



2021 PFTAC Steering Committee Meeting

JULY 2, 2021

(DAY 2 OF 2)

David Kloeden
PFTAC Director

Our Phase V Contributors (so far)



Introductory Speakers

Mr. Krishna Srinivasan

Deputy Director of the IMF's
Asia Pacific Department (APD)



Mr. Denton Rarawa

Senior Advisor, Economics

Pacific Islands Forum Secretariat (PIFS)

Agenda

Time (Suva time)	Duration (minutes)	Description	Speaker	Organization
11:00 am - 11:12 am	2	Welcome	David Kloeden	PFTAC Director
	5	- CD Implications from Medium-Term Macroeconomic Priorities for the Pacific	Krishna Srinivasan	APD Deputy Director
	5	- Views and priorities from the Region	Denton Rarawa	PIFS Economic Advisor
11.12 a.m. – 11.25 a.m.		Phase VI: Setting the Scene & Design Parameters		
	4	- Steering Committee Governance	David Kloeden	PFTAC Director
	4	- Member Country Financial Contributions	David Kloeden	PFTAC Director
	5	- Phase VI Guidelines	David Kloeden	PFTAC Director
		- Programs, CD Modalities (Number LTX, Ratio of STX to LTX, Virtual Delivery)		
		- Broad budget envelope guided by fund-raising, deliverability and absorptive capacity		
11:25 a.m. - 11:40 am		Findings & Proposals of Revenue Working Group		
	5	- Report by Working Group Spokesperson	Koni Ravono	Head, PITAA
	2	- Views of PFTAC/FAD	Margaret Cotton	FAD Deputy Division Chief
	5	- Discussion and Q & A		
	3	- Summing Up and Endorsement of Consensus	Chairman	
11:40 a.m. - 11:55 am		Findings & Proposals of PFM Working Group		
	5	- Report by Working Group Spokesperson	Isikelli Voceduardu	Nauru Dep Fin Sec
	2	- Views of PFTAC/FAD	Iulai Lavea	PFTAC PFM Advisor
	5	- Discussion and Q & A		
	3	- Summing Up and Endorsement of Consensus	Chairman	
11:55 a.m. - 12:10 pm		Findings & Proposals of Statistics Working Group		
	5	- Report by Working Group Spokesperson	Epeli Waqavonovono	SPC Director Stats for Dev
	2	- Views of PFTAC/STA	Paul Austin	STA Deputy Division Chief
	5	- Discussion and Q & A		
	3	- Summing Up and Endorsement of Consensus	Chairman	
12:10 a.m. - 12:25 pm		Findings & Proposals of Financial Sector Supervision Working Group		
	5	- Report by Working Group Spokesperson	Ellison Pidik	BPNG Assistant Governor
	2	- Views of PFTAC/MCM	Ms. Hee-kyong Chon	Snr Financial Specialist, MCM/FR
	5	- Discussion and Q & A		
	3	- Summing Up and Endorsement of Consensus	Chairman	
12:25 p.m. - 12:40 p.m.		Findings & Proposals of Macroeconomics & Debt Management Working Group		
	5	- Report by Working Group Spokesperson	Garth Henderson	Financial Secretary Cook Islands
	2	- Views of PFTAC/APD	Scott Roger	IMF Pacific Division Dep Chief
	5	- Discussion and Q & A		
	3	- Summing Up and Endorsement of Consensus	Chairman	
12:40 p.m. - 12:55 p.m.		Phase VI: Resources, Fund-Raising, Timeline, Next Steps		
	5	- Next Steps and Timeline	James Yoo	IMF/ICD Global Partnerships
	10	- Reactions from Donor/s	EU and Others	Donor Representatives
12:55 p.m. - 1:00 p.m.	5	Closing Remarks	Esala Masitabua	Fiji Chair -RBF Deputy Governor

Phase VI: Setting the Scene

■ Phase VI:

- **When:** most likely from May 2023, depending on the Phase V extension. If so, duration would be five years ending April 30, 2028
- **Process:** a Program Document (PD) will be developed by the IMF covering the proposed focus, anticipated resources, and fund-raising targets. This will be preceded by an internal IMF inter-departmental working group that will produce a Phase VI Strategy Note. The timeline will be outlined later, but the PD is expected to be ready by early 2022.
- **Consultations:** meeting today aims to gather and note stakeholder inputs and views for the future, particularly from member countries, current and possible future donors, and PFTAC partners.

■ Virtual Working Groups (VWG):

- **Input Channels:** given limitations of meeting briefly and virtually, PFTAC facilitated creation of 5 Virtual Working Groups each with at least 3 country representatives, 1- 2 donors, and regional organization/s where applicable.
- **Themes** of the VWGs aligned with PFTAC programs: (1) PFM; (2) Revenue Policy & Administration; (3) Macroeconomic Statistics; (4) Financial Sector Supervision; and (5) Macroeconomic Programming and Debt Management.
- **Backward Looking** efforts and impact of the Phase V programs, considering what has been completed, and unfinished work needing to continue
- **Forward Looking** to take account of the changing landscape, emerging priorities and needs, and expanding areas of IMF engagement

■ Some guidelines and issues to consider for Phase VI:

- **Steering Committee Governance** to ensure maximum representation and effectiveness
- **Member Country Contributions:** in continuation of Phase V that was the first period in PFTAC 27-year history of member country contributions
- **Resource Guidelines for Phase VI:** budget and fund-raising scenarios and implications for number of programs and resident advisors

Phase VI: Steering Committee Governance

■ Steering Committee Effectiveness:

- **Opportunities for improvement:** how to strengthen the engagement, representation, and continuity in strategic decision making?
- **Possibilities to Consider:** (1) an executive sub-committee suggested by evaluators; (2) tenure for chair with clear succession guidance
- **Frequency of Meetings:** benefits of virtual meetings between annual in-person events

■ CARTAC example to consider:

- **Adopted Operational Guidelines** for the Steering Committee around the role, tenure, and succession of the chair and new position of vice-chair; membership, and decision making

■ Proposal to develop an Operational Guidance Note

- **Coverage:** report back at next SC meeting with ideas for direction for further development
- **Draft Guidelines:** for consideration by 2022 SC meeting, implementation before or start of Phase VI.

Phase VI: Member Country Contributions

■ History:

- **PFTAC was last IMF center** to introduce member contributions.
- **Contribution Sharing Formula:** developed by consensus across the 16 member countries from start of Phase V to cover 10 percent of budget
- **Application of the Formula:** all contributions voluntary but requires LoU that were signed by 14 countries. Of \$US3.9m expected for Ph V, \$US2.9 million received so far

■ Formula model:

- **Three weighted components:** (1) economy size (GDP) – 70 %; (2) average per-capital income – 15 %; and (3) share of Phase IV resources received from PFTAC – 15 %.
- **Reasonableness** – annual country contribution falls within 0.01 and 0.02 percent of annual national budget expenditure, with an outlier adjustment for PNG at 0.005 percent
- **Country cohorts:** to generate \$US 707,000 annually if fully paid: \$250K – PNG; \$125K – Fiji; \$100K – Timor-Leste; \$30K – Samoa, Solomon Islands, and Vanuatu; \$20K – Cook Islands, RMI, FSM, Palau, and Tonga; \$15K – Kiribati and Nauru; \$5K – Niue and Tuvalu; and \$2 – Tokelau

Phase VI: Broad Resource Guidelines

■ Budget scenarios from Phase V experience:

- **Baseline:** \$US 35.3 m for 7 LTX for 3.5 years, 6 for 2 years (total 36.5 LTX years)
- **Aspirational:** \$US 39.7 m for 7 LTX for 5.5 years (total 38.5 LTX years)
- **Projected:** \$US 38.1 m for approx. 7 LTX for 6.5 years (total 44.3 LTX years)
- **Duration:** 66 months intended, expected to be 78 months

■ Programs and Resident Advisors:

- **Programs:** traditionally comprise one LTX (FSS, Macro) or two LTX (Statistics, PFM, Revenue from mid-FY22)

■ Phase VI budget scenarios:

- **Range:** from \$35 m for 7 LTX to \$45 m for 9 LTX, midpoint \$40m for 8 LTX

Findings/Proposals of Revenue VWG

■ VWG composition:

- **Georg Eysselein** (*PFTAC*), **Koni Ravono** (*PITAA*), **Xavier Mitchell** (Cook Islands), **Matafeo Avalisa Viali Fautua'alii & Leni Asani-Sheppard** (*Samoa*), **Kelerayani Dawai** (*Fiji*), **Gloria Mengloi** (*Palau*), **Gabrielle Jackson** (ATO), **Ashish Narain** (ADB), **Matthew Harding** (*Australia*), **Vincent Koukpaizan** (IMF)

■ VWG presenter:

- **Ms. Koni Ravono** – Head of Secretariat, Pacific Islands Tax Administrators Association (PITAA)

■ IMF Backstopping Department Respondent:

- **Ms. Margaret Cotton** – Deputy Chief, Revenue Administration Division 1, Fiscal Affairs Department



PFTAC Phase VI Revenue Working Group

JUNE 28, 2021

Phase V Achievements

- Upscaled assistance delivered- PACER Plus signatory countries;
- Increased Tax Policy support - Tonga, Fiji, Samoa, Nauru, Cook Islands and Kiribati (FAD);
- Modernizing tax legislation including Income Tax Acts, VAT Acts, and Tax Administration Acts
- Improvements to tax administration organizational arrangements and introduction of function-based structures;
- Developing and implementing risk-based compliance improvement strategies;
- Elevating importance and improving effectiveness of taxpayer services;
- Focus and compliance management of large taxpayer segment;
- Some improvement to management of tax return filing, tax arrears management and audits;
- More focused/targeted skills development; and
- Support to recover from COVID-19 impact.

Phase VI Themes and Priorities – Tax Policy and Legislation

- Opportunities should be explored to address common tax policy and legislation issues across region
- Potential for Medium Term Revenue Strategies (MTRS) – *wider than policy and legislation, also tax administration reforms*
- International tax issues present rising challenge with lack of capacity and knowledge in tax administrations:
 - EU issues and OECD requirements
 - Offshore taxpayers
 - Transfer pricing
- Support needed for tax reform and changes, such as introduction of presumptive taxes

Phase VI Themes and Priorities – Tax Administration

- Critical mass for tax administrations to carry out mandate of high importance
- IT systems support, digitization focus vital - apart from own IT systems and e-Tax, also e-commerce
- Strategies to ensure revenue systems are robust and fair should be key priority - Covid impact on revenue collections to remain priority for next few years
- Improvement in tax administration core tax functions – getting foundations right - work to be done on processes, procedures (process reengineering and SOP's), register/data integrity
- Support with organizational strategies, structures remain as strong focus area – consolidation or alignment of strategies and plans.
- Data analysis and risk management
- Skills development - workshops made positive contribution and should continue
- Extractive industries should be new priority as well as focus on SME sector

Phase VI Themes and Priorities – Other Issues

- Assistance should remain demand driven, but influenced by capacity for reforms
- PFTAC/Development Partner cooperation, collaboration and alignment of activities
- Remote work with one or two experts works well – keep hybrid remote/in-country for future
- Need to be fluid/flexible/responsive to address emerging needs
- Touch base with country authorities as much as possible and tailor programs to meet specific needs
- Very important to stay connected and overcome challenges with communication
- Tax administrations have to cope with massive demand for time from different development partners – workshops, webinars, meetings
- On other hand, virtual meetings provide opportunities for exposure to wide range of topics and greater coverage/participation

Findings/Proposals of PFM VWG

■ VWG composition:

- **Isikeli Voceduadua** (*Nauru*), **Iulai Lavea & Paul Seeds** (PFTAC), **Feagaimaleata Tafuna’I** (*Samoa*), **Letila Tui** (*Fiji*), **Marga Peeters** (*EU*), **Christine Van Hooft** (*NZ*), **Pamela Wyatt** (*ADB*)

■ VWG presenter:

- **Mr. Isikeli Voceduadua** – Deputy Secretary Finance, Nauru

■ IMF Backstopping Department Respondent:

- **Mr. Iulai Lavea** – PFTAC PFM Advisor

PFM PHASE VI ISSUES RAISED

- (i) Demand Driven Program
- (ii) Disparity in the utilization of PFTAC TA.
- (iii) Mainstreaming climate change and gender;
- (iv) Tackling fraud and corruption;

Key Issues Continued:

- v. A simplified budget presentation that is easily understood by stakeholders;
- vi. Balance between conducting assessments versus actual delivery of TA.
- vii. Coordination of PFM support at the regional level;
- viii. Non Tax Revenue (NTR)
- ix. Formation of a PFM Association



Findings/Proposals of Statistics VWG

■ VWG composition:

- **Epeli Waqavonovono & David Abbott (SPC); Marcus Scheiblecker & Luis Temes (PFTAC), Tiriara Ikam (Kiribati), Junior Peter (RMI), Aliielua Leota Salani (Samoa), Annette Bastaja (ABS)**

■ VWG presenter:

- **Mr. Epeli Waqavonovono** – Director, Statistics for Development Division, Secretariat of the Pacific Community (SPC)

■ IMF Backstopping Department Respondent:

- **Mr. Paul Austin** – Deputy Chief, Real Sector Division, Statistics Department

Working Group Discussions

In three meetings, the virtual Working Group investigated future demands for macroeconomic statistics in the South Pacific region.

Countries were represented by the Statistical Offices of Kiribati, the Marshall Islands and Samoa. ABS and SPC represented the donor side. The meetings were organized by PFTAC.

Real Sector Statistics (RSS)

- Needs for technical assistance in the region differ greatly between larger member countries – with well resourced Statistical Offices - and Microstates which have very limited staff resources.
- For Microstates, Technical Assistance provision in the form of capacity substitution is of highest priority in order to meet the regular demand for publication of GDP etc.

Real Sector Statistics (RSS) cont...

- The Quality of Administrative Data and their Access are challenges faced more by the larger and well staffed countries which are continually striving for new statistical products, in particular high frequency data necessary for Quarterly National Accounts implementation. These statistics turned out to be of great value in times of crisis.
- Continuing demand for regular Annual National Accounts courses, especially for newly hired staff.

Government Finance Statistics (GFS)

- Are expected to increase in importance in the future as they reflect monetary related measures taken by the governments to confront climate change and to achieve other SDG goals.
- For this reason, the members of the working group see continuing strong demand for GFS technical assistance missions.
- The ending of the regional PFTAC GFS program this year is a major concern, although it is planned that emerging demand will be covered by the IMF headquarters.

External Sector Statistics (ESS/BoP)

Special focus on international remittance statistics was reported to be of high importance for the countries in the region.

Further important areas for technical assistance should be:

- Trade in services
- Primary income, especially cross-border compensation of employees due to the rising number of temporary cross-border workers
- Secondary income (personal transfers)

Findings/Proposals of Financial Sector Supervision VWG

■ VWG composition:

- **Ellison Pidik** (PNG), **Rajinder Kumar** (PFTAC), **Vilimaina Dakai** (Fiji), **Katia D'Hulster** (World Bank), **Lotte Zibell** (ADB), **Cheryl McCarthy** (Cook Islands),

■ VWG presenter:

- **Assistant Governor Ellison Pidik** – Bank of Papua New Guinea (BPNG)

■ IMF Backstopping Department Respondent:

- **Ms. Hee-Kyong Chon**– Senior Financial Sector Expert, Financial Supervision and Regulation Division, Monetary and Capital Markets Department

PFTAC projects underway

Review of banking legislation and prudential standards

- Banking legislation review active in **three countries**
- Prudential and risk management standards review complete/active in **six countries**

Review of off-site and on-site supervision frameworks and risk rating models

- Supervisory framework review complete/active in **four countries**

Review of insurance legislation and prudential standards

- Insurance and standards development active in **three countries**

Cyber security regulation and supervision

- Cyber regulation and supervision project active in **four countries**

- ❑ Current projects are essential to lay the foundation of strong regulation and supervision
- ❑ PICs expect PFTAC to extend these projects to the remaining countries in next two years

WGFSS survey of priorities during Phase VI

	High Priority Activities	Priority Ranking	Potential TA providers		Medium Priority Activities	Priority Ranking	Potential TA providers
1.	Monitoring of Systemic Risks	1	IMF	14.	Mobile banking	8	IMF
2.	Preparation/review of banking supervision manual	2	IMF	15.	Review/development of legislations	9	IMF
3.	NPL resolution		IMF/ World Bank	16.	Basel III capital framework including macro-prudential capital buffers		IMF
4.	Financial Stability Report	3	IMF	17.	Standardized/simplified Basel III approaches for measurement of risk weighted assets		IMF
5.	Supervisory stress testing of financial institutions		IMF	18.	Upgrade of regulations on risk management by banks		IMF
6.	Bank resolution		IMF/World Bank	19.	Development of credit information legislation		ADB
7.	Basel III Liquidity standards (LCR, NSFR and other liquidity monitoring tools)	4	IMF	20.	Development of credit information reporting infrastructure		ADB
8.	Banking Supervision: Off-site		IMF	21.	Development of credit information regulations		ADB
9.	Early intervention in weak banks		IMF/ World Bank	22.	Development of supervisory framework for credit information reporting		ADB
10.	Development of prudential and risk management standards	5	IMF	23.	Pillar 2 of Basel II	10	IMF
11.	Multi-lender out-of-court restructuring of stressed loans	6	IMF/ World Bank	24.	Basel III Large Exposures standard	11	IMF
12.	Cyber risk and Fintech regulation		IMF	25.	On-site supervision of banks		IMF
13.	Development of Supervisory Framework	7	IMF	26.	Bank Risk rating model and supervisory action planning	12	IMF
				27.	Fit and proper criteria for banks' shareholders, boards and senior management		IMF
				28.	Review of legislations for non-banking credit institutions	13	IMF
				29.	Regulation and supervision of payments systems entities		IMF
				30.	Development of AML/CFT prudential standards	14	IMF
				31.	Financial Health and Soundness Indicators for insurance sector	15	IMF
				32.	Development of payments systems infrastructure		IMF
	Number of Potential TA Topics	10			Number of Potential TA Activities	45	

Country specific considerations

- ❑ At country level – TA activities may be prioritized based on their own priorities, not based on regional priority.
- ❑ The WGFSS priority list is intended to identify topics for thematic implementation across the PICs, conferences and workshops.
- ❑ Thematic projects may be taken up in individual countries as and when they meet the pre-conditions for implementing these projects.
- ❑ The projects currently underway in PICs may be completed first before the projects as per the proposed priority for Phase VI are taken up.
- ❑ The proposed priorities are intended to serve as a baseline for the period coinciding with PFTAC's Phase VI Program Cycle and may be reviewed in response to changes in macro-financial environment and global developments.
- ❑ A few activities that are the current priorities of the PICs and are already in progress may have figured relatively low in priority in the WGFSS survey as these are expected to be completed by many countries by commencement of Phase VI.

Findings/Proposals of Macroeconomic Programming and Debt Management VWG

■ VWG composition:

- **Garth Henderson** (Cook Islands), **Andrew Beaumont & Briar Ferguson** (PFTAC), **Tyler Makepeace** (US Treasury), **Keshwa Reddy** (Australia), **Pamela Wyatt & James Webb** (ADB), **Tana Irau** (PNG), **Katie Longeau & John Rohi** (Solomon Islands)

■ VWG presenter:

- **Mr. Garth Henderson** – Financial Secretary, Cook Islands

■ IMF Backstopping Department Respondent:

- **Mr. Scott Roger** – Deputy Chief, Pacific Islands Division, Asia Pacific Department

General Themes

- Countries were appreciative of PFTAC's work and found it to be professional and useful.
- Countries' staff resources are often very limited, Therefore assistance needs to be targeted and efficient. Capacity supplementation may be preferred to capacity development in some cases.
- PFTAC may be seen to be stretched quite thin at times, with missions sometimes being of too short a duration. Longer term support, with ongoing assistance may be preferable. Economic modelling work in particular requires ongoing assistance for maintenance and training.
- Intercountry co-operation would be very useful and PFTAC may be able to facilitate this through staff exchanges or cross training.
- PFTAC should ensure that it continues to focus on improving countries outcomes under the Results Based Management framework.

Macro-fiscal Frameworks

- A deep understanding of the short and long run macro-fiscal outlook will be essential for countries' ability to make appropriate macroeconomic policy decisions, both as Covid continues and during the recovery period.
- As part of this outlook, it will be of high value to be able to easily run scenarios which examine changes in the macro-fiscal outlook under differing economic conditions.
- Ensuring debt sustainability will be of the utmost importance for policy makers during the post covid recovery period.
- The IMF's Institute for Capacity Development is also stepping up its involvement in training and providing macroeconomic frameworks in the pacific. It will be essential for this additional support to dovetail closely with the PFTAC Macroeconomic program.

Debt Management

Debt management

- Debt management will be a high priority in Phase VI.
- Debt dynamics have changed dramatically due to Covid, with moderate and declining debt levels now high and rising in many Pacific countries. Many countries have no or small debt management units.
- Countries are keen to understand how to better manage risk in relation to their debt levels.
- Accounting for and making transparent, contingent liabilities will be of high importance in Phase VI.

Additional Themes

Correspondent Banking Relationships

- The IMF's ongoing support for the regional Know Your Customer Facility is welcomed.
- It would be desirable to see the Northern Pacific countries (which don't have central banks) to be incorporated into the Know Your Customer Facility in due course.

Gender and inclusive growth

- Need to ensure that gender and inclusive growth are 'mainstreamed' into PFTAC assistance, where possible.

Phase VI: Timeline, Fund-Raising, Next Steps

■ Timeline and Next Steps:

- **IMF Interdepartmental Working Group:** to develop a Phase VI Strategy Note for approval of IMF management – by mid-September 2021
- **Draft Program Document (PD):** for review and consideration at a virtual Steering Committee meeting – by end-November 2021
- **Final Program Document (PD):** issued for fund-raising – by end-February 2022
- **Donor Pledges:** annual Steering Committee meeting – end-May 2022. Note that a smooth transition between phases requires early commitments to secure funding for at least FY2024.

■ Documentation:

- **Program Document constitutes an Annex to** the Letters of Understanding (LoU) for both donors and member countries

■ Donor Reactions:

- **Expectations/Prospects** – are there any early signals from any current donors about prospects for participation, constraints, time-lines?

Wrap-Up

- **Closing Remarks by the Chairperson**
- **Closing Remarks by the Secretary**