

PFTAC 2018 Steering Committee (SC) Minutes

Tuesday, 28 March 2018

Agenda 1: Welcome Remarks were presented by: Hon. Aiyaz Sayed-Khaiyum, Attorney-General and Minister for Economy of Fiji

Hon. Aiyaz Sayed-Khaiyum, Attorney-General and Minister for Economy of Fiji, welcomed all the participants to Fiji and to the PFTAC Steering Committee meeting. This year marks the 25th anniversary of PFTAC's establishment and presence in the Pacific. First and foremost, the Hon. Minister noted the recent destructive cyclones experienced in Fiji, Samoa, and Tonga. The PFTAC Steering Committee meeting was to be held in Tonga but unfortunately had to be moved because of the impact of Cyclone Gita. This highlights to policy makers and officials the need to factor into our policies and decision making the effects of climate change given the impact it has on our economies and the risk of overturning years of development within a few hours, an unfortunate reality we need to take into consideration. We need robust systems to respond to ongoing climatic events that can undermine our economies, requiring careful thinking about our policies.

Fiji has been happy and honored to host PFTAC for the last 25 years. PFTAC's presence in the region has allowed many of us to benefit from the technical assistance provided. Given our countries' economies of scale, we do not necessarily have the home-grown technical expertise to deal with the daily challenges of running a modern nation state in the 21st century. The Hon. Minister highlighted the wonderful opportunity to get together as countries to work with development partners, including the ADB, Australia, the European Union, the International Monetary Fund, New Zealand, and agencies like PFTAC to meet our countries' different challenges. The Hon. Minister publicly acknowledged and thanked PFTAC for its work over the past 25 years, noting there are events planned later in the year to commemorate the anniversary. He reaffirmed as individual countries and as a region that we look forward to further developing the mutually beneficial relationship with PFTAC.

Agenda 2: Overview of Day 1 Agenda

Presented by: **Dr. Sione Ngongo Kioa, Governor, National Reserve Bank of Tonga**

The Chairman, Dr. Sione Ngongo Kioa welcomed participants to the 2018 PFTAC Steering Committee meeting. He thanked Fiji for hosting the SC meeting that was necessitated by the impact of category-4 Tropical Cyclone Gita that resulted in a missed opportunity to experience the beautiful island of Vavau in Tonga. The SC is a very important event for PFTAC, where all financially contributing shareholders and stakeholders have a say on the strategic oversight of the Centre's operation and direction, with specific details presented in the draft annual report. The Chairman noted the slight change to the agenda and welcomed H.E. Mr. John Feakes, High Commissioner of Australia to make the first presentation on the agenda.

Agenda 3: Development Partner Comments

Presented by: **H.E. Mr. John Feakes, High Commissioner, Australian High Commission**

Australia's support to improving economic resilience in the region is demonstrated through its long-standing partnership with PFTAC. Many countries in the region continue to face development challenges of small formal economies, long distances from major markets,

high costs, and rapidly growing populations. These challenges can sometimes make it difficult for countries to prosper. In November 2017, the Australian Government launched a Foreign Policy White Paper that commits Australia to a more ambitious and intensified engagement in the Pacific to support resilience in the region. This is one of the five central foreign goals that reaffirms the commitment of Australia to the Pacific. Support for PFTAC is a key aspect of Australia's stepped-up commitment and partnership for economic growth in the Pacific. The topics of the SC meeting of Macroeconomic, Fiscal, Monetary and Financial Sector issues are the foundations on which the region's economic resilience rests.

Reform is a long journey aided and accelerated with timely, responsive, and evidence based advice on the issues that we are all grappling with. This is exactly the kind of cooperation PFTAC offers the Pacific in which Australia has been proud to support since its inception in 1993. PFTAC has demonstrated targeted interventions that influence PFM reforms across the Pacific. PFTAC has delivered much in that time, bringing to bear the IMF's considerable technical expertise on some of the region's most pressing economic challenges. PFTAC's achievements and support to the Pacific is a great cause for celebration, particularly as PFTAC reaches its 25th year anniversary. Over the 25 years, the Centre has had to adapt to remain relevant to the needs of the region.

Now perhaps more than ever, PFTAC should be willing to roll up its sleeves to tackle the problems head on and deliver locally relevant assistance that the Pacific economic managers demand. This effort must evolve and adapt to the needs of the region, and should be a process of continuous improvement that Australia is keen to support. Australia looks forward to continuing its strong investment with PFTAC into the future, noting its importance to our shared objective to promote a prosperous and resilient Pacific regional economy from which we can all benefit. The Australian Government is committed to work with governments and programs that have a permanent presence in the Pacific, to respond to climate change, to boost resilience, to strengthen emergency responses, and to improve governance, education, health and gender outcomes. We look forward to deepening capacity development partnerships between Australia, the IMF, and partner governments in the Pacific, and look forward to the 25th anniversary planned for later this year.

Agenda 4: Overview of the Macroeconomic Context Introduction (see PPT presentation)

Presented by: **Mr. Chikahisa Sumi, Director, IMF office of Asia and the Pacific (OAP)**

World growth is recovering, gaining strength and is forecast to reach 3.9 percent in 2018 with the bulk of growth coming from developing Asia (China 6.8 percent and India 6.7 percent respectively for 2017) and envisaged to grow similarly strongly in years to come. Pacific Island States (2.6 percent accelerating to 3.3 percent in 2017 and envisaged to reach 3.4 percent in 2018) are situated close to the growth area of Asia, along with the US where growth is also quite strong. Global growth is heavily dependent on Asia (comprising at least 60 percent of the total), and amounting to 80 percent with the contribution from the Western Hemisphere (Northern America, Central and South America & the Pacific), and then the balance of 15 – 20 percent of global growth attributed to Europe, Africa and the remaining regions. With respect to global trade, 2017 saw a pick-up in the growth of exports, not only within Asia, Japan, China, but also to Europe, and American exports from Asia. Exports are important for Asia, with Asia now importing as much as they export, with growth now more driven by domestic demand. Asia has started to become a major import power as well. Current account imbalances over the past few years have become smaller for most of the categories in the Asian region. China, is undergoing a rebalancing from

growth driven by exports and investment to growth from consumers, consumption, and services. Credit gaps exist where one country grows above and beyond its traditional credit trend, with China's credit gap quite high and a source of attention.

A Summary of major risks and issues on the horizon include: (1) Tightening of financial conditions; (2) Retreat from global integration, and some geopolitical assumptions including the prospects of trade war; and (3) medium to long term issues facing the region as populations age. US growth has been quite strong, particularly with the Trump administration adding fiscal stimulus from tax cuts and other policy measures. To combat inflation, the monetary board is now normalizing monetary policy. Should the U.S. and China move towards a trade war, there will be no winner, since trade losses will result in lower GDP for all.

Aging populations have a medium to longer-term impact. When populations are young and growing, the economy benefits from increasing population productivity, with the population bonus peaking with productive ages from 15 – 64. However, Asia is at risk of getting old before getting rich.

Agenda 5: Economic Outlook for the Pacific (see PPT presentation for details)

Presented by: **Ms. Leni Hunter, IMF Resident Representative, Fiji and the Pacific**

The *Fiji* economy is recovering well and continuing to expand. *FSM, Kiribati, RMI, and Tuvalu* growth was boosted by the vessel day scheme and associated fishing revenues. *Palau and Nauru* experienced some volatility in tourism and construction sectors respectively. *PNG* growth has been affected by low commodity prices, drought, and severe earthquakes. *Samoa* has rebounded, however near-term growth may be affected by closure of a manufacturing firm. *Solomon Islands* growth is expected to be buoyant but fiscal adjustment is needed. *Timor-Leste* non-oil sectors are continuing to expand. *Tonga* was impacted by the devastating effects of Cyclone Gita that has not yet been included in projections. *Vanuatu* has good growth numbers, supported by recovery in the agriculture, tourism, and investment sectors. Key drivers of growth include oil and commodity prices as part of the back-drop to projections. Decline in oil prices negatively affects PNG, and Timor-Leste with LNG prices. However, for other countries, lower energy prices have contributed to relatively lower inflation rates. Remittance costs remain high compared to Caribbean and Central American countries. Remittances to the Pacific are still expensive, and are costlier to remit through banks than money transfer operators, with significant differences between costs from Australia versus New Zealand.

Natural disasters and climate changes: An objective is to estimate the effects from severe disasters on economies and to factor these into baseline projections. Vanuatu and Samoa are the most vulnerable countries based on historical data, but this does not factor in the climate change effects that are very relevant to all countries. Fishing license fees are strong contributors to fiscal revenues, and present an opportunity to build buffers and spread expenditures over several years. There are some risks associated with revenues particularly depending on weather conditions and fish migration patterns. Tourism has demonstrated good growth in Fiji, Samoa, Vanuatu, and Palau, with scope for further development of tourism to contribute to even greater growth. With respect to external buffers, some countries have increased their foreign reserves. IMF policy advice for some countries has been to allow more exchange rate flexibility, build competitiveness, and rebuild foreign reserves, and in some case, given significant changes in current account balances.

Regarding fiscal buffers, some countries have reduced their government debt. The IMF is making efforts to better connect surveillance priorities with the capacity development work of PFTAC and the IMF more generally. The objective is for policy recommendations that are practical and feasible. IMF Capacity Development aims to improve fiscal revenues, ensure debt sustainability, build resilience, strengthen financial inclusion, and broadly contribute towards inclusive and sustainable growth.

Agenda 6: PFTAC FY2018 Overview (see PPT presentation for details)

Presented by: **Mr. David Kloeden, PFTAC Coordinator**

- The liquidity situation is satisfactory with sufficient donor and member country inflows during FY18 to finance budgeted activities.
- Member country contributions have been similarly positive with all but a few countries having now signed Letters of Understanding and making their first, and sometimes additional contributions. Those countries that have not yet finalized their commitment are urged to do so without further delay.
- There has been very good staff collaboration internally between PFTAC programs and backstopping IMF departments as well as with development partners and stakeholders.
- There has similarly been strong collaboration with individual member countries as well as regional organizational such as PITAA, PASAI, and the OCO

Agenda 7: PFTAC Strategic Issues (see PPT presentation for details)

Presented by: **Mr. David Kloeden, PFTAC Coordinator (see PPT presentation for details)**

- PFTAC is celebrating its 25th anniversary since being established as the first IMF Regional Capacity Development Center in 1993. A major event is planned in December that will comprise:
 - A week-long program that includes a two-day High Level Dialogue (HLD) of ministers and senior policy makers;
 - Efforts to promote awareness of the Centre and the achievements it has supported by the member countries; and
 - A public competition for regional youth
- **Ms. Alison Stuart**, Small States Division Chief of the IMF Asia Pacific Department (APD) additionally noted:
 - The views of the SC participants on the anniversary event were sought;
 - PFTAC was the first such IMF center that has since expanded to a network of 16 centers worldwide;
 - The planned anniversary event is to celebrate achievements as well as explore growth opportunities for the Pacific, and to enhance collaboration with regional development partners and donors.
- The PFTAC offices have been located at the Reserve Bank of Fiji for many years under a lease arrangement. IMF budget provision has been provided in FY19 for the office facilities to be renovated and refreshed in time for the year-end anniversary event.
- PFTAC has had a stable staffing situation throughout FY18 with just one change, namely the slightly earlier departure in February 2018 of Ms. Marzan, one of the two PFM advisors, with recruitment well advanced and a replacement expected by June.

- A proposal to locally recruit a Research Assistant was endorsed by the meeting with an annual budget provision not expected to exceed US\$ 50,000.
- The proposed scaling-up of the Revenue program subject to securing additional donor financing was welcomed in response to significant unmet demand for more TA to support revenue reform and revenue mobilization in the Pacific, with **Mr. Nagaraj from New Zealand MFAT noting:**
 - A larger revenue program had been under consideration for the past five years.
 - Has the opportunity cost of an expanded program been sufficiently considered, and was there broad support to raise additional funding for this purpose, and if so, from what sources?
 - Tax policy needed to be improved with a mechanism for PFTAC to help its members on tax policy implementation.
- **Australian delegation** noted their strong support and ongoing commitment to PFTAC, noting their backing to the Revenue program given its impact and importance to the region and the large ongoing needs for revenue reform and revenue mobilization.
- **Mr. Kloeden** responded that the Fiscal Affairs Department (FAD) was now supportive of an expanded Revenue program that if pursued would result in considerably more TA in revenue administration plus Legal drafting, and for the first time, explicit resources for Tax Policy TA. With FAD support in place, expansion of the revenue program is now dependent on additional donor financing for which there are positive prospects, noting that such an expansion must be from additional resources and not come at the expense of the other PFTAC programs.
- **Timor-Leste delegation** commented that they would like to commit more on PFTAC programs with PFM and Revenue reforms being the highest priorities.
- With respect to outstanding member country commitments to financially support PFTAC Phase V operations, the delegations of **Timor-Leste, RMI, and Palau** advised they would follow-up on the matter and the **Tuvalu** delegation advised their agreement soon would be signed and that 2018 budget provision had been included for their contribution.

Agenda 8: Financial Report (see PPT presentation for details)

Presented by: **Mr. Constantin von Alvensleben, Global Partnership Division, IMF Institute for Capacity Development (ICD)**

- The Chair encouraged Palau, Timor-Leste, and RMI to sign the Letters of Understanding for their country funding.
- The financial report was endorsed by the SC Members

Agenda 9: FY2019 Plan (see PPT presentation for details)

Presented by: **Mr. David Kloeden, PFTAC Coordinator**

- The Chair proposed and the meeting endorsed the workplan and budget for FY2019 which included several specific allocations including: (1) within the administrative budget a one-time budget provision of US\$100,000 for the anniversary event; (2) also within the administrative budget a recurring annual salary of US\$50,000 for the local recruitment of a research/economic analyst; (3) reductions to the STX budgets of the PFM and Macro

programs to align with FY19 workplans and FY18 outturn; and (4) carry-forward of ICD training budget unused in FY18.

Agenda 10: Innovation in Capacity Development (see PPT presentation for details)

Presented by: **Mr. David Kloeden, PFTAC Coordinator**

- Comments/issues raised following the coordinator's presentation included:
- **Mr. Nagaraj from New Zealand** on the partnership between the SPC and PFTAC on macroeconomic statistics
- **Mr. Tora from the Asian Development Bank (ADB)** noted the importance for all development partners in the region to closely collaborate their efforts and to be mindful of the administrative constraints the member countries face.
- **Hon Dr. Toatu, Kiribati Minister of Finance** similarly noted the need for collaboration to avoid duplication, and enquired about tapping private funding sources. Minister Toatu questioned what proportion of donor financing remained within the beneficiary countries, which Mr. Kloeden responded that IMF and PFTAC Capacity Development is about the provision of know-how to build local and regional capacity, and as such, funds paid for the necessary expertise from both inside and outside the region to deliver TA bilaterally to member countries and regionally through workshops and training events. The Annual Report and the presentations on FY18 results and FY19 plans indicate the proportion of PFTAC resources and efforts directed to each member country and for regional activities. On private sector financing, IMF headquarters has had some limited collaboration with organizations such as the Gates Foundation.

Agenda 11: Overview of Fiscal and Macroeconomic Capacity Development Efforts & Achievements (see PPT presentation for details)

Presented by: **Mr. Richard Neves & Ms. Iris Claus, PFTAC PFM and Macroeconomic Resident Advisors, with inputs from Dr. Aisake Eke and Mr. De La Beer, PFTAC GFS Resident Advisor**

- A Public Financial Management (PFM) panel discussed the importance of fiscal transparency that was chaired by Dr. Aisake Eke.

Agenda 12: Overview of Developments in Macroeconomic Statistics (see PPT presentation)

Presented by: **Messrs. Richard Wild and Barend de la Beer, PFTAC Statistics Resident Advisors and Ms. Xiuzhen Zhao, IMF Statistics Department**

Wednesday, 28 March

Overview of Steering Committee – Day 2 Agenda

Presented by: **Dr. Sione Ngongo Kioa, Governor, Reserve Bank of Tonga**

Agenda 13: Capacity Development: Managing for Results (see PPT presentation for details)
Presented by: **Mr. David Kloeden, PFTAC Coordinator & ICD**

Results Based Management (RBM) is a tool to inform, prioritize, and give a better understanding of where our capacity development is most effective. It applies principles to gather data to report on achievements and emerging developments. We have always believed that our efforts make a difference and that our experts' advice and experience is important to build capacity, undertake reforms, and institute change. We now have a robust mechanism to articulate what we have set out to do and take stock of what was done, and ultimately on reaching an end-point, determine whether it has been sustained. The mechanism now in place will provide for more rigorous dialogue with partners to ensure we all converge with a clear understanding of the countries' needs and priorities and the path to achieve them. It is a rigorous system for monitoring, reporting, and managing capacity development with a consistent framework for all IMF work, whether donor or IMF financed. It provides a follow-up mechanism beyond just the delivery in the results chain. An important point is that PFTAC requires an independent mid-term external evaluation of Phase V activity. This is due in about 12 - 15 months and takes 6-12 months to complete, with a report due around 2020. Past evaluations have struggled from an inadequate paper trail and insufficient data and information. The RBM system now in place will greatly enhance the ability to objectively account for deliverables (outputs), but with a much greater focus on outcomes achieved that are hopefully sustained over the long run.

RBM Apparatus. An RBM catalogue has been developed by the IMF that is used by PFTAC and other IMF deliverers of CD. It is used to define consistent log frames across work streams. It provides a structure and hierarchy based on choices of high level objectives and indicators that measure progress using a scoring mechanism to group and aggregate results. There are several caveats around this simple system of keeping track of results, objectives, outcomes, and milestones that are scored on a system of 1 to 4 where 4 is a fully achieved milestone or outcome; 3 is largely achieved; 2 is partially achieved; and 1 means minimal progress or not started. There is a mechanism to weight indicators and outcomes. The system provides for a quantitative analysis and reporting of results achieved and whether a project is on track as most of our work has a long horizon of 3 – 4 years. However, ratings are only one part of the system as narratives will always remain crucial to explain what is truly happening behind the assessed score. The definition of a project is a work stream in a single country working towards a specific objective.

Implementation. The CD-PORT system and tracking mechanism was implemented in May 2017 with PFTAC advisors defining their log frames, establishing milestones collaboratively with their country counterparts, and loading them into the system that is linked to the budget. CD-PORT systematically tracks log-frames and milestones. Milestones are time bound and must be mutually agreed between PFTAC and the beneficiaries. As a rule of thumb, at least one milestone each year is defined for each outcome we are working towards achieving. The 2018 annual report includes the scoring and reporting of 255 milestones through April 2018 plus tracking of a further hundred milestones to December 2018 and beyond. With the endorsement of the FY2019 work-plan, existing log-frames milestones will be updated, and more will be added as necessary.

To conclude, we potentially have a very rich source of data on inputs and outputs, and most importantly a much better emerging picture of outcomes. This will help us better understand where our work is impactful and effective and enhance our focus on achieving

our capacity development and institutional building objectives and help improve accountability. However, the numbers are only as good as the underlining assumptions, but we finally have the tools to deliver the promises made over recent years particularly to our development partners.

Questions & Answers: Keshwa Reddy (Australian High Commission) inquired whether the PFTAC budget financed these developments. He noted that it is important for member countries to understand the framework and that it be incorporated in defining the reforms and work programs through a bottom-up approach.

David Kloeden noted that development of RBM concepts and the IT platform were from IMF headquarters investments separate from the PFTAC budget. However, its execution and operation takes some time and resources of the advisors which is a natural part of their work program, but there is no explicit PFTAC budget line associated with RBM. For success a clear understanding and ownership is needed with a buy-in of outcomes and milestones as detailed in the work-plans. To this end, we are having bilateral discussions with country delegations to ensure a clear focus and understanding. When advisors are out on missions in the field they should always consider the status of their milestones. We all have a lot to do for the system to deliver on expectations.

Dr. Ofa Ketu'u (SPC) commented on the earlier observation of Hon. Minister Dr. Toatu (Kiribati) on coordination. She acknowledged and reinforced the close coordination between PFTAC and SPC on statistical developments in the region. PFTAC concentrates on economic statistics while SPC looks after social and household survey based data collection. South-to-South cooperation between partners and donors was working well in the region, such as identifying champions in some National Statistics Offices (NSO) to work in other NSOs in addition to support provided by PFTAC and SPC.

Agenda 14: Development Partner Comments

Presented by: Mr. Christoph Wagner, Head of Cooperation, European Union

The EU is paying increasing attention to PFM worldwide and particularly in the Pacific. The EU is convinced that budget support is a very important modality for developing countries as it leaves the ownership with the countries, and is based on the policies defined by the countries to move in the direction that the country wants to go. For budget support to work we need to have good sector policies, with examples in Tonga for energy and Samoa for water. Budget Support is directly linked to Public Financial Management as a key eligibility criterion, with the EU using a dynamic approach to measure improvements in PFM during the different stages and areas of development. It is crucial to have strong ownership as mentioned by PFTAC, helped by technical assistance, structures, and a log frame as a tool. However, these are technical tools whereas choices are political as in the end it is a political decision where a government invests. This makes oversight important, and the means to do it effectively. PFM is always important, and is particularly crucial when disaster hits, with recent examples in Fiji, Tonga, Samoa, and PNG (earthquake) where PFM has been a crucial element in the response. The EU is starting a new program with a focus on PFM within the region with key partners that include PFTAC, USP, UNDP, PASAII and PIFS. It is bringing countries together, lifting policy discussions by working with other partners to strengthen the regional approach. Through good coordination, learning from each other, peer-to-peer initiatives, and creating a political dynamic, we can make a difference to improve the process.

Presented by: **Mr. Vinayak Nagaraj, Unit Manager, Economic Governance and Trade, New Zealand Ministry of Foreign Affairs & Trade**

Reflecting on PFTAC's 25th anniversary and looking back over the years, we are now in the fifth phase with a focus on resilience and improving economic management. New Zealand has a lot of pride from being associated with PFTAC from its inception in 1993. PFTAC is a silent contributor or a silent warrior for regionalism. PFTAC provides a crucial finance track with expert financial practitioners. Our experience demonstrates that if we need help, we are there for each other. PFTAC is an important contributor to FEMM, 25 years on, the region is stronger, more informed, more resilient, with financial markets that are safer from having PFTAC. We should be very proud of what PFTAC has achieved and what we have achieved through PFTAC. We should not be afraid of admitting that we are a region, with certain comparative advantages and that PFTAC complements that capacity. We should be very excited and honored that PFTAC may continue for another 25 years in this region, because we are so much better for it. It is also a good opportunity for us to reflect collectively and look forward to what Phase VI can do.

Presented by: **Mr. Laisiasa Tora, Asian Development Bank**

ADB values its relationship and collaboration with PFTAC. Remarks from other participants note the positive collaboration, whether in the domain of statistics, the financial sector or PFM. One of the reasons to keep emphasizing coordination is that there is now an opportunity better than in the past to step back and reflect on the kind of framework that will facilitate even closer and more effective TA. The ADB has scaled up resources for our client member countries, including providing significantly more TA and capacity building in different areas as well as in areas where PFTAC works. On both levels, we feel that a lot more can be done to ensure that we are making the best use of our resources and that we are cognizant that some countries have administrative limits and capacity constraints and that we do not impose too much on them in terms of transaction costs. We will work closely with David Kloeden and Richard Neves, to think outside the box, collaborate more closely and be responsive to country needs. In terms of resourcing, we are yet to hear from Manila on what to do with our contributions. Given the amount of resources in the region, it is important for a framework of regionalism and partner collaboration to ensure these resources are used most effectively.

Agenda 15: Financial Sector Developments (see PPT presentation for details)

Presented by: **Mr. Ben Stefanou, PFTAC Financial Sector Supervision Advisor**

A brief overview of the FY2018 Financial Supervision program was presented including the outturn versus the plan. The plan was quite fluid throughout the year. It started ambitiously, but then scaled back during the year because of the time and ability for some countries to absorb the TA provided and our ability to be onsite with you. We delivered about 80 percent of planned mission days, and are projected to have spent close to 90 percent of the budget, although that will approach 100 percent by the end of April. The program was largely devoted to three projects, (1) a supervision framework enhancement project with PNG, Solomon Islands, Vanuatu, and Cook Islands; (2) a banking regulatory reform project started with RMI, Palau, FSM, and Kiribati taking steps to develop some banking regulation and legislation; and (3) work in Tuvalu to establish operational supervision in conjunction in the World Bank. Regional events included the annual AFSPC

meeting and a workshop for the northern Pacific on banking regulatory reform. On the supervision framework enhancement program, key areas that added value to the region are in relation to risk rating and supervisory action planning processes in the Cook Islands, Vanuatu, Solomon Islands, and PNG. Risk rating supervisory action planning is an area relatively under-developed in the Pacific.

The annual meeting of the Association of Financial Sector Supervisors Pacific Countries (AFSPC) identified several areas for future support with three topics highlighted, namely IT risk assessment (BPNG); automated reporting in the Pacific (an event is planned in Sydney in FY19 in conjunction with World Bank); and the need for more AML/CFT support. A challenge for FY19 is that more missions are planned but with a similar budget envelope as FY18. This should be achieved with efficient mission composition and scheduling.

Brief overview on IMF current thinking of Fintech (see PPT presentation for details)

Presented by: **Ms. Naomi Griffin, Deputy Division Chief, MCM Department**

The IMF has been actively engaged in considering the risks and potential benefits of Fintech as well as the regulatory implications in providing advice to member country concerns. We are in a new era of rapid financial innovation with Google search data showing a high level of interest on Fintech related topics such as artificial intelligence, machine learning, distributed ledgers, and block chain technology. In a centralized ledger system, financial institution transactions are recorded by a centralized entity, namely the Central Bank. With a distributed ledger (block chain), transactions are recorded in multiple ledgers across institutions and do not rely on a central authority to record all the financial transactions. Distributed ledger technology uses encryption to allow participants on the network to record transactions in a secure way without the need for a central certifying authority. Financial regulations are needed to protect consumers, to preserve financial stability, and to promote competition. Fintech challenges include governance, privacy and transparency, and the legal status of digital currency that is not yet well defined. The IMF is actively working with international bodies to promote dialogue and understanding of FinTech.

Views on Fintech by Ben Stefanou. A question from a simple prudential supervision perspective is whether Fintech is an enabling service/product or a disrupting service/product? Does it enable technology to provide solutions to traditional institutions for better services and risk management than currently available? For example, benefits and better customer services have come from ATMs, telephone banking, and internet banking that can all broadly be considered FinTech. We are experiencing a massive rush that is a cause of concern to many people. It is disruptive to the business of traditional financial institutions, a concern for prudential supervisors, and creating classic financial disrupters, barriers to market entry, and a lack of clarity of what can be done in areas such as peer-to-peer lending, mobile payments, crypto-currencies, and non-aligned trading platforms. Four conditions that make financial services prone to disruption include: (1) significant fees and charges for transferring money; (2) unnecessarily complex systems with excessive manual processes (such as physically filling out forms); (3) trust has broken down, massively since the financial crisis; and (4) financial exclusion. Disruptive technologies place a different perspective on financial supervision. Traditional services are what we currently supervise. Financial institutions are traditionally not very nimble and are often not very adaptive to developing new products, presenting prudential risks to Financial Supervisors from the

entry of new players and disrupters who are holding beneficiaries' money in trust. This is a crucial aspect we must consider as we develop our response to this new technology.

Use of Fintech products and services in promoting Financial Inclusion

Presented by: **Mrs. Maiava Atalina Ainuu-Enari, Governor, Central Bank of Samoa**

In recent years we have seen a rapid spread of innovative technologies offering various products and services to different areas of the Financial sector. Innovations such as artificial intelligence, blockchain technology, biometric identification, cloud computing, use of mobile phones, etc. are revolutionizing the collection and processing of financial information; how we save and borrow; how we access other financial services; the channels we use to pay for goods and services; and the flow of remittances domestically and across borders to name a few. Challenges from FinTech as a potential tool for the promotion of financial inclusion in the Pacific include the low usage and uptake of digital financial services (as evident with the mobile money experience), and in Samoa's case, most people still prefer the person-to-person approach with only 0.7 percent of adults transferring funds through mobile financial services in 2016. Nevertheless, the FinTech possibilities for financial inclusion are exciting and with the right opportunities and options, these can transform the financial infrastructure and systems in the Pacific.

To be considered as tools for improving financial inclusion, FinTech: (1) must not be related to or used for fraud, money laundering or terrorist financing; (2) should embed consumer protection in their offering; and (3) should not risk unsettling financial stability in a country. This would require mutual learning for the regulators and the industry (e.g. through a sandbox approach); collaboration across regulators (e.g. financial and telecommunications regulators); and regular and ongoing dialogue between stakeholders including regulators, Fintech companies, and investors. As echoed in Madam Lagarde's statement: "we must welcome the potential of Fintech but also recognize the risks" as a potential tool for the promotion of financial inclusion in our region.

The Governor also clarified that the Samoan Financial Institutions Act 1996 is currently being reviewed with IMF assistance to incorporate an ever-changing financial landscape given the spread of Fintech

Australia's views on Fintech

Presented by: **Mr. David Gottlieb, Director DFAT**

Australia's key focus on Fintech is to balance innovation while keeping pace with the rapid changes in the industry, while ensuring we are very cautious with respect to consumer protection. This is underpinned by three key areas of focus: (1) remaining flexible and adaptable to change; (2) resisting the temptation to jump before we fully understand the technology or issues; and (3) ensuring as far as possible we remain technology neutral, but quick to deal with new technology as it emerges. We are introducing legislation for crowd sourced equity funding arrangements with the regulators reviewing opportunities for block chain technology in Australia. In our approaches we have been focused on minimizing risks to customers. We are pleased to hear about regional innovations.

Republic of Majuro views on Fintech

Presented by: **Ms. Maybelline Andon-Bing, Secretary of Finance**

The Republic of Marshall Islands has passed legislation to adopt a crypto-currency as its legal tender. Our Government is not prepared with respect to regulatory or monetary issues or yet able to provide the infrastructure or e-wallet facilities to citizens. We therefore continue to look forward to our partners to provide assistance. The main concern for our leaders is to have a sustainable economic development plan.

Agenda 16: Revenue Administration & Policy Developments (see PPT presentation details)

Presentations were made by: (1) Stanley Shrosbree, PFTAC Revenue Advisor on PFTAC revenue administration achievements during FY2018 and plans for FY2019; (2) Charlie Jenkins (FAD) who provided an overview of Medium Term Revenue Strategies; (3) Ms. Pauline Bre (PNG Internal Revenue Commission) who provided insights into the development of PNG's Medium Term Revenue Strategy and progress made to-date; (4) Mr. Visvanath Das, Mr. Fazrul Rahman and Mr. Shameem Khan, Fiji Revenue and Customs Service executives, who provided insights into FRCS modernization strategy; (5) Ms. Koni Ravono, Head of the Pacific Island Tax Administrators Association (PITAA) who provided an overview of the established of PITAA and progress to-date; (6) Mr. Terry Greenwood, Deputy Secretary, Ministry of Finance Nauru, who provided insights into Nauru's tax administration modernization program..

Agenda 17: Remaining Items and Next SC Meeting

Mr. Kloeden thanked Dr. Kioa for Chairing the 2018 PFTAC Steering Committee meeting. Mr. Kloeden also thanked the participants and informed the committee that the next meeting will be around March 2019 and will be hosted by the Government of Papua New Guinea.

Agenda 18: Closing Comments Closing Remarks

Presented by: **Dr. Sione Ngongo Kioa: Governor, National Reserve Bank of Tonga**

Dr. Kioa, in his closing remarks thanked the participants for the very productive meeting which saw good interaction and discussion over the last two days. Dr. Kioa thanked all the presenters for the informative presentations which covered a lot of important areas.