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PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTER (PFTAC)



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PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTER (PFTAC)
PHASE V
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List of Acronyms and Abbreviations

ABS	Australian Bureau of Statistics
ADB	Asian Development Bank
AFSPC	Association of Financial Supervisors of Pacific Islands Countries
APD	Asia and Pacific Department
BOP	Balance of Payments
BPNG	Bank of Papua New Guinea
CD	Capacity development
DFAT	Australian Department of Foreign Affairs and Trade
DOF	Australian Department of Finance
DSA	Debt Sustainability Analysis
ESS	External Sector Statistics
EU	European Union
FMIS	Financial Management Information System
FSI	Financial Soundness Indicator
FSIS	Financial Sector Information System
FSM	Federated States of Micronesia
FP	Financial Programming
GDP	Gross Domestic Product
GFS	Government Financial Statistics
HIES	Household Income and Expenditure Survey
HQ	(IMF) Headquarters
ICD	Institute for Capacity Development
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISORA	International Survey on Revenue Administration
LEG	IMF Legal Department
MOF	Ministry of Finance
NTR	Non-Tax Revenue
NSO	National Statistical Office
OCO	Oceania Customs Organization
PASAI	Pacific Association of Supreme Audit Institutions
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PIC	Pacific Island Country
PICPA	Pacific Islands Centre for Public Administration
PIF	Pacific Islands Forum
PIFS	Pacific Islands Forum Secretariat
PIFMA	Pacific Islands Financial Management Association
PINACLE	Pacific Islands National Accounts Compilers and Local Experts Association
PITAA	Pacific Islands Tax Administrators Association
PNG	Papua New Guinea
PSSC	Pacific Statistics Steering Committee
RAFIT	Revenue Administration Fiscal Information Tool
RAP	Resource Allocation Plan
RBM	Results-Based Management

RBNZ	Reserve Bank of New Zealand
RMI	Republic of the Marshall Islands
RTAC	Regional Technical Assistance Centre
SC	(PFTAC) Steering Committee
SOE	State-owned enterprise
SPC	Secretariat of the Pacific Community
STI	Singapore Regional Training Institute
STX	Short-term Experts
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
TYPSS	Ten Year Pacific Statistics Strategy
USP	University of the South Pacific
VAT	Value Added Tax

Executive Summary

1. This Program Document sets out the proposed continuation of PFTAC's capacity development in Pacific island countries (PICS) over the period November 2016 to April 2022.¹

Although the nations of the Pacific are diverse, they share significant macroeconomic challenges. These include overcoming the constraints of small economic size and long distances from markets to foster sustainable, inclusive, private sector-led growth. They also share the need to strengthen their ability to cope with volatile income and spending requirements, often associated with natural disasters. With limited access to external borrowing, this puts a premium on sound management of public finances and robust domestic financial systems.

2. The PFTAC Phase V program is intended to help its members to address these challenges. The basic objectives of the program are to: (i) strengthen the *resilience* of PIC economies and public finances to volatility associated with natural disasters as well as economic shocks to which the region is highly vulnerable; (ii) ensure that public finances are *sustainable* over the medium and long term so as to avoid fiscal or balance of payments crises; and (iii) to promote *inclusive economic growth*. These objectives tie in closely with the IMF's increased focus on assisting fragile states, of which six are members of PFTAC.²

3. Main elements of the program to help achieve these aims include:

- A strong and integrated program of capacity development (CD) in public financial management; macroeconomic analysis; and macroeconomic statistics, with an increased emphasis on developing medium-term fiscal planning and budgeting in order to be able to cope effectively with the uncertainties and costs of climate change, natural disasters, non-communicable diseases, aging populations, gender equality, as well as external economic shocks.
- Continued assistance with building modern, efficient revenue administrations. Increasing the focus on administration management, compliance, core functions and taxpayer services, should facilitate fairer and more efficient revenue collection as well as providing a more predictable and transparent tax environment for business. Together with reforms to non-tax revenue frameworks, such efforts should also help increase domestic revenue bases, strengthening fiscal sustainability.
- A strengthened program of CD in financial sector supervision. Key elements include further strengthening bank supervision frameworks and capacity; and improving legal and supervisory frameworks for non-bank financial institutions, notably credit unions,

¹ PFTAC's members are the Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, and Vanuatu.

² The harmonized list of fragile situations maintained by the World Bank includes Kiribati, Marshall Islands, Micronesia, Papua New Guinea, Solomon Islands, and Tuvalu. See:

<http://www.worldbank.org/en/topic/fragilityconflictviolence/overview>

Several other members are vulnerable to natural disasters, as demonstrated by the devastations caused by cyclones in Fiji (2016) and Vanuatu and Tuvalu (2015).

with a view to promoting greater financial inclusion and growth.

4. A key objective has been to focus PFTAC's CD program more closely on addressing the major policy challenges and policy responses identified through the surveillance work of the IMF's Asia and Pacific Department (APD). This has also led us to take a more multi-disciplinary, integrated approach to designing the CD strategy, consistent with the recommendations of the PFTAC external evaluation. Also as recommended in the evaluation, PFTAC is implementing a strengthened Results-Based Management (RBM) framework, using a set of standardized catalog of objectives, outcomes and indicators developed by IMF departments.

5. The proposed Phase V program is based on a conservative estimate of the funding likely to be available from member countries and current donor partners. The baseline program proposed involves a US\$35.3 million, 5 ½ year program, continuing to cover the five sectors as in Phase IV, but with some scaling back of CD delivery from the levels achieved in the second half of Phase IV. In particular, this would involve a reduction in the number of resident advisors in the areas of public financial management and statistics over the course of Phase V, while at the same time enhancing the domestic revenue mobilization component of PFTAC's Phase V program³. It is important to note, however, that even the baseline US\$35.3 million program represents an increase in delivery levels over average Phase IV levels as it largely sustains the scale-up achieved in recent years. Our preferred outcome is to be able to continue to provide CD at levels or at a pace close to those in the past few years, which would involve costs of around US\$39.7 million. The IMF will seek additional external partner funding to make this possible. As of October 2016, the funding secured or in prospect for PFTAC is sufficiently encouraging that an immediate cut in the second statistics advisor position is not judged to be necessary.⁴ As a consequence, the overall complement of resident advisors will remain at seven, but subject to adjustment depending on the funding outlook.

6. The proposed allocation of PFTAC budget resources across sectors essentially reflects priorities expressed by members and the IMF's assessment of regional CD needs. The highest priority within the region continues to be in strengthening public financial management (PFM), including both the budget formulation and budget execution sides. Therefore, approximately 30 percent of the baseline budget is allocated to PFM. A further 25 percent of the budget is allocated to Domestic Revenue Mobilization (DRM), continuing the increased emphasis placed on this objective in recent years.⁵ Both these areas of TA will be strongly complemented in Phase V by TA and training in macroeconomic modeling and forecasting, which will receive approximately 13 percent of resources, and macroeconomic statistics, including Government Finance Statistics, which will receive 17 percent of resources. Finally, recognizing the importance

³ Expanded support for revenue mobilization in the region could also come from other sources. It is expected that the next phase of the existing Revenue Mobilization (former Tax Policy and Administration (TPA)) trust fund will have increased resources to support revenue mobilization.

⁴ The net cost of keeping the second statistics advisor would be partially offset by a reduction in short-term experts included in the baseline.

⁵ Since the PFM budget also includes TA on non-tax revenues, the total expenditure on DRM is a bit higher than the spending on tax revenue administration alone.

of financial stability to macroeconomic performance and management, financial sector supervision is allocated 14 percent of resources.

7. These sectoral allocations are aimed at ensuring a strong program of TA and training in each area to be provided by resident long-term advisors supported by short-term expert programs. Experience at PFTAC, as well as at the IMF's other RTACs, suggests that the model based on a resident expert providing TA directly, with strategic inputs and oversight from HQ, and managing a well-planned course of TA provided by short-term experts provides considerable flexibility in meeting members' needs while also providing a strong element of continuity in TA provision. The baseline program ensures that at least one resident advisor is provided in each sector. In the aspirational budget, additional resources would be directed primarily towards adding a second advisor in statistics, to better meet the needs of a broadened statistics TA program, and maintaining a second PFM advisor right through the end of Phase V.

8. PFTAC will continue to work closely with development partners and other organizations in providing CD. Good coordination of CD programs in the region is essential to make the most efficient use of limited resources; to avoid overwhelming users; and to maximize synergies and complementarities in CD. PFTAC will continue to work closely with development partners to help ensure that good intentions are reflected in actions. PFTAC will also continue to work closely with the various regional professional organizations that it has engaged with for several years. These organizations have proved to be valuable forums for sharing experiences and good practices, identifying CD priorities, and providing specialized training for managers. As such, they play a vital role in promoting the sustainability of capacity improvements.

9. CD will continue to be delivered through a range of modes or channels. A crucial element will remain the provision of CD directly to individual member countries through visits by PFTAC's resident advisors, or by headquarters (HQ)-based staff or short-term experts. Such CD is planned with and backstopped by staff of the relevant CD departments in HQ to ensure quality and consistency of policy advice. Country-specific CD will continue to be complemented by seminars and workshops at the regional level as well as more specialized workshops at the sub-regional level, to facilitate sharing of experience within the region. Frequently, such workshops will be provided in collaboration with development partners or IMF staff from HQ or the IMF-Singapore Regional Training Institute (STI). In addition, on-line training modules, developed by the IMF Institute for Capacity Development (ICD), as well as by other departments, are likely to provide an increasingly important resource for countries in the region.

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I. PFTAC'S ACHIEVEMENTS SO FAR

A. What Does PFTAC Do?

10. **The IMF Regional Technical Assistance Centers (RTACs) are a collaborative effort among the IMF, the member countries, and development partners.** The Centers' strategic goal is to strengthen member countries' institutional capacity to design and implement sound macroeconomic and financial policies. RTACs are an important way of delivering effective, efficient and responsive IMF CD – comprising technical assistance (TA) and training – in the field.

11. **PFTAC was launched by the IMF in 1993 to serve the Pacific Region.** PFTAC's primary purpose is to assist member countries with strengthening their management of macroeconomic, financial, and statistical policies and processes. This involves providing assistance with assessing existing capacity; design of measures to address weaknesses; provision of advice on implementation of reform plans; and providing staff with knowledge and training to implement policy reforms and improved techniques, decision-making processes, and administrative procedures. Through PFTAC, the IMF has been able to substantially increase its CD to PFTAC member countries. PFTAC serves the following sixteen countries: Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu and Vanuatu.

12. **PFTAC's governance model reflects a partnership between stakeholders.** PFTAC is guided by a Steering Committee (SC) consisting of representatives from the member countries, donor partners, and the IMF. The SC facilitates the design, implementation, and monitoring of PFTAC's CD programs in member countries. A Center Coordinator oversees the day-to-day operations of the Center and helps in setting the strategy for the center including the preparation of the work plan in close collaboration with IMF HQ and member countries. This model allows for the needs and priorities of member countries to be reflected in the center's work, and allows PFTAC to respond to changing priorities as they emerge.

13. **With PFTAC, the IMF combines strategic CD advice from its HQ with regional expertise and on-the-ground capacity-building.** Broad CD needs and work plans are identified by APD and CD departments at IMF HQ, and the country authorities. All CD is integrated into the core lending and surveillance operations of the IMF, as well as coordinated with that of other providers and is backstopped by the IMF HQ, ensuring quality and consistency of policy advice.

14. **PFTAC CD is largely delivered by resident advisors and short-term experts.** Resident advisors, who are based in the host country, travel throughout the region, which allows them to develop close relations with country authorities and familiarity with national and regional CD needs. The skill mix of the advisors reflects the needs and priorities of the member countries. The resident advisors work under the technical supervision of the relevant functional department. In addition, HQ-led missions provide strategic and policy advice to the member countries while PFTAC also deploys short-term experts to deliver targeted CD to complement the work of resident advisors. PFTAC also provides seminars and workshops at the national and regional levels.

15. PFTAC works closely with other development partners and Pacific regional bodies.

Good coordination with other development partners is essential to efficient and effective provision of CD in the region, both at a strategic level and on the ground. Key development partners include the Asian Development Bank (ADB), Australia (Department of Foreign Affairs and Trade (DFAT), Department of Finance (DOF), Australian Bureau of Statistics (ABS)), the European Union (EU), New Zealand (Ministry of Foreign Affairs and Trade, Statistics New Zealand), the Pacific Islands Forum Secretariat (PIFS), the Secretariat of the Pacific Community (SPC), the United Nations (UN Development Program (UNDP), UN Economic and Social Commission for Asia and the Pacific (ESCAP)), and the World Bank (WB). Regional professional associations, which play a major role in identifying CD needs, partnering in the organization of training, as well as in sharing of experience, include the Association of Financial Supervisors of Pacific Countries (AFSPC), the Pacific Association of Supreme Audit Institutions (PASAI), the Pacific Island Centre for Public Administration (PICPA), and the Pacific Islands Tax Administrators' Association (PITAA).

16. In Phase IV, the cost of running PFTAC was largely defrayed by donor partners: the Asian Development Bank (ADB), Australia, the European Union (EU), the Republic of Korea, and New Zealand. Fiji, the host country, provided office space, and the IMF covered most office operating costs including the coordinator and the administrative staff.

B. PFTAC Results in Member Countries in Phase IV (2011-2016)

17. During Phase IV, as in previous program cycles, PFTAC has aimed to assist its member states to strengthen their macroeconomic and financial management capacity. In Phase IV, the principal areas of CD included public financial management (PFM); revenue policy and administration; macroeconomic analysis; financial supervision; and macroeconomic statistics. CD in these areas was provided by short-term experts and seven resident advisors, backstopped by HQ departments, and supported by four local administrative staff and the PFTAC coordinator.

18. Key sectoral priorities for CD in the Phase IV program were identified as:

- **PFM.** Based on the PFM Roadmap approved by Forum leaders in 2010, CD would focus on: (i) supporting PEFA assessments and development of country roadmaps; and (ii) support for implementation of reforms, particularly including legal frameworks, budget processes, cash management, commitment control and accounting.
- **Revenue policy and administration.** Priorities included provision of tax policy assistance early in the cycle, together with CD in the areas of VAT implementation, compliance and IT strategies.
- **Macroeconomic analysis.** In this new area of PFTAC activity, priorities were set as improving macroeconomic analysis and forecasting capacity, including financial programming and debt sustainability analysis, and strengthening inter-agency coordination.

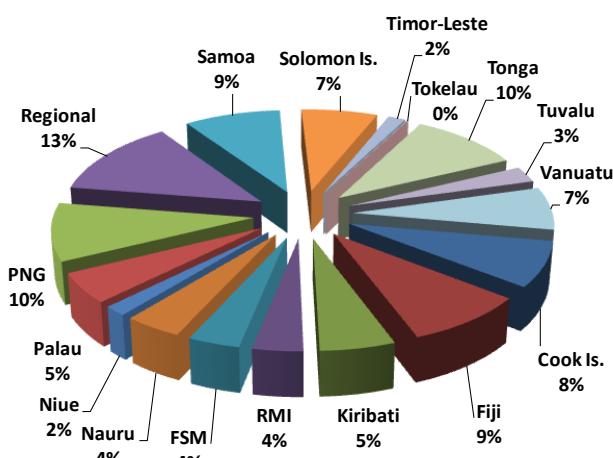
- **Financial sector supervision.** CD in this area was to focus first on development of regulations, statistical reporting and compilation of financial indicators, and later shift towards supporting on-site bank supervision.
- **Macroeconomic statistics.** The primary focus of CD was on strengthening the quality and timeliness of national accounts statistics through improvements in methodology, data sources, and compilation processes. Toward the end of Phase IV, some resources were also used to cover government finance statistics (GFS).

19. Delivery of CD in Phase IV was intended to be both efficient and to promote sustainability. To these ends, the program envisaged a combination of (i) country-specific CD provided by resident advisors, IMF HQ-based experts, and short-term experts; and (ii) regional seminars and training courses provided in collaboration with IMF HQ staff, STI, and development partners. With regard to both efficiency and sustainability, key elements of the planned program included greater emphasis on country ownership of reforms, close cooperation with development partners, and support for regional professional associations in areas of PFTAC CD.

20. CD has been delivered to every member of PFTAC through country-specific missions and regional or sub-regional workshops. Over Phase IV (to April 2016), PFTAC has delivered nearly 750 missions over close to 7,500 mission days. Although all members received some assistance, the major users of country-specific CD were Tonga, PNG, Fiji, Samoa, Cook Islands, Solomon Islands, and Vanuatu.

21. Regional and sub-regional workshops made up nearly one-quarter of missions, and 13 percent of mission days. Such workshops provide

Fig. 1: Country distribution of PFTAC CD activities
Percentage of mission days



Source: PFTAC

a flexible and cost-effective way of providing training, facilitating sharing of regional experience and solutions, and promoting sustainability by building regional networks of expertise.

22. CD has been provided primarily by a combination of resident advisors, HQ staff and short-term experts. Approximately one-third of the missions, and over 40 percent of mission days were provided by short-term experts, backstopped by the resident advisors and HQ staff. The heaviest use of short-term experts has been in the revenue administration and PFM areas. In addition to backstopping missions in the region, HQ staff have also led CD missions providing policy advice or specialist technical advice and training. Staff from ICD and STI have also been involved in provision of on-line training courses as well as regional workshops.

23. By and large, PFTAC has been able to deliver on the objectives of the program. Initially, program implementation was hampered by two factors: the lingering effects of the global

financial crisis (constraining country capacity to implement reforms), and delays in ramping up PFTAC financing and staffing to planned levels. In the latter part of the program, as regional economies have recovered, and as PFTAC staffing has risen to planned levels, CD delivery and progress towards the program objectives has accelerated. Strengthening sustainability has been challenging in some members, either because of difficulties in locking in broad political support for reforms, or because there have been insufficient resources committed by national authorities. In other members, however, progress has been made.

24. Measuring progress against CD program objectives is inevitably challenging. CD is not like building roads or other physical infrastructure. Capacity is defined in terms of strengthened human capital, self-sufficiency, effective and efficient processes, improved methodologies, better quality of data and analysis, and degrees of consistency, transparency and accountability. These things are often difficult to define in ways that can be readily measured. Nor does strengthened capacity necessarily lead to better outcomes in terms of policies and macro-financial performance; it only makes better outcomes possible. In addition, data needed to assess progress may be difficult or impossible to obtain. For example, gender indicators with regard to government spending or revenue, or access to credit are not available in most PICs.

25. Because the CD activities often take considerable time to yield results, it is also very difficult to ascribe a particular outcome to specific inputs. As noted in the 2014 New Zealand evaluation of TA on tax reform in the Pacific, it may take ten years for reform efforts and TA to come to fruition. Along the way, a great many different developments outside our control can reinforce or weaken the impact of our efforts. We need to be careful about taking too much credit for a country's successes or taking too much blame for failures to achieve progress.

26. What we do know is that CD is most likely to be successful when the authorities have strong commitment to, and ownership of, the objectives and process. Moreover, the commitment needs to be at multiple levels, from the "shop floor" right through to the relevant CEO or the Cabinet. Lack of commitment at any of these levels can severely hamper progress. In our experience, if the authorities' will and commitment is there, CD can be highly successful even in otherwise challenging situations. If it is absent, even well-designed and well-executed CD will achieve little. CD cannot substitute for a country's determination to implement reforms.

27. Nonetheless we believe that we can point to several areas where our CD activities contributed to positive outcomes, as well as areas where we have been less successful. A detailed discussion is contained in Annex I, but the main points are summarized as follows:

Public Financial Management (PFM)

- By the end of Phase IV we expect that all members will have conducted at least one PEFA assessment or self-assessment, and all but Palau and Tokelau will have completed or revised a PFM roadmap. PFTAC's assistance with these has stressed the importance of local involvement in order to maximize local ownership and learning. Repeat PEFA assessments indicate that the quality of PFM in the region has improved in most areas.

- Cook Islands, Fiji, and Solomon Islands have revised PFM legislation with assistance from PFTAC and LEG; while Tuvalu and Kiribati have been assisted with revising financial instructions and debt management policies, respectively.
- Fiji has improved its budget documentation starting with its 2015 budget by adding policy-focused explanatory narrative at the program and activity levels, and highlighting more medium-term expenditure plans. This could serve as a model for the region, where many PICs currently produce poorly integrated and uncoordinated separate annual plans, sectoral plans, corporate plans, and national development strategies with no clear links to either annual or medium-term budget plans.
- Samoa has developed a non-tax revenue (NTR) framework and rebased fees and charges, with assistance from PFTAC and the Australian Department of Finance (DOF). This has led to a substantial increase (18 percent) in NTRs, together with processes for regular review of NTRs. The success of this project has led to the instigation of similar projects to assist Fiji, Solomon Islands and Vanuatu with NTR reviews.
- With regard to improving budget execution processes, Kiribati and PNG have both strengthened cash management with PFTAC assistance. In PNG advice was adopted by both the Treasury and Finance Departments. Training in internal audit was also provided to Vanuatu, where Finance Ministry staff have made more effective use of Teammate audit software, and are now beginning to apply risk-based audit techniques.
- Several members have strengthened public expenditure accounting, recording and reporting. In Tonga and PNG, important improvements have been adopted with regard to use of Financial Management Information Systems (FMIS). On accounting and reporting, PFTAC has assisted Fiji with implementing International Public Sector Accounting Standards (IPSAS); while in Kiribati and Tonga, assistance has been provided with improving the government Chart of Accounts.

Revenue Policy and Administration

- Many members have reformed or are reforming tax legislation with PFTAC assistance. In some cases, existing legislation has been reviewed, in some new legislation has been drafted and passed, and in others legislation is pending with varying degrees of prospects for passage. This has included Value Added Tax (VAT) (adopted in Kiribati, reviewed in Vanuatu, pending in Palau); income and business taxes (adopted in Fiji and Tonga, reviewed in Samoa, pending in Palau); Deep sea mining taxes (adopted in Cook Islands and Tonga); and more general reviews of tax policy frameworks (uncertain outlooks in FSM and RMI).
- Key elements of tax administration, notably including compliance strategies and core tax functions, are being strengthened in most PICs. This has been a priority in the latter part of Phase IV, and PFTAC has been assisting almost all members with these efforts. This is reflected in widespread, though gradual, improvement in verifying and maintaining taxpayer information and compliance obligations; adopting business processes based on

risk management principles; and moving towards more modern compliance improvement strategies.

- Members have also been modernizing their organizational management and accountability processes, with PFTAC support, and this is reflected in improved ratings for most members in these areas.

Macroeconomic Analysis and Forecasting

- Central banks and finance ministries in several member countries (Fiji, PNG, Tonga, Solomon Islands, and Vanuatu) have been developing tailored financial programming (FP) models for use in policy analysis and forecasting, with PFTAC support, building on a regional workshop conducted with the STI in 2012. To make effective use of such models, assistance has also been provided with forecasting processes and presentations, as well as with strengthening macroeconomic data bases. In some other members (Cook Islands, Samoa), assistance has been provided with existing models and forecasting arrangements.
- A key objective has been to ensure that models are rich enough to cover key issues, but also kept as parsimonious as possible, in order to promote sustainability. This emphasis reflects early experience with more complex FP models, as well as full-fledged macro forecasting frameworks, which proved to be too costly and complicated to be readily incorporated into regular forecasting and policy making. In this regard, PFTAC has made good progress over the course of the program.
- Member countries are also using PFTAC CD to strengthen their capacity to forecast key macroeconomic variables (GDP growth and inflation), which serve as primary drivers of FP projections. To this end, PFTAC has also assisted with data issues, including reconciling data inconsistencies, addressing breaks in time series, and interpolating quarterly series from annual data.
- Developing capacity for more medium- and long-term macroeconomic analysis is seen as increasingly important for tackling the economic challenges facing the region, and PFTAC's assistance has been increasingly drawn upon in this area. For example, assistance was provided in PNG with analysis of policies to avoid "Dutch disease", and in Palau with the fiscal implications of the expiry of Compact grants. More recently, PFTAC has also been assisting members with development of a framework for assessing the fiscal implications of natural disasters, beginning with a workshop in early 2015. In June 2015, at a major workshop hosted by the IMF and the Fijian government, PFTAC staff worked with IMF colleagues to provide hands-on training on these issues, and PFTAC has been providing follow up TA and training.

Financial Sector Supervision

- With support from the IMF Legal department (LEG), PFTAC has assisted with revisions to banking legislation in Samoa and Tonga, and has run several workshops to assist

members (Fiji, FSM, Palau, RMI, Samoa, Solomon Islands, and Timor-Leste) with revisions to Credit Union legislation and associated regulations.

- Cook Islands, Palau, Solomon Islands, Tonga and Vanuatu have adopted a standardized, Excel-based prudential return for bank reporting, developed with PFTAC assistance, and PFTAC also provided training in completion of reports and analysis of reported data. A complementary Financial Sector Information System (FSIS) developed by RBNZ was piloted successfully in Solomon Islands, but further roll-out terminated as ongoing support would be too costly. More recently, assistance has also been provided to members on developing standardized financial reporting by credit unions.
- Central banks across the region have strengthened off-site bank supervision capacity. PFTAC support has included training to strengthen skills in analysis of bank returns, annual financial statements, as well as development and interpretation of standardized key indicator reports for use in risk analysis.
- More recently, central banks have sought to strengthen on-site bank examination capabilities. To this end, PFTAC has initiated a region-wide CD program involving STX-based training in pre-examination analysis, mentoring during examinations, and guidance in preparing examination reports using a standardized template developed by PFTAC. Currently FSM, Palau, RMI, Samoa, Tonga and Timor-Leste are participants.

Macroeconomic Statistics

- Improving national accounts methodologies and data sources has been a priority throughout the region. Although progress has been made everywhere, a widespread problem remains the poor quality of source data. PFTAC has worked to promote access to and use of administrative data, especially tax data, as a comprehensive, timely and cost-effective source of information in national accounts compilation.
- PFTAC has assisted members with periodic rebases of national accounts statistics, and has worked closely with the SPC on incorporating Household Income and Expenditure Survey (HIES) results into GDP rebasing.
- Fiji, Kiribati, and Solomon Islands have used PFTAC TA to improve the timeliness and accessibility of national accounts data.
- Development of quarterly estimates of GDP in Cook Islands, Fiji, Samoa, and Vanuatu has also drawn on PFTAC TA. In addition, PFTAC has assisted Fiji and Kiribati with developing expenditure measures of GDP, although in the latter case progress has been hampered by a lack of National Statistics Office (NSO) resources.
- An important area of progress has been re-engagement with the PNG NSO in the production of national accounts statistics. Together with the Australian Bureau of Statistics (ABS), PFTAC has worked with the NSO, focusing on the use of administrative data and the incorporation of the 2009-10 HIES data into the national accounts. Support has continued to be provided to the Bank of Papua New Guinea (BPNG) and the Treasury

in compiling national accounts until the NSO resumes regular compilation and publication of reliable national accounts statistics expected in 2016.

C. CD Delivery

28. Two key elements of PFTAC's CD delivery should be highlighted: the tailoring of methods to needs; and close collaboration with regional organizations and development partners. As noted earlier, PFTAC has used a mixture of modes of CD delivery, including traditional country-specific TA and training, by resident advisors, STX or HQ-based experts, as well as through regional and sub-regional seminars and workshops. All CD is backstopped by the IMF HQ, ensuring quality and consistency of policy advice. An important innovation during Phase IV was the introduction of sub-regional workshops. By focusing the country and topic coverage of such workshops, the distinction between TA and training is blurred, and the opportunities are enhanced for productive exchanges between participants on practices and problem-solving experience. Feedback on such hands-on workshops has been very positive, and they will remain as an element of PFTAC's CD in Phase V.

29. During Phase IV, provision of PFTAC CD shifted from being largely delivered by resident advisors to a more balanced mix of delivery by resident advisors and STX. The original Phase IV program budget emphasized the use of STX but for various reasons, this got off to a slow start, with a large share of CD provided by resident advisors. Over the course of the years, however, the CD program was rebalanced towards more extensive STX assignments in specialized areas. Additionally, as resident advisor costs came in below expectations, savings were reallocated towards use of STX and to increase funding of workshops. These shifts reflect our sense of what types of CD work best in the region, increasing demand for relatively specialized CD; and the need to deliver CD as efficiently as possible.

30. PFTAC works with development partners and regional organizations to coordinate its CD efforts. The limited capacity of many PICs to absorb CD, as well as the limited resources available to development partners, both underscore the need for good coordination among development partners to avoid duplication of efforts and overburdening of users. PFTAC has played an active role in such efforts during Phase IV. Such coordination has involved frequent meetings with development partners to exchange information on activities as well as to work together on specific CD issues. PFTAC advisors also coordinate closely with other CD providers in the field, and have frequently collaborated in the design and presentation of training courses, including with the Australian Bureau of Statistics (ABS), Australian Department of Finance, the Asian Development Bank (ADB), the Bank of England Centre for Central Banking Studies (CCBS), the Pacific Islands Centre for Public Administration (PICPA), the Pacific Islands Forum Secretariat (PIFS), the Pacific Statistics Steering Committee (PSSC), the Secretariat of the Pacific Community (SPC), the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), the University of the South Pacific (USP), and the World Bank.

31. Regional professional associations have played a crucial role in PFTAC's CD planning and delivery. Regional professional associations play an important role in the work of PFTAC's advisors. These include the Association of Financial Supervisors of Pacific Countries (AFSPC), the

Pacific Association of Supreme Audit Institutions (PASAI), the Pacific Islands Center for Public Administration (PICPA), Pacific Islands Financial Managers' Association (PIFMA), the Pacific Islands National Accounts Compilers and Local Experts (PINACLE), and the Pacific Islands Tax Administrators' Association (PITAA). The associations provide important forums for sharing of experiences, identifying common needs in terms of training, systems and processes, technology, and opportunities for mutual support. Meetings of the associations, supported by PFTAC, have been highly useful to us in identifying CD priorities and scope for regional approaches to CD delivery. They have also provided PFTAC with the opportunity, often in collaboration with HQ staff, to provide CD directly to senior managers. Over the course of Phase IV some of the associations, especially PITAA and AFSPC, have become increasingly self-directed. PITAA in particular has established its own secretariat and self-funding of training programs. PFTAC has encouraged and fully supports such moves, and will continue to do so in Phase V.

D. PFTAC Mid-Term External Evaluation

32. **An external mid-term evaluation of Phase IV (July 2011-October 2016) of PFTAC was completed in June 2015.** It concluded that PFTAC had been successful in delivering results and building capacity in its member countries, and rated PFTAC highly on technical competence and performance. Evaluation recommendations focused mainly on the Center's size, governance, and organization.

33. **Evaluators noted that PFTAC has been highly relevant to the needs of its members.** Effectiveness and impact have been very good. Efficiency has been good with one important exception – budget volatility at phase transitions. Sustainability of PFTAC's results has been modest and would be improved by a program-based approach to organizing its work, a direction in which PFTAC is already moving. According to the evaluators, PFTAC has done reasonably well in regard to inclusiveness and sustainability, but should put greater emphasis on these issues in Phase V.

34. **Based on their findings, evaluators' main recommendations included:**

- i. Increasing the size of PFTAC to be an adequate response to member countries' needs and to operate efficiently;
- ii. Working closely with donors to ensure that the level of Center activity does not contract sharply during the transition from Phase IV to Phase V;
- iii. Accelerating PFTAC's movement towards a program-based approach to organizing its work;
- iv. Allocating a budget to APD for a "core program" of multi-disciplinary and thematic work led by the Coordinator;
- v. Clarifying and strengthening the role of the SC;
- vi. Implementing RBM in the remainder of Phase IV and in preparation for Phase V;
- vii. Paying more attention to inclusiveness and sustainability;
- viii. Improving PFTAC's corporate memory and knowledge management; and

ix. Consolidating donors' aid to TA in the Pacific in the IMF core areas as much as possible under the PFTAC umbrella.

35. **The IMF has considered how the conclusions and recommendations of the evaluation can be incorporated into planning for Phase V.** The IMF prepared an action plan—devised in coordination with CD providing departments and APD—to respond to the evaluation's recommendations and to inform the development of the Program Document more generally.⁶

36. **The implementation of some of these recommendations has already been underway in PFTAC's Phase IV and will be further strengthened in Phase V.** These include: implementation of the Fund-wide RBM system with a standardized catalog of objectives, outcomes, and indicators (recommendation # 3 and 6); strengthening PFTAC's multi-disciplinary approach by developing cross-sectoral programs in the Phase V program document (recommendation #4); engaging in consultations with the SC members during the preparation of the Phase V program document to seek their guidance on the formulation of CD strategies and priorities; and working with strategic donor partners on securing funding for PFTAC and establishing global funding arrangements for the RTAC network.

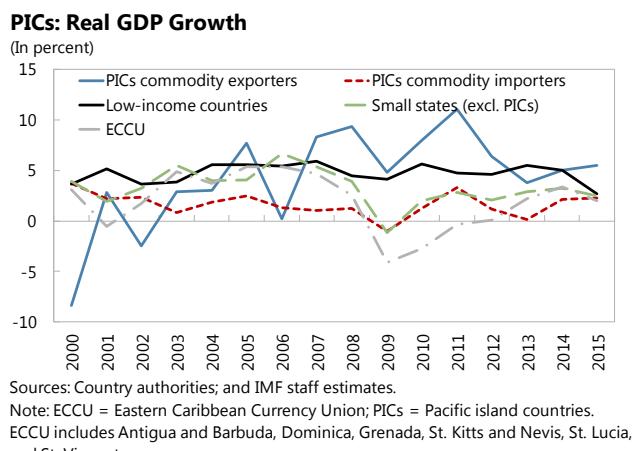
37. An updated response to the evaluation's recommendation is provided in Annex II.

⁶ The response of the IMF staff to the recommendations of the PFTAC mid-term evaluation and the action plan are attached as Annex II.

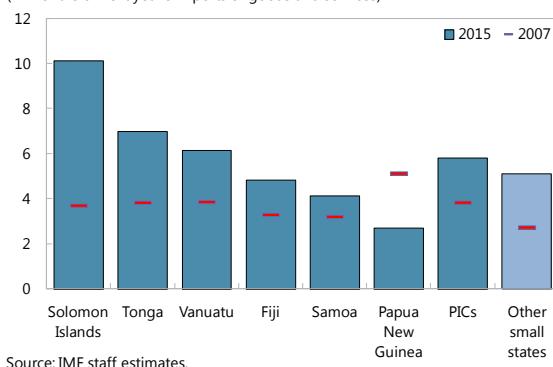
II. HOW WILL PFTAC HELP THE REGION ADDRESS ITS MACROECONOMIC AND FINANCIAL CHALLENGES?

A. Where do the countries and the region stand now?

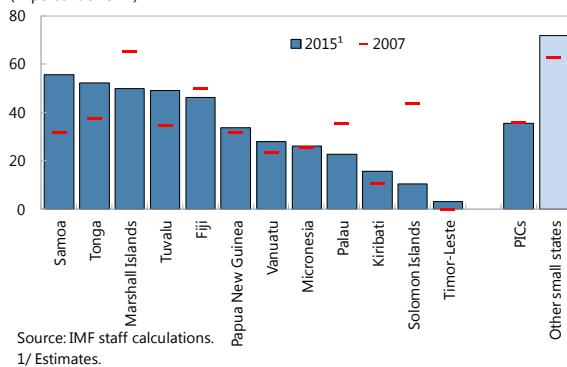
38. PIC economies have largely recovered from the global financial crisis. PIC economic activity on average grew by 3 percent in the five years after the crisis compared to 2 percent in the five years before the crisis. The commodity super cycle during 2010–12 temporarily boosted growth for PIC commodity exporters although this has been dampened by falling commodity prices and lower commodity production recently. In Solomon Islands, the protracted closure of the country's only gold mine following severe floods in 2014 and lower gold prices has weighed on growth, while in Timor-Leste, depleting oil reserves have led to lower oil production and slower economic activity. In Papua New Guinea, growth has been spurred by the coming on-stream of the country's first liquefied natural gas (LNG) plant. In Fiji, the successful conclusion of general elections after almost a decade of military rule boosted investor confidence and stimulated economic activity in 2014–15. Stronger linkages with China—including through trade and tourism flows—have also been a boon to a number of PICs, as in the case of Palau, where a significant rise in the number of Chinese visitors buoyed the economic activity. Overall, the windfall from the substantial drop in global commodity prices has provided some support for economic activity in many PICs in 2014–15.



PICs: International Reserves, December 2015
(In months of next year's imports of goods and services)



Pacific Small States: Total Public Debt
(In percent of GDP)



39. Increased engagement from the IMF—through surveillance, lending, and capacity development—and other development partners have helped increase PICs' economic resilience. Many PICs have made tangible progress in building policy buffers. International reserve positions have improved relative to pre-crisis levels although almost half of the PICs have emerged from the crisis with somewhat less comfortable fiscal buffers from higher debt

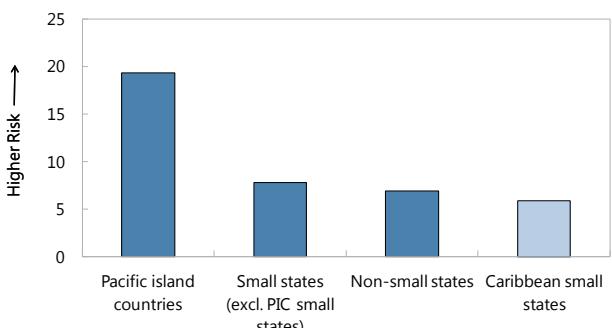
and larger fiscal deficits than before the crisis. On the other hand, some others—Marshall Islands, Solomon Islands, and Palau—have substantially reduced public debt. On the whole, however, average levels of public debt remain low relative to peers.

40. Despite greater economic resilience, volatility in GDP growth in PICs remains high and has increased over the last 15 years, with natural disasters remaining a major source of risk to growth and macroeconomic stability.

Based on historical frequency, the probability of a natural disaster averages more than 20 percent a year across PICs, and PICs are also more likely to be hit by natural disasters than their peers. Given that PICs are geographically dispersed, natural disasters do not hit all countries at once, although they may hit more than one country, as Cyclone Pam did in March 2015, inflicting heavy damage on Vanuatu and Tuvalu. As recently as February 2016, Cyclone Winston—the strongest cyclone on record in the Pacific—wrought widespread devastation in Fiji. IMF staff estimates suggest that for every 1 percent of GDP's worth of damage and losses caused by natural disasters, GDP growth on average drops by 0.7 percentage points in the first year after the natural disaster occurs, weighing down on growth and compounding volatility.

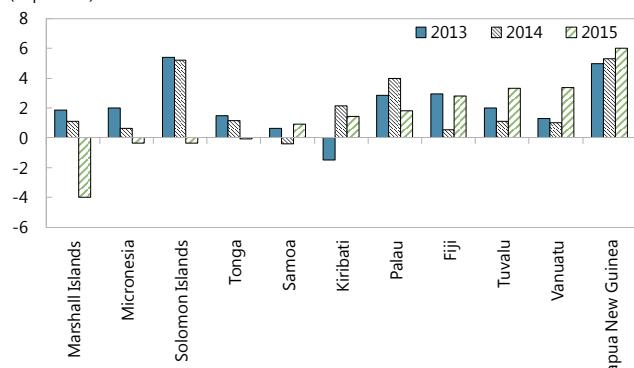
41. The large weights of food and fuel in PICs' consumer baskets remain an important conduit that exposes these economies to the vagaries of global commodity markets. Inflationary pressures have generally been contained in PICs over the last few years and have moderated significantly with the substantial drop in global commodity prices starting from mid-2014. In Tuvalu, the effects of higher government expenditure and post-Cyclone Pam

Natural Disaster Risks - World Risk Index, 2015
(In percentage point)



Note: High value indicates high risk. Maximum risk country = 36.7 percentage points.
Sources: Alliance Development Works, *World Risk Report 2015*; and IMF staff calculations.

CPI Inflation
(In percent)



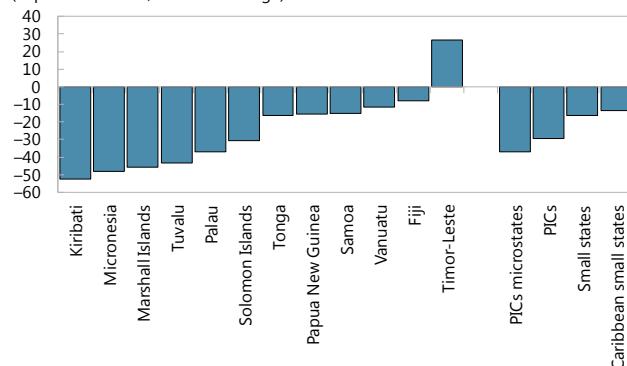
Source: IMF, *World Economic Outlook* database.

reconstruction fueled inflationary pressures in the domestic economy in 2015, while in Vanuatu, the domestic food supply disruption in the wake of Cyclone Pam, coupled with the onset of the El Niño phenomenon, pushed prices higher in 2015. In Papua New Guinea, significant depreciation of the kina counterbalanced the downward pressure of lower commodity prices on inflation.

42. PICs remain beleaguered by large structural trade deficits, even in comparison to peer groups, including the Caribbean small islands and small states in general. The persistently large current account deficits are the result of these countries' heavy reliance on imports, particularly fuel and food, of which many PICs are net importers. Many PICs are poor in resource endowments (with the exception of a few commodity exporters), have limited arable land, and small domestic markets, some of the main factors that account for their narrow production and export bases. These countries also import capital goods because of their dependence on imported technologies and other consumer goods. Current account deficits persisted at end-2015, although falling commodity prices provided some support to the external balance in many PICs.

43. Revenue in PICs has long been volatile relative to many other small states and low-income countries. The sources of volatility vary across countries and depend on cyclical and noncyclical factors. On average, revenue shows strong procyclicality, especially in net commodity importers. Revenue volatility in PICs also results from terms-of-trade shocks attributable to a lack of diversification and narrow production bases. The elasticity of revenue to terms of trade, after controlling for GDP, is much higher in resource-rich PICs than in comparators. Furthermore, revenue in PICs is affected by vulnerability to natural disasters. IMF staff analysis suggests that a natural disaster that affects 1 percent of the population causes a drop in real revenue of 0.2 percentage points. Further analysis points to a contraction in tax revenue of 0.2 percentage point of GDP in the year of the disaster, followed by a revenue rebound in the following year. After controlling for GDP, the volatility of trade flows (including tourism) and of remittances also affects revenue volatility. In many microstates, most of the volatility is also caused by fishing license fees, which are independent of the economic cycle.

PICs and Small States: Current Account Balance Excluding Grants
(In percent of GDP, 2005-15 average)

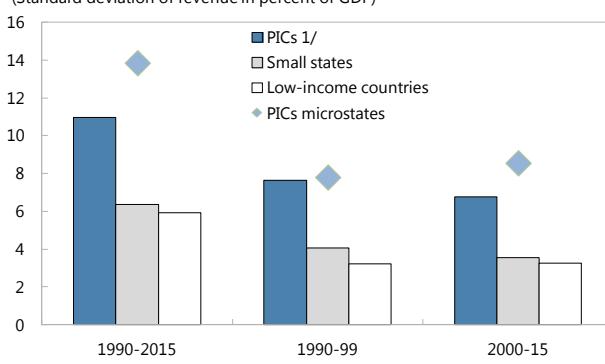


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

Note: PICs = Pacific island countries.

Volatility of Revenue Excluding Grants

(Standard deviation of revenue in percent of GDP)



Source: IMF staff estimates.

1/ PICs = Pacific island countries.

44. Managing revenue volatility is a major challenge for PICs as such volatility can foster fiscal policy procyclicality (i.e. expansionary fiscal policy during upturns and contractionary policy during downturns). Only five of PICs have adopted a multiyear budget framework to help smooth the expenditure path over the medium term. Only one, Timor-Leste, has a fiscal rule and a stabilization fund to manage the volatility of fiscal revenue and ensure intergenerational equity in the distribution of earnings from its natural resources.

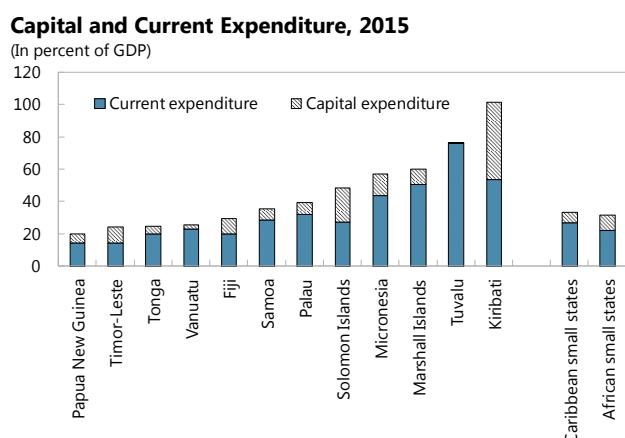
45. **PICs are broadly expected to continue to record steady growth in 2016, although risks are tilted to the downside amid weaker growth projections for Asia and continued sluggishness in some major economies.** Asian trade is expected to remain weak, with sluggish global growth, weak investment growth in major economies and commodity exporters, and increasing spillovers from China. Some PICs are expected to experience a mild growth slowdown as tourism revenues and remittances grow more slowly. The aftermath of Cyclone Winston will likely weigh on growth in Fiji in 2016 while growth in Solomon Islands is expected to be marginally lower at 3 percent on account of a projected decline in the demand for logging exports, particularly from China. Economic activity in Timor-Leste is expected to slow amid falling oil production as reserves in existing oil fields are depleted.

46. **For PICs, stronger links with China and Australia, which has been a boon in recent years, may lead to greater vulnerability** to the weakening of these economies, particularly through the channels of tourism and trade. The onset of a strong El Niño event—one of the strongest on record since 1950—is also likely to continue to weigh on growth in some PICs up to the first half of 2016. The last severe El Niño event was associated with significantly weaker agricultural production, increased food prices, and higher incidents of tropical cyclones, all of which pose risks to growth and fiscal sustainability. With the exception of Papua New Guinea, which is benefiting from new productive capacity, commodity producers Solomon Islands and Timor-Leste will need to contend with production losses and resource depletion in the medium term amid a more bearish outlook for the world's commodity markets.

B. Macroeconomic Policy and Institutional Agenda

47. **Capacity development efforts under PFTAC's Phase IV have produced measurable results, although continued improvements in macroeconomic policy and institutions are required to further strengthen PICs' resilience to future shocks and lift long-term potential growth.** As small, highly open economies the PICs remain vulnerable to exogenous shocks. Improved economic policy and institutions can, however, ameliorate the impact of economic shocks and natural disasters. Key areas of policy focus are:

- **Strengthening of fiscal frameworks.** Given their vulnerability to shocks, enhancing resilience requires building adequate fiscal buffers for rainy-day countercyclical support and creating policy space for spending on infrastructure to boost potential output. Spending rigidity is also a problem, owing to the indivisibility of public goods and the large share of current expenditure. Given the large fiscal gap that PICs face—quality and access to infrastructure varies among countries, but most PICs have inadequate infrastructure—a

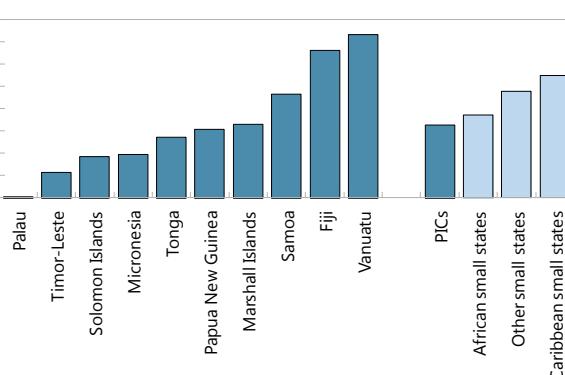


Sources: IMF staff estimates.

key challenge for policymakers is the tradeoff between building fiscal buffers to foster resilience to shocks and funding additional investment spending. A country-specific fiscal anchor could make fiscal policy better reflect short-term cyclical and medium-term sustainability goals. It will also help properly assess a country's underlying fiscal position, which is sometimes masked by headline fiscal balances. The use of a fiscal anchor to smooth spending over the cycle would also go hand in hand with strengthening the medium-term orientation of fiscal policy, replacing the year-by-year formulation based on volatile and uncertain revenue.

- **Building macro-financial resilience to natural disasters and climate change.** Enhancing resilience to natural disasters and climate change demands a multi-pillar strategy at the national, regional, and multilateral levels, and it also requires enhancing countries' risk management capacity. Ex ante, this strategy includes: (i) identifying and undertaking risk assessment; (ii) reducing risks by enhancing preparedness, including by investing in smart infrastructure; and (iii) transferring risk through private or sovereign insurance and through multilateral risk-sharing. Ex post, it is important that PICs are able to cope with the effects of natural disasters while ensuring a resilient economic recovery. Strong public financial management, which improves budget planning and enhances transparency of public funds, helps to improve the foundation on which PICs seek natural disaster and climate change assistance. A sound public financial management system is essential to enhancing risk management related to these events by incorporating disaster risk into fiscal planning.
- **Enhancing the monetary policy transmission mechanism.** The scope for monetary policy in Pacific small states is limited on account of dollarization, the prevalence of fixed exchange rates, and weak monetary policy transmission mechanisms. The latter are generally caused by low financial deepening, weak credit demand, and underdeveloped financial markets. This highlights the importance of developing domestic financial markets in the long run, and the need to coordinate macroeconomic policies and to use all macroeconomic tools available in conducting countercyclical policies, including greater flexibility in the exchange rate.
- **Promoting financial inclusion.**
PICs continue to lag behind in terms of financial sector development and financial inclusion, even when compared to peers. The size of the financial sector is limited: a corollary of the small scope of domestic economic activities. Limited business opportunities, lack of economic diversification, and increased risks due to high vulnerability to economic shocks, as well as inadequate infrastructure to enable wider financial access also hamper the financial sector's ability to facilitate inclusive growth. As at end of 2015, some PICs were among the most underbanked countries in the world and as a group,

Outstanding Commercial Bank Loans
(In percent of GDP)



Sources: IMF, Financial Access Survey; and IMF staff estimates.

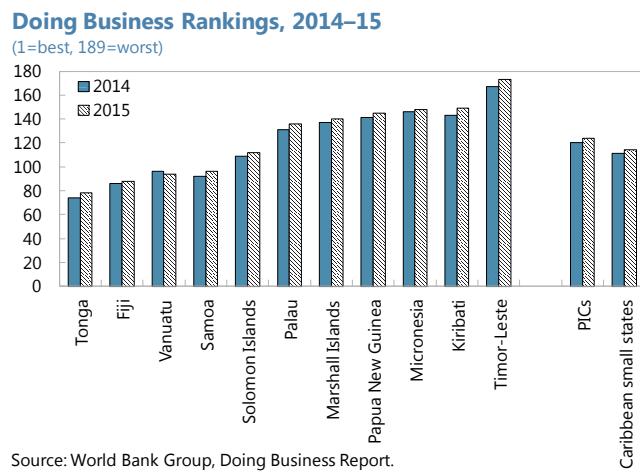
Note: Data are the latest available as of December 2015.

to economic shocks, as well as inadequate infrastructure to enable wider financial access also hamper the financial sector's ability to facilitate inclusive growth. As at end of 2015, some PICs were among the most underbanked countries in the world and as a group,

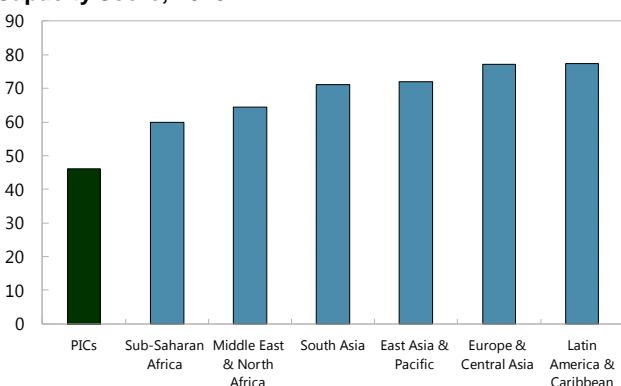
PICs have trailed peers in terms of financial sector development. Interest rate spreads also remain generally elevated, reflecting high market concentration and limited competition, efficiency gaps, and generally high transaction costs in these economies. Recent initiatives in a number of PICs, including the introduction of mobile banking, are steps in the right direction. Supervisory agencies' capacity to monitor and enforce compliance in PICs Given the interconnectedness between the financial sector and macroeconomic, PIC authorities' also need to strengthen their understanding of macro-financial linkages to ensure that financial sector development does not undermine macroeconomic and systemic stability.

- **Promoting private sector development.** Private sector development has been constrained by inadequate infrastructure, high degree of regulation, and large costs of doing business. While the costs of doing business in PICs on average are comparable to peers, a majority of PICs rank in the bottom half of the World Bank Group's Doing Business rankings. Maintaining the momentum in structural reforms will be crucial to building an environment that is conducive for private sector development.
- **Better statistics are essential to allow improved policy making.** Enhanced economic statistics are critical to enabling policy makers to make reliable and timely decisions and to understand the impact they have on the economy. PFTAC engagement has led to improvements in statistics although some PICs continue to face challenges in this regard. This reflects, in part, the generally limited resources available to statistics institutions in PICs and also the continuously high cost of collecting robust data in small geographically dispersed countries.

48. Despite tangible improvements in recent years, capacity remains a compelling problem across PICs. The traditional problems in building and sustaining capacity are magnified in the Pacific by the very small size of most public administrations, meaning that systems often rely on just one or two key individuals. Improving the traction of capacity development efforts in PICs will be a key challenge in the coming years.



PICs and Developing Countries: Statistical Capacity Score, 2015



Sources: World Bank Group, IMF staff calculations

C. PFTAC's Support in Tackling the Region's Challenges

49. **In Phase V, PFTAC's CD activities will focus on three strategic objectives:** (i) strengthening **macroeconomic and fiscal resilience** to natural disasters and adverse economic developments; (ii) promoting macro-financial **sustainability**; and (iii) facilitating **growth and inclusiveness**. These priorities for CD activities are intended to complement and assist with implementation of major themes in IMF policy advice, including an increased focus on the challenges facing the region's most fragile states. CD activities will continue to be responsive to the needs and priorities of PFTAC's members, but at the same time emphasize these major objectives.

50. **To strengthen macro-financial resilience**, PFTAC will provide CD to promote:

- Longer-term, integrated approaches to fiscal and budgetary management, in order to better plan for and manage costs associated with adverse shocks, especially natural disasters, to which the region is particularly vulnerable.
- Strengthened crisis management arrangements in both the fiscal and financial domain.

51. **To enhance macro-financial sustainability**, PFTAC will provide CD to promote:

- Use of longer-term frameworks for analysis of fiscal and external debt sustainability.
- Management of risks to longer-term fiscal sustainability stemming from demographic developments and public health costs.
- Reduced aid dependence through more efficient and effective domestic revenue mobilization.

52. **To facilitate inclusive economic growth**, PFTAC will:

- Promote more medium-term fiscal and budgeting frameworks and policy focus on investment, education, healthcare, and other areas having a significant impact on economic potential, gender equality, and economic inclusiveness.
- Encourage efficient, fair, and predictable tax environments and public procurement processes to facilitate private sector development.
- Facilitate development of the non-bank financial sector to increase financial access by disadvantaged groups.
- Work with development partners to facilitate timely collection of relevant, good quality data on inclusiveness, gender equality, and measures to promote growth.

53. **PFTAC CD is expected to have a favorable impact on social inclusiveness and environmental sustainability.** PFTAC's expertise and mandate provide it with limited and largely indirect influence on achieving these policy objectives, as discussed in Box 1, but to the extent that it does have an impact, it is expected to be positive.

Box 1: Social Inclusion, Human Rights, and Environment: Impact of PFTAC Programs

PFTAC's CD does not specifically target outcomes with regard to strengthening human rights, social inclusiveness, and environmental protection and sustainability. The kinds of CD that we are qualified to provide to members have very little direct impact on such outcomes, and our mandate does not include providing policy advice. Nonetheless, PFTAC CD has some scope to support progress in these areas, largely indirectly.

With regard to human rights, PFTAC's impact is likely to be quite limited and intangible. In the areas of PFM, taxation, financial supervision and statistics, some of the important underlying principles behind our CD include clarifying powers and responsibilities, transparency and accountability. Implementation of such CD is likely to strengthen more general moves in these directions among members, and this is likely to strengthen respect for human rights. Additionally, to the extent that PFTAC CD improves budget processes and enhances the growth potential of PICs, this is likely to lead to higher household incomes and provide greater room for public spending in areas relevant to human rights.

In the area of gender equality and inclusiveness, there are three main areas where PFTAC CD is likely to have an impact. Most directly, our provision of TA and training is conducted without regard to gender or physical ability. In practice, a substantial proportion of the TA and training participants are women, and we expect that this will help boost their chances of attaining senior roles in the public service. Additionally, PFTAC will encourage the implementation of gender budgeting, beginning with relevant data collection and publication, to heighten public awareness, and will explore the scope for collaboration in this area with development partners.

More indirectly, PFTAC's support for development of legal and supervisory frameworks for credit unions is substantially motivated by the objective of promoting inclusive growth. A strengthening of credit unions should benefit their own members directly, as well as increase competitiveness and efficiency in the financial system more generally. Improvements in financial access are likely to benefit most those who have relatively limited access to borrowing and savings opportunities currently, including women, small enterprises, and populations outside the main urban areas. For these groups, improved access to finance should facilitate escaping poverty.

PFTAC's CD in the area of taxation should also have an important indirect impact on gender equality and inclusiveness. By strengthening tax core functions and compliance, a fairer distribution of the tax burden is likely to be achieved. In addition to promoting greater equality, increased tax revenues will provide additional resources for use in programs that promote gender equality and inclusiveness.

With regard to environmental protection and sustainability, PFTAC's impact is also likely to be indirect but potentially significant in two areas. First, our CD in the macroeconomic and PFM areas is aimed at encouraging a more medium-term approach to fiscal policy. This should help bring more stability to public investment, especially in projects to strengthen resilience to natural disasters. Second, the CD in the tax area should help strengthen domestic resource mobilization, making more resources available for environmental protection and lessening dependence on revenues from environmentally damaging and unsustainable activities.

Measuring the impact of efforts to promote inclusiveness and gender equality is a significant challenge, since few relevant indicators are readily available in most PICs. The most direct and easily measured impact is on the gender balance of our TA and training, and PFTAC has begun to monitor this. PFTAC will also aim to identify and monitor relevant indicators in the government and financial sectors.

D. Summary of Sectoral CD programs

54. Detailed discussions of proposed sectoral CD programs are provided in Section III below, including RBM logical frameworks to be used both in planning CD activities and monitoring results and outcomes. However, the main elements of the programs are summarized below.

Overview of Priorities and Resource Allocation

55. **The proposed allocation of PFTAC staff and budget resources in the Phase V continues to reflect the priorities expressed by members and the IMF's assessment of regional CD needs.** PFTAC members have clearly indicated that they wish to see CD continue in each of the five main areas that were provided in Phase IV. As in Phase IV, the highest priority within the region continues to be in strengthening PFM, including both the budget formulation and budget execution sides. Strengthening DRM including tax and non-tax revenues also remains a top priority for both members and the IMF. During Phase V, PFTAC will maintain the substantially increased emphasis it has placed on this objective in recent years. Both PFM and revenue CD will be strongly complemented in Phase V by CD in macroeconomic modeling and forecasting.⁷ Adequate macroeconomic statistics, including Government Finance and Balance of Payments statistics, are essential to evidence-based macroeconomic policy making, and effective financial supervision is essential to maintaining financial stability and macroeconomic performance. In the baseline scenario, resources in both areas will be maintained at levels well above the Phase IV average, but somewhat lower than in the latter part of Phase IV.

56. **These sectoral allocations are aimed at ensuring a strong program of TA and training in each area to be provided by resident long-term advisors supported by short-term expert programs.** Experience at PFTAC, as well as at the IMF's other RTACs, suggests that the model based on a resident expert providing TA directly based on strategic inputs and oversight from HQ; and managing a well-planned course of TA and training provided by short-term experts offers considerable benefits. In particular, use of STX facilitates providing specialized expertise. It also provides flexibility in terms of mission timing and intensity of TA provision. Moreover, in recognition of the importance of building relationships, most STX-provided TA program involves a strong element of continuity in staffing. These features are viewed as very helpful in addressing shifts in the focus of CD over time, both as CD programs are progressively implemented, and as priorities of countries evolve. In addition, uncertainties surrounding PFTAC resourcing over Phase IV (notably owing to potential exchange rate shifts) are more readily addressed through scaling up or down of STX usage than adding or reducing the complement of resident advisors.

57. **The baseline program ensures that at least one resident advisor is provided in each sector.** A second advisor in PFM would be maintained only through the first three years of the program to ensure that there are sufficient funds for the DRM program. In statistics, the

⁷ In the latter part of Phase IV, for example, PFTAC's macroeconomic advisor has conducted joint workshops with the PFM and Revenue advisors on expenditure and tax modeling and forecasting, and has worked with Vanuatu authorities on modeling the impact of possible modifications to the tax regime. Complementary TA of this kind is expected to continue.

absorption of GFS and BOP TA into the PFTAC mandate, in addition to the ongoing TA program in National Accounts, would be accommodated by not renewing one resident advisor position in order to finance an STX program covering these areas. In the aspirational budget, additional resources would be directed primarily towards maintaining a second advisor in statistics, to better meet the needs of a broadened statistics TA program, and maintaining a second PFM advisor right through the end of Phase V.⁸ These can be financed relatively inexpensively. If there are additional funds, these could be directed towards a further strengthening of the DRM program.

Public Financial Management

58. **Fiscal issues are at the core of macroeconomic management and sustainability in all PICs.** Consequently, CD and training in PFM will remain as the linchpin of PFTAC activity in the region.

59. **Building on Phase IV assessments, and roadmaps, PFM activities in Phase V will concentrate on CD in the following areas:**

- i. **Improving PFM institutions and legal frameworks;**
- ii. **Strengthening budget preparation towards more comprehensive, credible and policy-oriented budget;**
- iii. **Improving budget execution and control;**
- iv. **Improving coverage and quality of fiscal reporting;**
- v. **Improving integration of asset and liability management framework;**
- vi. **Strengthening identification, monitoring and management of fiscal risks.**

60. **A key element of the strategy of strengthening macroeconomic resilience will be to help members strengthen their fiscal frameworks and capacity to formulate and implement coherent medium-term fiscal policies, together with appropriate monitoring and accountability for budget execution.** Effective medium-term frameworks are essential to addressing medium and long-term risks to macroeconomic stability and development in the region including, in particular, growth and budgetary effects of natural disasters and non-communicable diseases. Capacity building in this area will require an integrated cross-sectoral approach involving close coordination with PFTAC CD in the areas of revenue administration, macroeconomic analysis, and statistics.⁹

⁸ In view of the likelihood, as of October 2016, that funding will exceed the baseline amount, the second statistic advisor position is being maintained and will be directed to cover GFS needs.

⁹ Medium-term fiscal and budgeting frameworks are crucially dependent on the quality of revenue and expenditure projections. These depend in turn on knowledge of structural shifts in expenditure and revenue streams, the quality and availability of macroeconomic data, and the methods used in forecasting. Monitoring of expenditures also depends crucially on the quality of government financial statistics.

61. **As with all other areas of PFTAC CD, assistance in the PFM area, including medium term fiscal and budget frameworks will need to be tailored to specific country needs and capacity.** In some countries, capacity or data constraints are likely to be more challenging than in others, but the need for a more medium-term perspective in fiscal policy making is generally accepted.

62. **The baseline program envisages a reduction in the number of resident PFM advisors in the last two years of Phase V.** This is seen as necessary to allow adequate resources for TA on domestic revenue mobilization, and to retain an adequate mix of LTX and STX inputs in the PFM area. The spread of activities over PEFA, institutional capacity building and implementation will be tilted somewhat towards implementation of TA as Phase V progresses. This implies relatively more use of STX in overall TA delivery. If the funding available to PFTAC is greater than assumed in the baseline, a priority will be to maintain the two PFM advisors throughout Phase V.

Revenue Policy and Administration

63. **The primary focus of CD in the area of revenue administration in Phase V will be on strengthening members' capacity to enhance domestic resource mobilization through effective and efficient tax regimes.** This comes at an important time, especially following the discussions at the United Nations summit in Addis Ababa which have resulted in a multilateral consensus on a broad range of commitments by bilateral donor partners and multilateral institutions on promoting financing for development. Of critical importance was the focus on access to financing; domestic revenue mobilization; infrastructure development; equity and inclusion; and fragile and conflict-affected states. To the extent that they succeed, tax revenues are likely to be enhanced in a sustainable way, with lower administrative costs. In addition, the tax system should become fairer as compliance improves. To achieve these outcomes, CD will be provided in two main areas:

- i. **Assisting with improving tax administration management¹⁰ and governance;**
- ii. **Strengthening implementation and efficiency of tax administration core functions;**

64. **As in Phase IV, substantive tax policy advice will be provided from HQ.** HQ will also assist with drafting legislative amendments to implement this advice where appropriate.

65. **Strengthening of DRM capacity is a top priority, and is reflected in PFTAC resource allocation.** In the latter part of Phase IV, in response to strong demand for TA on DRM, provision of TA in this area was substantially ramped up. Spending on DRM CD (including on non-tax revenue) nearly doubled, from an average of \$0.8 million per year in FY2012-2014, to \$1.5 million per year in FY2015-16, through a major increase in the use of STX to deliver focused TA and training. The intention is to maintain the level of TA delivery at these high levels through Phase V, and to increase resourcing if sufficient funding becomes available.

¹⁰ Includes strengthening support functions.

66. **Expanded support for revenue mobilization in the region could also come from other sources.** In Phase V, the expanded Revenue Mobilization (RM) (former Tax Policy and Administration (TPA)) Trust Fund and the Managing Natural Resource Wealth (MNRW) Trust Fund could finance additional TA and training opportunities to the region. The scale and timing of such assistance, however, is not known as yet, as the respective new program work plans have not yet been developed and approved by the relevant Steering Committees. Some PFTAC donor partners are represented on these committees. Support for customs administration for PFTAC countries will be provided by the Oceania Customs Organization (OCO) which is expected to continue to be the primary customs CD provided in Phase V.

67. **The Pacific Agreement on Closer Economic Relations with Australia and New Zealand (PACER Plus) will have an impact on DRM in PFTAC members during Phase V.** In particular, several members are likely to see some reduction in customs revenues. During Phase IV, IMF HQ and PFTAC supported members in developing and implementing indirect tax reforms in the expectation that WTO rules and PACER Plus would require substantial reductions in tariffs. The IMF is currently providing TA to the region with an analysis of the impact of PACER Plus on government revenues, together with country-specific revenue-enhancing measures. This analysis should provide a useful basis for countries in the region to consider their policy options. Advice on the appropriate policy responses is beyond PFTAC's remit, but PFTAC will aim to provide TA with regard to evaluation of policy options, as well as with implementation, in collaboration with development partners.

Macroeconomic analysis and forecasting

68. **In Phase V, PFTAC CD in the area of macroeconomic analysis and forecasting will focus on building capacity in central banks and finance ministries to monitor and analyze macroeconomic developments,** conduct model-based macroeconomic analysis and forecasts, and strengthen their understanding of macro-financial linkages and vulnerabilities.

69. **Resourcing of CD in this area will remain close to current levels.** TA in the region will be provided primarily by PFTAC's resident macroeconomic advisor. A limited budget is available for STX support, and additional financial resources have been budgeted to provide workshops in the region. As in Phase IV, PFTAC will aim to leverage its workshop funds by working jointly with other development partners such as ADB and UNESCAP in providing such workshops. PFTAC will also encourage central banks and finance ministries in the region to make more use of relevant training courses provided by the STI, and IMF online courses. This will be facilitated by integrating such courses more closely into the macroeconomic work program, as discussed below.

70. **As discussed earlier, one of the principal objectives in Phase V is to strengthen macroeconomic and fiscal resilience and sustainability in member countries.** Macroeconomic CD will contribute importantly to achieving this objective by assisting with development of medium-term fiscal policy frameworks, in close coordination with the PFM, revenue, and statistics advisors, as well as other CD providers. The work program will involve three main project areas:

- i. **Strengthening forecasting and policy analysis frameworks**, including assistance with aggregate macroeconomic forecasting models and processes; revenue and expenditure forecasting, and adapting financial programming frameworks for policy analysis;
- ii. **Strengthening capacity to incorporate long-term trends and risks** (demographics and rising incidence of non-communicable diseases) into forecasting and policy analysis;
- iii. **Strengthening capacity to assess fiscal consequences of natural disasters** and other significant shocks, and incorporate fiscal and debt sustainability into medium-term fiscal frameworks.

71. **A key consideration in designing this CD is the importance of achieving sustainable improvements in analytical capacity in central banks and finance ministries.** This requires keeping model frameworks parsimonious and easy to maintain, strengthening incorporation of forecasting into budget processes, and promoting sharing of experience and knowledge across countries. In some countries, including some of the region's most fragile members, however, capacity building is not realistic at the current juncture and some method of capacity supplementation will need to be considered.¹¹

72. **In addition, PFTAC will seek to promote sustainability and efficiency in macroeconomic analysis and forecasting** by encouraging collaboration and data-sharing between ministries of finance and central banks, as well as internationally. To this end, PFTAC intends to work with members to establish a regional macroeconomics association. Such an association would help to strengthen sharing of experiences and good practices in the region in economic analysis and forecasting, and could also facilitate cooperation with the academic community within the region and elsewhere.

73. **CD in the area of macroeconomic analysis and forecasting already draws on support from the IMF's Institute for Capacity Development (ICD), and this is likely to increase during Phase V.** ICD's new curriculum of courses being rolled out at the STI should provide an important source of complementary training in developing familiarity with macroeconomic modeling and analysis. New courses that may be especially relevant to the PICs include Financial Development and Financial Inclusion, Inclusive Growth, Vulnerability Diagnostics, and Fiscal Discipline and Fiscal Frameworks. In addition, members will be encouraged to make use of the growing range of on-line training courses provided by the IMF. These on-line courses—available to an unlimited number of participants free of charge—aim to provide training on basic techniques and analysis.¹² Utilization of on-line courses could be beneficial in two ways: (i) by increasing the

¹¹ Capacity supplementation in macroeconomic forecasting is already being provided to the Compact States by the US Graduate School. PFTAC has worked with them in Palau to develop medium-term and long-term projection frameworks to be able to analyze the implications of the end of Compact grants. This model of cooperation may be a cost-effective way to provide TA in Federated States of Micronesia (FSM) and Republic of Marshall Islands (RMI). Other solutions will be needed in Kiribati and Tuvalu.

¹² In FY2014-16, 142 government officials, and 40 others, from 11 PFTAC member states participated in IMF on-line courses. The top participating countries were Fiji, Tonga, Vanuatu and Solomon Islands. The top courses were in financial programming and debt sustainability analysis. On average, 73 percent of course participants passed the courses, and feedback comments have been very positive.

availability of training for country officials; and (ii) by helping to prepare country officials for more in-depth courses provided by STI or IMF HQ. Courses particularly useful will be the Financial Programming and Policies I and 2 (FPP1x and FPP2x) as well as the Financial Markets Analysis (FMAx). PFTAC will aim to develop synergies between such training and its provision of country-specific TA.

Macroeconomic statistics

74. **Consistent with the IMF's recently developed RBM catalog of CD objectives and outcomes, the main objective of CD in the macroeconomic statistics area in Phase V is to strengthen the compilation and timely dissemination of macroeconomic statistics.** In some member countries, capacity supplementation forms a part of the CD, owing to the limited amount of resources sometimes available for the area of statistics. In Phase V, the coverage of PFTAC CD will expand to include both national accounts (NA) and government financial statistics (GFS), which implies some loss of the economies of scale under Phase IV where the focus was mainly on national accounts. Adding work on GFS responds to needs in the member countries in part because of the complementarities of this work with other activities in PFTAC on PFM, revenue mobilization, and macroeconomic analysis, as well as to maintain the momentum of progress that has been achieved under a Japanese-funded project on GFS in the Pacific region that has recently closed.

75. **The CD will be carried out in close coordination with other CD providers and development partners, and in the context of the Ten Year Pacific Statistics Strategy (TYPSS).** Major partners in providing CD in the Pacific include the SPC, ABS, Statistics New Zealand, and World Bank. A key vehicle for coordinating efforts among these partners, other development partners, and the NSOs is the Pacific Statistics Steering Committee, and its Technical Working Groups (WGs), particularly the Data Utilization WG (focusing on data accessibility and dissemination), and the Administrative Data WG (focusing on increasing the use of existing administrative databases rather than costly surveys). PFTAC will work closely with SPC, in particular, to coordinate and integrate TA in the areas of prices and the Household Income and Expenditure Survey, so that HIES and CPI data can be efficiently used in National Accounts compilation and rebasing. Sustainability of statistical capacity is also recognized as an important challenge in several PFTAC members. In this area as well, PFTAC will collaborate with PSSC members, including University of the South Pacific (USP) to seek solutions, as well as explore the scope for more South-South capacity supplementation.

76. **In Phase V, the baseline program would be implemented by one real sector resident advisor supported by an expanded program of STX missions.** This would represent a modest reduction in overall TA delivery capacity from the second half of Phase IV when statistics TA was provided by two real sector advisors plus a limited number of STX missions. This would involve reducing the total number of missions in statistics to around 20 missions per year (18 TA and 2 workshops); a reduction of four TA missions and one workshop compared to Phase IV. In practice this would mean that some countries will receive only one mission per year rather than two. Although this level of resourcing would allow PFTAC to meet its commitments to the region, a higher level of resourcing would clearly facilitate more intensive engagement with

members. Consequently, if PFTAC funding resources in Phase V turns out to be higher than in the baseline, a high priority is attached to increasing funding in statistics, with a view to adding a second advisor, focusing primarily on GFS. As of October 2016, funding now appears likely to exceed the baseline level, which allows us to maintain the second statistics advisor position.

77. Increased use of STX will provide flexibility and relevant expertise in covering the broader range of statistics CD in Phase V. Careful prioritization of TA will be needed in Phase V. In the area of national accounts, key to improvements in the region are the use of tax data and the latest HIES data, rebasing and practical ‘how-to’ training rather than overly complex theoretical workshops, and so delivery tends to focus on countries where work in these areas bears fruit. Priorities in the areas of GFS and ESS will need to balance the authorities’ requests, the IMF’s assessment of greatest CD needs, and the assessment of the advisors and back-stoppers of where resources will be most effectively used. As part of these activities, work would also cover developing and improving statistical infrastructure, source data, serviceability and metadata. Workshops have been planned as sub-regional activities, based on the successful format used during the second half of Phase IV. We expect to run two sub-regional workshops; one for Micronesian members; and the other for members in the Southern Pacific.

78. Training in statistics is also available from the STI. Members will be encouraged to participate in such courses as complements to PFTAC TA.

Financial sector supervision

79. In Phase V, PFTAC TA will focus on strengthening the resilience of PIC financial systems. Owing to the diverse nature of PFTAC membership, ranging from jurisdictions requiring targeted CD such as consolidated/group and cross-border supervision, and those where basic development of off-site and on-site capabilities are appropriate, country-specific objectives will be built into the program. In all cases, the goal will be to achieve at least baseline competence in the area addressed. Improved resilience of banking systems and sound regulation will help promote financial stability and assist in better access to finance. In order to maximize the impact of PFTAC CD with limited resources, priorities in CD delivery will reflect our assessment of the risk profiles of members’ financial systems.

80. Resourcing of CD in financial sector supervision will be above the average level in Phase IV, but somewhat below the peak in the last two years. As in Phase IV, the CD program will involve a resident advisor, complemented by a focused program of STX. In addition to TA, the program will continue to include regional or sub-regional workshops. In Phase V, PFTAC also aims to strengthen collaboration with other CD providers, including SEACEN, and encourage members to participate in workshops and training provided by STI, and the IMF’s STA and MCM departments.

81. The member countries and programs selected for delivery take as priority areas where the potential risks to financial stability and/or inclusion are judged greatest. In members where banking supervision and regulation require important upgrades, TA is targeted, as noted above, to the topics appropriate to the market profile and skill requirements of the supervisory agencies. Where credit unions are important contributors to financial inclusion, the TA centers

on the improvement of their regulations and oversight, and promoting monitoring of the effectiveness of such efforts. In turn, the TA delivery mode takes account of relative strengths of deliverers – TA on legal and regulatory issues is provided by STXs whose assignment is coordinated with the Legal Department and intensive programs on off-site and on-site may be delivered by STXs with particular experience in these areas, supplementing the resident advisor. Workshops in these areas allow for more general coverage of jurisdictions with lower risk profiles.

82. **To address financial stability analysis and monitoring, TA from IMF HQ is provided** both through workshops addressed to several jurisdictions and, when the capacity warrants greater focus, TA to specific jurisdictions. In addition, TA is being provided to the PICs on topics not covered by PFTAC; these include debt management through trust fund resources, or with IMF funding on, for example, monetary operations, foreign exchange operations, and reserve management, dependent on the areas identified by surveillance. Occasionally, TA from IMF HQ helps to provide broad-based advice on banking supervision.

83. **Workshops allow for more general coverage of jurisdictions with lower risk profiles.** To address financial stability analysis and monitoring, TA from IMF HQ is provided through both workshops addressed to several jurisdictions and, when the capacity warrants greater focus, TA to specific jurisdictions. In addition, some TA is being provided through IMF HQ to the PICs on topics not covered by PFTAC; these include debt management through trust fund resources, or with IMF funding on, for example, monetary operations, foreign exchange operations, and reserve management, dependent on the areas identified by surveillance. Occasionally, TA from IMF HQ helps to provide broad-based advice on banking supervision.

84. **The main programs planned to deliver this TA include:**

- i. **Legal and regulatory frameworks:** where indicated, to assist in ensuring that supervisors have adequate legal powers and the ability to exercise these; to identify and advise on the changes required to make bank regulation commensurate with the risk profile of banking systems;
- ii. **Supervisory processes:** Strengthening bank reporting, forward-looking off-site analysis to identify emerging risks, and on-site examination to assess risk management and identify areas of weakness;
- iii. **Strengthening legal frameworks and supervision of non-bank financial institutions** (credit unions, finance companies)

85. **Regional priorities will also be addressed through incorporation of thematic objectives** such as development bank supervision, and building financial sector resilience to, and preparedness for, natural disasters.

86. **To increase the sustainability of TA, there will be greater focus on developing or ensuring that the authorities have up to date documentation,** such as supervision manuals and supervisory guidance notes, for use in training new staff and codifying standard procedures.

87. **Good practices of authorities will be identified and leveraged across the region.** PFTAC will also encourage the authorities to strengthen their monitoring of financial inclusiveness, including for women, in order to identify the best practices for promoting inclusion.

88. **Financial sector TA will be closely coordinated with CD on macro-financial analysis and financial stability,** embedded in two new financial sector courses, and will continue to draw on expertise from LEG.

89. **PFTAC will also promote member participation in training in financial supervision.** The STI, as well as SEACEN and others, provide relevant training in banking supervision. PFTAC will encourage members to take such training and also explore the potential for hosting such training in the region.

E. Main Risks to the program

90. **The main source of risks to effective implementation of the program and the sustainability of outcomes is from loss or lack of political or bureaucratic support.** Much of PFTAC's activity involves either assisting with planning policy reforms, or with implementing them. And many of the reforms take years to implement fully. Sustaining such reforms over a lengthy period requires maintaining broad-based political support, and implementation requires bureaucratic commitment. Individual ministers of finance or permanent secretaries may be the initiators and champions of reform, but for momentum to be sustained, buy-in needs to be broad-based to see the reforms through.

91. **PFTAC has seen many reform programs start strongly and then lose momentum as political turmoil or elections lead to changes in ministers, senior bureaucrats, and a shift in policy priorities.** Likewise, reforms may be delayed for a long while until a consensus in favor of reforms is established. On occasion, we or other development partners may have pushed for reforms when the necessary support and commitment on the ground was lacking. In such circumstances, CD activities are unlikely to meet with sustained success. And even when there is initial success, it may not last. In these situations, we simply have to wait until the country is again ready for reforms.

92. **A second important source of risk is a lack of resources in some member countries to absorb CD.** Some of PFTAC's member states have very small populations and very limited financial resources. It may not be practically feasible or cost effective for some smaller members to develop capacity in certain areas. For this reason, it is likely that PFTAC will need to continue to provide capacity supplementation in such areas. In some other countries, there may be slightly greater capacity, but it is highly vulnerable to losses of even a few personnel or to small cuts in budgets. High staff turnover remains a key issue, as well. In these cases, PFTAC will continue to provide capacity building, but knowing that there is a significant risk of setbacks. More generally, there are widespread shortages of particular skills in the Pacific, including economists, auditors, accountants and statisticians. Much of PFTAC's CD efforts depend on being able to provide technical assistance and training to people with such skills. If ministries or central

banks are unable to recruit people with the basic skills, this will hamper their ability to absorb CD.

93. **A third source of risk is with respect to the activities of development partners.** PFTAC does not work in isolation, and the success of our CD depends importantly on the complementary efforts of major development partners, just as theirs depends on PFTAC CD delivery. Budgetary pressures in official development assistance (ODA) budgets resulted in reduced aid programs in the Pacific in recent years, and there is clearly some risk that there could be further cutbacks in programs of our development partners. Significant further cuts in such programs would have an adverse impact on the efficiency and impact of PFTAC's CD efforts.

III. PFTAC'S AGENDA FOR PHASE V

94. **PFTAC's work programs over the next five and a half years (November 1, 2016-April 30, 2022) are being developed jointly with member countries, donor partners and other CD providers.** PFTAC's work will be integrated into the IMF HQ CD and the IMF policy and surveillance work through an internal prioritization process to ensure that PFTAC CD remains relevant and focused on the IMF core expertise.

95. **PFTAC will continue to provide training, including through regional workshops that address issues relevant to the wider region.** Collaboration with the IMF HQ will continue to provide workshops that support the CD delivered by PFTAC. PFTAC will organize in collaboration with national agencies (i.e., central banks, ministries of finance) and training institutes' seminars and forums that would address common challenges in the region.

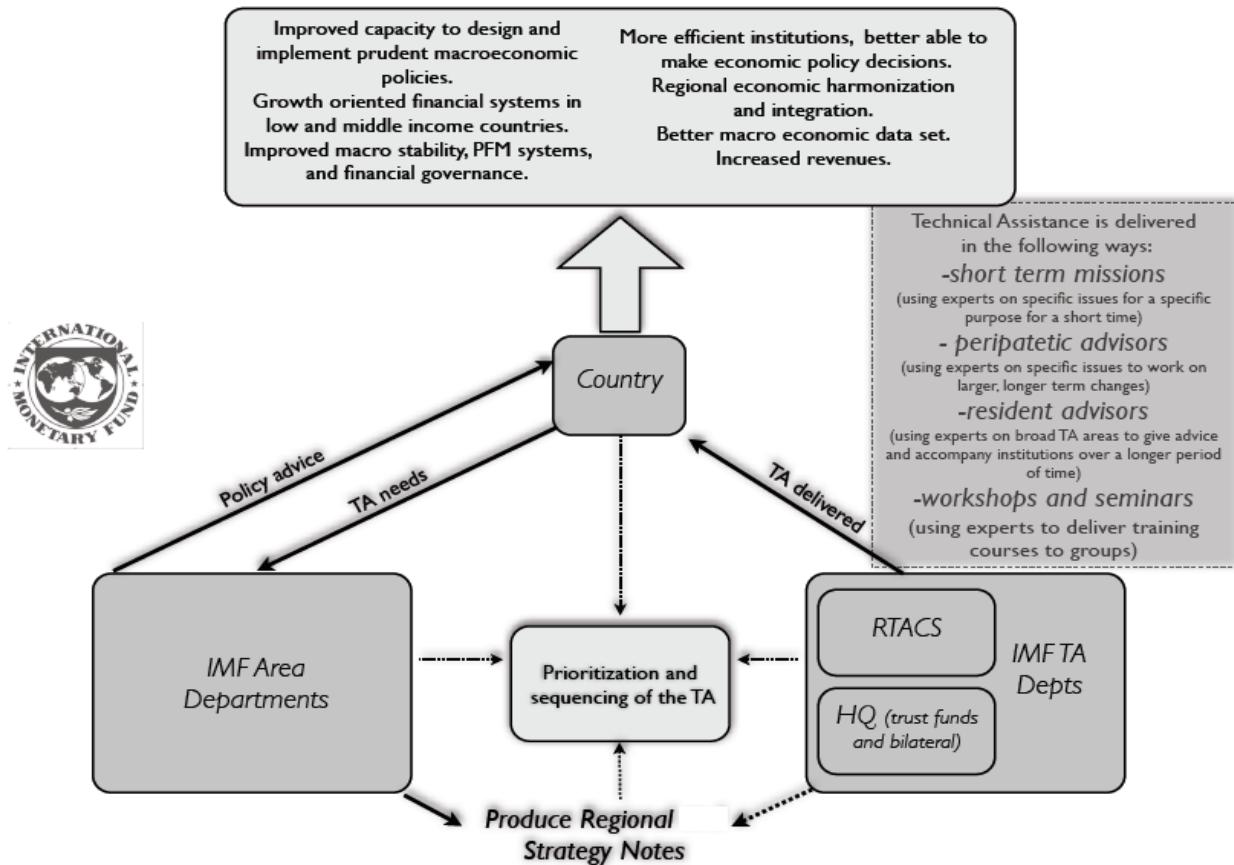
A. Integration of PFTAC CD and other IMF CD

96. **All IMF CD, regardless of financing source or delivery mode, is integrated with each other and with the IMF's broad lending and surveillance activities.** In consultation with country authorities, APD integrates the reform agendas of PFTAC countries with the IMF's own policy and surveillance perspectives, drawing on the technical expertise of CD departments. Together they identify needs for CD, set CD priorities, and balance short- and medium-term considerations, relying on the expertise of the CD department for prioritization, sequencing, and selecting the mode of delivery. This internal process provides checks and balances that ensure that CD remains highly relevant while taking into account regional developments. The resulting Regional Strategy Note (RSN) for the Asia and Pacific region, which is shared with member countries and donor partners, sets out a medium-term CD vision for the region that is the basis for coordination of all IMF CD activities and their integration into IMF surveillance and lending operations.

97. **The IMF's ability to provide CD in the medium term depends on continued availability of external financing.** High and rising demand for IMF CD has been reinforced by the impact of the global financial crisis, increasing the need for external financing to supplement the IMF's own resources. Such financing leverages IMF expertise and experience for medium-term CD.

98. **Depending on IMF and donor priorities, external financing is channeled into thematic or regional trust funds.** Complementing the proven model of the RTACs, thematic trust funds (TFs) offer global geographic coverage and specialized thematic scope, drawing on a centralized pool of experts at IMF HQ or from the IMF's international expert roster. TFs create synergies with the work of the RTACs, which focus on hands-on implementation of advice. RSNs facilitate integration and coordination of CD activities, providing a continuum of coverage throughout the process from diagnostics to day-to-day implementation on the ground. Open lines of communication, in part via CD department backstopping of RTACs and external experts, ensure consistency, cross-fertilization, and operational relevance (see figure 1).

Figure 1: The IMF's TA Planning Process



99. **Additional external funding has significantly increased CD in areas beyond the scope of the RTACs.** Externally financed IMF CD under bilateral donor agreements has grown significantly, allowing targeted support including for countries less well covered by multi-donor initiatives.

100. **Six multi-donor TFs are now operating.**¹³ For example, CD in the areas of general tax policy and management of natural resources had been a major TF activity. TF funding has made it possible to give much detailed policy input to low-income countries through a series of follow-up missions. Accompanying countries further down the road has also required weaving in the input of the IMF Legal Department (LEG) to help translate detailed policy recommendation into legal amendments to tax laws.

101. **To best meet country needs, specific delivery modes are chosen depending on the complexity of the task and the country's implementation capacity.** Diagnostic HQ-led missions often are the starting point for CD delivery; they generate blueprints for reform that devolve implementation to the modality (such as an RTAC or TF) that best meets the needs of the

¹³ Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT); Debt Management Facility II (DMF II); Financial Sector Reform Strengthening Initiative (FIRST); Managing Natural Resource Wealth (MNRW); Tax Administration Diagnostic Assessment Tool (TADAT); and Revenue Mobilization (RM) (former Tax Policy and Administration (TPA)).

country. HQ-led missions draw on cross-country knowledge as well as the expertise required for the specific subject. Being close to the clients, the activities of the RTACs draw on a deep knowledge of the region and member countries, such as cross-cutting and regional integration issues. Frequent contact and missions of RTAC resident advisors in the region provide step-by-step assistance with the nuts and bolts of putting reforms in place. Missions from both HQ and RTACs draw as needed on a vetted roster of external short-term experts to complement their skill set. For follow-up on specialist issues or where the RTACs are not available, short-term advisors conduct a series of regular follow-up missions over a longer period of time. Long-term resident advisors, backstopped by HQ, are stationed in countries where capacity is particularly inadequate to provide day-to-day guidance and—if wanted—temporarily supplement the authorities' capacity.

102. The coexistence of multiple IMF CD delivery vehicles in countries covered by RTACs calls for close IMF internal coordination in order to optimize the added-value of the different instruments. With TFs taking in some of the countries covered—especially fragile states—an increasingly hands-on implementation role (as in the tax administration area), clear delineation is needed between the country work undertaken by a TF and by the RTAC to ensure that all the work is fully coordinated and complementary. The same logic applies with regards to bilateral projects, some of which support the posting of long-term resident advisors in member countries. The coexistence of the different delivery channels is justified by the large CD needs of a particular country, for which the use of an RTAC's resources would be insufficient or which would reduce its capacity to respond to needs in other member countries. The close integration of the RTACs' work plans with the RSN process supports the close coordination between RTACs and other IMF CD.

103. HQ-led TA is focused towards strategic and policy-oriented advice, with implementation supported by LTX and STX. In practice, HQ-led TA in the Pacific has tended to be concentrated in particular areas of expertise, notably including legal TA (mostly in the financial sector) and “diagnostic” and policy TA (e.g. Financial Sector Assessment Program missions, piloting of the new PEFA framework, and TA on policy reforms such as advice on adopting VAT).

104. Training in the Pacific is provided by both HQ and STI and is likely to grow in importance. PFTAC is not a training center; training is provided by ICD through STI; directly by HQ CD departments; or on-line. The increased focus in Phase V on issues requiring medium- and long-term policy frameworks, together with the development of a new curriculum of training courses becoming available through STI opens important opportunities for closer coordination and collaboration between training and TA in the Pacific. As noted earlier, ICD's new curriculum offers courses that may be especially relevant for the PICs. Moreover, increased collaboration between PFTAC and STI should yield some opportunities to customize training material for the PICs, thus providing a closer link between training and TA and ensuring that training materials are suitably geared to the appropriate level of complexity. That said, customizing training material is highly resource intensive and, given available resources, widespread country-specific customization would not be feasible. Similarly, the increasing availability of on-line training courses, coupled with improving internet access in PICs, also opens new possibilities to

complement TA and training. Not only does such training help to speed up the process of capacity building, it can also play a key role in increasing the sustainability of CD programs—an area identified as a weakness by the PFTAC external evaluation.

B. Measuring How PFTAC Achieves its Objectives

105. The Fund has made considerable progress toward implementing an RBM system for all its TA and training activities. The new RBM framework will be applied to all IMF CD activities regardless of how they are financed, building on RBM implementation for donor-financed CD. So far, RBM has only been applied to donor-financed technical assistance projects. The common RBM framework will eventually apply to all externally and internally-financed CD. Donor partners will benefit from having discussions anchored in a clearer results framework based on internationally recognized good practices and aligned with IMF priorities.

106. The new RBM system will considerably improve the quality and availability of information for monitoring TA and training. The RBM framework will serve as a management tool that addresses the planning, monitoring and implementation of the entire CD project cycle. CD departments have developed a catalog of harmonized outcomes and associated indicators for each TA product line based on the knowledge of top experts. The catalog represents a substantive step forward in reporting on CD progress. The RBM system will help to aggregate results across topics, regions, and TA delivery modes, which will considerably improve the consistency and comparability of results reporting both internally and to donor partners. The new software will facilitate tracking of project deliverables.

107. Strengthened RBM will be a central element of the next phase. During Phase IV, PFTAC progressively developed an RBM framework linking its activities to objectives and outcomes, and rating of country progress towards these objectives. Tables in Annex I show evaluations of country progress against Phase IV objectives in each sector of CD. The RBM being adopted at PFTAC beginning in the new Phase will be an important step forward in terms of technology, strengthening linkages between resource use and outcomes, and will be an integral part of the system implemented across the IMF. It will use the standardized catalog of objectives, outcomes and indicators and will take advantage of a new IT system for reporting and project management. The catalog defines specific results that IMF CD seeks to help countries achieve. The IMF has used the catalog in the formulation of PFTAC programs under Phase V.

108. Based on the Fund's RBM Catalog of objectives and outcomes, log frames will be developed and monitored for each intersection of country and work stream. Log frames will be recorded in the Fund's new RBM system, Capacity Development Projects, Outputs, and Results Tracking system (CD-PORT) and have the following RBM elements: Objectives, Outcomes, Verifiable Indicators with baselines, Milestones and Outputs. Milestones and baselines are not described in the catalog because of their highly contextual nature. TA providers can assess risk at the overall work stream and country levels. As TA efforts unfold, providers will document progress by measuring performance against the log frame's indicators and milestones. The Fund's CD-PORT roll out schedule includes implementation at PFTAC beginning in late 2016.

PFTAC will be the third of the Fund's RTACs to roll out CD-PORT. Training is already being provided to resident advisors in some work streams.

109. **The annual report to the SC is an opportunity to measure and monitor progress toward results.** PFTAC will continue to produce a detailed report on the work completed during the year, focused on how much progress has been made in achieving outputs and the outcomes for each project and area of work.

C. Sectoral CD Programs in Phase V

110. **In this section, details of Sectoral CD programs are discussed, including the RBM logical frameworks intended to be used in planning CD activities and evaluating progress towards desired outcomes.**

1. Public Financial Management—Phase V program and RBM Logical Framework

111. **In Phase V, the four key objectives are to assist members to:**

- i. **Improve PFM institutions and legal frameworks;**
- ii. **Strengthen budget preparation towards more comprehensive, credible and policy-oriented budget;**
- iii. **Improve budget execution and control, coverage and quality of fiscal reporting, and integration of asset and liability management framework;**
- iv. **Strengthen identification, monitoring and management of fiscal risks.**

112. **Each of these program areas is described in greater detail below**, together with an RBM logical framework detailing objectives, intended outcomes, key indicators, potential beneficiary countries, CD delivery partners, and significant risk factors. In Phase V the focus of the PFM TA program will continue to move towards stronger support for the implementation of the PFM reform roadmaps. As almost all countries completed the PEFA assessments and prepared roadmaps during the Phase IV, there is less need for conducting diagnostic assessments of PFM systems and preparation of new PFM reform roadmaps. The implementation support will require use of specialized expertise in various PFM areas. This strategy will continue to build on an intensive short-term expert program managed by the resident long-term advisor. In light of the resource constraints in Phase V, the PFM program under the baseline budget scenario assumes the phasing out of the second resident advisor in the last two years of the Phase V, but minor reductions in the STX assignments to support the effective implementation of the roadmaps and achievement of planned outcomes.

I. Improving PFM institutions and legal frameworks.

113. **This program aims at strengthening the PFM institutions to improve the capacity of countries in systematically planning and implementing PFM reforms.** If changes in the legal framework are needed to achieve these, those are considered for implementation either

through changes to PFM framework laws or financial instructions and regulations. The principal outcomes sought from the program are:

- a. **The capacities of ministries of finance to meet the PFM responsibilities are strengthened.** A commitment and capacity to deliver the reforms are important components of successful implementation of PFM reforms. PFTAC will support the PICs in conducting PEFA assessments to identify the weaknesses in the PFM systems via providing training on the PEFA framework and rating methodology, validating the evidence presented, and if needed assisting in drafting the formal assessment report. Roadmap reviews and revisions will be discussed during the PEFA assessment missions. Also the TA activities will include support to a high-level dialogue among Cabinet members and Parliamentarians on the importance of PFM reforms. PFTAC's role will primarily be providing guidance in the prioritization of key issues, strategy formulation, and reviewing the draft documents. Particularly important will be assisting member with setting a short set of realistic and clearly prioritized PFM objectives most significant for overall development. Tighter prioritization is important not only for PICs' development, but could also establish greater PIC leadership in shaping mutually agreeable policy reform matrices for donor support.
- b. **More comprehensive legal frameworks covering all stages of the PFM cycle are enacted.** In addition to the amendments to the PFM laws countries are expected to revise also the corresponding financial instructions. For example, Cook Islands, Fiji, and Solomon Islands will focus on updating financial instructions as the new laws were recently adopted. Likewise, countries that have significantly changed their FMISs, such as Nauru and PNG, are expected to revise their financial instructions for better consistency with the automated procedures and forms. Tonga has also requested a review and update of their PFM Act. TA from PFTAC will assist in identifying priority issues that need to be addressed, including perhaps a comprehensive desk review of existing PFM legislation in PFTAC's client countries, providing guidance in writing suggested revisions, and reviewing the draft documents. This work will be conducted in coordination with IMF HQ's legal department.

II. *Strengthening budget preparation towards more comprehensive, credible and policy oriented budget.*

114. **This CD program aims at developing the capacity of countries in improving the policy and medium-term orientation of the budgets.** The target outcomes are as follows:

- a. **A more credible medium-term macro-fiscal framework is included in the budget documents.** Development of medium-term fiscal frameworks will be a priority in Phase V reflecting the need for PICs to be able to take into account fiscal costs associated with natural disasters and other risks, as well as the need to factor into fiscal planning debt service obligations, ongoing costs of past fiscal commitments

and so on. Part of the CD in this area will be to assist governments in improving transparency of the policies and processes, and to enhance skills in reviewing budget estimates and proposals for new policies. Achieving this outcome assumes a close collaboration with PFTAC's macroeconomic advisor.

- b. **A more comprehensive and unified annual budget is published.** Currently in most PICs annual budget documentation has limited connection between the budgets and annual, sectoral and national strategic development plans. Policy-focused information incorporated into budget documents would enable governments better to manage fiscal risks, meet changes in public service needs, and implement new policy proposals. The planned activities under this outcome will demonstrate how countries can improve the information provided in the budget documents.¹⁴
- c. **A more credible medium-term budget framework is integrated with the annual budget.** Many of the basics needed to develop good medium-term budget plans are missing in most Pacific Island countries. The planned activities in support of this outcome will include providing hands-on training to develop processes and procedures for improving medium-term fiscal forecasts, developing estimates of new policy proposals, formulating a fiscal strategy, developing annual and medium-term expenditure estimates, establishing medium-term expenditure ceilings, and aligning development plans and budgets. This outcome is closely linked with the improvement in credibility of medium-term fiscal frameworks and will require a close collaboration with the PFTAC's macro-fiscal advisor.

III. *Improving budget execution and control, coverage and quality of fiscal reporting, and integration of asset and liability management framework.*

115. **This CD program aims at improving budget execution, fiscal reporting and asset and liability management to strengthen the controls and accountability and improve fiscal discipline.** Key outcomes of this program include:

- a. **Controls over expenditure commitments and payments are strengthened.** Weaknesses of budget execution controls, if not resolved sooner, will lead to budget overruns - bigger deficits and arrears in the future. Sound budget execution controls require effective commitment control, payroll control, virements control, monitoring of arrears, and other internal control procedures. PFTAC CD will include assessments of internal controls and provide recommendations to address the gaps.

The results of the internal control assessments can be useful in enhancing the financial regulations and process flows on budget execution, as well as designing IFMIS specifications, and internal audit strategy. Subsequent CD will include developing an internal control assessment framework that can be used by line ministries. Priority countries are those who have identified internal controls

¹⁴ This includes more information on the gender impact of government programs.

- improvement in their PFM Roadmap such as Vanuatu, Marshall Islands, and Micronesia.
- b. **Cash flow forecasts for all of central government are more accurate and timely.** PFTAC TA will focus on developing a Treasury Single Account or an equivalent cash consolidation system, improving methods of cash forecasting and cash flow analysis, and improving government banking frameworks. These capacities are expected to sustain cash buffers that would cover shortfalls, natural disasters, and other contingencies in the short term, and building up reserves for future loan repayments, replacement of capital assets, and other contingencies. Countries expected to continue ongoing cash management reforms are PNG, Solomon Islands and Samoa.
 - c. **Risk-based internal audit functions are established in central government agencies.** The focus of the TA is to improve institutional capacity in developing, managing and implementing a medium-term audit strategy framework based on an analysis of fiscal risks particularly on key issues such as on payroll, procurement, capital works, grants and subsidies. Countries expected to continue ongoing internal audit reforms are Vanuatu, Fiji, and Samoa.
 - d. **Comprehensiveness and quality of fiscal reports is enhanced.** PFTAC TA will focus on assisting countries in planning and implementing government accounting reform such as in prioritizing and sequencing of reform strategies, and drafting of priority accounting policies and procedures consistent with IPSAS. On fiscal reporting, TA will focus on improving the chart of accounts, and transparency of fiscal reporting frameworks according to international standards.¹⁵ Countries expected to continue ongoing accounting and reporting reforms are Fiji, Samoa, Tonga, PNG, and Solomon Islands. PASAI and PFTAC will continue to promote a closer partnership among accountants and auditors in the region.
 - e. **Cash and debt management are better integrated.** A medium-term debt management strategy based on thorough sustainability analysis - covering all government debt, and with a horizon of at least 3 years, updated annually and published is an important component of fiscal management. PFM TA on debt management would be to assist in developing policies, procedures for maintaining appropriate information on debt, guarantees, PPPs, arrears, and other contingent liabilities; developing debt management strategies including building reserves for debt payoff; and processes for reviewing/approving new debt, guarantees, or PPPs. This work will be conducted in coordination with complementary work by the World Bank, ADB and other development partners on debt sustainability issues.
 - f. **Planning, appraisal, selection, and implementation of public investments is improved.** TA in this area will focus on developing the capacity of countries to meet the criteria on public investment and asset management as prescribed in the new

¹⁵ These international reporting standards are included in the PEFA Framework on Accounting and Reporting, the IMF Fiscal Transparency Code, and the GFS Manual.

PEFA Framework (PI-11 and PI-12). Specifically, the TA will assist in developing policy framework and mechanisms for investment and asset management processes on planning, accountability and reporting, as well as budgeting for asset maintenance and replacement. Countries that requested TA in this area include Fiji and Tonga.

IV. *Strengthening identification, monitoring and management of fiscal risks.*

116. **This CD program aims at strengthening the management of fiscal risks to ensure the aggregate fiscal discipline of the country.** Central government may be obliged to assume responsibility for a financial default of other entities, such as the banking sector, even when no formal oversight role or legal obligation exists, thus adequate procedures to monitor those risks at the level of the whole of the public sector should be in place. Key outcomes of this program include:

- a. **Central fiscal oversight and analysis of public corporations is strengthened.** The focus of TA would be to advise how to improve policies, frameworks and mechanisms for fiscal oversight of SOEs as well as develop the capacity to identify, assess, manage, monitor, and report key fiscal risks from these entities. Countries that are expected to continue ongoing reforms in this area are Micronesia, Kiribati, Samoa, and Tuvalu.
- b. **Disclosure and management of contingent liabilities and other specific fiscal risks is more comprehensive.** IMF Article IV reviews have highlighted the challenges that some PICs face in financing social security benefits. The countries facing the biggest challenges include RMI, FSM, and Palau. The main difficulties are a combination of factors including inadequate contribution levels, failure to enforce employer/employee contribution requirements, costly early retirement provisions, and loop-holes related to beneficiary designation. In Phase IV, in cooperation with the IMF's Expenditure Policy Division, PFTAC worked with RMI to develop an option to improve financial sustainability. In Phase V the TA in this area is expected to continue focusing primarily on RMI, FSM, and Palau.

Public Financial Management—Phase V program and RBM Logical Framework

Public Financial Management					
Objective: Strengthened public financial management systems to improve fiscal sustainability					
1.0 Improving legal frameworks and PFM institutions					
Outcomes (expected results)	Verifiable indicators	Member Countries ¹⁶	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
1.1 The capacity of ministries of finance to meet the PFM responsibilities are strengthened	Performance against full PEFA Indicator set, FTE or other diagnostic tools has improved	All	All donors active in PICs	With macroeconomic and revenue administration	These include LTX participation in regional training workshops on PFM-wide topics and forum to strengthen coordination and partnership on PFM with countries and development partners. This relies significantly on support from heads of MOFs, and development partners. Lack of full commitment by the government may cause delay in updating the reforms.
1.2. More comprehensive legal frameworks covering all stages of the PFM cycle are enacted	Legal frameworks reflect the international good practices	Fiji, PNG, Solomon Islands, Tonga,	IMF Legal Department	With revenue administration	These include drafting of financial instructions based on recently amended PFM Act. Low priority given to this activity by Cabinet or Parliament could delay approval.

¹⁶ Note: not all countries are expected to receive direct TA. Those countries who do not receive direct TA will receive indirect TA through regional initiatives, training workshops and direct contact with the resident advisor.

2.0 Strengthen budget preparation towards more comprehensive, credible and policy oriented budget					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
2.1. A more credible medium-term macro-fiscal framework is included in the budget documents	PEFA indicators: PI-1; PI-2; PI-3; PI-9 and PI-15	Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu	ADB, Aus-DFAT Advisors in Kiribati, Tuvalu, and Solomon Islands	With macroeconomic and revenue administration	Priorities are those countries with planned activities in their PFM Reform Roadmap, those that have initiated in the previous period, or those with weak PEFA rating. Change in management and staff-turnover could adversely affect the sustainability of this reform.
2.2. A more comprehensive and unified annual budget is published	PEFA indicators: PI-5; PI-6; PI-9; and PI-17	Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Solomon Islands, Tonga, Vanuatu	ADB, Aus-DFAT Advisors in Kiribati, Nauru, and Solomon Islands		Priorities are those countries with planned activities in their PFM Reform Roadmap, those that have initiated in the previous period, or those with weak PEFA rating. Change in management and staff-turnover could adversely affect the sustainability of this reform.
2.3. A more credible medium-term budget framework is integrated with the annual budget	PEFA indicators: PI-14; PI-15; and PI-16	Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu	ADB, Aus-DFAT Advisors in Kiribati, Nauru, Tuvalu and Solomon Islands	With macroeconomic and revenue administration	Priorities are those countries with planned activities in their PFM Reform Roadmap, those that have initiated in the previous period, or those with weak PEFA rating. Change in management and staff-turnover could adversely affect the sustainability of this reform.

3.0 Improve budget execution and control, coverage and quality of fiscal reporting, and integration of asset and liability management framework					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.1 Controls over expenditure commitments and payments are strengthened	PEFA indicators: PI-23; PI-24; and PI-25	Regional, Marshall Islands, Micronesia, Vanuatu	PASAI	To be linked to CD on risk management	Priority will be for those that have included these reforms in their PFM Roadmap. Common risks in this area are non-compliance or circumvention of financial regulations.
3.2. Cash flow forecasts for all of central government are more accurate and timely	PEFA indicators: PI-20; and PI-21	Regional, PNG, Samoa			Priority will be for countries that have initiated in FY16. Change in priority by management as well as lack of cooperation or modern banking technology from government banks pose risks in this area.
3.3. Risk-based internal audit functions are established in central government agencies	PEFA indicator: PI-26	Fiji, Samoa, Vanuatu,			Priority will be countries that have sent earlier requests but were postponed due to PFTAC budget constraints. Focus on ad-hoc investigations could reduce the time for more systemic issues, and staff turnover would delay progress.
3.4. Comprehensiveness and quality of fiscal reports is enhanced	PEFA indicators: PI-27; PI-28; and PI-29	Regional, Fiji, PNG, Samoa, Tonga, Solomon Is.	PASAI, USP	To be linked to TA on forecasting, and risk management	Priority will be for countries that have included this reform in their Roadmap. Lack of clear mandate and lack of cooperation from line ministries are some of the Implementation risks.
3.5. Cash and debt management are better integrated	PEFA indicator: PI-13	Regional, Vanuatu	World Bank, APD	With macroeconomics on forecasting	Priorities are countries that have indicated interest.
3.6. Planning, appraisal, selection, and implementation of public investments is improved	PEFA indicator: PI-11	Regional, Fiji and Tonga	World Bank, PRIF	To be linked to TA on medium-term budgeting	Priority will be given to the countries that have parallel reforms on medium-term budgeting and integration between planning and budgeting.

4.0 Strengthen identification, monitoring and management of fiscal risks					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
4.1. Central fiscal oversight and analysis of public corporations is strengthened	PEFA indicator: PI-10	Regional, Micronesia, Kiribati, Samoa, Tuvalu	ADB	With Financial supervision regarding monitoring of public financial institutions as SOEs	Priority will be follow-up support to efforts initiated in FY16, and those that have indicated the need for reform in this area. Lack of cooperation from SOEs would affect the success of this reform.
4.2. Disclosure and management of contingent liabilities and other specific fiscal risks is more comprehensive	PEFA indicator: PI-10	Marshall Islands, Micronesia	IMF Expenditure Policy Division	This is a follow-up to a training/workshop in FY16. Lack of sustained interest from countries will delay achievement of results.	

2. Revenue Administration—Phase V program and RBM Logical Framework

117. **The primary focus of CD in the area of revenue administration in Phase V will be on strengthening members' capacity to enhance domestic resource mobilization by implementing their tax regimes in an effective and efficient manner.** To the extent that they succeed, tax revenues are likely to be enhanced in a sustainable way, with lower administrative costs. In addition, the tax system should become fairer as compliance improves. To achieve these outcomes, two main project areas and one supporting area are planned:

- i. Strengthen revenue administration management and governance arrangements;
- ii. Strengthen core tax administration functions; and
- iii. Support for regional activities.

118. **Each of these program areas is described in greater detail below**, together with an RBM logical framework detailing objectives or intended outcomes, key elements of CD, member countries, CD delivery partners, and significant risk factors. These main project areas, under the newly developed revenue administration Results-Based Management Framework, are closely aligned to international good practice in tax administration as outlined in the new Tax Administration Diagnostic Assessment Tool (TADAT) and provide a solid framework for enhancing revenue administration under Phase V.

119. **PFTAC will also continue to raise the importance of ISORA/RAFIT¹⁷ and the benefits that can be derived through trend analysis and comparison with regional peers and revenue administrations from other jurisdictions.** An IMF headquarters and PFTAC support service has been established to assist PICs should they experience difficulties in understanding or capturing the information. The tool will play an increasingly important role by providing PFTAC with information that can be used to evaluate overall tax administration performance. This tool will further provide donor partners with a snap-shot overview of PIC tax administrations and potentially influence future funding decisions. FAD and PFTAC training and awareness of how RAFIT/ISORA can serve as a valuable management tool to monitor and influence important operational decisions has resulted in a better understanding and uptake of the product.

120. **As in Phase IV, tax policy and legislation drafting assistance will be addressed primarily from IMF Headquarters.** PFTAC will also continue to assist with modifications to revenue legislation on a case by case basis. The OCO will be the principle CD provider on Customs in Phase V.

Strengthening Revenue Administration Management and Governance Arrangements.

121. Strategic and operational planning remain important management tools that are being used to guide the deployment of resources and provide focus on key activities and measurements of achieving the vision state of PICs. Phase V will provide more impetus on: (a)

¹⁷ The Revenue Administration – Fiscal Information Tool (RA-FIT) has been renamed the International Survey on Revenue Administration (ISORA)

122. Reform Strategy and Governance framework adopted and institutionalized. Experience during Phase IV shows that although reforms are possible progress is often hampered by poor governance frameworks and lack of experience in setting up a modernization project management structure. PFTAC, during the next phase, will continue to help countries with strategic planning and will provide additional assistance in developing reform plans and management capability to facilitate implementation.

123. Most PICs are still in an early stage of developing key performance indicators that reflect performance against objectives. Assistance will be provided to define strategies that are linked to the most important functional areas of revenue administration – audit, collection of arrears, recovering outstanding tax returns, and taxpayer service. Improving the effectiveness of these functions will provide a sound basis for developing a set of initial and future performance standards. Introducing and refining these measures across PICs will contribute to strengthened revenue administration and overall governance arrangements.

Outcome (Expected Result)	Verifiable Indicator
Reform Strategy and implementation governance framework adopted and institutionalized	(1) Strategic plan and annual business plans prepared and adopted (2) Multi-year reform implementation plan, with supporting resource plan, adopted and well communicated (3) Reform management capacity in place for reform implementation, including dedicated resources (4) Key performance indicators established, regularly reported and monitored

124. Organizational Arrangements enable more effective delivery of strategy and reforms: Although Phase IV has seen good progress with PICs moving towards functional structures more refinements are necessary to embed the model. In some cases, and because of varied and different environments, consideration will be given to a hybrid approach where a focus on large, medium and small taxpayers is maintained but consideration given to a more functional approach for registration, processing and payments. Nevertheless, more assistance is required in this area to ensure that the benefits of a functional structure with segmentation for certain types of taxpayers are achieved.

Outcome (Expected Result)	Verifiable Indicator
Organizational arrangements enable more effective delivery of strategy and reforms	(1) Appropriate institutional settings are in place (2) Clear organizational structure along functional lines and/or taxpayer segments established and operating (3) Clear separation of roles and responsibilities between HQ (definition of standard operating procedures, planning and monitoring) and local branches (execution) adopted

125. Support functions enable more effective delivery of strategy and reforms: To strengthen revenue administration supporting functions also need to be considered e.g. IT, HR and legal. Most countries have some form of IT at the moment but for those that don't PFTAC will continue to provide assistance with IT strategic planning.¹⁸ PFTAC will also help PICS identify new skills and competencies needed to implement modern tax administration practices.

Outcome (Expected Result)	Verifiable Indicator
Support functions enable more effective delivery of strategy and reforms	Improved ICT strategies and systems support the tax administration

126. Oversight: During Phase V PFTAC will work with PICs to improve transparency and accountability by helping tax administrations to develop, implement, monitor and maintain performance measurement and management frameworks. Assistance in this area will help provide benchmarks for measurement of performance improvements.

127. Corporate priorities and compliance are better managed through effective risk management: A key PFTAC deliverable in the next phase will be the continuation of technical assistance directed towards improving voluntary compliance through enhanced risk management and the implementation of compliance improvement strategies. This approach, already adopted by a number of PICs will take time to fully implement and will assist PICs at mitigating major compliance risks. PTAC technical assistance will provide guidance on how to develop a compliance strategy through identifying, assessing, and prioritizing major risks and then determining treatment actions. Efforts would aim to achieve wide impact within the taxpayer population by understanding the reasons for non-compliance and then positively influencing taxpayer behaviors, using whatever treatment option that can best achieve taxpayer compliance.

128. Improving risk management, strongly emphasized by PFTAC during the latter stage of Phase IV, is fast becoming a top PIC priority. Most PICs lack a systematic methodology for risk management but with PFTAC assistance have started developing capacity in this area which

¹⁸ Funding for implementation will not be provided through PFTAC.

includes the creation of risk management units tasked with revenue analysis and identification of current and emerging risks and how they will be treated. Risk management and data analysis are fairly new concepts for PICs who acknowledge that revenue administrations have little choice but to embrace risk management practices. Introducing this concept is challenging as it conflicts with how PICs operated in the past and often requires a change to business processes and reorganization. This work will remain a key deliverable in Phase V and will be closely aligned to ensuring that strong risk mitigation tools are put in place - including appropriate legislation, effective taxpayer services, audit, and arrears collection operations—that are customized to the treatment strategies. Where necessary this may also include identification and management of institutional risks.

Outcome (Expected Result)	Verifiable Indicator
Corporate policies and compliance better managed through effective risk management	<ul style="list-style-type: none"> (1) Compliance risks identified, assessed, ranked and quantified through intelligence and research (2) Compliance improvement program in place to mitigate identified risks (3) Compliance risk mitigation activities monitored and evaluated

129. **Administration Procedures:** Most countries have administration procedures legally established through a Revenue Administration Act. For those North Pacific member countries who are considering comprehensive policy reform, a Revenue Administration Act will form part of the package and PFTAC will provide guidance on the administration provisions.

130. **Disputes Resolution:** An effective and independent disputes resolution process is a fundamental feature of a good tax administration system. Many PIC tax administrations do not meet good international practice in their dispute resolution processes, however PFTAC considers that a high priority is to get the core functions operating effectively first. To the extent that any TA is provided in disputes resolution it is expected that it will be towards the end of the Phase V cycle.

I. Strengthening Core Tax Administration Functions

131. **Integrity of the registered taxpayer base strengthened:** For various reasons a number of PICs in the region have neglected keeping their registration data bases up to date resulting in inaccuracies which impact on the delivery of effective compliance programs. PFTAC technical assistance has highlighted the importance of tax administrations compiling and maintaining an accurate and reliable register and focused activities to ensure taxpayers are registered if they are liable to be registered. Data integrity reviews have already commenced in a number of countries who now understand the complexities of an inaccurate registration base and the negative impact they have on effective compliance programs.

Outcome (Expected Result)	Verifiable Indicator
Integrity of the registered taxpayer base strengthened	<ul style="list-style-type: none"> (1) Accurate and reliable taxpayer information held in a centralized database (2) Knowledge of taxpayer base and potential taxpayers improves through robust taxpayer registration policies and procedures

132. Taxpayer Services initiatives to support voluntary compliance strengthened: To promote voluntary compliance and public confidence in the tax system, PFTAC has been assisting PICs shift towards adopting a service orientated attitude towards taxpayers, ensuring that taxpayers have the information and support they need to meet their obligations under the law. Generally, tax administrations have been weak in this area with a fuller understanding of this pervasive function in tax administration only now emerging. PFTAC will continue providing advice in this area which will include the development of service channel strategies, services delivery standards and greater accessibility of taxpayer information including through the internet.

Outcome (Expected Result)	Verifiable Indicator
Taxpayer services initiatives to support voluntary compliance strengthened	<ul style="list-style-type: none"> (1) Scope, currency and accessibility of information for taxpayer improves over time (2) Service delivery standards in place and routinely monitored, and performance against standards improves over time (3) Taxpayer perceptions of service monitored and improve over time

133. A larger proportion of taxpayers meet their payment obligations as required by law: The aim of tax administration is to attain high rates of voluntary on-time payment and low incidence of tax arrears. However, statistics from most PICs reflect poor performance in this area substantiated by high debt levels and payments made after due date. PFTAC will provide further assistance in this area and work towards reducing debt levels and encouraging on time payment.

Outcome (Expected Result)	Verifiable Indicator
A larger proportion of taxpayers meet their payment obligations as required by law	<ul style="list-style-type: none"> (1) On-time payment ratio improves over time (2) Management of refunds improves over time (3) Management of tax arrears improves over time

134. Audit and other verification programs more effectively ensure completeness and accuracy of reporting: The audit function plays a vital role in tax administration and represents a

core and essential function that, with suitably qualified staff, has the potential to identify undeclared tax liabilities. The amount of additional revenue raised obviously depends not only on the level of compliance within the taxpayer community, but also on the effectiveness of the inspectors and audit program planning and implementation. The results of the training needs analysis conducted in 2014 indicated a big skills shortage in this area which will be addressed by PFTAC in Phase V.

Outcome (Expected Result)	Verifiable Indicator
Audit and other verification programs more effectively ensure completeness and accuracy of reporting	<ul style="list-style-type: none"> (1) Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (2) Automated cross-checking used to verify return information (3) Sound methodologies used to monitor the extent of inaccurate reporting and tax gaps

II. Support for Regional Activities

135. **After 10 years of nurturing and development the Pacific Island Tax Administration Association (PITAA) has, over the last year, taken its biggest steps towards independence by appointing staff to the secretariat**, formalizing the constitution and collecting annual subscriptions from members. PFTAC has played a valuable role in elevating PITAA to its current status by funding training programs and conferences and facilitating regional knowledge sharing from which most PICs have benefited. This relationship will be built upon during Phase V where training and capacity building will be continued with an added dimension of facilitating the development of PITAA's strategic direction and business plan for the next five years. PFTAC's support for PITAA will have strong linkages into PFTAC's RBM framework to ensure outcomes are best achieved.

Revenue Administration—Phase V program and RBM Logical Framework

Revenue Policy and Administration

Objective: Broader-based and more efficient revenue systems

2.1 Strengthened revenue administration management and governance arrangements adopted and institutionalized					
Outcomes (expected results)	Verifiable indicators	Member Countries¹⁹	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
Reform strategy and implementation governance framework adopted and institutionalized.	(1) Strategic plan and annual business plans prepared and adopted. (2) Multi-year reform implementation plan, with supporting resource plan, adopted and well communicated. (3) Reform management capacity in place for reform implementation, including dedicated resources. (4) key performance indicators established, regularly reported and monitored	Fiji, Marshall Islands, Federated States of Micronesia, Palau, Tuvalu, Vanuatu, Kiribati, Tonga and Nauru	DFAT	Macroeconomics, PFM and Statistics	(1) Risk - Government and management commitment to reforms (2) Some countries have progressed and at an early stage of introducing KPIs with more support needed (3) More emphasis in being placed on reform plans with some countries taking the first steps

¹⁹ Note: not all countries are expected to receive direct TA. Those countries who do not receive direct TA will receive indirect TA through regional initiatives, training workshops and direct contact with the resident advisor.

2.1 Strengthened revenue administration management and governance arrangements adopted and institutionalized					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
Organizational arrangements enable more effective delivery of strategy and reforms.	(1) Appropriate institutional settings are in place. (2) Clear organizational structure along functional lines and/or taxpayer segments established and operating. (3) Clear separation of roles and responsibilities between HQ (definition of standard operating procedures, planning and monitoring) and local branches (execution) adopted.	Fiji, Marshall Islands, Federated States of Micronesia, Palau, Tuvalu, Vanuatu, Kiribati, Tonga and Nauru	DFAT	Macroeconomics, PFM and Statistics	(1) Risk - Government and management commitment to reforms (2) Progress made in this area with additional TA to follow
Corporate priorities and compliance are better managed through effective risk management	(1) External oversight bodies are in place. (2) Structure risk assessment framework and programs to mitigate risk are in place.	No TA planned for this area			
Support functions enable more effective delivery of strategy and reform	Improved human resources strategies and practices support the tax administration Improved ICT strategies and systems support the tax administration.	Marshall Islands, Federated States of Micronesia and Nauru, Palau			
Tax administration procedures are legally established	Tax procedures code is in place, widely communicated, and effectively applied				Tax administration procedures are generally in place. Additional requests for assistance in this area, possible at the end of Phase V, will be channeled through the Tax Policy Division.

2.2 Strengthened core tax functions evidenced by an accurate taxpayer base, taxpayer services supporting voluntary compliance, improvements in filing, payment and audit activities.					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
Integrity of the registered taxpayer base strengthened	(1) Accurate and reliable taxpayer information held in centralized database (2) Knowledge of taxpayer base and potential taxpayers improves through robust taxpayer registration policies and procedures	Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Samoa, Tonga, Tuvalu and Vanuatu	DFAT	Macroeconomics, PFM and Statistics	(1) Risk - Government and management commitment to reforms (2) PFTAC TA currently assisting PICs to sharpen operations in this area. Some progress made with more TA to be delivered.
Larger proportion of taxpayers meet their filing obligations as required by law	(1) On-time filing ratio improves over time (2) Management of filing compliance improves over time	Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Samoa, Tonga, Tuvalu and Vanuatu	DFAT	Macroeconomics, PFM and Statistics	(1) Risk - Government and management commitment to reforms (2) Currently being addressed through PFTAC TA geared towards assisting PICS develop risk based compliance improvement strategies
Larger proportion of taxpayers meet their payment obligations as required by law	(1) On-time payment ratio improves over time. (2) Management of refunds improves over time. (3) Management of tax arrears improves over time	Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Samoa, Tonga, Tuvalu and Vanuatu	DFAT	Macroeconomics, PFM and Statistics	(1) Risk - Government and management commitment to reforms (2) Currently being addressed through PFTAC TA geared towards assisting PICS develop risk based compliance improvement strategies

2.2 Strengthened core tax functions evidenced by an accurate taxpayer base, taxpayer services supporting voluntary compliance, improvements in filing, payment and audit activities.					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
Taxpayer services initiatives to support voluntary compliance strengthened	(1) Scope, currency and accessibility of information for taxpayers improves over time. (2) Service delivery standards in place and routinely monitored, and performance against standards improves over time. (3) Taxpayer perceptions of services monitored and improve over time	Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Samoa, Tonga, Tuvalu and Vanuatu	DFAT		(1) Risk - Government and management commitment to reforms (2) Currently being addressed through PFTAC TA geared towards assisting PICS develop risk based compliance improvement strategies
Audit and other verification programs more effectively ensure completeness and accuracy of reporting	(1) Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud. (2) Automated cross checking used to verify return information. (3) Sound methodologies used to monitor the extent of inaccurate reporting and tax gaps	Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Samoa, Tonga, Tuvalu and Vanuatu	DFAT	PFM	(1) Risk - Government and management commitment to reforms. (2) Currently being addressed through PFTAC TA geared towards assisting PICS develop risk based compliance improvement strategies

3. Macroeconomic Management—Phase V program and RBM Logical Framework

136. **PFTAC CD in the area of macroeconomic management will focus on building capacity in central banks and ministries of finance** to monitor and analyze macroeconomic developments, conduct model-based macroeconomic analysis and forecasts, and strengthen understanding of macroeconomic and financial linkages and vulnerabilities. A principal focus of CD during Phase V will be to assist with development of medium-term policy frameworks. The second major focus of activity will be to assist members to strengthen monitoring and analysis of financial system developments and assess the implications of such developments for financial system and macroeconomic stability, and effectiveness of policy transmission.

137. **A key challenge in the design of CD in this area is the need to promote sustainable improvements in analytical capacity** in central banks and finance ministries. In most member countries, staffing resources available for macroeconomic analysis and modeling are very limited, and recruitment of well-qualified staff is difficult, increasing vulnerability of capacity to losses of personnel. These constraints argue strongly in favor of keeping model frameworks parsimonious and easy to maintain, strengthening processes for integration of forecasting into budget processes, and promoting sharing of experience and knowledge across countries. They also argue for close cooperation between ministries of finance and central banks on data sharing and modeling, consistent with respecting the independence of each in the use of models to develop their own projections and analyses.

138. **In some of PFTAC's smallest members, capacity building in macroeconomic analysis is not realistic** and some method of capacity supplementation will need to be considered. Capacity supplementation in macroeconomic forecasting is already being provided by the US Graduate School in Palau. During Phase IV PFTAC worked with the US Graduate School to develop medium- and long-term projection frameworks to analyze the implications of the end of Compact grants. This model of cooperation may be a cost-effective way to provide TA in Marshall Islands and Federated States of Micronesia.

139. **To support and complement its CD activities, as well as to promote CD sustainability, PFTAC proposes to establish a Pacific Islands Macroeconomic Analysis and Modeling Association.** The objective of this professional body will be to help advance macroeconomic forecasting and analysis in Pacific Island countries through sharing of knowledge, experience and resources, and identification of common issues and best practices. Activities of the association will include the organization of regional or sub-regional training events to deliver capacity building and the establishment and maintenance of a repository for computer code of forecasting methodology and data. PFTAC will initially act as secretariat. Funding of the association will come from members and PFTAC contributions.

140. **Technical assistance will be delivered by a resident advisor and supported by short-term experts.** As in Phase V, regional or sub-regional training workshops will be employed to deliver capacity-building TA and training and to promote sharing of experience and expertise across the region. Activities will be undertaken in close coordination with PFTAC's advisors, as well as other TA providers. The work will also be closely coordinated with surveillance activities

by APD. In addition, provision of TA will draw on the expertise of both MCM and STA, both in the design and delivery of TA.

141. PFTAC's CD in macroeconomic analysis and forecasting is complemented by training provided by ICD and the STI. Face-to-face training provided by STI and on-line courses provided by ICD are already important complements for training PFTAC CD in the area of macroeconomic analysis and modeling, and the importance of such training is likely to increase as the range of courses expands and as internet access improves across the region. In addition, PFTAC will seek opportunities to involve ICD and STI in the provision of training workshops in the region to strengthen analytical frameworks. As a recent example of the TA and training nexus, APD and ICD jointly developed and delivered hands-on training to country officials in the region using tailored workshops as a starting point for discussions regarding methods to evaluate macro-financial resiliency.

142. The work program will involve three main project areas:

- i. Enhancing monitoring, forecasting and policy analysis tools;
- ii. Building greater resilience to shocks, including natural disasters;
- iii. Strengthening capacity to develop sustainable policies.

143. Each of these program areas is described in greater detail below, together with an RBM logical framework detailing objectives or intended outcomes, key elements of CD, member countries, CD delivery partners, and significant risk factors.

I. Enhancing Monitoring, Forecasting and Policy Analysis Tools

144. Financial programming (FP) is a useful empirical tool for the analysis of economic developments and has been adopted by several PFTAC members. CD will continue to assist countries in modifying and adapting FP frameworks for policy analysis, and developing methodology to forecast key economic variables that underlie the framework, such as GDP, inflation, government revenue and expenditure. Moreover, the focus will be on tools, methodology and data to monitor and forecast major sectors in Pacific Island economies, such as tourism and natural resource extraction including fisheries.

145. In the area of macroeconomic and financial stability a priority will be to gain a better understanding of the structure of countries' financial systems, identify potential gaps and ways to address them. Different financial institutions operate in countries, e.g. commercial banks, development banks, provident funds and other public financial institutions, insurance companies, credit unions, finance companies and micro finance lenders, but knowledge of the financial products and services offered and their relative contribution to financial intermediation is limited. Nor is there a good understanding of sectoral financial balances, interdependencies and vulnerabilities. PFTAC CD will focus on assisting members to:

- Develop capacity to compile and construct indicators, including on sectoral balance sheet positions and financial interdependencies;

- Assess macroeconomic and financial stability and to produce regular reports on the soundness and efficiency of countries' financial systems;
- Understand the implications of macroeconomic developments for financial stability and the impact of financial sector structure and vulnerabilities for macroeconomic policy transmission;
- Assess the macroeconomic implications of specific developments and potential policy responses, e.g. possible policy responses to PACER Plus tariff cuts in specific countries.

II. Building Greater Macro-Financial Resilience to Shocks

146. Pacific Island countries are small, open economies that are vulnerable to shocks and natural disasters. Natural disasters, including cyclones, floods, droughts, earthquakes and tsunamis, have had major fiscal impacts throughout much of the region causing damages every year on average equivalent to almost two percent of countries' GDP. Countries also tend to be highly dependent on foreign sources of income, such as remittances, donor funding and tourism receipts, which can be volatile. Moreover, features of financial institutions can importantly affect the transmission of shocks to the economy.

147. This project area will enhance the formulation of macroeconomic policy to reduce fluctuations and volatility in the economy and develop macro-prudential policy tools to support macroeconomic and financial stability. A further priority area will be to help countries put in place policies and procedures to ensure the economy and financial system can continue to operate during times of natural disasters or other crisis and that governments have the fiscal resources to respond to shocks.

III. Strengthening Capacity to Develop Sustainable Policies

148. This project area will center on incorporating medium-term trends and risks into forecasting, monitoring and policy analysis. Demographic changes are at the forefront of macroeconomic management challenges in Pacific Island economies. Some countries are experiencing high and rising birth rates, while others face large outward migration, internal migration to larger islands, and population ageing. Moreover, non-communicable diseases are of concern. Demographic factors will increasingly affect governments' revenue collection and expenditure, and prudent fiscal management requires knowledge of their potential economic impact. Debt sustainability analysis will be developed further to evaluate the long-term sustainability of policies. Countries wanting to smooth debt service over time will be provided with assistance in designing debt reserve accounts. Debt sustainability analysis will require having ready access to necessary data and information, including up-to-date lists of all decisions made in the past on new policies or projects that will require additional resources in future years, and estimated capital asset repair / replacement costs.

149. Another key fiscal risk arises from contingent liabilities emanating from the financial sector; SOEs; other autonomous government agencies; as well as public-private partnerships. For instance, virtually no analysis has been undertaken on whether payments by provident funds are sustainable in the long run given the rates of return on their investments, contribution and

withdrawal rates, or what would be the impact of a sharp increase in the proportion of non-performing loans of development banks due to a slowdown in economic activity. Little is also known about the extent to which businesses and households are insured against damage from natural disasters and the financial health of insurers. CD in the area of macroeconomic and financial stability will help assess and quantify country-specific risks so that they can be accounted for in fiscal planning. It will also focus on financial sector policies to support financial development, financial inclusion and long-term, sustainable economic prosperity.

Macroeconomic Analysis—Phase V program and RBM Logical Framework

Macroeconomic Management					
Objective: Improved macroeconomic analysis and policy					
5.1 Enhanced monitoring, forecasting and policy analysis tools, including financial programming frameworks for policy analysis; and indicators and processes for assessing macroeconomic and financial stability					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD	Comments Including Risk Factors Promoting/Delaying Progress
Members' financial programming frameworks for policy analysis are strengthened.	1. Relevant macroeconomic and fiscal data are regularly compiled and analyzed. 2. Macroeconomic policy analysis and advice are empirically based. 3. Macroeconomic and fiscal forecasts are consistent.	Cook Islands, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Vanuatu			Staffing and resourcing of economic units are required.
Forecasting tools and methodologies are developed for: (i) key sectors of the economy (e.g. tourism, natural resource extraction); (ii) economic variables of importance for monetary and fiscal policy (e.g. inflation, GDP, government expenditure and revenue); and (iii) other defining aspects of countries (e.g. remittances).	1. Forecasts are country specific using available data. 2. Forecasts are updated following key data releases. 3. Medium-term forecasts are published in budget documents and monetary policy statements.	Cook Islands, Fiji, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Vanuatu	Asian Development Bank, IMF Institute for Capacity Development, IMF Research Department		Using the same software, e.g. free software like R, would greatly facilitate the sharing of computer code across countries.

A Pacific Islands Macroeconomic Analysis and Modeling Association is established.	1. A forum is established where macroeconomic issues most relevant to Pacific Island countries are discussed and where experiences are shared. 2. Tools and data are shared across countries. 3. Common issues are discussed and evaluated at an annual meeting.	Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga, Vanuatu initially	Reserve Bank of Australia, Bank of England Centre for Central Banking Studies, Reserve Bank of New Zealand, Australian and New Zealand universities, Secretariat of the Pacific Community	The contribution of the main partners in this technical assistance is essential.	
5.2 Strengthened capacity to develop sustainable policies, including to incorporate medium-term trends and risks into forecasting and policy analysis					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD	Comments Including Risk Factors Promoting/Delaying Progress
The use of financial programming frameworks in budgeting and planning processes is increased.	1. Financial programming frameworks are used in budgeting and planning processes. 2. Budgets contain consistent macroeconomic and fiscal medium-term forecasts.	Cook Islands, Fiji, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Vanuatu		Public Financial Management	Within inter-agency cooperation is needed.
Long-term revenue and expenditure pressures (e.g. due to demographic changes and the rising incidence of non-communicable diseases) are taken into account in fiscal policy	1. Medium-term trends and risks are incorporated into forecasts and budgets. 2. Budget documents contain a discussion of risks.	All PFTAC countries	IMF Fiscal Affairs Department, United Nations Development Program, World Bank, World Health Organization	Public Financial Management, Revenue Policy and Administration	

Debt dynamics are incorporated into financial programming frameworks.	1. Countries conduct debt sustainability assessments. 2. Debt sustainability scenarios are published in budgets.	Cook Islands, Fiji, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Vanuatu	World Bank	Accurate and timely disaggregated public debt data are required.	
Fiscal risks due to contingent liabilities are explicitly accounted for in fiscal planning.	1. Fiscal risks due to contingent liabilities emanating from the financial sector, SOEs and other autonomous government agencies are identified, quantified, and monitored. 2. Fiscal risks are explicitly incorporated into financial programming frameworks.	All PFTAC countries	Financial Sector Supervision, Public Financial Management	Assess fiscal risks due to contingent liabilities emanating from the financial sector, state owned enterprises, other autonomous government agencies, and public-private partnerships.	
5.3 Strengthened capacity to build greater resilience to shocks, including to manage the fiscal consequences of significant shocks (including natural disasters) and improve the soundness and efficiency of financial systems					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD	Comments Including Risk Factors Promoting/Delaying Progress
Enhanced formulation of fiscal and monetary policy to reduce economic fluctuations.	1. Output volatility is reduced. 2. Fiscal and monetary anchors, e.g. debt to GDP or inflation targets, are achieved.	Countries with quarterly GDP: Cook Islands, Fiji, Kiribati, Samoa		Macroeconomic Statistics	Quarterly GDP estimates are produced on a timely basis.
Governments have fiscal resources to respond to shocks.	Fiscal management is prudent and public debt is below maximum levels.	All PFTAC countries		Public Financial Management	Prudent fiscal management requires medium-term fiscal planning.

4. Financial Sector Supervision—Phase V program and RBM Logical Framework

150. **In Phase V, PFTAC CD will focus on strengthening the resilience of PIC financial systems.** Owing to the diverse nature of PFTAC membership, ranging from jurisdictions requiring targeted CD such as consolidated/group and cross-border supervision, and those where basic development of off-site and on-site capabilities are appropriate, country-specific objectives will be built into the program. In all cases, the goal will be to achieve at least baseline competence in the area addressed. Improved resilience of banking systems and sound regulation will help promote financial stability and assist in better access to finance. In order to maximize the impact of PFTAC CD with limited resources, priorities in CD delivery will reflect our assessment of the risk profiles of members' financial systems.

151. **The main programs planned to deliver this CD include:**

- i. Strengthening legal and regulatory frameworks for banks;
- ii. Strengthened supervisory processes;
- iii. Strengthened legal frameworks and supervision of non-bank financial institutions (credit unions and finance companies)

152. **Each of these program areas is described in greater detail below,** together with an RBM logical framework detailing objectives or intended outcomes, key elements of CD, member countries, CD delivery partners, and significant risk factors.

I. Strengthening Legal and Regulatory Frameworks

153. The legal and regulatory framework will encompass technical advisory support to:

- Assist in ensuring that supervisors have adequate legal powers and the ability to exercise them;
- Identify and advise on the changes required to make regulation commensurate with the risk profile of banking systems.

II. Strengthening Supervisory Processes

154. **CD in this project area will consist of strengthening bank reporting and identifying emerging risks and areas of weakness.** The main elements include:

- The on-site examination program will continue with the objective of supporting bank supervisors with the development and execution of a comprehensive examination program. The program will include adequate preparedness, on-site execution and the completion of a detailed report of findings and recommendations.
- The off-site supervision of financial institutions will include technical support on how to adequately perform the oversight review of the data provided by financial institutions under its oversight. The resulting assistance will enable bank supervisors to perform a

comprehensive review of the statistical data provided by the sector and analyze the results, establish trends and report its findings.

- To increase the sustainability of technical assistance, there will be greater focus on developing or ensuring that the authorities have up to date manuals. Adequate documentation of processes and procedures is fundamental to a comprehensive oversight regime, and as such supervision manuals and supervisory guidance and notes, will be enhanced and designed to assist in the training of new staff and codifying standard procedures.
- While the on-site examination program will provide hands on technical support to targeted countries, there will be a need to supplement this with specialized workshops on key banking risk components as they may apply in the region. The purpose of this component will be to provide capacity building in key risk areas such as credit risk, liquidity risk and operational risk, including the development and introduction of policies and procedures. In order to ascertain the level of technical support each country will require PFTAC will implement a comprehensive CD needs assessment for banking supervision questionnaire, based on the Basel Core Principles of Banking Supervision. Based on the result of this endeavor PFTAC will be in a better position to develop appropriate workshops for the region.
- PFTAC will continue its support to a number of regional initiatives including; the Association of Financial Supervisors of Pacific Countries, the annual Governors' meeting, and the regional financial sector development partners meeting. Regional priorities will also be addressed through incorporation of thematic objectives such as development bank supervision and building financial sector resilience to, and preparedness for, natural disasters. PFTAC will also encourage banking authorities to monitor the access to finance by women, small businesses, and other groups in order to better identify weaknesses in access to finance as well as programs that are effective.
- PFTAC will encourage members to participate in relevant courses offered by the STI and SEACEN, and explore the feasibility of hosting training courses in the region.

III. Stronger Legal Frameworks and Supervision of Non-bank Financial Institutions

155. Non-bank financial institutions, which include credit unions, microfinance and insurance, are growing in importance following the introduction of the concept of financial Inclusion in the region. The emergence of this sector is creating a need to expand the regulatory perimeter and the level of oversight currently available across this financial spectrum, including legal and financial reporting. CD will focus on:

- PFTAC will continue to offer its credit union reform program to Supervisors requiring capacity building on how to manage this sector. A solid oversight regime will provide stability to the sector and foster public confidence.

- Assistance will be provided to improve the legal framework of non-banks financial institutions in the region. This will include addressing the legislative, as well as, operational shortfalls by introducing capacity building program and implementing international standards into the oversight of this sector.

Financial Sector Supervision—Phase V program and RBM Logical Framework

Financial Sector Supervision					
Objective: Improved management and resolution of risks in financial institutions					
3.1 Regulatory and Prudential Framework <i>Strengthened financial sector oversight through upgrading of regulatory frameworks in line with international standards</i>					
Outcomes (expected results)	Verifiable indicators	Member Countries ²⁰	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.1.1. Clear supervisory process to review licensing applications, <i>on a timely basis</i> , and ensuring that it meets required criteria, implemented	1. Updated licensing manual being used by [date] 2. Documentation, describing how the application meets all relevant license criteria, to support License recommendation, is finalized within (xx) days of receipt of all information	Countries with a banking sector	IMF Legal Department	Obtain example of similar licensing applications in use in other countries Draw on experience from other jurisdictions	The licensing approval process can be time consuming.
3.1.2. Amended legal/regulatory frameworks underpinning the implementation of risk-based supervision implemented	Implementation of necessary amended legislation and regulations to operationally underpin risk-based supervision started by [date]	Countries with a banking sector	IMF Legal Department	Draw on experience from other jurisdictions	The legislative approval process can be time consuming.

²⁰ The countries visited will be chosen on the basis of risk profile and available funding.

3.1 Regulatory and Prudential Framework <i>Strengthened financial sector oversight through upgrading of regulatory frameworks in line with international standards</i>					
Outcomes (expected results)	Verifiable indicators	Member Countries ²⁰	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.1.3. Bank risk assessment frameworks strengthened: a) Quality and timeliness of regulatory data enhanced; and b) Flexibility of reporting system improved	1. Reports have been modified and adopted to require more relevant data for risk assessment by [date]	Countries with a banking sector	none	Obtain similar procedures from other jurisdictions	Locating robust system can be a challenge
3.1.4. Strengthened institutional structure and operational procedures for implementation of risk-based supervision	1. Supervisory structure and responsibilities are adopted to allow more cooperation between different functions, notably onsite and offsite functions 2. Risk-based processes and manuals are implemented	Countries with a banking sector	none	Obtain similar procedures from other jurisdictions	Implementation of manual can be time consuming.
3.1.5. Supervisors address on a timely basis unsafe and unsound practices or activities that could pose risks to banks or to the banking system	1. Supervisors apply sanctions and enforce prompt corrective actions to address banking problems	Countries with a banking sector	none	None	Enforcement is required.
3.1.6. Supervisors have sufficient capacity to effectively implement risk-based supervision and other supervisory processes	1. Supervisors fully trained to be able to implement risk-based supervision and other supervisory process	Countries with a banking sector	none	None	Staffing turnover is always an issue in small countries

3.2 Financial Sector Law (Legal Department) <i>Promote financial stability by strengthening the financial sector's legal and regulatory framework</i>					
Outcomes (expected results)	Verifiable indicators	Member Countries²¹	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.2.1 New or amended laws adopted or regulations or other legal or policy instruments (e.g., memoranda of understanding, interagency cooperation arrangements) issued	New or amended laws adopted by legislator or regulations/other instruments issued by executive	Countries with Banking authorities	IMF Legal Department	none	Risk: Time frame could be long.

3.3 Risk Based Supervision & other Supervisory Processes <i>More efficient use of supervisory resources to better oversee key risks in the banking system</i>					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC TA Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.3.1 Clear supervisory process to review licensing applications, <i>on a timely basis</i> , and ensuring that it meets required criteria, implemented	1. Assessment of risk and risk mitigants are analyzed together with assessment of application against key criteria including peer review, as required 2. Documentation, describing how the application meets all relevant license criteria, to support License recommendation, is finalized within (xx) days of receipt of all information	All countries member of PFTAC with a Banking Authority.	None	TA needs assessment for banking supervision questionnaire	Updated licensing manual being used

²¹ The countries visited will be chosen on the basis of risk profile and available funding.

3.3 Risk Based Supervision & other Supervisory Processes <i>More efficient use of supervisory resources to better oversee key risks in the banking system</i>					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC TA Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.3.2. Amended legal/regulatory frameworks underpinning the implementation of risk-based supervision implemented	Implementation of necessary amended legislation and regulations to operationally underpin risk-based supervision started by [date]	All countries member of PFTAC with a Banking Authority.	IMF legal Dept.	Obtain examples from other jurisdictions.	The risk associated with not having up to date legislation and prudential statements, and Regulations.
3.3.3 Bank risk assessment frameworks strengthened: a) Quality and timeliness of regulatory data enhanced; and b) Flexibility of reporting system improved	1. Reports have been modified and adopted to require more relevant data for risk assessment by [date] 2. Databases and management practices modified to ensure data adequacy and integrity by [date] 3. Flexible automated reporting solution employs improved data by [date].	Countries with a banking sector	None	Obtain from other jurisdictions examples of prudential return to be provided as guidelines for analysis	Supervisory agencies will require a comprehensive and robust prudential return regime which can produce accurate and timely reporting.
3.3.4 Strengthened institutional structure and operational and procedures for RBS implementation	1. Supervisory structure and responsibilities are adopted to allow more cooperation between different functions, notably onsite and offsite functions 2. Staffing levels are reviewed and enhanced 3. Risk-based processes and manuals are implemented 4. On-site inspection scope and frequency is performed based on risk and impact of banks and are guided by off-site risk analysis	Countries with a banking sector	None	None	Developing adequate knowledge require a number of years of experience. The risk is directly proportional to staff turnover.

3.3 Risk Based Supervision & other Supervisory Processes <i>More efficient use of supervisory resources to better oversee key risks in the banking system</i>					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC TA Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.3.5 Supervisors timely address unsafe and unsound practices or activities that could pose risks to banks or to the banking system	1. Supervisors apply sanctions and enforce prompt corrective actions to address banking problems 2. Supervisors follow implementation of corrective measures and escalate actions as needed	Countries with a banking sector.	None	None	Strong legislative framework required to support the actions
3.3.6. Supervisors have sufficient capacity to effectively implement risk-based supervision and other supervisory processes	1. Supervisors fully trained to be able to implement risk-based supervision and other supervisory process 2. Supervisory reports focus on key risk aspects of the banking system, and provide appropriate recommendations 3. Inspection reports of individual banks are more risk oriented and identify key qualitative and quantitative risks 4. Supervisors monitor banking problems and risks and take early action as needed	Countries with a banking sector	None	None	Staff turnover is always an issue in Small countries. Ability to perform standard on-site examination.

5. Macroeconomic Statistics—Phase V program and RBM Logical Framework

156. **Consistent with the IMF's recently developed RBM catalog of CD objectives and outcomes, the main objective of CD in the macroeconomic statistics area in Phase V is to strengthen the compilation (especially methodological soundness and reliability) and timely dissemination of macroeconomic statistics.**

157. **This phase will see a broadened coverage of PFTAC TA to include both national accounts and government financial statistics (GFS).** GFS support has during the latter half of Phase IV been provided by an HQ-based project but this has now completed and the second round of this will include only Papua New Guinea from the Pacific region.

158. **All CD will be carried out in close coordination with other CD providers and development partners** following the primary responsibilities for each agency agreed at the 8th meeting of the Pacific Statistics Steering Committee (PSSC). This agreement recognizes the primary and secondary areas of responsibility for each CD provider and provides the mechanism for strengthening the coordination between them. CD will continue to be provided in the context of the Ten Year Pacific Statistics Strategy (TYPSS) as it moves into its next phase for 2015-17 and beyond.

159. **As well as expanding the scope of TA, the aim will be to consolidate and build on the gains achieved in Phase IV.** The key elements of the work program in Phase V involve assisting members with:

- i. Improving methodological soundness of statistical outputs;
- ii. Improving the reliability of macroeconomic statistics;
- iii. Strengthening statistical serviceability and accessibility

160. **Each of these program areas is described in greater detail below,** together with an RBM logical framework detailing objectives or intended outcomes, key elements of CD, member countries, CD delivery partners, and significant risk factors.

I. Improving methodological soundness of statistical outputs

161. **The aim of improving the methodological soundness of statistical outputs in the areas of national accounts and GFS is fundamental to all of the TA that will be provided.** Country methodologies are continually monitored to ensure that concepts and definitions conform to international standards and data are transformed according to standard international practices. Essentially, the assistance provided is to ensure that best use is made of the data and resources available for the task.

162. **The parallel focus in each country is to improve sustainability of the data** produced through a combination of hands-on staff training in best-practice methodology and improved and extended documentation, which ensures ongoing institutional memory and continuity as staff changes occur.

163. **This CD will continue to be developed by maintaining a practical focus in all training and sub-regional training courses where countries can share common experiences and expertise.** The move away from region-wide training courses enables groups of countries that have just completed

a household income and expenditure survey (HIES), for example, or that have similar compilation methodologies to be brought together and maximize the benefits of sharing experiences.

164. Once countries have consolidated their output of sound measures of gross domestic product (GDP) by production some may have the capacity to develop measures of gross domestic product by expenditure, which provides a useful cross-check to the validity of both measures. This development is becoming more feasible with the extensive HIES's being undertaken in the region and the improvements to GFS and balance of payments statistics arising from the recent Japan-funded projects in these areas. Even where there is not sufficient capacity to produce these second measures on an ongoing basis, occasional but frequent checks of this kind are useful to maintain good quality measures.

165. As country resources allow, GDP estimates will be expanded to include quarterly measures, which can provide much more timely economic information. Four countries²² in the region produce quarterly GDP as of the end of Phase IV and others have plans to do so during the next phase.

166. PFTAC recognizes resource constraints in member countries. PFTAC will continue to provide this assistance in expanding the scope of national accounts to both expenditure and quarterly estimates but recognizes—as do the regional statistical agencies—that expanding the frequency and scope of national accounts requires additional resources beyond the current or planned capacity of some statistical offices. In those instances, the aim will be to build self-sufficiency and maintain quality and timeliness.

167. The GFS assistance will focus on expanding data collections beyond the central government budget sub-sector. The success of this requires that collaboration across government agencies is improved to ensure a continuing ready flow of data among such agencies, which in turn leads to an improved national statistical system.

168. In some member countries, capacity supplementation has been part of the TA provided in the previous phase, owing to the limited amount of resources available for analyzing economic statistics, the development of simple, well documented systems have the potential to increase local input and develop capacity.

II. Improving the accuracy and reliability of macroeconomic statistics

169. The second theme of improving the reliability of macroeconomic statistics has been, and will continue to be, achieved by applying sound methodology and by expanding to more comprehensive data sources. The improved methodologies targeted under the first theme will lead to improved reliability of the outputs.

170. For countries with limited resources for business surveys—and even those that may have adequate resources—it makes logical sense for the data-collection agencies to maximize the use of data from administrative sources such as VAT and annual tax accounts. This has the extra benefit of reducing respondent burden and generally results in better and timelier estimates. These can be supplemented with more limited, specific, surveys as required. PFTAC will continue to advocate

²² Cook Islands, Fiji, Samoa, Vanuatu.

strongly for the maximum use of such administrative data through both staff training in the interpretation of such data, and in its role as a member of the Administrative Data Working Group set up by the PSSC.

171. PFTAC CD has and will continue to support regular rebasing of constant price national accounts estimates. Rebasing ensures that the weights implicit in the measures remain relevant and that the long-term use of fixed ratios is reduced to a minimum. These rebases are supported through the regular HIES's now being conducted in the region. PFTAC will conduct one training course per year for national accounts staff on topics such as the interpretation of HIES data and also provide input into the collection, analysis, and interpretation of HIES data by continuing as members of the HIES Technical Working Group.

172. The GFS CD also strengthens the national accounts measures which include all government production. Phase V would also take into account emerging improvements in balance of payments (BOP) statistics. National accounts CD always advocates for consistency among these three data sets, so the strengthening of GFS and BOP contributes to the statistical soundness of the national accounts.

III. Strengthening statistical serviceability and accessibility

173. The third theme—strengthening statistical serviceability and accessibility—relates to producing timely statistics which are internally consistent and reconcilable over time. Our CD promotes consistency by embracing all useful data sources and GFS and BOP in particular and by providing training on data analysis such as reconciling production and expenditure estimates, ensuring that quarterly GDP estimates are consistent with annual estimates, and linking long term series to ensure they meet the needs of users. In this context, PFTAC will also promote broader improvements in data access and the usefulness of statistics to users through its participation in the Data Utilization Technical Working Group of the PSSC.

174. The improvements in documentation that are recommended not only support institutional memory and the consistency of ongoing methodology, but also ensure the metadata on Statistics Office websites and IMF General Data Dissemination System site can be readily kept up to date.

Macroeconomic Statistics—Phase V program and RBM Logical Framework

Macroeconomic Statistics					
Objective: More timely and reliable economic statistics					
4.1 Compilation methodologies in line with international standards are in place for national accounts and government finance statistics.					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD	Comments Including Risk Factors Promoting/Delaying Progress
Strengthening methodologies—in line with international standards—used for the compilation of gross domestic product (GDP) estimates by production.	Good quality accounts produced regularly. Deviations from international standards identified. RBM 4.5	All PFTAC countries.	Australian Bureau of Statistics (ABS), Secretariat of the Pacific Community (SPC). Pacific Statistics Steering Committee (PSSC) overseeing the Ten Year Pacific Statistics Strategy for 2015-2017.	1. Macroeconomic Analysis and Forecasting. [Revised series should be linked to enable economic analysis.]	The focus is on developing sustainability through staff training combined with improved documentation. Training is both on-the-job and practically oriented training courses where countries can share expertise and common experiences. However, some countries with low resources will continue to need indefinite supplementation to produce GDP estimates. Others with higher capacity will remain vulnerable as staff leave or retire.
Increasing the scope of national accounts estimates by developing expenditure measures.	Two measures produced regularly, discrepancy relatively small. RBM 4.1	Fiji, Kiribati, Papua New Guinea (PNG), Vanuatu.	ABS, SPC, PSSC.	1. Macroeconomic Analysis and Forecasting.	Increasing the scope of GDP estimates requires increased staff resources and additional capacity building if the addition is to be sustainable. Unless resources are available, focus on production estimates.

4.1 Compilation methodologies in line with international standards are in place for national accounts and government finance statistics.					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD	Comments Including Risk Factors Promoting/Delaying Progress
Improving the frequency of national accounts by developing quarterly measures.	X countries producing quarterly GDP data regularly. RBM 4.4	Cook Islands, Fiji, Samoa, Vanuatu.	ABS, SPC, PSSC.	1. Macroeconomic Analysis and Forecasting.	Increasing the frequency of GDP requires increased staff resources and additional capacity building to be sustainable.
Improving the coverage and quality of Government Finance Statistics (GFS). GFS data should cover the whole of general government (budgetary government and extra-budgetary units). Debt data should cover the entirety of the public sector (general government activity plus quasi-government units and public corporations).	Good quality GFS produced regularly. Good quality Public Sector Debt Statistics (PSDS) produced regularly.	Cook Islands, Federated States of Micronesia (FSM), Fiji, Kiribati, Marshall Islands, Palau, Samoa, Solomon Islands, Tonga, Timor-Leste, Tuvalu. (<i>PNG excluded while covered under the JSA-GFS II Project</i>).	PSSC. ABS.	1. Public Financial Management. 2. Macroeconomic Analysis and Forecasting. MFP. *Comprehensive GFS would ensure consistent classifications of revenue (e.g. Asset sales vs. current), good measures of Government production—disproportionately important in the Pacific—and promote regional comparisons.	Capacity limits in GFS production may be met within two years, thereafter an assessment would be made on whether GFS needs justify continued focus on GFS capacity building and maintenance, or whether these resources should shift to other higher priority areas of macroeconomic statistics.
Improving the frequency of GFS by developing quarterly measures.	Reliable quarterly GFS produced regularly.	All countries in the first JSA GFS project are encouraged to produce quarterly GFS.	PSSC. ABS.	1. Public Financial Management. 2. Macroeconomic Analysis and Forecasting. MFP. *Quarterly GFS would ensure good measures of Government production—disproportionately important in the Pacific - and promote regional comparisons.	Availability of source data for extra-budgetary units and lower levels of government (state and local) will be an impediment to compiling quarterly general government data. Estimation techniques will be required. Improved PFM will facilitate this work.

4.2 Accurate and reliable macroeconomic statistics are available.					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD	Comments Including Risk Factors Promoting/Delaying Progress
Strengthening the accuracy and reliability of GDP estimates by making full use of administrative data supplemented by surveys where needed.	Good quality accounts produced regularly. RBM 4.5	All PFTAC countries.	ABS, SPC, PSSC.	1. Revenue. 2. Macroeconomic Analysis and Forecasting.	There is a strong move in the Pacific to maximize the use of administrative data—especially tax related data—in the national accounts. This will be guided by the Administrative Data Working Group (ADWG) set up by the PSSC. The success of this approach requires close coordination with the tax offices.
Strengthening of GDP estimates by improving compilation procedures and source data analysis.	Good quality accounts produced regularly. RBM 4.5	All PFTAC countries.	ABS, SPC, PSSC.	1. Macroeconomic Analysis and Forecasting.	
Improving the usefulness of national accounts with timely rebasing.	Base year less than 10 years old, plans in place to keep it thus. RBM 4.2	All PFTAC countries would be expected to rebase some time during Phase V.	ABS, SPC, PSSC.	1. Macroeconomic Analysis and Forecasting.	
Improving the coverage, quality and timeliness of data sources for GFS.	Good quality GFS with comprehensive coverage produced regularly.	Cook Islands, Federated States of Micronesia (FSM), Fiji, Kiribati, Marshall Islands, Palau, Samoa, Solomon Islands, Tonga, Timor-Leste, Tuvalu. (<i>PNG excluded while covered under the JSA-GFS II Project</i>).	PSSC, ABS.	1. Public Financial Management. 2. Macroeconomic Analysis and Forecasting.	Authorities' commitment to improve foundational PFM and resource allocation to both PFM activities and statistical compilation teams may be impediments to sustainable improvements to source data.

4.3 Timely and consistent data are produced. They are readily available, presented clearly, and well-documented.					
Outcomes (expected results)	Verifiable indicators	Member Countries	Main Partners in CD	Synergies with other PFTAC CD	Comments Including Risk Factors Promoting/Delaying Progress
Ensuring the national accounts data are disseminated in a timely manner and are consistent with other datasets such as GFS and External Sector Statistics.	National accounts, BOP, GFS produced - fully reconciled. RBM 4.6 Timeliness for annual estimates meets GDDS standards: Disseminated within six-nine months after the end of reference year.		ABS, SPC, PSSC.	1. Macroeconomic Analysis and Forecasting.	
Ensuring the national accounts metadata are available and up to date.	Up-to-date national accounts and metadata available on the web. RBM 4.7		ABS, SPC, PSSC.	1. Macroeconomic Analysis and Forecasting.	
Ensuring the GFS data are disseminated in a timely manner and are consistent over time.	Quarterly statistics for central government budgetary operations are disseminated within one quarter (GDDS).	Cook Islands, Fiji, FSM, Kiribati, Palau, RMI, Samoa, Solomon Islands, Tuvalu, Timor-Leste,	PSSC.	1. Public Financial Management. 2. Macroeconomic Analysis and Forecasting.	Authorities' commitment to improve foundational PFM and resource allocation to both PFM activities and statistical compilation teams may be impediments to sustainable improvements to source data.
Ensuring the GFS data are available to users and adequately documented.	Up-to-date GFS and metadata available on web.	Cook Islands, FSM, Fiji, Kiribati, Marshall Islands, Palau, Samoa, Solomon Islands, Tonga, Timor-Leste, Tuvalu.	PSSC.	1. Public Financial Management. 2. Macroeconomic Analysis and Forecasting.	Ability of local staff to access/update existing electronic dissemination tools (PRISM, for example).

D. Integration and Synergies with Other CD Providers

175. PFTAC CD activities are coordinated with those of other CD providers and integrated with the member countries' reform programs and development strategies. Such coordination is essential to ensure the effectiveness of CD and donor assistance and is all the more important because IMF CD is mainly upstream, building the economic policy and legislative frameworks. Other CD providers often rely on this work to ensure the effectiveness of their own CD work or donor assistance. Given limited resources, the IMF seeks to avoid duplication in coverage and enhance complementarity and synergies with other CD providers.

176. PFTAC will continue to strengthen coordination with other CD providers particularly in its core areas of expertise. Among institutions and countries providing CD to the region are the ADB, Australia, China, the EU, Japan, the Republic of Korea, New Zealand, PASAI, PICPA, PIFS, SPC, UNDP, UNESCAP, and the World Bank. Coordination of CD strategies and activities—and avoiding duplication of efforts—is pursued through multiple channels. At the more strategic level, there is regular coordination through meetings of donor partners in the Heptagon group, as well as quarterly meetings of development partners in Suva, and ad hoc meetings in the context of budget support discussions with member countries. In addition, there is regular discussion of CD strategy, priorities, and work plans at the meetings of various regional organizations and professional groups, including AFSPC, OCO, PASAI, PIFS, PITAA, PSSC, and UNDP. Less formally, there is frequent contact between PFTAC advisors and counterparts in other organizations, as well as with country authorities to maximize synergies between CD efforts. Although there is generally good coordination, some specific areas for improvement have been identified. At the strategic level, better coordination is needed between the setting of priorities in Policy Reform Matrices and the provision of CD to facilitate implementation. PFTAC will continue to work with donor partners to promote close coordination. At the operational level, PFTAC will work with development partners to ensure that their staffs in member countries are briefed before or after missions.

177. To help ensure complementarities and synergies with other CD, the PFTAC coordinator will be the focal point for liaison with bilateral and multilateral agencies in the field. PFTAC advisors will also support coordination, since they often have the closest contact with country authorities in their area of expertise, as well as with experts financed by other donor partners. The coordinator will:

- Disseminate the RSN, which defines the IMF medium-term CD strategy for PFTAC countries.
- Post PFTAC missions and assignments planned during the fiscal year on the Center's website;
- Circulate TA reports prepared by RTAC experts to the SC and, upon request, other relevant stakeholders if the TA user consents (consent by the TA user would be given on a no-objection basis according to the IMF's dissemination policy; the recipient of the TA report will also need to have signed a confidentiality agreement). This will provide PFTAC member countries, donor partners, and other CD providers with the information they need to better coordinate with PFTAC CD.
- Provide donor briefings. If possible, PFTAC missions will also provide donor briefings in the field.
- Publish PFTAC quarterly and annual reports.

E. Resource Needs

178. **PFTAC's budget for the next five years and six months²³ is estimated at US\$35.3 to US\$39.7 million, excluding the IMF contribution.** Resource needs are determined by the results achieved under Phase IV and new priorities expressed by member countries. The Phase V program has been carefully costed, with the budget developed in close alignment with work plans across sectors and countries. Increased resource needs compared to Phase IV reflect the state of CD delivery reached in FY15 and FY16, expected to be sustained throughout the new phase under the US\$39.7 million scenario, with some scale-down in activities under the US\$35.3 million scenario. The budget will be shared by the member countries, donor partners, and the IMF.

179. **Besides its contribution to PFTAC Phase V, estimated at US\$3.5 million, the IMF provides the governing framework to ensure focus and targeting, and quality and consistency in the delivery of assistance.** The combined responsibilities of the Committee on Capacity Building, APD, and the CD departments constitute an institutional support framework for CD delivery in the field. All CD, whether internally or externally financed, whether delivered by HQ or by the RTACs, are supported equally by this framework.

180. **TA and training plans to strengthen members' capacity in the various areas identified in the proposed program reflect members' absorptive capacity and PFTAC funding considerations.** Bottom-up assessments involve judging, in each program area, how much CD should be delivered by country-specific TA by resident advisors and STX, how such TA should be complemented by training and workshops, and what level of support will be needed from HQ. These estimates of input needs are then costed, using recent experience with the cost of recruiting resident advisors and STX, air travel and accommodation costs, and the typical costs of workshops and seminars. Most costs are incurred in US dollars, and over the course of Phase V a two percent inflation is assumed, consistent with the medium-term World Economic Outlook (WEO) projections.

181. **Following the discussion at the 2016 PFTAC Steering Committee meeting, the IMF has prepared two budget scenarios for PFTAC Phase V.** The "baseline" scenario of US\$35.3 million is based on a conservative assessment of the potential funding available in Phase V, at current exchange rates. It includes the expected funding amounts from PFTAC's current donor partners, plus the 10 percent contribution from members that was agreed at the Steering Committee.

182. **In the baseline scenario (Table 1), the proposed budget envisages:**

- A reduction in the number of resident advisors from the current complement of seven to six over the course of Phase V: PFM (two advisors initially, as in Phase IV, reduced to one in the final two years of the program), revenue administration, (one advisor, as in Phase IV),

²³ The extra six months to the originally five-year phase cycle will allow PFTAC's Phase V to align to the IMF fiscal year.

financial sector supervision (one advisor, as in Phase IV), macroeconomic analysis and forecasting (one advisor, as in Phase IV), and macroeconomic statistics (two advisors).

- Short-term expert visits will complement the work of the resident advisors. The IMF will continue to seek regional expertise where possible.
- Backstopping and project management from HQ will ensure quality and consistency of PFTAC's advice with IMF and international good practice.
- Regional and sub-regional workshops will continue to provide hands-on training and a platform for sharing knowledge and exchanging experiences.
- Diagnostic interventions are a critical complement in designing strategic advice, which goes hand-in-hand with PFTAC assistance in implementing this advice. The diagnostic missions, led by IMF HQ staff, will include short-term experts.
- A mid-term independent evaluation.
- Miscellaneous office costs (including mission security costs) and the cost of Steering Committee meetings. In addition, PFTAC will begin to pay rent, at a concessional rate, for its office space at the Reserve Bank of Fiji.
- The IMF will continue to cover costs of the Coordinator and local staff.

Table 1: PFTAC Phase V Baseline Budget Scenario (November 2016-April 2022)

	In million US dollars						
	PFM	Revenue	Financial Admin.	Macro- Supervision	Statistics	Legal	Total
Resident Advisors	3.0	1.8	1.7	1.9	1.7	0.0	10.1
Resident Advisors Travel	0.5	0.2	0.3	0.3	0.4	0.0	1.7
Short-term Experts	4.1	3.3	0.7	0.9	1.3	0.4	10.7
Diagnostic Missions	0.5	0.5	0.1	0.0	0.2	0.0	1.3
TA Seminars	0.8	1.4	1.1	1.0	1.2	0.0	5.5
Backstopping/Evaluation	0.3	0.2	0.3	0.0	0.5	0.0	1.3
Macroeconomic Training							0.2
Subtotal	9.2	7.4	4.2	4.1	5.3	0.4	30.6
Administration							
Misc. Office Costs							0.4
Project Management							0.6
Governance							
Evaluation							0.3
Steering Committee							0.9
Trust Fund Management							2.3
Total							35.3

Source: Institute for Capacity Development, Global Partnerships Division.

183. An alternative “aspirational baseline” scenario (Table 2) is aimed at maintaining PFTAC’s CD delivery capacity at about the same level as in the latter years of Phase IV, though with a composition of resources adjusted to reflect differences in the programs between Phase IV and Phase V. The cost of this scenario is estimated at US\$39.7 million. In the IMF’s view, it should be feasible to secure additional funding on this order by the time that Phase V begins. This would allow PFTAC to avoid the cuts built into the US\$35.3 million baseline scenario, which would be especially important in the areas of statistics and PFM. The IMF will target a PFTAC funding level at least sufficient to cover the aspirational baseline program. As of mid-October 2016, the funding prospects for PFTAC appear likely to exceed the baseline budget figure. This will allow PFTAC to maintain the current complement of seven resident advisors through much or all of Phase V.

Table 2: PFTAC Phase V Aspirational Baseline Budget Scenario (November 2016-April 2022)							
	PFM	In million US dollars					
		Revenue Admin.	Financial Supervision	Macro-economics	Statistics	Legal	Total
Resident Advisors	3.6	1.8	1.7	1.9	3.5	0.0	12.5
Resident Advisors Travel	0.6	0.2	0.3	0.3	0.8	0.0	2.2
Short-term Experts	4.6	3.5	1.2	0.9	0.7	0.4	11.3
Diagnostic Missions	0.5	0.5	0.1	0.0	0.2	0.0	1.3
TA Seminars	0.9	1.8	1.1	1.0	1.1	0.0	5.9
Backstopping/Evaluation	0.3	0.2	0.3	0.0	0.6	0.0	1.4
Macroeconomic Training							0.2
Subtotal	10.5	8.0	4.7	4.1	6.9	0.4	34.6
Administration							
Miscellaneous Office Costs							0.4
Project Management							0.7
Governance							
Evaluation							0.3
Steering Committee							0.9
Trust Fund Management							2.6
Total							39.7

Source: Institute for Capacity Development, Global Partnerships Division.

184. Early partner pledges and commitments to substantially meet the Phase V financing needs are sought to provide assurance and stability for the Center’s operations. Financing will need to be secured in a timely manner to ensure that commitments (such as salaries and long term programs) are sufficiently funded for a seamless transition from Phase IV to V. As much of the financing target is sought in pledges and commitments as far in advance of the November 1, 2016 phase transition date as possible.

185. The external evaluation of PFTAC recommended a scaling up of its CD activity. The two scenarios described above involve, at most, maintaining existing levels of capacity. In response to the evaluation recommendation, the IMF has considered where an increase in resources could have the greatest impact in terms of program objectives. If sufficient additional funding is obtained during

Phase V, the following proposals for additional CD provision could be considered as the highest priorities:

- i. **Statistics:** Additional resources in this sector would allow the IMF to continue to provide the level of CD in the area of national accounts (NA) that members received in the later part of Phase IV. During Phase IV, CD in the area of GFS was funded under a Japanese-supported IMF project, but that funding has ended. Given the importance of the public sector in most PICs, as well as the focus on fiscal sustainability in Phase V, good quality GFS is essential. In Phase V, in both the baseline and aspirational scenarios, CD in the area of GFS is picked up by PFTAC, but at the cost of some reduction in CD on national accounts. An expansion of statistics resources could enable a third long-term advisor to provide CD in the national accounts area, as was done during Phase IV. The additional cost of expanding this program would be around US\$2.7 million.
- ii. **Macroeconomics:** The increased focus in Phase V on developing medium and long-term fiscal frameworks to be able to address macroeconomic resilience and fiscal sustainability issues will increase demands on PFTAC's CD in macroeconomic modeling and forecasting. This will be even more so in the case of fragile states, where the need for assistance is great and local capacity is very limited, implying a need for capacity supplementation. In addition, understanding of macro-financial risks and vulnerabilities in the region is currently limited by lack of data and lack of appropriate capacity in central banks or other supervisory entities. Additional resources in the macroeconomic area would significantly increase PFTAC's ability to build capacity in both macroeconomic and macro-financial analysis. Work in these areas calls for frequent, hands-on assistance with modeling and forecasting teams in central banks or finance ministries, as well as with financial stability units in central banks, and is best served by an additional resident advisor rather than more use of STX. However, some additional workshops would also be appropriate to facilitate sharing of experience in the region and increasing the sustainability of increases in capacity. The additional cost of expanding this program would be around US\$3.7 million.
- iii. **Revenue administration:** Increased domestic revenue mobilization (DRM) is crucial element in strengthening macroeconomic resilience and fiscal sustainability as well as for funding growth-promoting public investment. These are particularly relevant in the fragile states in the Pacific, and are reflected in the SDGs agreed recently at the United Nations Summit in Addis Ababa. This is why revenue administration is a major element in both the baseline and aspirational baseline scenarios. Nonetheless, there is strong demand for CD in this area even at the current level of PFTAC capacity. Additional resources in this area, involving both an additional resident advisor as well as additional STX-delivered CD would facilitate significantly more rapid strengthening of DRM, as well as the efficiency and equity of PIC tax systems. The additional cost of expanding this program would be around US\$5.0 million.
- iv. **Local staff.** In Phase V, the implementation of the new IMF Results-Based Management (RBM) framework and increasing outreach and accountability/reporting requirements are expected to substantially increase the workload. If PFTAC also has an increase in the number of advisors, it will be essential to also increase the local staffing level by at least one full-time position. This cost is estimated at around US\$0.3 million over Phase V.

F. PFTAC Financial Sustainability

186. **Under previous phases, PFTAC has attracted donor interest mainly from partners in the region: Australia, New Zealand, Republic of Korea and the Asian Development Bank. In Phase IV, the EU also became a significant partner.** The donor funding in Phase IV amounted to US\$25.3 million. The existing donor partners were engaged early in the discussions on the CD strategies and priorities for Phase V. The IMF also continues to work with strategic partners to establish global funding arrangements for the RTAC network.

187. **Strong commitment of member countries will be critical for PFTAC's continued success.** Contrary to what was envisaged in the Phase IV program document, PFTAC members still do not make financial contributions to the Center. The Phase IV mid-term evaluation rekindled the case for member country contributions, and members agreed at the February 2016 SC meeting to start contributing to Phase V on the order of 10 percent of the Phase V Program Document Budget. Donor partners strongly favor member contributions as a sign of ownership and CD sustainability. The contribution from all members is on a voluntary basis, i.e. not a requirement for membership.

188. **Financial sustainability considerations have been incorporated into the strategy.** Continued high financial needs under Phase V and budgetary pressures in traditional donor countries raise issues of financial sustainability. A threefold approach is taken to risk mitigation: (i) establishing long-term strategic partnerships with key donor partners; (ii) some diversification of the donor base; and (iii) voluntary member country contributions. As mentioned above, member contributions are essential to demonstrate country ownership of the Center and for continued donor support.

IV. PFTAC GOVERNANCE, OPERATIONS, AND FINANCIAL MANAGEMENT

A. Governance

189. **PFTAC is guided by a SC of representatives from member countries, donor partners, and the IMF.** The SC provides strategic guidance and helps set PFTAC's priorities, including through endorsing work plans, and is a vehicle for feedback on CD quality. PFTAC's SC meets annually and is chaired by the country hosting the Steering Committee meeting.²⁴ An external evaluation of the work of PFTAC will be carried out by a team of independent experts around three years into the program phase, assessing the relevance, effectiveness, efficiency, sustainability, and impact of PFTAC activities.

190. **PFTAC staff comprises a coordinator, a number of resident advisors in each of the relevant CD areas, office support personnel, and a pool of short-term experts for specific assignments.** The Coordinator is responsible for day-to-day management of PFTAC and its operations, with strategic guidance from the SC and general oversight from the IMF. PFTAC staff is composed of specialist

²⁴ Until 2016, The Governor of the Reserve Bank of Fiji acted as Chair of the SC. At the most recent SC, it was agreed that the country hosting the SC would act as SC Chair until the next host country was designated.

resident advisors in each of the CD areas and office support personnel. A pool of short-term experts is drawn upon for specific assignments, with regional expertise sought where possible. Strong quality control is exercised by the IMF. It selects and hires PFTAC resident advisors, providing them with the technical support to ensure quality and consistency in their advice and activities. The IMF HQ CD departments review and authorize the reports produced by resident advisors. Short-term experts for peripatetic and/or specific assignments are recruited through the IMF HQ from its roster of qualified experts and are backstopped by the resident advisors and the IMF HQ.

B. Operations

Work Plan

191. **PFTAC's annual work plan is developed in consultation with member countries and within the context of the IMF's CD prioritization processes, managed through the RSN for the APD department and the Resource Allocation Plan.** This process takes into account each member country's macroeconomic reform strategy. The IMF's country teams, in close coordination with the IMF HQ, and the PFTAC resident advisors' continuous dialogue with member countries provide a basis for the identification of key capacity-building needs and CD priorities and the formulation of detailed country CD programs. This ensures that the activities of both are fully integrated with each other, as well as with country reform agendas. The development of the annual work plan is also coordinated with the IMF's budget cycle and resource allocation processes to ensure timely and predictable delivery of CD.

192. **PFTAC's work plan consists of member countries' CD programs (which may form part of broader regional projects), in-country training, and regional workshops and seminars.** The PFTAC coordinator seeks strategic guidance from SC members on the work plan including by asking them to send their requests for CD needs, prior to seeking their formal endorsement. At each SC meeting, the PFTAC coordinator delivers a monitoring report on the progress of the activities outlined in the work plan and lays out, in consultation with the chairman, some issues that the SC should discuss.

Center Coordinator

193. **The Coordinator is a staff member of APD.** The Coordinator is selected by APD in consultation with other CD departments and ICD. He/she reports to APD and works to ensure that the work of the Center is consistent with the overall strategy of APD and the IMF. The Coordinator maintains constant contact with the SC members in the Center's member countries and with APD and all relevant CD departments to identify broad strategic priorities and emerging issues and needs for the Center.

Accountability

194. **PFTAC is designed and operated to ensure that the IMF CD is delivered in a manner that is responsive and accountable to the member countries.** PFTAC must also meet and maintain the high-

quality standards that are expected of the IMF CD. The IMF's recently revised dissemination policy²⁵ on sharing TA reports will further improve accountability and facilitate coordination. Under the new policy, TA reports may be shared with the SC members with consent of the TA user on a no-objection basis, and on the understanding that such information shall be kept confidential. Sharing of TA reports with the non-SC donor partners will be determined on a case-by-case basis based on whether the donor in question has a legitimate interest in the TA report in question, for example through its engagement in related activities in the member country. To enhance coordination, the SC members will also receive information which flags the need for any complementary CD.

195. It is a core objective of PFTAC that the activities of the Center reflect the ownership and commitment of its members. This helps to ensure the continued effectiveness and sustainability of the CD delivered.

196. As outlined throughout this document, the inputs of member countries are sought at various stages of the work planning and operations of PFTAC: during surveillance ("Article IV Consultations") programs and diagnostic CD missions that inform the CD planning process by APD and CD departments in their preparation of CD strategies, and through the input and oversight of PFTAC's SC.

197. The PFTAC SC provides an additional forum for accountability. Member countries can provide immediate feedback and recommendations on CD delivery and value. All SC members receive the information that allows them to guide PFTAC's work.

Evaluation

198. It is proposed that within a maximum of three years of operation of each phase, an independent external evaluation of the work of PFTAC be carried out by a team of independent experts. The evaluation will assess PFTAC's effectiveness and sustainability of its CD, bearing in mind the long-term nature of capacity-building. The evaluation will formulate recommendations for improvement, which will inform discussions on PFTAC's future operations. It will also assess recommendations from previous mid-term evaluations.

Quality Control

199. Maintaining the quality of the CD advice and activities delivered by PFTAC is the responsibility of the IMF HQ and PFTAC staff. The IMF HQ supports PFTAC by backstopping its staff and operations. Combining the recommendations of previous surveillance and CD missions with the needs of the country, the CD departments discuss with the resident advisors the objectives and outcomes of each mission with a view to ensuring a proper sequencing of CD and improving its effectiveness in building capacity in member countries. Throughout the mission of short-term experts and the presence of the resident advisors, the CD departments provide supervision and support. In addition, short-term experts are backstopped by resident advisors. This is a dynamic and fluid process that can take a number of forms.

²⁵ See <http://www.imf.org/external/np/pp/eng/2013/061013.pdf>

200. **CD departments review and authorize the TA reports produced by the resident advisors and short-term experts.** Further, CD and area departments work with country authorities to ensure follow-up on the recommendations of CD missions mainly through PFTAC. At all stages of CD, backstopping ensures the consistency and quality across countries.

201. **The Coordinator provides an additional layer of quality control of the CD in his/her management of the day-to-day operations of PFTAC, and given his/her close relationship with the country authorities.** The Coordinator monitors the progress of member countries in implementing reforms that are supported by PFTAC.

C. Visibility for PFTAC and Donor Partners

202. **PFTAC will intensify its outreach efforts, enhancing the Center's public profile and donor visibility.** As part of the 2015 RTAC Handbook, the ICD has developed recommended outreach practices for RTACs to foster communication with donor partners, member countries, other CD providers and other stakeholders. More specifically, under Phase V, the Center's outreach will expand beyond development partners and member countries to include civil society. Existing tools which include annual reports, newsletters, website, conferences, as well as donor debriefings, will be supplemented by other vehicles such as social media. Partners will be systematically recognized in the Center's outreach, with acknowledgement in publications and continued efforts to seek their involvement in the Center's activities.

203. **The Center's outreach program in Phase V will aim to create a platform to improve the coordination and effectiveness of CD, highlighting the progress made by the authorities and the support from donor partners and the IMF.** To this end, the Coordinator and/or resident advisors will: (i) participate, whenever possible, in regional workshops/seminars organized by other institutions related to CD; (ii) keep country teams at the IMF HQ informed of progress under the work plan; and (iii) establish an agile system for transmitting information and briefing partners on the Center's latest developments and issues.

204. **PFTAC will hold face-to-face meetings to expand its outreach activities.** Specifically, general donor briefing will be organized at least once a year. The Center's resident advisors and short-term experts will continue to hold general briefings at the end of CD missions with donor partners in the field to explore synergies and improve coordination. The Center will inform country teams and resident representatives, including during the Coordinator's and resident advisors' visits to HQ, of planned CD missions and courses organized by the Center, in order to increase coordination.

D. Financial Management

205. **Contributions from donor partners and member countries will be made into a multi-donor PFTAC Subaccount under the IMF's Framework Administered Account for Selected Fund Activities (the "SFA Instrument").**²⁶ This Subaccount will be used to receive and disburse financial

²⁶ See <http://www.imf.org/external/np/pp/eng/2009/030409.pdf>

contributions for the Center's activities; all resources contributed to the Subaccount will be for the sole use of PFTAC.

206. The basis for the financial arrangements between donor partners and the IMF will be a letter of understanding establishing the purposes of the contributions related to this program document and subject to the terms and conditions of the Subaccount, as well as the SFA framework instrument. The IMF manages the trust fund in accordance with its financial regulations and other applicable IMF practices and procedures.

207. The IMF will provide donor partners with reports on the Subaccount's expenditures and commitments through a secure external gateway. Separate reporting on the execution of PFTAC's budget will be provided at each SC meeting. Costs will be on an actual basis.²⁷ The operations and transactions conducted through the Subaccount during the financial year of the IMF will be audited as part of the IMF's Framework Administered Account and the report of the External Audit Firm is posted on the IMF's external website as part of the IMF's Annual Report. PFTAC is also subject to audits by the IMF's internal audit office.

208. PFTAC is an IMF office. It complies with IMF procurement practices.

²⁷ See <http://www.imf.org/external/np/pp/eng/2008/040308a.pdf>

Staff cost will be charged at the midpoint of the standard cost of the grade of staff members plus the relevant benefit factor, contractual and long-term experts will be charged at the actual salary plus the relevant benefit factor; all other costs, including short-term experts, travel and seminars will be charged the actual costs.

V. ANNEX I: PHASE IV – PFTAC SECTORAL RESULTS

A. Public Financial Management

209. In Phase IV, the major objectives of PFTAC's PFM TA and training were to:

- i. Coordinate PIC PEFA assessments so that one was conducted for each PIC during the funding cycle with significant country involvement and ownership;
- ii. Assist PICs in preparing PFM Reform road maps after each PEFA to improve their performance in priority PFM areas with identified weaknesses;
- iii. Assist in modernizing PFM legal frameworks and financial instructions;
- iv. Transform budget preparation to make it more policy focused with a medium-term orientation;
- v. Improve budget execution processes in line with international standards; and
- vi. Improve accounting, recording and reporting in line with international standards

210. A cross-cutting objective involved building relationships with and helping to strengthen other regional capacity building organizations including the Pacific Island Center for Public Administration (PICPA), the Pacific Association of Supreme Audit Institutions (PASAI), the Pacific Island Forum Secretariat (PIFS), and the Secretariat for the Pacific Community (SPC). Examples of work with these organizations are:

- PFM-Climate Change Finance Workshop (with SPC, 2013);
- Deep Sea Mineral Workshops (with SPC, 2014 & 2015);
- Pacific Island Center for Public Administration (PICPA) – cooperative development of sustainable training for budget analysts and procurement officers (2013 - present);
- Joint PFTAC-PASAI workshop for government accountants and auditors in implementing international public sector accounting standards (2013- present); and
- Participation in PIFS-sponsored discussions on coordinated approach by donor partners to achieve better integration by PICs of planning and budgeting (2013-2015).

211. Box 1 provides an overview of country progress on PFM objectives supported by PFTAC during Phase IV. These are discussed in more detail in the sections that follow.

Objectives i & ii: Support for PEFA assessments and the development of PFM Roadmaps

212. During Phase IV, the approach to conducting PEFAs and preparing subsequent PFM Reform Roadmaps was dramatically changed to improve country participation and ownership.

Box 1. Progress Towards PFM Objectives Supported by PFTAC in Phase IV												
Objective: Improved Public Financial Management												
Progress on RBM measurable outcomes	Formal and Self-assessment PEFAAs conducted during the funding cycle		PFM Reform road maps Developed or Revised	Modernized legal frameworks and financial instructions implemented	Budgeting becomes more policy focused with a medium-term orientation ²⁸		Budget execution progresses toward international standards ²⁹		Accounting, recording and reporting improves in line with international standards ³⁰			
	Type and Year of Assessment				Pre-TA Status		2016 Status*		Pre-TA Status			
	Self	Formal ³¹			2016	Status*	2016	Status*	2016	Status*		
Cook Is.	2013	2014-R	³² Dev: 2014-15 FMA changes expected ³⁴ Implementation expected ³⁵ - Dev: 2014 PFM law revised ³⁸ Review expected ⁴⁰ - Rev: 2011 ⁴⁵ Dev: 2013 Dev ⁴⁷ : 2013 Rev: 2013 ⁵¹ Dev: 2012	PFM Laws revised ³³ FMA changes expected ³⁴ Implementation expected ³⁵ - PFM law revised ³⁸ Review expected ⁴⁰ - Minor action ⁴⁶ - No action ⁴⁸ In process ⁵² - - - - Major FI revisions ⁵⁵	2	3	-	-	2	3		
Fiji	2012	2012-R			2	3	-	-	2	3		
PNG	2014	2015-R			-	-	1	2	1	3		
Samoa	2013	2013-R			1	3	2	3	2	2		
Solomon Is.	2012	EC ³⁷ -R			1	2	-	-	-	-		
Tonga	2014	R ³⁹			-	-	-	-	2	2		
Vanuatu	2015	EC ⁴¹ -R			2	2	1	2	-	-		
Kiribati	2016 ⁴³	EC ⁴⁴			-	-	0	2	1	2		
Marshall Is.	2011	2011			-	-	0	1	1	3		
Micronesia	2011	2011			-	-	-	-	-	-		
Nauru	2016 ⁴⁹	ADB ⁵⁰			1	1	-	-	1	2		
Niue		2011			1	2	-	-	-	-		
Palau	2013	-			-	-	-	-	-	-		
Timor-Leste	-	-			-	-	-	-	-	-		
Tokelau	2013 ⁵³	-			-	-	-	-	-	-		
Tuvalu	2015	ADB ⁵⁴ -R			1	3	-	-	-	-		

²⁸ Includes NTR and SOE oversight review²⁹ Includes internal audit and cash management, as well as internal control³⁰ Includes FMIS, asset valuation³¹ "R" denotes that the formal assessment was a repeat, regardless of the prior assessment's sponsor³² Cook Island officials have independently developed a PFM Reform Roadmap.³³ Modifications to Cook Islands Debt Service reserve & DSM provisions made; other PFM law changes in process³⁴ Fiji FMA changes expected to be adopted by Parliament in late 2015³⁵ Recommended changes in several PFM processes have been accepted in PNG by Finance authorities; implementation expected in 2015³⁶ Samoa officials have independently developed a PFM Reform Roadmap.³⁷ The EU conducted a formal assessment in 2012. PFTAC's PFM Advisor was a member of the Oversight Team³⁸ Samoa PFM law revised (Australian support); regulation revisions in process for PFM law and Constituency Development fund³⁹ Last formal assessment for Tonga was conducted in the prior period by AusAid⁴⁰ Recommendation for Tonga to review financial instructions accepted- early stages⁴¹ The EU conducted a formal assessment in 2013.⁴² Preliminary discussions on Roadmap content for Vanuatu started during the 2015 PEFA Self-Assessment, but as of the current writing no formal roadmap document has been produced⁴³ Planned for early in CY2016⁴⁴ Last formal assessment for Kiribati was conducted in the prior period by the European Commission⁴⁵ Kiribati's first PFM Reform Roadmap was developed with EC funding. PFTAC recommended tighter prioritization in 2011⁴⁶ Minor action on recommended debt management policy in Kiribati⁴⁷ PFTAC worked with FSM staff to start roadmap development, but FSM staff turnover delayed completion⁴⁸ No action on FSM law recommended for managing defined contribution pension plans⁴⁹ Planned for early 2016⁵⁰ Last formal assessment for Nauru was conducted in the prior period by the ADB⁵¹ Nauru's first PFM Reform Roadmap was developed with ADB. A 2013 PFTAC mission recommended tighter prioritization⁵² Recommended revision of Nauru's financial instructions in process with Australian-funded advisors⁵³ Partially completed⁵⁴ Conducted by the ADB in 2011⁵⁵ Tuvalu adopted major revisions to its financial instructions based on PFTAC TA

(continued)

*Estimated status of outcomes on **specific milestones** related to PFTAC TA requested during the cycle:

0: No activity	3: Substantial progress
1: Very limited progress	4: RBM measurable outcome
2: Basic progress	largely or fully achieved

Status shown does not mean overall PEFA ratings for the complete outcome category.

Source: PFTAC

213. Except for Kiribati and Nauru⁵⁶, all countries were able to conduct at least one PEFA assessment (self-assessment and/or formal assessment) during the program cycle. The self-assessment in Tuvalu was coordinated with Australia DFAT's quadrennial Assessment of National Systems (ANS). A similar cooperative effort is tentatively scheduled in early CY2016 for Nauru.

214. This led to the formulation of PFM reform roadmaps, except for Tokelau, Palau, and FSM. Seven countries⁵⁷ had their roadmaps endorsed by the Cabinet, an indication of full ownership by the government. The rest have completed drafts that are anticipated to be submitted for government approval. In most of these countries, the staff and key officials have started to appreciate the importance of periodic PEFA assessments and strategic reform planning. As a result, MOFs such as in Cook Islands, Tonga, Solomon Islands, have started mainstreaming PEFA indicators in their corporate planning and monitoring.

Objective iii: Legal framework revision

215. PFTAC assisted the Solomon Islands (which also received significant assistance from Australia advisors), Cook Islands, and Fiji in revising their PFM legislation. An amended PFM Act was approved by the Parliament in Solomon Islands, while a Loan Repayment Act was approved in Cook Islands and more comprehensive revisions to the Cook Islands PFM law are currently being reviewed. Fiji has also submitted to Parliament an amended version of its Financial Management Act. Micronesia requested and was provided TA to prepare draft legislation establishing a supplemental defined contribution pension plan for federal government employees. On financial instructions/regulations, the government of Tuvalu has recently approved an amended version developed with PFTAC assistance. Kiribati requested assistance and received TA to draft modifications to its debt management policy and simple modifications were adopted by Cabinet. Technical Assistance was also provided to Solomon Islands on regulations for their new PFM and Constituency Funds laws.

Objective iv: Transform budget preparation to make it more policy focused with a medium-term orientation

Integration of Planning/Budgeting in a Medium-term Framework

216. Implementation of a medium-term framework for fiscal planning has been a topic emphasized by PFM specialists for several years. While overall take-up in the PFTAC region has been

⁵⁶ While Kiribati and Nauru were the exceptions as of the date of this writing (October, 2015), they are scheduled to conduct PEFA Self-assessments in the first quarter of CY2016.

⁵⁷ Tonga, Cook Islands, Tuvalu (pending), Niue, RMI, PNG, Fiji (pending), Samoa as of August 20, 2015.

slow, progress has been made in some countries to develop a few of the essential building blocks for medium-term budgeting:

- Many are presenting in their budget summary information forecasts of out-year revenues and highly aggregated expenditures, but the out-year expenditure estimates often do not reflect careful consideration of issues at the program level including the effects of past decisions or demographic flows. Training conducted by PFTAC's PFM and Macroeconomics Advisors have emphasized the importance of starting medium-term fiscal planning with basic efforts to (a) examine likely effects of demographics on the effects of delivering basic public services; (b) keep track of out-year cost changes to fully implement policies/projects government has already adopted or approved; (c) maintaining "fiscal space" reserves for asset repair/replacement, inflation, disaster response, and other contingencies beyond their control; and (d) developing and maintaining a disciplined fiscal review process for proposal put before Cabinet.
- Some countries do have Cabinet processes requiring that fiscal notes be prepared for new proposals before adoption, but this discipline is not uniformly enforced, or no systematic method has been developed within Finance Ministries for keeping track of the information and building it into the budget preparation process for subsequent years.
- Some countries are doing a better job of integrating recurrent and development budgets into one budget process, but recurrent and development budgets are still largely separate. To strengthen integration of planning and budgeting, Kiribati reorganized its National Economic and Planning Office (NEPO). Under the old structure staff were divided into separate Budget, Planning, and Aid Management Divisions. Under the new structure, those old divisions were eliminated, and staff were reorganized into teams focused on specific government services- Social Services, Infrastructure, and General Government. So, for instance, in the Social Services team, the Finance Ministry analyst responsible for the Education Department would be the main liaison on all planning, budgeting, and aid management matters relating to the Education Department. This resulted in a more efficient use of staff, and broadened their horizons by giving them a more comprehensive view of Education Department services, policies, and issues.
- The abundance of disconnected planning and budgeting documents⁵⁸ has contributed to the problem of poor integration of country policy plans and budgets. During cycle 4 PFTAC advisors developed templates for some PICS (Kiribati, Nauru, Niue, FSM, and Fiji) to show how policy planning content can be added to budget documents to move toward more budget and planning integration, and greater accountability. The most significant change occurred in Fiji with the addition of more activity level narrative to the main budget document explaining funding changes and issues facing the activity.

⁵⁸ These include National Strategic Development Plans, Ministry Corporate and Annual Plans, Sector Plans, and the Annual Budgets.

Budgeting & Managing Non-Tax Revenues (NTR)

217. The first user of the PFTAC TA on NTR was Samoa during a series of missions in 2013-14. The TA in Samoa was delivered by PFTAC jointly with the DFAT. Samoa has developed an NTR policy framework, and has been rebasing its fees and charges. This resulted in an 18% increase in non-tax revenues in 2013-14. For Vanuatu, a scoping mission and an introductory seminar was conducted in November 2014. Some of its ministries have started submitting proposals to amend existing legislation to revise legislated fees. For Solomon Islands, an introductory seminar and preparatory mission was conducted in April 2014; staff started to compile basic information on existing NTRs. PFTAC also trained the budget analysts of the Ministry of Finance in Fiji on the basic principles of NTR review.

Fiscal Oversight of State-Owned Enterprises

218. During 2015, PFTAC introduced a TA project on improving fiscal oversight of state-owned enterprises (SOEs). The first user of the TA was Samoa, and a mission was completed in September 2015 in time for the establishment of a new Ministry of Public Enterprises (MPE). The MPE adopted the mission's recommendations and implementation plan, including templates which were also presented in a seminar, on how to (i) improve risk assessment and risk management, and (ii) enhance relevance and transparency of the MPE report to Cabinet.

Objective v: Improve budget execution processes in line with international standards

219. Strengthening cash management is part of the TA on budget execution. Cash management TA was provided to PNG, and Kiribati. In PNG, specific assistance was provided to train staff and formulate priority strategies which were adopted by both the Treasury and Finance departments. Discussions among government institutions are ongoing for improving the banking arrangements to enable cash pooling, and additional staff were hired for the Cash Management Unit to improve the timeliness of bank reconciliation, and cash forecasting. TA to Samoa is also scheduled in 2015.

220. On internal audit, PFTAC support was provided to Vanuatu by training the internal audit unit in implementing international auditing standards as well as in using the audit software Teammate. By maximizing the use of the software, the staff were able to organize previous audit reports into a database that could be useful in their annual audit follow-up. In 2015, the staff have been trained on the application of risk-based auditing techniques, and they are expected to use the skills learned in the ongoing payroll audit.

Objective vi: Improve Accounting, Recording, and Reporting in line with international standards

221. Enhancing financial management information systems (FMIS) was also one of the areas supported by PFTAC to improve internal control and quality of reporting on PFM. TA was provided to PNG and Tonga. For Tonga, the initial TA came up with a short- and medium-term strategy and implementation plan based on an assessment of key issues on the existing system. Suggestions⁵⁹ on

⁵⁹ The current software includes modules on bank reconciliation, asset register, and receipts, but these were not activated. Additional data fields on pre-procurement approval and invoice due date, were proposed to improve budget control, and also to prevent arrears.

how to enhance and maximize the use of the current version of the FMIS software were adopted. This strategy will require training and services by the software company and for this, PFTAC assisted in developing the Terms of Reference. TA in PNG resulted in a restructuring of the Department of Finance's IFMS implementation program, a more efficient approach to communications using internet service providers, and an out-sourcing of some IT services. The pace of rolling-out the new IFMS picked up considerably so that as of this writing the number of departments connected to the new IFMS had increased to 25 compared to only the 3 that were connected at the time the PFTAC TA started.⁶⁰

222. PFTAC TA on accounting and reporting was provided to Fiji in gradually implementing international public sector accounting standards (IPSAS) starting with cash and debt reporting. A short-term and medium-term plan was proposed, mentoring was provided, and as a result, Fiji was able to improve the reliability, and transparency of the 2014 financial statements, making them consistent with IPSAS. Nauru was also supported in the government's asset accounting and asset valuation. TA was also provided to Kiribati in improving its Chart of Accounts. Specific TA to improve the Chart of Accounts in Tonga is also planned in 2015 as a follow-up to an earlier PFTAC mission proposal to revise the Chart of Accounts structure that will enable multi-year and multi-dimensional analysis of the budget and actual outcome of each budget entity.

B. Revenue Administration

223. Technical assistance in revenue administration focused on the program objective of promoting broader-based and more efficient revenue systems. To this end, the work undertaken by PFTAC fell into three broad areas: (1) assistance with institutional reforms, including design of revenue policy frameworks and legislation; (2) assistance with strengthening key elements of tax administration; and (3) assistance with modernizing organizational management and accountability processes. The mode of TA delivery during this phase included a mix of bilateral assistance with implementing reforms, and regional training on specific issues in line with the needs of PICs. In some areas, such as tax policy and design of legislation, PFTAC drew on external expertise and HQ-based staff, while the bulk of tax administration technical assistance was provided by the Suva-based long term expert and short term experts. Overall, this business model produced good results with most tax administrations achieving progress in their reform efforts.

Achievements during Phase IV

224. Phase IV has seen major progress in the Tax Policy and Legal area where most PIC tax administrations have good legal frameworks in place. In keeping with the original strategy this allowed PFTAC during the latter part of this phase to change focus towards assisting revenue administrations improve their operational capability primarily through adopting a more strategic approach to compliance and risk management. Adopting this approach, in line with modern tax

⁶⁰ Implementation of PNG's "new" IFMS started roughly eight years ago. For a variety of reasons, by May, 2014, when PFTAC TA started only 3 departments were connected. Twenty-five are now connected and current plans call for roll-out of more during the next year so that by the end of 2016 all national-level departments are expected to be connected.

administration, requires fundamental change in the design of a tax administration with good progress currently being made. Box 2 shows overall progress achieved during Phase IV.

225. A core PFTAC deliverable included assisting PICs to improve their operational capability. This included a focus on improving operational performance and voluntary compliance through the adoption of a risk based compliance improvement strategy. This approach sets out in broad detail how the agency intends to respond to the most significant tax risks. Most countries in the region have invested very little effort in this area whilst some are maturing in both the application and the development of targeted risk treatments. The importance of this issue, and acknowledging that improving compliance is a long term effort, is accepted by tax administrations that have requested and benefited from the PFTAC assistance provided in this area. PFTAC's training plan also supported developing a better understanding of compliance risk management concepts. Additional PFTAC assistance will be needed to further institutionalize this thinking.

226. Although improvements have been made in managing core tax functions much needs to be done in raising the PIC bar to good international practice. Evidence shows that taxpayer registration processes, on time filing, on time payment, taxpayer services and the audit function can be improved. PFTAC's contribution to this important area will continue under Phase V.

227. PFTAC assistance during Phase IV contributed substantial improvements in IT capability across the region resulting in improved tax management processes such as taxpayer registration, processing of returns, assessments, case management, payments processing and risk management. These IT systems, geared towards simplicity, efficiency and equity, have facilitated a reduction in manual processes and a shift towards more value added work including a bigger emphasis on delivering higher levels of taxpayer services. However, there are still a number of smaller revenue administrations in the region which due to limited expertise and budgets have not been able to progress investments in IT. To assist these countries to take their first steps towards enhanced automation PFTAC developed a suite of modules to guide countries in developing an IT strategic plan, business continuity plans and a tender procurement process.

Box 2. Revenue Policy and Administration										
Objective: Broader-based and more efficient revenue systems										
Progress on RBM measurable outcomes	Modern and integrated processes are adopted to verify and maintain taxpayer information & compliance obligations (registration, filing, and payment)		Business systems and processes are based on risk-management principles		Compliance improvement strategies use a mixture of service and enforcement approaches		Good corporate strategies, business planning processes and management information reports are adopted, implemented and updated regularly		The organization is transparent and accountable with adequate dispute resolution processes	
	2010 Baseline Rating	2016 Rating	2010 Baseline Rating	2016 Rating	2010 Baseline Rating	2016 Rating	2010 Baseline Rating	2016 Rating	2010 Baseline Rating	2016 Rating
Cook Is.	1	3	1	2	1	2	0	3	2	3
Fiji	1	3	1	3	1	3	2	3	3	4
Kiribati	1	2	1	2	1	2	1	3	1	1
Marshall Is.	1	2	1	2	1	2	1	3	1	4
Micronesia	1	2	1	2	1	2	1	3	0	3
Nauru	1	3	1	2	1	2	0	2	0	0
Niue	1	1	1	1	1	1	0	0	2	3
Palau	1	1	1	2	1	2	1	3	3	3
PNG	1	2	1	2	1	2	2	3	3	3
Samoa	1	3	1	3	1	3	2	3	4	4
Solomon Is.	1	3	1	2	1	2	2	3	1	4
Timor-Leste	1	1	1	2	1	2	1	3	1	1
Tokelau	1	1	1	2	1	1	0	0	0	0
Tonga	1	3	1	3	1	3	2	3	4	4
Tuvalu	1	3	1	3	1	3	1	3	1	4
Vanuatu	1	3	1	3	1	3	2	3	4	4

0: No Activity; 1: Very limited progress; 2: Basic progress; 3: Substantial progress; 4: RBM measurable outcome largely or fully achieved

Source: PFTAC

228. During Phase IV PFTAC provided support to PICs in the development and refinement of their strategic and business plans. This, in addition, to setting the future strategic outlook resulted in sharpened operations and a focus on core tax functions. Further efforts to raise strategic thinking amongst senior tax administration officials was provided through PFTAC's package "Managing Modern Tax Administration", a comprehensive training module which provided participants with an overview of modern tax administration, contextual awareness of developments in society, organizational structures, risk management, primary processes for tax administration, staff and support processes, planning, performance management and change management. Although good progress has been made in this area PFTAC technical assistance is still required to guide and assist PICs as they mature.

229. Phase IV focused on assisting PICs understand performance management of a revenue administration through measuring and analyzing compliance gaps which provides a good base from

which to develop programs to increase efficiency and taxpayer compliance. Numerous environmental scans were conducted which demonstrated risk areas and actions that could be initiated to improve performance. Revenue administration performance in this area is generally weak with much to be done in introducing measurement tools that can help countries use their own data to address compliance issues by assessing their own performance, comparing performance indicators and analysis gaps. Phase 5 will place heavy emphasis on this area which will assist PICs using data to improve their administrations and to better manage and understand compliance issues.

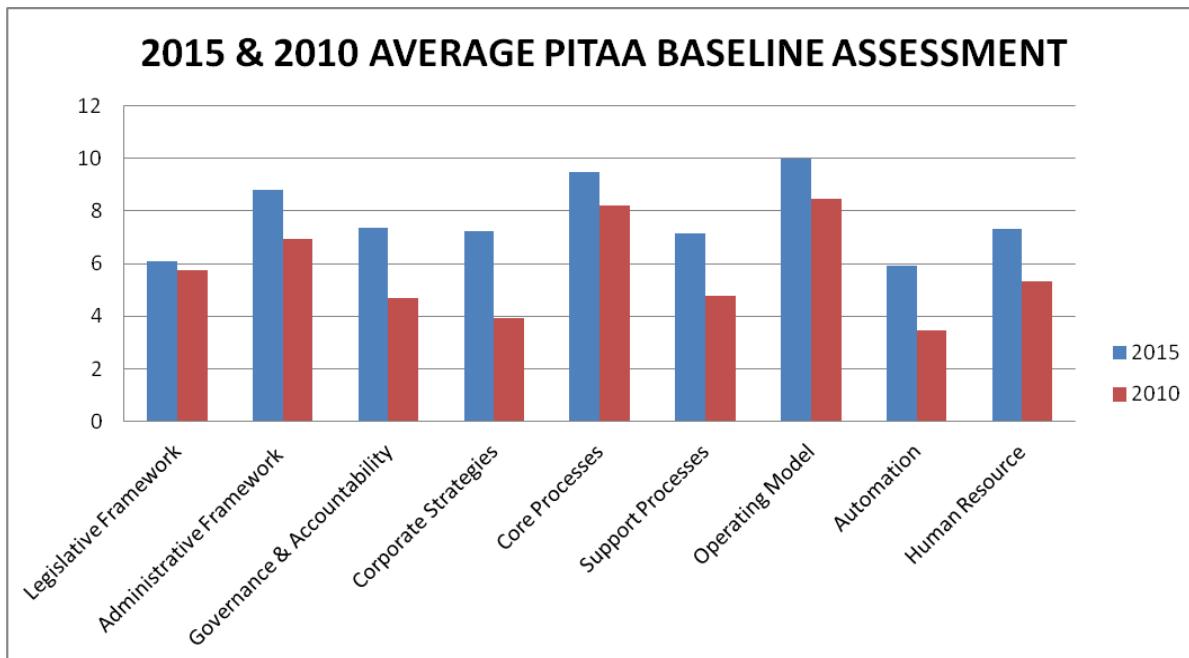
230. PICs have been encouraged to use the IMF's Revenue Administration Fiscal Information Tool (RAFIT) that has been renamed the International Survey on Revenue Administration (ISORA). RA-FIT/ISORA is a data-gathering initiative designed to collect tax and customs information. The data gathered includes both quantitative and qualitative information and encompass a mixture of tax-administration baseline and profile data, inputs, and performance-related data. To date 8 countries have completed round 1 and analysis has been made available. Other countries in the region are being encouraged to submit this data which provides valuable information regarding their own individual performance and comparison to other tax administrations.

231. During Phase IV PFTAC worked closely with a number of development partners in implementing revenue policy and administration reforms in PICs. PFTAC's role entailed providing advice on the essential components of modern tax administration, sequencing and timing of regional reform programs together with focused assistance in key areas. A close working relationship with donor partners who provided funding for revenue advisors through bi-lateral assistance in Kiribati, Nauru, Vanuatu and Tonga and via multi-lateral aid in Samoa ensured that reform plans were aligned to achieve overall modernization objectives.

232. A PFTAC Training Needs Analysis conducted across PICs in 2014 resulted in the identification of key training needs which culminated into a PFTAC/PITAA training program. The main topics identified were (a) dealing with the cash economy; (b) industry tax issues (fishing, extractives and tourism); (c) transfer pricing; (d) information technology (IT); management of tax arrears and human resources. Priority areas for regional support models were identified as: (a) disaster recovery; (b) customer service; (c) and IT strategic planning. In addition to the above, PITAA signaled that a key priority for the future is to strengthen management capability through a two phased approach; (1) providing executives and members of senior management teams with an overview of modern tax administration management; and (2) strengthening management of core tax functions. A number of successful missions, workshops and modules were developed and delivered in support of the above and will be continued in Phase V.

233. The PFTAC Baseline Assessment, a qualitative tool developed by PFTAC in 2010 as a tool for PIC tax administrations to assess the operational capacity of their tax administrations against a regional benchmark for tax administration shows that most tax administrations have made considerable progress. The assessment, based on nine core components of tax administration, is self-assessed and provides stakeholders with an important perspective of how tax administrations view their progress and areas where additional work is needed. The Baseline Assessment model will run concurrently with the IMF's newly developed Tax Administration Diagnostic Assessment Tool

(TADAT), which assesses against international good practice in tax administration. The TADAT, over the next few years will gradually replace the Baseline Assessment. The table below reflects findings from the most recent regional Baseline Assessment carried out in September 2015.



Source: PFTAC

234. One PIC recently underwent a TADAT diagnostic. This tool is designed to provide an objective assessment of the health of key components of a country's system of tax administration measured against international standards of good practice in tax administration. This framework is focused on the nine key performance outcome areas that cover most tax administration functions and processes. A TADAT tool assessment is particularly helpful in identifying the relative strengths and weaknesses in tax administration systems, processes, and institutions. Although it would be premature to expose smaller and less developed PICs to a TADAT assessment PFTAC has highlighted the benefits of aligning the recommended operational improvements and modernization strategies to the TADAT framework. Phase V will reemphasize using this tool as an instrument to improve overall tax administration.

235. PFTAC has continued to support the Pacific Island Tax Administration Association (PITAA) to become a standalone regional tax association. Major progress has been made which includes appointing staff to the secretariat, formalizing the constitution and collecting annual subscriptions from members. This maturing relationship has helped PICs through training programs, conferences and knowledge sharing to develop effective tax administration that promotes sustainable development and good governance.

C. Macroeconomic Analysis

236. The macroeconomics resident advisor position was established in November 2011 and the initial work plan focused on five countries: Fiji, Papua New Guinea, Samoa, Solomon Islands, and Timor-Leste. Other countries were added during FY2012. The initial work plan had five immediate outcomes:

- Enhanced analysis of current macroeconomic conditions (through inflation analysis, output gap measurement, and measurement of fiscal and monetary policy stance);
- Introduction of macroeconomic modeling tools and financial programming frameworks;
- Improved forecasting techniques;
- Regular production of tailored debt sustainability analyses;
- Better understanding of macroeconomic policy options related to natural resource inflows.

237. No technical assistance was provided on the last immediate outcome since FY2014.

Furthermore, in FY2015 the first three outcomes were consolidated and two new RBM measurable outcomes were introduced. During the last two years, activities centered around the following four RMB outcomes:

- Development of integrated macroeconomic monitoring / projection processes;
- Development of multi-year fiscal planning frameworks;
- Ability to assess debt sustainability;
- Incorporation of disaster risks into fiscal planning processes.

238. Progress against these objectives is summarized in Table 1, below.

Table 1: PFTAC Phase 4 Progress (May 2011 to October 2016)													
Progress on RBM measurable outcomes	Macroeconomic Analysis and Forecasting												
	Development of integrated macroeconomic monitoring / projection processes			Development of multi-year fiscal planning frameworks			Ability to assess debt sustainability			Incorporation of disaster risks into the fiscal planning process			
	Baseline Year	Baseline Rating	2016 Rating	Baseline Year	Baseline Rating	2016 Rating	Baseline Year	Baseline Rating	2016 Rating	Baseline Year	Baseline Rating	2016 Rating	
Cook Islands	2015	3	4	2015	2	3-	2015	2	3-	2014	1+	2	
Fiji	2011	2	4	2014	1+	3	2011	1+	3	2014	2	3	
Kiribati	2011	1	-	-	-	-	2011	1	1+	2014	0	1+	
Marshall Islands	-	-	-	-	-	-	-	-	-	2014	0	1	
Micronesia	-	-	-	-	-	-	-	-	-	2014	0	1	
Nauru	-	-	-	-	-	-	-	-	-	2014	0	1	
Niue	-	-	-	-	-	-	-	-	-	2014	0	1	
Palau	-	-	-	0	1	2	-	-	-	2014	0	1	
Papua New Guinea	2011	2	3	2014	1	2	2011	1	2	2014	0	1	
Samoa	2011	2	3+	2014	1+	3-	2011	1+	3-	2014	1+	2	
Solomon Islands	2011	2	3+	2014	1	2	2011	1	2+	2014	1+	2	
Timor-Leste	2011	3	4	-	-	-	-	-	-	2014	0	1	
Tokelau	-	-	-	-	-	-	-	-	-	-	-	-	
Tonga	2012	1	3+	2014	1	3-	2012	1	3-	2014	1+	2	
Tuvalu	-	-	-	-	-	-	-	-	-	2014	0	1	
Vanuatu	2012	2	3+	2014	1	2	2012	1	2	2014	1	2	

0: No activity; 1: very limited progress; 2: Basic progress; 3: substantial progress; 4: RBM measurable objective largely or fully achieved

Source: PFTAC

239. Sound macroeconomic management requires the empirical analysis of economic developments and the main theme and principal objective of the Phase IV program was to assist

members in developing analysis and forecasting tools needed to strengthen fiscal and monetary policy formulation.

240. A quantitative tool that has been widely used at the IMF is financial programming. It provides a consistent macroeconomic and fiscal framework for medium-term projections that captures the main linkages in an economy. It can be used to evaluate macroeconomic performance, identify vulnerabilities, prepare policy scenarios, and evaluate the sustainability of policies.

241. Financial programming (FP) frameworks, similar to those used by IMF staff, were developed for Fiji, Papua New Guinea, Solomon Islands and Vanuatu. Moreover, a regional workshop on financial programming for central bank and ministry of finance staff from all 16 PFTAC members was organized jointly by PFTAC and the STI. However, early experience indicated that the IMF FP frameworks contain a high level of detail that is resource intensive to update and not needed in day-to-day monitoring and projection activities. As a result, technical assistance shifted to developing less complex frameworks that are better tailored to users' needs. At the end of Phase IV, seven PFTAC members had operational macroeconomic and fiscal frameworks, exceeding the Phase IV target of six countries.

242. The approach to developing macroeconomic and fiscal frameworks was tailored to users' needs and differed across countries. For example, in Fiji where public sector capacity is high and macroeconomic data are adequate, several tools were developed including a financial programming framework, a fiscal management model and a dynamic stochastic general equilibrium model. In Cook Islands, TA was provided to integrate and simplify a range of advanced models being used by staff at the Ministry of Finance and Economic Management to reduce resource requirements, while in Samoa and Timor-Leste the focus was on enhancing existing models. In the remainder of the countries simplified frameworks were built around the key macroeconomic data sources and forecasting and monitoring processes at the central bank and ministry of finance.

243. An advantage and main strength of FP frameworks is that they are flexible. As an economy evolves over time, more data become available and staff capacity in empirical modeling expands, the basic framework can be gradually developed further. When constructing a FP framework, it is therefore important for users to be involved in the development process. Involving users in the construction is also important because the FP framework is a simple tool that from time to time needs to be modified and augmented by users to analyze a particular shock or policy scenario and having a good understanding of the linkages and channels in the framework is crucial. As a result, increasing emphasis has been put on developing FP frameworks jointly involving staff from the ministry of finance, central bank and statistics office in practical, hands-on workshop environments. Involving several staff members also helps reduce key person risks and vulnerability to loss of staff. Staff are currently able to update and maintain the frameworks developed but more progress is needed in some countries for staff to be able to modify and adapt them.

244. An essential input into FP frameworks is the forecast of key macroeconomic variables, such as real gross domestic product and inflation. Another major activity area of Phase IV therefore was to develop and improve forecasting models. GDP and / or inflation forecasting methodology was enhanced in all seven PFTAC countries with an operational macroeconomic and fiscal framework. Moreover, procedures were developed and disseminated to construct quarterly output series from

annual national accounts and output gap measures in Fiji, Papua New Guinea, Samoa and Solomon Islands. Work was also undertaken during the first part of the phase to support macroeconomic management of natural resource inflows in Papua New Guinea, Solomon Islands and Timor-Leste.

245. Phase IV illustrated the importance of having timely and accurate macroeconomic data. In Vanuatu the development of a financial programming framework was assisted by the release of a comprehensive set of national accounts by the Vanuatu National Statistics Office, which was supported by PFTAC's statistics advisor. In contrast, in Papua New Guinea progress was slowed in part because staff resources at the Bank of Papua New Guinea and the Department of Treasury are being diverted to the compilation of output measures due to the lack of up-to-date national accounts.

246. Collaboration and sharing of expert knowledge across agencies was found to accelerate the development and implementation of frameworks. Sharing data helps reduce duplication and frees up resources for economic analysis. Having one historical dataset ensures that differences in forecasts by the central bank and ministry of finance arise because of diverging views of how the economy is evolving rather than different historical starting points.

247. The development and operation of macroeconomic and fiscal frameworks and improved forecasting methodologies are important foundations for multi-year fiscal planning, which will be a principal theme of the Phase 5 program. Progress on multi-year fiscal planning and the RBM measurable outcome of incorporating natural disaster risks into fiscal planning processes, which were introduced in FY2015, has been limited. Technical assistance was provided to the Palau Department of Planning, Budget and Statistics on long-term fiscal planning motivated by the expiry of Compact grants in 2023.

248. Progress has also been moderate on producing debt sustainability analysis, which is an important tool for multi-year fiscal planning because it allows evaluating the sustainability of policies. In Kiribati, work was undertaken to assess sustainable levels of drawdowns from the country's Reserve Equalization Reserve Fund. Members with macroeconomic and fiscal frameworks now have the tools for multi-year fiscal planning and debt sustainability analysis but more progress is needed on using them effectively. This will require having ready access to the information and data needed, including on governments' current and future expenditure commitments. Foundations for multi-year fiscal planning will be strengthened in Phase 5 through more joint workshops and TA with PFTAC's PFM Advisors. The joint efforts will aim to quantify macroeconomic constraints on countries' budgets, e.g. arising from past policy decisions or structural change such as changing demographics, and to evaluate the tradeoffs that might be required in the future as new projects or policy proposals come before decision-makers.

249. Training workshops were another priority area during Phase IV and a number of regional events were organized in partnership with other technical assistance providers including the Asian Development Bank, the Bank of England Centre for Central Banking Studies, the IMF Asia and Pacific Department, the IMF Institute for Capacity Development, the STI, the Pacific Islands Forum (PIF) Secretariat, the Pacific Islands Centre for Public Administration (PICPA) of the University of the South Pacific (USP), the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), and the World Bank. Regional workshops were found to promote sharing of experience and

expertise among policy analysts and advisors across the region and will continue to be employed in Phase 5 to deliver capacity-building TA and training.

D. Financial Sector Supervision

250. In Phase IV, the main objectives in the area of financial sector supervision included:

- Reform of bank and non-bank laws and regulations, and the organization of the financial supervision function;
- Strengthened supervisory policies and processes, in the areas of licensing, on-site examination and off-site surveillance;
- Adoption of adequate capital standards and effective risk management practices;
- Closer cooperation and coordination between bank supervisors in information sharing on financial regulation and supervision;
- Implementation of supervisory norms to prevent financial crime;
- Development of financial soundness indicators (FSIs) and the streamlining of reporting systems to facilitate the collection and analysis of financial and prudential data from financial institutions.

251. Progress with strengthening of financial supervision capacity is summarized in Table 1, below.

252. During the first half of Phase IV, PFTAC concentrated its resources developing and implementing a comprehensive set of prudential returns, based on an Excel platform, designed for use by Central Banks. Five countries opted for this program: Cook Islands, Tonga, Solomon Islands, Vanuatu and Palau. The commercial banks from each of those jurisdictions also received training on how to complete the reports and each Supervisor was provided training on how to analyze the data. The program was successful and all five are actively using the data submitted by their banks on a monthly basis to produce reports and analyze trends.

253. In order to complement the prudential returns developed and implemented by PFTAC, the Reserve Bank of New Zealand (RBNZ) offered the five participating countries its Financial Sector Information System (FSIS). However, although a pilot project in the Solomon Islands to adapt the software for use in small jurisdictions was deemed a success, the RBNZ decided to cancel the program based on concerns that it would prove difficult to provide support.

254. By 2014, supervisors in the region had developed at least a basic off-site supervision capacity. At a minimum they receive financial information from the banks, based on a variety of approaches. Annual audited statements are the minimum requirement and more advanced returns are the norm.

Table 1: PFTAC Phase 4 Progress (May 2011 to October 2016)															
Financial Sector Supervision															
Objective: Increased resolution and minimization of the risk factors identified in the financial system															
Progress on RBM measurable outcomes	Development and implementation of prudential returns		Implementation of financial sector information system (FSIS)		Strengthened off-site supervision		Strengthened on-site examination		Development of standardized examination reports		Modernized legal framework		Non-banks, credit unions, and microfinance institutions have strengthened supervisory and operational		
	2011 Baseline	2016 Rating	2011 Baseline	2016 Rating	2011 Baseline	2016 Rating	2011 Baseline	2016 Rating	2011 Baseline	2016 Rating	2011 Baseline	2016 Rating	2011 Baseline	2016 Rating	
Cook Is.	1	4	-	-	1	4	2	4	1	4	4	4	-	-	
Fiji	-	-	-	-	n/a	-	n/a	n/a	-	-	4	4	2	4	
Kiribati	-	-	-	-	-	-	-	-	-	-	1	2	3	4	
Marshall Is.	-	-	-	-	1	3	1	3	1	3	2	3	-	-	
Micronesia	-	-	-	-	1	3	1	3	1	3	2	3	1	4	
Nauru	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Niue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Palau	1	4	-	-	1	4	1	4	1	4	2	4	1	4	
PNG	-	-	-	-	n/a	-	n/a	n/a	-	-	4	4	3	4	
Samoa	-	-	-	-	1	3	2	4	1	4	3	3	1	4	
Solomon Is.	1	4	1	4	1	4	2	3	1	3	3	3	1	4	
Timor-Leste	-	-	-	-	1	3	1	3	1	4	2	2	1	3	
Tokelau	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Tonga	1	4	-	-	1	4	2	4	1	4	3	4	1	4	
Tuvalu	-	-	-	-	0	2	0	1	0	0	1	3	-	-	
Vanuatu	1	4	-	-	1	4	2	3	1	3	3	3	1	4	

0: No activity; 1: Very limited progress; 2: Basic progress; 3: substantial progress; 4: RBM measurable outcome largely or fully achieved; n/a: No PFTAC involvement

Source: PFTAC

255. In 2015, although PFTAC continued to support strengthening of off-site supervision, the focus of CD shifted towards the next step of developing or strengthening on-site bank examination capacity. PFTAC's programs included workshops on examination preparedness approach, which required the supervisors to adequately review the information provided by each bank and use it as part of its on-site examinations. PFTAC further implemented a one-page ratio analysis to be completed for each bank which is used to determine the inherent risk each bank possesses and establishes the priority for on-site examination planning. Throughout Phase IV, PFTAC also staged a number of advanced workshops for jurisdictions that required targeted assistance. This included workshops on consolidated supervision of financial conglomerates, bank board governance, and a number of regional events on the subject of risk based banking supervision.

256. The core of every banking authority is its ability to perform the on-site examination of financial institutions operating under its oversight. After the staging of a number of technical workshops it became apparent that most of the examiners responsible for the examination of financial institutions had never actually worked in one. To address this, PFTAC has developed and begun to implement on-site examination program in the region, supported by a team of STX. Supervisors interested in participating were paired with an expert who provides technical advisory support. The technical support included workshops on on-site examination preparedness, topic related to the examinations, mentorship during the actual examination, and support during the drafting of the final report. Supervisors and examiners are now better prepared when performing the examination of banks, and have applied the principles learned during the examinations.

Participating countries have included: Marshall Islands, Micronesia, Palau, Samoa, Timor-Leste, and Tonga.

257. The purpose of an examination is to evaluate the operation of a Financial Institution and report any causes of concern to the board and management of the institution in question for their remedial action. To facilitate this PFTAC developed a set of examination reporting templates that were implemented during the on-site examination program. The report is divided into distinctive sections enabling the examiner to adequately outline his/her findings and deliver a comprehensive overview of the financial health of the institution coupled with specific remedial actions required in order for the institution to be compliant with legislative requirements and its operational policies and procedures. All the countries participating in the on-site examination program are using this approach.

258. The original program had two additional components: policies and procedures; and financial statements analysis, available for technical assistance. However, during Phase IV no requests were received for technical assistance with those two components.

259. Support to the authorities in drafting and revising banking laws was a corner stone of our activities during the latter part of the Phase IV. This ensured that adequate legislation is in place to support the various banking activities each country is earmarked to perform. The IMF Legal department provided technical support with the drafting of various banking and financial institutions laws in Tonga and Samoa. Additional support was provided by PFTAC with drafting prudential statements and regulations. The non-bank sector also received support with the staging of a number of workshops on drafting a Credit Union Act. Participating countries included: Fiji, Marshall Islands, Micronesia, Palau, Samoa, Solomon Islands, Timor-Leste, Tonga, and Vanuatu. It is anticipated that most will amend current laws or enact a new Credit Union Act with oversight responsibilities assigned to the banking regulators.

260. PFTAC concentrated its non-bank activities within the credit union sector. The legislative technical component was performed by the IMF legal Department with support from PFTAC while the capacity building and the development and deployment of financial reporting templates was performed by PFTAC in cooperation with each country's Supervisor. Credit unions involved in this program are now able to report their financial results in a consistent manner and the regulator further received technical assistance and he is now able to adequately review the information and perform an analyzes of the data provided.

261. PFTAC has supported regional cooperation among supervisors, acting as Secretariat and providing financial assistance with the staging of the annual meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC). This forum provides an opportunity for each jurisdiction to meet and exchange on issues of interest. Workshops are also held during the meeting to address topics of interest to the group. Subjects have ranged from managing a banking supervision department to how to review the performance of bank boards. PFTAC is also involved with the staging of the annual meeting of South Pacific Governors and participates in a number of regional financial sector conferences and associated meetings.

E. Macroeconomic Statistics

262. **Resources available at PFTAC for the provision of TA on economic statistics were doubled during Phase IV with the creation of second advisor position in 2012.** This increase has allowed more frequent technical support to be provided and fostered the development and implementation of best practices resulting in improved statistical capacities for the compilation of economic statistics. The primary focus of the TA has been on national accounts statistics. Limited TA was also provided on price statistics but PFTAC has also funded support for the compilation of government finance and external sector statistics to non-IMF member countries.

263. **During Phase IV, most countries have increased self-reliance for the compilation of economic statistics.** For example, compilers in Kiribati and in the Solomon Islands are now better positioned to compile draft annual gross domestic product (GDP) estimates than they were in 2011. However, even in the more advanced statistical offices, external assistance is often required to resolve specific technical issues and review pre-publication estimates. Capacity supplementation has been provided to countries without the critical mass of sufficient staff members dedicated to the compilation of national accounts statistics. With PFTAC TA, balance of payments estimates for Nauru and the Cook Islands were compiled.

264. **PFTAC TA focused on the following areas of national accounts:**

- Building capabilities and assisting the authorities with capacity supplementation for the compilation of estimates (supporting RBM code 4.5);
- Improving national accounts data sources and methodologies (RBM code 4.5);
- Producing at least two independent measures of GDP to a high standard (RBM objective 4.1);
- Producing quarterly estimates of GDP (RBM code 4.4);
- Improving timeliness and data accessibility (RBM 4.7).

265. **Progress with respect to these objectives is summarized in Table 1, below.**

266. **Statistical capacity was built with on-the-job training delivered during in-country missions, supplemented by formal training courses.** Country-specific missions have represented most of PFTAC's support and have typically been followed up by remote support. In the provision of formal training courses, PFTAC has gradually moved to a sub-regional approach to allow a better focus in small groups of compilers on specific issues faced in countries with similar statistical skills and development needs. Countries in a similar stage of statistical development can better share experiences with each other while receiving formal training on common technical issues. Following past success and ongoing demand, two different sub-regional courses have been conducted for countries from (i) the Northern Pacific countries (Federated States of Micronesia, Palau, and the Republic of the Marshall Islands), (ii) Melanesia (Papua New Guinea, the Solomon Islands, and Vanuatu).

Table 1: PFTAC Phase IV Progress (May 2011 to October 2016)										
Progress on RBM measurable outcomes	Macroeconomic Statistics									
	Objective: More timely and reliable economic statistics									
	At least 8 countries compile at least two independent measures of GDP	Constant price GDP estimates are rebased at least every 10 years	At least 4 countries compile quarterly national accounts	Data sources are adequate and methodologies are sound	National accounts statistics and associated metadata are readily available					
2011 Baseline Rating	2016 Rating	2011 Baseline Rating	2016 Rating	2011 Baseline Rating	2016 Rating	2011 Baseline Rating	2016 Rating	2011 Baseline Rating	2016 Rating	
Cook Is.	0	0	0	3	1	4	3	3	3	4
Fiji	0	4	4	4	0	3	3	3	3	3
Kiribati	0	3	0	0	0	0	3	3	2	3
Marshall Is.	0	0	0	0	0	0	2	2	2	2
Micronesia	0	0	0	0	0	0	2	2	2	2
Nauru	0	0	0	0	0	0	1	2	1	2
Niue	0	0	0	0	0	0	3	3	3	3
Palau	0	4	4	4	0	0	2	2	2	2
PNG	0	3	0	3	0	0	0	3	0	2
Samoa	4	4	4	4	4	4	1	1	2	3
Solomon Is.	2	2	0	3	0	0	3	3	2	2
Timor-Leste	3	4	4	4	0	0	3	3	3	3
Tokelau	0	0	0	0	0	0	1	1	0	0
Tonga	1	1	4	4	0	0	3	3	2	2
Tuvalu	0	0	0	0	0	0	2	2	2	2
Vanuatu	1	3	0	2	1	4	3	3	2	2

O: No activity; 1: Very limited progress; 2: Basic progress; 3: Substantial progress; 4: RBM measurable outcome largely or fully achieved

Source: PFTAC

267. Annual regional training courses have been conducted for the rest of the Pacific Island Countries. Training courses in the Northern Pacific have supplemented TA provided by resident consultants in that region and focused on simplifying data processing and compilation systems. Training courses for Melanesian countries have focused on the incorporation of household income and expenditure survey (HIES) data in the national accounts estimates and on methodologies for rebasing the constant price GDP measures. These training courses have significantly assisted in increasing the conceptual knowledge of compilers.

268. During a series of technical working group meetings, PFTAC has also contributed in assisting with the development of standards for the HIES in close collaboration with the Secretariat of the Pacific Community. Results of the recent HIESs conducted in Nauru, Papua New Guinea, the Solomon Islands and Vanuatu were analyzed during mission work and these will be incorporated in the national accounts during the rebase of GDP estimates in constant prices. These new data sources will enable these countries to rate highly against the milestones and have their constant price national accounts rebased at least every ten years (RBM objective 4.2).

269. A key area of assistance during phase IV has been the improvement of methodologies and data sources in all countries (RBM objective 4.5). This has involved improving the coverage and quality of national accounts statistics. GDP is the key indicator used to measure economic performance and PFTAC has focused on its continuous enhancement by aligning existing

methodologies with best practices and incorporating new data sources. This central aspect of the TA provided by PFTAC recognized by users is not always visible and is often difficult to quantify.

Progress against this RBM objective has been strong but the data quality in a number of countries is still insufficient to reach the last milestone of “good quality accounts produced regularly”. PFTAC has promoted the use of administrative data and particularly tax data where relevant as they provide a comprehensive and cost-effective source of information for the compilation of national accounts estimates.

270. Methodologies for the development of at least two independent measures of GDP have been developed in Fiji and Kiribati (RBM objective 4.1). Limited support was also provided by PFTAC to Palau where external consultants have assisted the Office of Planning and Statistics in improving methodologies and in compiling estimates. The compilation of two independent measures of GDP at current and constant prices enables data confrontation, the identification of inconsistencies and ultimately supports data quality improvements. However, producing additional measures of GDP requires collecting additional source data and increases compilation tasks which significantly increases the workload of compilers. Due to insufficient staff resources allocated to the development of GDP estimates by expenditure in Kiribati, progress has been slow and the ongoing production of these estimates seems to be unsustainable. This reinforces the need to emphasize resource implications to the authorities when additional statistical outputs are developed, particularly in small national statistics offices where the focus should be primarily to produce statistics according to high quality standards.

271. Developing a quarterly measure of GDP is another area of development for countries where data sources enable the compilation of more frequent estimates (RBM objective 4.4). The availability of quarterly GDP estimates enables a better short-term tracking of the state of the economy leading to improved decision making. This has been a particular focus of PFTAC TA in recent years in national statistics offices with sufficient resources and expertise for the collection and processing of high-frequency indicators and source data. Currently the Cook Islands, Samoa and Vanuatu regularly compile quarterly estimates of GDP while Fiji is developing methodologies (expected to be completed in 2016). Progress against this RBM objective should enable the last milestone to be reached in the coming years with at least four Pacific countries compiling these estimates.

272. The dissemination of relevant data and metadata in a timely manner is a key aspect to ensure proper and efficient use of national accounts statistics supporting policy making and providing high quality economic statistics to the community (RBM objective 4.7). Improving timeliness and data accessibility also increases the visibility of statistical offices and ultimately supports requests for additional funding. This strategy was particularly successful in Fiji where resources have increased significantly in recent years. PFTAC has strongly advocated for improvements in data availability and accessibility in the Pacific. Good progress has been achieved in Kiribati and in the Solomon Islands during Phase IV. However, achievements in this area need to be sustained in these two countries and should be improved in other countries such as Nauru where the latest GDP estimates available on the Internet refer to the period 2008-09. The availability of timely statistics on the Internet has become a standard expectation from users.

273. **The development and implementation of strategies for the Pacific has been coordinated amongst TA providers and with statistical agencies within the Ten Year Pacific Statistics Strategy (TYPSS).** PTAC has contributed to the development of the second phase of the TYPSS for 2015-2017 which has been endorsed by the Pacific Statistics Steering Committee. PFTAC has continued coordination within PSSC but progress has been slower than expected as the working group on macroeconomic statistics has yet to be formed. A coordination unit has been set-up to assist with the reporting and liaison as well as to facilitate monitoring progress against the TYPSS phase II objectives.

274. **A major development of Phase IV was the re-engagement with PNG.** In coordination with the Australian Bureau of Statistics, PFTAC has worked with the authorities and focused on the use of administrative data and the incorporation of the 2009-10 HIES data into the national accounts. PFTAC has continued to support the agencies compiling national accounts including the Bank of Papua New Guinea (BPNG) and the Treasury until the NSO resumes regular compilation and publication of reliable national accounts statistics. It is expected that the NSO will compile and publish GDP estimates by 2016.

VI. ANNEX II: PHASE IV – IMF RESPONSE TO PFTAC MID-TERM EVALUATION

Recommendation 1: PFTAC needs to be larger than it was in Phase 4 to be an adequate response to member countries' needs and to operate efficiently.

Response

The Fund is open to an increase in the scope of PFTAC's operations, which could include an increase in the number of resident advisors. For Phase V, the Fund's departments will look at the Center's resource envelope with an open mind in the context of program development. As the report notes, any increase in size would need to be consistent with absorptive capacity in the region and donors' interest in contributing more resources, both of which have shown limits. It would also have to be consistent with the IMF policy on the financing of TA, which anchors the volume of overall IMF and individual departmental TA delivery. The design of any expansion would need to take into consideration the availability of headquarters (HQ) resources (diagnostic and backstopping) in TA departments and the appropriate mix between long-term and short-term experts and other TA delivery modes for a given subject area.

With regard to member country contributions, contrary to what was envisaged in the Phase IV program document, PFTAC members still do not make financial contributions to the Center. As part of the discussion of the mid-term evaluation findings at the March 2015 PFTAC Steering Committee meeting, the members were open to the idea. Member countries in other RTACs cover between 5% and 55% of the Centers' program budgets. IMF is in favor of financial participation by PFTAC members as this would demonstrate and further strengthen ownership and sustainability of the Center.

Updated Response as of March 2016

During the preparation of PFTAC Phase V, and following initial consultations with stakeholders, the IMF considered and proposed an increase in the scope of PFTAC's operations, including by increasing the number of resident advisors in the areas of macro-financial analysis, statistics and revenue administration. The proposal was presented and discussed at the 2016 Steering Committee meeting. Given their budget constraints and in order to reflect a more realistic estimate of the available resources envelope for PFTAC's next phase, donor partners requested a scale-back of the proposed increase in the PFTAC's operations. This request has been accommodated in the Program Document. Potential programmatic expansion scenarios are also presented, should additional resources become available.

Recommendation 2: Donors and the IMF should act vigorously to ensure that the level of Centre activity does not contract sharply during the transition from Phase 4 to Phase 5.

Response

A smooth transition between phases is important and the IMF looks forward to working closely with donors to arrange the financing that will enable this to take place, including through early consultations with stakeholders and a timely production of the Phase V draft program document, which will set out the Center's strategy for the next five years and will be the basis for the

fundraising effort. The IMF has initiated the development of the Phase V program document following the 2015 PFTAC Steering Committee meeting. A first draft will be available in October 2015, and the aim is to finalize the program document by the 2016 Steering Committee meeting.

The endorsed extension of Phase IV through October 2016 will allow full utilization of available resources and provide sufficient time to avoid a disruption of Capacity Development (CD) planning and delivery, particularly as it would fit better with the budget timing of PFTAC's main donors.

The Fund will consider establishing new trust funds such as a Global RTAC Trust Fund, but this would depend on sufficient interest from donors, which has not yet been demonstrated. A trust fund of this kind would take time to establish and would likely not be available in time to support PFTAC's forthcoming transition.

Updated Response as of March 2016

Following the 2015 meeting of the PFTAC Steering Committee (SC), the IMF initiated the preparation of the Program Document for PFTAC Phase V. During the initial consultations with stakeholders, the IMF identified a number of areas for possible expansion of PFTAC's operations, which led to a significant increase in the potential resources needs for Phase V. Prior to developing a full program document, the IMF shared a draft proposal for PFTAC's next phase with the SC, for a discussion at the SC meeting. Following the discussion, and with a clearer understanding of the potential available resource envelope, the IMF prepared a draft program document. The IMF will continue consultations with the SC on the formulation of the CD strategies and priorities, as well as fundraising for Phase V, with the draft program document. In addition, the IMF continues to work with strategic donor partners on establishing global funding arrangements for the RTAC network.

Recommendation 3: While remaining responsive to members' demands for technical assistance and training, PFTAC should accelerate its movement towards a program-based approach to organizing its work.

Response

We agree with the recommendation, and the Fund is already moving in this direction. Clearly articulated objectives and outcomes will be an integral part of the next cycle's work plans, as a result of the implementation of a Fund-wide results-based management (RBM) system in 2015. PFTAC will strengthen the medium-term context for its annual plans in discussion with country authorities and include a number of regional activities that cover multiple countries and are delivered on a regular basis. This should strengthen the sustainability of capacity building efforts. This will take place within the broader context of the Fund's RBM framework.

Asia and Pacific Department's lead role in TA prioritization and TA Departments' overall control of design and delivery of TA are fundamental elements of the RTAC model precisely to achieve the continuity proposed by the recommendation.

We agree that there should be a strengthening of training in Phase V, and that this could be organized as a program. It may be best to develop this within the framework of existing institutions in the region, especially the University of the South Pacific, as establishing a separate training institute would be very costly. PFTAC will explore the feasibility of developing appropriate

foundation training courses with development partners, as well as encouraging increased use of on-line training programs from the IMF and other providers.

Updated Response as of March 2016

During the preparation of Phase V, the IMF used the new catalog of harmonized objectives, outcomes and associated indicators developed by the CD departments. The objectives and outcomes in Phase V will be clearly articulated within the context of the center's sector logframes. In its annual reports, the center will report on the progress made in achieving the set outputs and outcomes for each area of work. (Additional information on progress made toward implementing an RBM system at the Fund can be found in section III. B Measuring how PFTAC achieves its objectives.)

Recommendation 4: Allocate a budget to the IMF Area Department (APD) for a “core program” of multi-disciplinary and thematic work led by the Coordinator.

Response

We agree with the evaluators that multi-disciplinary issues need to be addressed in an appropriate manner. To this end, the IMF will pursue further collaboration among PFTAC resident advisors and HQ departments. Furthermore, with the appointment of macro-economic program resident advisor in February 2015 that is supervised by the PFTAC Coordinator with backstopping provided by Asia and Pacific Department (APD) Small States Unit, PFTAC's multi-disciplinary approach is being strengthened.

Experiences in other RTACs suggest that inter-disciplinary approach can be effectively strengthened by leveraging the macro-economic program advisor in a strategic way. The design of the macro-economic program, including the extent of the usage of short-term experts (STXs), under the new PFTAC cycle will be further discussed with member countries and donors in the context of the new PFTAC program document, taking evaluators' recommendations into consideration where appropriate. Please note that the approval of STX missions is almost automatic, if the activity is already in PFTAC's work plan. Under the APD-managed macro-economic program, for example, full authority has been given to the PFTAC Coordinator for STX missions, subject to reporting to APD.

Updated Response as of March 2016

In Phase V, the proposed PFTAC program will have a significantly more cross-sectoral approach in some key areas, notably in promoting macroeconomic resilience and fiscal sustainability. In addition, APD proposes to further expand the macro-economic program initiated in Phase IV, if there is sufficient additional funding available.

Recommendation 5: Clarify and strengthen the role of the Steering Committee.

Response

The IMF is fully committed to strengthening its cooperation with the member countries and the donors represented on the Steering Committee (SC), and it recognizes that the strategic role of the

SC should be more consistently exercised. The SC is crucial in ensuring that PFTAC work plans reflect the needs of member countries, are well coordinated with TA provided by donors and other TA providers, and well integrated with the TA, surveillance and lending activities of IMF headquarters. Consensus-based decision making by the SC has proven successful across RTACs in the past. The IMF welcomes the report's desire to ensure that the role of the SC is clear and note that many of the proposed strengthening actions are already in place: the SC endorses program documents, including reviewing early drafts, endorses the work program and discusses (and on occasion votes) on new members and financial contributions.

The IMF will engage in extensive consultations with the SC members during the preparation of the Phase V program document, to seek their guidance on the formulation of CD strategies and priorities for the Center in the next phase.

Updated Response as of March 2016

The IMF proposed creation of a subcommittee of the PFTAC SC to examine how to strengthen the role of the SC within the broader framework of the RTAC model as approved by the IMF Executive Board. A document addressing SC governance issues and member funding of PFTAC was distributed to members and discussed at the 2016 SC meeting. Decisions were made on SC membership, voting, and member funding. Additional consultation will be needed to enhance member input to the work program.

Recommendation 6: PFTAC should make a strong effort to implement results-based management in the remainder of Phase 4 and in Phase 5.

Response

Strengthened RBM will be a central element of the next phase. The RBM that will be adopted will be an integral part of the system about to be implemented across the IMF. It will use a standardized catalog of objectives, outcomes and indicators and will take advantage of a new IT system for reporting and project management.

The catalog is expected to define specific results that IMF TA seeks to help countries achieve. These may be more specific than the “self-reliant capabilities” proposed by the evaluators. The Fund will consult with donors on the parameters of the new system during 2015 and will use this new system in the formulation of PFTAC programs under Phase V.

Updated Response as of March 2016

Please see section III. B Measuring how PFTAC achieves its objectives.

Recommendation 7: PFTAC should pay more attention to inclusiveness and sustainability.

Response

Inclusiveness and sustainability are key to economic growth in the Pacific and form a central part of the surveillance advice of the Asia and Pacific Department. As such they very much inform the

strategic planning of PFTAC's TA programs. PFTAC will try to work further in this direction; however, it is important to be realistic about the scope of doing so in the context of TA delivery, as these are primarily policy issues outside PFTAC's remit.

Updated Response as of March 2016

Please see Box 1 on pg. 25 for more information.

Recommendation 8: PFTAC should improve its corporate memory and knowledge management.

Response

The Fund is at present devoting increased attention to knowledge management—a senior inter-departmental working group recently completed its work and the recommendations will soon be implemented. Improving knowledge management in RTACs will similarly be important and the measures proposed by the evaluators will help in this regard, subject to resource constraints.

Updated Response as of March 2016

Strengthened RBM will help to improve PFTAC's knowledge management. The recommendations of the senior interdepartmental working group are expected to be implemented during Phase V. PFTAC will also work on creating a secure website, particularly for sharing of the TA reports according to the TA dissemination policy.

Recommendation 9: Donors should consolidate their aid to technical assistance in the Pacific in the IMF core areas as much as possible under the PFTAC umbrella. The requirements for collective impact should be considered carefully.

Response

PFTAC will continue to coordinate its TA and training with that of other TA providers in the region. However, from an administrative and financial point view, PFTAC does not have the capacity to take over responsibility for consolidating all TA in the Pacific under its umbrella.

Updated Response as of March 2016

As described in sections I.C and III.D, PFTAC will continue to coordinate its TA and training with that of other TA providers in the region. Main partners in CD are also noted in the sector log frames.

Implementation Plan

Action	Timeline	Status as of March 2016
Recommendation 1 & 5		
The IMF will consult the SC members and seek their guidance on the formulation of CD strategies and priorities for PFTAC Phase V.	FY 2016	Ongoing - for more information please see response to recommendation # 1 and 2

Action	Timeline	Status as of March 2016
<p>The IMF will propose a creation of a subcommittee(s) of the PFTAC SC to:</p> <ul style="list-style-type: none"> • discuss and agree on voluntary contributions by member countries to the Center in Phase V; • examine how to strengthen the role of the SC within the broader framework of the RTAC model as approved by the IMF Executive Board. 	July/August 2015	The subcommittee was created and their report presented at the February 2016 Steering Committee meeting.
Recommendation 2		
The IMF will initiate fundraising for Phase V with the draft program document.	Fall 2015	Ongoing - for more information please see response to recommendation # 2
The IMF will continue to work with strategic donors to establish global funding arrangements for the RTAC network.	FY 2016 Phase V	
Recommendation 3 & 6		
The IMF will implement a Fund-wide RBM framework, with a standardized catalog of objectives, outcomes and indicators. PFTAC will use the new system in the formulation of programs under Phase V.	Phase V	Ongoing - for more information please see response to recommendation # 6
Subject to resource constraints, PFTAC will consider recruiting a senior administrative assistant/RBM advisor to assist with the implementation of the new RBM framework and external communications.	Phase V	The additional position has not been included in the baseline or the aspirational baseline budget scenarios, but should additional resources become available, PFTAC will consider recruiting at least one additional local staff.

Action	Timeline	Status as of March 2016
Recommendation 4		
The IMF will discuss with the SC members the design of the macro-economic program to further strengthen the multi-disciplinary work of PFTAC in Phase V.	FY 2016	Ongoing – The IMF will continue consultations with the SC on the formulation of the CD strategies and priorities with the draft program document.
Recommendation 7		
PFTAC will continue to incorporate climate change and inclusiveness issues into its TA programs, where possible.	Phase V	Please see Box 1 on pg. 25 for more information.
Recommendation 8		
The IMF will implement the recommendations of a senior inter-departmental working group on knowledge management.	Phase V	To be implemented in Phase V.
PFTAC will work with the IMF departments to streamline its reporting.	Phase V	
PFTAC will continue to make TA reports more accessible as per the IMF TA dissemination policy.	Phase V	