



**PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE  
STEERING COMMITTEE MEETING  
MEETING REPORT  
MARCH 27-28, 2019**



**2019 PFTAC STEERING COMMITTEE MEETING MINUTES**

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## List of Acronyms

ABS	Australian Bureau of Statistics
ADB	Asian Development Bank
AFSPC	Association of Financial Supervisors in Pacific Countries
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
APD	Asia Pacific Department
APG	Asia Pacific Group
BCG	Budgetary Central Government
BOP	Balance of Payments
BPNG	Bank of Papua New Guinea
CARTAC	Caribbean Regional Technical Assistance Center
CBS	Central Bank of Samoa
CBSI	Central Bank of the Solomon Islands
CD	Capacity Development
CIS	Compliance Improvement Strategy
DFAT	(Australian) Department of Foreign Affairs and Trade
DPM	Deputy Prime Minister
EU	European Union
FAD	Fiscal Affairs Department
FSM	Federated States of Micronesia
FSS	Financial Sector Supervision
GFS	Government Finance Statistics
GG	General Government
HIES	Household Income and Expenditure Survey
ICD	Institute for Capacity Development
IPSAS	International Public Sector Accounting Standards
IRC	Internal Revenue Commission
ISORA	International Survey of Revenue Administration
LEG	Legal Department
LTO	Large Taxpayer Office
LTX	Long-Term Expert
MCM	Monetary and Capital Markets Department
MFAT	(New Zealand) Ministry of Foreign Affairs and Trade
MTRS	Medium Term Revenue Strategy
NRBT	National Reserve Bank of Tonga
NSO	National Statistics Office
OECD	Organization of Economic Cooperation and Development
PASAI	Pacific Association of Supreme Audit Institutions
PEFA	Public Expenditure and Accountability Framework
PIC	Pacific Island Countries
PIMA	Public Investment Management Assessment

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PITAA	Pacific Islands Tax Administrators Association
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
RBF	Reserve Bank of Fiji
RBV	Reserve Bank of Vanuatu
RMI	Republic of Marshall Islands
RMS	Revenue Management System
RSS	Real Sector Statistics
SC	Steering Committee
SFEP	Supervision Framework Enhancement Project
SOE	State Owned Enterprise
SPC	Secretariat for the Pacific Community
STA	Statistics Department
STI	Singapore Training Institute
STX	Short-Term Expert
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
VAT	Value Added Tax

## Introduction and Executive Summary

1. Please note that these minutes should be read in conjunction with the presentations made by participants that are available at the hyperlinks embedded in the meeting agenda at the PFTAC website ([https://www.pftac.org/content/PFTAC/en1/sc\\_2019.html](https://www.pftac.org/content/PFTAC/en1/sc_2019.html)) as well as the extensive information and data provided in the draft annual report ([https://www.pftac.org/content/dam/PFTAC/Documents/Reports/Annual%20Reports/FY2019\\_PFTACAnnualReport\\_Draft\\_15.03.2019.pdf](https://www.pftac.org/content/dam/PFTAC/Documents/Reports/Annual%20Reports/FY2019_PFTACAnnualReport_Draft_15.03.2019.pdf))
2. The PFTAC SC meeting was opened with a prayer by Mr. Josiah Nakete from the PFTAC office.

**March 27, 2019**

### **Agenda 1. Welcome Remarks by Guest of Honor**

*Presented by: Hon. Charles Abel, Deputy Prime Minister and Treasurer*

3. The Deputy Prime Minister (DPM) and Treasurer, Honourable Charles Abel, officially opened the PFTAC Steering Committee (SC) meeting and thanked the Chair and Governor Loi Bakani, CMG, for the invitation, welcoming the delegates to Port Moresby, PNG and APEC Haus, a legacy of PNG hosting the APEC meeting last year. He thanked the delegates for choosing to come to PNG as well as the donors for their continued support. He said PFTAC has passed an important milestone for its 25th Anniversary in which member countries benefit greatly from expertise in public finance, revenue administration, and macroeconomic policy initiatives. For PNG, IMF support has helped to develop the Medium-Term Revenue Strategy (MTRS) that is a priority for the Government to address a declining trend in revenue collections and too much reliance on short-term money market debts. He said the Government has also greatly appreciated the TA and support provided in terms of bank supervision and training and TA to strengthen the macroeconomic models and forecasting capacity at the Bank of PNG and the Treasury department.
4. He said there are more than ten IMF centers around the World that began in the Pacific, noting that the region should be asking what is next and how can PICs make the existing center better, as well as understanding what works and what could be improved through sharing of knowledge and experience during events such as this. He said with the establishment of PFTAC 25 years ago, it shows that Pacific region can be global innovators and bold thinkers, bringing new and relevant ideas to take advantage of technological and other global and regional changes. The World is rapidly changing with major upheaval through national security and geo-political threats, as well as the impact of increasing nationalism and protectionism. The region is also experiencing more extreme weather events, disasters, and destruction caused by cyclones that is testament to the realities of climate change.
5. He said that despite the turmoil around us, one of the biggest challenges is to remain focused on the development priorities to deliver a better future for the people and our planet. He said our development dialogue evolves to respect the development priorities of each country shaped by national consensus. Nevertheless, we share a global pursuit for a sustainable future. He mentioned that recent regional priorities have been focused on trans-boundary issues that affect everyone in terms of climate change and disaster risk reduction. As a region, priority should be on collective stewardship of the ocean resources, to ensure peace and protect dignity, and secure our way of life for all Pacific island communities. This is the

blue Pacific narrative, which recognizes efforts to increase fisheries revenue and add strategic value. The region is the custodian to some of the world's richest bio-diversity in marine and terrestrial resources.

6. He said the region also has a common demand to secure infrastructure development, improve productivity in transport and generally affordable and clean energy to stimulate inclusive economic growth. The increasing demand for infrastructure also requires the best financing deals that are sustainable with projects geared towards meeting sustainable development aspirations.

7. He said the massive uptake in infrastructure development in the region is a positive force although there is fierce competition in project financing and implementation modalities. Public-private partnerships are important and can lead to private-sector led growth. He cautioned against heavily-subsidized SOE borrowings crowding out private sector credit as well as the requirement that debt must fit the ability to repay and not compromise current or future development needs.

8. He added that in this broader context, the meetings over the coming days will provide an important opportunity to help in our daily activities with respect to macroeconomic programming, public financial management, and revenue policy and administration. As these are critical elements of our economies to achieve wider development aspirations he encouraged the delegates to use the meeting sessions to focus on the most important issues to stay on track to deliver the PFTAC work program for the coming year. This will contribute to achieving regional and national priorities through capacity development that supports inclusive growth and productivity enhancing reforms, drawing on new technology and techniques. Understanding national and regional priorities is essential to providing good technical advice that enhances capacity development. That is why it is important that PFTAC is located within the region with thanks to Fiji for hosting PFTAC for the last 25 years and for which all countries in the region have benefitted through the lasting relationship and the engagement of each of the member countries.

9. He said the Steering Committee (SC) is a central part of building and maintaining this relationship and engagement is an essential mechanism to strengthen ownership ensuring that the design and implementation of TA programs are responsive to member countries' needs. The work over the next few days is vital to ensuring the ongoing relevance and responsiveness of PFTAC. The team of international experts require feedback and guidance. He encouraged everyone to contribute to the discussions throughout the meeting because everyone has something meaningful to contribute. The ultimate goal is to build capacity in such a way that one day the countries can do it themselves. This reinforces the country ownership backed by mutual accountability through the PFTAC SC that strengthens whole of government processes and builds strong and effective institutions. Improving domestic resource mobilization is where public support and public financial management reform is very important. Governments must secure access to public and private development finance that generates efficient revenue streams to provide quality services our people deserve. Some progress has been made but challenges remain to ensure country ownership and the use of national systems. In addition to building capacity, accountability and mutual trust remain important. If these challenges are properly managed, there are enormous opportunities for the region. This is to be a region that is responding to climate change, pollution, population pressures, and a region that is resilient and capable of responding to shocks and disasters, which is sustained for the strategic management of natural resources and robust financial systems and prudent management of the fiscal affairs without losing sight of the bigger picture so that everyone can make a contribution to a sustainable future a shared reality.

With these words, he wished every delegate his best wishes during their deliberations and again welcomed everyone to Port Moresby and PNG.

## **Agenda 2. Overview of Steering Committee Day 1 Agenda**

*Steering Committee Chair – Governor Loi Bakani, CGM, Bank of PNG*

10. The Chairman, Mr. Bakani, welcomed everyone to the SC meeting in Port Moresby and introduced the day's agenda. Mr. Kloeden then introduced Mr. Jonathan Ostry, who recently joined the IMF's Asia/Pacific Department as Deputy Director.

## **Agenda 3. Overview of the Macroeconomic Context**

*Presented by: Mr. Jonathan Ostry, Deputy Director, IMF Asia Pacific Department*

11. Mr. Ostry presented a brief overview of global macroeconomic conditions, especially recent developments in the Asia/Pacific region, including a focus on the outlook, risks, and opportunities for the Pacific plus an elaboration of the IMF's work in the Pacific. He noted that Asia is exposed to swirling winds, with global growth decelerating; ongoing trade tensions and talks; pending national elections; a pause in monetary policy normalization; a drop in commodity prices; as well as stimulus measures. On the downside, growth has decelerated, especially in Europe as regional trade plunged in late 2018 amidst ongoing trade tensions, especially a large drop in China's trade. Forward-looking indicators suggest that economic activity will be weak in the first quarter of 2019. The US and China's prospects of a trade deal have improved but are still uncertain. With upcoming elections in various countries across the region, political uncertainty remains elevated in 2019. In response to developments, Central Banks and authorities in the region have eased policies. Inflation outcomes are low in most economies because of the fall in oil prices towards the end of 2018, which could boost economic growth. The financial conditions of emerging markets in Asia have improved. He mentioned that the US-China trade deal is very sensitive and requires a multilateral approach. The benefits of the deal, if it proceeds, are that there will be no tariff increase; easing of financial market conditions, as well as China's commitment to structural reforms in SOEs and technology transfer. However, uncertainty about potential trade diversion and moving away from multilateral deals remain. Closing the US-China bilateral deficit via managed trade will be a challenge. The question is: how will the trade deal impact other economies? Despite the possible deal, trade policy uncertainty will likely remain, especially trade diversion.

12. Now, what does this mean for the Pacific Island Countries (PICs)? Global growth deceleration could mean lower commodity prices for producers/exporters in the region yet, conversely, this could mean that tourism, fishing, and importers of commodities may benefit from low prices. For example, fishing revenues in Kiribati have increased. Close neighbors like Australia and New Zealand are major markets for tourism. A pickup in growth in the region will be mainly from a resumption of PNG Oil/Gas industry activity and the recovery of PICs affected by cyclones. Public debt is rising amidst weaker fiscal balances with increased spending on reconstruction and consumption. Public debt-to-GDP ratio remains below 35%, with debt rising for some countries and falling for others. However, short-term risks of natural disasters, weaker than expected global growth, the loss of correspondent banking relationships, and infrastructure delays remain subdued, while long term trends pose challenges, especially climate change, non-communicable diseases, and demographic changes due to migration. Raising long-term growth in the region is a key developmental challenge, but there are other opportunities: technology could offer new growth opportunities for PICs. For

example, the laying of submarine cables will enhance communication and digital services. Other regional approaches, like Financial Inclusion efforts, fishing licenses, tourism, and correspondent banking relationships could also provide growth opportunities.

13. What does the IMF do in the Pacific? The IMF is involved in five broad areas in the Pacific, namely: Country Surveillance, Outreach, Policy Development, Capacity Development, and Tailored Training. The IMF country surveillance is increasingly being integrated with capacity development adjusting for natural disasters, with recent examples including non-technical summary reports for Cabinet, a note for Central Banks on digital currency, and papers on correspondent banking and Fintech. IMF outreach includes management visits to the region; Annual Meeting events; provision of non-technical summary reports for Cabinet; policy development focused on building resilience to disasters; a review of small states by the Independent Evaluation Office; a comprehensive surveillance review; and a capacity development strategy. Capacity development efforts involve a scaling up of revenue mobilization TA including a joint CARTAC/PFTAC conference; tailored/customized macroeconomic training (PNG/Solomon Islands); training for fiscal sustainability for Low Income Countries; a Debt Sustainability Analysis workshop; AML/CFT training; and a roundtable on Correspondent Banking.

#### **Agenda 4. Development Partners Comments**

*Presented by Senior Donor Officials: Australia and New Zealand*

14. Mr. Matthew Harding, the Australian Department of Foreign Affairs and Trade (DFAT) representative noted the Australian Government values and respects the work of IMF/PFTAC in the region. He mentioned that IMF/PFTAC has done a lot of work in the PICs, which the Island countries value and respect as well. For PNG and other PICs, there is a large governance work program in which Australia is actively involved. Australia has committed A\$11.0 million to support the work of IMF/PFTAC in the region.

15. Mr. Alex Shahryar-Davies from the New Zealand (NZ) Ministry of Foreign Affairs and Trade (MFAT) mentioned that NZ is currently grappling with the aftermath of the Christchurch shooting, reducing attention to financial/economic matters, although they are important. He mentioned that the Pacific needs to reset itself and encourage effective governance, and economic and financial management. This is the area where IMF/PFTAC is helping. He mentioned that as part of New Zealand's 'Pacific Reset', NZ is continuing to encourage effective governance, and economic and financial management.

#### **Agenda 5. PFTAC Fiscal Year 2019 Overview**

*Presented by David Kloeden, PFTAC Coordinator*

16. Mr. Kloeden gave an overview of the program and highlighted the key outcomes elaborating management of the FY2019 work-plan, resource utilization, and expected end-of-year outturn. He mentioned that the FY19 Annual Report is currently only provided as an electronic draft in a completely redesigned IMF format. The Report includes projected activity and financial results for FY2019 and the proposed FY 2020 Plan and Budget. The final version will be updated to reflect final outturn and should be available by June 2019 when residual formatting issues will also be addressed. An electronic copy should be available by end of May and hardcopy printed for distribution towards late June.

17. Mr. Kloeden observed that PFTAC program execution reached a new high in FY 2019 with many milestones across the 16 PICs. He highlighted the *second full fiscal year of operations of Phase V*. If fully funded, operations are approaching the Phase V mid-point that is expected to run for 66 months from November 2016 to April 2022. Strong execution of the work plan saw 88 percent of planned missions delivered utilizing 94 percent of planned TA days. There is a likely budget outturn of around 85 percent with ample liquidity for the full FY2019 budget on the back of reasonable fund raising although there is still a funding gap to be closed with time running out for FY2020 and beyond. Member contributions have been good with only three countries remaining that are yet to make commitments to contribute. PFTAC was established in 1993 so 2018 was an important year given the 25<sup>th</sup> Anniversary of its establishment, the first such regional TA center of the IMF. Mr. Kloeden said four new experts arrived at PFTAC in FY19 - Celeste Kubasta (PFM), Georg Eysselein (Revenue), Marcus Scheiblecker (RSS) and Luis Temes (GFS). Ms. Shane Prasad was recruited to the newly established local Economic Analyst position at PFTAC.

18. Mr. Kloeden highlighted the following achievements by PFTAC: 2,110 field person days of CD were delivered; 151 activities executed by PFTAC advisors and experts, comprising 17 seminars and 134 missions to member countries of 1 –2 weeks duration; 94% execution rate of the work plan (2,110 TA days versus 2,238 planned), and 88% of missions (151 of 173 planned); 549 professional government staff (of which 40 percent were women) were trained from the 16 PFTAC member countries in 17 regional workshops totaling 2,011-person days of training; 30% of CD was delivered by the team of seven resident PFTAC advisors (636 of 2,110 TA field days), and 70 percent by members of the IMF's roster of short-term experts; \$6.34 million of projected expenses from a budget of US\$7.43 million (approx. 85%), excluding the 7% trust fund fee; 62% of CD was fiscal, either PFM or Revenue (1,302 of 2,110 field days), with 40% just Revenue (834 days); \$20.5 million of contributions received of approx. US\$30.7 million pledged by five donors and 13 of 16 PFTAC countries so far; and 37% of resources (771 days) provided to seven PFTAC countries designated as fragile (Kiribati, Micronesia, Marshall Islands, Papua New Guinea, Solomon Islands, Timor Leste, and Tuvalu).

11. Mr. Kloeden explained the process of tracking milestones towards the achievement of outcomes, noting that 368 scored milestones were due to be completed by April 2019. These tracked milestones had been defined under the following programs: Financial Sector Supervision - 43, Macroeconomic Programming - 46; Government Finance Statistics – 93; Revenue Administration – 55; Public Financial Management - 44, and Real Sector Statistics - 84.

19. Mr. Kloeden noted that PFTAC is helping deliver sustainable Public Financial Management (PFM) results, with improvements in PFM systems that contribute to greater public finance resilience and sustainability. Regarding the Public Expenditure and Financial Accountability (PEFA) framework, a full assessment has been completed in Samoa, while preparations are underway for PNG and Fiji for FY2020. A Public Investment Management Assessment (PIMA) was completed in Kiribati and PEFA action plans and roadmaps for Tokelau. In terms of budget execution and control efforts, internal audit training was delivered in Tonga and Vanuatu while Fiji completed a risk-based internal audit of their payroll system, while Samoa developed an Internal Audit Strategic Plan. There are also ongoing efforts to further improve the outcomes and PEFA scores in Nauru, Samoa, Fiji, and Tonga in terms of stronger fiscal reporting, asset management in Samoa and the Solomon Islands, and a forthcoming regional workshop on cash forecasting in Samoa, and a workshop on managing SOEs was delivered in Fiji.



20. Mr. Kloeden summarized the revenue mobilization reforms supported by PFTAC to update revenue legislation in Fiji, Kiribati, Niue, Tonga, and Vanuatu, while improvements to organizational and governance arrangements and strengthening core functions are underway in Palau, Solomon Islands, Vanuatu, Tonga, Cook Islands, Kiribati, Samoa, Fiji, Tuvalu, and the Republic of Marshall Islands. Collaborating with partners and using the latest tools has enhanced efforts and supply is finally beginning to meet the high demand for TA. The increase in training and TA delivery has been supported by additional funding from Australia.

21. Mr. Kloeden mentioned that financial sector vulnerabilities are addressed by strengthening the financial systems to identify and address vulnerabilities, with TA aimed to enhance supervisory capacity and the use of appropriate tools and frameworks. Specific cases where operational effectiveness of FSS frameworks has been strengthened are in the Cook Islands, PNG, Vanuatu, and Solomon Islands. PFTAC also supported banking regulatory reform programs in FSM, Palau, RMI, and Kiribati and insurance reform in Fiji, Tonga, and Samoa. In Tuvalu, Timor Leste, and Marshall Islands efforts were made to strengthen bank supervision frameworks and capacity, while in Vanuatu, there was a workshop on cyber security and IT risks to respond to regional priorities and interests.

22. Mr. Kloeden highlighted that as macroeconomic statistics are crucial, the improvement of statistical methodologies is aided by working with partners to better enhance dissemination of data for wider, timelier and consistent usage. This work includes: coding and mapping of new national chart of accounts in Cook Islands, Fiji, Tonga, Marshall Islands, Micronesia, and Palau. In Fiji, Marshall Islands, Solomon Islands, Tonga, Vanuatu, Cook Islands and Samoa, the coverage was expanded to include general government, 13 countries are now reporting in the GFS yearbook. Marshall Islands and Kiribati were supported on their external sector statistics, and in Fiji and Samoa, National Accounts were rebased, as well as ongoing work in Cook Islands, Nauru, Tonga, and Niue.

23. Mr. Kloeden said that these improvements in statistics underpin robust macroeconomic analysis and forecasting which requires strong capacity and the use of appropriate models, supported ably by the PFTAC macroeconomic program through macroeconomic programming frameworks, help in modeling and forecasting, and delivering hands-on practical in-country and regional training. Regional training has grown and diversified further.

24. Mr. Kloeden mentioned that in terms of managing the work-plan, efforts are ongoing to monitor, enhance and update reporting. He said the streamlined work-plan has two perspectives; by program and by country. Review of program execution happens mid-year (end of October), with an updated plan that reflects the delivery so far and any changes that are required. It is circulated with the November quarterly report. The year-end outturn that reflects the original and updated plan and projected delivery will be out in May, while the actual outturn will be in the final annual report. Mr. Kloeden also highlighted the projected outturn for the 2019 fiscal year in which the estimated outturn is US\$6.78 million (85%) against the budget of US\$7.95 million, mainly resident advisors, short-term experts, travel, workshops/seminars, and other expenses. In terms of the activities measured by field person days, 151 activities were delivered against 173 planned missions, TA outturn is 2,110 days against 2,238 planned days. Outturn by countries where 10 percent or more resources were used include: regional workshops and backstopping efforts at PFTAC - 469 days; Fiji - 320 days; Tonga - 298 days; and Vanuatu - 257 days. Moderate beneficiaries include Solomon Islands - 231 days; Samoa - 229 days; PNG - 223 days; Vanuatu - 182 days; Cook Islands - 165 days; Kiribati

- 147 days; and FSM - 121 days, while targeted TA users included Nauru - 99 days; Palau - 92 days; Tuvalu - 76 days; Niue - 72 days; RMI - 66 days; Timor Leste - 47 days; and Tokelau - 8 days.

## Agenda 6: Presentations by Program of FY2019 Activities, Developments and Outcomes

*Moderated by David Kloeden, PFTAC Coordinator*

25. Regarding the **Macroeconomic Program**, Ms. Iris Claus, the PFTAC Macroeconomic Advisor, gave an overview of activity conducted in the region. Out of the 14 missions planned for 2019, the outturn was 12, planned regional events were 3 as was the outturn, planned total TA mission days were 145 and outturn was 132, of which planned engagement by the resident advisor (LTX) was 112 days but the outturn was higher at 121 days, while planned short term expert (STX) usage was 33 days against an outturn of 11 days. The planned budget for the program was US\$0.635 million and the outturn is projected to be US\$0.612 million.

26. Ms. Claus noted that PFTAC together with the IMF's Institute for Capacity Development (ICD) and Singapore Training Institute (STI) responded to member requests for tailored training on macroeconomics by organizing three events: (i) a sub-regional course on 'Macroeconomic Policy for Stabilization and Growth in the Pacific' hosted by Solomon Islands; (ii) a regional workshop on 'Policy Making to Influence Sustainable Growth and Productivity' held in Fiji; and (iii) a course on 'Macroeconomic Policy' held in PNG. She also contributed to multi-topic training with the other PFTAC programs on GFS, value added tax (VAT) implementation, and cash management. She said the Cook Islands is preparing for a surveillance type-technical assistance mission in April where new fiscal rules have been established and implemented and work is on-going to estimate the economic and revenue contribution of the international financial services industry. The Reserve Bank of Fiji is collaborating with the IMF Resident Representative Office to estimate an output gap—a useful indicator for monetary and fiscal policy but not directly observable — using ICD training material and computer code. Estimations will be applied to other countries. To address fiscal challenges and make the tax system fairer and more efficient, Palau is considering fiscal reforms including introduction of a VAT and expansion of the net profit tax for businesses to replace import duties and the highly distorting gross revenue tax.

27. She said the Bank of Papua New Guinea (BPNG) and Department of Treasury are leading capacity development within their institutions, the PNG public sector, and the region generally. PNG requested tailored training and the PNG Monetary and Fiscal Forecasting (MFF) Model was used for the regional training in Honiara. RMI continues to progress medium-term budgeting and further improve budget documentation and processes. Elsewhere in the region, Samoa revitalized its Macroeconomic Policy Coordination Committee following an observation attachment to the Reserve Bank of Fiji. The presentation of macroeconomic forecasts in the budget document is being reviewed. The Central Bank of Solomon Islands (CBSI) and Ministry of Finance and Treasury (MoFT) continue to enhance their macroeconomic models. A template for the monetary sector discussed at the ICD-STI-PFTAC training in Honiara was adopted in the CBSI model. The MoFT model is informing tax reform. Staff at the Tonga Ministry of Finance continue to use and improve forecasting and analysis tools. The Chief Economist helped develop gross domestic product (GDP) forecasting in Tuvalu. Tuvalu continues to build capacity for GDP forecasting including the development of a database, Tuvalu Economic Indicators (TEI). Staff at the Reserve Bank of Vanuatu (RBV) continue to use the Model of the Vanuatu Economy. Following RBV methodology PNG is developing composite indexes to estimate and forecast non-mineral and mineral GDP.

28. Regarding **Public Financial Management (PFM)**, Ms. Celeste Kubasta – the Public Finance Management Advisor gave an overview of the execution of the PFM work-plan for 2019; planned missions were 32 and the outturn was 29, planned regional events were 3 and the outturn was 2, planned TA mission days was 520 while the outturn was 468, comprising 203 planned LTX days with an outturn of 177 days, and planned STX days of 317 against an outturn of 291 days. The planned budget was US\$1.570 million while the projected outturn is US\$1.324 million. The overarching objectives of the PFM program are: improved laws and effective PFM Institutions; comprehensive, credible and policy-based budget preparation; improved budget execution and control; improved coverage and quality of fiscal reporting; improved integration of asset and liability management framework; and strengthened identification, monitoring and management of fiscal risks.

29. Ms. Kubasta said that, with regard to improved Laws and effective PFM institutions, Fiji is drafting new PFM legislation and is preparing for a PEFA assessment; Kiribati received a PIMA assessment; PNG is preparing for a Public Expenditure and Financial Accountability (PEFA) assessment; Samoa is finalizing their PEFA Assessment; Timor Leste conducted a seminar on PFM reforms; Tokelau is preparing a PFM roadmap; and Tonga held a PFM symposium with the Pacific Association of Supreme Audit Institutions (PASAI). With respect to comprehensive, credible and policy based budget preparation, Samoa is already taking steps to improve budget documentation; and for improved budget execution and control, Fiji is undertaking risk-based auditing; Samoa is developing an internal audit strategic plan and received training for internal auditors; Tonga similarly received training for internal auditors for planning risk-based audit; while Vanuatu is undertaking a review of the internal audit of payroll and received training on procurement audit.

30. Regarding coverage and quality of fiscal reporting, Cook Islands is finalizing their chart of accounts; Fiji is finalizing their Chart of accounts and preparing for consolidating government business enterprises; Nauru and PNG are working on their IPSAS Cash reporting system; Samoa is focused on asset accounting policy; while Tonga and Vanuatu are working on improving their financial reporting. Regarding improved integration of asset and liability management, Samoa is implementing a warrant system; while Solomon Islands continues working on improving cash management and forecasting. These have been enhanced through topic specific regional workshops. With respect to strengthening the identification, monitoring and management of fiscal risks, Fiji is analyzing SOE fiscal risks, while Samoa is improving risk indicators for monitoring SOEs.

31. With respect to **Revenue administration**, Mr. Georg Eysselein, the Revenue Advisor gave an overview of the program execution in FY2019 in which he noted efforts to strengthen revenue administration and governance and strengthen core tax administration functions. Of 65 planned missions the outturn was 55; planned regional events were 8 with an outturn of 7; planned TA mission days was 858 and the outturn was 834 days, of which 117 LTX days were planned with an outturn of 92 days, while 731 STX days were planned with an outturn of 742 days. The planned budget was US\$2.035 million, and the projected outturn is US\$1.864 million.

32. Mr. Eysselein said that in terms of the program results: Cook Islands received a high level diagnostic, renewed their strategy, and addressed issues with tax arrears, returns management and audit; a review of Fiji reforms was completed as well as TA focused on the Compliance Improvement Strategy (CIS), self-assessment, tax rulings, a quality review of IT, risk management, and development of a VAT audit toolkit; FSM received help with tax arrears, returns management, and taxpayer services; Kiribati undertook an

exercise to modernize their project plans, CIS, tax arrears and returns management, and helped pilot the VAT audit toolkit; RMI received TA on taxpayer registration processes, tax arrears and returns management. Nauru benefited from a review of its organizational arrangements and core tax functions; Palau had help to develop a VAT training manual and program, implement a function-based structure, and improve arrears and returns management; PNG evaluated its reforms; while Samoa received assistance on their audit program, structure, staffing, risk analysis, case selection and audit plan. Solomon Islands undertook a review of reforms and benefited from TA on corporate strategy and business plan, tax arrears and returns management, function-based structure, Large Taxpayer Office (LTO), audit, and modernization strategy; Tonga was able to review progress of reforms and TA focused on audit and audit plan, LTO, industry partnership, organizational structure, arrears and returns management; Tuvalu TA focused on core tax functions, arrears and returns management, modernization plan, compliance improvement strategy, and the IT system; while Vanuatu was focused on their function based structure, organizational reforms, CIS, taxpayer service strategy, arrears and returns management.

33. Mr. Eysselein said that in regard to the Policy and Legal Reforms during FY2019: Fiji is finalizing a review of their VAT and Stamp Duty Acts; Nauru prepared a consolidation of the Revenue Administration Act, Business Tax Act, and Employment and Services Tax Act; Kiribati is involved in a framework to introduce small business tax, and amending legislation for seabed mining; Papua New Guinea is implementing a Medium Term Revenue Strategy (MTRS); Palau is involved in the joint tax policy and revenue forecasting, including introducing VAT; Niue is modernizing its Income Tax Act and harmonized procedural and administrative rules; Tonga, in line with the Pacer Plus mission, rewrote the Revenue Services Administration Act and Consumption Tax Act; while Vanuatu is involved in drafting a Tax Administration Bill, technical notes, and regulations. In close cooperation with Pacific Island Tax Administrators Association (PITAA), the following workshops were presented: VAT Implementation workshop, which was aligned to legislative reform efforts; Leading Change; Regional Technical Assistance Needs workshop; TADAT – Tax Administration Diagnostic Assessment Tool; Taxpayer Survey; CARTAC/PFTAC Small State Revenue Mobilization conference in Washington DC; and the Regional Revenue Management System (RMS) workshop in Wellington NZ.

34. For the **Financial Sector Supervision (FSS)** program, Mr. Benjamin Stefanou, the Financial Supervision Advisor gave an overview of the FSS program and results for FY2019. He said of the 16 planned missions, 14 were delivered; all 4 planned regional events were delivered; and of 297 planned TA mission days, an outturn of 302 days eventuated, constituting 77 planned LTX days with an outturn of 67 days, and 220 STX days planned but a higher outturn of 235 STX days. The planned budget was US\$0.933 million, and the projected outturn is US\$0.886 million.

35. Mr. Stefanou said the FSS program results included the following:

- Supervision Framework Enhancement Project (SFEP) – risk rating and supervisory action planning in Cook Islands;
- banking regulatory reforms continued in FSM, Marshall Islands, and Palau;
- an insurance regulatory reform project commenced in Fiji, Samoa, and Tonga; assistance on liquidity risk with MCM was delivered in Kiribati;
- SFEP on-site examination and off-site analysis in PNG;

- SFEP risk-rating and supervisory action planning in Solomon Islands; International Financial Reporting Standard 9 (IFRS9) in Timor Leste;
- Supervision Development project commenced in Tuvalu;
- SFEP risk-rating and supervisory action planning in Vanuatu;
- and regional events included workshops on Insurance Regulatory Reform; Cyber Risk; Prudential Reporting; and the annual meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC).

36. He said that bilateral TA expanded to 13 countries in 2019, up from 7 in 2018, while the SFEP program involved Risk Rating, Supervisory Action Planning, On-site examination, Risk Management Assessment, Financial Risk Analysis, Prudential Reporting, Prudential Standards, and Legislation.

37. Regarding Banking and Insurance Regulatory Reforms, workshops will be held to provide training/information, international good practice and legislation and prudential standards. This would lead to a reform plan that will involve participants' self-assessment and development of a reform strategy and plans with bilateral engagement for detailed drafting assistance and stakeholder engagement.

38. Mr. Stefanou also gave an update on actions relating to the 2018 AFSPC with respect to IT risks, on-line reporting and AML/CFT TA. In terms of the IT Risks, there was a Cyber and IT Risk workshop held in August 2018 in which key gaps and weaknesses in regulation and supervision were identified for the development of Cyber security and IT risk prudential standards and supervisory guidance and the development of a Cyber and IT on-site examination framework. In a workshop for online reporting, products from three IT providers were assessed noting further investigation is required to determine if an AFSPC-wide solution is viable. For TA relating to AML/CFT, the Asia Pacific Group (APG) has initiated a project of AML/CFT supervision TA with initial TA needs assessments. PFTAC has been in discussion with the IMF Legal Department about how the IMF and PFTAC may be able to contribute to AML/CFT supervision TA.

39. For **Macroeconomic Statistics**, Mr. Marcus Scheiblecker, the Real Sector Statistics Advisor gave an overview of the Government Finance Statistics (GFS) program and Real Sector Statistics program in FY 2019. He said that for the GFS program in 2019, 7 missions were planned with an outturn of 8; two regional events were planned and delivered, and a total of 143 TA mission days were planned with a slightly higher outturn of 149 days, of which 75 LTX/HQ days were planned against an outturn of 87 days, and 68 STX days were planned with an outturn of 62 STX days. The planned budget for the program was US\$0.602 million and the projected outturn is US\$0.456 million.

40. Regarding the **Government Finance Statistics** program results during the year included: Cook Islands reviewed, refined and finalized GFS mapping to a new chart of accounts and additionally compiled and published a 3-year time series of General Government (GG) data for the annual GFS database; a first-time submission to IMF STA; Fiji finalized inputs for the GFS mapping to the new chart of accounts GG data was prepared for publication tables; FSM was provided hands-on GFS compilation training and compiled and published budgetary central government (BCG) and SG data for the annual GFS database; Kiribati streamlined their GFS compilation processes for GG and expanded coverage to public nonfinancial corporations; Nauru compiled and published a 3-year time series of BCG data for the annual GFS database; a first time submission to IMF STA; Palau compiled BCG data for the annual GFS database; PNG improved GFS budget tables and expanded coverage; and RMI received hands-on GFS compilation training and

compiled and published BCG data for the annual GFS database. With respect to improving GFS quarterly data, Samoa was able to compile and publish a 5-year time series of consolidated GG data for the annual GFS database, a first time submission to IMF STA; Solomon Islands expanded compilation coverage for GG and public sector debt and reconciled intergovernmental grants; Timor-Leste improved classification and compilation of GG GFS; Tonga refined annual and quarterly data for BCG and expanded the coverage to public nonfinancial corporations; Tuvalu increased the coverage for the BCG GFS time series; while Vanuatu streamlined interagency GFS compilation and reconciled core GFS dataset. Vanuatu also reviewed GFS mapping to the national chart of accounts. There was a regional compilation and dissemination workshop in Nadi-Fiji in August 2018 and a hands-on GFS compilation and dissemination workshop in FSM in February 2019.

41. In regard to the **Real Sector Statistics Program** for FY2019, Mr. Scheiblecker noted 17 missions were planned with an outturn of 15; and while 2 regional events were planned, none were delivered; a total of 275 TA mission days were planned with an outturn of 225 days, of which, 102 LTX days were planned with an outturn of 89 LTX days plus 173 planned STX days against an outturn of 136 STX days. The planned budget for the program was US\$0.809million and the projected outturn is US\$0.541 million.

42. Regarding GDP compilation, Mr. Scheiblecker said that Cook Islands completed a rebasing of their annual and quarterly GDP estimates; Fiji completed the rebase of the annual GDP estimates and improved deflation methods; Kiribati incorporated the SOE financial accounts data in GDP estimates; RMI started with independent GDP calculation by the statistical office; Nauru used new tax information to replace weaker modelled components in GDP compilation; Niue updated National accounts and the external sector statistics tables; PNG revised GDP through joint assistance with the Australian Bureau of Statistics (ABS) and improved its deflation method; Samoa completed the rebase of the annual and quarterly GDP estimates and improved FISIM estimates; Solomon Islands improved the adjustments for under-coverage, misreporting, and definitional differences in GDP; Tonga prepared the new rebase starting in 2019; Tuvalu updated GDP estimates with the incorporation of the new Household Income and Expenditure Survey (HIES) 2016 data; and Vanuatu improved estimation of fishing output and new livestock model for cattle. In terms of the External Sector Statistics, RMI is involved in capacity development for independent calculation of Balance of Payments (BoP); PNG included the external operations of the Liquefied Natural Gas consortium in BoP statistics; Tonga updated its International Investment Position with foreign investment register data; and a mission is currently in Vanuatu.

## Agenda 7. Financial Report

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

43. In his Financial Report, Mr. Alvensleben presented the actual financial outturn for FY2018, the projected financial outturn and analysis for the 2019 fiscal year, and the proposed budget for the 2020 fiscal year and highlighted the status of fundraising and the funding gap.

44. He said that the budget for FY 2018 was US\$7.4 million with actual expenditure of US\$5.9 million including the management fee, representing an under-spend of US\$1.5 million. He also highlighted the outturn by program.

45. Mr. Alvensleben mentioned that the total budget for FY2019 is US\$7.9 million, which includes the trust fund management fee. This includes an increase during the year to expand the revenue program with an extra Australian contribution. The projected outturn including the trust fund fee is US\$6.8 million, an 85 percent outturn. The expected underspent amount is US\$1.2 million across all the budget lines (including the management fee). The projected budget outturn by program ranges from 67 percent in the Real Sector Statistics (RSS) program to 96 percent in the Macro program, with an average of around 85 percent. The lower RSS and GFS outturn resulted mainly from the underutilization of long-term experts and training budgets as well as expert travel expenses and diagnostic missions, respectively.

46. He said the total proposed budget for FY 2020 is US\$8.5 million (including management fee). This includes full expansion of revenue program subject to further donor financing.

47. Regarding fundraising, Mr. Alvensleben said total pledged contributions is US\$30.0 million, while the total contributions received so far is US\$20.5 million, which is sufficient to cover FY2020 with further liquidity expected with next EU (to be confirmed), Korean (11/19) and Australian (02/20) tranches. Donor pledges totaled US\$26.0 million, of which US\$18.7 million was received so far with the balance subject to exchange-rate variations. The expected member contributions total is US\$3.9 million if all is received. He said so far only US\$1.7 was received, with several countries having paid their entire contribution. PFTAC is awaiting the Letters of Understanding from Palau, RMI, and Timor-Leste.

48. Mr. Alvensleben said in terms of the funding gap, there is a US\$37.5 million working budget, which excludes the US\$2.6 million financing from IMF. The current funding gap amounts to US\$7.5 million in nominal terms. The projected entire Phase V budget is US\$35.3 million. With this, the funding gap is realistically reduced to US\$5.3 million, including the management fee. The spending for FY2017 – FY2019 amounts to US\$15.1 million, and the projected spending for FY2020 – FY2022 amounts to US\$20.2 million (US\$6.74 million annually for the coming three fiscal years). To address the funding gap, fundraising efforts continue with existing and potentially new donor partners.

## Agenda 8. PFTAC 2020 Fiscal Year Draft Work Program

*Presented by Mr. David Kloeden*

49. Mr. Kloeden presented the PFTAC FY2020 draft work program, which covered program areas, steps and consultation in preparation of the work-plan, resource allocation, planned training events, planned TA inputs by country, and steps to finalize the work-plan. He said, in terms of *Public Financial Management (PFM)*, the focus areas will be: implementing PFM reforms based on PFM roadmaps/PEFAs, with stronger legal frameworks; supporting stronger budget preparation; more integrated planning and budgeting; improved budget transparency and execution; and strengthened debt, asset, and risk management; helping to strengthen budget monitoring, reporting, and accountability.

50. With respect to *Revenue Administration*, the focus will be to build stronger core functions in: (i) taxpayer services; (ii) on-time return filing; (iii) timely tax payment and arrears management; and (iv) stronger audit capacity. With respect to supporting better management and governance through: (i) reform strategies (large taxpayer offices, effective organizational arrangements and function-based structure); (ii) better compliance and risk management; and (iii) modernized legislation; and responding to revenue

mobilization needs to address declining trade taxes (PACER Plus) and revenue mobilization needs including revenue volatility (e.g. natural resources and fishing).

51. In regard to *Financial Sector Supervision (FSS)*, the focus area will be to: implement enhanced bank supervision frameworks for financial analysis; developing and finalizing prudential standards and on-site examination reform; regulatory reforms includes finalizing banking frameworks in the Northern Pacific, especially supporting Kiribati and Tuvalu; and insurance laws and regulations for Fiji, Samoa, and Tonga; and introduce regional initiatives on effective regulation of cross border banking and sound governance as well as the AFSPC Annual Meeting.

52. In terms of the *Macroeconomics* program, the focus will be on the ongoing strengthening of macro frameworks and forecasting capabilities, including expanded regional training in conjunction with World Bank, ADB, Singapore Training Institute (STI), and facilitating more peer-to-peer initiatives.

53. Mr. Kloeden said that regarding the *Macroeconomic Statistics*, the focus will be on: (1) assisting compilation and improvement in National Accounts statistics, focusing on: (i) rebasing constant price estimates; (ii) production of quarterly national accounts data; (2) develop additional GDP measures using recent censuses and HIES; (3) improving business process documentation and BOP coverage; (4) assisting compilation and improvement in GFS statistics, focused on: (i) improving the standards and methodology implemented for adoption of GFS Manual 2014; (ii) improving methods to derive reconciled GFS time series for General Government; and (iii) facilitating integration of GFS data into financial programming framework to assist with debt sustainability analysis; and (5) strengthening dissemination of National Accounts and GFS data in a timely manner through the IMF guided dissemination standards (SDDS, GDDS and e-GDDS).

54. Mr. Kloeden said the development process will include consultation with member countries, ensuring that all programs are consistent with Fund priorities (APD, TA Depts.). There is ongoing interaction with donors, bilateral projects and forums. The resident advisors have ongoing interaction with counterparts in the respective programs.

55. He presented the proposed Work-plan and budget for FY2020. The proposed budget is US\$8.50 million, 25 percent more than projected FY2019 outturn of US\$6.78 million. The proposed budget for the resident advisors is US\$2.46 million, short term experts is US\$2.35 million, resident advisor's travel is US\$0.46 million, workshops/seminars/training is US\$1.22 million, and other costs are US\$1.14 million. The proposed number of TA delivery days is 2,495, which is 18 percent more than projected 2019 outturn of 2,110 days. Of these days, PFM will take 668 days, Revenue 1,058 days, Macroeconomics will take 198 days, FSS will take 236 days, RSS will take 214 days, and GFS will take 121 days. For the regional workshops and training, there are 21 events planned for FY2020, an increase of 24 percent from 2019. The work plan by country includes major beneficiaries (above 10 percent of resources planned), which include 343 days for Fiji and 303 days for Tonga across all programs. For the moderate beneficiaries (5 to 10 percent of resources planned), 215 days for Solomon Islands, 207 days for Cook Islands, 171 days for Vanuatu, 153 days for PNG, 147 days for RMI, 130 days for Kiribati, and 129 days for Samoa. Modest users of TA in FY2020 will include 116 days for Palau, 85 days for Timor Leste, 72 days for Tuvalu, 71 days for Niue, 67 days for FSM, 57 days for Nauru, and 5 days for Tokelau.

56. Mr. Kloeden mentioned that the FY2020 work-plan has been developed with extensive consultation with all stakeholders – beneficiary countries, development partners, IMF TA Departments and the Asia



Pacific Department (APD). He said that the presented work plan is subject to change, but unlikely more than at the margin. He said the process at IMF Headquarters only concludes in late April that could lead to late adjustments from reprioritization discussions between APD and TA Departments. Any unplanned needs identified during SC consultations may be accommodated in the mid-year update subject to resource constraints and concurrence of all parties, or earlier if urgent. Close monitoring of cost and resource utilization may identify space for earlier change or rescheduling. As was the case in FY2019, the execution of the Work-plan will be closely monitored by way of progress execution updates in the Quarterly Reports as well as during the Mid-Year review and updated plan to be circulated in November 2019.

## Agenda 9: Presentations by Program of FY2020 Activities and Focus

*Moderated by Mr. David Kloeden*

57. For the **Macroeconomic Program**, Ms. Iris Claus presented the plans and priorities for FY2020, where there are 198 TA mission days planned vs. an FY19 outturn of 132 days. Of these, 165 LTX days are planned to: (i) support use of macroeconomic programming frameworks; and (ii) economic and fiscal forecasting including GDP and fishing revenues in Cook Islands, Fiji, FSM, Kiribati, Palau, PNG, RMI, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu; and 33 STX days are planned for analysis of tax reform options in RMI and GDP forecasting in Solomon Islands and Vanuatu. She said 10 of the 16 PFTAC members; Cook Islands, Fiji, Palau, PNG, RMI, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu have a macroeconomic programming framework. Hence, they require support for the use and further development of the frameworks for empirical analysis of economic developments, and prudent fiscal management (with PFM), and enhance economic and fiscal forecasting, reporting and monitoring, and budget documentation (with PFM, Revenue and Statistics). She mentioned that GDP is a key metric for macroeconomic management, fiscal, and monetary policy. Hence there is a need to develop GDP forecasting in Palau and continue to enhance it in Tuvalu, and review GDP forecasting following re-benchmarking and rebasing in Solomon Islands and Vanuatu. Prudent fiscal management remains a focus to develop empirical analysis of tax reform in RMI and support a climate change policy assessment in FSM. The plans and priorities also include peer-to-peer staff attachments in Palau and Tonga for GDP forecasting and in RMI and Samoa to document the Marshall Islands Fiscal Model. The joint research includes PNG, Solomon Islands, Griffith University and the IMF Resident Representative Office to forecast the price of tuna, while staff of the BPNG and Department of Treasury will forecast GDP using the composite indexes.

58. Ms. Claus said, with respect to regional events, a course is planned for PNG and Solomon Islands on Fiscal Frameworks in collaboration with STI. There is also a sub-regional workshop and a seminar for Kiribati and Tuvalu on Managing Fishing Revenues (with PFM, Asian Development Bank and World Bank). There is also a planned sub-regional workshop on effective exchange and use of administrative data (with Revenue and Statistics), a regional workshop on budget documentation and fiscal risks (with PFM and United Nations), and a sub-regional workshop on Government Finance Statistics and Debt Sustainability (with GFS and STI).

59. For the **Public Financial Management** program, Ms. Celeste Kubasta presented the plans and priorities for FY2020. She said they planned 36 missions (vs. FY19 outturn of 29 missions), 5 regional events (FY19 outturn of 2), 668 TA Mission Days (FY19 outturn of 468 TA days), using 250 LTX days (FY19 outturn of 177 days), and 418 STX days (FY19 outturn of 291 days). The planned budget is US\$1.782 million (vs FY19 projected outturn of US\$1.324 million).

60. Ms. Kubasta said with respect to Improved Laws and Effective PFM Institutions: Fiji will have a full PEFA assessment, with ongoing work on revising PFM Legislation and review financial regulations; Kiribati will develop a PFM roadmap; Niue will receive assistance with revising PFM legislation; Palau will receive support for a PEFA self-assessment; PNG will benefit from a full PEFA assessment; and Tonga will pursue PFM legislation reform and a PEFA self-assessment. These activities are complemented by a PFM Leadership Symposium with PIFS and a planned joint CARTAC/PFTAC workshop in Washington. To promote comprehensive, credible, and policy-based budget preparation, Marshall Islands is developing budget tools and improving budget documentation, while Tuvalu will work towards improving capital budgeting over multiple years. She said that to support this, there will be two workshops, one on Fishing Revenue and the other on improving Budget Documentation. To support Improved Budget Execution and Control, Cook Islands, FSM, Samoa, and Solomon Islands will improve treasury operations and controls for non-salary expenditure; Fiji will work on Payroll Audit and Procurement Audit; Tonga will continue work on risk based internal audit and Vanuatu will review its risk based internal audit functions, and there is a planned Internal Audit Workshop. To support improved coverage and quality of fiscal reporting, Fiji is working on Chart of Accounts Training and improved presentation for in-year reports; Nauru works to transition to IPSAS cash reporting; Samoa is working on improved notes for reporting; while Tonga works on Chart of Accounts and efficiency of financial reporting; and Vanuatu is focusing on the efficiency of financial reporting. She further stated that in terms of strengthened identification, monitoring, and management of fiscal risks, Fiji is planning to review its Risk Monitoring and will benefit from the Fiscal Risks workshop.

61. For the **Revenue Policy and Administration** program, Mr. Georg Eysselein presented the plans and priorities for FY2020 in which he highlighted that 70 missions are planned (vs FY19 outturn of 55 missions), 7 regional events (FY19 outturn of 7), 1,058 TA mission days (FY19 outturn of 834 days), of which 84 LTX days (FY19 outturn 92 days), 974 STX days (FY19 outturn 742 days), and the proposed budget is US\$2.218 million (vs projected FY19 outturn of US\$1.864 million).

62. Mr. Eysselein said the program has two main objectives: (1) Strengthened Revenue Administration Management and Governance Arrangements, and (2) Strengthened Core Tax Functions. In terms of the revenue administration plans; Cook Islands TA will review the strategy and operational plans, and focus functional structure, tax arrears and returns management, audit plan and taxpayer services; work in Fiji will include the CIS, self-assessment, tax rulings, IT quality review, risk management, arrears and returns management, and industry partnership; FSM will review reform progress and status of recommendations; Kiribati will review modernization and focus on CIS, tax arrears and returns management, taxpayer services and an audit plan; and RMI will work on its CIS, taxpayer registration processes, tax arrears and returns management, as well as taxpayer services. Nauru plans to review progress of reform and organizational arrangements, and focus on core tax functions; Niue will be involved in the implementation of organizational structure, improve core tax functions, arrears and returns management and taxpayer services; Palau will be involved in a function-based structure, VAT implementation, arrears and returns management and taxpayer services; Samoa will work on their CIS, industry partnership, arrears and returns management, audit and taxpayer service; while Solomon Islands will work on their CIS, review of reforms, tax arrears and returns management, function-based structure, LTO, audit, modernization strategy, taxpayer service and VAT. Work in Timor Leste is expected to support preparation for VAT, as well as arrears and returns management and taxpayer services; Tonga will be assisted with their LTO, CIS, industry partnership, arrears and returns management and audit; Tuvalu will work on their CIS, modernization plan,

core tax functions, arrears and returns management and taxpayer services, while Vanuatu similarly will work on their CIS, organizational reforms, taxpayer service, arrears and returns management and audit.

63. Mr. Eysselein highlighted the Tax Policy and Legal Reforms efforts in FY2020: Fiji will finalize a review of the VAT and Stamp Duty Acts; Nauru will receive a Pacer Plus mission; Kiribati will work on seabed mining and small business tax; Solomon Islands will consider an MTRS; Niue is focused on reviewing their Income Tax Act and Tax Administration Act; Tonga will finalize an update of their Consumption Tax Act; while Timor Leste may consider an MTRS. In cooperation with Pacific Islands Tax Administrators Association (PITAA), the following regional workshops are planned: Managing large taxpayers; Introducing effective CIS; Tax and social security data for national accounts; Managing core tax functions – senior managers; Audit managers workshop; Management of debt and returns; and Management of taxpayer services.

64. For the **Financial Sector Supervision** program, Mr. Benjamin Stefanou presented the FY2020 plans and priorities noting that 19 missions were planned (vs. FY19 outturn of 14 missions), 4 regional events on Banking Regulatory Reform are planned, utilizing 236 mission TA days comprising 65 LTX days and 171 STX days. TA is expected to benefit 13 countries – the same as in 2019. The Supervision Framework Enhancement Program will involve Risk Rating and Supervisory Action Planning, Risk Management and Onsite Examination, Financial Risk Analysis and Prudential Reporting, and Prudential Standard and Legislation.

65. In terms of the Banking and Insurance Regulatory Reforms, there are planned Workshops providing training/information on international good practice and legislation and prudential standards. The reform plans are for participant self-assessment, reform strategy and planning, while bilateral support entails detailed drafting assistance and stakeholder engagement. He said the FSS workplan include SFEP –off-site analysis and prudential standards in Cook Islands; banking regulatory reform continued in FSM; insurance regulatory reform continued in Fiji; banking regulatory reform commenced in Kiribati; banking regulatory reform continued in Marshall Islands; banking regulatory reform continued in Palau; SFEP – on-site examination and regulatory reform in PNG; insurance regulatory reform project continued in Samoa; SFEP – off-site analysis and regulatory reform in Solomon Islands; insurance regulatory reform project continued in Tonga; IFRS9 and banking legislation review in Timor Leste; supervision development project continuing in Tuvalu; and SFEP – off-site analysis in Vanuatu. Planned regional events include topics on Governance/Cross-border, Cyber Risk Regulation (south), and Risk-based Supervision (north).

66. Mr. Stefanou said the planned 2020 AFSPC/Workshops on Governance/Cross-border include governance and risk management frameworks: both regulatory and internal, coordination of governance requirements across region, cross-border regulation and cooperation and risks of expanding regional banking. Cyber Risk Regulation (south) includes development of regulations and implementation plans, drafting of sample regulations and adaption for region specifics, while RBS (North) includes risk identification and assessment, risk rating models, and supervisory action planning.

67. The **Government Finance Statistics and Real Sector Statistics** programs and plans for FY2020 were presented by Mr. Marcus Scheiblecker. GFS plans include: 10 missions planned for 10 countries for BCG compilation; expanding coverage to GG and for public sector debt statistics. One regional event is planned for the balance sheet, 121 mission TA days will be delivered on methodology and data compilation

techniques in 14 countries, comprising 83 LTX days and 38 STX days. The proposed budget is US\$0.546 million for the work on classification, compilation and dissemination in 14 countries.

68. For the FY2020 GFS plans, Mr. Scheiblecker highlighted that the PFTAC GFS program enters its final year of funding under Phase V and is due to end April 30, 2020. A new GFS PFTAC Advisor will join PFTAC in April 2019. Work will continue with increased assistance on how to compile public sector debt statistics (PSDS) guided by the 2013 public sector debt statistics guide for compilers and users and efforts to increase the complete implementation of the Classifications of the Functions of Government (CoFoG). There is one regional GFS training workshop planned for FY2020.

69. In terms of the RSS plans and priorities, Mr. Scheiblecker said that 17 missions are planned for the rebasing and improvement of sources and methods in 13 countries, one regional event for seasonal adjustment and outlier detection, utilizing 214 TA days of which 125 days will be LTX delivery in 9 countries and 89 days STX delivery in 6 countries. The proposed budget is US\$0.756 million covering 14 countries. The FY 2020 RSS program will continue to cover rebasing of GDP calculations. It will cover the improvement of source data knowledge, quality control, and outlier replacement. Other focus will include documentation of workflows for internal use, documentation of used data sources and methods for publication, faster publication of results through better now-casting methods, and revision analysis.

70. Mr. David Kloeden requested the formal Endorsement of the Workplan and Budget for the 2020 fiscal year by the Steering Committee. The Chair endorsed the 2020 Workplan and Budget, which was seconded by Governor Kioa of Tonga and endorsed by all present.

## **Agenda 10. Revenue Administration and Policy Developments**

*Moderated by Mr. Georg Eysselein, Revenue Advisor*

Panelists: Dr. Alois Daton, Acting Commissioner General - PNG Internal Revenue Commission (IRC); Ms. Pauline Bre - Commissioner, PNG IRC; Mr. Andrew Minto, IMF Resident Tax Advisor, IRC; Mr. Joseph Dokekana, Commissioner Inland Revenue Department, Solomon Islands; Ms. Koni Ravono, Head of the Pacific Islands Tax Administrators Association (PITAA) Secretariat; Mr. Charles Jenkins, Senior Economist, Revenue Administration Division, IMF Fiscal Affairs Department.

71. Mr. Eysselein introduced the panel members and highlighted the agenda that will provide an update of revenue reforms in the Pacific and the scaling-up of the PFTAC revenue program. Regarding revenue policy and administration, he said that PFTAC supports member countries to strengthen tax administration capacity, increase tax revenue collection, and promote citizen responsibilities as taxpayers. PFTAC's key revenue program objectives are to: (i) strengthen revenue administration management and governance arrangements; (ii) strengthen core tax administration functions, including an accurate taxpayer base, quality taxpayer services supporting voluntary compliance, and improvements in filing, payment and audit services; and (iii) improve legal frameworks. He said some of the revenue administration highlights included: a workshop on the Tax Administration Diagnostic Assessment Tool (TADAT) that benefited 30 participants from the region; 10 countries have completed the International Survey on Revenue Administration (ISORA), 3 more than 2016; the first PACER Plus Mission focused mission was delivered to Tonga as start of the expanded upscaling of the Revenue program by approximately 45 percent from the

baseline; and a joint CARTAC/PFTAC event on Revenue Mobilization convened in Washington on issues and challenges relevant to the Caribbean, Pacific and other small states.

72. Mr. Charles Jenkins, Senior Economist, Revenue Administration Division, IMF Fiscal Affairs Department explained that scaling-up the Revenue Program involves work on both tax policy and tax administration to help offset the impact of PACER Plus for affected countries, and more generally having an integrated approach to delivering policy, legal and administration support in the Pacific region.

73. Mr. Joseph Dokekana, Commissioner Inland Revenue Department, Solomon Islands spoke about the type of TA required and what PFTAC has provided to the Solomon Islands. He said TA has added value to the economy through strategic plans that improve interaction between other Government agencies and the private sector. In their case, PFTAC help had been supportive to their risk management strategy, implementation of policy for large taxpayers, modernizing the organizational structure, and incentivizing staff to improve productivity. He said political will is necessary to reform the tax system and their next stage is to improve compliance. They plan is to review their income tax act in 2020/2021.

74. Ms. Koni Ravono, PITAA Secretariat Head presented on three broad areas: (i) PITAA Training Needs Analysis, where the key outcomes focused on two areas of technical/international tax and soft skills; (ii) Training Plan to address the priority needs, that include capacity building on debt, data, cash economy, digital economy, and transfer pricing and taxpayer survey workshop; and (iii) their partners such as OECD for International Tax issues, PFTAC, ADB, and the World Bank.

75. Dr. Alois Daton, Acting Commissioner PNG IRC spoke about managing the political expectations of their MTRS. The IRC looked at the internal resources and how best they can use them over 7 years. The reforms required communication with the Government, obtaining autonomy, and automating systems and processes which includes upgrading all the systems and facilities. The MTRS was developed and approved by the Government for the IRC to implement that has devised an action plan in 2018. The outcome so far has been that revenue collection exceeded expectations in 2018. In managing the MTRS, he noted the balance that must be maintained between “business as usual” and reform requiring meeting with staff to engage them, as well as managing resistance to reform where the engagement of staff is aided by workshops to foster belief in the change.

76. Ms. Pauline Bre, Deputy Commissioner, PNG IRC, explained the benefits of the MTRS for the Revenue Administration and PNG nationally. She provided a brief overview of the MTRS implementation phases in PNG, including segmentation of taxpayers; establishment of a large taxpayer office; improved registration and collection, dispute resolution, and compliance from having an integrated approach to tax administration. She shared the targeted MTRS reforms and the biggest reform and administration challenges faced. She said the IRC had created 11 teams including ITD and large taxpayers, and that support from development partners had been good.

77. Mr. Andrew Minto, IMF Resident Tax Advisor, PNG IRC, highlighted the key things needed to make an MTRS work and the support being provided by the IMF and other donors. MTRS success requires collaboration between Government agencies, political support, clear vision on what to achieve, revenue not growing in line with GDP growth, and a robust administration. He said you cannot do the same thing with the same approach and expect a different result. He mentioned the support provided by the IMF and

donors, through short term experts. He said the key is to have a clear plan (vision) so that all the donors come and work within the plan.

### **Agenda 11. Day 1 Summary**

*Presented by: Governor Loi Bakani, CMG*

The chair summed up the day with a summary of what has been discussed and the resolution reached during the day.

## **DAY 2 : 28 MARCH 2018**

### **Agenda 12. Overview of Steering Committee Day 2 Agenda**

*Presented by: Mr. Loi M Bakani, CMG, Governor Bank of Papua New Guinea*

78. **Mr. Bakani presented an overview of the day's agenda**, noting the various sessions to be completed, beginning with comments from the development partners. He then went on to briefly introduce the presenters, Ms. Marga Peeters from the European Union, Ms. Pamela White from the Asian Development Bank, and Mr. Robert Utz representing the World Bank.

### **Agenda 13. Development Partner Comments**

*Ms. Pamela White, ADB*

*Mr. Robert Utz, World Bank*

*Ms. Marga Peeters, EU*

79. Ms. White, ADB, introduced herself and stated that PFM is a particular area of focus for the ADB which provides technical support in the Pacific region with the belief that PFM is a precondition for development warranting the time and investment. The ADB understands that countries in the region are faced with limited revenue and capacity issues.

80. Ms. White then discussed some of the recent success stories, including: strategic reform plans instituted in many countries that have continued to be developed and updated over time. The national level PFM dialogue between governments and partners is more frequent and more inclusive which the ADB thinks is more open now than in the past, an important development. Systems are being updated and the capacity to use them is being built. Budget reporting has become more transparent and more accessible. In some countries, communities have been included in the budget dialogue process.

81. From these success stories, what has been learnt is that cooperation is critical – the needs at the country level are many, so aligning and sequencing the necessary support means the government must take the lead in development partner coordination. This is evident across the Pacific. Key bilateral reports are being provided for various joint policy matrices and technical working groups – these enhance coordination and exchange understanding. The ADB endorse more joint missions and matrices which improves the effectiveness of the support provided. Systems and process must appropriately reflect country context and should not simply be transplanted from one place to another without the necessary adaptation. In some situations, for example ceilings and targets work well but not in others. People are critical to good PFM and building the capacity and the confidence of government officials requires the right approach.

82. Mr. Utz, World Bank, thanked the Chair and participants for the opportunity to present on behalf of the World Bank and was very appreciative of the work that PFTAC is doing and the collaboration that World Bank has with PFTAC in many areas – PFTAC’s work is more important than ever and there is an increased focus on the Pacific by the international community. There is a scale up in resources provided to the Pacific from US\$300 million in 2017 to around US\$800 million in 2018. With the increased focus, more resources are coming to the Pacific, work on developing effectiveness is more critical than ever, and what PFTAC is doing is laying the foundations for countries to have sound systems in terms of budget management, PFM, and statistics where progress can be shown through the joint efforts of countries and the international community.

83. Ms. Peeters, EU, thanked Governor Bakani for hosting the PFTAC SC meeting and then proceeded onto discussing EU’s support. Ms. Peeters mentioned that EU works in 7-year periods, 2014 – 2020 - ACP, Regional and National focusing on budget support for 9 countries in the region (see PPT presentation).

#### **Agenda 14. PFM – Developments in Papua New Guinea**

*Presented by Dr. Ken Ngangan, Secretary, PNG Finance Department*

84. The Chair announced that since the Secretary was present, the report back from the break-out session would now follow Secretary Ngangan’s presentation. Secretary Ngangan began his presentation by thanking the Chair and PFTAC for the opportunity to report on the developments in PNG with regards to PFM implementation since 2014. In developing the 3-year roadmap (2015 – 2018) a self-assessment was undertaken which was then independently verified by the IMF and the World Bank. Interestingly, what was considered as weaknesses in the system were confirmed by the IMF and World Bank which provided the starting point. With the assistance of PFTAC, IMF, World Bank and development partners, the public expenditure and financial accountability exercise commenced.

85. As stated in the 2015-2018 roadmap, various reforms were to be undertaken over the short-term, medium-term, and longer-term. Those things set out in the roadmap have been achieved. Some of these include the following:

86. Legislative reform: The Public Finance Management Act (PFMA) 1995 was amended to PFMA 2016, making it more current – in the new Act, roles and responsibilities of the different agencies of State are covered and penalties for non-compliance to PFM. PNG PFMA 2016 is modern and reflects the changing environment. A lot of public accounts had been outstanding dating back to 2009, so a concerted effort was made to bring them up to date which Dr. Ngangan was pleased report that up to 2018 efforts are on track for completion.

87. Changes were made to the Government accounting system from a simple cash-based system (PNG Government Accounts System) to an accrual-based accounting system (more technical) that is being rolled out to all agencies of State (departments, provinces, and districts). With this change, qualified accounting personnel are needed. This has been addressed by partnering with the PNG Institute of Public Administration for Public Service Officers to undertake a Public-Sector Degree Program – the program is in its fourth year.

88. In rolling out the accounting system, a major challenge has been connectivity which the Government has partnered with Digicel to overcome. In the past, there were Financial Controllers in the different State agencies but with the new accounting system rollout, officers are now at the Finance Department who can now monitor expenditure from a central location in real time.

89. Public Money Management Regularization (PMMR) Act: In terms of revenue collection in the past, the focus was only on Internal Revenue Commission (IRC) and Customs and the other public and statutory authorities were outside the system and collections were not being brought into the budgetary process. This Act requires public monies collected by all State agencies be brought into the Consolidated Revenue Fund (CRF). With the implementation of the PMMR Act, a billion kina has been recorded. Currently, from the revenue collections, 10 percent is retained at the State agencies accounts whilst 90 percent is transferred to the CRF but by 2020, 100 percent will be transferred to the CRF.

90. Procurement Reform: Under the previous arrangement, PNG had a Central Suppliers and Tenders Board, Specialized Central Suppliers and Tenders Board, Provincial Suppliers and Tenders Board, and District Suppliers and Tenders Board operating independently and no visibility over their operations. There has now been the establishment of the National Procurement Commission from 1st April 2019 with just one centralized procurement system. While the functions of procurement remain at different levels, accountability and reporting to the National Procurement Commission will address the issue of visibility.

91. National Content Law: For the first time, any contract up to K30 million will be reserved for citizens. This law is effective as of 1st April 2019.

92. In summary, Secretary Ngangan noted that a lot of reforms have been undertaken in a short space of time and are now taking shape, so PNG is now best placed to manage public funds. The 2014 – 2018 roadmap expired and therefore a new one is being worked on with the assistance of PFTAC and the EU. Dr. Ngangan concluded by saying that PNG is well placed to manage public funds going into the future and invited the participants for any questions. Governor Bakani thanked Secretary Dr. Ngangan for the presentation and opened for questions.

### Questions and Answers

93. Governor Kioa, National Reserve Bank of Tonga, asked about revenue collections in the past going into the consolidated revenue fund. He asked whether SOEs were different from State Agencies. Secretary Ngangan responded by saying that SOEs are considered as companies and are left out but consideration is being given to include them.

94. Mr. August, Director General, Ministry of Finance & Economic Planning, Vanuatu, asked whether PNG can make available the training by the Institute of Public Administration to the rest of the region. Secretary Dr. Ngangan briefly mentioned that the program is a University of PNG degree program that is administered by the PNG Institute of Public Administration and supported by AUSAID. The program is open to other Pacific Island Countries.

95. Mr. August thanked Dr. Ngangan for sharing the PFM developments in PNG and requested for some feedback on how PNG has gone about consolidating the government statement, given there are different SOEs and state agencies. Mr. August mentioned that this was a challenge for Vanuatu. Any feedback would be appreciated. Secretary Dr. Ngangan responded by saying that PNG faced similar challenges but has managed to address the issue through continuous consultation and meetings with the relevant stakeholders. That is, through the association, training program and meetings – making everyone be part of the group. As stated in the roadmap, there will be a change in the financial year to July – June, currently it's a calendar year (January – December). The reason for this change is that nothing much happens during the last quarter of the year with no revenue inflows. Most revenue flows happen during the middle of the year. Another reason for the success is attributed to political support. A lot of the PFM reforms have had the very strong support of the Minister and the Government. Dr. Ngangan further mentioned that the PEFA and the roadmap were designed and driven by themselves and the development partners agree on where



the support will be given from a list of needed areas. In summary, Dr. Ngangan stressed that the reason for the success was that the process is managed in-house with strong political support. The Chair, Governor Bakani added that a lot of lessons can be learnt from PNG experiences.

### **Agenda 15. Financial Sector Supervision TA Developments**

*Moderated by: Mr. Ben Stefanou, FSS Advisor*

96. Mr. Stefanou briefly provided an overview of what would be covered in the session on developments in financial sector supervision in the region, namely risk-based supervision (RBS) frameworks, banking regulation, insurance regulation, and developments in supervision. Mr. Stefanou highlighted that projects on RBS framework were undertaken in PNG, Solomon Islands, Vanuatu, and Cook Islands whilst projects on banking regulation were ongoing in Palau, FSM, Kiribati, and Marshall Islands. Insurance regulation projects were launched in Samoa, Fiji and Tonga whilst Tuvalu had support on supervision development.

*Presented by: Mr. Ellison Pidik, Assistant Governor, Financial System Stability Group, BPNG*

97. Mr. Pidik, BPNG, presented on the developments and status of the RBS framework in PNG since 2017 with TA from PFTAC. The RBS Framework in PNG was initiated in 2017 as a medium-term strategic approach to assisting PFTAC member countries improve the structure and operational effectiveness of their financial sector supervision frameworks. Initial diagnostic missions and the establishment of enhancement strategies and TA plans were completed in 2017 for the Cook Islands, Vanuatu, PNG, and the Solomon Islands. Key findings of the diagnostics were: gaps in coverage of banking prudential standards; underdeveloped and out of date on-site examination process and infrastructure; lack of operating risk rating models; lack of in-depth financial analysis (entity specific and industry wide); and a lack of risk-focused supervisory action planning processes.

98. Mr. Pidik highlighted the benefits BPNG derived from the supervision framework enhancement program. These include: the development of a Risk Rating Model, Supervisory Action Planning, Financial Analysis and On-site Examination; Capacity of staff are enhanced in shifting from compliance-based supervision (use of CAMELS) to risk-based supervision (introduction of risk rating model) which is forward-looking; Flexibility of project enabled expansion to include additional work on IT Risk and Market and Liquidity risk assessment. The Risk Rating Model development has aligned the assessment structure with rating and supervisory action planning and the project has taken advantage of PFTAC and MCM resources.

*Video Tape: Mr. Sultan Korean, RMI Banking Commissioner*

*Presentation by: Mr. Semdiu Decherong, Commissioner, Palau Financial Institution Commission*

*Audio connection: Ms. Hee-Kyong Chon, IMF/MCM*

### **Agenda 16. PFM Breakout Session**

*Moderated: Mr. Richard Neves, PFM Advisor*

*Facilitated by: Ms. Iris Claus, Ms. Celeste Kubasta, Mr. David Kloeden and Mr. Scott Roger*

99. For the breakout session, the participants were divided into six (6) groups to discuss the following strategic objectives and provide feedback:

- (i) Group 1: Improved laws and effective PFM institutions;
- (ii) Group 2: Comprehensive, credible and policy-based budget preparation;
- (iii) Group 3: Improved budget execution and control;
- (iv) Group 4: Improved coverage and quality of fiscal reporting;
- (v) Group 5: Improved integration of asset and liability management framework; and
- (vi) Group 6: Strengthened identification, monitoring and management of fiscal risks.

## Agenda 17. Presentations by Discussion Groups

### Group 1: Improved Laws and Effective PFM Institution (Legal Frameworks)

*Presented by: Mr. Letlet August, Director General, Ministry of Finance & Economic Planning*

100. Mr. August noted that the capacity of some Finance Ministries in the Pacific faces HR challenges. Experiences were shared regarding staff turnover, remuneration, and country-specific HR plans. Mr. August noted that legislation in some countries does not fit the local context which remains a challenge faced by some Parliaments. Furthermore, legislation is not always static with a need for adaptation, and regulations must support the legislation. Assistance is required from PFTAC and development partners in reforming PFM. Mr. August concluded by noting that reform is an ongoing process and there won't be enough – there will always be needs to align legislation for compatibility with international best practice.

### Group 2: Comprehensive, Credible and Policy-Based Budget Preparation

*Mr. Frank Sioneholo, Head, Economics, Planning & Development, Department of Finance & Planning, Niue*

101. Mr. Sioneholo thanked the moderator and gave a brief introduction and highlighted what Group 2 discussed with regards to the topic. He began with discussions around a more comprehensive and unified annual budget – the need for countries to have a unified budget instead of a separate recurrent budget with examples provided. A unified budget is essential for a macro-economic and fiscal framework and good governance and accountability. Mr. Sioneholo further mentioned that coherent forecasting reduces occurrences of supplementary budgets that should only be needed for emergencies. Support by development partners is needed. He summed up by highlighting that expenditure should be a priority area.

### Group 3: Improved Budget Expenditure and Controls

*Mr. Terry Greenwood, Deputy Secretary Revenue, Ministry of Finance, Nauru*

102. Mr. Terry Greenwood presented for Group 3 with discussions around revenue collection and government expenditure plans. Also discussed were adoption of new practices by jurisdiction; expenditure controls; improved reporting; accountability and internal audits.

### Group 4: Improved Coverage and Quality of Fiscal Reporting

*Ms. Tapusina Asalele, Manager, Supervision Department, Central Bank of Samoa (CBS)*

103. Ms. Asalele presented for Group 4 and the discussions were around not just numbers but a focus on the clarification of user internal and external needs to be considered. Users need the necessary training to understand reports. The focus is on central government but not on SOEs or provincial government, so everything is not covered. Regarding classification of government functions – issues around misclassification requires alignment. Audits are not timely while the accuracy of information is crucial.

**Group 5: Improved Integration of Assets and Liabilities Management Framework**

*Mr. David Abbot, Manager, Data Analysis & Dissemination, SPC*

104. Mr. Abbot presented on behalf of Group 5 noting that the group members are not specialists. Discussions were around more centralized revenue accounting; careful management of resource rents; sustainability; cash and debt management (relating to sustainability); how is public debt management undertaken (managing and recording of government assets – not adequately accounted for); Institutional issues lack information flowing between agencies; and development partners to provide TA, technical aspects.

**Group 6: Strengthened Identification, Monitoring and Management of Fiscal Risks**

*Mr. Peter Tari, Deputy Governor Reserve Bank of Vanuatu*

105. Mr. Tari indicated that Group 6 discussions were around Transparency; Timeliness; Technology; System oversight – progress made but there is more to be done; Political risk – management of institutions and going forward - Public scrutiny and Internal management.

**Agenda 18. PFTAC Financial Management Program: Where to Next?**

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

**Agenda 19. Panel Discussion: Research, Policy and Data*****How to support Research***

*Moderated by: Dr. Parmendra Sharma, Griffith University, Brisbane Australia*

**Panelists**

*Ms. Jacinta Hesaie, IMF Resident Rep Office, Fiji*

*Mr. Boniface Aipi, Manager, Research Projects Unit, BPNG*

*Ms. Vitarina Takana, CBSI*

106. Dr. Sharma thanked Governor Bakani, Mr. Kloeden and Ms. Claus for including this session in the meeting. He also thanked PFTAC and provided a brief outline of the session proceedings, beginning with an introduction of the issue followed by one of the panelists to discuss the survey. Dr. Sharma then provided observations and comments on the survey which would be followed by questions to the panelists to respond and questions and answers from the participants and the panelists before finally wrapping up the session.

107. Dr. Sharma acknowledged the work done by PFTAC and other development partners to make the region a better place. Dr. Sharma went on to say that work done by all departments is commendable and should be acknowledged. He then stated the objectives/goals of the work that has been undertaken, which is, policy outcomes. The effort among others relates to capacity building, regional relevance and local context. There might also be some other issues or variables included in the framework for policy outcomes. One of them is research that is based on evidence. When talking about research, data is part of it.

108. Dr. Sharma briefly commented on the collaboration work with some of the central banks in the region. The panelists were then introduced to the senior economists from the region. Ms. Takana from the

CBSI, Mr. Aipie from BPNG, and Ms. Hesaie from the IMF Res Rep office. Ms. Hesaie was then asked to comment on the survey.

109. Ms. Hesaie thanked Dr. Sharma then commenced her presentation. In line with the topic: research, policy and data/knowledge, this is an opportunity to provide combined views from colleagues around the Pacific involved in some form of research to inform discussions on this topic.

110. For the survey, the target group were participants in PFTAC macro workshops, courses and research as well as Dr. Sharma's research collaborators. The survey was run for one week with 200 e-mails distributed with 114 responses received from Central Banks, Finance Ministries, Treasury, National Statistics Office, Revenue & Tax Offices, Public Service Commission and the Prime Minister's Office. Respondents were from various positions within their respective organizations, such as analysts, managers, economists, directors, statistician and auditors.

111. Responses came from 16-member countries with 21 percent from Fiji followed by PNG with 19 percent, Samoa with 13 percent, Solomon Islands and Vanuatu forming the large part of the responses. Ms. Hesaie provided a disclaimer that: (1) the survey duration was short (only 1 week) and (2) the sample size could be better. Since the presentation is on raw data, there would be room for better analysis.

112. The questions were around research culture, capacity and data/knowledge base. Eleven questions were asked, and Ms. Hesaie presented the results in graphical format and explained responses to each question (refer link for the survey question).

113. The moderator thanked Ms. Hesaie for the presentation and provided his observation where he noted that capacity building is a key area. From the survey results, 88 percent of the respondents thought research collaboration with regional colleagues, universities, development partners like IMF/PFTAC, central banks help convey research results to policy outcomes. As such, Dr. Sharma is of the view that collaboration might be the way to go and posed the question: why might collaboration be useful?

114. Dr. Sharma referenced the Deputy PM's speech regarding the rapid changes taking place globally and the questions posed to the panelists. With the global setting (financial and economic) changing rapidly, what does this mean or might mean for policy makers or policy-making in terms of research? In addition, the challenges highlighted in the survey, what might be other challenges for Pacific Island Countries (PICs)? Dr. Parmendra reminded the panelist of the 5 minutes time limit.

*Panelist: Ms. Vitarina Takana, Central Bank of Solomon Islands*

115. Ms. Takana thanked Dr. Parmendra and responded to the question by saying that as changes were happening rapidly, the PICs as small economies will be affected one way or another. For example, the change in technology, whilst it is good, on the other hand, poses challenges. In terms of research, we must be on the front line, ready for economic innovations happening in the major economies. In Ms. Takana's observation, doing research in central banks in the Pacific region is in its infancy. From the literature, co-authored or done by Pacific Islanders it drives or encourages Ms. Takana to do research. For example, the undersea cable project, we need to understand the implications. If research is on the frontline, we will be able to know how it is going to impact the economy in terms of growth, vulnerabilities and risks. With the changes in the global setting, we need to be ready in terms of research capacity.

*Panelist: Mr. Boniface Aipi, Manager Research Projects, BPNG*

116. Mr. Aipi added that one of the major issues is that we need to get the baseline right in all the PICs with data of how the macro-economy is operating, setting up the linkages so that whenever there is a disruption, like the block chain technology, innovations that come in, we can benefit. Mr. Aipi believes in data, it is very crucial, for us to make decisions. Based on data, we run models, short-term forecasting models or long-run forecasting models. Basically, we know where we are going for policy discussion and decisions to be made, data must be there – the driving factor that sets out the pace for policy-making. Researchers use data to undertake empirical research to provide advice to the Governors, Ministry of Finance and Treasury so when decisions are made, they know what the outcomes will be rather than making adhoc decisions based on somebody else’s experience. Once we have the baseline data for each of the countries we can move forward in terms of forecasting or getting ready for disruptive technology that is currently happening around the world.

*Ms. Jacinta Hesaie, IMF Resident Rep Office, Fiji*

117. Ms. Hesaie thanked Dr. Parmendra and added that the spectrum of uncertainty is a bit broader apart from the GFC and the like. For the Pacific, there are other issues outside the core areas such as non-communicable diseases and issues around increased labor mobility. We need to ask research questions around how to deal with that, for example, about health expenditure or how labor mobility will impact revenues. Whilst there is research done on the global front, we do need to apply to the Pacific context and especially with our uniqueness, small nations and geographical isolation and culture as well.

118. Dr. Parmendra thanked the panelists and added that with the changing global setting, research-based policies become much more important. In terms of the challenges of the region, small-scale is a challenge and will continue to be a challenge. So that may mean, among other things, pooling of resources and collaboration.

### **Questions and Answers**

119. Mr. Jonathan Ostry, Director IMF-APD thought that the survey was very interesting but wondered why the survey was sent to central banks, ministries of finance and university colleagues, and what the pressing research needs were. Mr. Ostry was surprised that one thing that did not emerge clearly was whether the relatively poorer countries in the region were focused on becoming wealthier. Important as issues are how to do inflation forecasting or mobilize revenue or be resilient to natural disasters, he noted that the overall growth strategy for all the countries was not obvious. Mr. Ostry wondered whether collectively this was something that international institutions that PICs deal with should be asked to provide?

120. Ms. Takana responded that the responses were lumped under categories, including a “growth” strategy. Some of the responses indicated that they have a growth strategy for the Pacific or their respective countries but want to come up with ways of improving growth or the strategies they have in place. A growth strategy is an important element.

121. Mr. Ostry then commented that if it is important then by far it is not the largest. It should be decided whether this is something the partners would be asked and if it needs to be elevated. Dr. Parmendra

thanked Mr. Ostry for the comments and mentioned that there may be an opportunity for another survey. Jacinta added that the survey was done on Google forms, 100 percent free and unlimited. Really easy, even to implement.

122. Mr. Scheiblecker commented that there are many Pacific Island students going to study abroad to pursue PhDs and Master's degrees, so research topics could be given to them. Ms. Jacinta Hesaie added that with resource constraints in most economies, in terms of time and competing priorities, as the survey shows, self-training is a great enabler – a quick solution. IMF now offers online training which are self-paced.

123. Mr. Utz commented that the World Bank is partnering with some institutions to do research on the Pacific on both the macro-economic issues and a range of sectoral issues. On economic growth, a regional study was undertaken and there is currently follow-up work underway with Samoa and Marshall Islands. Over time, the World Bank hopes to engage with as many countries as possible.

124. In terms of collaboration, Dr. Parmendra mentioned that Griffith University is closely collaborating with central banks in the region and would like to collaborate with the World Bank. He then raised the question as to what would be best way to progress it?

125. Mr. Utz mentioned that World Bank collaboration is limited but they do have ongoing outreach programs. Mr. Letlet August asked about the survey whether it is possible to know the level of qualifications of the respondents? Dr. Parmendra said they will have to check if they have that information.

126. Mr. Scheiblecker thanked Dr. Parmendra and commented on the element of statistics coming from the Secretariat of the Pacific Community (SPC) statistics division. A challenge for anyone trying to do research is access to data that comes up frequently in discussions with governments and policy makers. IMF-Statistic Department is trying to assist National Statistics Offices (NSO) to improve their ability to upload data to their national websites. At SPC they are establishing the Pacific Data Hub – a new facility that would bring together as much data in the Pacific at one location so researchers can have access for respective countries. This has a lot of benefits; micro data published on PFTAC webpage, household surveys, establishing Memoranda of Understanding (MOU) with data owners and countries. Countries are encouraged to establish their national dissemination strategies both domestically and regionally. It is often said that there is no data on the Pacific but there is enormous data available but not available to those who want to use it. Through the new Pacific Data Hub, it is hoped that data access issues will be resolved. It is also hope that data can be anonymized and fed into global databases.

127. Dr. Parmendra summed up by saying that Griffith University has collaboration with some of the central banks in the region (PNG, Vanuatu, Solomon Islands and Fiji). The essence of this collaboration is to help develop capacity in the CBs, produce joint working papers, seminars and regional conference (the inaugural event in 2018 was in Suva) and the next one will be in Port Vila at the end of 2019. One of the papers has been accepted by a UK conference. Dr. Parmendra mentioned that training is available for central banks and is being funded by DFAT through scholarships. In wrapping up Dr. Parmendra invited the Governors of central banks for their views and comments.

128. Governor Bakani mentioned that as the survey indicated, there is a growing need for research to be embedded in central banks on how to do collaborate research. Different structures have been considered and one possibility is collaborative research with Griffith University. To start the work and

advance such Central Bank studies in the Pacific, further conferences are being mooted. There is work in progress on the kind of structure to have in the future. Other central banks are encouraged to join to bring it to fruition.

129. In addition to Governor Bakani's comments, Fiji Deputy Governor Masitabu mentioned that it is just a matter of addressing the challenge at hand. As a small central bank, research capacity needs to be strengthened. Collaboration is seen as a partnership with universities to strengthen institutional learning.

130. Governor Rarawa, CBSI, stressed the need for capacity building, a means of sourcing resources and experts from each other and that research should be geared towards policy making. The relationship with Griffith University will continue.

131. Deputy Governor Tari highlighted that evidence-based policy making is lacking and therefore the partnership with Griffith will help. There are a lot of challenges ahead but hope to overcome them.

132. Dr. Parmendra concluded the session by advising that a couple of MOUs were in progress and signing of one would happen soon. Also made mention that comments and suggestions were well noted.

## **Agenda 20. PFM – Climate Finance**

*Presented by: Mr. Palu Aholotu, PFM and Climate Finance Expert, GIZ Financed PIFS Project*

133. Mr. Aholotu thanked the Chair, the participants, partners and acknowledged the assistance provided by PFTAC. He then presented a Pacific Perspective on PFM Climate Change Readiness. Mr. Aholotu presented an overview of climate finance readiness discussing the "The Pacific Perspective". He then discussed the PFM and climate finance analysis and where climate finance comes from. Funding is mainly sourced from development cooperation agencies, bilateral finance agencies, multilateral agencies, the private sector and domestic budgets. Mr. Aholotu mentioned that 11 FIC projects were approved with a value of about US\$359 million indirectly accessed. Readiness and projects were discussed in some detail and further discussed the Pacific Capacity Dilemma, the Climate Finance alignment to PEFA, key challenges and what next?

134. With regards to challenges, the following were identified: the administrative burden and pressure on PICs, human resource capacity due to an influx of funded projects with differing accountability requirements; fragmentation and segregation of government priorities as a result of increasing dependency on external funding packages; stress on PFM and the ability to meet best practice requirements while also ensuring systems are agile and responsive enough to suit changing needs; difficulty of tracking investments that fall outside the direct purview of national budgets; and progressing investments that help foster greater alignment between government and private sectors.

135. Mr. Richard Neves, PFTAC, queried the numbers noting that if no-one has direct access what have the funds been spent on? Mr. Aholotu responded and said that 10 countries in the region have access to US\$359 million for projects forum the GCF via multilateral or regional agencies. He further mentioned that going forward they are slowly moving towards effectiveness of accessing to the global facilities to build resilient to the whole climate change investments. He added there a paper will be shared with forum economic ministers in their meeting in May 2019 seeking direction on the proposed redirection.

136. Governor Kioa, NRBT, asked about the concept of “climate change resilient budget” support from donors for the region. The concept came in response to the last crisis and asked if that was the drive to convert most of the budget to climate change resilience? Mr. Aholotu responded saying climate finance for resilience is something that is been discussed internally and is about the integrity of policy implementation. There is policy in place and implemented for the sake of implementation but is it resilient? It is more about the policy intention or the quality of the implementation. Going forward, moving away from climate finance accessibility to effectiveness of the policy is something government should consider seriously in the development agenda.

137. Mr. Neves further added that budgets are obviously the intentions of the government – where you spend your money is where the government intends to bring some reality to the aspirations it has and of course there are pressures in terms of what those aspirations should be. Climate change, gender, children, oceans and a whole range of different aspects where there are pressures to put, allocate more resources to towards achieving the results. What is been seen is a movement, particularly development partners that are willing to put some resources but also want to see the governments put in their own resources as well which is not unreasonable. Usually the governments have programs and problematic budgets and donors are saying that some programs are going beyond one program, activities like education and health, law and justice and would like to tag the transactions. Donors are now getting into activities like tagging and that adds a lot of complexity.

138. Mr. Garth Henderson, Cook Islands, commented that the Cook Islands have done well in accessing funds from donors, for example the green climate fund. A lot of strengthening with the PFM has been done and management system. A lot of development partners are willing to assist.

## Agenda 21. Strategic PFTAC Issues

*Presented by: Mr. David Kloeden, PFTAC Coordinator and Mr. von Alvensleben, ICDGP*

139. Chair Bakani invited Mr. Kloeden to present PFTAC’s strategic issue. Mr. Kloeden made mention that 5 short notes were circulated on the issues and begun with discussion on the funding gap. The bottom line is to keep PFTAC operating to the end of Phase V. The nominal funding gap is US\$9.5 million, but the actual gap to close is US\$ 5.2 million and contingencies must be considered if not closed soon. Good news is that there is potentially a sixth new donor that may help reduce the gap by possibly US\$1. 5 million. Additional funding from the five existing donors, and timely member contributions and potential donors over the longer term are crucial.

140. Mr. Kloeden then went on to discuss the contingency plans. Options include dropping a resident advisor, gaps before recruitment of a second PFM advisor during the next staff rotation, scale back budgets particularly in large fiscal or FSS programs, scale back on workshops and seminar budgets and savings from headquarters. Mr. Kloeden mentioned that it would be good to hear views from the members and donors then opened the floor for comments.

141. Governor Kioa commented that it is very important to retain the resident advisors and so an option to consider is bringing China in with funding. Another option is the user-pay policy. Mr. Kloeden asked Mr. Von Alvensleben to talk about the prospects of China. On funding from China, it is a good idea to ask - it has



provided a lot funding to the IMF. Mr. Alvensleben mentioned that unfortunately China currently does not provide funding to PFTAC.

142. Mr. von Alvensleben informed the SC that preparations for an independent mid-term evaluation of PFTAC Phase V has already started in Washington. A dedicated Evaluation Sub-Committee (ESC) consisting of PFTAC members (approximately 1 – 2) and donor partners (approximately 1 – 2) will be established that will guide the evaluation operationally. The ESC will review the Terms of Reference once drafted as well as the draft evaluation report once prepared by the evaluators. The total cost of the evaluation will be approximately US\$ 0.3 million, including the cost of interviews and assessments in the Pacific.

143. Mr. August, Vanuatu, commented that programs are very important and therefore not to drop advisers and so appealing to development partners (donors) to consider providing more funds.

144. Ms. White (ADB) responded and informed the participants that unfortunately ADB cannot provide any more direct funding to PFTAC, however, some funding can be accessed to help support training events and workshops and encouraged countries to approach ADB.

145. Mr. Shahryar-Davies (NZ MFAT) responded by saying that he will check and can also ask around in terms of New Zealand's liaison with other donors as he doesn't have the delegated authority – can ask internally. For clarification, Mr. Shahryar-Davies asked Mr. Kloeden when Phase V was launched, was it with the funding gap or had people under-committed? He further asked, at what point does scaling-down happen?

146. Mr. Kloeden responded saying that when moving into a new phase, there is always a funding gap and fund-raising exercise. Mr. Von Alvensleben added that PFTAC is one of IMF's entities and are usually not fully funded at the beginning of the phase so fund-raising activities must continue.

147. Governor Kioa asked how much is spent annually on meetings like this? Mr. Kloeden said costs are incurred and PFTAC covers some of the costs like airfares and accommodation, around US\$40 – US\$50 thousand. He further referred to Mr. Shahryar-Davies question on scaling down and said that a midterm evaluation exercise must be done. Governor Bakani commented that with regards to PFM, for those programs at a mature stage, perhaps short-term experts could be considered.

148. Mr. Kloeden said his inclination is retain the resident experts and was wary of cutting back on training and workshop as they create additional benefits. Governor Kioa commented that due to time constraints it would be good to develop scenarios with HQ to decide which Mr. Kloeden concurred. Chair Bakani then suggested we go to the next session as they are very much related to which Mr. Kloeden agreed.

## **Agenda 22. Remaining Items**

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

149. Mr. Kloeden then presented the remaining items covering the GFS program which was budgeted for 3 years and comes to an end in April 2020. There is a strong preference for this program not to end in a year. The meeting was informed that PFTAC and the IMF Statistics Department received a letter from the PNG Treasury with regards to this program with extensive regional input and collaboration. Mr. Kloeden

thought as Japan ran a predecessor regional GFS project perhaps they could be enticed back given the initial project was so successful? He further noted that the Japanese normally support bilateral arrangements.

150. Mr. Henderson suggested that members approach the Japanese government rather than development partners which was supported by Mr. Alvensleben. Demand from the members would be perhaps even stronger than coming from the IMF alone.

151. Mr. Kloeden then continued to note that the revenue program expansion was contingent on further funding. The March 2018 Steering Committee was informed of additional financing to support greater revenue mobilization efforts and to address unmet demand and assistance to PACER Plus signatory countries. The Australian Government provided A\$1.3 million to finance a full-year of an expanded program. The 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 and tariff reforms.

152. Governor Kioa commented that Australia has provided funding for the PACER Plus program and asked if New Zealand can also provide some funding. Mr. Shahryar-Davies responding by saying that New Zealand is providing PACER Plus funding for revenue mobilization, which is a joint Australia and New Zealand effort. Mr. Matthew Harding added that New Zealand is the single largest PFTAC donor. Mr. Kloeden called on Mr. Alvensleben to discuss the mid-term evaluation.

153. Governor Kioa asked the possibility of merging the GFS and PFM programs during the review? Mr. Kloeden agreed that there are close synergies although the GFS program is administered by the Statistics Department and the PFM program by the Fiscal Affairs Department. Governor Bakani added that to consider this as part of PFTAC's ongoing focus and asked whether these will be discussed during the review. Mr. Kloeden said the exercise would be backward looking but would be part of it. Mr. Alvensleben also added that the assessment will be on whether PFTAC is performing as per the program document but also looking forward to the next phase.

154. Governor Rarawa commented that a very important signal can be sent if outstanding payments can be made. The Chair then said the comments and suggestions are taken onboard and the options forward. Governor Sione added that they will be in Fiji for the ADB meeting and it would good to provide an update.

155. The Chair thanked everyone for the participation, looking at the strategic issues for PTAC and the remaining issue is the next host for SC meeting. The Chair mentioned that Niue has indicated to host the meeting in 2020 and gave the opportunity to Mr. Sioneholo to for a few remarks. Mr. Sioneholo thanked the Chair for hosting the meeting in PNG and announced that Niue will the 2020 meeting.

### **Agenda 23. Concluding Comments**

*Presented by: Mr. Loi M Bakani, Governor Bank of BPNG*

156. Governor Bakani, on behalf of the Government of PNG, the Bank of PNG thanked all for the deliberations over the last 2 days and hope that all are leaving with one mind. He thanked PFTAC and the partners for the support. Governor Rarawa, on behalf of the participants extended his gratitude to the BPNG support staff and PFTAC. Mr. Kloeden added his word of thanks to BPNG and the staff and the PFTAC team. PFTAC was very grateful for the Deputy PM's attendance.

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