

**PACIFIC FINANCIAL TECHNICAL
ASSISTANCE CENTRE STEERING
COMMITTEE MEETING**

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Introduction:

David Kloeden welcomed everyone back to the 2nd day of the 2021 Steering Committee meeting. The agenda today will focus on PFTAC's future, Phase VI, expected to commence May 1, 2023 and end April 2028 (FY28). He thanked the Steering Committee Chair (Esala Masitabua, Deputy Governor, Reserve Bank of Fiji) for the excellent job he did on Tuesday. He then thanked those who underwrite PFTAC operations, the seven donors and 14 of the 16 member countries who have voluntarily committed and made financial contributions in Phase V.

Mr. Krishan Srinivasan, Deputy Director of IMF's Asia Pacific Department

In a prerecorded presentation, Mr. Srinivasan noted it is very clear that PFTAC is a key anchor of the IMF in the region. The work of the Center to provide capacity development is an essential part of the Fund's three mandates and one that will continue to receive our utmost attention and support. With respect to surveillance and the macro-economic policy priorities, this is the responsibility of the IMF's Asia Pacific Department or APD. The post pandemic landscape will pose some particular challenges for the Pacific Islands. He explained the landscape and highlighted how PFTAC's planned activities can dovetail with what APD see as the priorities for the Pacific Island countries.

The two key issues everyone is facing at this point are:

- 1/ how to escape the pandemic; and
- 2/ how to shape policies in a post pandemic world.

Nowhere is this more the case than in the Pacific which has been hit hard and faced both a severe social toll as well as unprecedented macro-economic and financial pressures. Escaping COVID19 will depend on vaccinations and hitting the right policy mix in the post pandemic world. Equilibria has suffered a significant jolt so re-establishing macro-economic and financial and fiscal stability in the post pandemic world will require a tight focus on some of the bread and butter issues as well as emerging issues. With respect to CD delivery over the span of Phase VI, we see the following as critical areas:

1/ Revenue policy and administration given the extraordinary spending required during the pandemic particularly in the midst of declining revenues – this will continue to be a vital area of CD.

2/ Public Financial Management, in light of the extraordinary pressure on state budgets and enterprises, the need for maximum efficiency in public spending and given the critical need to boost public finance buffers, PFM will most certainly be in the spotlight.

3/ Macro-Economic programming and Debt management are even more crucial given the severe shock to economies throughout the region. The sharp increase in the levels of public debt over the past few years accelerated by COVID-19 is a growing priority as is the loss of correspondent banking relationships, areas of current focus of the macro advisor and the new debt advisor.

4/ Financial Sector Supervision which will need to be strengthened in the wake of regulatory forbearance and corporate sector scarring brought on by the pandemic.

5/ Macro-economic statistics are crucial to public policy formation and an area where much progress remains to be made. There are significant data gaps in many Pacific countries particularly in national accounts and statistics, so more timely and complete data will be a huge boon to policy makers.

PFTAC has delivered on these areas in the past so it is reassuring how the various workings groups have lined up to ensure that these areas get sufficient funding and attention to meet member country needs next year and into Phase VI.

Mr. Srinivasan took the opportunity to discuss some of the new and evolving issues that the IMF is working on, commenting how this might affect the capacity development agenda in the Pacific. The landscape for these issues is in flux, noting that some of the issues are particularly relevant for the Pacific.

1/ **Climate change**, the Fund has begun investing in climate related issues in recent years as the membership has increasingly recognized its critical impact on global economic and financial developments. Mitigation, transition, and adaptation are the three channels which the Fund will approach climate change. From a policy and CD perspective, climate change cuts across various programs, including PFM, Tax Policy and Administration, Financial Sector Supervision, Macro, and Debt Management. The Fund has provided two climate change policies assessments (CCPA) in the Pacific for Micronesia and Tonga and an update of the program will be piloted soon.

2/ The second major area is the **financial landscape of the digital age**. If anything, the pandemic has accelerated what was already a fast-growing situation across economic, monetary, payment, and financial systems. At the level of technology, the most relevant changes include the organization of money and assets, data, and artificial intelligence. At the level of services, changes cover Central Bank digital currencies and new forms of privately issued digital money for domestic and cross border use, some of which are creating issues in the Pacific. At the entity level, non-banks, and big companies are becoming increasingly prevalent in finance and banking. At the country level in the Pacific this will deepen the need to develop knowledge and capacity in such areas as digital currencies, digital payment systems, and handling cyber risks.

3/ Third, the **inclusive growth agenda** is an area where the Fund is expanding, the IMF work in this area will focus on supporting members post-crisis, drawing on macro critical work on effective social safety nets, promoting gender and equality, investing in human capital, and strengthening systems.

4/ Finally, underlaying all these areas are **data** which is not so much in the spotlight, but as you all know it is integral to both the core and emerging areas of our work. There are new initiatives and more advanced ways of collecting information on economic performance including big data and Artificial Intelligence (AI). This important work emerges quietly, but is absolutely important to policy makers.

Mr. Denton Rarawa, Senior Economic Advisor in PIFS

In the context of the region's economic priorities, Mr. Rarawa outlined two initiatives to assist economic recovery from the impacts of COVID19 as well as ongoing initiatives to tackle climate change:

1/ Two issues are addressed under the regional initiative to support economic recovery from the COVID19 pandemic:

- The debt situation and options for debt relief of Forum Island Countries (FIC) are of concern given the IMF and World Bank debt sustainability assessments that assess a number of FICs at very high levels of debt distress. Even before COVID19, economies in the region were facing slow-downs and low economic growth that resulted in declining revenues, increasing fiscal deficits, and added pressure on debt financing. This situation has been accelerated by the COVID19 crisis as well as ongoing climate change induced disasters in the region, e.g. in responding to the COVID19 pandemic FICs have increased their debt levels by US\$1.6 billion.

We are aware of several debt relief options, the debt service suspension initiative (DSSI) rolled out by the G20, and the IMF catastrophic containment and relief trust. Unfortunately, not all FICs are eligible for these facilities. For the DSSI, only five countries in the region have signed up with savings of around US\$420 million and only one country has benefited from the IMF catastrophic facility. So, we need other alternative options to deal with the debt level of FICs. One of the options could be climate debt swaps that we are proposing through the use of the new Pacific Resilience Facility. The use of this vehicle to facilitate debt for resilience swaps was endorsed by the Ministers at the FEMM but we will need technical assistance to develop the proposal for presentation to the Ministers. If successful it will be a win-win situation where FICs address their debt situation and tackle climate change resilience as well.

- The second issue under the COVID19 recovery initiative is a proposal for a *Blue Pacific Economic Strategy* that will be anchored on the 2050 strategy for the Blue Pacific continent. The Blue Pacific strategy will draw on the economic issues under the 2050 strategy and as the name suggests the Blue Pacific strategy will focus on the ocean and opportunities for the ocean to be a source of economic activity to drive recovery in our region. While pursuing the potential from the ocean, it very important to concurrently balance the health of the ocean.

2/ With respect to climate change, there are two aspects around climate change financing and disaster risk financing we are working on. We want to ensure countries have access to available climate financing facilities so a new approach will be to engage with the private sector to enable them to also access climate change and disaster risk financing from global climate change finance providers. A working committee is being established to advise Forum Economic Ministers as well as build regional capacity. The Pacific Resilience Facility is the flagship of the Secretariat and work is ongoing to arrange a global pledging event in October in New York, soliciting financial support from development partners and donors towards capitalization of the facility, as well as programs of advocacy and awareness for members in the region.

These are the regional initiatives PIFS is working on towards COVID19 recovery as well as climate change which is a major issue facing our region.

Mr. David Kloeden, PFTAC Director

1/ **Phase VI setting the scene:** given the financial situation anticipated at the end of FY2022, the June 29 SC meeting endorsed an extension of Phase V for a period 6 – 12 months with a precise duration to be confirmed later this year. If there is a 12 month extension, Phase VI will start on May 1, 2023 (FY2024) for a duration of 5 years till April 30, 2028 at the end of FY2028. Over the next six months, IMF

internal processes will commence including creation of an inter-department working group to develop the strategy and resource envelope for Phase VI for IMF Management approval. The next step will be to develop a Program Document in detail – as an example, a copy of the Phase V Program Document is available on the PFTAC website. There will be additional opportunities for input in the development of the Program Document including at the virtual Steering Committee meeting around November.

2/ PFTAC worked to facilitate five Virtual Working Groups (VWG) by convening meetings of stakeholders, targeting at least three country representatives, 1 or 2 donors and where applicable regional organizations e.g. PITAA, AFSPC, SPC, ABS, ATO. Each group had its own membership relative to the topic. These groups met at least three times since April and a spokesperson will present their findings. They considered PFTAC efforts and results over the course of Phase V to help inform the future, which was their focus taking account of the changed landscape five years ago when Phase V was defined.

Mr. Kloeden elaborated on three issues on the Steering Committee radar, governance, member country contributions, and some broad resource guidelines for Phase VI:

- The Steering Committee is a crucial component of PFTAC governance. All IMF CD centers have a Steering Committee with membership comprising member countries, donors, and the IMF. Every member has a single and equal voice, other organizations are sometimes members, and additionally some observers may be designated based on agreed rules. Historically PFTAC membership has been on equal footing regardless of financial contribution that only began for member countries in Phase V. In Phase IV and earlier, it is believed that the Steering Committee met less frequently than annually. Furthermore, the Governor of the Reserve Bank Fiji retained the position of Chairperson with these arrangements transitioning in Phase V with the Chair rotating to the host country of the annual meeting each year. External evaluations and other independently reached conclusions have reinforced the value of PFTAC over the years, recognized by both financiers and beneficiaries. The strong ownership and appreciation reflects the Pacific way and was further illustrated with the consensus agreement that member countries reached in contributing to the costs of operations from the start of Phase V. It is vitally important that the Steering Committee remain a vibrant and effective instrument and the External Evaluation report suggested some opportunities to strengthen the role of the Steering Committee. Models from other IMF centers may be useful to consider. In moving to an annually rotating chair the continuity from an ongoing chairperson that previously existed has somewhat diminished. Other ideas include an executive subcommittee proposed by the evaluators and establishing a defined tenure for the chair with an idea of 2-year term suggested at the end of Phase V. Mr. Kloeden mentioned the CARTAC chairperson model and proposed ideas and options be assembled for an extended discussion at the 2022 Steering Committee meeting.
- PFTAC financing before Phase V had only two sources, donors and the IMF. PFTAC was the very first regional IMF center established in 1993. By 2015 the issue of PFTAC member country contributions was proposed given that this was the practice of all other IMF centers. A regional expert was tasked, and considerable time and effort expended in reaching a consensus to a model to cover 10 percent of Phase V cost over a 5.5 year period. Provided all 16 countries made their voluntary contributions, a total of around US\$ 3.9 million would be raised, of which US\$2.9 million has been received to date. Contributions can only be accepted by the IMF after the member country signs a Letter of Understanding which have been signed by 14 of the 16 countries, with only five countries having fully paid their Phase V commitments. The

contribution formula was further explained by Mr. Kloeden. This issue is tabled for discussion for the model for Phase VI.

- Broad resource guidelines, and resource and cost implications were presented for Phase VI based on various budget and fundraising scenarios. In Phase V there was both a baseline and an aspirational budget. Due to sizeable underspending mostly attributed to COVID19 as well as cost savings, Phase V is expected to run for 6.5 instead of 5.5 years. Scenarios were then clarified. If Phase VI was a continuation of the status quo, the annual cost would be about US\$6 million a year. So, a baseline of seven advisors and associated programs for Phase VI would be at least US\$35 million; eight advisors approximately US\$40 million; and a likely upper limit of nine advisors for approximately \$US 45 million depending on member countries ability to absorb more CD, donors appetite to finance an expanded budget, and depending on the IMF's ability to support and backstop an expanded program.

Mr. Esala Masitabua – Deputy Governor, Reserve Bank of Fiji

Fiji's views:

1/ **Steering Committee Governance.** We fully support any initiative that ensures governance arrangements for PFTAC create a strong, vibrant, and effective Steering Committee. We acknowledge and concur with the recent evaluation that there is scope to improve our Steering Committee arrangements. Much of the thinking we note has been raised in the past. We look forward to benefiting from the experience and models from other IMF centers. The idea of an executive subcommittee has merit and is worth exploring. Having a definite tenure for the chair with appropriate succession planning also sounds good. We concur with the ideas raised today that feed into a note to be tabled for further consideration.

2/ **Member countries financial contribution:** Fiji fully supports the retention of this member contribution model adopted from start of Phase V. We acknowledge that deliberating with a diverse set of members is difficult and challenging, that significant time and resources were already spent. We like many institutions are part of other groupings with cost sharing models, that can be a very, very difficult and challenging task. We feel that the rationale and motivation behind the contributions remain relevant, current challenges that we faced have increased, but the needs and relevance for PFTAC operations for the region remain vital. We note that the perceptions for donors and stakeholders of member countries being equitable partners is especially important in terms of emphasizing the value that we place on PFTAC services. We fully support continuing the arrangements for members contributing to 10 percent of the PFTAC budget.

3/ **Broad resource guidelines** will be further informed and in particular await the donor's feedback.

David Kloeden responded to the Chair, agreeing we have a lot of work to do on Governance that will be elaborated, and we will certainly welcome other ideas and be consultative with Steering Committee in other meetings.

Koni Ravono, Revenue Policy and Tax Administration working group

Looking back on Phase V revenue program achievements, we acknowledge the scaling-up of assistance delivered for PACER plus signatory countries and the increased tax policy support provided for six member countries, as well as the modernization of tax legislation that included income tax law, VAT acts, and Tax administration acts. Improvements have been made to tax administration organizational arrangements,

with the introduction of functional structures in most tax administrations in the region. Compliance Improvement Strategies were developed and implemented in many countries. There has been an increased emphasis on taxpayer services, with improvements evident in many administrations. Large taxpayer offices have been introduced and implemented, and there have been improvements in the management of tax return filing, tax arrears, and taxpayer audit. Skills development is more focused and targeted, one of the achievements has been the support provided to tax administrations for recovery from the impact of COVID19.

Forward looking Priorities for Phase VI are seen within three thematic areas of priority:

1/ Tax policy and legislation – opportunities should be explored to address tax policy and legislation issues across the region, including the potential for Medium Term Revenue Strategies (MTRS) in looking towards the next phase. Support should be provided to facilitate a good understanding of MTRS design and implementation. International tax issues pose rising challenges but there is a lack of capacity and knowledge to respond. There is a need for assistance from PFTAC and PITAA for countries that differ in their stages of development and ability to respond effectively to international tax issues, such as dealing with EU and OECD requirements, areas of EU concern and blacklisting, challenges in administering offshore taxpayers, and the need to explore opportunities for exchange of information instruments and agreements. Many countries do not have such agreements in place. Transfer pricing is a challenge and ongoing support is needed for tax reforms and changes such as the introduction of presumptive taxation for small and micro-size businesses.

2/ Tax administration strengthening remains a critical priority into Phase VI. It is vitally important that tax administrations are sufficiently resourced to carry out their important mandates. Some tax administrations do not have sufficient critical mass to carry out their mandate and even less to invest in future planning. Support for tax administrations is needed to successfully implement tax reforms and secure funding to support such strategies. In terms of the pressure on revenue due to the pandemic, revenue systems must be robust and fair. IT system support is a great challenge for the region, inadequate IT strategies and IT systems will have severe implications for revenue and administration. Support is needed for management information and reporting as existing systems provide inadequate reports or have unreliable data especially when identifying and pursuing tax debts. A focus on digitalization will be in terms of our own IT systems, E-tax, E-commerce, and many other elements.

We cannot avoid the COVID19 impact on tax administration. Revenue collection must be a priority in the coming years. With the huge losses for our tourism dependent countries, businesses are closing without providing sufficient documentation to finalize cases with audit plans affected. Improving audit administration is a significant priority for the future and more support is needed. To get the foundations of tax administration right, work is needed on processes and procedures. Standard operating procedures, taxpayer registration, and data integrity are vital for effective tax administration. Data analysis is of great importance and there is a need for more staff training, especially relating to point of sale systems recently introduced in several countries. Data analysis and risk management is vital for the future. Further improving organizational structures remain a future focus. Training workshops have made a positive contribution and should continue. Extractive industries may develop into an important new priority with increasing mining activities and applications for licenses and the need for training to understand more about these industries including in addition to mining other resource sectors like fishing and logging.

3/ A focus on SME sectors and further development of audit skills are a priority as highlighted from the working group. Assistance must be demand driven but influenced by the capacity to undertake reform.

With PFTAC, PITAA and other development partners, collaboration, and cooperation are especially important. Support and assistance must fit the bigger picture, such as working together on road map for IT implementation. Remote work by experts has worked well for the region, but needs to be flexible to address emerging needs leading into Phase VI. PFTAC and PITAA should try to touch base with country authorities as much as possible to tailor programs to meet the specific needs of the countries. It is important to stay connected and overcome communication challenges and find alternative ways to remain engaged. Tax administrations must cope with massive demands from different development partners, especially for workshops, webinars, and meetings with demands placed on very limited available time. Virtual meetings have provided opportunities for exposure to a wider range of topics with expanded participation.

Respondent Margaret Cotton, Deputy Division Chief, Revenue Administration Division 1, FAD thanked the Working Group for the extensive summary, and the work and time they have committed. The insights are important to provide an understanding of the areas of importance to member countries and for focus of the revenue program in the years ahead. With the strong demand for revenue mobilization critical to fund the COVID19 recovery, it is important to get a clear indication of country needs, interests, and priority areas that will help in planning, recruitment, coordination, and collaboration with development partners.

With regard to MTRS, Ms. Cotton confirmed that FAD and PFTAC are working with partners from the Platform for Collaboration on Tax (PCT) and the ADB to deliver a virtual workshop for PICs and other small states at the end of August. Invitations have been sent by the ADB, so members who are interested in the MTRS approach are encouraged to attend the workshop as it will help address concerns about reform capacity, donor collaboration and coordination, and sequencing events. The point of an MTRS is to align the national development needs of a country so that the tax reforms are developed holistically and reflected in a home-grown MTRS that is fully coordinated with development partner support needs.

On IT issues, the IMF recognizes its importance to effective revenue administration, but the IMF cannot fund procurement. Instead, we can help with IT strategies, data analysis, risk management, and streamlining of business processes to capitalize the many benefits that technology provides. We can also help explore opportunities to address common issues across the region. For example, managing international tax issues where FAD has recently developed a diagnostics framework for assessing and managing international tax risks. The framework has been piloted in the Maldives and Malaysia and we are confident it is suitable for small tax administrations. We also want to ensure our CD reflects the absorptive capacity of PIC tax administrations noting that staff can be severely stretched when taken offline to implement reforms. Insufficient critical mass of some tax administrations is a concern as it is hard to cover modernization reforms and all core tax activities required by a tax administration with very small staff numbers. Now is the time to think about investing in increased capacity and staff to help raise revenue. We welcome the opportunity to continue working with PITAA and PIC Tax Administrations in the next phase of PFTAC.

Chair summed up by thanking the Revenue Working Group that has highlighted the focus of revenue mobilization to help fund the COVID19 recovery and the role of medium term revenue strategies to support tax administration. Various issues will resonate with different stakeholders regarding absorptive capacity, and the pros and cons of adaption needed to engage virtually, but it is important to stay connected and share experiences. In strengthening institutions, we constantly lose skills with an ongoing need to train staff who then may get poached by other organizations. In strengthening institutions, we need to focus on digitalization that is appropriate to our diverse needs and membership. Our similarities

are more than our differences that PFTAC membership helps leverage. He noted some of the emerging issues raised such as extractive industries, SMEs, and dealing with international tax issues such as blacklisting, cross border collaboration, and transfer pricing.

Isikeli Vocedua, Public Financial Management (PFM) Working Group

1/ **PFTAC PFM support is demand driven** that will continue as the driving principle to guide the provision of support under Phase VI.

2/ **There are disparities in the use of PFTAC services in Phase V.** While some countries have made very good use of PFTAC assistance, others have received much less support, possibly due to a lack of capacity to effectively utilize or coordinate the TA or having too many other demands or commitments. PFM is a quite crowded space with respect to donors and other TA providers. It will be important for PFTAC to actively engage member countries and other stakeholders to better understand their issues and respond to their needs in Phase VI, stimulating demand as appropriate from previously underserved members.

3/ **Climate change is a challenge for PIC** economies today and gender is gaining prominence in terms of human development, but more consideration is needed on how to most effectively mainstream these issues into the PFM programs.

4/ **Fraud and corruption** is a serious concern for both beneficiary and donor countries, but the PFM program can make important contributions by targeting transparent and accountable budget processes and supportive legislative frameworks to eliminate fraud and corruption.

5/ **Budget frameworks need to be simplified and aligned with GSFM 2014** and understood by stakeholders. Support towards improving budget processes will continue to be important in Phase VI with an appropriate balance required between conducting assessments versus actual CD delivery that contributes to improved outcomes.

6/ **PEFA assessments are resource intensive** for both PFTAC and the recipient countries that take staff away from performing other important duties such as implementing reforms and delivering programs. The frequency of assessments needs to consider both country demand and resource constraints with the average elapse time between assessments tending towards five rather than three years.

7/ **Coordination of PFM support at the regional level.** PFTAC has in the past had a very active role in coordinating PFM activities at the regional level to help avoid duplication and to deliver TA activities in a coordinated way. It is important to determine the optimal way to maintain strong coordination across TA providers in the Pacific on PFM issues, and the expected contribution of PFTAC.

8/ **Non-tax revenue** TA has been requested by several countries from PFTAC to help review their NTR policies to ensure it is efficient in terms of revenue raising, affordability, and equity. In Phase IV, the PFTAC PFM program was quite active in NTR issues, but late in Phase V a few requests had to be referred to the Revenue and Macro program for assistance. Given more demand is expected, it will be important for PFTAC to have a clear policy on addressing NTR issues and requests for TA.

9/ **Formation of an association of PFM practitioners** has been suggested to build a regional network modeled on similar groupings for financial supervisors (AFSPC) and tax administrators (PITAA) to help drive reform initiatives and deliver networking benefits for members.

10/ **PFM activities are designed around seven topics of the IMF RBM catalogue** illustrated by the presented diagram with the inner wheel reflecting comprehensive credible budgets, improved budget execution and control, improved quality of fiscal reporting, improved asset and liability management, identification and management of fiscal risks, improved public investment management, and effective PFM laws and institutions. The outer wheel highlights activities that are demand driven and tailored to country situations and circumstances and that recognizes capacity constraints. These include limiting fraud and corruption, effective public service, improving service delivery, enhancing transparency, and strengthening governance. At the center are the issues to be mainstreamed across all topics such as gender and climate responsive PFM.

Respondent Mr. Iulai Lavea, PFTAC PFM advisor

1/ He underscored the critical importance of having solid PFM systems and processes in member countries to underpin good economic management. Many donors now require this as a pre-condition for their funding. The importance of having strong and robust PFM systems and processes will underpin Phase VI.

2/ PFTAC exists to serve the interests of member countries. The PFM program is dictated by country priorities and whilst PFTAC carefully develops work plans and budgets for implementation, there is always flexibility to adjust work plans to accommodate country priorities that may arise during the fiscal year.

3/ Regarding the disparity in the use of PFM TA going forward, PFTAC will work with all countries particularly low TA users to better understand the constraints they are facing and discuss how best PFTAC can help. Member countries were invited to engage with PFTAC via email, WhatsApp, or by whatever means that works for them and PFTAC will respond immediately on how best support can be delivered.

Ms. Majdeline El Rayess from the IMF's Fiscal Affairs Department (FAD) thanked the Working Group and Mr. Lavea for his intervention and the points raised. She appreciated the Working Group for their insightful comments that helped build on some of the points in the Pacific PFM Working Paper published last year. She noted that FAD was working towards mainstreaming the PFM climate modules and other tools that could benefit the work and moving forward including in Phase VI with more tailored assistance.

Samoa acknowledged the PFM work of PFTAC in the region and highlighted the importance of responding to country needs which he noted PFTAC does well. Regarding the mainstreaming of climate change and gender, Samoa noted that the huge effect of climate change on small countries and their vulnerability to shocks. The TA from PFTAC assists members with their responses and following a disaster helps with the recovery and instituting resilient systems to protect against future shocks. Samoa supports the concept of a PFM practitioner group that needs to be well structured and requested that PFTAC draft and share with countries a proposal for consideration. With respect to NTR, PFTAC had been particularly helpful to Samoa by assisting in developing an NTR policy that is transparent, efficient, affordable and equitable. Samoa encourages PFTAC to do more NTR reviews to help strengthen NTR policies and revenue collections.

Chair summed up by thanking the PFM Working Group, noting that PFM is a crowded space, but collaboration has been improving constantly over the years. He noted that PFTAC exists to serve its members and this process is important in developing the future priorities and programs.

Mr. Epeli Waqavonovono, presented for Macro Economic Statistics Working Group

The Statistics Working Group comprised participants from Kiribati, Marshall Islands, and Nauru (representing the group of smaller countries) as well as Samoa (representing the bigger and reasonably-resourced National Statistics Offices (NSO) in the region). Beyond PFTAC from a TA provider perspective, the ABS participated along with SPC who presented the findings as the group spokesperson.

In discussing the future technical assistance needs of countries, the Group noted there were great differences between the larger and smaller countries, e.g. micro-sized countries need technical assistance to compile statistics, such as International Merchandise and GDP and they benefit from peer-to-peer support including capacity supplementation or substitution that is likely to continue being needed in the future. There are challenges and issues with the quality of administrative data that NSOs rely upon. All NSOs require administrative data that meets appropriate and usable standards that often takes considerable time and effort to compile, with some NSOs facing challenges in receiving the data from custodians.

Samoa has a very well-developed system for the exchange of administrative data between the custodians and the NSO to produce regular GDP and other indicators like quarterly employment numbers in a timely manner. Timeliness has been particularly valuable during the COVID19 crisis. Countries noted the strong continued demand for PFTAC national accounts training, particularly given challenges with staff turn-over that requires new staff to receive training, so courses will continue to be needed on a regular basis.

Support for the compilation of Government Finance Statistics (GFS) continues to be great importance given how large government expenditure is to economic activity in most countries. Countries have signaled that there is a very strong continuing demand for this work, and there is a major concern that the regional PFTAC GFS program will be ending, even though support will continue to be covered from HQ in the future. There is continuing demand for support on the compilation of External Sector Statistics (ESS), in particular remittances given significant flows and strong economic dependence in several countries. TA demand also exists for the compilation of trade statistics, and importance is increasing around the numbers of Pacific workers in Australia and NZ who are transferring money back to their countries. More support is needed for accurately recording these personal remittances and transfers.

Respondent, Paul Austin, Deputy Chief, Real Sector Statistics Division, IMF Statistics Department

Welcomed the deliberations and preliminary findings of the Working Group, these would provide inputs for informed discussions on the way forward. He welcomed the shared experiences of the hybrid working model that is being integrated at PFTAC and the broader CD work programs of the IMF and Statistics Department. He noted the importance and appreciation for on-going training, as well as timely high frequency statistics. On the importance of annual national accounts, he noted that the Statistics Department has recently launched an online program and hopes that PFTAC countries consider registering to participate online learning at their own pace. This could be a very useful resource particularly for people starting their careers in national accounts. He concluded by noting that the Statistics Department looks forward to continuing discussion on how to scope the future work plans.

Marcus Scheiblecker, PFTAC Real Sector Statistics Advisor noted that invitations to the mentioned courses have been released to the NSOs and extended the invitation to Central Banks to be in touch with their NSOs to register online and share the material.

David Kloeden, PFTAC Director: added that online training is an excellent resource that has been expanded significantly by the IMF over the last few years across many programs and is particularly useful given the COVID constraints with travel. Regarding capacity substitution, he noted that for the NSOs in

very small states that this is an ongoing reality given the resource and capacity constraints these countries face and the criticality of producing economic statistics. In planning for Phase VI, options to expand support to these countries will be explored, and he thanked the other statistics TA providers for the strong collaboration including the ABS, NZ Statistics, and the Pacific Community (SPC).

Chairman summing up: in terms of the way forward for Phase VI, we need to address issues of diverging needs that balance the need for capacity replacement and new statistical products. There is increased need for higher frequency statistics, but noted that the RBF has experienced challenges during the pandemic to expand data sets, a point noted by the IMF Deputy Director in his introductory comments. There are data gaps for social economic statistics, and we need to get a better handle on confronting climate change and how to achieve our SDG targets. It is important to ensure GFS support remains available in the design of Phase VI but noted the continued support promised by the IMF Statistics Department from Washington. The issue of international remittances is particularly important. He thanked the chairperson, the Working Group members, and partners including Australia, and New Zealand.

Ellison Pidik, Assistant Governor, Bank of Papua New Guinea Summary of the Financial Sector Supervision Working Group

Membership of the Working Group included Cook Islands, Fiji, Marshall Islands, Papua New Guinea, the World Bank and ADB on behalf of the 11 PFTAC countries that have benefited from the FSS program throughout Phase V.

Phase V financial sector supervision projects cover four areas – risk-based supervision (RBS), banking regulation and supervision, insurance regulation and supervision projects, and cyber security regulation and supervision. The implementation of RBS has been initiated in nine countries and is at an advanced stage of completion in six countries. Two countries have completed the prudential and risk management reform program, with five other countries on track. A third initiative is helping with the review of insurance legislation and prudential standards, with the development of associated standards in three countries. And a final initiative is benefiting four countries on cyber security regulation and supervision. Going into Phase VI there will be an ongoing need for PFTAC to continue rolling out these thematic projects to remaining countries that wish to pursue these reforms. These include countries that either began late in Phase V with efforts needing to continue into Phase VI or had not participated in Phase V but now wish to consider one or more of these reform projects in the future.

To help develop a foundation for Phase VI, the Working Group prepared and conducted a survey that produced responses from 11 PICs. The survey asked PICs to rank each of 45 potential CD activities grouped across 10 financial supervision topics as ‘High’, ‘Medium’ or ‘Low’ priority according to their own country situation. The working group considered the responses received from the PICs and, with some moderation, produced an overall priority list for the region with the top ten priorities identified. The final outcome of overall group ratings gives a strong indication to the IMF, ADB, and World Bank of priorities for the provision of TA needs around these thematic areas.

The working group priority list is intended to identify topics for thematic implementation across PICs as well as for conference and workshop topics. At the country level, TA themes will be prioritized based on the country specific needs, which may be slightly different from group ratings/weighting. For example, countries that have successfully completed a major project in Phase V are unlikely to rate it as a high priority for Phase VI, bringing down the ranking of what otherwise may be an extremely high priority for countries that are still tackling the reform or other countries that are yet to start. Furthermore, while

considering provision of TA for specific countries, the basis will be their individual priority. That means a thematic project will not be offered to them if it does not figure in their priority list. In a country, a project that has been indicated as 'High Priority' by the respective supervisory authority will be taken up first regardless of the priority of the Region. Thematic projects may be taken up by individual countries as and when they meet the pre-conditions for moving forward.

The proposed priorities are intended to serve as a baseline for the Phase VI program cycle and may be reviewed in response to changes in the macro-economic environment and other global developments.

David Kloeden thanked the Working Group for their efforts undertaken in close collaboration with AFSPC to identify future priorities, and noted the effective use of the survey that produced strong country responses.

Respondent, Veronica Bacalu, Deputy Division Chief, IMF's Monetary Capital Markets Department

Ms. Bacalu thanked the Working Group and congratulated them on their efforts and their excellent presentation. MCM is committed to the priorities outlined, including her colleagues comprising the resident PFTAC advisor Rajinder Kumar as well as the program backstopper at IMF headquarters Ms. Hee-Kyong Chon. Regarding ongoing projects, she noted that those countries currently participating in different projects will continue to be supported through capacity building by MCM and she welcomed the aspirations of other countries to consider financial sector reforms. The survey approach was a sophisticated way to reflect the priorities that have been set out very clearly with respect to monitoring systemic risks, supervision manual updates, financial stability reports, and supervisory stress testing for financial institutions. MCM will work to reflect these priorities identified by the member countries. Coordination and cooperation among stakeholders will be a key priority in responding to country specific needs, and developing plans and coordinating the work agendas between TA providers.

Ms. Hee-Kyong Chon, Senior Financial Sector Expert, IMF's Monetary and Capital Markets Department thanked Assistant Governor Pidik noting as backstopper of the FSS program it was very good to receive this input from the member countries of their TA priorities. She noted that MCM very much supports the priority list of the Working Group for capacity building and regulatory reform that is a long-term process, noting the exercise has demonstrated the strong ownership of the Working Group countries. For TA needs across the PFTAC jurisdiction, the list is quite detailed and broadly in line with global MCM TA priorities in the area of financial supervision and regulation. She also stressed the need to highlight realistic and detailed prioritization and cooperation among TA providers.

Chairman summed up by thanking Assistant Governor Pidik and the Working Group for the comprehensive presentation that was very detailed, specific, and based on clear ratings. Financial stability is a great concern in the region especially given the impact of COVID19, so it was good to see how the Working Group had outlined these priorities. He noted that projects that are underway and incomplete will also inform our planning for Phase VI. He thanked Ms. Bacalu for her valuable contributions especially comments around country specific needs and the opportunity for virtual ways of working and networking that provide for more diverse views and help expand our reach. The Working Group priorities are very closely linked to the pressing issues of the post pandemic world, such as systemic risk, resolution, stress testing, and financial stability reporting.

James Webb, ADB, Findings of the Macro-Economic and Debt Management Working Group.

He first thanked members of Working Group that had good discussions around debt issues in the region and how countries are trying to manage their debt.

Many of the general themes have already been mentioned, including the challenges of capacity constraints of country counterparts but also limitations on delivery capacity of PFTAC given the resident advisors are often stretched across many countries that may lead to shorter engagements than what may be most effective for longer term support.

Regarding capacity substitution versus capacity building, the need often arises because the beneficiary agencies with a few larger country (e.g. Fiji or PNG) exceptions often have just one or a few staff with multiple responsibilities such as with respect to debt management or macroeconomic modelling. There are good opportunities for cross-country cooperation to help share the knowledge of the quite few very experienced macro and debt management officers. Providing peer-to-peer and other regional networking opportunities would be a good modality to improve connections between agencies that face similar issues in managing small offices with very high workloads and technical demands.

As noted earlier, the short and long term macro fiscal outlook for the region has fundamentally changed with COVID19 that will put pressure on modelling teams that have used past trends to model future projections. There is an expectation that teams will require a lot of technical input and capacity building moving forward, as the recovery takes hold at a different pace across the region, it will be important for the impact of COVID19 to be understood at the sectoral level. Ensuring debt sustainability and fiscal policy is underpinned by good macro-economic modelling will be an important element for policy makers across the region. We note and welcome the work that the IMF and PFTAC team has done with capacity development and providing technical expertise, but again note the risks associated with institutions with very few experienced and trained staff.

Debt management will be a high priority in Phase VI as the debt dynamics have changed substantially from before COVID19 especially where debt levels were previously declining but have now reversed, in some cases with large increases. This trend is likely to continue for some time given the investment needs of countries recovering from the crisis, particularly with governments needing to invest in public health. Previously development partners may have helped address such national priorities including through debt financing. Countries will need to understand how to better manage their risk exposures to their debt portfolio, including contingent risks and guarantees that is an area the Pacific needs to strengthen. PFTAC TA will help address some of these needs along with experience sharing between countries.

One issue that the Macro program has been involved with recently may be better situated with the PFTAC financial program is the Correspondent Banking Relationship (CBR) project to develop a regional Know Your Customer (KYC) facility. There is interest for expansion of the project to the Northern Pacific countries and possibly the Cook Islands that do not have Central Banks. And finally, issues around gender and inclusive growth need to be mainstreamed into PFTAC programs where possible including drawing on some good lessons in the region.

Respondent Scott Roger, Deputy Division Chief, Pacific Islands Division, APD began by acknowledging the outstanding contributions of the PFTAC Macro advisors Iris Claus and Andrew Beaumont.

Sustainability of CD is challenging when capacity is limited so we need to focus on dealing with the loss of key personnel or when there is simply insufficient personnel. This is a perennial issue to deal with in the macro context where greater inter-regional collaboration and sharing would be helpful. In Phase V we did not anticipate COVID, so the challenges for the region have changed, such as debt sustainability, correspondent banking, insufficient sustainable growth. We need to take away from this exercise what we think the Phase VI priorities will be, but we must be adaptable and flexible and able to respond quickly to changes. The IMF has not done a bad job in responding quickly to the COVID crisis. Challenges include dealing with the longer term effects that forces us to rethink priorities in the region. In discussions within the Asia Pacific Development we expect going forward during the remainder of Phase V and into Phase VI will require a lot of experimentation. This could include ICD having a greater role in delivering technical assistance, how we use short term experts more effectively, promoting inter-regional assistance, and more remote and virtual work even when travel resumes. We need to try different things but anticipate making some mistakes. It will be critical that member countries highlight where things are going well, and where things are not going well. We can't wait for the annual Steering Committee meeting to get that feedback. We need direct feedback promptly, tell us how we are doing, so we can tweak, adapt, and better meet your needs.

One of the things the Fund is pushing for in all of its programs is much closer integration between surveillance and technical assistance. We have seen this become stronger lately with a great deal of collaboration between the PFTAC team and APD country teams.

Chairman summed up noting that for Phase VI the need to be flexible, adapt over the longer term, and ensure continuous feedback on initiatives, the frequency of engagement, and strengthening Steering Committee governance. Sharing and collaboration will be particularly important for debt management given the challenges brought by COVID. Extending the Know Your Customer initiative to the northern Pacific membership was noted as well as mainstreaming gender and inclusive growth.

Final session:

James Yoo, Global Partnership Division, IMF Institute for Capacity Development Resources

We are at the start of the process to prepare for Phase VI and will build on the outputs of the Virtual Working Group, keeping everyone informed and seeking further inputs as we move forward.

Timeline: we expect all steps to be completed by this time in 2022 hopefully leading to some donor commitments and advance contributions to provide a seamless transition to the next Phase by 2023. Our aim is to close the current phase with the smallest possible unspent balance that can hopefully be carried forward, but we will discuss this bilaterally with each member.

We will now systematically take the outputs of the Working Groups and other feedback into account with the launch of an Inter-departmental Working Group in the coming months to gather the views and interests of all affected IMF departments e.g. APD, ICD, the four CD departments (Fiscal Affairs, Statistics, Monetary Capital Markets, and Legal) as well as support departments like HRD and Finance.

We are conscious that we are launching this effort during the vacation period in the Northern Hemisphere but hope that the group can complete its work by mid-September to then secure approval by IMF management. Once the Phase VI strategy note is completed the main task is to draft the Program Document for the next phase. We hope to have an advance draft to share with Steering Committee

members for their views and feedback by late November 2021 and for discussion at the next Steering Committee meeting which we hope to hold virtually at that time. Then within a few additional months, we hope to have a final version of the Program Document ready for publication around February 2022. Through outreach to external partners we will seek expressions of interest to participate in the next phase. In the lead up to the May 2022 Steering Committee meeting, we hope a few donors will be able to formally pledge their support and have letters of understanding finalized as well. From the IMF's perspective, it is essential to have sufficient funding pledges before the end of Phase V so we can have a smooth process during the transition period. We welcome comments on some of these plans and timeline.

Michal Krejza, Head of Cooperation, EU delegation, Suva in general, we greatly appreciate the quality of the work in the current project in which we finance both PFTAC and the UNDP and we seek to continue this good cooperation. In general PFM will get more important in the next few years because of the explosion of public debt. The EU perspective is that PFM remains extremely important because we implement our programs in the Pacific especially in the form of budget support, with budget payments having essential PFM conditions.

We are pleased to announce the intention of providing € 11 million of funding for technical assistance for PFM reforms, over-sight, and accountability. This will consist of two parts, an agreement with the IMF covering specialized training for PFM institutions, obviously through PFTAC and an agreement with the UNDP covering supreme audit institutions for oversight of public finances. From the EU perspective, both projects are mutually important and reinforcing. In terms of the timing, as mentioned we expect the PFTAC Program Document to be available by February 2022. We hope it is indeed ready around that time because EU money might be available early as we had originally assumed the money was needed by mid-2022, but now looks like mid-2023. It is essential under EU procedures to sign an agreement with PFTAC before November 2022 at the latest, so we need to cooperate on the basis of that deadline. We look forward to our continued cooperation.

David Kloeden (PFTAC), thanked the EU for the good news and committed to ensure the agreement is accomplished within that timeframe. We welcome our continued partnership with the EU, UNDP, and other partners.

Chris van Hooft (NZ MFAT), thanked participants for the discussion and noted they will be undertaking internal discussions on Phase VI and will keep us updated.

Matthew Harding (DFAT), noted a need to have a conversation about the shape of DFAT regional programs going forward, appreciating the efforts of the revenue and other working groups and the processes in setting up the new phase. PFTAC is an important part of the DFAT regional program and a valuable program with a good relationship with the IMF. There is a good case going forward with the timeline that should work from their side and their July-to-June financial year. Plans for the extension of Phase V will require formal finalization with the IMF to ensure maximum utilization of the Phase V funds and transition to Phase VI that can be discussed bilaterally.

David Kloeden (PFTAC)

Things look promising for PFTAC's future. There is a lot of work ahead and need to ensure we take on board everything heard today. We will continue to remain very engaged with stakeholders as it evolves.

Recap issues from the first session: we look for a consensus to retain the member country contribution funding formula for Phase VI and the principles behind it. On Steering Committee Governance, we will

develop ideas and bring them back to the next Steering Committee for further discussion and possible further development. And finally, on guidelines for Phase VI, these were provided to ensure realism around the likely size, scope, and cost for Phase VI.

Samoa intervened that the points made were well noted.

Chairman summing up:

We have proposed and all agree for the secretariat to work on guidance note on improving Governance and feed this into the next Steering Committee meeting in Niue 2022.

We agree to keep the member country contribution under discussion, but highlight the position of Fiji that totally supports the model and the continued commitment to PFTAC and other donors assisting us in this journey.

The chair noted the honor to provide some closing comments by thanking all for your valuable time and contributions, in particular thanks to the five Virtual Working Groups for providing comments and the IMF for their views. Thank you for taking on the task to provide important information that will feed into the next phase of our journey. We acknowledge our donor partners for their generosity and sincerely appreciate their time to help us address the issues that will ultimately translate into better outcomes and lives for the citizens of our region, thank you for the backstoppers at IMF headquarters in Washington, thank you for other partners, ADB, WB, IFC. Thank David for his leadership and to the team of advisors for their support, commitment, and dedication. We hope that we can display our Pacific spirit and resolve some of the issues on governance and membership contribution.

We have approved the 2022 workplan and budget on Tuesday and today we begin the start of Phase VI planning. As the saying goes if you fail to prepare, prepare to fail. Quoting Abraham Lincoln: *The best way to predict the future is to create it as not all variables are in our control, but we can and will do our best to influence what we can.* Vinaka vakalevu, God bless us all, our countries and our people.

Final conclusion

David Kloeden (PFTAC), thanked Esala Masitabua, Deputy Governor, Reserve Bank of Fiji for chairing the meetings and reiterated thanks expressed by the chair, lots of work to be done that will remain inclusive, thank to donors for PFTAC Phase V and for those future donors for Phase VI. He thanked the PFTAC team for their hard work as well as the pool of Short-term Experts, colleagues in back-stopping departments, and other organizations such as SPC and PITAA. We will consult virtually for the meeting later in November 2021 and hopefully before we meet in person in Niue May 2022.

MINUTES OF THE 2021 PFTAC STEERING COMMITTEE MEETING

Annex: Participants List for July 2, 2021 PFTAC Steering Committee Meeting

Country/Organization	Member/Observer	Name	Title/Organization
Cook Islands	M	Kai Berlick Pim Borren	Ministry of Finance Ministry of Finance
Fiji	Chair	Esala Masitabua Kelerayani Dawai	Deputy Governor, Reserve Bank of Fiji Fiji Revenue and Customs Service
Nauru	M	John Peterson Isikeli Vocedua	Ministry of Finance Ministry of Finance
Niue	M	Doreen Siataga	Ministry of Finance
Papua New Guinea	M	Loi Bakani Ellison Pidik	Governor, Bank PNG Asst Governor, Bank PNG
Samoa	M	Feagaimaleata Tafunai Central Bank Staff I.Sheppard	Ministry of Finance Central Bank of Samoa Ministry of Revenue
Tonga	M	Balwyn Fa'otusia Masivailo Masila	CEO, Ministry of Finance National Statistics Office
Asian Development Bank (ADB)	M	Masayuki Tachiire Erik Aelbers Francesca Rosales Pamela Wyatt James Webb	ADB, Suva ADB, Suva ADB, Manila ADB, Manila ADB, Suva
European Union (EU)	M	Michal Krejza Barbara Risken Marga Peeters	EU Suva, Head of Cooperation EU Suva Delegation EU Suva Delegation
Australia	M	Matthew Harding Alex Khan Melissa Tipping Keshwa Reddy	DFAT, Canberra DFAT, Canberra DFAT, Suva DFAT, Suva
New Zealand	M	Chris Van Hoof	MFAT, Wellington
United States	M	Tyler Makepeace	US Treasury, Washington DC
IMF	M	Krisnan Srinivasan Ann-Margret Westin Paul Austin Barend de la Beer Achille Pegoue James Yoo Margaret Cotton Vincent Koukpaizan Majdeline El Rayess Scott Roger Hee-kyon Chon Vernonia Bacalu Olya Kroytor Christophe Waerzeggers Leni Hunter	Deputy Director, Asia Pacific Department Institute for Capacity Development (ICD) Statistics Department Statistics Department Statistics Department ICD Global Partnerships Division Fiscal Affairs Department, Revenue Admin Fiscal Affairs Department, Revenue Admin Fiscal Affairs Department, PFM Division M2 Asia Pacific Department, Pacific Division Monetary Capital Markets Dept, Fin Sup Monetary Capital Markets Dept, TA Division Legal Department Legal Department IMF Resident Representative, Suva
PFTAC	M	David Kloeden Paul Seeds Iulai Lavea Georg Eysselein Marcus Scheiblecker Luis Temes Castrillon Andrew Beaumont Rajinder Kumar	Director PFM Advisor PFM Advisor Revenue Advisor Real Sector Statistics Advisor GFS Advisor Macro Programming Advisor Financial Sector Supervision Advisor

MINUTES OF THE 2021 PFTAC STEERING COMMITTEE MEETING

Country/Organization	Member/ Observer	Name	Title/Organization
		Briar Ferguson Nina Samuela Shane Prasad Pretti Lata Kalara Raidruta	Debt Management Advisor Office Manager Economic Analyst Administrative Assistant Administrative Assistant
Australian Bureau of Statistics (ABS)	O	Annette Bastaja	ABS
Australian Tax Office (ATO)	O	Gabrielle Jackson Belinda Darling	ATO ATO
World Bank	O	David Gould	Sydney Office
Pacific Islands Forum Secretariat (PIFS)	O	Denton Rarawa Salaseini Raiwalui	Senior Economics Advisor PFM Advisor
Secretariat of the Pacific Community (SPC)	O	Epeli Waqvonovono	Director, Statistics for Development
Pacific Association of Supreme Audit Institutions (PASAI)	O	Esther Lamekopoutoa	Chief Executive
UNDP	O	Marine Destrez	
Griffith University	O	Parmendra Sharma	
Pacific Islands Tax Administrators Association (PITAA)	O	Koni Ravono	Head of Secretariat
UN ESCAP	O	Sanjesh Naidu	Suva Office