

# PFTAC Steering Committee

## March 28, 2019

Strategic Issues

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# AGENDA OF THE PRESENTATION

## Strategic Issues

- Proposed Public Financial Management (PFM) Review
- Funding Gap
- Future of the GFS Program
- Revenue Program Expansion
- Mid-Term External Evaluation



# PROPOSED PUBLIC FINANCIAL MANAGEMENT (PFM) REVIEW

## Public Financial Management (PFM):

- PFTAC has been a leader in the Pacific on PFM issues
- Strong appreciation by donor and development partners and regional support
- PFM efforts guided by the PFTAC's regional paper *A Public Financial Management Roadmap of Forum Island Countries (FICs)* since 2010 and the *Public Expenditure and Financial Accountability (PEFA)* framework
- PFTAC resource for PFM CD expanded in 2014 through the appointment of second resident advisor, additional training (workshops) and short term expert

## The Changing PFM Landscape

- 43 PEFA exercises since 2005, covering 15 of the 16 PFTAC members
- PFM Roadmaps derived from PEFA assessments have guided country prioritization and PFM reform plans and management, as well as donor support and CD



# PROPOSED PUBLIC FINANCIAL MANAGEMENT (PFM) REVIEW

- Significant changes in the PFM landscape in the past decade:
  - PEFA: evolved framework and self assessments have proliferated
  - Additional PFM evaluation tools: PIMA and FTE
  - International standards: changes to IPSAS
  - Enhanced CD modalities by IMF: RBM, on-line PFM training course, customized training and closer integration of surveillance and CD
- Donor interest and support for PFM reform in the Pacific is very high
- Development partner motivation for PFM often goes beyond the benefit of general capacity building (e.g. climate change financing, general budget support)



# PROPOSED PUBLIC FINANCIAL MANAGEMENT (PFM) REVIEW

## Impact of PFM CD since 2010

- A review of the PFTAC PFM program since the 2010 Forum Economic Ministers Meeting (FEMM) modeled on the 2017 Revenue review that will look at:
  - The impact of the PFM CD
  - The pace of the approach and resources with respect to the changing PFM environment
  - The types of issues prioritized
  - The level of capacity being built
  - Improvements to outcomes
- The review will be led by the Fiscal Affairs Department (FAD), financed from the FY2020 PFTAC PFM budget, with significant inputs by the two resident PFM advisors, plus additional STX and HQ resources as needed

*Views of the PFTAC Steering Committee members and observers are sought on this proposed review and the possible approach and timing*





# FUNDING GAP

## Funding Gap:

- Phase V Budget : **US\$35.3 million** (Baseline)/ **US\$39.5 million** (Aspirational)
- Require scaling down: PFM and GFS Program respectively
- Current fund raising pledges total **US\$29.93 million**
  - **US\$ 26.04 million** by the current five donors
  - **US\$ 3.89 million** from member countries, of which **US\$770,000** contingent on three countries LoU
- Nominal funding gap: **US\$9.5 million**, however smaller funding gap of **US\$5.2 million** targeted due to:
  - Underspending in the first 30 months of Phase V
  - **85 percent** budget utilization rate, the highest in first 2 ½ half years of Phase V

## Closing the Funding Gap

- Expectation of US\$1.5 million contribution from new/sixth donor
- Additional funding from existing five donors
- Timely member country contributions
- Potential donors over longer-term (United Kingdom and Japan)



# FUNDING GAP

## Contingency Plan:

- Scaling back of programs in entirety or in portions or on shared basis across programs:
  - Drop a resident advisor (e.g. PFM)
  - Gap before recruitment of a second PFM advisor during the next staff rotation
  - Scale back STX budgets particularly in larger fiscal or FSS programs
  - Scale back Workshop/Seminar budgets
  - Savings from HQ charges

**FUNDING  
GAP**



# FUTURE OF THE GFS PROGRAM

- The GFS program began at PFTAC early in Phase V
- Modest budget in each of its three years (between May 2017 and April 2020), financing the resident advisor, regional training event, smaller/ shared training event with limited number of STX missions a year.
  - First advisor left in October 2018 with a replacement contracted until only April 2020
- Close collaboration with PFM and Macro programs achieved excellent synergies:
  - Developing/reforming Finance Ministry Chart of Accounts with Public Debt Statistics
  - Budgetary Central Government GFS reporting
- Given good progress, requests from member countries and regional entities to continue GFS program.
- Backed by support from IMF (APD and Statistics Department)

***PFTAC Steering Committee member views are sought on the pending end of the GFS program and whether there is a consensus for a continuation if it can be funded***





# REVENUE PROGRAM EXPANSION

- The March 2018 Steering Committee informed of additional financing to support greater revenue mobilization efforts (address unmet demand and assistance to PACER Plus signatory countries)
  - Approximate **45 percent** expansion of Revenue program with **US\$1 million** annual cost.
  - **80 percent** of resources directed to expansion of tax administration and reforms with balance on tax policy and legal mission
- Australian Government provided **A\$1.3 million** to finance a full-year of an expanded program
  - Scaling up commenced for second half of FY2019; and
  - A fully scaled up program for FY2020; although unspent savings limited to first half of FY20 only
- FY2020 workplan reflects major efforts launched in Cook Islands, Tonga, Solomon Islands, additional efforts in Kiribati, expectations in Nauru and Timor Leste as well as in the Northern Pacific likely spearheaded by Palau with emphasis on following topics:
  - VAT Reforms
  - Tariff reforms



# REVENUE PROGRAM EXPANSION

- Expansion of excise regimes
- Strengthening VAT and other tax compliance through exchange of information between customs and tax administrations
- MTRS Reforms
- Quick wins from revenue reform are always targeted, in most instances sustainable results are typically achievable over the medium to longer-term
- The generosity of the Australian government is gratefully acknowledged

***Member countries support solicited to encourage further donor funding to maintain the expanded program through FY2020 and into FY2021 and beyond***



# MID-TERM EVALUATION

- **Phase V mid-point: July 31, 2019** (33 months completed and a further 33 months until end of the Phase in April 2022 subject to financing)
- **Phase V Program Document specifies/guides:**
  - External mid-phase evaluation to be launched within three years of the phase commencement- November 2019
  - The Terms of Reference- will reflect developments such as scaling up and 2017 regional review of Revenue Program, possible a similar PFM review and Advancements with RBM
  - Preliminary report by 2020 Steering Committee meeting
- Budget of US\$300,000 included in FY2020
- Contracting of external evaluators by ICD
- Careful consideration of priorities that have emerged/intensified since the issue of Program Document needed to ensure reasonable assessment

*Steering Committee members are encouraged to reflect upon areas for consideration in the evaluation process and its governance arrangements*





**Thank you.**