

BUDGET MANAGEMENT TECHNICAL ASSISTANCE FOR GOVERNMENT OF TUVALU: TERMS OF REFERENCE

1. Introduction

Following the recommendations of the 2005 Tuvalu Trust Fund Advisory Committee (TTFAC) on budget-management issues, Australia provided a long term in-country based advisor to assist Government of Tuvalu (GOT) address these issues. The essential aim of the TA was to develop GOT' **capacity** to prepare and execute its budgets more effectively, in terms of: (1) setting and adhering to realistic, sustainable aggregate fiscal targets; and (2) allocating and using its resources in the most cost-effective way to achieve its policy goals and priorities, consistent with the fiscal targets.

The main focus of the TA was to provide practical capacity-building training and help to enable the GOT to enhance its **budget preparation** process. This recognises that budget preparation is the crucial stage when priorities and tradeoffs between programmes are resolved politically, to ensure that they are both realistic and consistent with government policies and priorities (e.g. as set in *Te Kakeega II*).

Australia is committed to continuing its efforts in assisting GOT in the area of sound fiscal management. To allow continuity with the work currently undertaken by the long term advisor, the Pacific Technical Assistance Mechanism (PACTAM) will be used to engage another long term advisor.

The PACTAM budget-management capacity-building assignment is anticipated to continue to provide resident specialist budget-management advice and training to strengthen the GOT's budget-preparation capacity - including practical training for Cabinet Ministers and senior officials in Ministry of Finance & Economic Planning (MFEP) and line ministries – ready for application in preparing the Budget cycle. This assignment could be extended for a further year if the parties agree this would be effective.

Key targets of this capacity building include Cabinet Ministers and senior officials of the MFEP, and all line ministries (especially Permanent Secretaries, and Heads of Departments).

2. Scope of Budget-Management Capacity Building TA Assignment

2.1 Underlying Aim

The basic aim of the TA budget-management assignment is to continue to **strengthen** the budget-preparation **capacity** of the GOT in each of the following four main areas:

- a. **Fiscal target setting**: Setting realistic fiscal targets - and aggregate expenditure and revenue levels consistent with them - so as to provide more certainty that budgeted funds will be available and without adverse economic implications.
- b. **Policy formulation**: Formulating expenditure and revenue policies that have the best chance of achieving the desired strategic policy outcomes and priorities.
- c. **Resource allocation**: Allocating resources consistently with these strategic policy outcomes, policies and priorities; and with their aggregate fiscal targets.

- d. *Performance targets and assessment*: Analyzing and reporting on operational efficiency and effectiveness (i.e. performance) issues, as a means to help ensure that resource allocations are controlled and result in expected outcomes. This will include the monitoring and assessment of the *Government of Tuvalu Benchmarks for Fiscal and Budget Management*

2.2 Specific Tasks

The adviser should implement and review where necessary a capacity-building programme – targeting the respective roles of each of the key budget-preparation stakeholders - that is designed systematically:

- a. *To strengthen the Multi Year Budget Framework (MYBF)*, including steps to continue to:
- (i) improve the comprehensiveness and reliability of its base data;
 - (ii) improve the reliability and realism of budget estimates and projections and their underpinning analysis and assumptions;
 - (iii) develop fiscal risk/sensitivity analysis; and
 - (iv) assist the government and MFEP to look at the ‘big picture’ with regards to macro issues associated with unsustainably large deficits.

Such steps are intended to support better informed setting of suitable, firm **fiscal targets** with a medium-term perspective and an eye to fiscal sustainability.

- b. *To strengthen policy formulation*, including steps:
- To *link* budget programmes and specific policies to achievement of particular national **strategic goals and priorities** (e.g. those derived from Kakeega II);
 - To *identify* key policy **outcomes** sought and **output targets** corresponding to these priorities, and specific programmes of expenditure and funding to give effect to these programmes;
 - To *develop* key **performance measures** for use in assessing the effectiveness of various programmes and any necessary remedial action taken on a timely basis; and, thereby, to enable budget resources to be allocated in the most effective way to achieve GOT’s strategic priorities for Tuvalu.
- c. *To strengthen the realism and accuracy of budget estimates*, including estimates of expenditure and revenue items; and the tasks, information and methodologies used to prepare these estimates – to help ensure the budget allocates **resources** effectively (i.e. on a realistic, sustainable basis), and to improve cash flow management to enable smoother implementation of the budget.
- d. *To strengthen the comprehensiveness of the budget estimates of income and expenditure* so that the whole public-sector fiscal position and performance is covered and can be taken into account in setting fiscal targets and assessing tradeoffs between policies competing for scarce resources.

- e. *To strengthen the prioritisation and coordination of budget provisions* by line ministries and MFEP – to ensure that these are set to ensure that the GOT's key priorities have the best chance of being resourced so as to achieve their policy goals.
- f. *To strengthen budget-process rules* - to ensure that Cabinet Ministers and their line ministries adopt a centrally coordinated approach designed to ensure that budget proposals are considered together in an integrated comprehensive way – to ensure that relative priorities and tradeoffs are resolved effectively in line with national strategic priorities.
- g. *To monitor performance and service delivery indicators* encouraging training for parliamentarians to focus discussions on outputs, rather than on inputs.
- h. *To assist GOT manage and reduce its debt liabilities, particularly domestic debt, which is constraining liquidity and limiting private sector access to credit*
- i. *To review Government spending.* In particular, programs which consume substantial proportions of GOT resources and/or whose efficiency and effectiveness are of concern.
- j. *Assist MFEP and line ministries produce current year budget reports on the progress of revenue and expenditure actuals against targets, using information and reports available to MFEP and/or produced by the AccPacc accounting system*
- k. **Training** as a major part of the capacity-building programme should be tailored and on-going to *cover* issues relating to the respective roles of each of the major types of stakeholders in the budget-preparation process, including: Cabinet Ministers; Department Coordinating Committee members who essentially comprise permanent secretaries of ministries and heads of departments within ministries; and lower level departmental officials. Their respective roles include: (1) setting the overarching fiscal targets and budget-preparation framework; (2) overseeing preparation of draft and final budget estimates and assessing their likely contribution to achieving the GOT's strategic policy outcomes; (3) compiling draft and final budget estimates; and (4) deciding on tradeoffs between competing claims to use budget resources.

2.3 Outputs

The Adviser will be expected to provide at least the following specific outputs, consistent with the underlying aims and specific tasks outlined above:

- a. *A revised document of the budget-preparation capacity-building programme and implementation strategy (including a time line)*, to give effect to these underlying aims, main tasks and specific tasks in the form a **written report** to the Secretary of Finance.
- b. *A revised strengthened budget-preparation instructions document* explaining briefly what has been revised and why.
- c. *Training material relating to each of these components* tailored to the needs of the various budget-preparation stakeholders and their roles.

- d. *Continued provision of group seminars and one-on-one training in budget-preparation issues and methods*, in line with the agreed capacity-training programme.
- e. *Specific budget-management advice to GOT* as required from time to time in line with the agreed capacity-training programme.
- f. *An review of the overall effectiveness of the TA assignment* - including: identification tangible evidence of the effectiveness of the assignment; an assessment of the merits of extending the assignment for a further 1-year term, and the suggested scope and requirements for such an extension (e.g. based on lessons learned from the assignment – to be provided in a written end-of-assignment report to the GOT and AusAID.

2.4 Time Frame

The TA assignment would be for an initial period of 2 years, with the adviser resident in Funafuti, Tuvalu. An extension for a further 1-year period is possible depending on the effectiveness of the current assignment.

Considerations for Input-Timing

Based on the Budget Preparation Timetable for the 2008 budget, it would be ideal to source a long-term budget adviser for a continuous one (1) year input.

Benefits of maintaining a continuous input, would include:

- ensuring a crucial aspect of the position, namely discussions and workshops on potential new budget innovations would be able to be considered at length and increase the likelihood of entrenching these into the budget cycle, processes and systems.
- favouring an initial stage of building and nurturing the relationships with colleagues and counterparts to ensure there higher likelihood of overall project success.

Suggested Framework for Budget Advice (First Year of assignment)

Input Timing	TOR Activities
Feb/March	<p>This initial stage would require the TA to: (1) be familiar with the Tuvalu budget cycle, necessary departments, people, processes and procedures; and the 2008 budget, and (2) formulate a specific capacity-building programme to strengthen GOT's budget preparation process (this includes a training schedule).</p> <p>The TA should be in-country to provide the on-going necessary support to Ministries and parliamentarians on budget discussions</p>
April/May	This stage would require the design of the initial fiscal

	framework/resource envelope and detail regarding how this should be divided by the Ministry. The TA will be expected to work closely with the Macroeconomic Policy Committee (MPC) in developing the fiscal framework.
June/July	<p>The TA could then assess the 2007 out-turn and also assess the 2008 year-to-date revenue and expenditure performance.</p> <p>The next important stage would be mid year during the Budget Circular Initial draft Budget Circulars should be prepared in mid-July/August.</p> <p>The TA should be in-country to assist the GOT to review and prepare this document and the Budget Circular preparation.</p>
August	Training and assisting Ministries, in particular Ministry of Health and Education, on how to prepare their budget submissions.
September/October	To provide the necessary support to the Central Budget Team in MFEP to review submissions and finalise recommendations to the Cabinet.
November/December	Continue to assess year-to-date budget performance and provide reports and recommendations to the Secretary of MFEP on the expected end-of-year outturn.

Appendix I

BUDGET PREPARATION TIMETABLE FOR FY2008

JULY	
Week 3	MOFEPI finalises Framework paper for budget year Cabinet reviews and approves fiscal targets for budget year and draft Budget Circular
Week 4	MOFEPI finalises Budget Circular, including ceilings MOFEPI issues Budget Circular
AUGUST	
Week 1	Ministries prepare budget submissions
Week 2	Ministries prepare budget submissions
Week 3	Ministries prepare budget submissions Last date for Ministry budget submissions: <u>TBC</u>
Week 4	Budget rounds between ministries and Budget Committee to review submissions
SEPTEMBER	
Week 1	Budget rounds between ministries and Budget Committee to review submissions
Week 2	Review of First Draft Budget by DCC Minister of Finance advises Cabinet of outcome of review, recommends action Budget - Round 1 Review by Cabinet MOFEPI distributes to ministries their "Round 1 agreed" estimates incorporating Cabinet Budget decisions
Week 3	Ministries confirm details in Round 1 Draft Estimates Budget - Round 2 review by Cabinet, if required MOFEPI updates Framework document for inclusion in Budget Estimates document
Week 4	Final changes to figures made in consultation with affected Ministries Cabinet meets to confirm the budget estimates are settled No more changes to figures after 30 September
OCTOBER	
Week 1	Budget & Planning Department in association with the Attorney General prepares Appropriation Bill Budget & Planning Department prepares Budget Estimates for presentation to Parliament
Week 2	Cabinet approves Appropriation Bill and Budget Estimates to be presented to Parliament (NO CHANGES) Final Estimates and Appropriation Bill sent to Ministries for their confirmation
Week 3	Reproduction of budget documentation
Week 4	Minister of Finance presents annual budget to Parliament together with Appropriation Bill
NOVEMBER	
Week 1	
Week 2	Parliament expected to pass the Appropriation Bill
Week 3	
Week 4	