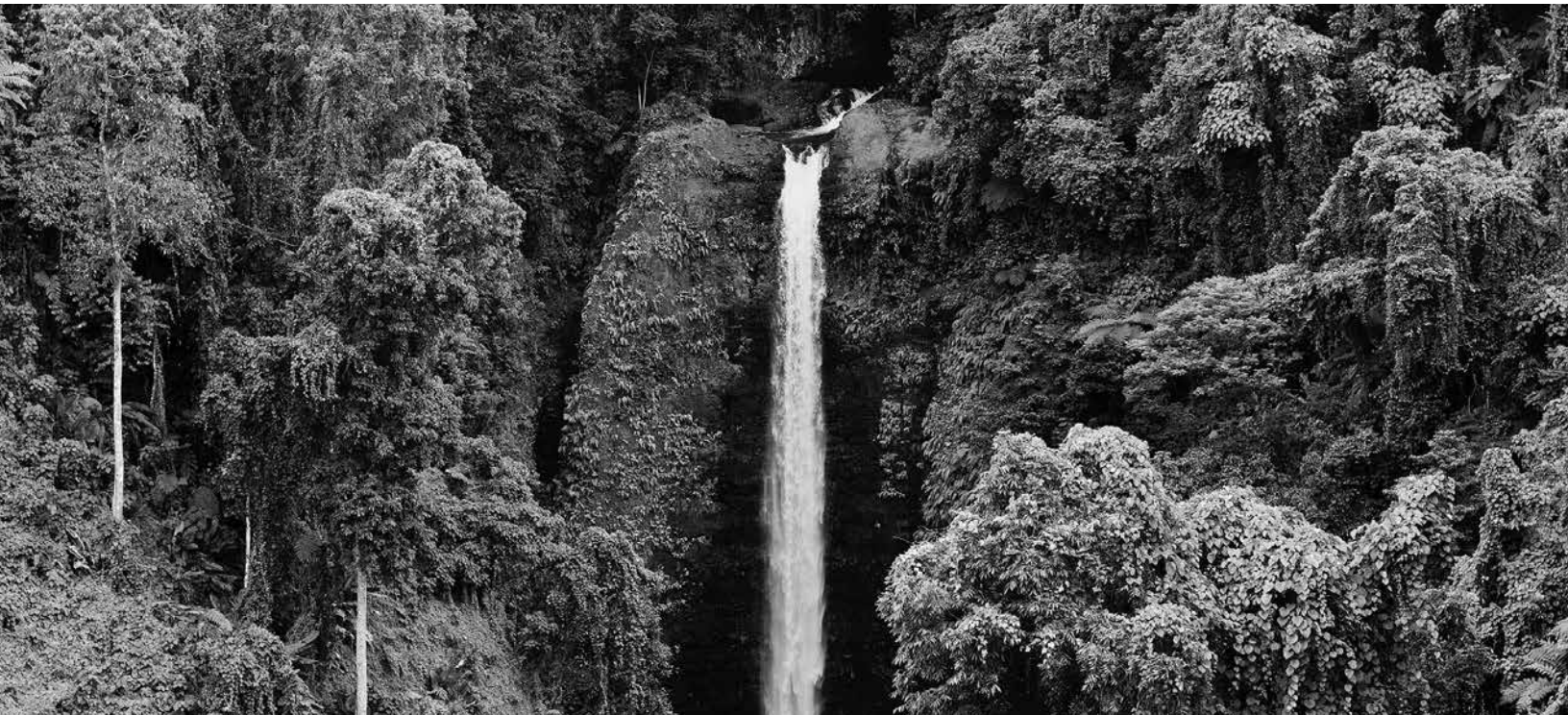


# FINAL REPORT

June 2015



# Independent External Evaluation (PFTAC)





**Independent External Mid–Term Evaluation**

**Pacific Financial Technical Assistance  
Centre (PFTAC)**

***Good to Great***

Presented to the  
PFTAC Steering Committee and the International Monetary Fund

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## ACRONYMS

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ADB	Asian Development Bank
AFSPC	Association of Financial Supervisors of Pacific Countries
APD	Asia and Pacific Department (IMF)
CARTAC	Caribbean Regional Technical Assistance Centre
CCB	Committee for Capacity Development (IMF)
CLARITY	Project Management Software
DAC	Development Assistance Committee (OECD)
FAD	Fiscal Affairs Department (IMF)
FSAP	Financial Sector Assessment Program
FY	Financial year
GDDS	General Data Dissemination System
ICD	Institute for Capacity Development (IMF)
IDB	Inter-American Development Bank
IEO	Independent Evaluation Office
JSA	Japan Administered Account for Selected IMF Activities
IMF	International Monetary Fund
LEG	Legal Department (IMF)
LTX	Long-Term Expert
MCD	Middle East and Central Asia Department (IMF)
MCM	Monetary and Capital Markets Department (IMF)
METAC	Middle East Technical Assistance Centre (IMF)
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OIA	Office of Internal Audit
PEFA	Public Expenditure and Financial Accountability Ratings
PITAA	Pacific Islands Tax Administrators Association
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PIFMA	Pacific Islands Financial Managers Association
PINACLE	Pacific Islands National Accounts Compilers and Local Experts Association
RAP	Resource Allocation Plan
ROSC	Report on the Observance of Standards and Codes
RSN	Regional Strategy Note
RTAC	Regional Technical Assistance Centre (IMF)
SOE	State Owned Enterprise
STA	Statistics Department (IMF)
STI	Singapore Regional Training Institute (IMF)
STX	Short-term Expert
TA	Technical assistance
TAIMS	Technical Assistance Information Management System
TTFs	Topical Trust Funds (IMF)
UFR	Use of Fund Resources
WHD	Western Hemisphere Department (IMF)

### Acknowledgements and Disclaimer

This is the report of an independent evaluation of the Pacific Financial Technical Assistance Centre (PFTAC). Although the conclusions and recommendations of the evaluation team are their independent views, many people contributed to the evaluation by responding to a survey or participating in an interview or discussion group. We wish to thank them.

The Evaluation Sub-Committee of the PFTAC Steering Committee provided input and guidance at each stage of the evaluation. The donors to PFTAC provided detailed suggestions in response to the Inception Note, met with the evaluators several times to discuss evaluation issues and completed questionnaires in detail. In particular we would like to thank Mr. Jerome Pons and Mr. Albert Cerelala of the European Union, Mr. Vinayak Nagaraj, MFAT New Zealand, Ms Solstice Middleby DFAT Australia, Mr. Richard Bontjer DFAT, Australia, and Ms Caroline Currie, Asian Development Bank.

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The Institute for Capacity Development (ICD), Global Partnerships Division (GPD), of the International Monetary Fund (IMF) initiated and managed the evaluation. Mr. Holger Floerkemeier provided general oversight. Ms Petra Orogvaniova managed the evaluation through all its phases including design, contracting and review; and coordinated the inputs of IMF Departments. ICD staff, principally Ms Nune Pambukhchyan provided data and reviewed data presentations in the evaluation report and Ms. Sharmila Rasanayagam-Osuri arranged meetings and gave logistical support.

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Dr. Kenneth Watson was the evaluation team leader. Dr. Munir Sheikh, Executive Fellow, School of Public Policy, University of Calgary, ex-Associate Deputy Minister, Finance Canada, ex-Chief Statistician of Canada, was the principal evaluator in regard to technical assistance and training in national statistics. Ms Vinita Watson, ex-head of the International Trade and Finance Branch of Finance Canada and ex-IDB Executive Board member, was the principal evaluator of IMF technical assistance in revenue administration and in monetary and capital markets. Dr. Anne Perkins conducted the survey of stakeholders and managed the data analysis.

### DISCLAIMER

The opinions expressed in this paper are those of the consultant authors and do not necessarily reflect the opinions or policies of the International Monetary Fund or PFTAC member governments or donors. As well, the statements by interviewees and by respondents to the evaluation surveys reported herein are the observations and opinions of those persons and are not vouched for by the author of this report.



### Executive Summary

The Pacific Regional Technical Assistance Centre (PFTAC) provides technical assistance to sixteen member governments in five areas: revenue policy and administration; public financial management; financial sector supervision; macroeconomic statistics; and macroeconomic analysis and forecasting.

At the time of this evaluation the Centre has a Coordinator and seven resident advisors supported by short-term experts and “backstopped” by experts at IMF headquarters. There is a Steering Committee (SC) composed of officials of member governments, donors, and staff of the International Monetary Fund (IMF).

The general conclusion of this evaluation is that PFTAC is a good Centre that could be a great Centre given some modest changes that include:

- A program-based approach to organizing its work as distinct from a flow of ad hoc activities. By “program based” we mean planned multi-year efforts that have terms of reference and deliverables, start and end dates, entry and exit workshops and a joint work plan that one or several countries commit to. Statistics, for example, might have several such “programs” operational at any one time, with different start and end dates. We envisage a transition from a large number of ad hoc activities to a small number of coherent programs. This would be a transition similar to that achieved successfully by the IMF in technical assistance funded by the Japan Sub-Account (JSA) in Asia and the Pacific.<sup>1</sup>
- A more proactive and empowered Steering Committee (which depends on the willingness of the Steering Committee to do more work outside meetings),
- A modest rebalancing of responsibilities and authorities to enable the Centre Coordinator to commission some inter-disciplinary and thematic work,
- More stable funding and better continuity of operations and
- A sharper focus on building self-reliant capacities in member countries or, where scale efficiencies are needed, regionally. We do not think it is an appropriate role for PFTAC to provide long-term supplementation (actually doing the needed work). This is a role for specialized regional agencies or for private sector providers of professional services.

### PFTAC's Performance

PFTAC has been highly relevant to the needs of its member states. Effectiveness and impact have been very good in the short term although there are questions about sustainability in many instances.

The sustainability of PFTAC's results is modest and would be improved by a program-based approach to organizing its work, a direction in which PFTAC is already moving.

Efficiency has been good with one major exception – budget uncertainties and therefore volatility of activity levels at Phase transitions has harmed the efficiency of the Centre.

The following table shows performance ratings by PFTAC clients, by members of the Steering Committee, experts and partners, and by the evaluators (authors of this report). The ratings vary from modest (around 3.5) to excellent (around 4.5). Relevance receives very high scores

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<sup>1</sup> See Rideau Strategy Consultants Ltd., Evaluation of IMF Technical Assistance funded by the Japan Sub-Account, 2012.

## Mid-Term Evaluation of PFTAC Phase 4

(around 4.5 out of 5) and sustainability receives decent but modest scores around 3.5. The evaluators judge that performance scores could be consistently above 4.0 on the 0-5 scale if certain changes were made.

**Table ES-1 PFTAC Performance Ratings on OECD/DAC Criteria**

(PFTAC Phase 4, Scale<sup>2</sup> 0 to 5)

Performance Criteria (OECD/DAC)	Ratings			Evaluators' Summary Assessments
	PFTAC Clients	SC, Experts, Partners	Evaluators	
Relevance	4.38	4.43	4.5	Relevance is very good to excellent and could still be improved by a more programmatic approach.
Effectiveness	3.51	3.63	3.5	Effectiveness is good but needs constant attention to building self-reliant capabilities and finding regional solutions when necessary.
Efficiency	3.82	3.96	3.7	Efficiency is good in most respects but budget volatility at Phase transitions needs to be addressed
Impact	3.67	3.68	3.5	Impact is modest to good, with threats of erosion and regression in some cases.
Sustainability	3.50	3.44	3.5	Continuous engagement by PFTAC is important and not always attained. In some countries ecological sustainability has to be kept in mind as well.
Weighted average	3.8	3.9	3.8	There is a high degree of consensus among stakeholders and evaluators that performance has been very good.

Source: Stakeholder Surveys, Jan 2015; and Evaluator Ratings based on the Mid-Term Evaluation of PFTAC, 2014-2015

### Answers to Evaluation Questions

Answers to the evaluation questions are shown in Appendix 1. In summary: PFTAC's work has been highly relevant in Phase 4 and is likely to remain so for the foreseeable future. PFTAC has been effective but needs to improve continuity of engagement with each member country in part by adopting and strengthening its program-based approach as distinct from an activities-based approach. Efficiency has been compromised by a severe downturn in the level of activity at the start of each phase.

PFTAC is reported by its member governments to have had a significant impact but the challenges of small island states in maintaining capabilities once established require continuous engagement by PFTAC and regular follow-up. However long-term capacity supplementation, although needed by some Pacific island countries (PICs) in some fields, is not an appropriate role for PFTAC<sup>3</sup> and PFTAC's focus should remain on fostering self-reliant capabilities.<sup>4</sup>

<sup>2</sup> The choice of this scale is discussed in Appendix X Methodology of this Report.

<sup>3</sup> We think that supplementation is essential for several (or many) PICs in various fields but that it is not a role for PFTAC. The RTAC mandate is to build capacity in governments not to do the work for the government. Where supplementation is needed the first question is whether the function can be ever provided by a small PIC government – if not then specialized regional organizations and/or private sector professional service providers may be the appropriate solution.

<sup>4</sup> One donor said, disagreeing in part with our view of supplementation: "The Evaluation suggests that supplementation is not to be considered by PFTAC, however there are no argumentation provided to support the conclusion. As a number of the PFTAC

(Continued)

## Mid-Term Evaluation of PFTAC Phase 4

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Supplementation (actually doing the work for the client) is a role for specialized cooperative regional organizations or for private sector professional services companies. Some stakeholders disagree with us on this issue.<sup>5</sup>

Sustainability was the weakest area of PFTAC performance. The main ways in which sustainability could be improved is to strengthen continuity between phases and between each LTX and his or her successor and by adopting a program-based approach to the work.

There is a broad consensus among stakeholders, with which we agree, that PFTAC provides good to excellent value for money. Overhead rates are reasonable and the cost of experts is within a normal range. The IMF provides oversight at little cost to donors and expert technical backup at low cost. It is unlikely that donors could duplicate PFTAC services unilaterally as cost-effectively as they are provided through their partnership with the IMF (PFTAC). (See Section 4.1)

### Lessons

The lessons that stand out include the following: (See Section 4.2)

- To improve the sustainability of its results, PFTAC should follow a program-based approach in each Sector, as described earlier. As well the tenures of LTXs should overlap to improve continuity and improve corporate memory. Core Programs should not start or end with a particular LTX or a particular replenishment phase.
- Major reforms need major help. Improving skills in administering established systems is one thing. Implementing entirely new systems and practices is exponentially more demanding.
- PFTAC missions to some countries in some areas have been too infrequent. In addition there were areas of work where PFTAC could have helped in principle but had no resources.

Members of the Steering Committee, experts and partners emphasized the following ideas.

- Find more cooperative approaches through regional institutions as distinct from country-by-country approaches.
- Be more proactive at the activity level and strategic at the program level. Develop a program-based approach to organizing work as distinct from a large number of small discrete activities.
- Improve the governance of the Centre.
- Use technology better in technical assistance and training.

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beneficiaries are small to very small countries, it is acceptable that some functions traditionally expected from Finance Ministries may never be delivered by these countries. In such situations, supplementation may be the only way forward and this may be more acceptable than attempting to build capacities that do not and will never exist.”

<sup>5</sup> Some members of the Discussion Group on Priorities for Phase 5 at the March 2015 meeting of the PFTAC Steering Group disagreed with us on this. They thought that supplementation is an appropriate role for PFTAC and that the Phase 5 Program Document should be clearer about where and when supplementation would be provided. We recognize that in some cases where supplementation is needed there may not at present be an alternative supplier to PFTAC in some specialized topics. However we observed during field work that many of the tasks that require on-going supplementation were basic accounting and data management tasks that did not require skills at the IMF/PFTAC/LTX level. These skills are available from private professional services firms in most instances.

### Recommendations

(For a discussion of the rationale behind each recommendation see Section 4.3).

#### **Recommendation 1: PFTAC needs to be larger than it was in Phase 4 to be an adequate response to member countries' needs and to operate efficiently.**

The size of the Centre should be determined by the following factors:

- Demand from member countries as determined by a risk and needs analysis that identifies the needs for TA and training, in IMF core areas in detail for all member countries.
- Efficient size to maintain continuity of TA in each particular core area and to provide consistent follow-up at reasonably frequent intervals. A single Resident Advisor in a sector is seldom efficient. Two colleagues can provide each other collegial support that is a supplement to backstopping and can achieve better continuity when one leaves and a successor arrives.
- The amount of backstopping the IMF HQ can provide given its staff levels and TA cap (anchor) constraints.
- Efficiency and stability would also be improved if donors were to consolidate certain areas of TA the Pacific under the PFTAC umbrella. PFTAC's financial sustainability could be improved by diversifying its donors and financial instruments and by member contributions.<sup>6</sup> The requirements for collective impact should be considered carefully.<sup>7</sup> Member governments contribute a small part of the Centre's budget for Phase 5, in the order of 10%. (See Section 2.4 Resources)<sup>8</sup>

#### **Recommendation 2: Donors and the IMF should act vigorously to ensure that the level of Centre activity does not contract sharply during the transition from Phase 4 to Phase 5.** (See Section 2.4 Resources)<sup>9</sup>

Some possible implementation actions include:

- Ask donors for earlier commitments and/or longer commitments (to facilitate this, produce a *Program Document* well ahead of the end of the current cycle)
- Change IMF rules to allow the allocation and commitment (in the first year of a PFTAC five year program) of more than 1/5 of the monies actually in hand at the start of that

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<sup>6</sup> One donor said: "(Donor) strongly agrees that in order for countries to have an ownership of reforms it is valuable that they make financial contributions. It will also increase the integrity of future evaluations that assess value for money. It is noted that country financial contributions was an agreed recommendation for phase 4, but was not introduced. Discussions at the Steering Committee resolved that a sub-committee will be established to consider member government's contributions and how this would operate, given that the IMF is not legally able to charge for capacity support." Our only observation is that if donors continue to provide similar services free through bilateral channels it will compromise the "market test" for PFTAC.

<sup>7</sup> See, for example, J. Kania and M. Kramer (2011). Collective Impact. Stanford Social Innovation Review.

<sup>8</sup> One donor said: "A recommendation for contribution by countries is a useful starting point to demonstrate their genuine appreciation of PFTAC – 5-10% however is on the low side for countries that are mainly MICs. PFTAC's services will always be "appreciated" by countries as long as they are accessible at no cost - test it further by challenging the countries to pay - it may mean a greater appreciation of PFTAC from countries and expedite reforms."

<sup>9</sup> The typically low level of activity in the first year of each Cycle is a result of rules followed by both Donors and the IMF. To avoid this recurring problem donors would have to make firm commitments about six months before the start of the PFTAC fiscal year (May 1) and the IMF would need to be more flexible about programming on the basis of firm commitments rather than cash in hand.



year if there is a high probability that larger amounts of funds will be received in due course. Donors at the March 2015 meeting of the PFTAC Steering Committee were of the opinion that the resource constraint at the start of Phase 4 had not been a lack of cash (there was a substantial carry-over from Phase 3) but rather overly risk averse IMF rules on resource management.

- Have access to (repayable?) “bridge funding” for use during the first year of the Cycle from a special provision by the IMF Area Department and/or from a Global RTACs Trust Fund.
- Set up arrangements with relevant IMF Topical Trust Funds (TTFs) and other IMF Sub-Accounts to fund STX in relevant topical areas in collaboration with PFTAC LTX-led *Core Program Teams* on a cycle that did not coincide with PFTAC’s replenishment phases.
- Set up a ***Global RTACs Trust Fund*** (to fund special initiatives across RTACs, to enhance RTAC support to IMF efforts in economic crises and, when needed, to provide bridge funding to an RTAC during Phase transitions)

**Recommendation 3: While remaining responsive to members’ demands for technical assistance and training, PFTAC should accelerate its movement towards a program-based approach to organizing its work.**<sup>10</sup>

PFTAC should deliver strategically important multi-country multi-year programs of technical assistance that are carried through to completion independently of the tenures of individual advisors. The normal tools of a program-based approach should be used.<sup>11</sup>

Some possible implementation actions include:

- Organize work in multi-year multi-country “*Core Programs*” rather than as activities. Each Core Program should have outcome targets, timelines and output milestones, an Entry Workshop, progress reports and a completion report. The duration of each Core Program should be independent of the tenure of any particular LTX. In general there should be more than one core program in each sector.
- Manage PFTAC and its *Core Programs* more actively as part of the RTAC network
- Examine the feasibility of a *Pacific Regional Training Institute* as one Core Program.

At the March 2015 meeting of the Steering Committee the Discussion Group on Program-Based Approaches agreed with the concept of “core programs” but cautioned that PFTAC should leave room for ad hoc requests and should not make Core Programs so complex that they are difficult for an LTX to administer. There was also a concern that Core Programs not become another way in which funds are earmarked and subsequently under-utilized. Nevertheless most

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<sup>10</sup> One donor said: “The PFTAC has been efficient in addressing the needs of the countries so far and a change in approach should not jeopardize the efficiency of the response provided. We also suggest a discussion around country based / thematic based funding to determine how this may be rolled out throughout countries.”

<sup>11</sup> In regard to program-based approaches on donor said: “The (donor) supports the recommendation. However, it is also important to make available the details of activities undertaken at country level, as those are more concrete and tangible for countries ... The multi-year multi country program programme approach must be better explained. Ideally it will have to be owned and driven by the countries themselves. A more active role of the Steering Committee in this process would be needed.”

stakeholders were strongly supportive of the program-based approach.<sup>12</sup> The transition from an activities-based approach (mainly) to a program-based approach might require more resources in the short term but should not be more expensive in the long term.

**Recommendation 4: Allocate a budget<sup>13</sup> to the IMF Area Department (APD) for a “core program” of multi-disciplinary and thematic work led by the Coordinator.**

Some possible implementation actions include:

- Define and propose one thematic Core Program (among others in PFTAC-5) to cover three things: (1) Results and Learning (special RBM efforts); inclusiveness (especially but not exclusively in regard to gender equality); and sustainability. The sustainability component might include work on overall risk analysis in the Pacific both in the financial sector and in the enterprise public sector including state-owned enterprises, perhaps by a dedicated Financial Stability Advisor or perhaps as part of the Thematic Core Program; and systemic risks posed by special environmental or social/governance factors.
- Charge the Coordinator with identifying and funding multidisciplinary and thematic work in topics that might not otherwise receive adequate attention. A Core Program could be defined for these purposes and funds used to engage STX, pay for travel or hold seminars/workshops on special topics.
- On the general point of Coordinator authorities it seems reasonable to give her or him authority to approve all STX missions, as recommended by the internal IMF Working Group on Governance of the RTACs (2012).<sup>14</sup>
- It would be sensible to devolve (from IMF HQ to PFTAC office) more administrative responsibilities and authorities for functions such as IM/IT and project/program management.

**Recommendation 5: Clarify and strengthen the role of the Steering Committee.**

Some possible implementation actions include:

- Clarify the role and status of the Steering Committee as an advisory body albeit one that expresses its advice on some important matters by voting.<sup>15</sup> The SC should vote on things such as acceptance of PFTAC's annual work plan, accession of new members,

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<sup>12</sup> One donor said: “(We) strongly support this recommendation and notes it will be a beneficial to achievement of results under RBM, more fit for purpose support and sustainability. The programmatic approach can also be used to strengthen information provided to the Steering Committee and its ability to provide strategic direction for programs and assess how effective they are at the annual meetings. It could be noted more strongly in the review that this in fact is a major recommendation for a major reform to the way PFTAC does business and additional support will be required to make these changes.”

<sup>13</sup> We considered various percentages of the total PFTAC budget that might be devoted to this purpose. In the end we decided that it's best to recommend that the Area Department and the Coordinator have budget for a Core Program in multi-disciplinary and thematic work and let them work out how big that should be each year. A lot depends on the willingness of the Coordinator to take on an extra responsibility and the time he or she has available to devote to it.

<sup>14</sup> One respondent said: “Personally, I think I would recommend giving the Coordinator complete allocation authority over the STX budget, and write into the agreements for Phase 5 a provision that would allow these funds to be used for an additional LTX if approved by the SC and the coordinator.” (Respondent 101)

<sup>15</sup> One donor said: “Efforts to develop ToRs and identify responsibilities of the members should be a focus prior to phase V. A rotating chairmanship would be a step in the right direction. A more active SC will require IMF to review some of its modus operandi to ensure that ownership by partners is promoted and that decisions of strategic importance can be made at the level of the SC.”

contributions by member countries and endorsement of the PFTAC *Program Document* and each *Core Program* proposal. The Governance Discussion Group at the March 2015 meeting of the PFTAC Steering Committee recommended that, among other things, (voting and non-voting)<sup>16</sup> membership of the Steering Committee should be more formalized and the voting occasions and procedures should be clarified. Points on which the Steering Committee will be asked to advise should be circulated before the Steering Committee meets to enable consideration.

- Engage the Steering Committee in strategic decisions at every opportunity including early consideration of a draft PFTAC *Program Document* and reviewing proposals for *Core Programs*
- Appoint beneficiary member countries' heads of Finance Departments and Central Banks or, in their absence, their Deputies, as voting members of the Steering Committee. Distinguish between engaged observers (IMF, donors and partners) and voting members of the advisory Steering Committee (beneficiary member governments).

**Recommendation 6: PFTAC should make a strong effort to implement results-based management in the remainder of Phase 4 and in Phase 5.**

Some possible implementation actions, which would require resources, include

- Consider hiring a RBM specialist for a transitional term to give the RBM initiative more momentum, as PFTAC's sister Centre, CARTAC, has done.
- State outcomes in RBM Frameworks as self-reliant capabilities of member governments not as activities or products
- Organize outcomes by *Core Programs* and countries as well as by Sector
- Make greater investments in regional expertise (individuals and associations).
- Link RBM to Corporate Memory and Knowledge Management.
- Invest more in research to identify risks and opportunities in all sectors (broadly-defined stability risks), to develop the intervention "logic" in RBM frameworks and to help develop *Core Programs*.

**Recommendation 7: PFTAC should pay more attention to inclusiveness and sustainability.**

Some possible implementation actions include:

- In the Program Document, the proposal for each *Core Program* and the RBM Logical Frameworks PFTAC should include issues of inclusiveness, including gender equality, and ecological vulnerability and sustainability and their possible impacts on macroeconomic management.
- PFTAC should "mainstream" gender and other inclusiveness issues particularly in certain areas, such as sex-disaggregated national statistics and the regulation and supervision of institutions that tend to serve poor women such as microfinance institutions.

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<sup>16</sup> There was a discussion as to whether donors should be voting or non-voting members.

- PFTAC should “mainstream” ecological vulnerability issues and take them particularly into account in certain countries where ecological challenges pose particularly severe risks economically.

**Recommendation 8: PFTAC should improve its corporate memory and knowledge management.<sup>17</sup>**

Some possible implementation actions include:

1. Overlap LTX tenures to facilitate tacit knowledge transfer.
2. Build an interactive website, blog and awareness service where officials can ask and answer questions in PFTAC/IMF core areas.
3. Improve peer-to-peer learning by making PFTAC TA reports more accessible on a no-objections basis, and being more active in providing internships and attachments.
4. Improve electronic file capture, organization and backup.
5. Require each LTX to prepare a written “report to file” twice annually on the status and action plan for each *Core Program* managed by that LTX.

**Recommendation 9: Donors should consolidate their aid to technical assistance in the Pacific in the IMF core areas as much as possible under the PFTAC umbrella. The requirements for collective impact should be considered carefully.<sup>18</sup>**

Some possible implementation actions include:

- PFTAC could produce an overview of donor activity in each sector in which it works.

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<sup>17</sup> One donor said: “There needs to be greater accountability of PFTAC at 3 different levels in terms of Knowledge Management: (1) Within PFTAC itself: Experts in transition (incoming vs. outgoing) and the transfer of knowledge and documentation has to be improved (Handover process needs to be strengthened) (2) Between experts and country officials: PFTAC struggles in demonstrating how it has been able to transfer useful knowledge and skills to their local counterparts. This is particularly true for Short-term experts who offer quick fix solution, but not necessarily sustainable options (Sustainability aspect of LTX will also need to be tested) (3) In-country cross transfer: Whilst PFTAC is doing its best to build or develop capacities in-country, it is the onus of beneficiaries to store, build on and disseminate skills and information passed onto them laterally and vertically in the hierarchy. This element is not so obvious at the moment in the Programme.”

<sup>18</sup> See, for example, J. Kania and M. Kramer (2011). Collective Impact. Stanford Social Innovation Review.

<b>TABLE OF CONTENTS</b>
--------------------------

Acknowledgements and Disclaimer	
Abbreviations	
Executive Summary	
Table of Contents	Page
<b>1. Introduction</b>	
1.1. Evaluation of PFTAC	14
1.2. Evaluation Mandate and Objectives	14
1.3. Limitations of the Evaluation	14
1.4. Evaluation Methodology	14
<b>2. Pacific Regional Technical Assistance Centre</b>	
2.1. Introduction to PFTAC	15
2.2. Membership	15
2.3. Organization, Management and Governance	
2.3.1. Organization and Staffing	17
2.3.2. Governance	18
2.3.3. Backstopping	19
2.3.4. Management Matrix	21
2.3.5. Mix of LTX and STX	23
2.3.6. Network Synergies	23
2.3.7. Governance Options	23
2.4. Resources	
2.4.1. Funding	24
2.4.2. Budget	26
2.4.3. Financial Sustainability	27
2.4.4. Diversification	27
2.4.5. Member Country Contributions	28
2.4.6. Expenditures	31
2.4.7. Defragmentation of Donor Support	31
2.4.8. Budget Stability	31
2.4.9. Economy	33
2.5. Inclusiveness	34
2.6. Regional Expertise	38
2.7. Results-Based Management and Evaluation	
2.7.1. Results-Based Management	39
2.7.2. Evaluations of IMF Technical Assistance	40
2.7.3. Centre Peer Reviews	40
2.7.4. Knowledge Management	41



### 3. Performance

3.1 PFTAC Performance Overall	42
3.2 Public Financial Management	43
3.3 Revenue Administration and Tax Policy	46
3.4 Macroeconomic Analysis	49
3.5 Financial Sector Supervision	52
3.6 Macroeconomic Statistics	54

### 4. Conclusion

4.1. Value for Money	58
4.2. Lessons	59
4.3. Findings, Conclusions and Recommendations	60

### Appendices

1. Answers to the Evaluation Questions	67
2. Progress on the Recommendations of Previous Evaluation	77
3. Overview of RTACs	82
4. PFTAC Activities and Costs – Data Tables	84
5. Case Studies	90

## Chapter 1

### Introduction

#### 1.1 Evaluation the Pacific Financial Technical Assistance Centre (PFTAC)

In July 2014 the International Monetary Fund (IMF) commissioned this mid-term evaluation of the Pacific Financial Technical Assistance Centre (PFTAC). The evaluation was external and independent. The evaluation period was the first part of the fourth funding cycle from July 2011 to April 2014, spanning three fiscal years – that is, FY 2012<sup>19</sup>, FY 2013 and FY 2014 (ending on April 30 2014). Information collection by the evaluation team ended in January 2015.

#### 1.2 Evaluation Mandate and Objectives

The Terms of Reference for the evaluation stated: “The objective is to assess the relevance of the program document, and the extent to which PFTAC has led to tangible results and is achieving its objectives efficiently and effectively and whether the TA delivered is sustainable.”

The Terms of Reference set out a number of questions to be answered by the evaluation. (See Appendix 1 for the answers to those questions.)

#### 1.3 Limitations of the Evaluation

The main limitation of the evaluation was that the evaluation level of effort was modest given the scope of the Centre and the breadth of the questions listed in the evaluation Terms of Reference. PFTAC is a complex operation, covering several core areas of the IMF and delivering services to sixteen diverse countries.

This main methodological constraint of this evaluation is that it is not experimental or quasi-experimental. There were two previous evaluations that provided information about the situation prior to Phase 4, but they do not constitute a rigorously-measured baseline, and the counter-factual is hypothetical. (What would have happened if PFTAC had not been instituted?).

#### 1.4 Evaluation Methodology

The methodology for the evaluation is described in Appendix 3. It comprises document reviews, extensive interviews with IMF staff in Washington DC, interviews at PFTAC in Suva and interviews and discussion groups in a sample of member countries.

The evaluators also surveyed stakeholders. Those familiar broadly with PFTAC received a long questionnaire (32 questions). These included members of the Steering Committee, experts (LTX and STX) and representatives of partner organizations. Those familiar with only one area of PFTAC’s work received a shorter questionnaire (21 questions, largely the same as comparable questions in the longer questionnaire). The respondents to the shorter questionnaire were mainly officials of member governments. The target in the Terms of Reference for this evaluation was 85 completed questionnaires. Ninety-two were received. Forty-three responses were to the shorter questionnaire (clients) and 49 were to the longer questionnaire (Steering Committee members including clients, experts LTX and STX, and partners). See Appendices 6 and 7 for the responses.

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<sup>19</sup> FY 2012 was a transition financial year for PFTAC covering only 10 months in order to harmonize PFTAC’s fiscal year with the IMF fiscal year.

## CHAPTER 2

### Pacific Regional Technical Assistance Centre

#### 2.1 Introduction to PFTAC

The Pacific Regional Technical Assistance Centre (PFTAC) provides technical assistance to sixteen member governments.<sup>20</sup> PFTAC works in five core areas: revenue policy and administration; public financial management; financial sector supervision; macroeconomic statistics; and macroeconomic analysis and forecasting.

PFTAC's technical assistance (TA) is provided by seven resident advisors based in Suva (long-term experts, LTX), by short-term experts (STXs) engaged for particular assignments and by missions from IMF headquarters. Each resident advisor is backstopped by a colleague at IMF headquarters who provides *“technical supervision and work program management in line with an integrated top down RAP planning process.”*<sup>21</sup>

PFTAC was established in 1993. Fiji is its host country. It has a five-year cycle of funding and operations. The current cycle, the fourth, started in July 2011 and will end in April 2016. It is funded by the IMF and bilateral and multilateral donors.<sup>22</sup> In the current cycle expenditures are estimated to be approximately \$25.4 million.

Operations are guided by an annual work plan. PFTAC has a results-based management (RBM) framework. It is governed by a Steering Committee (SC) composed of representatives of officials of member governments, donors, and IMF staff. The SC meets annually to discuss the Centre's strategic direction, review progress against its work plan, and endorse a work plan for the following year.

#### 2.2 Membership

PFTAC's 16 members vary greatly in population and size and type of economy. Some are natural resource exporters, some are tourism-based economies and some are heavily reliant on remittances, fishing license income, and international aid. In general they are long distances apart. The distances from Suva to some member countries are even larger than the map indicates because air service is indirect. Air connections are relatively infrequent and air travel is expensive in both money and time.

PFTAC has been more active in some member countries than others, although regional workshops typically draw wide representation. From the data in Table 2.2-1, PFTAC appears to more active in countries that are larger and closer. Demand from governments is an important factor but more contact tends to generate more demand.

There are seven countries that have received 11 or fewer missions in three years. PFTAC has been inactive in Timor Leste. There are various reasons for this including other donors being active and support from IMF headquarters. Since Timor Leste is largely oriented to ASEAN

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<sup>20</sup> Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu and Vanuatu

<sup>21</sup> Quoted from IMF FAD response to the first draft of this paper.

<sup>22</sup> Donors include Australia, the European Union, New Zealand, Korea, and the Asian Development Bank. Government of Fiji provides in-kind contribution in the form of office space.

## Mid-Term Evaluation of PFTAC Phase 4

there might be a case for serving it from the IMF office in Bangkok (TAOLAM). On the other hand it is a small island state that would be well served by PFTAC if it was closer. Conceivably Timor Leste could be served by both offices, or alternatively it could be served by a sub-regional PFTAC office, say in Cairns. Such an office might also serve the populous and resource rich countries of Papua New Guinea and the Solomon Islands that have unique opportunities and problems and perhaps also serve North East Pacific countries like Palau. However establishing such a sub-office would require an expansion of PFTAC's resources and should only be considered after a full feasibility study.

**Table 2.2-1: PFTAC Member Countries, Missions and Mission Days, FY 2012-FY 2014**

COUNTRY	Activities					
	Number of Missions	LTX Mission Days	STX Mission Days	Total Mission Days	Average Mission Days per year	Average mission length
Fiji	38	157	282	439	146	12
Samoa	27	279	89	368	123	14
Kiribati	34	300	52	352	117	10
Cook Islands	23	186	128	314	105	14
Tonga	28	139	162	301	100	11
Vanuatu	22	199	45	244	81	11
Solomon Islands	25	194	45	239	80	10
Papua New Guinea	14	177	26	203	68	15
Palau	18	164	31	195	65	11
Marshall Islands	11	90	60	150	50	14
Nauru	9	76	25	101	34	11
Fed States Micronesia	7	56	24	80	27	11
Tuvalu	5	55	22	77	26	15
Niue	5	45	28	73	24	15
Timor Leste	2	19	0	19	6	10
Tokelau	1	0	6	6	2	6
<b>Total:</b>	<b>269</b>	<b>2136</b>	<b>1025</b>	<b>3161</b>	<b>1054</b>	<b>12</b>

Source: PFTAC September 2014

There are two other groups of countries that might benefit from PFTAC membership and in turn would contribute to PFTAC's critical mass.<sup>23</sup> First, American Samoa, Guam, and the Commonwealth of the Northern Marianas face issues in common with other PFTAC members. Second PFTAC could serve New Caledonia, Wallis and Futuna, and Tahiti, if it built sufficient French language capability. If these two groups of countries seriously considered PFTAC membership then the possibility of France and the United States being PFTAC donors would also arise. As an exploratory step PFTAC could invite these countries to send an observer to meetings of the PFTAC Steering Committee.

<sup>23</sup> One respondent to the survey said: "... perhaps PFTAC's membership should be similar to that of the Secretariat of the Pacific Community." Respondent #32.

## 2.3 Organization, Management and Governance

### 2.3.1 Organization and Staffing

The PFTAC office is located in Suva, Fiji, in offices provided by the Reserve Bank of Fiji. It is co-located with the IMF Regional Representative for the Pacific. The Centre is led by a Coordinator.<sup>24</sup> At present PFTAC has a complement of seven Resident Advisors.<sup>25</sup> They are recruited by the IMF functional (TA) departments<sup>26</sup> and engaged on renewable one-year contracts. Their tenures are commonly three years. IMF staff may apply for LTX positions but if successful they must take a leave of absence from the IMF to take up the position.

The Coordinator has a heavy administrative load that constrains him focusing on higher-level coordination tasks, including interacting with member countries and LTX/STX to encourage results-based approaches, to advance the program-based approach to organizing TA and training and encouraging cross-sector collaborations where they are likely to be fruitful. A well-qualified Executive Assistant would free up the time of the highly qualified Coordinator. Two LTX should be the minimum in any area of work,<sup>27</sup> with the possible exception of macroeconomic programming and analysis. Given the necessary resources, including financial resources from donors and backstopping resources at IMF HQ and space within the IMF caps (anchors) on growth, PFTAC should increase the LTX staff from seven to nine. Keeping an emphasis on actively using STX and adding a well-qualified Executive Assistant would produce a Centre in Phase 5 that is increasingly efficient and effective.

**Table 2.3.1 PFTAC Staff Numbers**

Area of Work	Current	Summary Estimate of Need
Centre Leadership	One	Two (Coordinator and Executive Assistant)
Administrative Support	Four	Four
<b>LTX</b>		
Public Financial Management	Two	Two
Financial Sector Supervision	One	Two (Add non-bank supervision and financial stability analysis).
Revenue policy and administration	One	Two (one added in non-tax revenues)
Macroeconomic programming and analysis	One (vacant)	One
Statistics	Two	Two
<b>Total LTX</b>	<b>Seven</b>	<b>Nine</b>

<sup>24</sup>The Coordinator is a permanent employee of the IMF and reports to the Deputy Director of the Asia and Pacific Department (APD). While posted to PFTAC his or her salary and allowances are paid by the IMF as a contribution "in kind" to PFTAC. The tenure of coordinators is normally three to five years after which they may be posted to other positions within the IMF.

<sup>25</sup> By way of comparison CARTAC has 10 Resident Advisors plus an RBM specialist; and an Executive Assistant.

<sup>26</sup> IMF Functional departments are Fiscal Affairs (FAD), Monetary and Capital Markets (MCM), Statistics (STA).

<sup>27</sup> We agree with one donor who said in response to our survey: "Relative to geographical dispersion, in-country staff capability/capacity, the level of need, and the region's culture/political economy (which requires more ongoing face to face interactions), PFTAC is not adequately staffed. I would think that two advisors in every area should be a minimum staffing level, with other short-term experts contracted as necessary." Respondent (Donor) # 533



There are four locally-engaged staff, all Fijian nationals.<sup>28</sup> They manage the office and the official affairs of the expatriate advisors and the logistics of missions and workshops. This complement did not increase when PFTAC increased in Phase 4 and is fewer than half of the support staff employed by the IMF Centre in the Caribbean, CARTAC.

The IMF lead department for PFTAC is the Asia and Pacific Department (APD). It employs the Centre Coordinator. Together they write the Centre's key strategic document (the Program Document) every five years, with the advice of the Steering Committee. APD coordinates the annual allocation of resources among the IMF functional (TA) departments and monitors the Centre's work plans. APD may also employ one or more Resident Advisors and engage in technical assistance or training although these are generally the responsibility of the IMF Functional Departments.<sup>29</sup>

The IMF Institute for Capacity Development (ICD), Global Partnerships Division, manages relationships with donors, leads fundraising for the RTACs, and provides secretariat functions for the RTACs, including PFTAC.<sup>30</sup> These include monitoring the PFTAC budget, managing aspects of the RTAC network (an annual meeting of Coordinators, for example), managing mid-term evaluations of the RTACs and reporting to the IMF Board. The Institute also engages in some training activities with PFTAC.

### 2.3.2 Governance

PFTAC is an office of the IMF funded in part by the IMF and the host country, Fiji, but mainly by donors to a multi-donor trust fund administered in accordance with the IMF Framework Administered Account for Selected Fund Activities, (SFA). The Centre is also subject to specific agreements with donors and with the host country, and policy decisions by the IMF Board of Executive Directors.

PFTAC has a Steering Committee that is an advisory body composed of representatives of the IMF, PFTAC member countries and donors.<sup>31</sup> It meets annually. It receives PFTAC's budget and annual reports and endorses the work plan for the coming year. Decision making is informal and by consensus rather than voting.

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<sup>28</sup> Compared with CARTAC's 9 locally employed staff at full strength, comprising an Executive Assistant, Office Manager, one senior admin assistant, three administrative assistants, a financial assistant, a driver and a cleaner

<sup>29</sup> The area department (in this case APD) leads the process of program document budget formulation before the initiation of the new funding cycle. TA departments hold budget allocations in their areas. The Centre Coordinator and the area department discuss work proposals with the IMF TA departments before passing a draft program budget on to ICD for review and consolidation. See Box 1 in this report for a more detailed description of the IMF budget cycle.

<sup>30</sup> ICD is responsible for fundraising and managing financial relations with donors. Other responsibilities of ICD include facilitating coordination among relevant Fund departments to ensure consistency in the implementation of Fund policies and procedures across RTACs (e.g., with respect to legal commitments made to donors, and administrative and financial management of TA), providing RTACs with financial information to guide the formulation and execution of work programs, and organizing independent evaluations of RTACs' performance.

<sup>31</sup> It is a large committee. For example there were 65 participants in the 2013 meeting of the Steering Committee. It might be more accurate to speak of participants in the Steering Committee rather than members since the participants do not personally hold an appointment to the Steering Committee for any particular period, with the partial exception of the elected chairperson.

The most recent independent external evaluation of PFTAC (2009) had little to say about Centre governance and nothing on the role and powers of the Steering Committee and made no recommendations on those topics. The evaluation team did, however, note that the governance of the Centre was complicated and to a degree controversial, and recommended that it be addressed by the next (this) evaluation. (See Section 2.3.2 Governance and 2.3.7 Governance Options)

In FY 2011 the IMF convened an internal working group on the governance of RTACs.<sup>32</sup> It recommended reforms in five areas: the role of IMF Departments in RTAC Governance; role of the Steering Committee; role of the Centre Coordinator; administration of the RTACs and human resource Issues. The working group took a broad view of “governance”. It made 32 recommendations. The few recommendations that address roles, responsibilities and authorities all pertain to the Centre Coordinator, as follows. There should be formal Terms of Reference for Coordinators (Recommendation 7); IMF should delegate to Centre Coordinators the administrative authority to approve STX missions within approved work plans. (Recommendation 11); and the Terms of Reference of Resident Advisors should indicate clearly (their tasks) ... under the direction of the Centre Coordinator. (Recommendation 22) The important points, it seems to us, are the authorities of the Coordinator and the role of the Steering Committee. The feedback in responses to the surveys and during country visits indicated that non-IMF stakeholders think both need to be strengthened.<sup>33</sup>

### 2.3.3 Backstopping

The IMF functional departments employ the Resident Advisors and hold PFTAC budget as line items in their annual departmental budgets. The only exception is the macroeconomic advisor position which is held by Asia and Pacific Department. Each PFTAC Resident Advisor has a designated “backstopper” in his or her functional department in Washington DC, with the exception, again, of the macroeconomic advisor who has no backstopper because backstopping has been largely the province of the TA/Functional departments.<sup>34</sup>

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<sup>32</sup> The IMF Committee on Capacity Building established three working groups at the same time, one on RATC governance, one on the financing of TA and a third on results-based management of TA. The report of the governance working group was: IMF, Interdepartmental Working Group (2011) “Report of the Interdepartmental Working Group on Regional Technical Assistance Centre Governance”, Washington DC.

<sup>33</sup> For example some stakeholders said: “Under the current governance structure, the Steering Committee (SC) has little real say in matters. ... Traditionally, decisions made by the IMF have been presented to SC for endorsement... That model is obsolete. Donors and some members want more say. A re-evaluation is needed of which kinds of decisions should be made by IMF HQ and which at SC. (As well) a fundamental restructuring of the PFTAC governance process within the IMF is needed. ... Asia Pacific Department needs to have the central role of determining TA strategy in consultation with PFTAC Steering Committee. APD should then go to the TA departments to obtain their services, based on an agreed work program. This would greatly streamline decision making and clarify accountability for decisions. It would also help promote more coherent TA strategies on a country-by-country basis; something that is weak at present.” Respondent #32

“The steering committee has virtually no powers to effect any operational changes. An example of this is the case of the 2nd tax adviser position, and the ongoing challenges SC members and donors have had negotiating the creation of this position with the IMF. The coordinator has no formal line of accountability to the Steering Committee, other than to discharge a periodic reporting obligation. The coordinator is an IMF employee, and has no substantive financial authority of his/her own. There is inadequate representation by those accountable within the IMF to donors/SC members in annual meetings. Junior representatives with no power to speak on behalf of the IMF attend these meetings. This makes it even harder for the SC to hold the IMF to account for its work” Respondent #34.

<sup>34</sup> The macroeconomic advisor could be backstopped by the Area Department (APD) or perhaps by the IMF Research Department.

Backstopping broadens the Advisor's knowledge of IMF experience in other countries and regions and gives the Advisor substantive collegial feedback and guidance. It may also provide a link with the work of IMF surveillance teams (Article 4), which are led by the Area Department but often include specialists from the Functional Departments. For the time spent on PFTAC work, the salary cost of each backstopper is charged to the PFTAC Trust Fund, with no loadings for benefits or general overhead.<sup>35</sup> On the one hand backstopping budgets have tended to be under-spent but on the other hand lack of backstopping budget in a particular TA department can be a constraint on the number of PFTAC Resident Advisors.<sup>36</sup>

In addition to recruiting and backstopping PFTAC's Resident Advisors and short-term experts (STX), the IMF functional departments employ other experts using IMF resources and trust funds.<sup>37</sup> They can deploy these experts independently of PFTAC to be resident in Pacific countries or to consult with governments on a short-term basis.<sup>38</sup> In principle these activities are coordinated through the development of the Regional Strategy Note and the Resource Allocation Plan and through collegial relationships within the IMF.

Many of PFTAC's administrative systems, including IM/IT, human resource management, financial management and general project management are run from IMF headquarters.<sup>39</sup> Some minor project management costs are charged to PFTAC's account but most general-and-administrative costs (overheads) are borne by the IMF. The IMF charges a 7% implementation fee on unloaded salaries and expenses. This is relatively low compared with peer

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<sup>35</sup> IMF charges to PFTAC Trust Fund are subject to a 7% administrative fee but the base costs are unloaded salary costs,

<sup>36</sup> One respondent said: "IMF backstopping is an important quality control measure that ensures consistency in the advice provided by PFTAC staff. However, backstoppers often have a very limited understanding of the region. It should be a rule that PFTAC backstoppers spend at least a few weeks in the region on an assignment alongside PFTAC staff to strengthen their understanding of the country context. Backstopping should also not constrain the ability of PFTAC staff levels from growing. If needed, donor resources could be used to "buy" more IMF staff time to backstop additional advisers." Respondent #533  
Another respondent said: "Perhaps the quality of backstopping could be improved if some "guidebook" on essential best practices is put together for both LTX Advisors and backstoppers. This applies to such things as (quality of content), formats, frequency, and content for the various reports. There do not seem to be uniform rules for many of these things. This is important for young backstoppers who usually have much less experience<sup>36</sup> than the LTX's they are overseeing." (Respondent Number 101)<sup>36</sup>

Another said: "The IMF approach seems to be to recommend international best practice even when the capability to implement best practices is not there. The IMF is prone to suggest standards that are inappropriate for the Pacific – for example accrual accounting rather than better cash budgeting, or prudential returns that are clearly too complex, or medium-term (3 year) budget frameworks when annual cash budgeting is still not functioning well...." Respondent #34 (Note a qualification: To our knowledge PFTAC has not advocated full accrual accounting for the PICS. However one of the major reasons why annual cash budgeting in some PICS remains weak has been the failure to properly recognize the costs of commitments made in prior years. Commitments have tended to be ignored until after annual budgets are passed and situations have tended to become emergencies. PFTAC has encouraged multi-year financial planning as a tool to ensure that annual budgets can be implemented as passed without large mid-year "adjustments" when spending "tails" associated with decisions made in earlier years can no longer be ignored. They have been recommended as a way to "discipline" planning processes that have tended to ignore fiscal constraints. Some of the joint World Bank/PFTAC publications on PFM problems in the PICS highlight the frequent disconnection between planning and budgeting.)

<sup>37</sup> These activities may be financed from IMF's own funds or financed by Topical Trust Funds (TTFs), such as the Tax Policy and Administration Trust Fund, or financed by donor sub-accounts, such as the Japan Sub-Account for Selected Fund Activities (JSA).

<sup>38</sup> There are budget lines dedicated to funding HQ-staffed missions. Functional departments use these monies at their discretion.

<sup>39</sup> Centralized systems are efficient and a major contribution by the IMF to PFTAC in kind. However they have their limitations and risks as well, as illustrated by a generalized computer crash at PFTAC the week before our field work, which revealed that file backup at IMF HQ was grossly out of date.

organizations.<sup>40</sup> In addition PFTAC, through the Functional Departments, PFTAC can call on the IMF Legal Department for technical assistance with legislation and regulations.

### 2.3.4 Management Matrix

Professional service organizations, like PFTAC, generally operate in a matrix structure. One dimension of the matrix is based on “line authorities” (how are people managed); and the other dimension is based on groups with the same professional expertise (in IMF terminology, “functional” relationships). The PFTAC matrix has one strong dimension (the vertical “functional” dimension) and one weaker dimension (cross-disciplinary work, horizontal management of LTX and maintenance of stakeholder relationships).<sup>41</sup> There are different views on this. Some in the fund believe that horizontal management by the Area Department (APD) is sufficiently strong and cite its lead in developing the Regional Strategy Note and in the RAP process (resource allocation).

The effectiveness of any professional services organization depends on the balance between the two dimensions. If general management is too strong, the professional staff may feel that they have insufficient professional autonomy. If the functional relationships are too strong then other problems might arise – for instance the professional work might miss opportunities to use multi-disciplinary teams across topic areas in a single country.<sup>42</sup>

The PFTAC organizational structure was put in place when PFTAC was a relatively small, contingent and time limited project. In that context the strong oversight by IMF HQ functional departments helped ensure high quality technical work within each functional sector. This has advantages as an approach to providing professional expertise.<sup>43</sup> However in the current context of a mature PFTAC and complex TA requirements the model needs to be balanced with more cross-disciplinary management, country expertise, reforms that require action in more than one core area, and tasks that require general consulting skills.

The structure means that the Coordinator, although a senior staff member of the IMF, has limited authority to direct PFTAC LTX and limited flexibility in approving STX expenditures and

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<sup>40</sup> The UNDP, the World Bank and major Funds such as the GEF tend to charge about 9%-10% for implementation and additional fees if they are also the executing agency.

<sup>41</sup> One donor said in response to our survey: “There is limited coordination between the IMF and PFTAC. Complex bureaucratic silos, combined with a poor understanding of the regional context by Washington backstoppers and managers leaves PFTAC considerably constrained in its ability to operate effectively. Poor coordination is a symptom of this problem, and there are many examples in recent years of coordination failures contributing to confusion for IMF surveillance staff, PFTAC and donors” Respondent (donor) #533 (This comment needs to be qualified. The evaluation team did not observe the level of coordination failure implied by this comment. By and large the collegial relationships between PFTAC and IMF HQ appear to work reasonably well. The huge distance apart and the time zone differences are a challenge.)

<sup>42</sup> One respondent said: “Regarding PFTAC’s LTXs, I think it is particularly important for the PFM LTX’s and the macro-fiscal advisor to work together. [They] have done some things jointly (Samoa macro-fiscal workshop in October 2013) and have discussed a joint effort in the north Pacific. This teamwork matters. However, it is not just an issue among the PFTAC functional experts. Closer relations with the APD Country Teams I think would strengthen the effectiveness of both.” (Respondent number 101)

<sup>43</sup> For a discussion of this point see “Winning Silos – Just Maybe Silos have their Good Points”, Acuity, The Journal of the Australian and New Zealand Association of Chartered Accountants, October 2014. “... As innovation speeds up this is creating a plethora of activities that are only understood by experts in a silo” (However) even if there is a case for a silo in certain circumstances it (the organization structure) cannot endure, it is not sustainable. A silo means ingrained thinking and inward-looking practices and today’s volatile environment doesn’t allow this.” P. 4

workshop expenditures. These can be important constraints in managing the Centre as a whole and in dealing with the Steering Committee. Extensive consultations between all parties are always appropriate in a multi-stakeholder Centre and that should not be affected by the modest rebalancing of operational and budget authorities that is needed.

It is not common that two or more PFTAC LTX advisors with different sector specialties will conduct a joint mission<sup>44</sup> to a member country although, in principle, many of the structural and capacity issues they may be dealing with are the same or closely related. For example implementing a new VAT can involve a wide range of PFM issues, revenue policy and administration issues, statistical data issues and issues relating to financial institution reporting and supervision.

### 2.3.5 Mix of LTX and STX

In the first three years of Phase 4, PFTAC expenditures on short-term experts (STX) were approximately 40% of its expenditures on resident Advisors (LTX).<sup>45</sup> In comparison, CARTAC spent about the same amount on each.<sup>46</sup> This has led to a perception among some stakeholders that PFTAC uses too few short-term experts. Recently the use of STX has increased.

LTX and STX should not be substitutes. STX should be specialists who work in a team supervised and backstopped by an LTX and/or experts at IMF HQ. In principle a single LTX should be leveraged with one or several STX. Also the use of more STX who are from the PFTAC beneficiary countries, as part of TA teams, should strengthen the local knowledge and relevance of the team's work just as the use of international STX deepens the team's technical competence.<sup>47</sup> Many STX, from Australia or New Zealand, for example, have a deep knowledge of the Pacific island countries. Pairing them with local consultants who are not sufficiently qualified to be accepted into a roster held by IMF HQ might be worth exploring.

#### Recruitment constraints

Another challenge is that IMF staff who wish to take up an LTX position are required to take a leave of absence from the IMF and their time during a leave of absence is not counted as pensionable, an important matter for staff. This unnecessarily limits the pool of experts that PFTAC can draw upon. Previous evaluations have commented on this but there has been no action to fix the problem.

Lastly, because most of PFTAC's budget is administered as line items for technical assistance in the budgets of the separate IMF functional departments it is subject to the IMF's self-imposed cap ("anchors") on how much of its technical assistance can be funded by external donors rather than from IMF funds.

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<sup>44</sup> "Joint" meaning "working as an integrated team" as distinct from just being in the country at the same time.

<sup>45</sup> See Appendix 5, Table 4.

<sup>46</sup> CARTAC spent \$7.2 million on LTX and \$6.8 million on STX.

<sup>47</sup> One LTX said to us: "In the PFM area STX use over the last nearly 2 years has been deliberately "reserved" for two types of activities: (1) Highly technical (like FMIS, legal reform, and pensions); and (2) PEFA self-assessments and PFM Roadmap coordination/mentoring where the use of regional talent has proven particularly effective. Regional talent has also been used to prepare dialog sessions with Cabinets/Parliaments because of recognition that PFM reform is not just a technical matter, but very much a leadership matter." Respondent #95



### Support to Bilaterally-funded In-Country Resident Advisors

PFTAC has occasionally provided administrative and professional back-up to advisors resident in PICs who are funded directly by bilateral donors. There may be some risks. This is a valuable service and that PFTAC undertakes it then it should consider recovering its costs. If there is no fee then the donor's incentives (fund PFTAC with its associated costs or field an advisor directly and receive (some) PFTAC support at no cost) will be distorted leading to increased fragmentation. However there are differing views on how this partnership should work.<sup>48</sup>

## 2.3 6 Network Synergies

Network synergies among RTACs are important. ICD Global Partnerships Division held a meeting of RTAC Coordinators in Washington DC 2013 and is writing an RTAC handbook that will be available in 2015.<sup>49</sup>

### 2.3.7 Governance Options

The network of IMF RTACs, including PFTAC, has expanded and matured during PFTAC Phase 4. However there are considerable ad hoc variances in practices across RTACs. Improvements could be made on a stand-alone basis or they could be made for all RTACs at the same time. Improvements are probably best made as part of a restructuring of the RTAC system (assuming some general reforms are desirable).<sup>50</sup> The wider view is beyond the scope of this evaluation and would require a general evaluation of the RTACs as a group and network.

Some possibly beneficial changes suggested by various respondents included the following:

- (1) Improve flexibility in resource allocation by consolidating resources into fewer budget accounts, in particular not having a dedicated budget category for diagnostic missions.<sup>51</sup>

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<sup>48</sup> One stakeholder said "A crucial part of PFTAC's leveraging is not through use of STX, but through working with resident experts funded by other organizations. PFTAC advisors in the PFM, revenue, and statistics areas have frequently been involved in preparing TORs & recruiting of LTX funded by Australia and New Zealand, and then also involved in supporting those LTX in the field. This collaboration has been remarkably successful, and greatly increases the Centre's leverage. This deserves highlighting in the evaluation." Respondent # 32

<sup>49</sup> In order to facilitate the discussion of best practices and the exchange of ideas, ICDGP has established an online collaboration platform. ICD plans to distribute a draft for interdepartmental review early in 2015 and finalize the handbook by the end of April 2015. It intends to update the Handbook regularly.

<sup>50</sup> One respondent to the survey said: "A fundamental restructuring of the PFTAC governance process within the IMF is needed. Currently ICD, APD, FAD, STA, and MCM all have their say and authority ... PFTAC's budget actually sits partly on the TA departments' budgets, and this gives them individual final authority over PFTAC spending. They have final say over missions and recruitment. ... There is currently virtually no effective mechanism for coordinating TA across the departments. In my view, the authority of the TA departments needs to be cut back drastically. APD needs to have the central role of determining the overall TA strategy advocated by the IMF. This should be decided together with the Steering Committee. APD should then go to the TA departments to obtain their services, based on an agreed work program. This would greatly streamline decision making and clarify accountability for decisions. It would also help promote more coherent TA strategies on a country-by-country basis; something that is weak at present." Respondent #533

<sup>51</sup> One opinion expressed to us was that PFM and revenue administration could perhaps be consolidated into a single category without loss; and that the distinction between diagnostic and regular HQ-led TA may constrain the use of funds in unhelpful ways. Another opinion was that "Diagnostic missions are usually funded from the RTAC budget, whereas HQ-led TA is funded from normal HQ resources so it does not appear appropriate to merge them. In fact, insufficient use is usually made of the diagnostic missions because (Department Name) is never sure of the funds available for the purpose of designing the joint

(Continued)

(2) Allocate some budget to the IMF Area Department (APD) for multi-disciplinary and thematic work by PFTAC led by the Coordinator. Devolve expenditure approval authority for this budget to the Centre Coordinator so he or she can commission and lead this work).<sup>52</sup>

(3) Strengthen the Coordinator's administrative authorities and devolve from IMF HQ to PFTAC more administrative responsibilities and authorities for functions such as IM/IT and project/program management.

(4) Strengthen ICD's role in promoting network synergies among RTACs, standardizing best practices and training LTX, STX and support staff.

(5) Allow IMF permanent staff to be posted to PFTAC as LTX without loss of pension benefits.

ICD should consider commissioning a higher level strategic evaluation of the whole RTAC network to address structural issues. (See Section 2.7 for further discussion on this point.) To our knowledge the IMF Executive Board has not reviewed the whole RTAC system since 2005<sup>53</sup> although in 2012 there was a report from an ad hoc Working Group on *Regional Technical Assistance Centre Governance* that considered a broad range of issues.

## 2.4 Resources

### 2.4.1 Funding

PFTAC received US\$39 million in contributions by donors from its inception to September 2014. Approximately 65% of this total was received in Phase 4. This reflects a large increase in contributions from Phase 3 to Phase 4, both in total for the period and in "per year" funds. The per-year funding amount is the more useful indication of scale because Phase 4 covers five fiscal years compared with three years in earlier phases. In nominal dollars, contributions received in Phase 4, on a per-year basis, were approximately 2.25 times those in Phase 3.<sup>54</sup> Nevertheless, despite this substantial percentage increase, PFTAC remains the smallest of the nine RTACs with the exception of West AFRITAC 2.

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programs for whose planning diagnostic missions are intended." The concept of diagnostic missions is a good one although having a dedicated budget does not appear to have resulted in much activity.

<sup>52</sup> One respondent said: "Personally, I think I would recommend giving the Coordinator complete allocation authority over the STX budget, and write into the agreements for Phase 5 a provision that would allow these funds to be used for an additional LTX if approved by the SC and the coordinator." (Respondent 101)

<sup>53</sup> See IMF Board Paper: "Review of the Fund's Regional Technical Assistance Centres", SM/05/239, 6/30/05)

<sup>54</sup> This increase in resources is in line with the recommendations of the 2009 evaluation of PFTAC (Bruce Murray et al) Recommendation 1 Option 2, p. 75. However the main impetus may have been the international financial crisis of 2008 and 2009 that led donors to increase their funding in general.

## Mid-Term Evaluation of PFTAC Phase 4

**Table 2.4.1: Contributions to PFTAC by Donor and Phase**

Donors	Phase I (3 years)	Phase II (3 years)	Phase III (3 years)	Phase IV <sup>1/</sup> (5 years)	Total	% Total
Asian Development Bank	1,299,000	800,000	999,999	1,000,000	4,098,999	11%
Australia	1,106,665	1,291,869	2,200,000	7,500,001	12,098,535	31%
European Union and European Commission***				7,460,172	7,460,172	19%
Korea			813,564	2,300,365	3,113,929	8%
New Zealand	443,013	1,937,979	2,717,098	7,166,717	12,264,807	31%
<b>Sub-total</b>	<b>2,848,678</b>	<b>4,029,848</b>	<b>6,730,661</b>	<b>25,427,255</b>	<b>39,036,442</b>	<b>100%</b>
In-kind Contributions (Fiji)			76,566	210,000		
Other income including Interest*	20,134	83,696	8,044	8,076	119,950	
<b>Resources received** (Phases 1-III) and Total Commitments for Phase IV</b>	<b>2,868,812</b>	<b>4,113,544</b>	<b>6,815,271</b>	<b>25,645,331</b>	<b>39,156,392</b>	
<b>Average resources available per year (nominal dollars)</b>	<b>956,271</b>	<b>1,371,181</b>	<b>2,271,757</b>	<b>5,129,066</b>		
<b>Average resources available per year (2014 constant dollars***)</b>	<b>1,443,547</b>	<b>1,840,114</b>	<b>2,710,266</b>			

Source: PFTAC and IMF ICD, September 2014

(1) Contributions received to September 2014

Note: Contributions received up to-date are based on exchange rate at the time of receipt.

\*Remaining balance from Phase I, II and III is still earning interest. Interest earned after the end of Phase III as of September 30, 2014 is \$584.

\*\*Does not include contribution from JSA and Korea subaccounts under the IMF FAA. Nor does it include a LOA for US\$2.5 million being discussed with Australia in November 2014.

\*\*\* The European Union contributed 4.5 million Euro and the European Commission (Africa, Caribbean and Pacific Fund) contributed 1 million Euro.

\*\*\* Constant dollars estimate assume contributions were received, on average, at the Phase mid-point. Discount rate 4%.

New Zealand and Australia have contributed similar amounts to PFTAC, that is between \$12.1 million and \$12.3 million over four phases (14 years). Together their contributions have amounted to 62% of PFTAC's funding. The European Union and European Commission have contributed approximately US\$7.5 million (19%), the Asian Development Bank US\$4.1 million (11%) and Korea US\$3.1 million (8%) Fiji's in-kind contribution has been a little less than US\$300,000. The IMF's in-kind contribution is expected to be approximately \$2.7 million over the whole of Phase 4.

Despite the budget increase in Phase 4 PFTAC remains small. For comparison, the IMF Caribbean Technical Assistance Centre (CARTAC) has roughly the same number<sup>55</sup> of member countries as PFTAC and their composition is similar, mainly small island states. Contributions pledged to PFTAC over four phases have been about a third of those pledged to CARTAC.<sup>56</sup> In Phase 4 Australia's contribution to each of the two Centres, PFTAC and CARTAC, was similar.<sup>57</sup> It seems clear that PFTAC has been underfunded and needs to operate at a larger

<sup>55</sup> CARTAC has eighteen member countries and PFTAC 16.

<sup>56</sup> "In nominal dollars the total funding expected from the start of CARTAC in 2001 to the end of Phase IV in 2015 is approximately US\$120 million in nominal dollars and approximately US\$132 million in constant (2011) dollars." (CARTAC Cost-Effectiveness Study, 2011, p. 21)

<sup>57</sup> Australia's contribution to CARTAC for Phase 4 was \$6,369,480 and to PFTAC was \$7,500,001.

scale to respond to member countries' needs and to operate efficiently in terms of the overhead/operational expenditure ratio.

### 2.4.2 Budget

Looking ahead, there are several factors that might affect the appropriate budget for Phase 5. If the PFTAC Phase 5 budget is similar to Phase 4 plus a five year inflation adjustment,<sup>58</sup> then it will be approximately \$29.5 million before additions and reforms to the Program. However it is clear that the needs of member countries for technical assistance and training during 2016-2021 will be greater than could be met by a PFTAC budget similar to the Phase 4 budget. At the same time absorptive capacity has to be kept in mind.<sup>59</sup>

The recommendations in this evaluation report, if implemented, would require additional funding. Some recommendations that have significant resource implications include the following:

- Having a complement of 9 or 10 resident advisors and an executive assistant to the Coordinator. Another possibility is to strengthen PFTAC's RBM/research capabilities with dedicated staff in a way that other RTACs have.<sup>60</sup>
- Having greater interaction between PFTAC and the other RTACs, including RTAC peer reviews, with the RTACs being managed by ICD more intensively as a network. The incremental cost would be mainly in inter-RTAC travel.
- Improving PFTAC's knowledge management, including better access by clients to PFTAC/IMF technical materials and training in access skills; and better management of results information including RTAC peer reviews (See Section 2.7.4 Knowledge Management) and other information to enable results-based management.
- A feasibility study for a Pacific Regional Training Centre for mid-career training in macroeconomics, perhaps based on the STI model or the ATI model (which is collocated with AFS).<sup>61</sup> Such a feasibility study should consider at least the following: the existing supply/cadre of macroeconomists working in the Pacific, the existing training facilities and the possibilities of new training technologies and the incremental costs and benefits of establishing a training Centre in the Pacific.<sup>62</sup> A training centre in macroeconomic

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<sup>58</sup> The assumptions are Phase 4 expenditures of \$58.2; and inflation of 2% per annum.

<sup>59</sup> The SC minutes of July 2014 say: "There is a broad concern that members are being overwhelmed with TA, no matter how valid or well-intentioned; PFTAC needs to be careful to prioritize in its TA recommendations and activities, and to have a realistic sense of the time and resource commitment needed for implementation of recommendations. Although its TA is appreciated and is largely demand-driven, it may need to be less accommodating; development partners and TA providers need to improve prioritization and coordination of TA in close consultation with country authorities to prevent overwhelming absorption capacity."

<sup>60</sup> CARTAC has hired a RBM/TA expert in early 2015, at least for the balance of Phase IV and may designate that person as deputy coordinator. However, this position, as presently envisaged, will be contractual, like the LTX and financed by donor funds not by the IMF directly. The person will not hold an IMF staff position. There may be some complexities involved in such a person exercising the authorities of the Coordinator.

<sup>61</sup> Singapore Regional Training Institute.

<sup>62</sup> One respondent said in support of exploring a possible regional training centre: "... there is a lot of merit in considering an ATI type program in the Pacific, and specifically in Suva, because USP is here. (However) STI has explicitly positioned itself "up market" to offer courses that are effectively at graduate level university. It is also very ASEAN focused. Both mean that STI is not a useful training facility for PFTAC members. (Author note: A considerable number attend STI. See Section ...). There are a number of areas in which better training is needed in the region, and macroeconomics is one, but not the only one. More training is desperately needed in accounting & auditing. Better training is needed in basics of banking supervision, and also in economic statistics. So I would leave open the question of which areas of training are most important." Respondent #99

management would require a significant increase in PFTAC's budget if implemented through the Centre as would probably be sensible.

### 2.4.3 Financial Sustainability

In 2012 the IMF convened an internal<sup>63</sup> *Working Group on RTAC Governance*. The report of the Working Group discussed financial sustainability under the heading "Exit Strategy".<sup>64</sup> The report stated: "Under the current policy of relying mainly on donors and beneficiary countries to pay for the RTACs, a shortfall in external funding for a Centre would require that the Centre be scaled back."<sup>65</sup> The Working Group suggested that if the funding shortfall in a particular replenishment were half or more of the existing budget level then the Centre should be closed.

The Working Group went on to recommend that new Program Documents should be prepared about eighteen months before the end of the current Phase and that the prospects of external funding for the new Phase should be assessed about a year before it begins. In the event of a substantial shortfall in contributions the IMF would consider downscaling or shutting the Centre. This is unlikely in the case of PFTAC. Therefore financial sustainability is important because the need for the Centre is likely to remain strong for the foreseeable future.

The idea that a Program Document can be ready 18 months before the end of the Phase and that donors are willing and able to make financial commitments to a new phase a year ahead of time may not be realistic. It is clear that this will not happen in the transition from Phase 4 to Phase 5 since that time window has already closed. Therefore other means of ensuring financial sustainability might have more promise, including diversification of donors and funding instruments and member country contributions. (See below.)

### 2.4.4 Diversification

#### (A) Diversification of Funding Instruments

In principle PFTAC is funded by one round of replenishment every five years. However in practice donors sometimes find it difficult to commit funds for more than three years because of their political and budget systems constraints. It would be possible to diversify the core replenishment system in a number of ways. For example donors could contribute to the PFTAC trust fund at any time that is convenient to them as a supplement to their commitment to the primary replenishment. However in practice that might be difficult to organize and might require ICD and perhaps the Centre Coordinator to be in funds seeking mode much of the time.

There may be scope for greater collaboration between PFTAC LTX-led teams and STX funded under IMF Topical Trust Funds (TTFs) or other donor agreements, when the topic fits both.

As well, a general Fund for RTACs might have important benefits. Contributions to RTACs are, at present, on a centre-by-centre basis. However in principle there is no reason why there should not be an RTACs Trust Fund in addition to the PFTAC Trust Fund. Nor is there any reason why an RTACs Trust Fund would have to be fully expended within any particular time

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<sup>63</sup> The Working Group had 15 members, three of whom were women. Sixteen other people are listed as having participated in sub-groups of the Working Group and/or in the deliberations of the Working Group. Ten were women. All were IMF staff at headquarters. There was no representation from RTACs directly. There was no participation by member countries or by donors. The absence of donors may have limited the Group's understanding of what RTAC financing options are feasible as distinct from desirable.

<sup>64</sup> IMF, Report of the Interdepartmental Working Group on RTAC Governance, Washington DC, 2012.

<sup>65</sup> Ibid, p.26



period. It could, in part, act like an endowment if it were sufficiently large and not time bound or at least replenished on a different cycle from PFTAC. Some donors might welcome the opportunity to contribute to RTACs as a whole rather than to single RTACs. This could have a significant stabilizing influence.

### **(B) Diversification of donors**

Sustainability might be improved as well by diversifying PFTAC's donors. The Centre could, for instance, decide that no more than a certain percentage of total funding should be provided by any single donor; and then it could engage a sufficient number of donors to make that feasible. Several countries in the Asia and Pacific region are now more active in aid cooperation than when PFTAC began.<sup>66</sup> It is desirable to diversify the RTACs' relationships within the Central Agencies and Departments of donor governments to relate to Ministries of Finance and Central Banks more directly.<sup>67</sup>

The Discussion Group on this topic at the March 2015 meeting of the Steering Committee noted that admission of new member countries and new donors may go together in some instances such as France (Francophone Pacific Islands) and the USA (northern islands within the American ambit)

For many reasons including ownership by beneficiaries and sustainability of PFTAC, it is also desirable to receive financial support from PFTAC member countries.

### **2.4.5 Member Country Contributions**

The PFTAC Program Document for Phase 4 said:

*"PFTAC recipient countries will be requested to make a small financial contribution totaling up to 5% of Centre costs."<sup>68</sup>*

This would amount to about US\$1.27 million from all member countries together assuming US\$25.4 million in total PFTAC expenditures for Phase 4 or, on average, about \$15,900 per country per year over five years. This is a trivial amount of money and the point was mostly to demonstrate commitment so it would miss the point. Nevertheless the Steering Committee was not asked to endorse this proposition apart from the general endorsement of the Program Document.<sup>69</sup> Consequently PFTAC is the only Centre that does not receive contributions from its member governments.

The sustainability of PFTAC may depend in part on contributions from member countries. Financial contributions add to PFTAC's sustainability directly and also add indirectly by demonstrating the commitment of member countries to PFTAC. Contributions would not exactly

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<sup>66</sup> Some examples include the United States, China, India, Japan, Indonesia, the Philippines and Vietnam.

<sup>67</sup> The RTACs relate primarily to donor development cooperation agencies while the IMF, in contrast, relates mainly to donor Ministries of Finance and Central Banks. The sponsorship of IMF technical assistance trust funds varies. For instance the Japan Sub-Account (JSA) is funded directly by the Japanese Ministry of Finance rather than by JICA. Others are funded by development agencies. As the RTACs have transitioned from projects to a more institutionalized network under IMF auspices the argument in favour of relating more directly with donor Ministries of Finance and Central Banks becomes stronger. Whether these have either the institutional capability or budget allocation to support RTACs is another matter. If they did, then they would be natural sponsors of the RTAC network including PFTAC.

<sup>68</sup> PFTAC Program Document, February 2011, p.26.

<sup>69</sup> The timing may have been affected by the global financial crisis when the IMF moved away from the idea of charging for its services, which made it less likely to ask for country contributions during that period.

## Mid-Term Evaluation of PFTAC Phase 4

be a “market test” but they would be an affirmation of value received and some donors to some RTACs have made it clear that their continued support is contingent on reasonable contributions being received from beneficiary member countries.<sup>70</sup>

The ability of PFTAC members to contribute financially varies from one country to another. Aside from ability to pay, willingness to pay may vary from one country to another as well. This can create tensions among members if some contribute and some do not. At a minimum PFTAC would need to document its value for money convincingly to members. This is made more complex by the fact that some other organizations have tended to exaggerate their benefits<sup>71</sup> and because most bilateral and multilateral donors provide their aid to governments free. It is not, however, unusual that PICs pay dues or make contributions to international organizations that provide services to them. For instance, in 2014-15 the Cook Islands made provision for \$NZ 632,824 as contributions to approximately 36 regional and international organizations, with the largest contribution being about \$67,000 per year.<sup>72</sup>

Most RTACs receive financial contributions from their member countries. (See Table 2.4.5) These contributions are voluntary although in practice countries are expected to comply with the consensus of the Steering Committee. In FY 2014 the proportion of total expenditures covered by member contributions varies from 0% in the case of PFTAC to 53.5% in the case of METAC.

**Table 2.4.5: Donor and Member Country Contributions to RTACs, FY 2014 (\$millions)**

Technical Assistance Centre	Total Contributions, Current Phase	Donor Contributions	Member Contributions	% Contributed by Members
PFTAC	25.6	25.6	0.0	0.0%
Central AFRITAC	45	18	27.0	60.0%
East AFRITAC	20.3	15.3	5.0	24.6%
West AFRITAC	41.7	38.7	3.0	7.2%
CAPTAC DR	20.4	16.9	3.5	17.2%
CARTAC	54.4	47.7	6.7	12.3%
South AFRITAC	53.5	46.4	7.1	13.3%
West AFRITAC 2	36.4	29.63	6.8	18.6%
METAC	20.2	9.4	10.8	53.5%
ATI	21.4	3.4	18.0	84.1%
All Centres	338.9	251.03	87.87	25.9%

Source IMF ICD, May 2015

<sup>70</sup> For example Canada and the United Kingdom have stated that their support for CARTAC in Phase 5 will depend on member countries meeting all or a substantial part of the \$350,000 per country contribution (\$70,000 per annum) that has been voluntarily levied by the Steering Committee.

<sup>71</sup> For example in return for an annual contribution of NZ\$80,380 the SPC claims that its services to the Cook Islands amount to NZ\$5,989,033 per annum. (Secretariat of the Pacific 2013 Annual Report “Working with the Cook Islands” quoted in Cook Islands Budget Estimates, FY 2014-15, October 2014, p. 140). This estimate is not independently verified and seems exaggerated. Nevertheless such estimates provide the context in which PFTAC’s value for money might be judged.

<sup>72</sup> The five largest contributions by the Cook Islands in that year were: \$NZ 80,380 to the Secretariat of the Pacific Commission; \$66,944 to the International Maritime Organization (IMO); \$40,734 to the United Nations Development Program (UNDP); \$72,000 to the International Civil Aviation Organization (ICAO); and \$36,561 to the Pacific Islands Forum Secretariat.

Several RTACs have a variable scale of contributions from member countries depending on ability to pay. One possible approach would be to decide in principle what percentage of the total contributions to PFTAC is expected from all member countries in total and then to allocate that total amount among them in proportion to their GDPs. Alternatively there could be a base amount that all countries contribute to PFTAC each year, say \$50,000, and an incremental amount in proportion to their GDPs – again with the total contributions adding up to an agreed proportion of the total PFTAC budget.<sup>73</sup> As Phase 5 approaches, PFTAC will need to consider what contributions can reasonably be expected from member governments. A 10% total contribution implies a country contribution of between \$37,500 and \$50,000 per year depending on assumptions about the size of the Phase 5 budget. A smaller contribution would not be appropriate and that at this tiny scale no adjustment for ability to pay is necessary. The IMF has also considered its options more generally in terms of cost recovery.<sup>74</sup> The Discussion Group at the March 2015 Steering Committee recommended that the Steering Committee approve in principle member state contributions to PFTAC; and that the percentage should be agreed before the start of Phase 5. The Discussion Group leaned towards a two-level contribution system, one level for small states and one for larger states. Total contributions will sum to an agreed percentage of PFTAC's Phase 5 budget,

If donors are content to finance PFTAC in the medium and long term then significant costs to member countries can be avoided. However even in this scenario there are advantages to member countries in making a contribution.<sup>75</sup> It would naturally increase their clout. If the suggested contributions were small, then ability to pay would not be a significant issue. If contributions were larger than this, then making them proportional to GDP might be preferable to a flat amount. One possibility would be to ask for a fixed base contribution from all members plus an increment proportional to their GDP

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<sup>73</sup> The amount expected from beneficiary Member States is a matter best decided by the PFTAC Steering Committee. However we think that 5%, as suggested by the Phase 4 Program Document is too small.

<sup>74</sup> The IMF has considered implementing some cost recovery for training. A partial cost recovery policy was implemented from May 1, 2009 to January 1, 2010 and then suspended in the context of the financial difficulties that many countries were suffering after the general financial crisis of 2008-2009. However even under that initiative externally-funded TA and training was exempt from cost recovery. The rationale was that, from the IMF's point of view, the willingness of a donor to pay for the work was already a "market test" of value.

<sup>75</sup> One (member country) respondent to the survey said: "We get what we pay for membership to PITAA which is fine – we pay more than some but less than other countries. We are very happy with what PFTAC provides and are very happy to assist towards to the PFTAC budget." Respondent #88

## 2.4.6 Expenditures

PFTAC resources in Phase 4 are expected to be approximately \$26 million. The expenditures are described in Table 2.4.6

**Table 2.4.6 PFTAC Phase 4 Expenditures by Category and Fiscal Year**

Activity Description	Expenditures by Fiscal Year					TOTALS	%
	FY2012	FY2013	FY2014	FY2015 Est	FY2016 Est		
<b>LTX Total</b>	<b>1,012,484</b>	<b>1,792,652</b>	<b>1,951,135</b>	<b>2,188,909</b>	<b>2,620,483</b>	<b>9,565,664</b>	<b>37%</b>
<b>STX Total</b>	<b>538,751</b>	<b>850,804</b>	<b>534,701</b>	<b>1,067,448</b>	<b>630,554</b>	<b>3,622,257</b>	<b>14%</b>
Regional travel	315,098	443,090	525,758	708,448	614,176	2,606,570	10%
Seminars and Training	339,937	376,679	315,050	607,640	526,436	2,165,742	8%
Steering Committee Meetings and Evaluation	26,456	51,041	29,157	300,000	95,000	501,654	2%
Diagnostic Missions/Studies	-	46,565	84,438	175,528	217,863	524,394	2%
Staff Travel (backstopping & pj-mgmt)	-	74,976	122,406	146,400	109,020	452,802	2%
<b>Backstopping Total</b>	<b>97,164</b>	<b>124,644</b>	<b>121,520</b>	<b>303,596</b>	<b>313,416</b>	<b>960,340</b>	<b>4%</b>
<b>Project Management Total</b>	<b>28,238</b>	<b>66,639</b>	<b>49,551</b>	<b>114,122</b>	<b>129,939</b>	<b>388,490</b>	<b>1%</b>
Other-Office Support/Communication	40,294	55,706	52,875	67,492	91,556		
<b>Subtotal Donor Expenses</b>	<b>2,398,422</b>	<b>3,882,796</b>	<b>3,786,592</b>	<b>5,679,583</b>	<b>5,348,443</b>		
Trust Fund Mgmt. Fee - 7%	167,890	271,796	265,061	397,571	377,331		
Coordinator, office staff & travel coordinator	498,134	518,059	538,782	560,334	582,746	2,698,055	10%
<b>Total IMF and Host Country</b>	<b>540,134</b>	<b>560,059</b>	<b>580,782</b>	<b>602,334</b>	<b>624,746</b>	<b>2,908,055</b>	<b>11%</b>
Contingency Allowance	279,618			276,807			
<b>Grand Total</b>	<b>3,386,063</b>	<b>4,714,651</b>	<b>4,632,435</b>	<b>6,956,295</b>	<b>6,350,520</b>	<b>26,039,965</b>	<b>100%</b>

Source: IMF ICD 2014. See Appendix 5 Table 4B.

The funding of PFTAC phase by phase has led to an inefficient pattern of expenditure, with low expenditures in the first year of the phase and much higher expenditures in the later years of the phase. This volatility needs to be lessened to keep the overhead ratio low and stable and to ensure that priorities are addressed at the right time, not put off because of temporary cash flow constraints.

## 2.4.7 Defragmenting of Donor Support

Fragmentation of technical assistance in the core areas where the IMF is the lead agency is a significant problem in the Pacific and cannot be solved by traditional calls for better coordination. One factor is the visibility that donors desire. It is generally desirable to consolidate donor support to macroeconomic management under the PFTAC umbrella.<sup>76</sup>

## 2.4.8 Budget Stability

PFTAC's Phase 4 budget is \$25,427,255 in total, approximately \$5 million per annum. This amount is expected to be fully spent within Phase 4. Essentially PFTAC Phase 4 operations are projected to be completed on budget and on time. However annual expenditures are very uneven. In FY 2012, for example, expenditures totaled \$3.1 million and the following year they were a little more than 50% higher. And in FY 2015 and FY 2016 they are projected to be almost twice as high as the first year of the Phase. This pattern of expenditures was not

<sup>76</sup> Defragmenting donors' support of technical assistance in the Pacific, if it were pursued, might lead to an apparent increase in PFTAC's Phase 5 budget although overall donor support to Pacific states would not necessarily increase.

deliberately chosen. The volatility resulted from rigidities in the donor funding practices<sup>77</sup> and in IMF budgeting practices.<sup>78</sup>

The recent cost-effectiveness study of CARTAC is relevant to PFTAC in this respect. It pointed out that a Centre's overhead ratio (administrative expenditures as a proportion of total budget) is largely determined by the amount of TA activity in a particular year.<sup>79</sup> This is because in the short term the administrative costs are fixed. They comprise, mainly, a Centre Coordinator, some travel, locally-engaged support staff<sup>80</sup> and office space. Therefore it is efficient to leverage this fixed administrative investment with as much technical assistance as it can support, within the constraints of country need, absorptive capacity and program quality. If funding were predictable, avoiding the volatility typical of earlier Phases, it seems that PFTAC can deliver \$7 million in services per annum with the existing administrative complement. We have recommended the addition of an Executive Assistant to the Coordinator and this would add substantially to administrative capacity. (See Section 2.3.1)

However, unfortunately nothing has changed structurally to prevent high volatility of annual expenditures in the transition from Phase 4 to Phase 5 similar to that experienced earlier in the transition from Phases 2 to 3 and 3, and Phases 3 to 4.<sup>81</sup> The IMF's study of RTAC governance (2012) recommends that donor commitments to fund Phase 5 should be firm about a year before the end of Phase 4.<sup>82</sup> This would be good but donors might be reluctant or unable to make a commitment a year ahead of time. It might not be practical given their budgeting systems. If it were practical it would certainly be good practice and might go a long way towards preventing the inefficient volatility of cash flow experienced in the transition from Phase 3 to Phase 4.

However if donor practices are unlikely to change then inefficient volatility in annual funding has to be addressed in other ways. The RTAC governance report also says that the IMF has worked out a procedure for providing temporary or bridge funding to each RTAC early in its funding cycle, guaranteed by the Area Department's administrative budget.<sup>83</sup> This seems a useful flexibility but if it is likely to involve significant funds then it might be necessary to schedule the RTAC replenishments spaced well apart so that demands from several RTACs for "bridge" financing do not occur at the same time.

Other possibilities in avoiding operational volatility during Phase transitions include the following:

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<sup>77</sup> Donors do not necessarily commit themselves to providing specific funds ahead of the Phase and then when they do make a firm commitment they tend to "front-load" the payments for the whole Phase. This is a result of a single-year budgeting process that may not allow the Donor to commit to payments in later fiscal years. Consequently the early period of a PFTAC Phase may see a "famine" of funds followed by a "feast".

<sup>78</sup> The IMF does not allow PFTAC to make any financial commitments that are not fully covered by cash already received from Donors.

<sup>79</sup> Evaluation of the Cost Effectiveness of CARTAC in the First Year of Phase IV (FY2011), Rideau Strategy Consultants Ltd., Dr. Kenneth Watson et al., Section 2.1, "The Importance of Stable Funding", p. 21, July 2012

<sup>80</sup> PFTAC has 4 locally-engaged staff and CARTAC has 9 locally employed staff at full strength, comprising an Executive Assistant, Office Manager, one senior admin assistant, 3 admin assistants, a financial assistant, a driver and a cleaner

<sup>81</sup> Expenditures in the final year of Phase 2 were 245% larger than in the first year. Similarly expenditures in the final year of Phase 3 were 170% larger than in the first year.

<sup>82</sup> IMF, Report of the Interdepartmental Working Group on Regional Technical Assistance Centre Governance, Recommendation 31 and related discussion, pp. 26-27

<sup>83</sup> IMF, Report of the Interdepartmental Working Group on Regional Technical Assistance Centre Governance, Para. 53, pp. 26-27

- Moving away from a single replenishment every five years, and achieving more flexibility in regard to when donors can commit and provide funds to the PFTAC Trust Fund.<sup>84</sup>
- (See Section 2.2.4 Diversification): Diversifying the donors to PFTAC.<sup>85</sup> Closer collaboration with topical trust funds (TTFs) where topics are compatible perhaps especially at PFTAC phase transitions if PFTAC funds for STX are temporarily short. Establishing a general “RTACs Trust Fund” in addition to the trust funds for individual RTACs like PFTAC, to provide, among other things, “bridge” financing when needed.<sup>86</sup>
- Another possibility to ensure a smooth transition from Phase IV to Phase V, without a large dip in activity in the first year would be to make the determination of the length of Phase 5 more flexible. Depending on the level of initial commitments the Phase could be adjusted in length perhaps in the range of three to five years.

In general, stabilizing PFTAC’s budgets and annual expenditures requires concerted action by donors and the IMF. Funding sources and timing need to be more diverse and flexible to avoid volatility from year to year, in particular budget volatility during the transition from Phase 4 to Phase 5; and the IMF needs to diversify its funding instruments for PFTAC and to be more flexible in how it handles bridge financing during Phase transitions.

### 2.4.9 Economy

#### (A) Overheads

PFTAC’s overhead rate for Phase 4 is approximately 16%. This compares favorably with other major funds for combined implementation and execution overheads and is a little less than some other RTACs, for example CARTAC.<sup>87</sup>

#### (B) Professional Fees

The fee per day for PFTAC Resident Advisors (long-term experts) ranges from \$950 to \$1211. The short-term experts range is from \$622 to \$1185.<sup>88</sup> These are reasonable ranges for senior experts in IMF core areas. The IMF has an advantage in negotiating fees because it is tax exempt in many of the experts’ home countries.<sup>89</sup> This may not be important in the case of LTX because they are non-resident in their home countries<sup>90</sup> and tax-exempt in Fiji anyway. However it can be important to recruiting STX because they remain resident in their home countries for tax purposes. We observed particular examples where STX were charging the IMF about one third less than their established, taxable, professional fees in their home countries. On average it would be difficult for a bilateral aid agency, for example, that does not

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<sup>84</sup> A five-year single replenishment model does not fit PFTAC as well as it fits the multilateral development banks because PFTAC does not have any financial assets that can smooth the transition from one phase to another. However making fund raising more flexible might imply that each individual RTAC assume some responsibility for fund raising rather than it being mainly or solely a responsibility of the IMF ICD Global Partnerships Division.

<sup>85</sup> Other possible donors might include China, India, the USA or Japan; or possibly Indonesia, the Philippines or Vietnam. As a first step these countries might be invited to send an observer to the next Steering Committee meeting.

<sup>86</sup> The EU/EC already provides a single contribution to all RTACs together (with some targeting to individual RTACs within the overall allocation).

<sup>87</sup> See IMF, Cost-Effectiveness of CARTAC in Year 1 of Phase 4, FY 2011, Washington DC, July 2012.

<sup>88</sup> Source: IMF ICD, November 2014

<sup>89</sup> Tax exemption of professional income from the IMF is a complex matter and varies among IMF member countries.

<sup>90</sup> Some countries, such as the USA, require non-resident citizens to file tax returns.



## Mid-Term Evaluation of PFTAC Phase 4

enjoy tax exempt status as the IMF normally does, to recruit and field the same STX as economically as the IMF can.

**Table 2.4.9 PFTAC Overhead Rate**

	Phase IV (Revised Operational Budget)	Phase IV ( Annual Avg.)	%	FY 2012	%	FY2013	%	FY2014	%
LTX, STX, Diagnostic	14,473,583	2,894,717	54%	1,551,235	50%	2,690,021	57%	2,570,274	55%
Seminars, Travel	6,297,709	1,259,542	23%	721,785	23%	1,001,492	21%	1,045,246	23%
Evaluation	300,000	60,000	1%	0	0%	0	0%	0	0%
Backstopping	1,133,090	226,618	4%	97,164	3%	124,644	3%	121,520	3%
TA Coordination1/	921,643	184,329	3%	170,160	5%	176,967	4%	184,046	4%
<b>TA &amp; Training</b>	<b>23,126,025</b>	<b>4,625,205</b>	<b>86%</b>	<b>2,540,344</b>	<b>82%</b>	<b>3,993,124</b>	<b>85%</b>	<b>3,921,086</b>	<b>84%</b>
Trust Fund Fee	1,584,911	316,982	6%	177,824	6%	279,519	6%	274,476	6%
IMF Project Management	437,199	87,440	2%	28,238	1%	66,390	1%	49,551	1%
Local Support Staff	649,959	129,992	2%	120,000	4%	124,800	3%	129,792	3%
In-Kind IMF & Host 2/	1,336,453	249,974	5%	249,974	8%	258,292	5%	266,945	6%
<b>Total Overhead</b>	<b>4,008,521</b>	<b>784,387</b>	<b>14%</b>	<b>576,036</b>	<b>18%</b>	<b>729,001</b>	<b>15%</b>	<b>720,763</b>	<b>16%</b>
<b>Total Expenditures</b>	<b>27,134,547</b>	<b>5,409,592</b>	<b>100%</b>	<b>3,116,380</b>	<b>100%</b>	<b>4,722,125</b>	<b>100%</b>	<b>4,641,849</b>	<b>100%</b>

Sources: IMF, ICD September 2014

(1) IMF- In-kind contribution; 55% of Centre coordinator salary counted as TA coordination plus travel allocated to TA

(2) Includes Host Country In-Kind Contributions for office rent and utilities; IMF-In Kind contribution for administrative assistant & expenditures; 45% of Centre coordinator salary and travel-IMF In-Kind

## 2.5 Inclusiveness

“Inclusiveness” requires avoiding all discrimination on the basis of sex, disability, sexual orientation, ethnicity, community or class.

The Discussion Group on Inclusiveness at the March 2015 meeting of the PFTAC Steering Committee noted that in many cases in the Pacific issues of inclusiveness involved the outer islands, which are typically poorer as well as more remote.

### Gender

The International Monetary Fund is committed to the equality of women and men, and to inclusiveness that does not discriminate on the basis of gender, class, disability, ethnicity or sexual orientation.<sup>91</sup> Its policies, including its policy on diversity,<sup>92</sup> state this clearly. A small but

<sup>91</sup> The activities of the IMF fit broadly into three categories – surveillance and policy advice, liquidity lending and technical assistance. In the first area, surveillance and policy advice, a gender-informed position can be important, especially in countries where wide disparities exist between the sexes, in education, health and many other areas. The second area, liquidity lending, benefits both men and women. It is essential to both that financial crises are avoided. Generalizations are difficult but it is probably correct to say that women and girls suffer disproportionately in a general financial crisis. The third area, technical

(Continued)

nevertheless telling point is that the IMF is headed by a woman, which is unique among the Bretton-Woods international financial institutions. The IMF has published research on the topic of gender, the macroeconomy and economic growth.<sup>93</sup> For example in 2015 the Fund published a paper “Equal Laws for Equal Working Opportunity for Women”<sup>94</sup> The IMF senior management has been very articulate on the topic.<sup>95</sup>

The RTACs, including PFTAC, are committed to gender equality both by IMF policy and through the support of the Steering Committee representatives whose own governments and organizations are committed to equality and inclusiveness. In PFTAC this involves awareness/analysis, “mainstreaming”, risk analysis and a commitment to results.

Advisors are aware of inclusiveness issues that arise in the countries where they are working. This awareness is reinforced in appointment and mission briefings, and advisors build their awareness through their reading and their contacts with member countries. This is not an easy matter because of the large number of member countries and the differences among them. The Coordinator can play an important role in promoting awareness. PFTAC participation in workshops such as “Gender and the Law”, which one of the evaluators observed in Fiji during field work, is worthwhile although Advisors have busy schedules.

Inclusiveness should be mainstreamed in all of PFTAC’s work. The Centre’s expertise in risk analysis can be useful in this regard because it can be a good way to approach inclusiveness as well as other topics. PFTAC encourages member governments to be guided by a risk-based approach to setting priorities and allocating limited resources. Inclusiveness should be mainstreamed because it can provide a useful perspective in any area of PFTAC’s work. However a risk-based approach indicates that risk and leverage are probably greater in some areas than others.

In financial sector supervision, for example, a gender perspective might be particularly fruitful in regard to the non-bank sector, including microfinance institutions and provident funds. In the

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assistance, is intended to be closely integrated with IMF policy advice provided to governments during surveillance missions and therefore can be informed by gender considerations.

<sup>92</sup> The IMF Statement on Diversity (approved by the Board in June 2012) says, among other affirmations of inclusiveness: “We welcome the wide range of experiences and viewpoints that employees bring to the Fund, *including those based on nationality, gender, culture, educational and professional backgrounds, race, ethnicity, sexual orientation, gender identity and expression, disability, and age differences, job classification and religion*. In our inclusive workplace, all employees at every level of the institution are valued members of the Fund community, regardless of their employment status as staff or contractual, and everyone is assured the right of equitable, fair, and respectful treatment. We seek to leverage the proven benefits of enhanced innovation and creativity, greater productivity and employee satisfaction that derive from a well-managed, diverse, and inclusive workplace, in delivering value to our stakeholders. Consequently, we are committed to ensuring that the Fund is diverse and inclusive.”

<sup>93</sup> A search of the word “gender” on the IMF website returns 179 pages of references. See, for instance, Women, Work, and the Economy: Macroeconomic Gains From Gender Equity; Katrin Elborgh-Woytek, Monique Newiak, Kalpana Kochhar et al.; IMF Staff Discussion Note SDN 13/10; September 23, 2013 Also: IMF Survey : Better Gender Balance at Top Helps Both Women and Men , June 04, 2013 Empowering Women Is Smart Economics – Finance & Development, March 2012 Ana Revenga and Sudhir Shetty

<sup>94</sup> <http://blog-imfdirect.imf.org/2015/02/23/fair-play-equal-laws-for-equal-working-opportunity-for-women/>

<sup>95</sup> See for example: Interview with Jon Stewart: <http://thedailyshow.cc.com/videos/1bt285/christine-lagarde>; and IMF Chief: Closing The Gender Gap Makes Economic Sense: [http://www.huffingtonpost.com/2015/02/23/christine-lagarde-women-in-workplace\\_n\\_6738090.html](http://www.huffingtonpost.com/2015/02/23/christine-lagarde-women-in-workplace_n_6738090.html)

tax area, tax policy (not an activity of PFTAC but an important area for the IMF) may have important implications for equality. In areas such as a country's balance of payments and debt position it can be important for the government to know the degree to which foreign remittances are coming from female workers or male workers. Although PFTAC does not work in social statistics disaggregated data in its core economic areas is important – that is data that is disaggregated, for example, by sex, age, ethnicity, disability and class. Good information can make a major contribution to inclusiveness.

If one were to highlight one area PFTAC's work where there is important leverage to be gained for equality it might be "strategic budgeting". PFTAC has encouraged and supported member governments to budget more strategically. We observed several cases where excellent progress has been made in improving traditional line-item national budget practices to achieve more strategic and program-based budgets.<sup>96</sup> These improvements lend themselves to the consideration of inclusiveness and, where needed, allocating resources to improve the situation of marginalized groups.

In the 2014 workshop on "Budget Preparation" held in Canberra in conjunction with the Australian Department of Finance and the Crawford School of the Australian National University, PFTAC staff discussed gender-based budgeting and suggested how gender information could be integrated into regular budget documents, rather than stand-alone documents. Mainstreaming of relevant gender considerations in the principal budget document is generally a better approach than segregating "women's issues" into separate documents perhaps limited to a Ministry for Women.

In 2015 the workshop topic will be "Budget Implementation for Results", which will provide additional opportunities to discuss inclusiveness in budget analysis and in budget implementation. A regional workshop on gender-informed budgeting or, better still, on inclusiveness more broadly, could draw upon similar workshops already presented by IMF/RTACs in other regions.<sup>97</sup>

### Some Inclusive Options

In regard to PFTAC's own operations it is true that the Coordinator and all of the Resident Advisors except one, and most of the STX, are male. The main reason for this is that the pool of experts from which PFTAC draws is composed of a career cadre of persons with long experience as economists or statisticians or FS supervisors in a Department of Finance, a Central Bank, a financial sector regulator or a national statistics office. The intake into this cohort of now-highly-experienced experts, some decades ago, was predominantly male. Females, persons with disabilities and certain ethnic groups and classes were under-represented in the intake cohort and are therefore now under-represented in the pool of experts. Fortunately the intake has changed markedly towards more inclusiveness and that will naturally change PFTAC's complement of experts over time. In the meantime some things can be done to achieve a reasonable inclusiveness without compromising the level of expertise provided to governments.

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<sup>96</sup> The Cook Islands, Fiji and Tonga, for instance. The recent Fiji national budget, for instance, was reasonably programmatic and incorporated an analysis of some gender issues.

<sup>97</sup> For instance the IMF CARTAC presented a course on gender-based budgeting. It was entitled "Strategic and Gender Budgeting Workshop" and was held in Barbados in April 2014. The main objective of the workshop was to present best practices in strategic budgeting and Gender Responsive Budgeting. A comprehensive overview of strategic budgeting in the Caribbean presented the foundations of a new approach for managing public expenditures.

For instance PFTAC has had one female Coordinator. In the future it should be possible to alternate male and female Coordinators.<sup>98</sup> Using local/regional experts has the potential for increasing the involvement of people from disadvantaged groups.<sup>99</sup> It also would be beneficial for PFTAC to search proactively for attachment and internship opportunities for the disadvantaged. (See Section 2.6 for further discussion.)

Monitoring the participation of females and males, and of the disabled or other disadvantaged groups, in training workshops conducted by PFTAC is important. When PFTAC is holding introductory level courses/training that potentially draw on a large pool of people then it should be possible to achieve balanced representation of men and women and, as far as possible given the candidate pool, to involve people with disabilities.<sup>100</sup>

PFTAC/IMF can decide the inclusiveness of the group of trainees if there are more applicants than places as there often are in regional workshops and for courses at the Singapore Regional Training Institute. If the Steering Committee endorses such a policy PFTAC could state that when a course is over-subscribed gender, disability and ethnicity may be taken into account when selecting among equally qualified applicants. The gender mix in courses is in fact often balanced. For example in the (February 2014) *Budget Preparation Workshop* in Canberra, there were seven female participants and six men.

To summarize, the PFTAC should receive credit for the important role it plays for women, the disabled and disadvantaged minorities but often does not.<sup>101</sup> These groups are severely and negatively impacted when there is a general financial crisis, or a failure of a financial institution or when unsustainable public debt harms economic growth and leads to unemployment and loss of social programs. A country's macroeconomic institutions are vital to women and girls and to the disabled and disadvantaged because without a sound macroeconomic framework they suffer equally and sometimes most. For all these reasons inclusiveness should have more

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<sup>98</sup> Whether females would want the job in the same proportions as males is another matter. The long working hours and constant travel are a challenge to anyone who gives priority to work/family life balance. It is probably also the case that security is more of an issue for females travelling alone in the Pacific than it is for males. The team approach that we have advocated in other parts of this report, would help but, nevertheless, a Coordinator or LTX would probably still find herself travelling alone frequently. The IMF has guidelines about how much travel can be required of staff. These do not formally apply to PFTAC staff and LTX have a lot of autonomy in deciding their travel schedules. Some travel a lot more than others. The IMF guidelines probably should be extended to RTACs because they impose sensible limits on total annual travel time. Also additional thought to security supports during travel might be beneficial.

<sup>99</sup> For example in the PFM area PFTAC now has two Pacific nationals on IMF FAD's roster of experts. These are Savenaca Narube and Joyce Mafi, both of whom have been engaged by PFTAC to conduct PEFA assessments and develop PFM Roadmaps. The Fiji Finance Secretary has also been generous in contributing the time of two of his Deputies (Kelera Vakalaloma and Akosita Drova) on PFTAC training missions. PFTAC reimburses the Fiji MOF for their salaries for equivalent time, and pays their travel and accommodation/living costs.

<sup>100</sup> There is a prior issue of the few people from marginalized groups among the government employees who are eligible for PFTAC training. In particular when a seminar is conducted in-country, with the existing staff of a particular Department, there is little that PFTAC can do in the short-term to influence the gender balance among participants or the number of people with disabilities who are included. Being aware of the balance and discussing it at some point in the seminar, perhaps in the wrap-up, might make a positive contribution in the longer term.

<sup>101</sup> For instance an assessment of PFTAC's contribution to gender equity by one donor rated it as "3" on a scale of 1 to 6 (less than satisfactory - Less than adequate quality; needs work to improve in core areas). This underestimates the importance of the work of the IMF and PFTAC to women and to disadvantaged groups and understates the culture of inclusiveness that characterizes PFTAC. This is not to say that improvements are not possible. Constant attention to gender and to inclusiveness is the goal. It is to say, however, that the impact on women's lives of a sound and stable macroeconomic 2.7 framework is of fundamental importance and the contributions of the IMF and PFTAC to women's wellbeing should be recognized.

visibility in the Phase 5 PFTAC *Program Document*, in the design of Core Programs and in PFTAC's Logical Frameworks.

### 2.6 Regional Expertise

When PFTAC builds capacity in member countries it is contributing to regional expertise directly and indirectly. Regional workshops are also an important tool for building expertise. As well, PFTAC cooperates with the Singapore Regional Training Institute (STI) to present one course per year in the Pacific<sup>102</sup>, and some Pacific Islanders participate each year in courses presented in Singapore.<sup>103</sup> In general stakeholders told us that STI courses are technically very good but have several limitations from the perspective of the Pacific islands, specifically that STI is a long way from the islands, is more ASEAN-oriented than Pacific-oriented and courses may be presented at too sophisticated a level to be ideal for many officials from PFTAC member states. There are several possible ways to improve this situation. These include:

- More than one course per year presented by STI in the Pacific. This might be difficult given STI's mandate, limited resources and already busy schedule. A combination of short residence periods and on-line programmed learning before and after residence may be possible.
- A more intensive effort to recruit Pacific Islanders to attend STI courses and support to preparation by participants so they arrive in Singapore well prepared to benefit from the course.
- Establishing a regional training institute in and for the Pacific, either at PFTAC or at another institution, perhaps a university, with PFTAC/STI support and participation.

Another instrument for fostering expertise regionally is PFTAC's use of nationals of member states as experts (LTX and STX). The Centre receives modest positive ratings from stakeholders in this regard. A recommendation of the last independent evaluation that a (second tier?) regional roster of experts should be constructed and held by PFTAC to supplement rosters held by the IMF Functional Departments in Washington DC was not acted on. Although PFTAC's record in using regional expertise is positive, it is relatively modest.<sup>104</sup> In comparison CARTAC (IMF Caribbean) has had two Centre Coordinators and several LTX who were nationals of member states.

Another vehicle for building regional expertise is professional associations. PFTAC has helped found and fund four associations: the Association of Financial Supervisors of Pacific Countries (AFSPC), the Pacific Islands Tax Administrators Association (PITAA), the Pacific Islands Financial Managers Association (PIFMA) and the Pacific Islands National Accounts Compilers and Local Experts Association (PINACLE). PFTAC has acted as the Secretariat for annual meetings. At present these associations are not self-sustaining and need to achieve a sustainable financial base through the usual mix of membership fees and grants.

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<sup>102</sup> For example STI and PFTAC presented a course on Fiscal Analysis and Forecasting in Nadi, Fiji, from March 11 to March 20, 2014. There were 25 participants from seven PFTAC member states.

<sup>103</sup> There were approximately 16 STI course participants who attended presentations in Singapore in 2014.

<sup>104</sup> One respondent said: "The main reason why we are much less able to build a roster of regional experts than, say, CARTAC is a severe supply constraint. Salary levels in the region are low, and professional opportunities are very limited. Consequently, many university graduates do not return home from studies abroad, or do so for only a short time. This makes it difficult for PIC governments to recruit high quality staff. It also makes it difficult for PFTAC to find readily available qualified staff within the region. We are now beginning to be able to build up an informal roster, almost all composed of retired senior professionals. But it is inevitably a slow process."



PFTAC does not have an internship program or an attachments program as CARTAC does. It does, however, occasionally include officials from one country in its missions to another country.

## 2.7 Results-Based Management and Evaluation

### 2.7.1 Results-Based Management

The IMF has an initiative underway to improve performance measurement and project management by implementing a new results-based management (RBM) system. It will be based on “Clarity” project management software. The new software will facilitate PFTAC’s recording of inputs, outputs and (when measured exogenously) outcomes.

PFTAC’s results-based approach to managing initiatives is guided by Logical Frameworks. It has an overall Logical Framework and a separate Framework for each of its five main sections of work.<sup>105</sup> PFTAC also monitors changes in PEFA<sup>106</sup> ratings of its member countries<sup>107</sup> and the IMF (FAD) has developed a similar rating system in taxation and revenue administration (Tax Administration Diagnostic Assessment Tool, TADAT) that PFTAC will use.<sup>108</sup>

Logical Frameworks are a tool that has been used by evaluation professionals, particularly in development agencies, since the early 1980s. They can be useful in clarifying and maintaining a focus on results but also pose certain risks<sup>109</sup>

As part of this mid-term evaluation of PFTAC the evaluators rated the 46 outcomes listed in its Topical LogFrames<sup>110</sup> on the following criteria: relevance; attribution; measurability; and likely cost. These criteria were selected by the evaluators on the basis of their professional experience with outcome indicators.<sup>111</sup> We found that the relevance of the outcome indicators was high but the “logic” (priorities and strategy) was not fully developed. Attribution of outcomes to PFTAC was likely to be complex and difficult to determine. Measurement costs are likely to be substantial. In general we concluded that the LogFrames are potentially a useful tool but

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<sup>105</sup> See PFTAC Annual Report, 2014, Annex 5, p.81

<sup>106</sup> Public Expenditure and Financial Accountability ratings

<sup>107</sup> Ibid, Annex VI, p. 105

<sup>108</sup> A TADAT assessment will focus on tax administration outcomes rather than inputs or processes. Nine high-level performance outcome areas (shown in the TADAT wheel) will drill down to 27 indicators, and ultimately 60 scored dimensions. The intended scoring system will follow the PEFA model with simple A through D grades.

<sup>109</sup> There are certain risks in using Logical Frameworks. They can be time consuming to construct and tend to contain indicators that would be expensive to measure in a meaningful way and may remain unmeasured. There are few examples, if any, of catalogues of standard outputs and outcomes. The use of Logical Frameworks by other organizations, such as USAID earlier, has limited aggregation to outputs, such as the number of persons trained, rather than outcomes, such as measures of improved skills or actual improvements in task performance or, to push the results chain further, incremental improvements in government performance. The main weaknesses of the LogFrame approach are three – first, the general “logic” of the linkage between stated outputs and desired outcomes is often unexceptional at a superficial level and not developed at a deeper level. Causal factors can include sufficiency of the scale of intervention, priorities and specific strategies in a given political economy. For instance there is no doubt that clarity and transparency in national budgeting is a good thing but what PFTAC outputs are needed to achieve this in the specific political economy of the region or country? Second, outcomes as stated tend to be binary – does a country have, say, quarterly national accounts or not, rather than measuring whether its accounts meet standards of completeness and accuracy. Targets tend to be similarly binary – for example, having a target number of countries adopt provisions of Basel II.

<sup>110</sup> LogFrames in PFTAC’s Annual Report (2014).

<sup>111</sup> Dr. Kenneth Watson, the evaluation team leader, was a member of the Credentialing Board of the Canadian Evaluation Society and recipient of various honours in evaluation.



need to be supported by written strategies focused on achieving results specifically defined as the development of self-reliant capacities in member governments. These capacities do not lend themselves to easy measurement nor to aggregation across countries but they are the true results sought. It would be helpful, we believe, if RBM was program-based. PFTAC has gone some distance in this direction by having a separate Logical Framework for each Sector. We have suggested that the work in each sector be organized into Core Programs.<sup>112</sup> The proposal for each core program could contain a Logical Framework as an adjunct to its description of strategy.

### 2.7.2 Evaluations of IMF Technical Assistance

A broad evaluation of IMF technical assistance was conducted in 2005 with an up-date in 2014.<sup>113</sup> The previous mid-term evaluation<sup>114</sup> of PFTAC, Phase 3, was undertaken in 2009. It rated PFTAC's technical assistance highly while encouraging PFTAC to clarify its concept of capacity building and to be more strategic.<sup>115</sup> At the same time as this evaluation of PFTAC (2015) the IMF commissioned evaluations of other RTACs, including CARTAC<sup>116</sup> and the AFRITACs<sup>117</sup>. Less immediately comparable to PFTAC but still relevant in some respects are the IMF's evaluations of other modes of technical assistance funded by trust funds (Sub-Accounts for technical assistance). These include the (2014) evaluation of the Japan Sub-Account for IMF Technical Assistance (JSA) including the Singapore Regional Training Institute (STI).<sup>118</sup> The IMF is evaluating several Topical Trust Funds for technical assistance at present.<sup>119</sup>

### 2.7.3 Centre Peer Reviews

In other professional contexts, including for example medical schools and regional government groupings<sup>120</sup>, peer-to-peer Centre reviews have proved useful. A Centre peer review can be a learning experience both for those reviewing and for those reviewed. A **Peer Review** of a Centre might involve, say, three Coordinators visiting another RTAC for a week, reviewing its

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<sup>112</sup> A "core program" would be a coherent multi-year multi-country initiative, with terms of reference that specified objectives, deadlines and budgets.

<sup>113</sup> IMF Independent Evaluation Office. IMF Technical Assistance: Revisiting the 2005 IEO Evaluation. IMF Washington DC 2014.

<sup>114</sup> Murray, B., Abrams, R, and Vaai, K. (June 2009). Independent Evaluation of the Pacific Financial Technical Assistance Centre. IMF. Washington DC.

<sup>115</sup> It said: "PFTAC delivered (in Phase 3) high quality, effective and efficient services to its clients and its performance was rated by them and by the evaluators as "good". However the evaluators said that PFTAC needs to focus on capacity building rather than short-term task achievement in order to improve the sustainability of its results. As well the Centre needed to be more strategic and to be larger with more LTX and greater use of STX, (See Section 2.8 Progress on Recommendations of Previous Evaluations)

<sup>116</sup> Caribbean Technical Assistance Centre. The concurrent evaluations of PFTAC and CARTAC were thought to offer opportunities for useful comparisons since small island states make up most of the membership of both Centres.

<sup>117</sup> AFRITACs. Africa Technical Assistance Centres.

<sup>118</sup> There may be lessons learned in this evaluation that are applicable in part to PFTAC. For example technical assistance under the JSA was reorganized in 2010 so that an annual stream of about 110 projects became seven or eight multi-year and multi-country programs. The evaluation reported that this initiative substantially improved efficiency, effectiveness, impact and sustainability. PFTAC is a different type of instrument but, nevertheless, there may be lessons that are applicable in part.

<sup>119</sup> For example there is a concurrent evaluation of the IMF Topic Trust Fund for technical assistance in Tax Administration and Policy.

<sup>120</sup> For example the Pacific Islands Forum Secretariat sponsors inter-governmental PFM peer reviews such as the "Cook Islands Forum Compact Peer Review", January 2014.

work and writing a report. Given the number of RTACs, two peer reviews could be organized each year without any Coordinator serving on more than one review team. The costs of each peer review would be modest and could be covered in various ways including by an RTACs Trust Fund if such an instrument existed.

### 2.7.4 Knowledge Management

In general member governments' access to knowledge through PFTAC is good. Most importantly stakeholders tell us that Resident Advisors are accessible and helpful in accessing IMF resources. The website is clearly organized and provides useful information. PFTAC's Quarterly Reports are very impressive; but they would be more accessible if they were organized by country rather than by IMF sector/Department.

The IMF has made efforts recently to increase transparency. For example the IMF Staff Operational Guidelines on Dissemination of TA (TA) Information (IMF Policy Paper June 10, 2013) delegates to Heads of Departments the power to approve circulation of final TA advice to the Executive Board, effectively making it available to a wider set of stakeholders than previously.<sup>121</sup>

PFTAC's internal management of its program knowledge in each core area could be improved. For instance gaps between the tenures of one LTX to his or her successor have sometimes resulted in a loss of program memory. Overlapping tenures seem to us likely to be a good investment.<sup>122</sup> Similarly Entry Workshops at major transition points<sup>123</sup> that brought together the stakeholders<sup>124</sup> in a particular topic area could be an important contributor to organizing corporate memory.

Back up of files, separation of official emails from personal emails and file storage and retrieval systems, all need to be improved. A more programmatic approach to organizing the work would also help because it would emphasize continuity. The IMF has recent experience in how a more programmatic approach can improve knowledge management.<sup>125</sup>

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<sup>121</sup> As was noted in the IMF document entitled "Enhancing the Impact of IMF TA", in several circumstances, the consent of the TA recipient for dissemination of certain types of TA Information will be deemed granted unless the TA recipient explicitly objects to such dissemination.

<sup>122</sup> PFTAC LTX are on renewable one-year contracts and 3 years is regarded as a typical tenure. If one assumes that LTXs are employed on average for three years, doubling-up for a short period, say one to three months at the end of each tenure, would add less than 5% to PFTAC's LTX costs.

<sup>123</sup> A transition point could be the start of a new Program or Program phase, for example.

<sup>124</sup> An Entry Workshop could engage countries, PFTAC, IMF HQ, partners, academics, associations, private sector, and sometimes other RTAC representatives.

<sup>125</sup> Technical assistance under the Japan Sub-Account, for example, went from approving more than 110 activities per year in 2009 to approving 6 or 7 Programs per year thereafter, with good results. See Evaluation of the Japan Sub-Account for Selected Fund Activity, IMF ICD, 2014.

## Chapter 3

### PERFORMANCE

#### 3.1 PFTAC Performance Overall

PFTAC's work in Phase 4 has been highly relevant to the needs and priorities of its member states. Effectiveness and impact have generally been very good. The main qualification of this judgment is that capacity in very small government is constantly subject to erosion and regression. Efficiency has generally been good with one major exception – budget volatility at Phase transitions has harmed efficiency.

Sustainability of the Centre requires attention to some long standing governance issues. At the sector/work program level, sustainability requires a more program-based approach and better systems and practices to ensure continuity from one LTX to his or her successor. We also think that ecological sustainability is important to economies and to therefore to governments' fiscal condition - climate change, pollution, severe detrimental effects of extractive industries and over-exploitation of natural resources including fisheries, in some of the countries we visited, pose serious risks to macroeconomic management of the economy. PFTAC should pay a reasonable amount of attention to these issues. Lastly, we rated PFTAC reasonably well on attention to inclusiveness but there are ways in which it could improve in Phase 5.

**Table 3.1-1 PFTAC Performance Ratings on OECD/DAC Criteria**

(PFTAC Phase 4, Scale<sup>126</sup> 0 to 5)

Performance Criteria (OECD/DAC)	Ratings			Evaluators' Summary Assessments
	PFTAC Clients	SC, Experts, Partners	Evaluators	
Relevance	4.38	4.43	4.5	Relevance is very good to excellent and could be improved by a more programmatic approach.
Effectiveness	3.51	3.63	3.5	Effectiveness is good. It could be improved by constant attention to building self-reliant capabilities where possible and finding regional solutions when necessary. Some Centre governance issues need to be resolved.
Efficiency	3.82	3.96	3.7	Efficiency is very good in most respects but budget volatility at Phase transitions needs to be addressed
Impact	3.67	3.68	3.5	Impact is modest to good but constantly under threat of erosion and regression.
Sustainability	3.50	3.44	3.5	Sustainability is a challenge in small-island states. Continuous engagement by PFTAC is important. In some countries ecological sustainability has to be kept in mind at all times.
Weighted average	3.8	3.9	3.8	There is a high degree of consensus among stakeholders and evaluators.

Source: Stakeholder Surveys, January 2015; and Evaluator Ratings based on the Mid-Term Evaluation of PFTAC, 2014-2015

<sup>126</sup> The choice of this scale is discussed in Appendix 2 Methodology of this Report.

## **3.2 Public Financial Management**

For a country to deliver public services, achieve its economic and social goals, and be able to withstand economic shocks it is imperative that it manage its public finances in an effective, efficient and transparent manner. The main determinants of good fiscal outcomes are political will and public consensus, which are largely beyond PFTAC's remit. However the capacity to formulate budgets well, to execute them and to report results, are essential although not sufficient in themselves to ensure good public financial outcomes. These capacities must be highly developed in the central agencies of government and reasonably well developed in the line departments.<sup>127</sup>

PFTAC's support to public financial management (PFM) covers a wide variety of topics including medium-term budgeting, management information systems (FMIS) and Treasury management, debt management, legal frameworks, accounting standards, and pension and social security issues. Other international organizations are also active in these areas.<sup>128</sup>

### **3.2.1 PFM Activities**

During the period FY 2012 to FY 2014 (three years) PFTAC spent 31.6% of its resources on FAD technical assistance (PFM and Revenue Administration), compared with 9.8% for MCM and 10.9% for Statistics.<sup>129</sup> Currently PFTAC employs two PFM Advisors.

Over three years, FY 2012 to FY 2014, PFTAC provided four LTX person years of PFM technical assistance<sup>130</sup>. LTX and STX conducted about 22 missions per year, for a total of about 214 LTX mission days per year and 134 STX mission days per year.<sup>131</sup> There were nine TA reports during this period of three per year. Detailed back to office reports (BTO) are prepared for every visit. These BTOs summarize the findings and provide recommendations for the improvement of PFM systems, but also serve as guidance for planning the medium-term technical assistance. There is also, of course, an important relationship with reforms in revenue policy and administration, another area of PFTAC's work.<sup>132</sup>

In FY 2013 PFTAC hired a second PFM advisor. Each advisor thereafter became the principal point of contact for about eight PICs on PFM matters, and took primary responsibility for sub-sets of PFM specialties, serving as the lead for that particular specialty when a country requested technical assistance. In FY2014, with two advisors now in place, the number of PFM missions more than doubled. They carried out 38 PFM missions compared to about 14 missions per year previously.

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<sup>127</sup> This topic includes budget-related activities, treasury functions, pensions and state-owned enterprises.

<sup>128</sup> PFTAC has concentrated on strengthening medium-term budgeting and budget execution systems and practices. PFM is a broad field and other organizations are active in providing technical assistance in the Pacific in one aspect of PFM or another. One example is a large regional ADB TA project to enhance internal audit in a number of PICs, with PFTAC continuing to lend strategic and country specific advice. Other examples include the New Zealand-supported macro-fiscal reporting in Vanuatu and Australian-supported development of financial institutions in the Solomon Islands.

<sup>129</sup> See Appendix 3, Table 5.

<sup>130</sup> See Appendix 3, Table 8.

<sup>131</sup> See Appendix 3, Table 3.

<sup>132</sup> For instance the SC minutes of July 2014 highlight the importance of non-tax revenues (NTR) and their implications for fiscal sustainability and PFM. The Minutes state: "PFTAC provides comprehensive review and reform of countries' NTR frameworks on a targeted and strategic basis. PFTAC's NTR reviews entail a wholesale appraisal of all fees and charges by all ministries and agencies of government, including examining the age of fees currently in place....An example of one of PFTAC's successful NTR reviews occurred in Samoa, where changes to over 2000 fees were suggested....Two pre-conditions to governments having NTR reviews are that a sufficient private sector exists and that the public-private platform is sufficiently developed."

### 3.2.2 PFM Performance

Stakeholders' PFM performance ratings are similar to those in the 2009 evaluation, which found "good" performance in all criteria except sustainability. A significant concern in the 2009 evaluation was small scale of PFTAC's PFM resources, which remains a concern although the number of PFM Advisors has been increased to two.

**Table 3.2.2-1 PFM Performance Ratings on OECD/DAC Criteria**

(PFTAC Phase 4, Scale<sup>133</sup> 0 to 5)

Performance Criteria (OECD/DAC)	Performance Ratings			Evaluators' Assessments
	PFTAC Clients	SC, Experts, Partners	Evaluators	
Relevance	4.1	4.3	4.0	Coverage is uneven with two countries receiving over 30 missions (Fiji and Kiribati) and four receiving five missions or less and others receiving even fewer or none.
Effectiveness	3.9	3.4	3.5	Focus on capacity development rather than capacity supplementation needs to be stronger.
Efficiency	3.8	4.0	4.0	Regional focus and coordination with other partners is quite effective.
Impact	4.1	3.5	3.5	A counter-factual is not available except on the basis of judgment. PFTAC's interventions undoubtedly contributed to better outcomes than might otherwise have been the case. In several countries fiscal outcomes improved during this period. This is in contrast, for example, to the Caribbean (CARTAC) where fiscal outcomes worsened.
Sustainability	3.8	3.1	3.5	Pacific governments have found it difficult to meet revenue targets and the performance deteriorated in 2014 in a number of countries. There was, however, greater success on the spending front.

Source: Stakeholder Surveys, January 2015; and Evaluator Ratings based on the Mid-Term Evaluation of PFTAC, 2014-2015

Areas of general concern among stakeholders include: the small size of both PFTAC's interventions, which risks underinvestment and unrealistic expectations of the results possible given the small scale of intervention.<sup>134</sup> The limited resources that governments have for PFM are also a factor.

The balance between responsiveness and strategic coherence is a concern to us.<sup>135</sup> As well we think that PFTAC should differentiate more clearly between capacity development and supplementation. Countries, especially those in fiscal difficulties or small, are naturally likely to value direct hands-on assistance (PFTAC LTX and STX actually doing the work) but this might not be the best approach to developing self-reliant capacity in member governments.<sup>136</sup> There

<sup>133</sup> The choice of this scale is discussed in the Inception Report for this evaluation and in Appendix X "Methodology" of this Report.

<sup>134</sup> As one interviewee commented: "Capacity building has special challenges in small islands". Respondent #

<sup>135</sup> One interview estimated that fire-fighting takes 30% of the TA time.

<sup>136</sup> One respondent said: "As well we think that PFTAC could improve the differentiation between capacity development and supplementation. Several steps have been taken towards strengthening the capacity and ownership of reforms in the countries. For example the advisors have supported via training and workshops the countries in conducting the PEFA self-assessments before the formal PEFA assessments. As the PEFA assessments cover a wide range of topics and involve many public institutions it allows the governments to learn about the good practices in PFM areas, but also identify the strengths and

(Continued)

are 40 indicators mentioned in the Program Document to track progress of PFTAC activities in total, of which 7 relate to public finance management. None of these indicators actually uses the term “capacity development”.

Coordination among donors is also a cause for concern, particularly in the PFM area. As one interviewee commented, with perhaps some exaggeration but also some truth: *“Some other donors seem to be more interested in staking out territory in the various PFM functional areas (particularly budget preparation) and their consultants more interested in ensuring countries will be dependent on them for a long time”*.<sup>137</sup> When asked what would be most helpful in improving TA impact, another respondent said: “Less turf fighting in the PFM space ...”<sup>138</sup> We also heard concerns regarding the risk to sustainability arising from three sources: “loss of (PFM) capacity in recipient countries”, “flagging of commitment/drive for reform”, and overly ambitious TA and reform programs”. On the other hand, one respondent<sup>139</sup> said: “The PFTAC has been seen as a valued partner, not a competitor, by many donors and countries. The PFM advisors have established good relationships with many donors active in the area and are working closely to ensure the complementarity of the TA activities. In several cases the advisors support the experts of other donors and also participate in the selection of suitable experts. Also the advisors help to organize and attend regional workshops delivered and funded by the other donors.

### 3.2.3 PEFA Indicators of PFM Outcomes

PEFA ratings are an important source of information about the impact of PFM reforms and PFTAC can reasonably take considerable credit for building the capacity of member countries to construct and use PEFA ratings.<sup>140</sup>

The ratings, however, show mixed progress at best. PFTAC’s 2014 *Annual Report* provides useful information on 28 performance indicators for eight countries that had repeat PEFA’s. The most improvement occurred in “comprehensiveness of information included in budget documentation”. On “composition of expenditure out-turn compared to original approved budget” five of eight countries showed an improvement and one showed deterioration. On the other hand there were many areas where indicators deteriorated. Of particular concern was the deterioration of a number of indicators related to the “credibility of the budget”. For example, on “aggregate revenue out-turn compared to original approved budget”, no government showed an improvement while three showed a deterioration. One respondent said: While the PEFA

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weaknesses of their systems. It will lay a good ground for developing the action plan with their full ownership. Countries, especially those in fiscal difficulties or small, are naturally likely to value direct hands-on assistance (PFTAC LTX and STX actually doing the work) but this might not be the best approach to developing self-reliant capacity in member governments. There are 40 indicators mentioned in the Program Document to track progress of PFTAC activities in total, of which 7 relate to public finance management. Although none of these indicators actually uses the term “capacity development”, these do measure the strengthening of countries’ capacity development. For the next program document the wording of the indicators could be improved.”

<sup>137</sup> Respondent # 55.

<sup>138</sup> Respondent # 428

<sup>139</sup> Respondent # 428

<sup>140</sup> The minutes of the PFTAC Steering Committee meeting in July 2014 is a good source of review for PFM activities. According to the minutes: “Countries rate themselves on their own performance and PFTAC found this to be an honest exercise. The self-assessment process will provide more member ownership and the resulting PEFA entails more member-produced material. PFTAC consistently found that PICs’ officials and staff judge processes fairly according to the assessment criteria; as a result, they understand the strengths and weaknesses of their business processes.”



indicators are the useful source for the assessment of PFM systems, it is important to remember that changes to the PFM systems and processes take long time and small improvements are not always immediately reflected in the changed scores of the indicators. Therefore it might be helpful to include in the RBM LogFrames additional measures that would assess the improvement in the capacity development.”

### 3.2.4 PFM Strategy

PFTAC has made important contributions in strengthening public finance management systems in member countries during Phase 4, although technical skills do not guarantee good decisions by governments. The main risks to the sustainability of the PFTAC’s advice arise from the following sources: loss of capacity in recipient countries, flagging of commitment/drive for reform and political will, and overly ambitious TA and reform programs prepared by the countries.

There are various options to strengthen the delivery of advice that PFTAC should consider. In those countries that have large income from natural resource extraction or fisheries, PFM should cooperate with the revenue administration advisors to help countries develop a fiscal sustainability strategy that might include heritage funds and other investment vehicles. In the past two years the PFM advisors have successfully assisted several countries in reviewing the non-tax revenues.

The outcome of this exercise has been positive and several other countries are interested in conducting this. PFM advisors are in the process of developing a standardized tools and regional workshops to support countries in preparing for this exercise and conducting similar efforts on their own on a regular basis in the future. A closer cooperation with the revenue administration might be required for the sustainability of this exercise.

Also PFM TA could be more programmatic to improve its strategic coherence and continuity. Country specific medium-term programs should be elaborated in more detail with country authorities also as a way to commit countries to reforms. This would help to reduce the fire-fighting activities which take up too much of the PFM advisors time.

## 3.3 Revenue Administration and Tax Policy

PFTAC’s Program Document for Phase 4 stated three priorities in revenue administration (RA). They were implementation of Value Added Taxes (VAT), improvements in tax compliance and information technology strategies. These priorities were guided by a (2010) paper by the Pacific Forum Economic Ministers Meeting (FEMM) and by benchmarking national tax administrations against a model tax office developed through the Pacific Islands Tax Administration Association (PITAA).

In 2014 the New Zealand Ministry of Foreign Affairs and Trade published an “Evaluation of Taxation Reform in the Pacific”.<sup>141</sup> The PFTAC Advisor was a member of the Steering Committee for the study. It concluded:

“The sustainability of the reforms is at least questionable. While the experience of taxation reform in the Pacific overall is positive, substantial deficiencies remain in many Pacific countries in terms of realization of revenue potential, sustained improvement in the administrative capacity and tax paying culture and understanding of the tax system in civil society. To a considerable extent, the fragility of the reforms is a product of the

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<sup>141</sup> Murray, K. et al, 31 March 2014.

severe capacity limitations in the region. A range of factors contribute to these deficiencies including a legacy of inefficient tax systems, weak capacity for tax compliance, inconsistent patterns of business taxation and limited local expertise to respond to changes in the tax environment (such as growth in extractive industries). However, the perceived fragility of the reforms also seems to be partly caused by the reform processes adopted. In particular, donors seem overly to focus on episodic reforms – discreet projects whether they are policy changes (such as introducing VAT) or administrative capacity building.”<sup>142</sup>

Speaking of PFTAC the study said:

“It may be that donors have to date seen the management of the long, complex, journey of tax reform as a task for PFTAC. PFTAC has certainly established itself as a centre of regional technical expertise, and is valued by Pacific countries for being flexible and responsive. A series of evaluations have concluded that PFTAC has delivered high quality, effective and efficient services. However, PFTAC is not resourced or skilled to manage all aspects of taxation reform across all countries in the region.”<sup>143</sup>

### **PFTAC Activities in Revenue Administration and Tax Policy**

PFTAC’s resources have been small compared with the need and compared with interventions by Australia and New Zealand. For example the Australian Department of Foreign Affairs and Trade that has placed revenue advisors in at least eight PFTAC countries.<sup>144</sup> In the first three years of Phase 4 there were three Revenue Administration Advisors, a rapid turnover.

Over three fiscal years, FY 2012 to FY 2014, PFTAC provided 905 days of LTX services in Fiscal Affairs. About 30% of these were in Revenue Administration (RA) and 70% in Public Financial Management (PFM). These allocations amount to a decrease in the role of Revenue Administration relative to PFM.<sup>145</sup> There was a consensus that more TA resources were needed in revenue administration and a discussion about whether they would be provided through a second LTX or increased STX activity. The second more was preferred by IMF FAD but expenditures on RA STX did not increase.<sup>146</sup> We are told that the balance between LTX and STX resources has been changing recently.<sup>147</sup>

In addition to the Resident Advisor PFTAC supplied 791 days of services by short-term experts about equally divided between RA and PFM.<sup>148</sup> The Centre conducted 79 RA missions during

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<sup>142</sup> Ibid, p. xv

<sup>143</sup> Ibid, p. xiv

<sup>144</sup> Federated States of Micronesia, Kiribati, Nauru, Republic of the Marshall Islands, Tonga, Tuvalu, Vanuatu and Samoa.

<sup>145</sup> See Independent Evaluation of PFTAC, June 2009, Table III.4, p. 44

<sup>146</sup> In FY12, PFTAC was in a transition stage from FAA to SFA. Therefore the figure that follows for Fiscal 12 is STX Revenue Administration only handled under the SFA. However if the FY12 figure was adjusted upward for the FSA overlap then the pattern of stable or declining use of STA would be even clearer. FY12 SFA: \$376,948; FY13: \$381,954; FY15 9 months actual: \$270,965; FY15 Projection: \$341,000; FY16 Projection: \$351,340

<sup>147</sup> One respondent said: “This reflects a decision by the coordinator and previous resident advisor to downplay the use of short-term experts as part of the delivery profile, especially in 2014. This has been corrected by headquarters exerting increased control to ensure the program objectives are met. In 2015 short-term expert visits have increased to an appropriate level. The report should acknowledge this.”

<sup>148</sup> See Appendix 3 Tables 3 and 4.

these three years.<sup>149</sup> The cost of FAD activities (RA and PFM) for resident Advisors was \$4,140,143 and for short-term experts it was \$2,797,720.<sup>150</sup>

### 3.3.1 Objectives in Revenue Administration and Tax Policy

PFTAC's declared objective in Revenue Administration was a: "*Broader-based and more efficient revenue system.*" It is worth comparing this with the more measurable CARTAC objective of increasing the ratio of tax receipts to GDP among member states.

PFTAC targeted nine outcomes of its services in revenue administration and tax policy in Phase 4.<sup>151</sup> They are broad objectives<sup>152</sup> that encompass all aspects of tax policy and administration. It is an ambitious agenda for a single Revenue Advisor working with sixteen countries.<sup>153</sup>

### 3.3.2 Results in Revenue Administration and Tax Policy

PFTAC's 2014 Annual Report states that the major area of work had been modernizing tax policy and legislative frameworks in four countries.<sup>154</sup> There is no mention of interventions to improve compliance; and there have been no PFTAC initiatives in information technology for tax administration.

The list of objectives is well beyond the capabilities of a single Revenue Advisor to pursue comprehensively. Two Revenue Advisors would provide better continuity, more collegial support and could and would likely generate a larger STX program. We have observed in other areas that the addition of a second resident advisor has led to more than doubling the use of STX resources as well. The most recent independent evaluation of PFTAC recommended: "Increased (RA) resources are needed to cope with the growing demand for fiscal assistance. A second PFM Advisor is needed."<sup>155</sup> The same arguments appear to support a second Revenue Advisor as well.

PFTAC's 2014 Annual Report, describing the results of TA in Revenue Administration, said: "A highlight for the year was the assistance provided to Kiribati and Palau for the development of new Value Added Tax regimes (VAT). "Kiribati implemented the new tax system in April 2014 and its success reflects careful planning and strong support ..."<sup>156</sup> However when we visited Kiribati we found a situation that we would not describe as successful implementation. The

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<sup>149</sup> See Appendix 3, Tables 3 and 4.

<sup>150</sup> See Appendix 3, Table 6.

<sup>151</sup> See PFTAC Annual Report, 2014, p. 102

<sup>152</sup> These are modern tax policy frameworks are adopted; appropriate legislation and regulations for effective policy implementation are adopted; modern and integrated processes are adopted to verify and monitor taxpayer information and compliance obligations (registration, filing and payment); business systems and processes are based on risk management principles; compliance improvement strategies use a mixture of service and enforcement approaches; modern IT operating systems and infrastructure are in place and operate effectively; organizational and operating structures are relevant to the business and allow for the effective use of resources; good corporate strategies, business planning processes and management information reports are adopted, updated and reported regularly; and the organization is accountable and transparent with adequate dispute resolution processes.

<sup>153</sup> One respondent said: "One of the reasons for sustainability problems, other than loss of capacity in recipient countries and flagging commitment to reform) is overly ambitious TA and reform agenda... for example in tax PFTAC is in the process of setting aside ambitious plans for large scale tax reform in the northern islands and instead focusing on improving the administrative processes with their current taxes." Respondent #32

<sup>154</sup> Palau, Fiji, Nauru and Kiribati.

<sup>155</sup> Independent Evaluation of PFTAC, June 2009, para G.III.i, p.47

<sup>156</sup> Ibid, para 42, p. 19

## Mid-Term Evaluation of PFTAC Phase 4

integration of the new VAT with the established Customs and Excise systems was not going well. We were told that overall revenues have decreased. We also thought that the targeting of a VAT as the highest priority in tax policy and administration was debatable since most of the revenues of the Government of Kiribati are not likely to be from the VAT in the foreseeable future but rather non-tax revenues from licensing fees in the tuna fishery which have high sustainability risks.

PFTAC's 2014 Annual Report also notes that the tax consequences of cross-border transactions have been identified by the larger Pacific Island Countries as "the most significant emerging issue that they face." PFTAC has jointly hosted two workshops with the World Bank IFC on transfer pricing and auditing multinationals.

### 3.3.3 PFTAC Performance in Revenue Administration and Tax Policy

On the basis of surveys of stakeholders (See Appendices 6 and 7), and interviews and observations, PFTAC's Revenue Administration performance was rated as follows:

**Table 3.3.3-1 Performance of Revenue Administration and Tax Policy**

(PFTAC Phase 4, Scale<sup>157</sup> 0 to 5)

Criteria	Performance Ratings			Evaluators' Summary Assessments
	PFTAC Clients	SC, Experts, Partners	Evaluators	
Relevance	4.2	4.6	4.2	There has been some reassessment of whether new tax instruments were the best option in all cases.
Effectiveness	3.2	3.7	3.5	Tax revenues have not increased in all cases.
Efficiency	3.9	4.0	4.0	PFTAC's support of bilaterally-funded revenue advisors in some countries has increased efficiency of TA.
Impact	3.3	3.9	3.5	In some cases impact is still to be demonstrated.
Sustainability	3.0	3.3	3.0	Risk of erosion of capacity and regression of policies is significant.

Source: Stakeholder Surveys, January 2015; and Evaluator Ratings based on the Mid-Term Evaluation of PFTAC, 2014-2015

Areas of concern among stakeholders include the following:

- The small scale of assistance (only one Revenue Advisor)
- Frequent turnover of Revenue Advisors
- Occasional tendency towards promoting international best practices rather than solutions customized and modified to specific small island states (note: despite strenuous IMF efforts to think deeply about the needs of small states<sup>158</sup>)

We think that PFTAC should target more concrete and measurable outcomes in the area of revenue administration and tax policy. We suggest two outcome targets - increasing the ratio of "tax receipts/GDP" to appropriate levels in member states; and minimizing "administrative cost/dollar of revenue received". An important step in developing targets would be to undertake

<sup>157</sup> The choice of this scale is discussed in the Inception Report for this evaluation and in Section – of this Final Report.

<sup>158</sup> See IMF, Staff Guidance Note on the Fund's Engagement with Small Developing States, November 2013.

a risk analysis for tax policy and revenue administration for member countries as the basis for determining appropriate targets, strategy and resource allocation for its RA work in Phase 5.<sup>159</sup>

### 3.4 Macroeconomic Analysis

In Phase 4 for the first time<sup>160</sup> PFTAC has provided the services of a macroeconomist, hired by the IMF Asia Pacific Department, to assist member countries with macroeconomic (MAC) analytical tasks that included macroeconomic forecasting, debt sustainability analysis, financial programming and development of monetary and exchange rate frameworks.

In FY 2014 PFTAC organized a regional workshop with the Singapore Regional Training Institute and the IMF ICD on fiscal policy analysis and forecasting; and, with the Bank of England, presented a workshop/course for the six countries in the Region that have their own currencies. The topic was the “monetary policy transition mechanism”, focused on the weak interest rate channel and surplus liquidity throughout the Region.

From FY 2012 to FY 2014 inclusive (three fiscal years) PFTAC provided 471 days of MAC LTX time, somewhat less than two person years.<sup>161</sup> Over three fiscal years the total costs were \$860,399 and over the full five years of Phase 4 the costs are expected to be approximately \$1,580,866.<sup>162</sup> The LTX conducted 40 missions. There was no budget for use of MAC STX; and there were no MAC diagnostic missions from IMF headquarters as such, but we are told that there was close cooperation between the MAC LTX and the IMF Article 4 surveillance teams and with other agencies also monitoring macroeconomic performance in the Pacific, in particular the Asian Development Bank. The IMF Regional Representative is co-located with PFTAC, which brings another collegial support to the Centre’s MAC activities. However at the time of this evaluation the position of MAC LTX at PFTAC was vacant.

#### Objectives

PFTAC targeted four outcomes of its services in macroeconomic analysis.<sup>163</sup> These were to help Central Banks develop integrated macroeconomic frameworks for monitoring and projections; to assist Departments of Finance to develop multi-year fiscal plans (an objective shared with FAD); to assist Departments of Finance and/or Central Banks to develop their own debt sustainability analysis and/or be able to comment professionally on analyses by the IMF or other external agencies such as the Asian Development Bank, the World Bank or the Central Banks of Major Bilateral partners, and to help governments develop contingency plans (budget contingency reserves) to provide financing in the event of a catastrophic event such as a natural disaster, perhaps coincident with adverse climate change, or an exogenous financial crisis.

#### Results

The PFTAC annual reports do not demonstrate that there has been any improvement in the completeness or accuracy of member governments’ macroeconomic analysis in the (MAC) areas listed above. To be fair, this is very difficult to demonstrate even in larger and more

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<sup>159</sup> An LTX/STX team, with IMF HQ participation, would be an appropriate instrument for such a risk analysis.

<sup>160</sup> In Phase 3 PFTAC had only 4 LTX; and there was no Advisor in macroeconomic analysis and programming. See Program Document (2011), Section O, para. 8, p.49

<sup>161</sup> See Appendix 3, Tables 3 and 4.

<sup>162</sup> Op. cit.

<sup>163</sup> See PFTAC Annual Report, 2014, p. 102

## Mid-Term Evaluation of PFTAC Phase 4

advanced economies. There are some obvious constraints in the Pacific.<sup>164</sup> First some of the member states and their governments are so small that maintaining a macroeconomic analysis capability might not be practical. Second one PFTAC macroeconomist, even supported by annual visits by IMF surveillance teams, is a very small input spread across sixteen member countries.

### Performance Assessment

On the basis of surveys of stakeholders (See Appendices 6 and 7), and interviews and observations, we rate PFTAC's MAC performance as follows:

**Table 3.4.1 MAC Performance Ratings**

(PFTAC Phase 4, Scale<sup>165</sup> 0 to 5)

Performance Criteria (OECD/DAC)	Performance Ratings			Evaluators' Summary Assessments
	PFTAC Clients	SC, Experts, Partners	Evaluators	
Relevance		4.3	4.3	Government foresight is important and needs improvement.
Effectiveness		3.2	3.5	Too little investment to be effective across 16 diverse and widely dispersed countries.
Efficiency		3.7	3.5	Discontinuity between LTXs negatively affects efficiency.
Impact		3.8	3.5	Governments have only marginally improved their macroeconomic analysis and forecasting
Sustainability		3.0	3.0	Very thin government expertise which tends to erode over time.

Note: Client sample was too small to report ratings in this case.

Source: Stakeholder Surveys, January 2015; and Evaluator Ratings based on the Mid-Term Evaluation of PFTAC, 2014-2015

Areas of concern among stakeholders include the small scale of assistance, periodic lack of continuity with a significant gap between advisors resulting in a loss of memory and loss of momentum, and concerns whether MAC is the best use of PFTAC resources given its members' needs.<sup>166</sup> However a MAC advisor focused on improving the analytical capacities of member government broadly could do useful work.

<sup>164</sup> One stakeholder said: "Many countries lack people adequately trained in basic skills such as ... basic macroeconomics – sometimes even more basic such as intermediate Excel. PFTAC cannot provide basic training. This raises issues of capacity supplementation and who should provide it." Respondent #32. Another said: "On the matter of supplementation in macro analysis, since the APD mission chiefs and their teams who conduct Article IVs do both macro and revenue forecasts, it would be helpful to many of the PICs if they could uniformly offer review services to each PIC at times that are convenient to each PIC given their budget calendars. This was done collegially with PFTAC and the WB advisor in the past for Kiribati and I think contributed to their constraining their budget expenditures, and ending the last 2 years with surpluses. These types of objective "third party" revenue forecast reviews prior to setting budget spending targets each year could be a very useful service that could help countries avoid many problems latter." Respondent #67

<sup>165</sup> The choice of this scale is discussed in the Inception Report for this evaluation and in Section – of this Final Report.

<sup>166</sup> One respondent said: "PFTAC and the Steering Committee may need to rethink the macroeconomic advisor position. Although macroeconomic analysis and forecasting capacity in central banks and finance ministries does need strengthening I am

(Continued)



PFTAC's budget in Phase 5 and its complement of MAC LTX needs to grow to accommodate this. Given the extreme distance of IMF headquarters from Pacific member states, and the time and expense involved in mounting missions, it appears to be economical to have at least one macroeconomic advisor based at PFTAC in Fiji.

The smaller PICs may always struggle to maintain a stand-alone MAC capacity. We suggest that PFTAC should develop a strategic plan for MAC in the Pacific showing which countries can likely maintain a MAC analysis capability and which not; and setting out a clear capacity development strategy for each of the countries where it is deemed practical and a clear supplementation strategy where it is not practical to have a sustainable stand-alone capability. This strategy should put PFTAC inputs into a wider context of actions each country would need to undertake in regard to analytical capacity based on the necessary level of investment in human resources, data resources and improved systems and practices.

### 3.5 Financial Sector Supervision

In the first years of Phase 4 the FSS LTX focused on off-site supervision of banks - that is, on the design and implementation of prudential returns by banks to the supervisory authority, generally the Central Bank.<sup>167</sup> There was an unsuccessful joint initiative with the Reserve Bank of New Zealand to implement a Financial Sector Information System (FSIS) for the PFTAC member countries. Recently, with the appointment of a new LTX, work was begun to improve the regulation and supervision of non-bank financial institutions (credit unions, pension funds and insurance companies) and on-site supervision of banks. During this period PFTAC continued to act as the Secretariat of the Association of Financial Supervisors of Pacific Island Countries (AFSPC). As well PFTAC provided some assistance with financial sector legislation in one country.<sup>168</sup>

Over three fiscal years, FY 2012 to FY 2014, PFTAC provided relatively little resources in this area of work - 231 days of LTX services (about one person year) and 181 days of STX services in banking supervision. There were 28 FSS missions during these three years, seven per year on average.<sup>169</sup> The cost of these activities to the end of FY 2014 was \$1,098,520.<sup>170</sup> Over the full five year cycle to FY 2016, PFTAC expects to spend \$1,449,291 on LTX services and \$634,606 on STX services in financial sector supervision.<sup>171</sup>

#### Performance in Financial Sector Supervision

On the basis of surveys of stakeholders and interviews and observations, we rate PFTAC's FSS performance as follows:

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not sure that that is best done by an LTX. It might be better done by STX and the LTX position refocused on strengthening monetary operations and market development." Respondent #32

<sup>167</sup> See PFTAC Program Document, February 2011, Section M, Banking Supervision, p. 42; and PFTAC Annual Reports including Annual Report FT 2014, page 21ff

<sup>168</sup> PFTAC helped the National Reserve Bank of Tonga review Tonga's National Reserve Bank Act.

<sup>169</sup> See Appendix 3, Tables 3 and 4.

<sup>170</sup> See Appendix 3, Table 6.

<sup>171</sup> Ibid, Table 4.

## Mid-Term Evaluation of PFTAC Phase 4

**Table 3.5.1 Technical Assistance in FSS - Performance Ratings on OECD/DAC Criteria**

(PFTAC Phase 4, Scale<sup>172</sup> 0 to 5)

Performance Criteria (OECD/DAC)	Performance Ratings			Evaluators' Summary Assessments
	PFTAC Clients	SC, Experts, Partners	Evaluators	
Relevance	4.0	4.5	4.0	Relevance has been limited by insufficient attention to non-bank financial sector enterprises.
Effectiveness	3.5	3.9	3.5	The effort to improve banks' prudential returns was not a major success.
Efficiency	4.0	4.0	3.5	Discontinuities from one LTX to the next are not efficient.
Impact	3.8	3.8	3.0	It is not demonstrated the PFTAC's efforts have significantly reduced financial sector risk.
Sustainability	4.3	4.7	3.0	Complex prudential returns proved unsustainable in most instances.

Source: Stakeholder Surveys, January 2015; and Evaluator Ratings based on the Mid-Term Evaluation of PFTAC, 2014-2015

### Objectives and Results

PFTAC targeted 10 outcomes of its services in financial sector supervision in Phase 4.<sup>173</sup> They encompassed all aspects of regulation and supervision in the Financial Sector. Even given extensive STX support, the objectives were well beyond the capabilities of a single Financial Sector Advisor to pursue comprehensively, especially with discontinuities that result in only one person year of LTX assistance spread over three fiscal years.

Interviews with officials in PFTAC member countries indicated that the work on prudential returns was not particularly successful. The spreadsheets were designed for major banks, which may not be where the principal risks reside in the financial sector. They were based on complex spreadsheets and not robust because the macros embedded in them were not always adequately protected and therefore were relatively easily compromised by inexperienced use. Several users whom we consulted did not gain sufficient expertise to be able to modify the spreadsheets successfully when a reporting requirement changed or where an error emerged in the spreadsheet. PFTAC's input was good technical work as long as the FSS Advisor was available on call to change and repair the spreadsheet templates when needed to maintain their integrity. However the use of these templates for prudential returns was not sustainable with local resources alone.

The attempt to implement of a Financial Sector Information System (FSIS), with the effort led by the Reserve Bank of New Zealand was unsuccessful. After a period the NZ Reserve Bank

<sup>172</sup> The choice of this scale is discussed in the Inception Report for this evaluation and in Appendix X of this Report.

<sup>173</sup> See PFTAC Annual Report, 2014, p. 102. The objectives included development and implementation of prudential returns, implementation of a Financial Sector Information System (FSIS), strengthened Off-Site Supervision, strengthened On-Site Supervision, development of Standardized Examination Reports, implementation of Sound Policy and Procedures, financial statement analysis and templates developed, modernized legal frameworks, non-banks (credit unions, microfinance) improved legal and supervisory frameworks and outreach – support of the AFSPC and regional workshops and conferences

withdraw from participation without detailed explanation. It may be that progress was slow and the level of effort needed and/or risks proved larger than the Reserve Bank had expected.

It is too soon to assess the results of the current Advisor's work with credit unions. However it has the virtue of starting to concentrate where the risk in the Pacific is probably highest – that is, in the non-bank financial sector of credit unions, pension funds, insurance companies and microfinance enterprises that have become quasi-deposit-taking institutions within under-developed regulatory and supervisory frameworks.

Concerns among stakeholders included the following:

- The small scale of assistance
- Periodic lack of continuity with a significant gap between the tenures of Advisors resulting in lower average resources over time, a loss of memory and loss of momentum.
- Insufficient “program” consistency especially during Advisor transitions.<sup>174</sup>

We suggest that PFTAC should undertake a comprehensive financial sector risk analysis for its member countries as the basis for determining an appropriate focus for its Financial Sector Supervision work in Phase 5.<sup>175</sup>

### 3.6 Macroeconomic Statistics

#### 3.6.1 Importance of National Statistics

Macroeconomic statistics are important because good policies and decision-making, both in government and in the private sector, depend on them. As well, countries that issue sovereign bonds need to provide reliable statistical information to potential lenders. Because of capacity limitations the statistics produced by PFTAC member countries have serious limitations both in coverage and quality.

In this report we recommend a programmatic approach to all technical assistance provided by the Centre so as to give strategic coherence to its capacity-building efforts. To a greater degree than in other Sectors, PFTAC TA in Statistics is already built around “programs”. Its emphasis has been on statistics related to national accounts<sup>176</sup>, especially Gross Domestic Product (GDP)<sup>177</sup>. It also provides support on price and balance of payments statistics.<sup>178</sup> We suggest

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<sup>174</sup> One stakeholder said: “There should be much more emphasis on projects (author's note: in our terminology not “projects but “programs”) in designing and monitoring technical assistance.” Respondent #32

<sup>175</sup> An LTX/STX team, with IMF HQ participation, would be an appropriate instrument for such a risk analysis.

<sup>176</sup> The national accounts are data that aggregate in a set of tables all measurable economic activity that takes place in a country. The accounts are not an independent data set. Rather, they are data derived from an array of primary source data that capture a wide range of economic activities in an economy. The key issues are: what source data are available in relation to economic activity; what is their quality; and, do countries have the capacity to fill gaps both in data availability and their quality? It is clear, therefore, that while the balance of payments statistics are of interest in their own right, they are also an important element of the national accounts.

<sup>177</sup> In this context, the Program Document (PD) has set objectives for the national accounts of member countries. These objectives cover both the aspects described above. On the first, the PD says: “better integration of administrative and other data, greater use of volume data in constant price estimates...” and, on the second, the PD says: “Develop and compile at least two independent measure of GDP... Regular rebasing of constant price estimates...Developing quarterly NA estimates in countries with the necessary capacity and data...”

that the IMF STA programs provide a good basis on which PFTAC STA can build its own programs specific to the Pacific, with terms of reference, results targets, timeframes and milestones and progress and completion reports.

### 3.6.2 STA Activities

Currently PFTAC employs two Statistics (STA) Advisors. During FY 2012 to FY 2014 it spent 10.8% of its resources on statistical technical assistance, compared with 9.8% for Monetary and Capital Markets (MCM) and 31.6% for Fiscal Affairs (FAD).<sup>179</sup> STA resident Advisors provided 529 days of TA, approximately two person years.<sup>180</sup> There were about 17 STA missions per year in FY 2012 and 2013.<sup>181</sup> The number of LTX missions increased to 34 in FY 2014. Statistics Advisors prepared 24 TA reports about a third of all such reports by PFTAC.<sup>182</sup> There were only 24 person-days of STX assistance over this period.

PFTAC TA in statistics TA was undertaken within the framework of the “*Ten Year Pacific Statistics Strategy*”<sup>183</sup>. Progress included:

*“production of at least two independent measures of GDP to a high standard in eight countries and improved coverage and quality of GDP measures in all countries”, “rebased constant price GDP estimates by production and by expenditures”, “compilation of regular annual Gross National Income (GNI), Gross National Disposable Income (GNDI), saving and net lending/borrowing aggregates by at least eight member countries”, and “production of quarterly national accounts (QNA) in four member countries”. Furthermore, “PFTAC advisors also continued to provide hands-on assistance to compilation in those countries which do not have sufficient capacity to compile national accounts statistics on their own.”*

In addition to PFTAC’s efforts, STA TA was provided by IMF HQ and by funding from the Japan Sub-Account (JSA) for Special Fund Activities.

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<sup>178</sup> There are a number of challenges in achieving this objective in reality: the production of data can be resource-intensive and, given the need to establish a basic structure for its collection that creates significant fixed costs, overall costs do not generally fall in a linear fashion with the size of a country; magnifying this problem, small countries are relatively more resource-constrained in general than larger ones; and, finally, governments find it more convenient to not put a priority on data collection as that may constrain their options. This importance of data collection, and the challenges it faces, raises a number of important issues: how are priorities established regarding which data to collect in small countries that cannot devote appropriate resources to collecting even the most basic statistics; how does one strengthen capacity, given the lack of economies of scale due to small country size; and how do we evaluate the quality of data, in contrast to its quantity?

<sup>179</sup> See Appendix 5, Table 5.

<sup>180</sup> See Appendix 5, Table 3.

<sup>181</sup> See Appendix 5, Table 3.

<sup>182</sup> PFTAC’s 2012 Annual Report describes areas that received TA and included “*assisting countries with insufficient capacity for annual compilation*”, “*improving the range and quality of national accounts statistics*”, “*...maintain production and improve quality*” in the production of balance of payments statistics, “*improvement of fiscal statistics*”, and “*Two further countries agreed to participate in the General Data Dissemination System*”. The feature to note is that all of these activities focus on the providing training courses, workshops and missions. There is no specific reference to improvements in governments’ capacities to produce statistics independently of external support. In FY 2013 Annual Report, there was an increase in resources devoted to improving statistics. This was made possible by hiring a second LTX, increased engagement from Australia and increased assistance from IMF headquarters.

<sup>183</sup> In addition to guiding technical development, the strategy provides a useful framework for development partner coordination.

### 3.6.3 STA TA Performance

The STA performance ratings in this evaluation are similar to those in the 2009 evaluation report with small differences in relevance, where our rating is somewhat better due to increased resources for STA resulting in broader reach; and somewhat worse ratings on effectiveness because we found it difficult to find evidence that countries' independent statistical capacities have improved.

A presentation at the Steering Committee meeting<sup>184</sup> in July 2014 listed STA program achievements and the capacity development challenges.

*“Insufficient staff resources in small national statistics offices do not allow timely compilation of data and specialization; this requires ongoing capacity supplementation in some countries. Technical assistance coordination with other regional providers has been challenging in macroeconomic statistics. It is also unknown whether the IMF headquarters will continue its support with the external sector statistics and government finance statistics projects beyond 2015.”*

**Table 3.6.3 STA TA Performance on OECD/DAC Criteria,**

(PFTAC Phase 4, Scale<sup>185</sup> 0 to 5)

Performance Criteria (OECD/DAC)	Performance Ratings			Evaluators' Summary Assessments
	PFTAC Clients	SC, Experts, Partners	Evaluators	
Relevance	4.9	4.5	4.5	Relevance is only qualified by the fact that the quality and coverage of source data that underpin the national accounts is uncertain. (See Appendix 5 Case Study).
Effectiveness	3.4	4.0	3.5	Increased effectiveness requires a clearer distinction between capacity development and capacity supplementation, and promotion of stronger regional provision of services.
Efficiency	3.5	4.0	3.5	Statistical offices in many countries are very small and often have other responsibilities in addition to gathering data and compiling statistics. The loss of a single experienced person can substantially set back capability.
Impact	3.6	3.6	3.8	PFTAC TA clearly made a difference on the amount of statistical data produced by member governments.
Sustainability	3.3	3.4	3.0	Resources devoted to statistics in small countries are severely limited and subject to erosion.

Source: Stakeholder Surveys, January 2015; and Evaluator Ratings based on the Mid-Term Evaluation of PFTAC, 2014-2015

The on-going limitations in member governments' ability to gather and compile statistics makes us wonder whether a country-focused strategy is viable. Stakeholders expressed concerns about the small scale of assistance spread over 16 countries, very small statistical offices that

<sup>184</sup> Freeman, Russel and Gregory Legoff, "Economic Statistics in FY2014-15".

<sup>185</sup> The choice of this scale is discussed in the Inception Report for this evaluation and in Section – of this Final Report.

continually require capacity supplementation, weak skill levels in many countries, and the difficulty of coordinating the statistical assistance of many TA providers.<sup>186</sup>

We are concerned about lack of information on capacity development. Of the 40 indicators in the PFTAC Program Document 10 relate to statistics. None refers directly to capacity development.

A regional statistical agency is one option to deal with the challenges of size and capacity. It is simply not feasible for many countries in the region to design, collect, maintain and analyse the many needed statistics entirely on their own. The idea of a regional agency is not a new one. Nor is it necessarily a substitute for all of a country's statistical activities. In fact, a regional agency could undertake the specialized methodological, design, data analysis and reporting tasks (with individual identifiers properly masked in-country), while training local officials in the data collection efforts conducted locally.

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<sup>186</sup> One interviewee commented: "Many countries lack people adequately trained in skills such as statistics, accounting and macroeconomics. PFTAC cannot provide this sort of training." Respondent #879



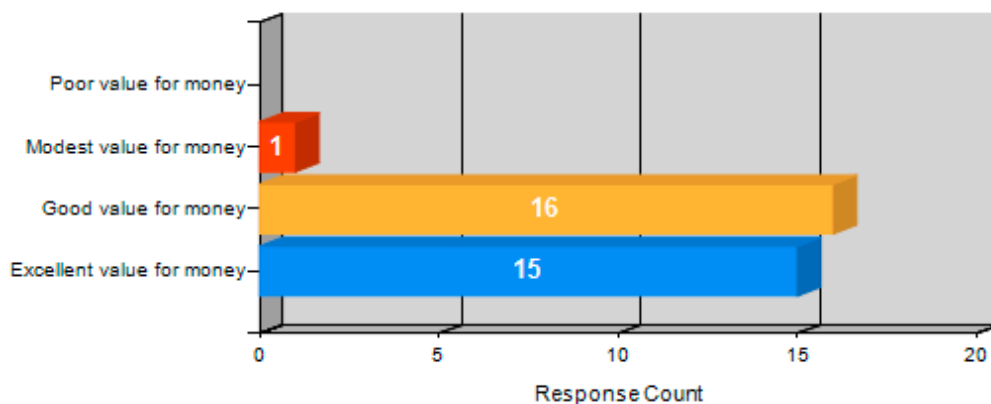
## Chapter 4

### Conclusion

#### 4.1 Value for Money

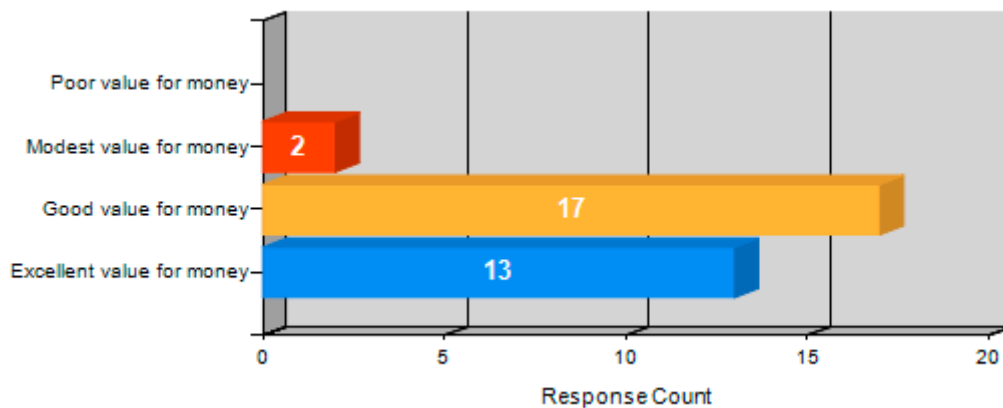
There is a broad consensus among stakeholders, with which we agree, that PFTAC provides good to excellent value for money.

**Figure 4.1-1: Views of PFTAC's Value for Money – Steering Committee, Experts and Partners (n=31)**



Source: Survey of Stakeholders, December 2014 and January 2015

**Figure 4.1-2: Views of OFTAC's Value for Money – Clients (n=32)**



Source: Survey of Stakeholders, December 2014 and January 2015

One respondent (member country) to the survey said:

*“They are passionate about helping countries to stand on their own feet and therefore their contributions have been felt greatly. What has taken several independent consultants to have an impact on over many years has taken PFTAC half the time, if not less. They are here to help and not to exploit vulnerability hence their contributions out-weigh the costs.”*

Respondent #65

### 4.2 Lessons

Comments by clients about the main ways that PFTAC needs to improve are shown in Appendix 6. The lessons that seem to stand out include the following:

- Do a better job keeping to a consistent focus and providing consistent advice when Resident Advisors change, or else momentum and credibility can be lost. Whenever possible the tenures of LTXs should overlap to provide a good transition. Programs that do not start or end with a particular LTX are a good way to organize TA.
- Major reforms need major help. PFTAC sometimes underestimates just how much help is necessary to implement a major reform. Improving skills in administering established systems and practices is one thing. Implementing entirely new systems and practices is exponentially more demanding.
- PFTAC missions to some countries in some areas have been too infrequent. In addition there are several areas of work where PFTAC could help in principle but has no resources.

Members of the Steering Committee, experts and partners expressed many of the same ideas as those stated by clients. In addition they placed more emphasis on the following ideas.

- Find more regional approaches as distinct from country-by-country approaches.
- Be somewhat more proactive.
- Improve the governance of the Centre.
- Develop an “explicit project orientation” (a program-based approach to organizing work) as distinct from a large number of small discrete activities.
- Use technology better both in technical assistance and training.

### 4.3 Findings, Conclusions and Recommendations

In summary the main findings, conclusions and recommendations of this evaluation are as follows:

#### Findings and Conclusions – Size of the Centre

PFTAC is very small relative to member country needs, compared with other RTACs and in terms of efficient operations. Size is particularly relevant to efficiency issues, including continuity of engagement and follow-up.

At present PFTAC is somewhat less than half the size of CARTAC. There is no good reason for this disparity. In fact travel costs are higher in the Pacific because of the extremely long distances involved. The number of member countries and their populations argue for approximate parity between the two Centres.

However they are in different regions with different constraints. By and large there donors are different, although Australia contributed substantially to CARTAC in the recent phase of its operations. As well they are managed by different IMF regional departments, with different constraints. Therefore increasing the size of the Centre is made complex by IMF limits on backstopping resources and a cap (anchor) on the amount of TA that each Department can undertake funded by external donors.

Some feedback we received from IMF Functional Departments questioned whether absorptive capacity constraints might limit any increase in PFTAC's technical assistance.<sup>187</sup> However the evaluators disagree that PFTAC is close to absorptive limits on the technical assistance it could productively provide.

It is also true that PFTAC has underspent its budget so far in Phase 4 so there is room for growth in this Phase without additional budget but that may not be enough in future. The size of the Centre should be determined by several factors:

- Demand from member countries as determined by a risk and needs analysis that identifies the needs for TA and training, in IMF core areas.
- Efficient size to maintain continuity of engagement. We believe that a single Resident Advisor in a sector is seldom likely to be efficient. Two colleagues can support each other and can ensure continuity when one LTX leaves and a successor arrives.
- The amount of backstopping the IMF HQ can provide given its staff level and TA cap (anchor) constraints.
- The resources that donors can make available. This is essentially a matter for PFTAC's main donors to decide. It would be helped if technical assistance to the Pacific islands were less fragmented.<sup>188</sup> As well there may be some potential for diversifying PFTAC's

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<sup>187</sup> One respondent said: "The optimal size of PFTAC could be debated; however, absorptive capacity constraints should be a primary consideration in such a discussion."

<sup>188</sup> Defragmentation of donor support, consolidating under that PFTAC umbrella, in core areas of IMF expertise, could have several good effects that would improve overall cost-effectiveness. It would add to PFTAC's critical mass and rationalize donors' interventions. If donors were to show interest in the idea PFTAC could prepare a feasibility study on defragmentation.

donors and/or diversifying its sources or types of financial support. It is also desirable that beneficiary member countries start providing financial support.<sup>189</sup>

We suggest that member governments contribute a small part of the Centre's budget for Phase 5, in the order of 10%. (See Section 2.4 Resources)<sup>190</sup> This implies a contribution of about \$37,500 to \$50,000 per year per member country, depending on assumptions about the Phase 5 budget. We believe that a smaller contribution would not be appropriate and that at this scale of contribution no adjustment for ability to pay is necessary. The discussion group on this topic at the March 2015 Steering Committee recommended that the Steering Committee approve in principle member state contributions to PFTAC; and that the overall percentage of PFTAC's budget to be contributed should be agreed before the start of Phase 5. The Discussion Group on this topic at the meeting of the Steering Committee in early 2015 leaned towards a two-level contribution system, one level for small states and one for larger states.

**Recommendation 1: PFTAC needs to be larger than it was in the first three years of Phase 4 to be an adequate response to member countries' needs and to operate efficiently**

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**Findings and Conclusions:** In the first year of Phase 4 the level of activity was \$3.1 million. In the final year of the phase the projected level of activity is approximately \$5.8 million, close to doubling. The main reason seems to have been temporary cash flow constraints in the first year. This pattern is common among development projects, but it is not efficient for an on-going Centre.

**Recommendation 2: Donors and the IMF should act vigorously to ensure that the level of Centre activity does not contract sharply during the transition from Phase 4 to Phase 5.** (See Section 2.4 Resources)

Some possible implementation actions include:

- Ask donors for earlier commitments and/or longer commitments (to facilitate this, produce a *Program Document* well ahead of the end of the current Phase).
- Change IMF rules to allow the allocation and commitment in the first year of a PFTAC five year program of more than 1/5 of the monies actually in hand at the start of that year if there is a high probability that larger amounts of funds will be received in due course. Donors at the March 2015 meeting of the PFTAC Steering Committee were of the opinion that the resource constraint at the start of Phase 4 had not been a lack of cash (there was a substantial carry-over from Phase 3) but rather overly risk averse IMF resource management rules.

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<sup>189</sup> One donor said: "(Donor) strongly agrees that in order for countries to have an ownership of reforms it is valuable that they make financial contributions. It will also increase the integrity of future evaluations that assess value for money. It is noted that country financial contributions was an agreed recommendation for phase 4, but was not introduced. Discussions at the Steering Committee resolved that a sub-committee will be established to consider member government's contributions and how this would operate, given that the IMF is not legally able to charge for capacity support." Our only observation is that if donors continue to provide similar services free through bilateral channels it will compromise the "market test" for PFTAC.

<sup>190</sup> One donor said: "A recommendation for contribution by countries is a useful starting point to demonstrate their genuine appreciation of PFTAC – 5-10% however is on the low side for countries that are mainly MICs. PFTAC's services will always be "appreciated" by countries as long as they are accessible at no cost - test it further by challenging the countries to pay - it may mean a greater appreciation of PFTAC from countries and expedite reforms."

- Have access to (repayable?) “bridge funding” for use during the first year of each Phase from a special provision by the IMF Area Department and/or from a Global RTACs Trust Fund.
- Set up arrangements with relevant IMF TTFs and other IMF Sub-Accounts to fund STX in collaboration with PFTAC LTX-led *Core Program Teams* if needed.
- Set up a **Global RTACs Trust Fund** (to fund special initiatives across RTACs, to enhance RTAC support to IMF efforts in economic crises and, when needed, and to provide bridge funding to an RTAC during Phase transitions)
- Collaboration with STXs funded by IMF TTFs and other relevant IMF Sub-Accounts to supplement PFTAC **Core Program Teams**. This recommendation is essentially the same as bullet 3

**Findings and Conclusions:** PFTAC’s RBM Frameworks and Work plans tend to be activity-focused rather than program-based and outcome focused, although the Centre is moving towards the latter.

**Recommendation 3: While remaining responsive to members’ demands for technical assistance and training PFTAC should accelerate its movement towards a program-based approach.**<sup>191</sup>

That is, PFTAC should deliver strategically important multi-country multi-year programs of technical assistance that are carried through to completion independently of the tenures of individual advisors. The normal tools of a program-based approach should be used including outcome-focused terms of reference, entry workshops, progress reports and completion reports. (See Section 2.3 Organization, Management and Governance)

Some possible implementation actions include:

- Organize work in multi-year multi-country “Core Programs” rather than as activities. Each Core Program should have RBM targets, timelines and milestones, an Entry Workshop, progress reports and a Completion Report. The duration of each Core Program should be independent of the tenure of any particular LTX.
- Manage PFTAC and its *Core Programs* more actively as part of the RTAC network
- Examine the feasibility of a *Pacific Regional Training Institute* as one Core Program.

**Findings and Conclusions:** The PFTAC Coordinator is a senior permanent employee of the IMF Area Department but has limited budget authority. This misses some opportunities for relatively small but potentially important cross-disciplinary initiatives that do not fit within the scope of a single IMF Functional Department.

**Recommendation 4: Allocate a budget to the IMF Area Department (APD) for a program of multi-disciplinary and thematic work led by the Coordinator.**

We do not think that this work needs much backstopping from IMF headquarters as long as it is organized as a “core program”.

Some possible implementation actions include:

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<sup>191</sup> One donor said: “The PFTAC has been efficient in addressing the needs of the countries so far and a change in approach should not jeopardize the efficiency of the response provided. We also suggest a discussion around country based / thematic based funding to determine how this may be rolled out throughout countries.”

- Define and propose such a thematic Core Program (among other Core Programs for PFTAC-5) perhaps to cover three things: (1) Results and Learning (special RBM efforts); inclusiveness (especially but not exclusively in regard to gender; and sustainability. The sustainability component might include work on (A) overall risk analysis in the Pacific both in the financial sector and state-owned enterprises, perhaps by a dedicated Financial Stability Advisor or perhaps as part of the Thematic Core Program; and systemic risks posed by special environmental or social/governance factors. .
- Charge the Coordinator with identifying and funding multidisciplinary and thematic work in topics that might not otherwise receive adequate attention. A Core Program could be defined for these purposes and funds used to engage STX, pay for travel or hold seminars/workshops in special topics.

**Findings and Conclusions:** Important stakeholders are dissatisfied with the governance of the Centre.

The Governance Discussion Group at the March 2015 meeting of the PFTAC Steering Committee recommended that, among other things, (voting and non-voting)<sup>192</sup> membership of the Steering Committee should be more formalized and the voting occasions and procedures should be clarified. Points on which the Steering Committee will be asked to advise should be circulated before the Steering Committee meets.<sup>193</sup>

Some possible implementation actions include:

- PFTAC's governance structure could be clarified and rebalanced. Some resource should be allocated to the Area Department and the Centre Coordinator to enable, among other things, more multi-disciplinary team work and attention to cross-cutting themes. (See Section 2.3.1 Organization and Staffing)
- Clarify the role and status of the Steering Committee as an advisory body albeit one that expresses its advice on some important matters by voting. The SC could vote on things such as acceptance of PFTAC's annual work plan, accession of new members, contributions by member countries and endorsement of the PFTAC *Program Document* and each *Core Program* proposal
- Engage the Steering Committee in strategic decisions at every opportunity including early consideration of a draft PFTAC *Program Document* and reviewing proposals for *Core Programs*
- Appoint beneficiary member countries' heads of Finance Departments and Central Banks or, in their absence, their Deputies, as voting members of the Steering Committee. Distinguish between engaged observers (IMF, donors and partners) and voting members of the advisory Steering Committee (beneficiary member governments).
- Give the Steering Committee a voice in resource allocation by asking its advice on options at an appropriate juncture in the annual cycle.  
(See Section 2.3.1 Organization and Staffing)

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<sup>192</sup> There was a discussion as to whether donors should be voting or non-voting members.

<sup>193</sup> One donor said: "Efforts to develop ToRs and identify responsibilities of the members should be a focus prior to Phase V. A rotating chairmanship would be a step in the right direction. A more active SC will require IMF to review some of its modus operandi to ensure that ownership by partners is promoted and that decisions of strategic importance can be made at the level of the SC."



In short there are several ways in which the role of the Steering Committee could be enhanced although all require the members of the Committee to take more initiative and take on more work.

### **Recommendation 5: Clarify and strengthen the role of the Steering Committee.**

.....

**Findings and Conclusions:** There has been a good beginning on results-based management but it is still far from a fully functional system. Over the next year the IMF will adopt a new approach to results-based management. Among the RTACs this new approach will be piloted by CARTAC and that Centre has hired a RBM advisor to lead the process.

PFTAC should take the initiative to improve its approach to RBM and, at the same time, it should keep a careful watch on the CARTAC experience to see what lessons can be learned from it.

Some possible implementation actions include

- State outcomes in RBM Frameworks as self-reliant capabilities of member governments not as activities or products
- Organize outcomes by *Core Programs* and countries as well as by Sector
- Make investments in regional expertise (individuals and associations) more central.
- Link RBM to Corporate Memory and Knowledge Management.
- Invest more in research to identify risks and opportunities in all sectors (broadly-defined stability risks), to develop the intervention “logic” in RBM frameworks and to help develop *Core Programs*.

### **Recommendation 6: Make a strong effort to implement results-based management in the remainder of Phase 4 and in Phase 5.**

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**Findings and Conclusions:** The IMF has increasingly prioritized issues of inclusiveness and sustainability, although there are different views, some believing that these matters are outside the Fund’s purview.<sup>194</sup> On the contrary we think that giving them due attention poses no threat to the Fund’s core mandate; and these issues are important to the macro-economies of Pacific Island countries. In some cases there are marked disparities between the sexes, or the sexes are differentially at risk in certain areas of the financial sector, or certain ethnicities or people with disabilities are not fully engaged in the economy, or governments are heavily reliant on depleting natural resources. Climate change may exacerbate these problems.

Some possible implementation actions include:

- Commission a gender assessment of PFTAC’s work by a specialist who is qualified in both gender analysis and at least one of PFTAC’s core areas (macroeconomics, financial sector, supervision of financial institutions, national economic statistics). The aim would be to elicit

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<sup>194</sup> One respondent from a Functional Department said: “Gender and ecology are not within the core mandate of the IMF. In our view, the Fund should not devote its scarce TA and training resources to such an agenda. Some recommendations in the main text seem to imply a quota system.”

practical suggestions as to how and where PFTAC could better incorporate a gender perspective into its work.

- In the Program Document, the proposal for each Core Program and the RBM Logical Frameworks PFTAC should include issues of inclusiveness, including gender equality, and ecological vulnerability and sustainability.<sup>195</sup>
- PFTAC should “mainstream” gender and other inclusiveness issues particularly in certain areas, such as sex-disaggregated national statistics and the regulation and supervision of institutions that tend to serve poor women such as microfinance institutions.
- PFTAC should “mainstream” ecological vulnerability issues but take them particularly into account in certain countries where ecological challenges pose particularly severe risks economically as well as socially.

**Recommendation 7: PFTAC should pay more attention to inclusiveness and sustainability.**

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**Findings and Conclusions:** PFTAC does not have a strong corporate memory. In particular information management systems and practices need to be improved so that a new Resident Advisor can build as much as possible on the work of his or her predecessor.

Some possible implementation actions include

- Overlap LTX tenures to facilitate tacit knowledge transfer.
- Build an interactive website, blog and awareness service where officials can ask and answer questions in PFTAC/IMF core areas.
- With the concurrence of member states in general, improve peer-to-peer learning by making PFTAC TA reports more accessible on a no-objections basis, and being more active in providing internships and attachments.
- Improve electronic file capture, organization and backup.
- Require each LTX to prepare a written “report to file” twice annually on the status and action plan for each *Core Program* managed by that LTX.

**Recommendation 8: PFTAC should improve its corporate memory and knowledge management.**<sup>196</sup>

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<sup>195</sup> One donor said: “Where support has been on budget processes we strongly suggest consideration be given to capturing information around gender and disability inclusive budgeting. On tax and employment reform support consideration should be given to capturing information of its impact of differences between the sexes on transfer of funds, pensions, leave pays etc. related to gender. On a broader perspective consideration should be given to Article IV consultations and it making gender reference on equal rights etc. There are many good suggestions in the review to improve against inclusiveness.”

<sup>196</sup> One donor said: “There needs to be greater accountability of PFTAC at 3 different levels in terms of Knowledge Management: (1) Within PFTAC itself: Experts in transition (incoming vs. outgoing) and the transfer of knowledge and documentation has to be improved (Handover process needs to be strengthened) (2) Between experts and country officials: PFTAC struggles in demonstrating how it has been able to transfer useful knowledge and skills to their local counterparts. This is particularly true for Short-term experts who offer quick fix solution, but not necessarily sustainable options (Sustainability aspect of LTX will also need to be tested) (3) In-country cross transfer: Whilst PFTAC is doing its best to build or develop capacities in-country, it is the onus of beneficiaries to store, build on and disseminate skills and information passed onto them laterally and vertically in the

(Continued)

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The Centre should mainly target results that are defined as the development of self-reliant capabilities in member governments. Such capabilities do not lend themselves to easy measurement nor to aggregation across countries but they are the true results sought. (See Section 2.7 Results-Based Management and Evaluation) Some respondents disagree with this position.<sup>197</sup> Our position is as follows: Where long-term capacity supplementation is essential it should be under the aegis of a cooperative regional service provider wherever possible, or in some instances private sector professional service providers, not PFTAC. PFTAC should invest more in risk analysis in all its core areas and broadly in the Pacific. It should consider whether having a Financial Stability Advisor, similar to the position at CARTAC, might be a worthwhile allocation of resources.

1. PFTAC should be managed more actively as one of a network of RTACs. Various actions are suggested in this Report including Centre Peer Reviews and an evaluation of the RTAC network as a whole. (See 2.7 Results-Based Management and Evaluation)
2. In Phase 5, PFTAC should give more visibility in its Program Document and Logical Frameworks to inclusiveness and to ecological sustainability issues that have implications for governments' fiscal sustainability.

**Findings and Conclusions:** Fragmentation of technical assistance in the core areas where the IMF is the lead agency is a significant problem in the Pacific and cannot be solved by traditional calls for better coordination. We believe that it is generally desirable to consolidate donor support to macroeconomic management under the PFTAC umbrella

**Recommendation 9: Donors should consolidate their aid to technical assistance in the Pacific in the IMF core areas as much as possible under the PFTAC umbrella. The requirements for collective impact should be considered carefully.**<sup>198</sup>

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hierarchy. This element is not so obvious at the moment in the Programme."

<sup>197</sup> One respondent from a Functional Department said: "We disagree with the evaluator's hypothesis that the "true results" are "the development of self-reliant capabilities in member countries". While this may be a laudable goal, it may not be a realistic goal in some member countries at this stage, and may not be achievable even in the long run. Many of our activities do aim to build such capacity, but the main objective of the STA is to focus on the compilation and dissemination of macroeconomic and financial statistics for decision-making. This is immediately necessary for policy makers, surveillance and program work, whether or not self-reliant capacity exists. The results of our TA and training activities need to be SMART, including realistic and achievable."

<sup>198</sup> See, for example, J. Kania and M. Kramer (2011). Collective Impact. Stanford Social Innovation Review.

## APPENDIX 1

### EVALUATION QUESTIONS AND ANSWERS

#### Questions of Relevance

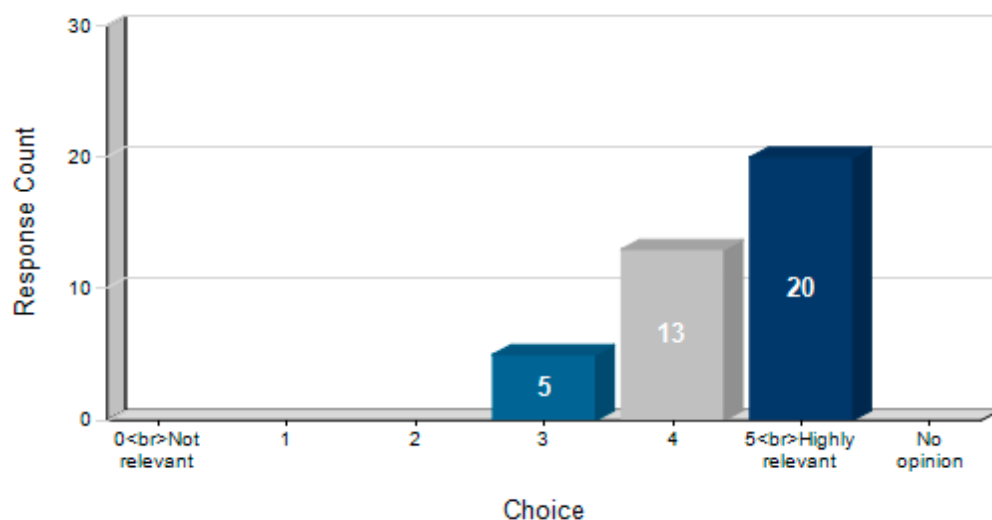
*Evaluation Question: Is PFTAC meeting the priority needs of member countries (including the unique challenges of small states). Is TA aligned with national reform priorities and are the interventions consistent with the Program Document?*

Answer: PFTAC's interventions have been consistent with the priority needs in the Program Document. However there are some areas of national reform priorities that could have benefited from more attention although they are not prominent in the Program Document. These include:

- Non-tax revenues (Revenue Policy and administration, See this Report, Section 3.3)
- State-owned enterprises (Public Financial Management. See Section 3.2)
- Non-bank regulation and supervision (Financial Sector Supervision. See Section 3.5)
- Challenging the quality of macroeconomic statistics by comparing consistency and compatibility across statistical series. (Statistics, See Section 3.6)
- Regional macroeconomic risk factors. Structural inter-dependences in the financial sector including flow-of funds analysis and corporate inter-dependencies. (Macroeconomic Analysis. See Section 3.4)

Feedback from officials, in interviews and in written questionnaires, indicates that PFTAC has been highly relevant and well aligned with their priorities.

**Table A1-1 PFTAC's Relevance to Member Governments' Most Important Needs and Highest Priorities.**



Source: Survey of PFTAC Clients, January 2015, n=38

## Mid-Term Evaluation of PFTAC Phase 4

*Evaluation Question: To what extent are PFTAC activities effectively coordinated with and complement the work of other IMF TA Programs (e.g. Topical Trust Funds) and the work of development partners operating in the same sectors (including regional bodies)?*

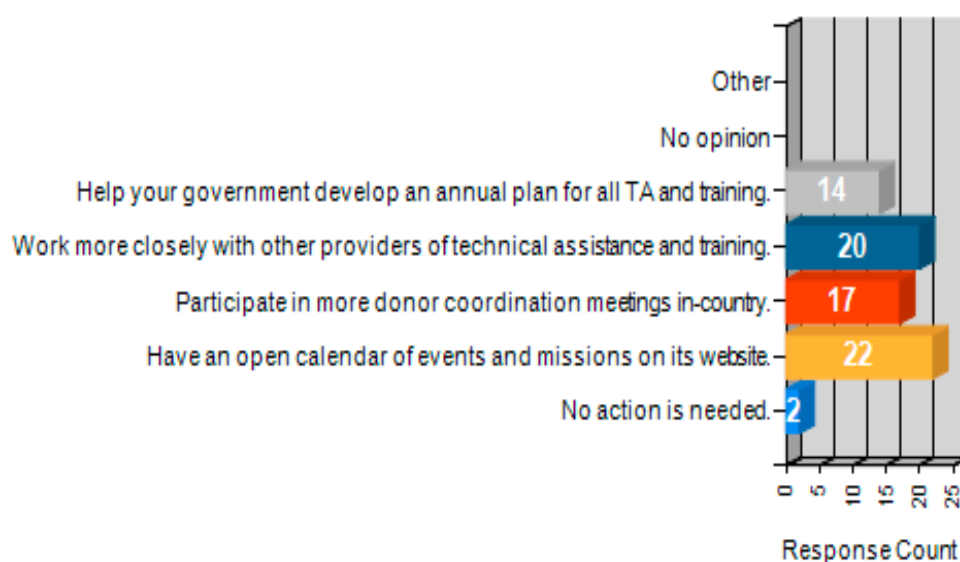
### (A) Coordination with IMF Programs, Topical Trust Funds and TA Sub-Accounts

There is a small amount of technical assistance in the Pacific provided by the IMF and funded by Topical Trust Funds (TTFs) or by the Japan Sub-Account for Special Fund Activities. The intensive work of the IMF APD in “program” countries, such as the Solomon Islands in 2010, is more relevant than the TTFs. When a country implements an adjustment program with IMF support, most technical assistance is supplied from IMF HQ and paid for by the IMF. PFTAC may provide some coordinated support to such countries at the same time but IMF APD is the clear lead.

### (B) Coordination with other TA providers

IMF practice is to communicate with other providers of technical assistance and to coordinate in the sense of avoiding duplication and seeking coverage of the important topics; but not to undertake joint efforts in the sense of integrated projects. PFTAC initiatives have been generally well coordinated in the sense that the resident long-term experts communicate their plans to other development assistance organizations working in the member countries and adjust to their intended areas of work as needed.

**Table A1-2: How could PFTAC improve its cooperation with other providers of technical assistance and training in the Pacific?**



Source: Survey of PFTAC Clients, January 2015. N=29

The development community has promoted a strong vision of “coordination” at a series of high-level forums since 2003. These forums produced the *Paris Declaration on Aid Effectiveness* (2005) the *Accra Agenda for Action* (2008) and the *Busan Partnership for Effective Development Cooperation* (2012). The IMF is a signatory to these protocols. The

## Mid-Term Evaluation of PFTAC Phase 4

Paris/Accra/Busan principles<sup>199</sup> promote a strong concept of joint TA and training and joint evaluations and single performance reports to serve all external agencies.

The IMF is a special case to some degree because its surveillance activities require it to be fully independent. However there may be greater opportunities than have been seized so far for PFTAC to undertake joint initiatives with other competent providers of TA and training without compromising the Fund's independence.

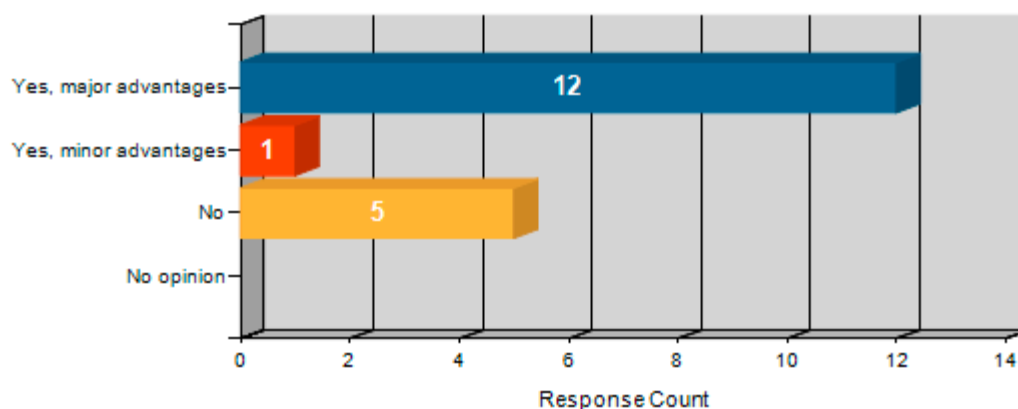
*Evaluation Question: Is the PFTAC Steering Committee effective in ensuring strong country ownership of PFTAC activities, governance of the Center, and strategic direction and oversight?*

The Steering Committee is an important part of the Centre's governance. It provides strategic advice and exercises oversight by reviewing and endorsing the Program Document for each Phase and the annual reports and work plans. By and large it works well. Nevertheless some members of the Steering Committee are unhappy that it does not have more powers, particularly in regard to resource allocation. Our view is that the IMF needs to delegate more authority to the Centre Coordinator and that that would result in a more satisfactory relationship between the Centre (IMF HQ) and the Steering Committee because the Coordinator could more effectively intermediate. (See Section 2.3.2 Governance)

*Evaluation Question: Has PFTAC succeeded in establishing a clear comparative advantage compared with other sources and delivery modes of related TA?*

The PFTAC model has many strengths. It combines resident Advisors, Centre coordination and oversight, budget for support by short-term experts, linkage with the IMF Area Department and its surveillance and TA activities, and backstopping by the IMF Functional Departments. This combination consistently leads to high-quality technical assistance.

**Table A1-3 "Does PFTAC have a comparative advantage over other modes of technical assistance and training?"**



Source: Survey of PFTAC Clients, January 2015. N=18

<sup>199</sup> The principles cover ownership and mutual accountability (localization), harmonization and alignment (with host governments and between international agencies providing assistance), joint delivery, single performance reports for accountability and mutual responsibility for achieving results.



However despite all its strengths we think the PFTAC model needs rebalancing. The “vertical silos” from Resident Advisors to IMF Functional Departments in Washington DC need to be better balanced with the “horizontal” dimension of management by the Area Department (APD) and the Centre Coordinator. We believe that this would result in more efficient allocation and reallocation of resources, across sector boundaries when needed, and more multidisciplinary team work in delivering TA. (See Section 2.3.4 Silos)

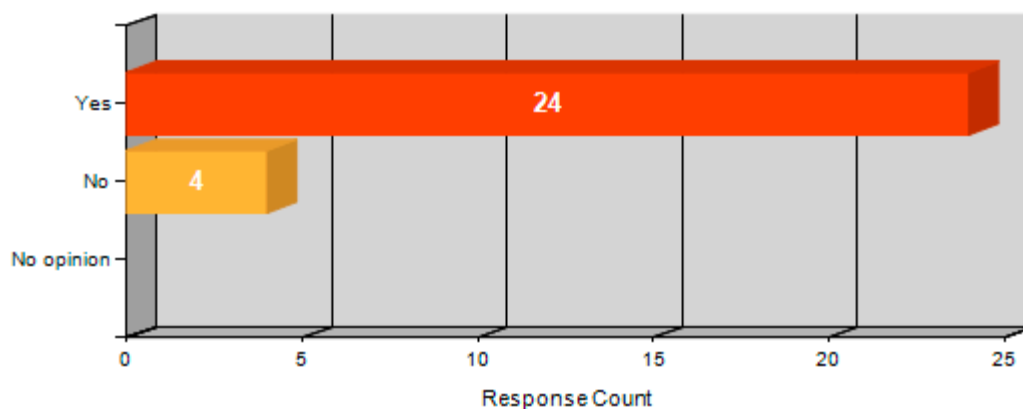
### Questions of Efficiency

*Evaluation Question: Are PFTAC activities delivered efficiently?*

(A) Efficient implementation (e.g. timeliness in executing the work plan, follow up on TA delivered)<sup>200</sup>

Officials in recipient countries give PFTAC very high ratings on efficiency of TA delivery. (See Appendix 6). The only significant inefficiencies we identified were geographic (PFTAC is a long way from Timor Leste); and transitional (phase transitions have been particularly inefficient because of temporary cash flow constraints and continuity between LTX and successors needs improvement. See Section 2.4.1 Funding and 2.4.2 Budget). In a wider frame, the fragmentation of donor efforts to support macroeconomic management in the Pacific is inefficient. (See Section 2.4.7, Defragmentation of Donor Support)

**Table A1-4: “Has PFTAC normally been timely and quick to respond to requests for technical assistance and training?”**



Source: Survey of PFTAC Clients, January 2015. N=28

(B) Efficient use of resources (i.e. cost efficiency, including overhead cost)

PFTAC has a reasonable overhead rate on average over the Phase that compares favorably with other RTACs and non-IMF Funds. It would be better if TA activity was kept stable at Phase transitions. (See 2.4.6 Expenditures) Per day costs for LTX and STX are within a reasonable range. Travel costs are high in the Pacific but travel utilization does not appear to be excessive.

(C) Efficiency of monitoring and reporting (including dissemination of TA reports)?

<sup>200</sup> One aspect of this question is to what extent is PFTAC able to operate efficiently over such a large span of countries and what challenges to efficiency (and effectiveness) does the large country footprint present?

## Mid-Term Evaluation of PFTAC Phase 4

PFTAC's monitoring and reporting could be improved in several ways – first, by focusing more explicitly on whether member governments have developed independent capabilities to undertake the necessary tasks themselves; second, by instituting Centre Peer Reviews among the RTACs; and, third, by making TA reports available on country and sector portals on its website. (See Section 2.7 Results-based Management and Evaluation.)

*Evaluation Question: To what degree do PFTAC's systems and institutional set-up allow for retention of organizational memory (e.g. to facilitate follow-up as needed, avoid duplication of effort, improve handovers, etc.)?*

PFTAC's systems and practices to maintain organizational memory need significant improvement. (See Section 2.7.4 Knowledge Management.)

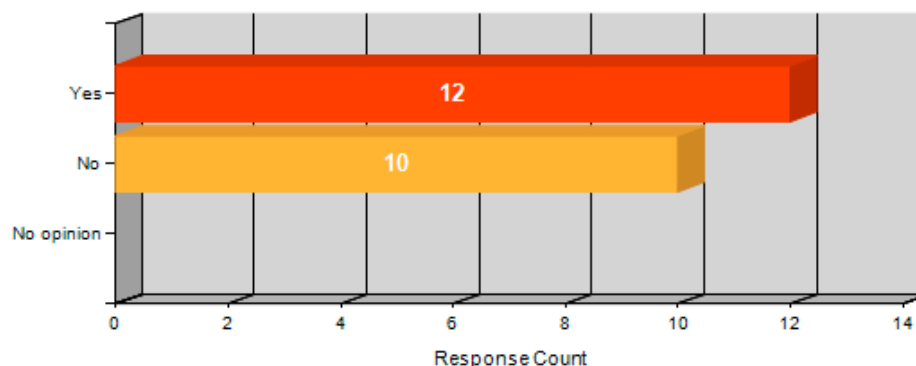
*Evaluation Question: What could improve cost-effectiveness while maintaining high quality outputs?*

The main ways cost-effectiveness could be improved is by avoiding activity collapses at Phase transition points; and taking a more program-based approach to designing and delivering technical assistance. (See Section 2.3.1 Organization.)

*Evaluation Question: To what extent has backstopping by the IMF added value to PFTAC's TA?*

Backstopping is essential to the PFTAC model. Its cost has been small and the backstopping budget has tended to be underspent. PFTAC and the IMF Functional Departments should be vigilant that backstopping is substantive and focused on bringing the Fund's wide experience to bear to support the work of the Resident Advisor. (See Section 2.3.3 Backstopping)

**Table A1-5 Can backstopping of LTX be improved?**



Source: Survey of PFTAC Steering Committee, Experts and Partners. January 2015.

### Questions of Effectiveness

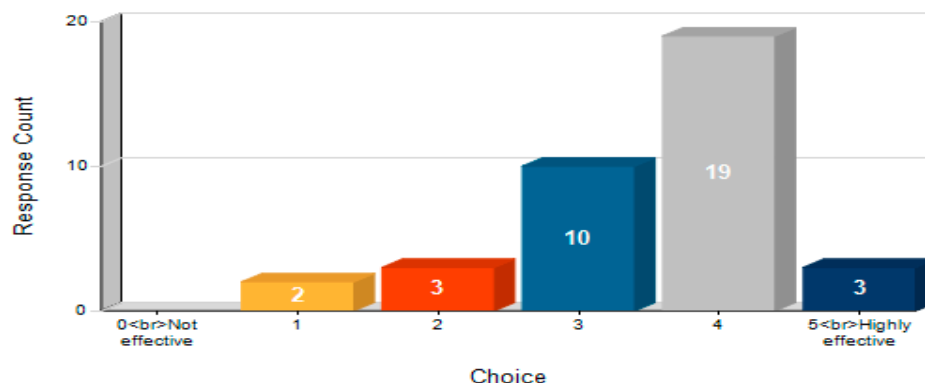
*Evaluation Question: To what extent have PFTAC TA and training led to tangible and lasting results and strengthened capacity?*

On the whole PFTAC has been very effective in achieving tangible results and strengthening capacity. (See Sections 3.1 to 3.6 PFTAC performance.) However, in some cases there are structural impediments to achieving lasting results that are largely beyond PFTAC's control. They include the erosion of already-limited human resources as qualified people move to other

## Mid-Term Evaluation of PFTAC Phase 4

jobs, and changes in policy direction with a change of government. To some extent, the scale (amount and frequency) of PFTAC TA may also be a factor in achieving sustainable results.

**Table A1-6 “How effectively has PFTAC helped your Government build capacity?”**

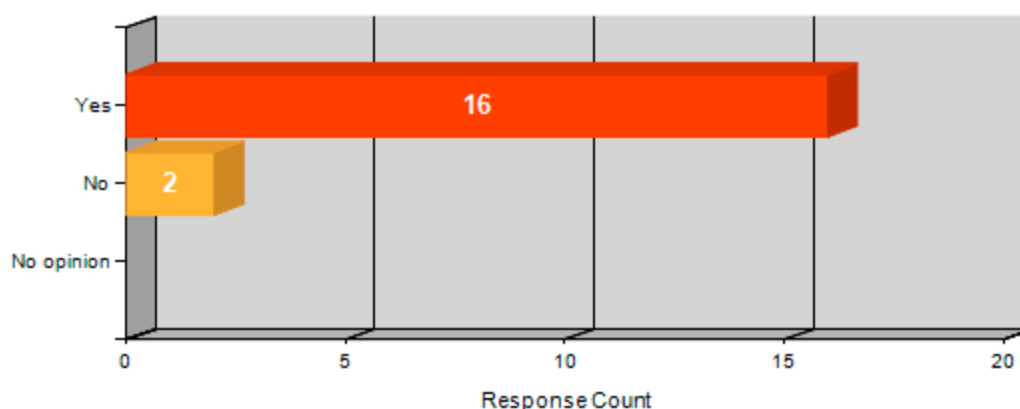


Source: Survey of Officials, January 2015, n=37, 16 countries

### **Has PFTAC helped to integrate TA and training with surveillance?**

PFTAC conducts in-country workshops in conjunction with technical assistance and regional seminars in a particular area of development and reform. Both modes of training are important to building capacity in recipient governments.

**Table A1-7 “Could PFTAC improve its effectiveness by more closely integrating its TA/training with the IMF’s surveillance/policy advice?”**



Source: Survey of PFTAC Clients, January 2015. N=18

This is a broad issue that is best addressed in an evaluation of RTACs as a whole rather than on a single centre. To determine the degree to which training and TA are integrated with surveillance, would need to examine both the policy advice given to the country and the TA provided to it by both IMF HQ and PFTAC. This is beyond the scope of this evaluation.

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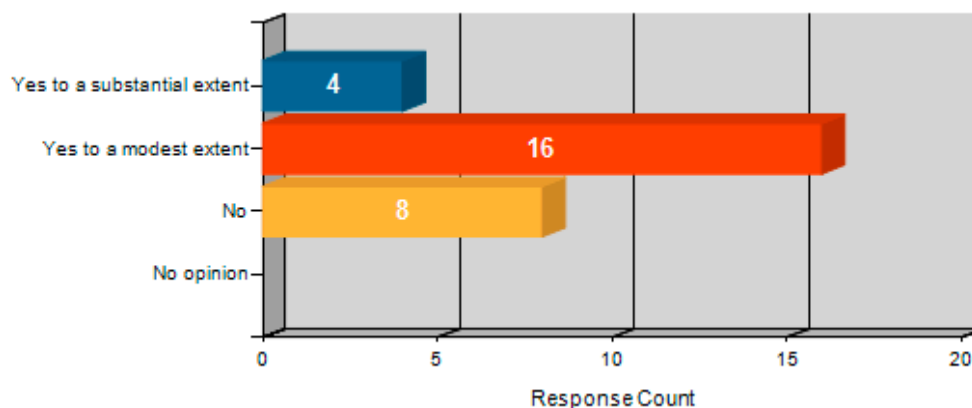
## Mid-Term Evaluation of PFTAC Phase 4

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*Evaluation Question: What contribution has PFTAC made to build a robust network of local experts and to systematically identify and optimize the use of local and regional expertise?*

PFTAC has recruited LTX and STX from Australia and New Zealand and to a lesser extent from the Pacific island states. It has also supported the professional associations in the Pacific.

**Table A1-8 “Has PFTAC identified and used local and regional experts.”**

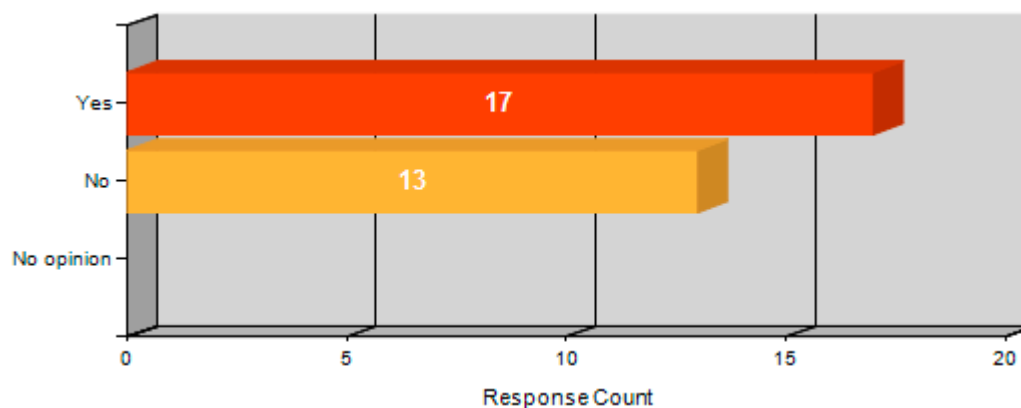


Source: Survey of PFTAC Clients, January 2015

*Evaluation Question: Is the provision of TA under five-year funding programs effective?*

We have suggested that PFTAC needs to diversify both its sources of funding and its (five year) replenishment mode. (See Section 4.3.4 Diversification)

**Table A1-9 “Should there be more scope for ad hoc mid-Phase contributions to respond to surges in demand for technical assistance and training?”**



Source: Survey of PFTAC Steering Committee, Experts and Partners. January 2015. N=30

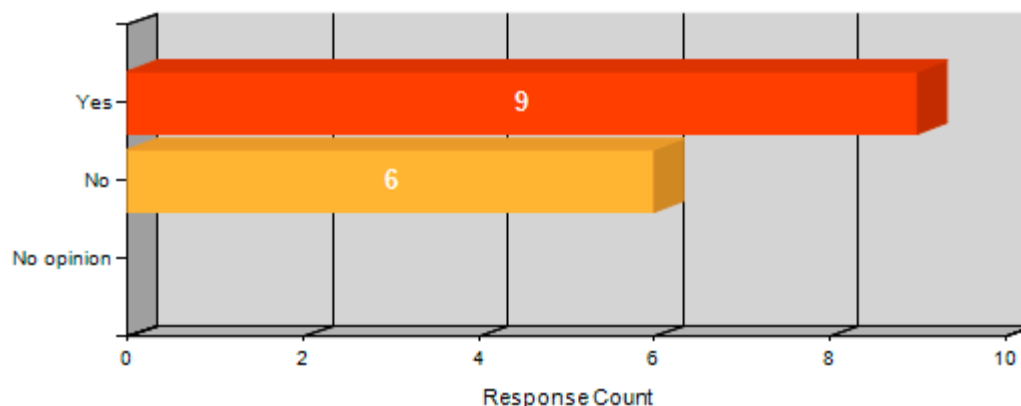
*Evaluation Question: Has the RBM framework improved PFTAC’s effectiveness?*

The goal of PFTAC’s results-based management (RBM) system is to enable Centre Coordinators, Advisors and backstoppers to target and manage technical assistance; and to

## Mid-Term Evaluation of PFTAC Phase 4

enable stakeholders to assess performance; measure project outcomes and impact; and track results over time to evaluate effectiveness and sustainability.

**Table A1-10 “Does PFTAC use Results-Based Management Tools well?”**



Source: Survey of PFTAC Steering Committee, Experts and Partners. January 2015. N=15

PFTAC has produced Logical Frameworks for each of its main areas of work. These describe outcomes, a baseline at the end of the previous fiscal year, milestones for the current fiscal year and risks/assumptions. The performance indicators are a mix of qualitative and quantitative measures. The LogFrames were appended to the FY 2014 Annual Report and cross-referenced in the text of that Report. This was useful but will probably change substantially during the next few years as the IMF develops its new approach to results-based management.

The IMF has an initiative underway to improve performance measurement and project management by implementing a new results-based management (RBM) system across the Fund. It will apply to all departments and activities. ICD Strategy and Evaluation Division is in charge of design and implementation. Once operational, the RBM system will be used by the RTACs. (See Section 2.7 Results-Based Management and Evaluation.)

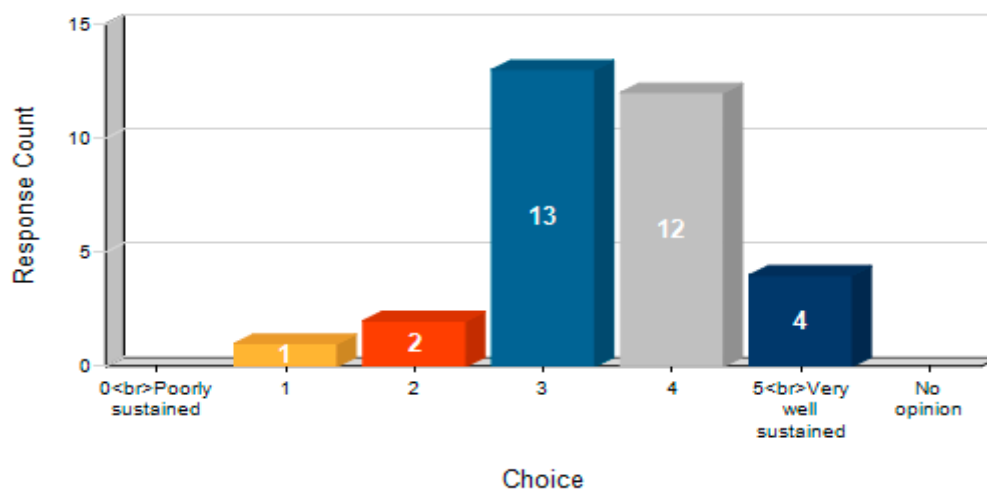
### Questions of Sustainability

*Evaluation Question: What factors affect sustainability of TA and training delivered by PFTAC? How are these factors (e.g., absorptive capacity of beneficiary countries) incorporated into the planning of the PFTAC work programs?*

We have identified two factors that we believe are important to the sustainability of PFTAC's results and which can be improved.

- Focusing more directly on developing the capacities of member governments to achieve results independently, as distinct from helping, sometimes repeatedly, to do a particular task.
- Taking a more program-based approach to technical assistance to improve continuity (See Section 2.3 Organization, Management and Governance.)

**Table A1-11 “How well have PFTAC’s results in your country been sustained?”**



Source: Survey of PFTAC Clients, January 2015. N-32

*Evaluation Question: How have beneficiaries incorporated recommendations from PFTAC TA into their daily operations?*

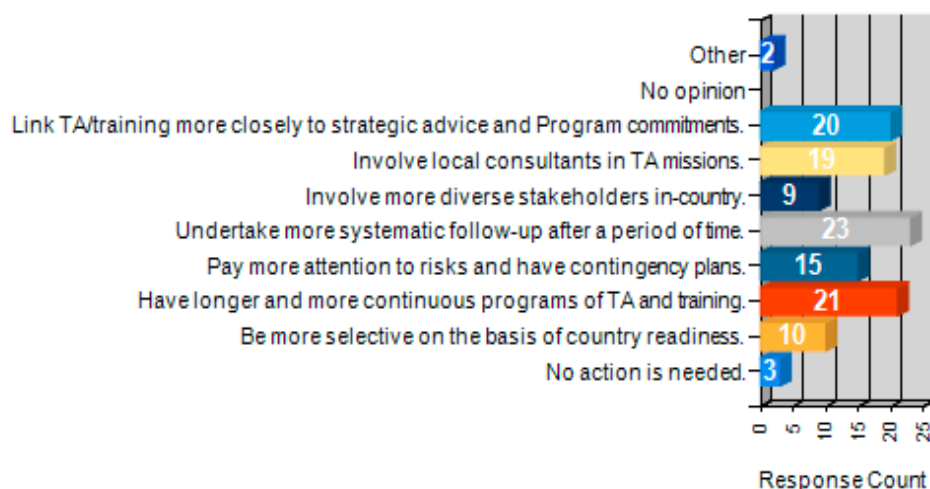
There is great variety in how well member governments have incorporated PFTAC’s recommendations into their daily operations. (See Sections 3.1 to 3.6, PFTAC Performance by Sector.) Governments have adopted many PFTAC recommendations operationally but public will and political commitment are needed as well.

*Evaluation Question: What are the challenges and risks faced in conducting TA and training in PFTAC member countries and sustaining the results achieved? Does PFTAC manage these challenges and risks appropriately in order to ensure its delivery of effective TA?*

The main challenge is that many of the member states are very small and their capabilities to undertake macroeconomic management are limited by their size.



**Table A1-12 “How could PFTAC improve the sustainability of its results**



Source: Survey of PFTAC Clients. January 2015. N=32

### Questions of Impact

*Evaluation Question: Is the PFTAC aggregated project level impact as defined in the program document being achieved or likely to be achieved?*

We think that PFTAC’s achievements are extensive and provide excellent value for money. However, at the same time, the objectives in the Project Document and in the LogFrames tend to be overly ambitious given PFTAC’s small resources and they do not distinguish sufficiently between what can be attributed to PFTAC and what attributed to the governments themselves with manifold influences.

*Evaluation Question: What RBM measures or monitoring tools are in place (or could be put in place) to systematically track the impact of TA over time?*

The IMF’s new result-based management system is designed to systematically track the impact of technical assistance over time. It will be piloted by CARTAC and rolled out to the other Centres, including PFTAC. (See Section 2.7 Result-based Management and Evaluation.)

*Evaluation Question: What difference did the PFTAC TA and training bring to the beneficiary countries? Specifically how has PFTAC contributed to economic growth, stability and improved public financial management in beneficiary states?*

Improved public financial management can be measured by PEFA ratings and, similarly when they are fully developed, TADAT ratings.

*Evaluation Question: To what extent have external factors affected the impact of PFTAC TA (such as changes in basic policy environments, general economic and financial conditions, political instability, natural disasters, presence of IMF programs or budget support, etc.)?*

The external factors that have affected outcomes are general (the aftermath of the global financial crisis of 2008-2009) and specific to individual countries such as adverse movements in commodity prices or declines in fisheries. PFTAC has to work within the environment as it changes and in Phase 4 it has shown considerable adaptability to circumstances and responsiveness to effective demand from member governments.

## APPENDIX 2

### Progress on Recommendations of Previous Evaluations

The most recent (2009) evaluation<sup>201</sup> of PFTAC made eight recommendations and also reviewed the implementation of recommendations from the earlier evaluation (2004).<sup>202</sup>

#### A2-1 Phase II Evaluation Recommendations

There were 22 recommendations from the Phase II evaluation (2004). Implementation of these recommendations was rated as part of the Phase III evaluation (2009). The 2004 recommendations and their 2009 implementation ratings were as follows.

- Implementation of one recommendation was rated excellent (PFTAC's statement of service standards).
  - Status in 2015. Service standards are no longer in use.
- Implementation of six recommendations was rated good (PFTAC should be better at strategic planning, keep a registry of projects, should rate each project's success on completion, and should obtain written client feedback more frequently).
  - Status in 2015: Organizational memory needs considerable improvement (See Section 2.7.4). Projects, as distinct from a continuous flow of activities are not clearly defined and there is no system of end-of-project performance ratings. The only source of written client feedback since 2009 is this current mid-term evaluation
- Implementation of five recommendations were rated modest (strategic LogFrame, additional budget for STX, address issues in superannuation/pensions, insurance and AML/CFT, help PICs develop long-term reform strategies, and have an annual meeting of Center Coordinators at IMF HQ).
  - Status in 2015: LogFrames have improved and the IMF has a Results-based Management reform underway. There is an annual meeting of RTAC Coordinators at IMF HQ. Issues in pension funds and insurance schemes have received modest attention and there has been no activity in AML/CFT.
- Implementation of ten recommendations was rated as poor (improve governance, analyse risk in the Region and prepare a risk management plan, keep better data about activities and expenditures, prepare a program based budget for its own operations, "introduce a new tier of locally-recruited experts", do better performance reporting on its website, interact more with other RTACs, and undertake a feasibility study of possible regional common service agencies in PFM areas including accounting, IT/MIS and auditing.)
  - Status in 2015. By and large these issues have not been resolved. PFTAC is not guided as much by written risk analysis as CARTAC, which has, for instance, a dedicated LTX for Financial Sector Stability (FSS) Analysis. The governance of the Centre is unchanged. There is no additional tier of local experts or local roster of experts, with minor exceptions of about three Pacific nationals on the

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<sup>201</sup> IMF, Murray, B. et al, Independent Evaluation of the Pacific Financial Technical Assistance Centre, Washington DC, June 2009

<sup>202</sup> IMF, Bucknall, J. et al, Evaluation of the Pacific Financial Technical Assistance Centre, Washington DC, Sept. 2004

IMF HQ rosters. Interaction with other RTACs is limited. There have been no papers on possible regional common services agencies although PFTAC favours regional approaches and promotes them wherever possible.

### A2-2 Phase III Evaluation Recommendations

The next evaluation (Phase III, 2009) made eight recommendations. In response PFTAC management in the *Phase 4 Program Document* stated its intentions in regard to each recommendation.<sup>203</sup> Those management responses are listed below. Assessments of the status in 2015 are also shown below

The reader should note that the ratings of performance are based in many instances on member country performance, rather than PFTAC performance as such, since that is how outcomes are defined in PFTAC's RBM frameworks. Therefore PFTAC may do all that one could reasonably expect within its scope and resources and the outcome rating still not be high.

***Evaluation (2009) Recommendation: By the end of calendar year 2010 the TPRC and the IMF should develop a strategic plan that sets out a vision for PFTAC in five years.***

Management response: "This recommendation was endorsed by the steering committee (SC). This program document sets out the details of the vision—which is for PFTAC to remain a leading technical resource for Pacific Island countries on improving their macroeconomic management."

Status in 2015: Completed.

The evaluators' rating of outcomes: Good

It is not easy to know what the evaluators had in mind. Were they dissatisfied with the Program Document for Phase 3? If so they should have been more explicit about what they wanted in a "strategic plan that sets out a vision". The (February 2011) PFTAC Program Document guides the work of PFTAC to FY 2016. It is somewhat heavy on listing activities; and could make more distinction between the desired achievements of member governments and PFTAC's exact role and strategy for helping them develop capacities. Nevertheless it is a well-crafted and clear document.

***Evaluation (2009) Recommendation: By the end of FY 2010 consensus should be reached at the TPRC on the priorities for additional Resident Advisors.***

Management response: "The SC agreed that a controlled increase in advisors was appropriate and endorsed the evaluation's recommendations: additional advisors in macroeconomics, statistics and PFM. This document accommodates these recommendations."

Status in 2015: Consensus between the Steering Committee and the IMF on LTX staffing was reached in regard to adding three Resident Advisors after 2009 but not subsequently in regard to adding a second revenue advisor. The latter led to friction with the Steering Committee. Our own view is that PFTAC needs to be larger still to meet member needs and to operate at an efficient scale; and that some authority over resource allocation needs to be delegated to the Centre from IMF HQ.

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<sup>203</sup> IMF Global Partnerships, PFTAC Program Document, Feb. 2011, p. 13, Box 2: Box 2: "Evaluation recommendations, Steering Committee responses and current plans."

The evaluators' rating of outcomes: Medium to good

Substantial increases in staff levels were implemented by late 2012. However “consensus” was not reached on all staffing issues.

***Evaluation (2009) Recommendation: PFTAC should make greater use of short term experts, particularly in the financial sector supervision and statistics areas.***

Management response: “The SC agreed with this, but noted that this should be done in a controlled manner. The SC emphasized the importance of continuity of provision through the resident advisors rather than through regularly changing short-term experts. PFTAC has already scaled up the use of experts in the financial sector; further expansion will be contingent on resource availability.”

Status in 2015: The use of STX in the first three years of Phase 4 remained low compared with other RTACs. In some areas of PFTAC's work there is little or no budget allocated for them. However the proportion of missions conducted by STX is increasing (STX accounted for 56% of mission days in the first half of FY2015, up from 27% in FY2014).

The evaluators' rating of outcomes: PFTAC's utilization of STX, especially in teams led by an LTX to deliver TA programs, needs improvement and appears to be improving.

If the Steering Committee wishes to encourage the use of STX then it should, among other things, ask to see specific budget allocations and monitor them annually.

***Evaluation (2009) Recommendation: Develop a strategy for increasing the probability that the benefits of PFTAC will be sustainable.***

Management response: “The steering committee agreed that this was an important issue but were cautious about the resource costs of developing separate strategies in the middle of the funding cycle. PFTAC will continue to target sustainability by focusing its activities on building systems rather than individuals, by ensuring that training is included in technical missions and by helping countries support each other through establishing professional associations. In this funding cycle improvements in sustainability will be addressed through increasing the use of regional approaches (see section III.C).”

Status in 2015: Little change from 2009.

The evaluators' rating of outcomes: Needs improvement.

PFTAC has taken some initiatives. For example more responsibility has been passed to local authorities for conducting PEFA self-assessments and developing reform roadmaps in order to strengthen local expertise, ownership, and sustainability. This is excellent practice but does not change the overall weaknesses in sustainability. PFTAC has limited control over many of the sustainability challenges. Nevertheless we think it could do more. The Phase 5 Program Document needs to address sustainability and threats to sustainability of all kinds more directly. PFTAC is aware of the problems. Institutions throughout the Region remain vulnerable to losses of key personnel and unpredictable year-to-year budgeting poses risks to programs' financial sustainability. In the financial sector PFTAC does not have a Financial Sector Stability Advisor, as CARTAC does. In addition, basic ecological sustainability,<sup>204</sup> which among other things

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<sup>204</sup> Managing fisheries sustainably and sustainable natural resource extraction, for instance, are growing challenges. Increasing populations and pollution problems are common. Managing potable water resources is a sustainability issue in several PICs.

underpins government revenues, is poor in some PICs and should be addressed even if not as a PFTAC core area.

***Evaluation (2009) Recommendation: Make a more concerted effort to develop and use Pacific expertise.***

Management response: “The SC agreed with this recommendation, although it did note the challenges involved and the importance of not pulling from the scarce pool of talent available to many PICs. PFTAC aims to increase the use of Pacific experts in the next funding cycle and to promote country to country cooperation.”

Status in 2015: Little change from 2009. Most of the relevant activity has been in PFM.<sup>205</sup>

The evaluators’ rating of outcomes: Needs improvement.

If PFTAC cannot find individual experts in the Region at IMF levels of qualifications then it should institute a second level of regional experts who can work as part of a PFTAC-led team, as the 2004 Evaluation recommended. Over time, this practice would both increase and strengthen regional expertise.

***Evaluation (2009) Recommendation: Develop a strategy to intensify and increase the use of regional approaches.***

Management response: “The SC agreed with this recommendation. This forms the core of PFTAC’s strategy to improve sustainability.”

Status in 2015: No substantial change from 2009. PFTAC has promoted Country-to-country cooperation through the use of regional workshops and through PFTAC’s support for regional professional associations.

The evaluators’ rating of outcomes: Needs improvement but is largely a matter of political will of member governments.<sup>206</sup>

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<sup>205</sup> One respondent stated: “Since the middle of 2013 (an ex-Governor of the Reserve Bank of Fiji) has been involved in most of PFTAC’s PEFA activity, and has become the face of the Roadmap effort. Then there is also the High Level Dialog (HLD) that we have had him working on to orient Cabinets to good PFM. We also have used (and plan to use in the future) (a former Tongan Finance Secretary) on PEFA and Roadmap missions. Both are on the FAD-PFM Experts list... in terms of PFM-STX days from July 2013 to now they may have accounted for 20-25% of the total. Add to this also our use of some of the Fiji MOF DCEO’s on PEFA and Roadmap missions to PNG and Tonga. Because they are full-time employees of the Fiji MOF and not on the FAD experts list, they were hired as local consultants (basically reimbursing the Fiji MOF for their base salary) and covering all their travel expenses and per diems. Unfortunately, because the past PFTAC tracking system was used just to record LTX and FAD certified STX “experts” they were not included in the “STX” counts. In March 2014 two of Fiji MOF’s DCEOs accompanied the PFTAC LTX to PNG to assist in training on implementation of a PEFA self-assessment for two weeks (Total 20 consulting days). In September 2014, one of them was also used on a two week mission to Tonga focused on a PEFA and Roadmap development...” Respondent #67.

<sup>206</sup> One respondent said: “The idea of regional approaches to meeting common regional needs surfaces in many areas of our work in all sectors. There are many examples that my colleagues can point to in each of their domains. However, there is a great deal of resistance to explicitly supra-national approaches for political reasons. Fundamentally the political obstacle is the disparity in size and development among countries in the region. Countries are rightly concerned that a supra-national approach in, say, supervision, would be dominated by Fiji and/or PNG. I believe this is also the case in the Caribbean, which partly explains why T&T, Barbados, and Jamaica are not members of ECCU. So although there would be good arguments (economies of scale, sustainability, and governance) for supra-national agencies to perform numerous economic functions in the region, such as banking supervision, statistics, some aspects of tax administration and public procurement, etc., there is very little appetite for it. PFTAC has tried a different, lower-key approach. This has been to promote adoption of common standards & approaches in particular areas. An example has been with the project to have several countries in the region adopt standardized reporting

(Continued)

## Mid-Term Evaluation of PFTAC Phase 4

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The development of regional approaches largely has been focused on holding regional and sub-regional workshops, and supporting regional professional associations and organizations such as AFSPC, PITAA, PIFMA, PASAI, and PSSC. However little has been done to analyse the feasibility of regional service providers in various technical areas such as accounting, audit and statistical analysis.

***Evaluation (2009) Recommendation: Define medium term objectives to be achieved in each functional area in each country and verifiable indicators to monitor progress.***

Management response: “This Program Document outlines regional target results and likely priority countries that will be used as a basis for results-based management.”

Status in 2015: Logical Frameworks are attached to each Annual Report and cross-referenced in those reports. However although activities are clearly relevant and milestones are described the “logic” of PFTAC intervention to achieve attributable results remains only partly developed.

The evaluators’ rating of outcomes: Good.

A results-based management framework has been adopted for use in planning and monitoring TA activities. Progress is being made in refining the framework to make it more useful in monitoring progress and identifying key capacities needing development in each country and sector to be able to achieve specific performance outcomes. Nonetheless, making effective use of this sort of information in planning TA is an area for further refinement.

***Evaluation (2009) Recommendation: Develop formal action plans and report to SC.***

Management response: “This program document is that action plan and report.”

Status in 2015: Partially completed.

The evaluators’ rating of outcomes: Good

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forms for financial institutions. A similar thing is happening now with the revamping of Credit Union legislation. We have also been encouraging countries in the region to look at adopting a standard software environment for taxation management. Ditto for monitoring of banking information. In statistics, an example is the effort to develop a standard, but region-specific Household Income and Expenditure Survey. In macroeconomics, considerable effort has gone into encouraging countries in the region to use fundamentally similar policy & forecasting frameworks. Our advisors can elaborate on these and other such efforts. The professional associations play a key role in working towards such common approaches and standards. Essentially, what is developing is a confederal rather than a federal system, with the associations acting as the coordinating agencies. To the extent that such efforts work, they strengthen regional networks and self-sufficiency (sustainability), and offer economies of scale that can attract commercial service providers. For example, whether it is tax software, banking software or statistics software, providers will not be very interested in providing to the region any sort of tailored software at an affordable price unless several countries are willing to adopt the same software. And the same applies to the after-sales service. This has been a real problem with the FSIS project. Once common standards, approaches, software, models are adopted, then we can and do encourage cooperation between the various countries. And it works. The countries do talk to each other more because they are more on the same wavelength. But this is a long process because it means building up trust and familiarity. Much less simple than having a top-down command structure as with, say, the ECCU. The bottom line I think is that we, PFTAC, see every day the scope for potential beneficial cooperation, standardization, etc., and promote it wherever we can. But this is not something we can force. The collegial or confederal approach is the Pacific Way, and a more explicit centralized approach just doesn’t seem to work here. That is not just in our area of work, but almost every area I can think of. Airlines in the region are a great example.” Respondent #99

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## **Mid-Term Evaluation of PFTAC Phase 4**

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The 2011 Program Document set out the plans for implementing the recommendations of the SC. No formal process has been established for monitoring implementation or for reporting back to the SC other than the mid-Phase reviews of which this is one.

## Appendix 3

### Overview of RTACs

IMF Regional Technical Assistance Centers										
(in chronological order of opening)										
	PFTAC	CARTAC	East AFRITAC	West AFRITAC	METAC	Central AFRITAC	CAFTAC-DR	South AFRITAC	AFRITAC West 2	ATI
Date Established	1993	2001	2002	2003	2004	2006	2009	2011	2013	2013
Location	Suva, Fiji	Bridgetown, Barbados	Dar Es Salaam, Tanzania	Abidjan, Ivory Coast	Beirut, Lebanon	Libreville, Gabon	Guatemala City, Guatemala	Port Louis, Mauritius	Accra, Ghana	Ehene, Mauritius
Funding Cycle (dates)	Jul 2011- Apr 2016	Feb 2011- Apr 2016	Jul 2015 - Apr 2020	Nov 2009 - Apr 2015	May 2010 - Apr 2015	May 2011 - April 2016	Jul 2014-Apr 2019	Jun 2011-Apr 2017	Nov 2013 - Oct 2018	Jun 2013 - May 2018
Number of Resident Advisors	7	10	10	8	4	6	7	8	5	3
Number of Countries Covered	16	20	7	10	10	8	7	13	6	44
List of Countries Covered and Contributions (US\$m)	The Cook Islands The Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor Leste, Tokelau, Tonga, Tuvalu, and Vanuatu	Anguilla, Antigua & Barbuda, The Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago, Turks & Caicos Islands	Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda	Benin, Burkina Faso, Côte d'Ivoire, Mali, Guinea, Guinea Bissau, Mauritania, Niger, Senegal, Togo	Lebanon - 6.5 Libya - 1.5 Egypt - 1.0 Syria - 0.5 Jordan - 0.78 Sudan - 0.5 West Bank and Gaza - 0.0 Yemen - 0.0 Afghanistan - 0.0 Iraq - 0.0	Gabon - 10.0 Cameroon - 5.0 Chad - 5.0 Rep. of Congo - 5.0 Dem. Rep. of Congo - 1.8 Burundi - 0.3 Cent. African Rep. - 0.0 Equatorial Guinea - 0.0	Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama	Angola, Botswana, Comoros, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Zambia, Zimbabwe	Cape Verde, The Gambia, Ghana, Liberia, Nigeria, Sierra Leone	Sub-Saharan Africa
Contribution per Country	n/a	US\$0.35m per country	TBD - approx. US\$0.7m per country	Côte d'Ivoire - US\$0.77m Other - US\$0.28m per country	varies by country	varies by country	US\$0.5m per country	Mauritius - US\$4.25m Other - US\$0.25m per country	Ghana - US\$5.0m Other - US\$0.35 per country	Mauritius 17.8 Seychelles - US\$0.2 Angola - US\$ 0.25 Togo - US\$0.065
Total Member Contributions (US\$m)	0.0	6.7	TBD - approx. US\$5.0m	3.0	10.8	27.0	3.5	7.1	6.8	18.0
List of Donors and contributions (US\$m)	Australia - 7.5 European Union - 7.5 New Zealand - 7.4 Korea - 2.2 Asian Dev. Bank - 1.0	Canada - 20.1 United Kingdom - 13.0 European Union - 7.0 Australia - 6.6 Carib. Dev. Bank - 1.0	United Kingdom - 6.2 European Union - 6.6 Netherlands - 1.5 Switzerland - 1.0	European Union - 15.4 France - 4.9 Netherlands - 4.4 Kuwait - 2.5 Canada - 2.1 Luxembourg - 1.7 AfDB - 1.5 Australia - 1.5 EIB - 1.4 Germany - 1.4 Switzerland - 1.0 Italy - 0.9	France - 2.4 Germany - 2.4 European Union - 1.9 EIB - 0.6 Oman - 0.5 Kuwait - 0.3 USA - 1.3	European Union - 8.2 France - 2.1 Canada - 2.0 AfDB - 1.5 Australia - 1.2 Germany - 1.3 China - 1.0 EIB - 0.7	European Union - 9.4 Mexico - 5.0 Luxembourg - 2.0 IADB - 0.5	European Union - 22.1 United Kingdom - 11.1 Canada - 3.1 Switzerland - 3.0 Germany - 2.4 Australia - 2.0 AfDB - 1.5 EIB - 1.0 Brazil - 0.2	European Union - 18.2 Switzerland - 5.0 Canada - 2.1 AfDB - 1.5 Australia - 1.5 China - 1.0 EIB - 0.33	China 2.0 Korea 0.8 Australia 0.5
Total Donor Contributions (US\$m)	25.6	47.7	15.3	38.7	9.4	18	16.9	46.4	29.63	3.4
Total Contributions (US\$m)	25.6	54.4	20.3	41.7	20.2	45.0	20.4	53.5	36.4	21.4
Program Document Budget (US\$m)	30.0	62.2	53.5	51.4	33.0	49.6	35.9	59.0	43.2	27.8
	0.0	12.2	24.6	7.2	53.5	60.0	17.2	13.3	18.6	
	0.0	10.7	9.3	5.8	32.7	54.4	9.7	12.1	15.6	

## Appendix 4 PFTAC Activities and Costs Data Tables

**Table 1: PFTAC Funding, Phases I to IV**

Funding*	Phase I	Phase II	Phase III	Phase IV** Feb. 2011-April 2016	Total
Nominal Dollars	2,848,678	4,029,848	6,730,661	25,427,255	39,036,442

Unit: US\$

Source: IMF ICD and PFTAC, September 2014

\* Does not include a funding on a project level under FAA instrument (JSA \$613,200 and Korea \$170,758)

\*\* Amounts received to September 2014

**Table 2: Contributions to PFTAC by Source and Phase**

Donors	Phase I	Phase II	Phase III	Phase IV 1/	Total	% Total
Asian Development Bank	1,299,000	800,000	999,999	1,000,000	4,098,999	11%
Australia	1,106,665	1,291,869	2,200,000	7,500,001	12,098,535	31%
European Union				7,460,172	7,460,172	19%
Korea			813,564	2,300,365	3,113,929	8%
New Zealand	443,013	1,937,979	2,717,098	7,166,717	12,264,807	31%
<b>Sub-total</b>	2,848,678	4,029,848	6,730,661	25,427,255	39,036,442	100%
In-kind Contributions (Fiji)			76,566	210,000		
Other income including Interest*	20,134	83,696	8,044	8,076	119,950	
<b>Total**</b>	2,868,812	4,113,544	6,815,271	25,645,331	39,156,392	

Source: PFTAC and IMF ICD, September 2014

(1) Contributions received to September 2014

Note: Contributions received up to-date are based on exchange rate at the time of receipt.

\*Remaining balance from Phase I,II and III is still earning interest. Interest earned after the end of Phase III as of September 30, 2014 is \$584.

\*\*Does not include contribution from JSA and Korea subaccounts under FAA.

## Mid-Term Evaluation of PFTAC Phase 4

**Table 3: PFTAC Activities, FY 2012-FY 2014 inclusive, by Sector and by Country**

	Activities					
	Total Number of Missions	Number of LTX Mission Days	Number of STX Mission Days	Number of Seminar Participant Person Days	Number of Attachments	Number of TA Reports
<b>SECTOR</b>						
FAD - Revenue Admin.	79	262	388	351		22
FAD - PFM	67	643	403	388		9
<b>Sub-total FAD</b>						
MCM - Central Banking	28	231	181	108	30	3
MCM - Financial Markets						
<b>Sub-total MCM</b>						
STA	52	529	24	215	5	24
LEG	3	0	29			
APD	40	471		340		13
<b>Total:</b>	<b>269</b>	<b>2136</b>	<b>1025</b>	<b>1402</b>	<b>35</b>	<b>71</b>
<b>COUNTRY</b>						
Cook Islands	23	186	128	62		6
Fiji	38	157	282	238		8
Fed States Micronesia	7	56	24	119		2
Kiribati	34	300	52	60	5	9
Marshall Islands	11	90	60	61		1
Nauru	9	76	25	47		4
Niue	5	45	28	37		0
Palau	18	164	31	65		2
Papua New Guinea	14	177	26	127		5
Samoa	27	279	89	127	30	8
Solomon Islands	25	194	45	135		9
Timor Leste	2	19	0	15		1
Tokelau	1	0	6	16		1
Tonga	28	139	162	101		5
Tuvalu	5	55	22	45		3
Vanuatu	22	199	45	147		7
<b>Total:</b>	<b>269</b>	<b>2136</b>	<b>1025</b>	<b>1402</b>	<b>35</b>	<b>71</b>

Source: PFTAC September 2014

## Mid-Term Evaluation of PFTAC Phase 4

**Table 4: PFTAC Expenditures by Budget Item - Phase III and Phase IV FY 2012-FY2014**

Expenditures	Annual in Phase III 2008-2010.	%	FY 2012	FY 2013	FY 2014	Total FY12- FY14	%
<b>Field TA Providers</b>	<b>1,640,560</b>	<b>51%</b>	<b>1,551,235</b>	<b>2,690,021</b>	<b>2,570,274</b>	<b>6,811,530</b>	<b>55%</b>
.. Long-term advisors	834,933	26%	1,012,484	1,792,652	1,951,135	4,756,271	38%
.. Short-term experts	805,626	25%	538,751	850,804	534,701	1,924,256	15%
.. Diagnostic experts (IMF/HQ staff)		0%		46,565	84,438	131,003	1%
<b>Seminars</b>	<b>213,369</b>	<b>7%</b>	<b>339,937</b>	<b>376,679</b>	<b>315,050</b>	<b>1,031,666</b>	<b>8%</b>
.. Participants (PFTAC)	213,369	7%					0%
.. Workshop materials (PFTAC)		0%					0%
<b>Professional Attachments</b>	<b>34,768</b>	<b>1%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0%</b>
<b>Other Travel</b>	<b>203,465</b>	<b>6%</b>	<b>315,098</b>	<b>518,066</b>	<b>648,164</b>	<b>1,481,328</b>	<b>12%</b>
.. Regional travel advisors/staff	203,465	6%	315,098	518,066	648,164	1,481,328	12%
<b>Local Administration</b>		<b>0%</b>					<b>0%</b>
In-kind (IMF & Host Country)*	651,038	20%	420,134	435,259	450,990	1,306,383	10%
.. Local support staff	26,342	1%	120,000	124,800	129,792	374,592	3%
<b>Other</b>	<b>41,224</b>	<b>1%</b>	<b>66,750</b>	<b>106,747</b>	<b>82,032</b>	<b>255,529</b>	<b>2%</b>
.. Misc./Office communications	6,502	0%	40,294	55,706	52,875	148,875	1%
.. Project equipment	798	0%	-	-	-		0%
..SC Meeting	33,923	1%	26,456	51,041	29,157	106,654	1%
<b>Evaluation</b>	<b>36,652</b>	<b>1%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0%</b>
<b>Other IMF HQ Services</b>	<b>-</b>	<b>0%</b>	<b>125,402</b>	<b>191,283</b>	<b>171,071</b>	<b>487,756</b>	<b>4%</b>
.. Backstopping	-	0%	97,164	124,644	121,520	343,328	3%
.. Project management (Expert & Gen.Mgmt.)	-	0%	28,238	66,639	49,551	144,428	1%
<b>Sub-Total</b>	<b>2,847,417</b>	<b>88%</b>	<b>2,938,556</b>	<b>4,442,855</b>	<b>4,367,373</b>	<b>11,748,784</b>	<b>94%</b>
<b>Other Fees</b>		<b>0%</b>					<b>0%</b>
.. IMF/TTF management (7%)**	370,164	12%	167,890	271,796	265,061	704,747	6%
<b>Sub-Total</b>	<b>370,164</b>	<b>12%</b>	<b>167,890</b>	<b>271,796</b>	<b>265,061</b>	<b>704,747</b>	<b>6%</b>
<b>TOTAL COST</b>	<b>3,217,582</b>	<b>100%</b>	<b>3,106,446</b>	<b>4,714,651</b>	<b>4,632,434</b>	<b>12,453,531</b>	<b>100%</b>

Source: IMF ICD September 2014

\*Estimates: CC salary, CC regional travel and office rent.

\*\* TTF fee does not apply to IMF and Host Country contribution. It is 13% under FAA instrument.

## Mid-Term Evaluation of PFTAC Phase 4

**Table 5: PFTAC Expenditures, Phase 4 by Area and Fiscal year**

IMF Dept	Activity Description	Expenditures by Fiscal Year					TOTALS	%
		FY2012	FY2013	FY2014	FY2015 Est	FY2016 Est		
FAD	Public Expenditure Mgmt Advisor I	236,602	289,911	293,393	313,664	374,355		
FAD	PEFA Advisor	-	229,057	310,020	330,720	374,355		
FAD	Revenue Policy and Administration Adv.	215,484	217,481	290,877	289,869	374,355		
MCM	Banking Supervision Advisor	208,095	266,705	254,024	346,112	374,355		
STA	Statistics Advisor I	209,161	255,142	254,194	281,216	374,355		
STA	Statistics Advisor II	-	131,056	234,671	281,216	374,355		
APD	Macroeconomic Advisor	143,143	403,300	313,956	346,112	374,355		
	<b>LTX Total</b>	<b>1,012,484</b>	<b>1,792,652</b>	<b>1,951,135</b>	<b>2,188,909</b>	<b>2,620,483</b>	<b>9,565,664</b>	<b>37%</b>
FAD	FAD STX	453,061	571,694	432,130	845,400	495,435		
MCM	Monetary STX	50,434	247,022	72,240	129,792	135,119		
STA	Statistics STX	35,256	32,089		35,256	-		
LEG	Legal STX			30,331	57,000			
	<b>STX Total</b>	<b>538,751</b>	<b>850,804</b>	<b>534,701</b>	<b>1,067,448</b>	<b>630,554</b>	<b>3,622,257</b>	<b>14%</b>
ICD	Regional travel Advisors	315,098	443,090	525,758	708,448	614,176		
	<b>Regional travel</b>	<b>315,098</b>	<b>443,090</b>	<b>525,758</b>	<b>708,448</b>	<b>614,176</b>	<b>2,606,570</b>	<b>10%</b>
ICD	TA Seminars	339,937	376,679	287,087	527,640	526,436		
ICD	INS Training	-		27,963	80,000	-		
	<b>Seminars and Training</b>	<b>339,937</b>	<b>376,679</b>	<b>315,050</b>	<b>607,640</b>	<b>526,436</b>	<b>2,165,742</b>	<b>8%</b>
	Evaluation		-	-	300,000			
ICD	SC Mtng	26,456	51,041	29,157	-	95,000		
	<b>Other</b>	<b>26,456</b>	<b>51,041</b>	<b>29,157</b>	<b>300,000</b>	<b>95,000</b>	<b>501,654</b>	<b>2%</b>
FAD	FAD TA delivery	-	25,471	67,680	68,000	201,948		
MCM	MCM TA delivery	-	1,681	-	43,264	15,915		
STA	STA TA delivery	-	-	-	43,264	-		
LEG	LEG TA delivery		19,414	16,758	21,000			
	<b>Diagnostic Interventions</b>	<b>-</b>	<b>46,565</b>	<b>84,438</b>	<b>175,528</b>	<b>217,863</b>	<b>524,394</b>	<b>2%</b>
FAD	FAD	-	23,809	99,373	88,960	29,206		
MCM	MCM	-	18,059	-	12,480	29,410		
STA	STA	-	13,246	11,976	12,480	30,404		
ICD	ICDGP	-	-	11,057	12,480	10,000		
APD	APD	-	-	-	-	10,000		
ICD	ICD	-	19,861	-	20,000	-		
	<b>Staff Travel (backstopping &amp; pj-mgmt)</b>	<b>-</b>	<b>74,976</b>	<b>122,406</b>	<b>146,400</b>	<b>109,020</b>	<b>452,802</b>	<b>2%</b>
	<b>Subtotal TA delivery</b>	<b>2,232,725</b>	<b>3,635,808</b>	<b>3,562,645</b>	<b>5,194,373</b>	<b>4,813,533</b>	<b>19,439,083</b>	<b>75%</b>
	LTX Backstopping	91,695	121,374	121,245	270,494	280,656		
	STX Backstopping	5,469	3,270	276	33,103	32,760		
	<b>Backstopping Total</b>	<b>97,164</b>	<b>124,644</b>	<b>121,520</b>	<b>303,596</b>	<b>313,416</b>	<b>960,340</b>	<b>4%</b>
	<b>Project Management Total</b>	<b>28,238</b>	<b>66,639</b>	<b>49,551</b>	<b>114,122</b>	<b>129,939</b>	<b>388,490</b>	<b>1%</b>
	<b>Subtotal Backstopping &amp; Project Mgmt.</b>	<b>125,402</b>	<b>191,282</b>	<b>171,072</b>	<b>417,718</b>	<b>443,355</b>	<b>1,348,829</b>	<b>5%</b>
ICD	Other-Office Support/Communication	40,294	55,706	52,875	67,492	91,556		
	<b>Subtotal Donor Expenses</b>	<b>2,398,422</b>	<b>3,882,796</b>	<b>3,786,592</b>	<b>5,679,583</b>	<b>5,348,443</b>		
	<b>Trust Fund Mgmt. Fee - 7%**</b>	<b>167,890</b>	<b>271,796</b>	<b>265,061</b>	<b>397,571</b>	<b>377,331</b>		
	<b>Total Donor Expenses</b>	<b>2,566,311</b>	<b>4,154,592</b>	<b>4,051,653</b>	<b>6,077,154</b>	<b>5,725,774</b>		
	<b>IMF Contribution</b>				-			
	<b>Coordinator, office staff &amp; travel coordinator</b>	<b>498,134</b>	<b>518,059</b>	<b>538,782</b>	<b>560,334</b>	<b>582,746</b>	<b>2,698,055</b>	<b>10%</b>
	<b>Host Country Contribution (in-kind)</b>							
	Rent	42,000	42,000	42,000	42,000	42,000		
	<b>Total IMF and Host Country</b>	<b>540,134</b>	<b>560,059</b>	<b>580,782</b>	<b>602,334</b>	<b>624,746</b>	<b>2,908,055</b>	<b>11%</b>
	Contingency Allowance	279,618			276,807			
	<b>Grand Total</b>	<b>3,386,063</b>	<b>4,714,651</b>	<b>4,632,435</b>	<b>6,956,295</b>	<b>6,350,520</b>	<b>26,039,965</b>	<b>100%</b>



## Mid-Term Evaluation of PFTAC Phase 4

**Table 6: PFTAC Expenditures By Department, FY 2012 to FY 2014**

Department/Area	Expenditures			
	FY 2012	FY 2013	FY 2014	Total
Fiscal Affairs (FAD)	941,752	1,409,816	1,578,629	3,930,197
Monetary & Capital Markets (MCM)	306,328	566,283	352,016	1,224,627
Statistics (STA)	276,988	525,517	550,815	1,353,320
Legal (LEG)	-	19,414	47,089	66,503
Asia and Pacific Department (APD)	143,143	403,300	313,956	860,399
<b>Sub-total</b>	<b>1,668,211</b>	<b>2,924,330</b>	<b>2,842,505</b>	<b>7,435,046</b>
Institute for Capacity Development				
<i>ICD Project Management</i>	-	-	-	-
<i>Local Administrative Support Staff</i>	-	-	-	-
<i>Other</i>	721,785	946,378	933,897	2,602,060
<b>Sub-total</b>	<b>721,785</b>	<b>946,378</b>	<b>933,897</b>	<b>2,602,060</b>
Finance Department (FIN)	8,426	12,088	10,190	30,704
Trust Fund Management Fee 7%	167,890	271,796	265,061	704,747
In-kind (IMF & Host Country)	540,134	560,059	580,782	1,680,975
<b>Totals:</b>	<b>3,106,446</b>	<b>4,714,651</b>	<b>4,632,435</b>	<b>12,453,532</b>

Source: IMF ICD September 2014

## Mid-Term Evaluation of PFTAC Phase 4

**Table 7: PFTAC's TA Delivery Costs by Type of Activity, and Overheads, FY2012-FY2014**

	Phase IV (Revised Operational Budget)	Phase IV ( Annual Avg.)	%	FY 2012	%	FY2013	%	FY2014	%
LTX, STX, Diagnostic	14,473,583	2,894,717	53%	1,551,235	50%	2,690,021	57%	2,570,274	55%
Seminars, Travel, and Others	6,297,709	1,259,542	23%	721,785	23%	1,001,492	21%	1,045,246	22%
Evaluation	300,000	60,000	1%	0	0%	0	0%	0	0%
Backstopping	1,133,090	226,618	4%	97,164	3%	124,644	3%	121,520	3%
Regional Project Management 1/	1,331,262	266,252	5%	245,787	8%	255,618	5%	265,844	6%
<b>TA Delivery</b>	<b>23,535,644</b>	<b>4,707,129</b>	<b>87%</b>	<b>2,615,971</b>	<b>84%</b>	<b>4,071,775</b>	<b>86%</b>	<b>4,002,884</b>	<b>86%</b>
			0%		0%		0%		0%
Trust Fund Fee	1,584,911	316,982	6%	183,118	6%	285,024	6%	280,202	6%
Project Management	437,199	87,440	2%	28,238	1%	66,390	1%	49,551	1%
Local Support Staff	649,959	129,992	2%	120,000	4%	124,800	3%	129,792	3%
In-Kind IMF & Host 2/	926,834	174,347	3%	174,347	6%	179,641	4%	185,147	4%
<b>Total Overhead</b>	<b>3,598,902</b>	<b>708,761</b>	<b>13%</b>	<b>505,703</b>	<b>16%</b>	<b>655,855</b>	<b>14%</b>	<b>644,691</b>	<b>14%</b>
<b>Total Expenditures</b>	<b>27,134,547</b>	<b>5,415,890</b>	<b>100%</b>	<b>3,121,674</b>	<b>100%</b>	<b>4,727,630</b>	<b>100%</b>	<b>4,647,575</b>	<b>100%</b>

Sources: IMF, ICD September 2014

(1) IMF- In-kind contribution; 65% of center coordinator salary and travel allocated to TA

(2) Includes Host Country In-Kind Contributions for office rent and utilities; IMF-In Kind contribution for administrative assistants & expenditures; 35% of center coordinator salary and travel-IMF In-Kind

## APPENDIX 5 CASE STUDIES

### Case

#### **Making Government Charges and Fees in Samoa more Realistic and more Flexible**

Public institutions and state-owned enterprises form a large part of the Samoan economy. They include public services, such as health and education, but also enterprises such as electricity and water supply, telecommunications and transportation. Over time the charges and fees that are essential to sustainability had become out of date. The bout of high inflation that Samoa suffered during 2008-2010 made the situation worse.

One reason for the failure to adjust fees and charges in a timely fashion was that many fee schedules were incorporated into law and could not be changed administratively. Some fees and charges had not been changed in decades, in one case for over forty years. Inflation had eroded their value with the result that subsidies increased, there was a drag on government finances and resource allocation within the Samoan economy was distorted.

An initiative to change this risky and harmful situation started in an interesting way. Every year the Australian Department of Finance (AusDOF), with PFTAC participation, holds a workshop in Canberra on public fiscal management in the Pacific Island States. Participants in the workshop are asked to bring an idea for a project to work on. In 2012 an official from the Samoan Ministry of Finance attended with the idea that non-tax revenues were an important area that badly needed reform. AusDOF and PFTAC responded with technical assistance to Samoa, starting with a Scoping Study in October 2012.

The non-tax revenue initiative has attempted to make fees and charges more realistic (closer to actual cost), more amenable to change administratively and more responsive to inflation. A Review was started with a pilot group of eight Ministries (selected from 33 Departments and SOEs that levy fees and charges.). By July 2014 the first rebasing (bringing fees and charges to a reasonable current level) was accomplished and a Guideline was developed that requires Departments and Agencies to adjust fees and charges at least every five years in accordance with the Samoan Consumer Price Index (CPI). The initial rebasing doubled some fees and charges, for example charges for birth certificates and hospital charges. Rebasing hospital charges was facilitated by the opening of a new facility that provides a higher level of service and amenity. Not all charges were increased – for instance maternal and child health care is provided free.

Three more rounds of rebasing are anticipated. The needed changes to legislation, making fees and charges changeable by administrative decisions, are expected to be enacted by mid-2015. The total increase in government revenue and/or decrease in subsidies will depend on what actions each Department and Agency takes to rebase its charges. Rebasing the charges of major public utilities may present challenges but is essential to their health and sustainability. Various estimates of the potential impact of the initiative range from 1% to 5% of total government revenues.

At the same time AusDOF and PFTAC have helped Samoa link non-tax revenues more clearly to its national accounts and the government budgeting process.

Given the success, so far, of the Samoan initiative, several other countries have asked for technical assistance to undertake similar initiatives, including the Solomon Islands.

### Case

#### Fiscal sustainability through strategic budgeting

PFTAC's 'Strategic Budgeting Model involves a simplified results-based medium term budget planning framework to underpin annual budget preparation and 'rolling' forward estimates with several rules to reinforce fiscal discipline.

The PFTAC model was designed to strengthen fiscal discipline by imposing hard budget constraints, and forward year expenditure ceilings. It also aimed to improve the results-based link between policy priorities and budget allocations. Its increased focus on (key) results was intended to strengthen Government accountability and value for money. Implemented well It should improve transparency and accountability by providing ministers, cabinet, parliament and the public with information and analysis to inform budget decision making and enable scrutiny. The process requires ownership at both the technical and political level, which of course is true of any PFM reform. It requires Governments to make difficult policy (and political) choices if they are to regain fiscal sustainability.

Fiscal sustainability is an essential component of long-term economic performance and key to the achievement of social policy goals and intergenerational equity. The most important factors in success or failure are political commitment and public consensus. Both can be assisted by transparent and reliable fiscal management information systems.<sup>207</sup>

In the context of recurrent fiscal deficits by several member governments the PFTAC Phase 4 Program Document proposes a number of improvements to "medium-term budgeting and budget execution". "This has included regional work in the areas of Internal Audit and IFMIS (integrated financial management integrated system). It has also addressed country-specific work on needs assessment, cash management and commitment control, development of Financial Instructions, and development of forward estimates. Training has been focused on general PFM capacity development, exposure for top level officials to advanced systems in other countries." This is in line with PFTAC's Logical Framework.

The PFTAC annual reports provide information on progress towards better fiscal management. As an example, the 2014 Annual Report highlights the following priorities: "support for PEFA (public expenditure framework) assessments and the development of PFM Roadmaps; Specific TA missions or training designed to assess, discuss, and deliver solutions; Delivering training and supporting the development of regional institutions or processes with the aim of long-term PFM system sustainability". However a comparison between the annual reports and the PD reveals that some PD objectives are not addressed. In particular there is no reference to medium-term budgeting.

#### Has fiscal discipline improved?

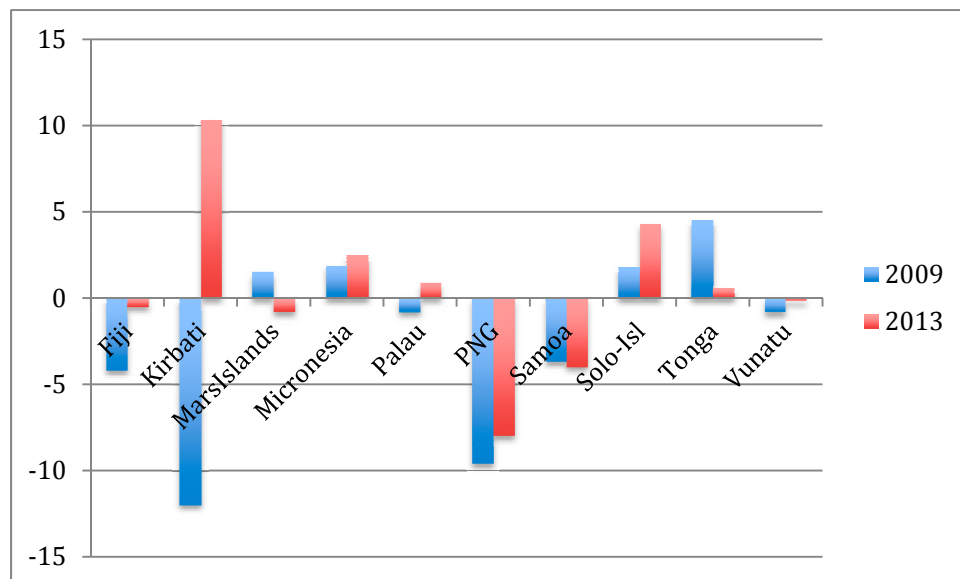
It is instructive to examine the actual performance of some PFTAC countries for which data on fiscal balances are available from the IMF. Chart 1 plots fiscal balances as a percent of GDP for a number of these countries for 2010 and 2013. The chart shows that, in general, there was

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<sup>207</sup> The PFTAC fiscal management model is mostly silent, with a brief recognition that fiscal improvements also require "political and administrative commitment". A Canada-US comparison in this regard is educational. Both countries have the most sophisticated fiscal management models one can think of. However, whereas Canada has been committed to a balanced budget, sometimes even when fiscal stimulus may be needed, the US has been running large deficits on an ongoing basis, regardless of the strength of the economy.

considerable improvement in fiscal outcomes in the PFTAC region between 2010 and 2014. Whereas four countries out of 10 shown in the chart had a fiscal problem in 2010, only two countries Papua New Guinea and Samoa had large fiscal deficits in 2014.

**Chart 1: Fiscal Balances in 2010 and in 2013 in 10 PICs**



Source: IMF, World Economic Outlook, October, 2014.

It is reasonable for PFTAC to take some credit for this general improvement in fiscal outcomes. However the logic and causality is not entirely clear. In total there are 40 indicators against which PFTAC says that it intends to track progress. Seven of these relate to public finance management. However we note that none of these indicators refer clearly and directly to capacity development and increased fiscal discipline through capacity development. The principal focus is on inputs—workshops and missions—rather than on outcomes.

### Case

#### **Better National Accounts<sup>208</sup> are a fundamental achievement but some questions remain**

The main area in which PFTAC's two statistical advisors provided technical assistance to member states is national accounts.<sup>209</sup> PFTAC was committed to improving estimates of gross domestic product (GDP) by approaching the estimates from the points of view of income and expenditure data, by producing estimates in current dollars and in constant dollars based on a recent<sup>210</sup> year, and making more frequent estimates, preferably quarterly. This focus is appropriate within the *Ten Year Pacific Statistics Strategy* (2010)<sup>211</sup>.

The PFTAC Program Document for Phase 4 talks about the importance of using all usable data and working with others to fill data gaps. It also focuses on the quality of existing data and how data quality standards can be achieved. However the PD objectives in the area of statistics are largely silent on **capacity targets**. Of course PFTAC presents training<sup>212</sup> and this contributes to capacity but there are no specific capacity targets to which PFTAC is committed and no work plan that plausibly purports to achieve independent statistical capacity in PIC governments. In fact the PFTAC 2014 Annual Report<sup>213</sup> contains a statistical work plan that appears to endorse long-term capacity supplementation in some instances. This is probably realistic but we doubt that capacity supplementation is an appropriate role for PFTAC. If long-term capacity supplementation is needed it should be supplied by specialized cooperative regional agencies or by private providers of professional services.

IMF headquarters-based Departments also provide statistical technical assistance in the Pacific in conjunction with PFTAC. This may be funded by other donors, most notably Japan, and provided in conjunction with self-funding partners such as the Australian Bureau of

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<sup>208</sup> The national accounts are data that aggregate in a set of tables all measurable economic activity that takes place in a country. The accounts are not an independent set of data. Rather, they are data derived from a range of primary source data that capture a wide range of economic activities in an economy. The key issues in this context are: what source data are available in relation to economic activity; what is their quality; and, do countries have the capacity to fill gaps both in data availability and their quality? With whatever source data are available, a second set of issues arises: how should these data be aggregated, using the production of goods and services or their consumption or incomes earned by factors of production; over what time period should they be aggregated, quarterly or annual; what should be the base period for aggregation; how should they be deflated to remove the impact of price changes to get the picture of the real side of the economy; and how should the information be disseminated?

<sup>209</sup> See PFTAC Annual Report, 2014, p. 25.

<sup>210</sup> PFTAC encourages PICs to rebase their GDP estimates as frequently as possible and at least every 10 years, not because constant dollars cannot be calculated correctly on an old base but because over time not only the size but the structure of the economy tends to change and this affects the discount rate used to adjust to constant dollars.

<sup>211</sup> The Strategy is overseen by a Steering Committee formed at the 2010 meeting of the Regional Heads of Planning and Statistics (HOPS).

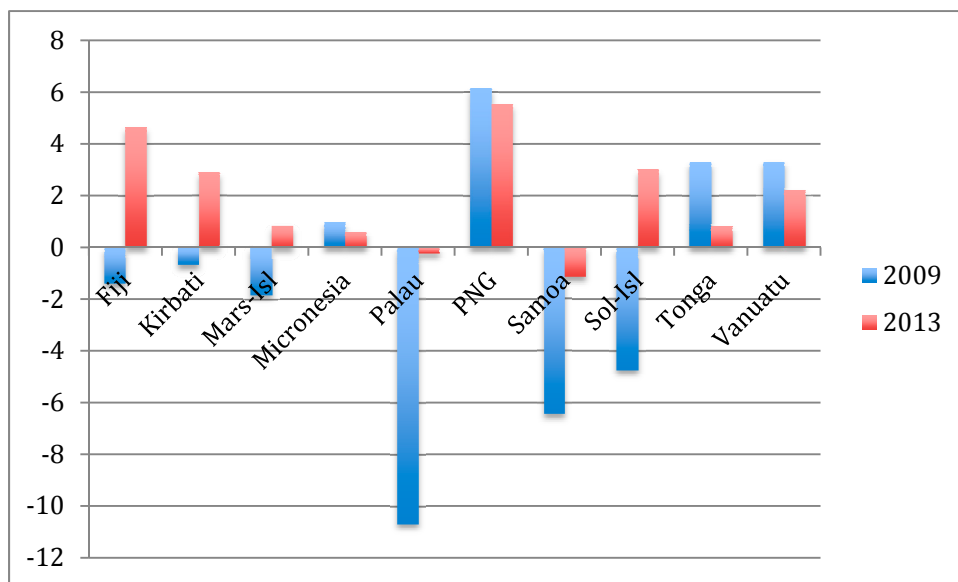
<sup>212</sup> For instance in November 2013 PFTAC presented its first Sub-Regional National Accounts Training Course in the Northern Pacific (FSM, RMI and Palau)

<sup>213</sup> In relation to the objectives in the PD, the annual reports provide information on progress. The 2012 and 2013 reports provide information on inputs provide for improving the national accounts that include workshops, missions, seminars and coordination with other agencies providing similar assistance. The 2014 report has a larger focus on outcomes. On national accounts, it describes progress in developing two independent sources of GDP (Fiji, Kiribati and Palau); improving national accounts data sources and methodologies (Papua New Guinea); rebasing (Cook Islands, Fiji, Solomon Islands, Vanuatu); quarterly GDP (Fiji, Vanuatu, Cook Islands); building capability for developing the national accounts (Micronesia, Marshall Islands, Palau); and capacity supplementation (Solomon Islands).



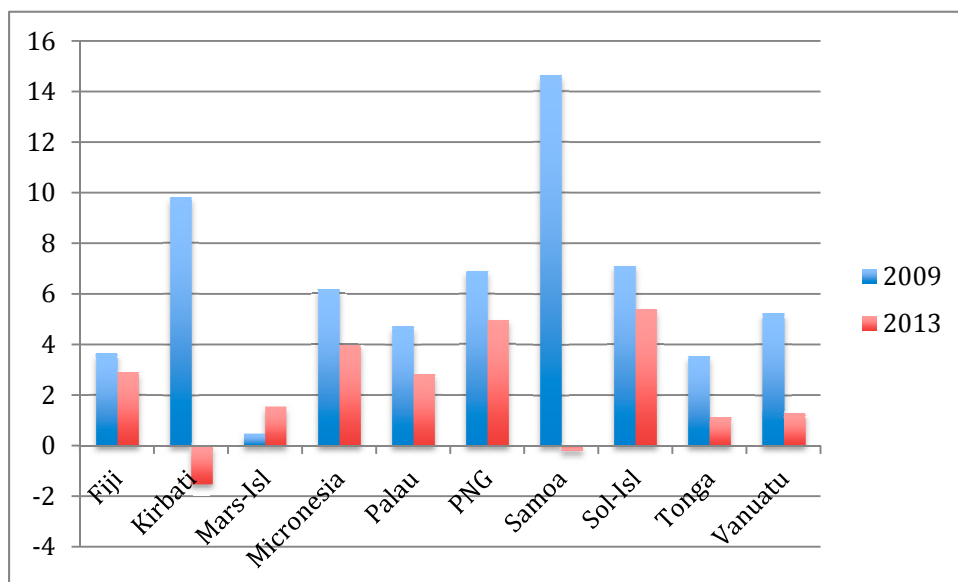
Statistics.<sup>214</sup> A detailed examination of the state of GDP statistics in the Pacific is beyond the scope of this evaluation. However, to help us think about outcomes, we looked at some of the published economic statistics. The following Charts are based on GDP growth data and inflation data published in the October 2014 *IMF World Economic Outlook*.

**Chart 1: GDP Growth in 2010 and in 2013, for 10 Pacific Countries**



Source: Chart based on data published in IMF World Economic Outlook, October, 2014.

**Chart 2: Inflation Rates in 2010 and in 2013, for 10 Pacific Countries**



Source: Chart based on data published in IMF World Economic Outlook, October, 2014.

<sup>214</sup> See PFTAC Annual Report 2014 pps.25-26 for a list of major statistical programs funded by IMF Trust Funds.

A comparison of the two charts indicates some surprises. First, there is great variability in the GDP growth of each country (which is the case even with all four years analyzed, rather than just the two in the chart). Second, like GDP growth, the inflation rates are quite volatile.

However the data in the two series do not appear to be entirely consistent. Some of the changes over four years raise questions. For example, GDP growth in Kiribati moved from being negative to a healthy three percent per annum. However, at the same time the inflation rate tumbled from close to 10 percent to become negative. A similar picture emerges for Fiji, Palau, Samoa and Solomon Islands. One would have expected that, in response to changes in GDP growth, inflation numbers would move in a direction opposite to that recorded. Therefore these charts raise the possibility that the quality of either or both of the GDP and inflation numbers may be an issue. Whether or not there is in fact a problem with these particular statistics the general point remains – that is, an important role for PFTAC could be to challenge the quality of statistics through methods such as data confrontation and thereby help improve them.

In summary, PFTAC has been able to help member countries produce better national accounts principally in three areas: developing expenditure-based accounts; moving from annual to quarterly national accounts; and improving methodologies and source data.

PFTAC documents are however mostly silent on targets for statistical capacity in member countries. Missions and workshops undoubtedly contribute to skills in the short term but the question remains unanswered whether governments cross the capacity threshold that enables them to undertake significant statistical projects themselves such as rebasing national accounts.

PFTAC is also mostly silent on the quality of the source data for member countries' national accounts. This is a strategic question that may not arise if PFTAC is focused on responding ad hoc to immediate requests for narrowly defined technical tasks.

There is much to be done to improve the national accounts and various price series in member countries. A key challenge is the scarcity of resources devoted to the area of statistics in many countries, both because of their small sizes and the fact that statistics is not a high priority for some governments. In this regard PFTAC's 2014 annual report remarks:

*"In many countries in the region, upgrading the quality, coverage, and timeliness of key macroeconomic statistics is challenged by capacity limitations. In such circumstances, although progress is being made in several countries, it is hard-won and fragile, and in some others, PFTAC staff is often in the role of capacity supplementation. Given the limited capacity in many national statistical organizations, careful coordination is needed between TA providers in the area of statistics, and improving coordination is a priority for PFTAC in the coming year."*

We believe that capacity supplementation in statistics as in other areas is not a natural long-term role for PFTAC.<sup>215</sup> Therefore we recommend that PFTAC should encourage members to seek other solutions including contracting out or establishing cooperative single provider statistical institutions on a regional or sub-regional basis.

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215 Few donors are keen on supplementing capacity in the sense of actually doing the work themselves on an on-going basis rather than helping governments prepare themselves to undertake it alone. Moreover the IMF has a surveillance role and does not want to be in the anomalous position of exercising surveillance over its own work.

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