to be resolved is that DBS and NPF have argued for less stringent loan classification and provision requirements, claiming that they provide development credit facilities not available from commercial banks and that they should, therefore, not be subjected to regulations applying to commercial banks.

12. The monetary economist advised CBS on foreign exchange controls and their implications for CBS's financial position and recommended remedial measures. She submitted separate reports on the removal of control over current and capital accounts. The IT expert was originally expected to help CBS review tender documents and evaluate bids for computer equipment and software, as well as computerize systems and train staff. However, his actual assistance was limited to procurement. Installation and training assistance was provided by equipment and software vendors.

13. The consultants assigned to DBS (i) prepared a revised operational strategy and corporate plan, which were implemented successfully and are being used by DBS; (ii) reviewed DBS's organization structure and recommended setting up a separate recovery unit and hiring in-house legal experts to recover nonperforming loans (NPLs); (iii) examined the possibility of DBS issuing its own securities or deposit certificates to mobilize funds but concluded that it was not feasible without Government guarantee; (iv) helped streamline and computerize DBS's loan appraisal procedures, reducing processing time; (v) helped DBS adopt a risk-based interest rate policy, which improved the average lending rate; and (vi) developed internal prudential guidelines to conform to CBS's anticipated requirements. Overall, the consultants completed their work on time and in accordance with their TORs.

14. The fund management specialist was expected to help NPF (i) conduct corporate planning; (ii) manage assets and liabilities; (iii) enhance NPF's fund management capacity, including ability to define investment criteria through a strategic investment framework; (iv) evaluate NPF's real properties and develop formats of appropriate investment reports to NPF management; and (v) set up a research and planning unit. The consultant accomplished these tasks with varying degrees of success. Since NPF had already prepared a corporate plan, the TORs were adjusted to enable the consultant to help the four department heads prepare their departmental plans. However, NPF considered these plans to be too theoretical and never implemented them. The consultant trained the Investment Division staff to manage members' accounts and financial analysis. On the advice of the consultant, NPF discontinued housing

[3] Final TA output in respect of prudential supervision of nonbank financial institutions is expected to be available by February 2002.

loans and is trying to sell its housing portfolio to commercial banks. Finally, the consultant advised NPF on interest rate and risk management policies.

15. The credit specialist helped NPF improve its project appraisal; loan classification and credit rating system; operations manual; and provisioning, write-off, and recovery of NPLS. NPF management observed that breaking up the consultant's assignment into short phases was distracting and would have preferred a single continuous assignment. The management also thought that the consultant's reporting responsibility should have been spelled out more clearly.

2. Training

16. The consultants accomplished this component adequately. Training enabled the CBS staff to handle the securities auction system independently. Staff training in output budgeting and setting up inflation targets was effective, as was the training in onsite inspection of commercial banks under the new prudential regulations. The fund management specialist trained the NPF staff in basic accounting and financial analysis, including computation of return on investments. Finally, the credit specialist trained NPF and the DBS staff in loan appraisal techniques and procedures, loan provisioning, and handling of NPLs.

3. Institution Building

17. The main purpose of the TA was institution building of all three GFIs in line with ongoing financial sector reforms, which was substantially achieved. The TA has helped CBS to institutionalize corporate planning and output budgeting systems, and enhanced its monetary control and prudential supervision capabilities. The TA also benefited DBS and NPF in corporate planning, credit appraisal, investment management, project supervision, managing a loan-loss provisioning system, and handling NPLs. However, the TA did not accomplish the desired objectives of adopting measures to meet CBS's cost of issuing indirect monetary control instruments, and identifying a new resource mobilization strategy for DBS.

4. Performance of Consultants

18. The performance of all the consultants was generally satisfactory, and CBS and DBS appreciated the quality of their work. The quality of the consultants' reports was satisfactory. Consultants were not able to fully respond to the TORs relating to CBS due to reasons beyond the control of the consultants and CBS. The consultants for DBS performed well but did not recommend a clear-cut resource mobilization strategy. Finally, NPF was not fully satisfied with the corporate planning exercise conducted by the fund management specialist, but appreciated the consultant's work in preparing a strategic investment framework. The performance of the IT expert, however, did not fully meet expectations.

5. TA Impact

19. Despite some design limitations (para. 4), the TA was beneficial to all three GFIs and helped implement financial sector reforms. The governance and capacity of CBS stands significantly enhanced in a number of areas: (i) monetary policy; (ii) performance-based corporate planning and budgeting; (iii) prudential supervision of banks; (iv) transparency and accountability; (v) quality of financial and economic information made available to the public; and (vi) institutional aspects such as organization structure, staff skills, and MIS. However, TA

outputs and benefits were less than optimal in a few areas. An arrangement to enable CBS to meet the cost of servicing CBS certificates on a sustainable basis, an important TA objective, is yet to be formalized. No consensus has been reached on how extensive and rigorous CBS's prudential supervision of DBS and NPF should be and when it will commence. The main unresolved issues relate to portfolio classification and the basis of provisioning. TA consultants did not respond to all their TORs. For example, the consultants did not contribute to upgrading CBS's accounting system and restructuring the bank's financial statements based on the likely scenarios of financing the cost of servicing the CBS certificates. The IT advisor did not help establish, staff, or train the IT Unit or finalize the arrangements to computerize accounting records following installation of the new software. The OEM was unable to ascertain whether these shortcomings resulted from formal changes in the TORs.

20. DBS benefited from most aspects of the TA. The consultants revised DBS's operational strategy and prepared a corporate plan, which were implemented successfully. The consultants also helped DBS streamline and computerize its loan appraisal procedures, adopt a risk-based interest rate policy, formulate internal prudential guidelines, and review the organization structure. The review of the organization structure focused attention on recovery of NPLs, including legal action. However, the TA did not produce a viable resource mobilization strategy. The consultant examined the question of DBS issuing its own securities to mobilize funds but concluded that it was not feasible without Government guarantee. Other alternatives such as deposit mobilization and borrowing from other financial institutions, such as NPF, were also considered but found uneconomical. In the absence of feasible funding alternatives, DBS dependence on credit lines from institutions such as the European Investment Bank (EIB) will continue. On balance, the TA appears to have made significant impact on DBS's prospects and sustainability (Table A4.1).

21. NPF also benefited from the TA in a number of ways. The TA provided NPF with a strategic investment framework, which helped change NPF's investment philosophy and will make NPF's investment portfolio more diverse and balanced. The TA also strengthened NPF's capacity in portfolio management and debt recovery, particularly through security enforcement and foreclosures. The TA also made valuable contributions in credit appraisal, MIS, valuation of real properties, and provision of corresponding guidelines. Finally, the TA helped NPF refine the methodology for risk-based loan pricing, which was initially developed with the assistance of ANZ Samoa Bank (Table A4.2). However, some important activities included in the TORs were not completed: most important, the portfolio review and provisioning exercise. Another incomplete activity relates to the management plan. However, a number of provisions of the management plan prepared by the consultant are reflected in NPF's "homegrown" corporate plan.

D. Conclusions

1. Key Issues

22. The GFIs face three key issues. The first relates to financing the cost of issuing CBS certificates to sustain the monetary control function of CBS without adversely affecting its financial position. The Government reimburses this cost to CBS through budgetary allocations. This arrangement is ad hoc and subject to variation from year to year. An alternative under consideration is to transfer the Government's foreign exchange reserves to CBS, which will provide it a sustainable revenue base. This revenue would be subject to fluctuation and may not

be sufficient. In any case, resolution of this issue is one of the conditions for release of the second trench of the FSPL and is expected to happen soon.

23. The second issue relates to the application of prudential supervision of NBFIs such as DBS, NPF, and insurance companies. The position of DBS and NPF on this issue is different from that of CBS. These GFIs have argued for special dispensation on provisioning requirements because of the special nature of their operations, i.e., development lending. The issue is being discussed between the three parties and needs to be resolved soon. Another issue relates to DBS's small loans to support small agriculture producers. These loans are subsidized but costly to administer and are high-risk due to lack of collateral, putting DBS at a distinct disadvantage vis-à-vis commercial banks and requiring innovative means of covering the related costs. Lending rates will have to be aligned with market rates, and the collectibility of the loans improved. Proposals to allow extended lease on the customary lands by way of collective guarantees have been discussed but have not materialized.

24. The third issue relates to resource mobilization by DBS, an issue relevant to most development finance institutions in the region. DBS has relied on credit lines from EIB and others (including ADB), but this kind of funding is not sustainable over the long term. Formulating a feasible strategy for domestic resource mobilization, therefore, remains an important issue.

2. Overall Assessment

25. The impact of the TA on CBS, DBS, and NPF has been very significant, and these institutions are now better prepared to fulfill their roles in the liberalized and more competitive financial environment. CBS is now conducting monetary policy and supervising banks effectively, and DBS and NPF are being run along commercial lines. Despite certain shortcomings in TA outputs, on the whole, the TA is rated successful.

3. Lessons Learned

26. The evaluation has important lessons for TA design, formulation, and implementation. First, careful deliberation and attention to detail in designing and formulating TAs is important to avoid the need for major revisions later. Flexibility, pragmatism, and speed in making minor adjustments to TORs enhance the effectiveness of TA. However, while making such adjustments, it is important to ensure that desired outputs are not compromised. In the case of the TA to CBS, some of the original TORs were not addressed by the consultants.

27. A second lesson is that the TORs, implementation scheme, and reporting requirements need to be described with clarity and precision so that inputs and outputs can be monitored effectively. ADB needs to supervise the TAs more closely. In the case of the TA to CBS, some of the TORs were imprecise and vague, and reporting requirements do not appear to have been specified adequately at the approval stage.

28. Another important lesson relates to the need for close consultation among ADB, governments, EAs, and consultants throughout implementation where the consultants' work highlights the need for policy action by government. In the case of TA 2989-SAM, two key issues—prudential regulation of DBS and NPF, and provision of a sustainable income stream for CBS—remain unresolved. It is reasonable to conclude that more frequent and focused

discussion on these matters between consultants, ADB, and the Government may have realized the TA objectives sooner.

29. Finally, the experience with this TA demonstrates that advisory TAs are effective only when advisory outputs are properly dispersed and institutionalized. The main reason that the benefits of ADB's earlier TAs to DBS (formerly Development Bank of Western Samoa) were not sustained was that TA inputs focused on training individuals rather than institutionalizing TA outputs. This difference is amply exemplified by the fact that CBS, DBS, and NPF have used consultants' advice to learn corporate planning rather than have consultants make corporate plans for them. Such outcomes ensure sustainability of TA benefits.

4. Follow-up Actions

30. The main issues requiring follow-up relate to (i) sustaining CBS's auction of its monetary instruments, (ii) applying CBS's prudential supervision guidelines to DBS and NPF, and (iii) sustaining DBS as a viable financial institution, given the lack of transparency of its portfolio quality and perceptibly inadequate loan-loss provisions. To a lesser extent, these concerns also apply to NPF. To mobilize resources independently, DBS's portfolio quality and capital adequacy need to be brought up to par with those of a sound commercial bank. Otherwise, DBS will continue to depend on Government help and credit lines from institutions such as EIB. DBS and NPF should be subjected to the same prudential regulations on capital adequacy, loan classification, and provisions that apply to commercial banks.

Table A4.1: Development Bank of Samoa Financial Highlights, FY1989–FY2000[1]

(ST'000 and percent)

Item	FY1989	FY1990	FY1991	FY1992	FY1993	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000
TA Milestones		TA-1399 Approval		TA-1399 Completion						TA-2989 Approval		
Balance Sheet												
Liquid assets[2]	501	1,474	569	1,366	416	343	1,292	839	551	757	1,314	434
Term deposits	0	0	1,708	989	1,025	537	3,205	754	1,326	817	1,457	1,906
Loans (net)	37,050	37,615	33,541	35,236	32,216	34,776	36,430	40,204	40,504	42,299	45,905	49,459
Current assets	13,245	12,635	11,200	11,946	15,070	13,734	16,820	18,171	12,922	15,560	20,344	13,486
Total assets	39,808	42,629	39,910	41,785	43,405	43,460	45,331	45,886	46,183	48,033	53,088	57,144
Total liabilities	29,003	31,861	28,052	28,990	29,224	28,699	30,210	30,250	29,909	32,114	36,974	41,298
Total shareholders' equity	10,805	10,768	11,857	12,795	14,181	14,761	15,121	15,636	16,274	15,919	16,114	15,846
Income Statement												
Interest income	5,081[3]	5,091[3]	5,029	4,906	4,986	4,523	4,361	4,799	4,943	4,337	4,913	5,297
Other operating income	247	754	395	302	600	590	602	542	712	587	593	881
Interest expense	1,579[4]	1,721[4]	59	52	1,465	1,407	1,385	1,122	1,129	1,186	1,369	1,489
Other operating expenses	1,699	2,044	5,617	4,419	3,289	2,836	2,814	3,026	3,605	4,657	3,837	3,607
Bad debts expense	2,262	5,234	1,868	800	800	0	230	400	500	1,520	650	538
Net income (losses) after tax	(163)	(4,465)	(143)	438	386	579	360	515	637	(575)	195	386
Ratios (%)												
Liquid assets/Total assets	1.3	3.5	1.4	3.3	1.0	0.8	1.9	1.8	1.2	1.6	2.5	0.8
Current assets/Total assets	33.3	29.6	28.1	28.5	34.7	31.6	37.1	39.6	28.0	32.4	38.3	23.6
Earning assets[5]/Total assets	93.1	88.2	88.3	86.7	76.6	81.3	87.4	89.3	90.6	89.8	89.2	89.9
Total equity/Total assets	27.1	33.8	29.7	30.6	32.7	34.0	33.4	34.1	35.2	33.1	30.4	27.7
Total debt/Total equity (x)	2.7	3.0	2.4	2.3	2.1	1.9	2.0	1.9	1.8	2.0	2.3	2.6
Current asset /Current liabilities (x)	2.8	2.2	2.2	1.4	2.1	4.2	5.1	2.0	2.0	11.5	8.8	2.3
Net income/Total revenues	neg.	neg.	neg.	8.4	6.6	11.3	7.3	9.6	11.3	neg.	3.5	6.2
Net income/Total assets	neg.	neg.	neg.	1.0	0.9	1.3	0.8	1.1	1.4	neg.	0.4	0.7
Net income/Total equity	neg.	neg.	neg.	3.4	2.7	3.9	2.4	3.3	3.9	neg.	1.2	2.4
Bad debts expense/ Operating expenses	40.8	71.9	32.9	17.9	16.8	0	5.5	12.4	10.6	26.0	12.5	11.3

FY = fiscal year, ST = tala, TA = technical assistance

1 Fiscal year of DBS ends on 30 September.
2 Cash and cash equivalent, and Due from Reserve Bank and other banks.
3 Includes fees.
4 Includes other borrowing expenses.
5 Comprise deposits and loans.

Source: Development Bank of Samoa.

Table A4.2: Samoa National Provident Fund Financial Highlights, 1997-2000
(ST'000)

Item	1997	1998	1999	2000
TA Milestones	TA-2989 Approval			
Total Funds Employed	129,236	148,057	163,250	206,034
No. of Employee Members (numbers)	61,000	61,992	62,912	64,377
Employee Contribution Balances	107,487	123,951	138,268	154,503
No. of Employer Members	823	859	894	930
Employer Contributions	16,508	16,924	17,937	19,141
Net Income	8,886	9,964	12,909	12,215
Return on Funds (percent)	6.9	6.7	7.9	5.9
Return on Contributions (percent)	8.3	8.0	9.3	7.9
Loans in Arrears				
Less than 3 months	752	615	430	276
3-6 months	406	401	380	153
6-12 months	772	800	562	146
More than 12 months	4,771	4,199	5,264	5,939
Investment Portfolio (percent)				
Cash	1.3	2.1	0.6	1.2
Loans	69.3	70.9	70.9	59.5
Short term Deposits	16.3	15.7	14.0	14.7
Property Assets	11.4	10.0	13.4	23.9
Others	1.7	1.3	1.1	0.7

ST = tala, TA = technical assistance.

Source: Samoa National Provident Fund.

EVALUATION OF TA 2446-PNG: SMALL BUSINESS DEVELOPMENT CORPORATION ACCOUNTING AND MANAGEMENT INFORMATION SYSTEMS

A. Background

1. Rationale and Concept

1. At the time of technical assistance (TA) formulation, small-scale business (firms with less than K100,000 in capital) accounted for only 3.5 percent of gross domestic product and 4 percent of formal employment—much lower than in most developing countries. The Government's medium-term industry and trade development action plan recognized the essential development role of small-scale business and promoted it to broaden the involvement of indigenous entrepreneurs in the economy. The Small Business Development Corporation (SBDC) was thus established in 1990 under the SBDC Act. With its broad mandate, SBDC offered direct financial assistance and training to small-scale entrepreneurs to improve their success rate. In 1995 SBDC adopted an action plan, which aimed to enhance its accounting system and management information system (MIS). The subject Asian Development Bank (ADB) TA was provided to implement these aspects of the action plan.[1]

2. Objectives and Scope

2. The TA objective was to promote small-business development in Papua New Guinea (PNG) by helping SBDC establish an effective and efficient accounting system and MIS. The TA scope included consultant services to help assess the agency's accounting and MIS needs and reporting requirements responsive to Government's budget and accounting formats, and to recommend and implement appropriate systems to meet these needs. The TA covered provision of hardware and software, training to operate computerized accounting and MIS, and continuing technical back-up and support facilities.

3. For the accounting system, the TA aimed to (i) identify current and future SBDC activities and reporting requirements, (ii) design a chart of accounts and set up accounting policies and procedures with appropriate documentation and manuals, (iii) install and test the new accounting system, (iv) train future trainers to use accounting software and operate the system, and (v) establish a formal channel to provide technical support and system maintenance. For MIS, the TA aimed to (i) review SBDC's current and future information needs for internal and external purposes; (ii) devise, install, and test an effective system, and train staff in its use; and (iii) arrange necessary back-up support. The system was required to be capable of integrating all SBDC's operational and financial information and provide "early warning" advice on important developments in loans and off-balance-sheet contingencies.

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[1] TA 2446-PNG: *Small Business Development Corporation Accounting and Management Information Systems,* for $255,000, approved on 16 November 1995.

B. Assessment of Implementation Performance

1. TA Design

4. The TA concept was appropriate for promoting small business and providing it with support services. The TA objective was relevant to the overall goal of strengthening SBDC's institutional capacity to function more effectively and efficiently. The TA design and scope were compatible with this objective. The TA was also in line with ADB's operational strategy for PNG to develop indigenous enterpreneurship. The consultants' terms of reference (TORs) were comprehensive, clearly written, and appropriate to the TA objective and scope. As the Executing Agency, SBDC was involved in designing the TA and drawing up the TORs.

5. The quality and design of the physical inputs, hardware, and software for accounting and MIS were also appropriate. The 270 person-days of consultants' services were deemed sufficient. However, the budget for the consultants' services was estimated based on the services of two individual consultants, while the minutes of understanding of the TA Fact-Finding Mission provided for the services of a consulting firm operating in PNG to ensure back-up services for maintenance (para. 6). When the firm was eventually engaged, consultant input was reduced to 160 person-days to stay within budget. The selected firm, however, agreed to deliver the final product according to the TORs within the reduced input. No evidence confirms whether the change from a consulting firm at approval stage was made at the instance of the Government, SBDC, or ADB. However, considering the nature of consulting requirements, the need for an integrated accounting and MIS system, and the fact that the implementation scheme did not provide for a team leader to coordinate TA inputs under the accounting and MIS components, engagement of a firm at the outset should have been seen to be significantly more advantageous.

2. Engagement of Consultants

6. The implementation of the TA was delayed on two accounts. First, the Government signed the TA agreement after a delay of six months, mainly due to unfamiliarity of officials with the procedures involved. Then contract negotiations were delayed by a year as the Government and SBDC officials preferred to hire a local branch of an international firm since individual consultants were not available locally. SBDC favored hiring a local firm for its back-up capacities and declined to consider the lower-ranked individual candidates. Eventually, TA arrangements were modified to accommodate SBDC's preference. Implementation was further hampered by changes in personnel assigned by the selected consulting firm.

3. Organization and Management

7. The TA was well underway and the consultant was still in the field in November 1998 when the Government decided to close down SBDC due to budget constraints and transfer some of its services and assets to other agencies. TA activities had to be suspended. In March 1999 the consulting firm advised ADB of the formal termination of consultant services. (The operations evaluation mission [OEM] was unable to locate a draft final report or the final report of the consultant.) Meanwhile, SBDC closed its branches and started to wind up head-office activities. In August 1999 the new Government promptly ordered the revival of SBDC albeit with

a reduced mandate and smaller budget and staff. However, by then the TA benefits had been largely lost.

4. Implementation Schedule and Financing Arrangements

8. The TA was approved in November 1995. The consultant services were originally envisaged to start in February 1996 with completion aimed for June 1996. However, implementation was substantially delayed. The TA agreement was signed in May 1996 but the consultants' work did not commence until January 1998 due to disagreement over whether the TA should be implemented by a local consulting firm or two individual consultants. The delay could have been avoided by developing at the approval stage a proper understanding with the Government and SBDC on the implementation arrangements.

9. The TA budget provided for an ADB grant of $255,000, covering the consultants' fees, computer equipment and software, local travel, etc. Government contribution was estimated at $75,000 to finance remuneration of counterpart staff, communications, and administrative support. The consultants' lump-sum fee was $135,000, but the amount finally disbursed was $123,339. Disbursements for computer hardware and software amounted to $77,729. The TA was thus implemented well within budget although TA outputs remained short of expectation due to SBDC's closure (para. 7).

5. Supervision

10. SBDC made adequate arrangements to supervise TA implementation. On the recommendation of the consultant, SBDC appointed a systems administrator in July 1998 as the main counterpart staff. However, following the Government's abrupt decision to close down SBDC, ADB had no opportunity to salvage the TA and institutionalize its benefit. Nonetheless, as noted in the technical assistance completion report (TCR),[2] ADB supervision of the TA was sometimes hampered by staff turnover.

C. Evaluation of Output and Impact

11. The TA benefits were to be realized in three ways: (i) development and installation of accounting and MIS software; (ii) provision of computer equipment comprising eight workstations together with cabling and peripherals; and (iii) staff training, including training of trainers. By the time the TA ended, all the hardware had been procured and the accounting system software acquired and installed in all but one workstation. Following a needs analysis, MIS software had been substantially developed but not enough to be delivered. Training activities had not even begun. Thus, the only TA benefit that can possibly be sustained is the use of computer equipment, yet even this has not been fully realized. In all, eight computer workstations were procured under the TA. Of these, only three were available and being used by SBDC at the time of the OEM. Another three units were installed at branches, which have since been privatized. The workstation equipment was then sold to staff members but SBDC has not received any payment for it. One unit was taken over by the minister of trade and industry. The unit was later transferred to the Department of Trade and Industry (DTI) and

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[2] TCR: 2446-PNG: *Small Business Development Corporation Accounting and Management Information System*, April 2000.

allocated to an official who was transferred to the Investment Promotion Authority. DTI and SBDC do not know if the equipment is being used for official or personal purposes. Another unit was with the consultant when SBDC closed down and the equipment's fate is not known, either.

12. Upon consultants' recommendation and after looking at the demonstration module, SBDC procured an accounting system software called Solution Six, which is too elaborate for SBDC's now-reduced needs. SBDC does not have the staff capacity to operate it since training activities under the TA had not been completed when SBDC closed down. It has since acquired, at additional cost, a simpler software package called Quickbook, which has been installed and is working satisfactorily.

D. Conclusions

1. Key Issue

13. A key issue that arises from this TA is that when a government decision fundamentally alters a project in midstream, the benefits of the whole project are lost. The Government should, therefore, offer upfront assurance that the basic conditions for the project's implementation and success are sustainable. Since decisions such as the closure (and revival) of SBDC were political and difficult to anticipate, ADB should seek Government assurance through a standard covenant as part of the TA agreement.

2. Overall Assessment

14. A radical midcourse change in Government policy resulted in substantial loss of TA benefits. The only sustainable benefit is the partial use of computer workstations by SBDC. The technical assistance performance audit report agrees with the conclusion of the TCR that if SBDC activities had not been disrupted, the TA output would clearly have been rated as fully satisfactory, with the major difficulty being a long delay in actual delivery due to the delayed start. The assessment of SBDC accounting and MIS requirements was done professionally and fully met its requirements, as did the system that was procured and developed. However, the suspension of SBDC activities and the uncertainty regarding the agency's final mandate and structure has greatly reduced the value of the TA outputs. The TA is rated as unsuccessful.[3]

3. Lessons Learned

14. This TA's experience highlights the need for close consultation between ADB and the government and/or executing agency whenever a change is desired in an understanding previously reached. In the case of this TA, consultant selection was considerably delayed because ADB and SBDC disagreed on whether to engage a firm or individuals. This could have been avoided through prior and timely consultations on the need for a change in the understanding reached during TA fact-finding. The other lesson is that even if the arrangement to engage a consulting firm had been changed in favor of engaging two individual consultants, given the nature of the required consulting inputs, one of the individual consultants should have been made responsible for overall coordination and integration of the accounting system and MIS. Alternatively, the TA budget could have provided for a contingency budget to engage a

[3] The TCR rated the TA as "generally unsuccessful."

consulting firm in case the option to engage individual consultants did not work out satisfactorily. A consulting firm was eventually engaged, but for a significantly reduced number of person-days due to inadequate budget. In view of the abrupt and premature termination of the TA, no basis exists to determine whether the consultant would have been able to complete the remaining MIS and training work within the reduced time frame of 160 person-days.

4. Follow-up Action and Recommendation

15. Future prospects of SBDC are uncertain, given that its new mandate now excludes income-generating financial activities. Government funding is not sufficient to enable SBDC to undertake promotional and training activities. The OEM understands that the Government's small and medium enterprise policy of 1998 is also under review. ADB should urge the Government to complete this review as soon as possible and clarify SBDC's future role and responsibility. Then ADB could possibly use SBDC as a conduit, among others, to deliver future assistance for poverty reduction.

EVALUATION OF TA 2961-VAN: STRATEGIC PLAN FOR THE NATIONAL BANK OF VANUATU

A. Background

1. Rationale and Concept

1. The National Bank of Vanuatu (NBV) started operations in 1991 with the mandate to provide credit access and banking services to the ni-Vanuatu[1] not served by private banks, especially in rural areas and the outer islands. By 1996 NBV had become technically insolvent. It had a negative equity of vatu VT186 million and loan arrears of 25 percent of portfolio. The bank's management was weak and operations prone to political interference. The Government-owned Development Bank of Vanuatu (DBV) was in an even more precarious state. In 1997 an Asian Development Bank (ADB) mission conducted an indepth evaluation of operational and structural problems of NBV and DBV and presented to the Government several options for their restructuring. In view of NBV's significant impact on financial sector stability and efficiency, and role in equitably distributing development benefits to rural areas, the Government decided to restructure and rehabilitate NBV, close DBV, transfer its good loans to NBV, and transfer the nonperforming loans (NPLs) of NBV and DBV to the Asset Management Unit (AMU). The subject technical assistance (TA) was provided to prepare a strategic plan to chart the new direction of NBV, including promoting ni-Vanuatu businesses.[2]

2. Objectives and Scope

2. The TA was designed to strengthen NBV as part of the Government's Comprehensive Reform Program (CRP), including restructuring and rehabilitating government financial institutions to sustain private sector-led economic growth. The principal outputs of the TA were (i) implementation and monitoring of a strategic plan for NBV; (ii) formulation of business policies and policy guidelines to manage NBV's asset portfolio; and (iii) reorganization and staffing, evaluation of staff competencies, and determination of human resource requirements to implement the strategic plan.

B. Assessment of Implementation Performance

3. The TA design was in conformity with the CRP and compatible with TA objectives. The TA appropriately focused on restructuring and streamlining NBV and DBV, including enacting laws to ensure sustainability. However, the TA design did not embody adequate measures to mitigate the loss of development lending activities of DBV after its closure. As a result, NBV has not maintained supply of credit to small businesses and farmers. The scope of the TA was sufficiently responsive to its objectives and drew attention to the need for improved profitability, strengthened liquidity, and adherence to good commercial banking practices. However, a six-month gap between the completion of the consultants' report and the arrival of an expatriate general manager required updating of the strategic plan to incorporate the general manager's inputs into credit and risk management policies.

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1 "ni-Vanuatu" means a citizen of Vanuatu.

2 TA 2961-VAN: *Strategic Plan for the National Bank of Vanuatu*, for $150,000, approved on 12 December 1997. Preparation of a strategic plan is an important condition under Loan 1624-VAN(SF): *Comprehensive Reform Program*, for $20 million, approved on 16 July 1998.

4. The consultants' terms of reference (TOR) were generally adequate but did not fully address key issues concerning (i) availability of skilled ni-Vanuatu bankers; (ii) arrangements (including financing) relating to sale and/or transfer of assets of NBV, DBV, and the Vanuatu National Provident Fund to the AMU; and (iii) integration of special lending services for rural development with NBV's operational plans.

1. Engagement of Consultants

5. A core team of three consultants was mobilized to develop the strategic plan over 5.5 months. Consultant inputs were adequate. However, two consultants required three more person-weeks to complete their work, while a fourth consultant, a banking specialist, was engaged under a separate TA.[3] A local project manager helped formulate and implement the restructuring process. Consultant selection was in accordance with ADB *Guidelines on the Use of Consultants.*

2. Implementation Schedule and Financing Arrangements

6. The TA was completed within six months of approval. Completion of the TA study was timely and in line with the approval of the Comprehensive Reform Program Loan, for which the study provided strategic inputs to formulate loan covenants to restructure financial institutions. At TA completion, actual ADB disbursements amounted to $128,122 or about 85 percent of estimated costs.

3. Organization and Management

7. The Government provided good organizational and management support for TA implementation. The prime minister appointed a high-level NBV advisory committee, which functioned effectively, to oversee the work leading to the strategic plan. While coordinating actively with ADB, the consultants reported directly to the Government, which helped strengthen "ownership" of and accountability for the restructuring exercise.

4. Supervision

8. On the whole, ADB supervision of the TA was satisfactory, ensuring that implementation was consistent with the overall country assistance program. An inception mission was fielded to start TA implementation and establish the high-level advisory committee. The areas where TA administration should have been stronger were (i) integration of special lending services with NBV's operations, (ii) long-term capacity building of local NBV staff to succeed expatriate managers, and (iii) provision of guidance to the AMU.

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[3] TA 3046-VAN: *Institutional Support to Central Agencies for the Comprehensive Reform Program-Phase 2,* for $1.2 million, approved on 16 July 1998.

C. Evaluation of Outputs and Impact

1. Adequacy and Quality of Reports and Services Provided

9. The objectives relating to the strategic plan and NBV's reorganization and staffing were satisfactorily met. The main outcomes of the strategic plan were the recapitalization of NBV and the transfer of NPLs to AMU. The reorganization study identified skill and leadership deficiencies and led to the employment of four expatriate managers, including the general manager. However, TA output was deficient in business policies, information systems, and portfolio management. NBV saw the credit policy prepared under the TA as a minimal draft and never used it.

10. The strategic plan embraced satisfactory legislative, corporate governance, management, and operational reform measures, and met NBV's expectations, except that no plan was made to recover the assets transferred to the AMU. Commitment to implement the strategic plan was enhanced by 13 specific actions under the CRP, including five conditions tied to the release of loan tranches. All 13 actions have since been completed.

11. The goals and objectives set out in the strategic plan were substantially met, with three of the five market-related targets satisfactorily achieved in 2000: (i) rebranding of activities to promote a new marketing image, (ii) formulation of a three-year strategic marketing plan, and (iii) establishment of the Customer Sales and Service Department. All four human resource-related targets were met: (i) private sector representation on NBV's board, (ii) appointment of a management team, (iii) improvement of organization structure, and (iv) staff training. The risk management objective was addressed in 1999 by putting in place the required policies and procedures. Finally, operational capability was enhanced through the use of appropriate banking software, such as MicroBanker, SWIFT, and MicroPay. However, lack of power and telecommunications infrastructure in rural areas hindered strengthening communication with branches and increasing the number of online branches.

2. Institution Building

12. The TA made major contributions to NBV's operational effectiveness and service quality. NBV developed a good management team and enhanced its risk management capability under the guidance of expatriate banking officials. Minor contributions were seen in NBV's policymaking capacity and staff's technical competencies. The TA also helped NBV use the performance indicators. However, NBV continued to find it difficult to hire skilled bankers as they were so rare. NBV staff received 12,000 person-hours of training in 1999 and close to 10,000 person-hours in 2000. Selected staff members were sent to attend various management courses as part of succession planning. Finally, a traineeship program was started for young people interested in banking careers. Nonetheless, NBV remains managed by four expatriate senior banking officials (against none initially projected) with no local staff qualified to take over from them when their tenures end. The succession plan developed by the present expatriate management implies a 10-year time frame, which is considered too long, to develop a ni-Vanuatu managing director and credit manager.

3. Performance of Consultants

13. In general, the consultants performed in accordance with their respective TORs. However, while the performance of the strategic planner and human resource specialist was considered satisfactory, the NBV management reported that the output of the specialist for credit risk management was superficial. No credit and/or risk management policies were introduced, nor was the loan classification system modified. The credit manual remained a draft outline. Nonetheless, the overall strategy recommended by the consultants was appropriate and the transfer of NPLs to the AMU facilitated NBV's rehabilitation. However, the consultant's report did not offer specific guidance to operate the AMU. The restructuring process should have paid greater attention to building long-term management capacity based on ni-Vanuatu human resources to ensure NBV's long-term sustainability.

4. Impacts of the TA

14. Implementation of the strategic plan under the TA has helped NBV return to profitability, and has also stopped the drain on Government resources by poorly performing financial institutions. Specific TA impacts are described below.

a. Merger of the Development Bank of Vanuatu with National Bank of Vanuatu

15. DBV and NBV merged to create a commercially viable bank, with total loans of VT245 million transferred from DBV to NBV. Of these loans, about 25 percent are considered performing, and 6 percent nonperforming or doubtful. The balance of 69 percent was recovered, sold, written-off, or restructured on commercial terms. Following the merger, NBV retrenched 30 percent of its combined staff with DBV. A key adverse impact of DBV closure is the loss of an institutional mechanism to provide special loan services to the rural sector. Government took several ad hoc initiatives to bridge the gap in development lending, including a microfinance scheme and a cooperative development fund,[4] both funded by grants from the People's Republic of China and administered by the Ni-Vanuatu Business Development Center under the Ministry of Trade and Commerce. Overall, these initiatives appear to be inadequate to satisfy the loan demand for financing long-term development projects, particularly in the rural sector.

b. Role and Function of the National Bank of Vanuatu

16. NBV envisions itself as profitable, competitive, and driven by customer needs. It has maintained a network of 19 branches. Those in Port Vila and Santo cross-subsidized nonprofitable branches, extending NBV's reach to rural areas but not sufficiently. In 1999 NBV reviewed its fee structure and minimum balance requirements. A budget-driven marketing campaign is ongoing to educate clients on products, services, fees, and charges. NBV also sought to reduce its operating costs while increasing income through new products and diversification of customer base. To ensure competitiveness within a narrow market, NBV seeks to provide efficient and professional banking and financial services. However, its corporate

[4] The microfinance scheme provides finance to small-business projects ranging from VT50,000 to VT2 million against a collateral margin of only 20 percent. The loans are repayable over six months to three years. The cooperative development fund helps cooperatives, and has a collateral margin of 50 percent.

accounts remain smaller than its competitors' due to its image as a failed and restructured Vanuatu bank and the preference of corporate customers for banks with direct foreign links.

17. Following restructuring, NBV has operated exclusively along commercial lines, concentrating on secure, low-risk business, and strongly emphasizing profit maximization. As a result, 89 percent of NBV's credit approvals and 87 percent of deposits have been concentrated in Port Villa in the last three years. NBV has not been immediately concerned with providing lending services to rural areas but has focused on improving profitability and strengthening liquidity and the capital base.

c. Performance of the National Bank of Vanuatu

18. NBV has been profitable for the last three years and the trend is likely to continue (Table A6). The bank's total equity is estimated to reach VT114 million as of end-2001 or 88 percent above the ADB consultant's projections. NBV is strongly liquid, with a ratio of average liquid assets to total assets of 26 percent, and a ratio of liquid assets to total deposits of 31 percent during 1998–2000, both ratios exceeding the central bank's prudential limits. NBV's capital adequacy ratio of more than 20 percent is above the minimum requirement of 12 percent. Helped by a conservative lending stance, NBV has managed to limit its postrestructuring arrears to 3 percent of total loans, a substantial improvement over the arrears rate of 65 percent before the transfer of NPLs to the AMU, and 30 percent of the old loans retained by NBV. From a macro perspective, NBV remains a small player in terms of deposits, loans, and funds under management. The bank's market share for total loans saw a drop from 14 percent in September 1997 to about 9 percent in March 2001. However, the market share for total deposits improved from 5.4 percent in September 1998 to about 7 percent in early 2001.

d. Performance of the Asset Management Unit

19. The AMU started off with an initial loan portfolio of VT2,133 million comprising 1,232 accounts, acquired at a cost of VT1,591 million.[5] AMU's collection performance has been poor, with cumulative collections amounting to only VT214.8 million (10 percent) while 50 percent of its five-year mandated operational life has elapsed. This poor recovery has been ascribed to external factors, including litigation delays caused by backlog of cases in courts and shortage of judges, congestion in the property and real estate market, high management turnover,[6] and lack of adequate travel budget for AMU staff.

20. It is evident that the AMU will not be able to recover all the loans. In December 2000 it initiated an in-depth risk analysis to determine which loans were uncollectable and which could be collected over a longer tenor after restructuring. This exercise resulted in the write-off of 148 loans totaling about VT 353 million, leaving the AMU with a portfolio of VT1,907 million as of mid-2001. For end-2001, the AMU has set itself a target to reduce the loan portfolio to VT1.2 billion and expects to accomplish this target by writing off loans totaling VT651.3 million and cash collections of VT172.7 million, including sale of collaterals.

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[5] The AMU was established in October 1998 by an act of Parliament to manage and recover bad debts acquired from DBV, NBV, and Vanuatu National Provident Fund. The AMU was mandated to accomplish the liquidation tasks in 1998–2003.

[6] Since its inception in late 1998, AMU has had three chief executives.

D. Conclusions

1. Key Issues

21. **Sustainability and Profitability of NBV.** While the financial position of NBV is steadily improving, its operating costs remain high. NBV thus operates on a tight budget, and cost savings are as much an issue as generating more income through new loan products and fee income, diversifying the customer base, and selective marketing of international products. NBV is the weakest of the three operative commercial banks in terms of modern commercial banking skills and homegrown management. NBV's long-term viability will, therefore, depend on cost efficiency, quality of loan portfolio, and development of competent ni-Vanuatu staff.

22. **Continuity of Good Corporate Governance in NBV**. NBV must maintain a professional management team that will uphold sound banking practices and conduct business at arm's length. Strong leadership provided by the general manager has been a key factor in NBV's rehabilitation. The former general manager has left and been succeeded by another banking expatriate, thereby assuring NBV's short- to medium-term success. In the long run, however, a ni-Vanuatu must be groomed to replace the expatriate. NBV's 10-year time frame for this, however, is too long.

23. **Balance between Commercial and Social Concerns**. NBV prudently emulates the behavior of other commercial banks by focusing on high-yield products and low-risk customers. However, NBV remains a national bank provided with "cost-free" capital and is expected to service a broad spectrum of the population and promote equitable economic growth. NBV's operational strategy ignores the credit needs of low-income groups, particularly in the rural and agricultural sectors. NBV needs to find creative ways to extend its reach to the rural sectors such as agriculture and small business by using the branch network and modalities such as microfinance, cooperative credit, and credit guarantees.

24. **Future of the AMU.** In about 2.5 years, the AMU has dealt with three different ministers of finance, none of whom appears to have tried to help the AMU improve its performance. To effectively recover or liquidate the acquired NPLs, the AMU needs continued commitment of and supervision by the Government, which, however, does not seem to be forthcoming.

3. Overall Assessment

25. The strategic plan provided a sound basis for restructuring and rehabilitating NBV, and it has been profitable for the last three years, stopping the drain on Government resources. NBV has benefited from a competent management team led by an expatriate chief executive officer, managed its cost structure well, and adhered to sound commercial banking practices. A strategic planning process has been institutionalized within NBV in the form of three-year rolling corporate plans. However, the TA did not adequately address the priorities at TA formulation in terms of disposal of debts and continued provision of development credit to small rural businesses. Overall, the TA is rated as successful.

4. Lessons Learned

26. The TA has demonstrated that good corporate governance, which is a function of best commercial banking practices and competent management, is critical to the success of restructuring and rehabilitation of financial institutions. As a key stakeholder, management should be directly involved in the strategic planning process, including review of policies, procedures, and systems. Broad ownership of strategic plans and the mission statement is critical to good performance and results. A second lesson is that, in developing staff capacity in financial institutions, human resource strategies need to go beyond ad hoc training activities and follow a long-term and sustainable approach. Third, the Government needs to develop a systematic approach to improve access to credit of rural sectors. State-owned financial institutions should balance their commercial objectives and development role. Finally, the resolution of banks' debt problems requires more than separating the NPLs through mechanisms such as the AMU. Such agencies are likely to face the same recovery problems that beset banks in the first place, such as poor credit culture, aversion to bankruptcy, ineffective judicial system, and political interference. A comprehensive debt collection strategy addressing all these issues is necessary to resolve the bad-debt problem.

E. Follow-Up Actions

27. Follow-up action is required to improve access to credit of small businesses, particularly in rural areas, expedite the disposal and recovery of bad debts, and ensure NBV's institutional sustainability.

28. **Access to Credit.** The Government needs to develop a systematic approach, including financially self-sufficient institutions to deliver financial services to the rural sector and economically active poor. ADB has provided a TA for rural financial services[7] and programmed a loan project (using NBV as a channel) for 2003. The TA has helped formulate an NBV pilot rural banking program to start in early 2002.[8] NBV is set to conduct a feasibility study on rural banking activities in the last quarter of 2001. Further dialogue and consultations between ADB, and NBV and policymakers are needed to bring such initiatives to fruition. Technological upgrading of NBV branches, such as through online services, would also help improve cost efficiency of NBV rural branches.

29. **Recovery and Disposal of Bad Debts**. The Ministry of Finance needs to improve the performance of the AMU and decide its future direction. It is well known that not all loans with the AMU are recoverable, and those with some potential will need to be revalued and restructured. Alternatively, if the Government is unable to continue funding the AMU, serious consideration should be given to subcontracting the recovery of the AMU portfolio and/or its sale to the private sector.

30. **Human Resource Development.** The issue of qualified staff to fill job positions in NBV is seen to persist in the medium to long run. Although staff turnover declined to 17 percent in 2000 from 29 percent in 1999, it remains a serious concern. Future human resource development activities also need to focus on (i) developing local personnel to assume managerial positions, notwithstanding the constraints posed by culture and educational

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7 TA 3206-VAN: *Rural Financial Services Project*, for $250,000, approved on 16 January 1999.

8 The program included a needs assessment on microfinance (i.e., cooperative services) for 6–9 weeks in October 2001, and a pilot test scheme for 12 months on two major islands starting in early 2002.

attainment; (ii) developing a corporate culture that favors staff development and career growth; and (iii) overcoming NBV's dependence on expatriate management in the long term.

Table A6: National Bank of Vanuatu Financial Highlights, 1996–2000
(VT'000)

Item	1996	1997	1998	1999	2000
TA Milestones		TA-2961 Approval	TA-2961 Completion		
Balance Sheet					
Liquid assets[9]	514,754	384,677	736,848	533,350	785,789
Loans and advances (gross)	1,699,373	1,545,330	1,599,073	1,530,854	1,111,980
Provision for loan losses	335,000	344,509	117,296	147,968	86,419
Total assets	2,030,846	1,720,316	2,602,346	2,561,345	2,620,491
Deposits	2,183,986	1,701,295	2,164,260	1,995,071	2,357,327
Other liabilities	32,903	300,983	303,918	390,208	61,461
Total shareholders' equity	(186,043)	(281,962)	134,168	176,066	201,703
Income Statement					
Interest income	240,773	205,861	266,635	190,689	164,040
Other operating income	65,471	66,885	64,976	127,994	132,030
Interest expense	91,600	73,252	55,478	48,287	67,516
Other operating expenses	440,235	274,008	260,003	244,099	202,917
Net income (losses) after tax	(228,591)	(80,318)	16,130	26,297	25,637
Ratios (%)					
Liquid assets/Deposits	25.3	22.6	34.0	26.7	33.3
Loans/Deposits	77.8	90.8	73.9	76.7	47.2
Net income/Total assets	neg.	neg.	0.62	1.0	1.0
Net income/Total equity	neg.	neg.	12.0	14.9	12.7
Operating expense/Operating income	173.7	127.3	95.1	90.3	88.8
Total equity/Total assets	neg.	neg.	5.2	6.9	7.7
Total equity/Loans	neg.	neg.	8.4	1.7	18.1
Total equity/Deposits	neg.	neg.	6.2	8.8	8.6
Loan loss provision/Loans	19.7	22.3	7.3	9.7	7.8

— = available, neg.= negative, TA = technical assistance

[9] Coins, notes and cash at bank, Due from Reserve Bank, and Due from Other Banks.

Source: National Bank of Vanuatu.

EVALUATION OF TA 1399-SAM: REHABILITATION OF DEVELOPMENT BANK OF SAMOA (formerly Development Bank of Western Samoa)

A. Background

1. Rationale and Concept

1. At the time of formulation of the subject technical assistance (TA)[1], the Development Bank of Samoa (DBS)[2] was faced with a host of financial and portfolio problems. The Government perceived DBS as essential in promoting private sector investment in Samoa, particularly in implementing the agriculture sector policy reforms supported by the Asian Development Bank (ADB).[3] The Government thus considered it necessary to rehabilitate DBS and reorient it as a commercially managed institution capable of fulfilling its basic mandate over the long term and of attracting funding from external agencies including ADB. The TA helped in this process.

2. Objectives and Scope

2. The main objective of the TA was to refocus DBS's future operations along commercial lines. The TA was composed of two parts: (i) development of an operational strategy and business plan, and (ii) computerization of accounting and the management information system (MIS). The first part covered review of the DBS Act and DBS's operational strategy and business plan; development of specific operational objectives, lending mix, business plan and financial projections; estimating the private sector's term financing requirements; and recommending improvements to enhance the efficiency of small rural credit. The second part covered verification of DBS's then ongoing computerization of accounting and MIS; specifying a least-cost system; and developing and implementing computerized accounting and MIS, including full staff training.

B. Assessment of Implementation Performance

1. TA Design and Scope

3. The concept and approach of the TA was appropriate for DBS's role, particularly in the small-business and rural credit sectors. The TA objective was relevant considering the need to improve DBS's poor portfolio quality and financial performance. DBS's problems arose from (i) the failure of the board and management to employ sound banking and business principles, (ii) poor credit discipline in some sectors, (iii) the high cost of providing small loans, and (iv) insufficient definition of corporate objectives and operational strategies. The TA design was compatible with its objective. DBS's management was fully involved in TA design and formulation of the consultants' terms of reference (TORs). The TORs were compatible with the TA concept, objective, and design, and clearly spelled out. The TA provided 4 person-months

[1] TA 1399-SAM: *Rehabilitation of Development Bank of Western Samoa,* for $203,000, approved on 25 July 1990.
[2] Formerly Development Bank of Western Samoa.
[3] Loan 995-SAM(SF): *Agriculture Development Program Loan,* for $15 million, approved on 28 November 1989.

of services of a senior banking specialist. For computerization, the TA provided for a lump-sum contract with a firm having expertise in developing and implementing software packages for financial institutions similar to DBS, and with access to appropriate off-the-shelf software.

2. Engagement of Consultants

4. Both assignments under the TA, were handled by consulting firms. DBS was involved in the consultants' selection. The process and procedures for selecting all consultants were appropriate and in conformity with ADB *Guidelines on the Use of Consultants.*

3. Implementation Arrangements

5. The consultants worked closely with DBS management and staff, who were to be fully involved in implementing the consultants' main recommendations. DBS provided adequate support to the consultants. ADB also fielded a timely review mission in July 1992 and supervision of the consultants' work was satisfactory. In general, the implementation arrangements worked satisfactorily. The TA activities commenced on time and were completed well within the budget.

C. Evaluation of Outputs and Impact

1. Adequacy and Quality of Reports and Services Provided

6. The consultants generally completed their work on time and in accordance with the TORs. After critically examining all aspects of DBS's activities, the consultants redefined the corporate objectives of DBS to enable it to become a self-sustaining, profitable financial institution in 1992-1994 of the business plan, which was to be prepared by the consultants, and operating in the context of the Development Bank Act (1974) and the Government's overall economic objectives. They identified four interrelated problems that seriously hampered DBS's operations: poor organizational structure and operating procedures, lack of manpower development, high cost of managing a large number of small loans, and lack of organized pursuit of major accounts in arrears. The business plan set out a nine-point operational strategy to be implemented in 1992 and sustained until 1994. The salient features of this strategy were (i) revision of credit approval limits and procedures to decentralize day-to-day operational decisions; (ii) review of portfolio to identify properly performing core portfolio, loans in default and those considered uncollectible, and remedial actions; (iii) formulation of a strategic plan for portfolio management and diversification, keeping in mind DBS's profitability objectives; (iv) review of DBS's policies on funding, interest rates, and other terms and conditions of loans, including securities, borrowers' equity, pre-disbursement conditions, reporting requirements, etc.; (v) introduction of improved MIS; (vi) modification of operating methods and procedures for pre-appraisal of clients' character and repayment history, as well as appraisal standards and follow up procedures; (vii) staff recruitment, training, and redeployment; (viii) review of benefits, remuneration, and working conditions to attract and retain well-qualified staff; and (ix) preparation of forecasts, budgets, and targets as bases for monitoring and reporting on the performance of DBS.

7. These strategies were to be implemented in parallel with the implementation of the business plan, which envisaged 1992-1994 as the period of consolidation, with DBS accounting for 64 percent of total term credit to commercial enterprises from all sources in Samoa. The

plan envisaged that interest rates would be increased to a minimum of 13 percent over the whole portfolio to make DBS profitable within the plan period. The consultants also recommended (i) setting up an executive management committee and a recovery committee, and strengthening the board of directors of DBS by including two members with commercial banking experience, and one accountant and one lawyer; (ii) revising the organization structure to make responsibility and accountability coincident throughout the loan cycle; (iii) introducing task-, personnel- and client-specific management reporting; (iv) establishing an enhanced training unit within DBS to provide integrated training and implement a career-planning program; and (v) instituting a small rural credit scheme to use existing village social structures as development finance intermediaries to reduce the administrative costs of small loans.

8. DBS's board of directors and management adopted the objectives, operational strategy, business plan, and financial projections prepared by the consultant and implemented them with the following exceptions:

(i) Discretionary credit approval limits for DBS management and senior officers were adopted but at slightly lower levels than recommended by the consultants.

(ii) The recommendation on the composition of the board of directors was not accepted due to possibility of conflict of interest.

(iii) The average interest rate was not raised to the suggested minimum of 13 percent, nor were interest rates adjusted to risk.

(iv) The small rural credit scheme was not implemented due to the possible breach of client confidentiality. Instead DBS introduced an "agency system" whereby its officers were required to visit rural areas on certain days of the week.

9. The second part of the TA was completed in October 1992 and was useful for the timely generation of the required financial and management information. The consultants prepared a comprehensive final report on their work, which proved to be useful for DBS management and staff.

2. Staff Training and Retention

10. Consultants trained DBS staff in the new procedures, which made loan officers responsible for loan processing and appraisal as well as project supervision and monitoring. Loan officers were given on-the-job and classroom training. The consultants recommended increasing the strength of the training unit by two officers to make the training sustainable. Regular training-needs analysis was introduced. The TA produced useful training manuals. Revised staff grading, performance measurement, and remuneration systems were introduced to help retain experienced staff. Career planning and training advice were made regular features of human resource management to help improve and sustain DBS's human resources.

3. Performance of Consultants

11. The consultants for both TA aspects completed their assignment on time and in accordance with their respective TORs. DBS has benefited from the consultants' work and is still using the systems and procedures set up.

4. Impact and Sustainability

12. The TA went a long way in rehabilitating DBS. The TA outputs relating to DBS's new objectives, operational strategy and business plan, organizational changes coupled with the delegation of approval authority, staff training and institutionalized training arrangements, formation of executive management and recovery committees, and introduction of new credit procedures and manuals all contributed to reorient DBS as a viable institution.

D. Conclusions

1. Overall Assessment

13. TA outputs were significant, TA benefits have been sustained, and DBS reestablished itself as a viable institution. The institutional changes recommended and introduced by the consultants had a positive impact on DBS operations. The TA is rated as successful.

2. Lessons Learned

14. This TA confirms that optimal design, clarity and precision of TORs, selection of consultants with relevant qualifications and background, and full ownership and cooperation of Executing Agency officials are essential elements of success. DBS participation in the design and formulation of this TA motivated the bank's staff throughout the TA implementation and after. Thus, senior DBS staff consider this TA as the turning point in the life of DBS and the start of its rehabilitation.