

PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE



PROGRAM DOCUMENT

FOR PHASE VI
(May 2023–April 2028)
April 2022



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Cook Islands



Fiji



Kiribati



Marshall Islands



Federated States of Micronesia



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Palau



Papua New Guinea



Samoa



Solomon Islands



Timor-Leste



Tokelau



Tonga



Tuvalu



Vanuatu



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ACRONYMS AND ABBREVIATIONS

ABP	Annual Borrowing Plan	FCS	Fragile and Conflict Affected States
ADB	Asian Development Bank	FMIS	Financial Management Information System
AFSPC	Association of Financial Sector Supervisors of Pacific Island Countries	FPAS	Forecasting and Policy Analysis System
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism	FSM	Federated States of Micronesia
APD	IMF Asia Pacific Department	FSS	Financial Sector Supervision
BCG	Budgetary central government	FTE	Full-time Equivalent
BOP	Balance of Payments	FY	Fiscal Year
CBR	Correspondent Banking Relationship	GDP	Gross Domestic Product
CC	Climate Change	GFS	Government Finance Statistics
CCPA	IMF/World Bank Climate Change Policy Assessment	GFSM	Government Finance Statistics Manual 2014
CD	Capacity Development	GG	General Government
CDD	IMF Capacity Development Department	HDI	Human Development Index
CDMAP	Capacity Development Management and Administration System	HQ	IMF Headquarters
CG	Central government	ICD	IMF Institute for Capacity Development
CoA	Charts of accounts	IMF	International Monetary Fund
CPI	Consumer Price Index	IPSAS	International Public Sector Accounting Standards
D4D	Data for Decision Trust Fund	JSA	Japan Selected Account
DM	Debt Management	LEG	IMF Legal Department
DSGE	Dynamic stochastic general equilibrium	LTX	Long-Term Expert
ESS	External Sector Statistics	MAP	Macroeconomic Analysis and Programming
EU	European Union	MCM	IMF Monetary and Capital Markets
FAD	IMF Fiscal Affairs Department	MOU	Memorandum of Understanding
		MTE	Mid-term external

MTDS	Medium-Term Debt Management Strategy	QNA	Quarterly National Accounts
MTFF	Medium-Term Fiscal Framework	RBM	Results-Based Management
MTRS	Medium Term Revenue Strategies	RBS	Risk Based Supervision
NCD	Non-Communicable Disease	RCDC	Regional Capacity Development Center
NPL	Non-Performing Loan	RMI	Republic of Marshall Islands
NSO	National Statistics Office	RSN	Regional Strategy Note
OCO	Oceania Customs Organization	RSS	Real Sector Statistics
OECD	Organisation for Economic Cooperation and Development	RTAC	Regional Technical Assistance Center
PACER	Pacific Agreement on Closer Economic Relations	SC	Steering Committee
PDF	Pacific Disability Forum	SDG	Sustainable Development Goals
PEFA	Public Expenditure and Financial Accountability	SIDS	Small Island Developing States
PIFS	Pacific Islands Forum Secretariat	SFA	Selected Fund Activities
PFM	Public Financial Management	SOE	State Owned Enterprise
PFTAC	Pacific Financial Technical Assistance Center	SPC	Secretariat of the Pacific Community
PIC	Pacific Island Country	STA	IMF Statistics Department
PIM	Public Investment Management	STI	IMF-Singapore Training Institute
PIMA	Public Investment Management Assessment	STX	Short-Term Expert
PITAA	Pacific Islands Tax Administrators Association	TA	Technical Assistance
PNG	Papua New Guinea	TADAT	Tax Administration Diagnostic Assessment Tool
PSDS	Public Sector Debt Statistics	UNDP	United Nations Development Programme
		USP	University of the South Pacific
		VAT	Value Added Tax
		VWG	Virtual Working Group

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SECTION I

EXECUTIVE
SUMMARY

EXECUTIVE SUMMARY

This document outlines the Pacific Financial Technical Assistance Center (PFTAC) key achievements during Phase V fiscal year (FY) 2017-23 and a strategy for Phase VI (May 2023–April 2028). Based on an assessment of Phase V, the size and economic characteristics of the membership, and challenges expected over the next five years, the Center will moderately scale up its capacity development (CD) activities, especially to fragile and conflict affected states (FCS), and will cover expanded areas, including government finance statistics (GFS)/public sector debt statistics (PSDS) program, a new third Public Financial Management (PFM) long-term expert (LTX) focused on climate change issues, and a new program and LTX for Macroeconomic Frameworks backstopped by the International Monetary Fund (IMF) Institute for Capacity Development (ICD). Phase VI will assist governments to address the implications of COVID-19, promote inclusive economic and social development, including through improved opportunities for women, and support the implementation of climate policies. The strategy calls for an increase in resources from 7 LTXs at the end of Phase V to 10 LTXs, and a budget of USD 43.5 million in Phase VI, approximately on par with Phase V costs, but for a period of 60-month versus 78 months in Phase V (23 percent more CD activity than a 60-month period in Phase V).

ACHIEVEMENTS DURING PHASE V

CD delivery by PFTAC measured in volume, budget outturn, and full-time equivalent (FTE) terms in Phase V was on a rising trend through FY 2019 until COVID-19. In Phases I–IV, an average of 77 missions/activities were delivered annually, growing above 100 in late Phase IV to a Phase V annual average of 136 missions, peaking at 153 in FY 2019, the last full year before the pandemic. On average, eight missions were delivered annually to each of the 16 member countries and 18 mostly regional training events, but given disparities between countries, the average number of missions delivered annually ranged from just one for tiny Tokelau to 16 for Fiji. This is observed by three broad groupings of member countries in terms of CD received from PFTAC. More intensive users included both larger economies and those with greater capacity, including **Fiji, Samoa, Tonga, Cook Islands, Solomon Islands, and Papua New Guinea (PNG)** each accounting for 8–11 percent of total PFTAC delivery; a group of mostly smaller economies (**Vanuatu, Kiribati, Palau, Republic of Marshall Islands (RMI), and Tuvalu**) using 4–6 percent of resources each, and micro-states using 2–3 percent of resources each (**Nauru, Federated States of Micronesia (FSM), and Niue**), 1 percent by **Timor-Leste** and a tiny share by **Tokelau**. For some countries, CD demand and utilization

changes over time, with more inputs sought to support specific reforms that may diminish as changes take effect.

In both mission and FTE terms, the average share of CD delivery to the seven fragile PFTAC states **FSM, Kiribati, PNG, RMI, Solomon Islands, Timor-Leste, and Tuvalu**) was 34 percent over Phase V, declining in FY 2021 due to COVID-19 induced challenges for some FCS to adapt to remote CD engagement.

CD delivered by PFTAC over Phase V has significantly contributed towards three key objectives: (1) strengthening macro-financial resilience to natural disasters and economic shocks; (2) promoting macro-financial sustainability; and (3) facilitating inclusive economic growth. Resiliency is vital to the region with natural disasters increasing in terms of regularity and ferocity, further amplified by the COVID-19 pandemic. PFTAC's contribution and impact was reflected in the mid-term external (MTE) evaluation, as well as two reviews by the IMF Fiscal Affairs Department (FAD) of PFM and Revenue reforms and the PFTAC contribution over the preceding decade.

Generally, member countries have been committed to, and achieved good progress towards their reform milestones, and many successfully attained their reform objectives. Results Based Management (RBM) procedures in place throughout

Phase V have tracked 894 milestones that were progressively identified through mid-FY 2022, of which around 19 percent did not yet achieve traction, some being quite recently identified, or for other reasons such as the impact from COVID-19. Participants in PFTAC workshops have consistently rated the quality of the training as very high.

MACROECONOMIC DEVELOPMENT, AND PRIORITIES AND OBJECTIVES FOR PHASE VI

The macroeconomic context driving Phase VI CD priorities will be characterized by rebuilding buffers and addressing the aftermath of the pandemic, while continuing to strengthen resilience to disasters and climate change and respond to other exogenous shocks. Medium-term frameworks and strategies supported by CD will help ensure the institutional capacity and legal frameworks are implemented to address the fiscal, debt, balance of payments (BOP), and growth challenges arising from the pandemic and other shocks. PFTAC's clients are the financial and economic institutions of the member countries, but the beneficiaries of PFTAC support are the citizens who ultimately benefit from macroeconomic stability and inclusive growth.

Phase VI will include a continuation of Phase V objectives building on or completing ongoing projects, in addition to emerging priorities particularly around climate change, public investment, debt management (DM), and medium-term macroeconomic models, all within an overarching post-COVID-19 recovery context. More specially:

In the area of macroeconomic frameworks, planning, and forecasting:

- *Macroeconomic Analysis and Planning (MAP)* objectives during Phase VI are to ensure that all member countries are able to advance their macro-fiscal capacity

as well as to respond to broader macroeconomic modelling and analysis requests. This macro-fiscal capacity progression will need to be tailored to individual country circumstances, with some countries requiring support for the construction of basic forward estimates and an appropriate economic outlook, and others for the application of more advanced techniques and modelling approaches.

- *Macroeconomic frameworks (new).* The ongoing pandemic and associated economic shocks to Pacific Island Countries (PICs), many also FCS, have accentuated the need to bolster macroeconomic frameworks, forecasting, and analytical capabilities. The main role of the prospective ICD-backstopped Macroeconomic Frameworks advisor will be to assist PICs to develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications at central banks, ministries of finance, and relevant government agencies, in close coordination with the existing the IMF Asia Pacific Department (APD) backstopped Macroeconomic advisor. Emphasis will be to assist country officials in strengthening their macroeconomic forecasting and analytical capacity; supporting the development of analytical tools to improve macroeconomic and macro-fiscal forecasting ability, credibility, and policy analysis; and helping identify and mitigate macroeconomic risks. Depending on country needs and capacity, the macroeconomic-frameworks TA projects may range from building Excel-based, sectoral-relationship frameworks with supporting economic projection equations, to building semi-structural gap models or even Dynamic stochastic general equilibrium (DSGE) models of national economies. Near-term

forecasting/nowcasting and/or debt dynamics tools will also be included in these macroeconomic frameworks.

In the area of financial sector supervision (FSS):

- Though the PICs have made significant strides, they are yet to catch up with the international regulatory standards and supervisory practices that have been significantly enhanced drawing on lessons from banking crisis episodes and rapid financial sector advances. International banking standards have expanded beyond capital to encompass liquidity and large exposure standards that are critical to ensuring survival of financial institutions under stress. Macro-prudential supervision has expanded regulatory capital to include various types of capital buffers that can be drawn down during periods of stress and includes identifying domestic systemically important financial institutions needing stronger supervision. Basel III standards on leverage and interest rate risk in the banking book further enhance the rigor of the regulatory framework. All standards for the measurement of risk weighted assets have also been comprehensively revised. While Basel international standards were developed for advanced/larger economies, they provide scope for proportional implementation in smaller jurisdictions, with discretion for national circumstances and optional approaches for risk and capital measurement.
- In this rapidly evolving world, COVID-19 shocks have interrupted reforms, with the distance to the target having increased in many developing countries. In this context, the Fund urges that reforms set in train are not halted, or worse, rolled back. Completion of current thematic projects launched by PFTAC will lay the necessary foundation for the PICs to take their financial

sector regulation to the next level. PFTAC stands ready to assist the PICs in achieving this objective. The Steering Committee (SC) identified the following regional priorities: (1) monitoring of systemic risks; (2) preparation/review of supervision manuals; (3) non-performing loan (NPL) resolution; (4) financial stability reports; (5) supervisory stress testing of financial institutions; (6) bank resolution; (7) Basel III liquidity standards; (8) off-site supervision; (9) early intervention in weak banks; and (10) development of prudential and risk management standards for non-banking credit institutions. TA for specific countries will depend on individual country priorities, such that projects deemed 'High Priority' take first priority, and ongoing projects completed first before Phase VI. PFTAC will assist the PICs in adopting international standards with suitable simplifications based on proportionality, without compromising rigor.

In the area of fiscal policy and implementation:

- *Public financial management.*
Support under Phase VI will continue to be framed by the member country PFM needs, aligned with other development partners. Support will be provided to strengthen budget credibility and transparency through credible medium-term fiscal and budgetary frameworks; effective fiscal oversight; building effective budget execution practices and controls; and strengthening local capacity in risk-based auditing practices. As well, improved fiscal reporting, including the adoption of international public sector accounting standards (IPSAS) cash standards and timely audit of annual financial statements will continue to be supported. Other priorities include strengthening cash and DM, improved asset management frameworks, and improved public

investment using public investment management assessment (PIMA) diagnostics. PFTAC will continue its support to sequencing and prioritizing PFM reforms, through coherent roadmaps reflecting the findings of the public expenditure and financial accountability (PEFA) diagnostics, and work closely with partners in coordinating reforms and CD. PEFA assessment support will continue albeit at a more appropriate frequency.

Climate change will receive dedicated support to implement the PFM green framework, PIMA and PEFA Climate Change assessments, and CD activities to better understand the impact on PFM policies. Gender related PFM activities, including Gender Budgeting, will be supported where there is explicit demand by member countries and as opportunities arise. CD in this area will be tailored to take account of country specificities including existing budgeting practices and reform priorities. Regional CD activities will continue to bring practitioners together to both learn and share experiences.

- *Revenue policy and administration.*
The considerably expanded Phase V program will continue to provide support to member countries on tax policy, tax legislation, and tax administration to meet country demands for revenue mobilization and to recover from COVID-19 and meet future challenges such as climate change and gender inequality. Assistance will aim at: (a) getting tax administration foundations like accurate taxpayer registers right; (b) designing and implementing Medium Term Revenue Strategies (MTRS); (c) supporting tax administration efforts for sufficient staff to fulfill their mandate; (d) ensuring robust and fair revenue systems to overcome the pandemic impact,

maximize revenue collections, and counter trade revenue losses due to Pacific Agreement on Closer Economic Relations (PACER) Plus; (e) dealing with challenges presented by international tax issues; (f) providing stronger IT support and dealing with digitization; (g) improving risk management and data analysis; (h) continuing improvements to core tax functions; (i) further improving organizational structures; (j) assisting with emerging areas such as extractive industries and more attention to small and medium enterprises; (k) continuing training workshops delivered jointly with the Pacific Islands Tax Administrators Association (PITAA); (l) cooperating and collaborating with other development partner programs; (m) developing the capacity (and possibly the regulatory framework) to participate more fully in Exchange of Information protocols; and (n) being responsive to specific country needs with due consideration of the demand on the time of executives and other staff.

In the area of macroeconomic statistics:

- *Government Finance Statistics.*
Given the strong demand in the region for GFS and PSDS, the IMF Statistics Department (STA) will reestablish a GFS LTX in the region that was discontinued in 2021. The LTX will support the efforts of PICs to improve their coverage and timeliness of fiscal and debt statistics to facilitate informed policy analysis and decisions. To address the rising concerns about debt sustainability among Pacific Islands, the new GFS LTX will pay particular attention to debt sustainability and debt issues – improving sectoral and instrument coverage of debt data – and closely coordinate with the Government of Japan financed debt management advisor.

- *Real sector statistics (RSS)*. The availability of quality macroeconomic statistics is key to effective policy decisions. Building on initiatives to improve the accuracy, periodicity, and timeliness of key data, the RSS work program would focus on: (i) implementing quarterly national accounts (QNA) programs in additional countries, and addressing emerging demands for high frequency indicators of economic activity; (ii) enhancing compilation programs in price statistics, including to better measure services; and (iii) supporting the maintenance of RSS compilation programs to mitigate risks of slippages, including by providing continuous training and supporting source data improvements. Further, the scope for developing climate indicators of physical risk will be examined as these become more critical in assessing the impact of climate-driven shocks and to support policy responses in FCS.

Work in national accounts and price statistics will continue to reflect the limited absorptive capacity of several national statistical offices, with priorities and modes of delivery evidencing a clearer distinction between microstates (many also FCS) requiring capacity supplementation and those that have the potential to leverage CD to improve their compilation systems. In the case of capacity supplementation, more intensified engagements to ensure regular data availability will be facilitated by greater Short-Term

Expert (STX) use – with the LTX providing essential links to Fund surveillance needs; and also focusing on those microstates that have the resources to sustain improvements. The RSS program will also seek opportunities to take a regional approach to capacity supplementation, including the use of common tools, methods, and where possible data sources.

In the area of public debt management:

- *Debt Management*. Maintaining sustainable debt levels and ensuring good DM practices will be important for the region's development given that the COVID-19 pandemic, and ensuing fiscal measures, have brought many governments closer to debt distress. The new PFTAC public debt management program is focused on CD to support country efforts in effective DM, consistent with maintaining sustainable debt levels. Countries should focus on building debt transparency with particular attention to debt reporting and debt statistics, strengthening legal frameworks and institutional arrangements to support strong DM, and implementing medium-term DM strategies for effective management of cost and risk. These improvements support the development of domestic debt markets for much-needed resource mobilization.

PHASE VI RISKS AND MITIGATION

The region faces several long-standing and more recent interconnected risks to economic

growth and governance. The scarring from the COVID-19 pandemic may take years to overcome but will underpin recovery efforts and areas of CD focus and Fund policy engagement in the near term. Pre-existing vulnerabilities that were exposed and exacerbated by the crisis will require focused policy attention and the resources and capacity to address them, particularly given the set back to aspirations of greater inclusive growth and progress towards the Sustainable Development Goals (SDGs). Sound medium term macro-economic frameworks and policies along with the necessary resources and support to strengthen capacity will be crucial to reverse recent trends of rising inequality, poverty and unemployment. The potentially existential impact of climate change had weighed heavily on the region before the onset of the pandemic, and has been an area of expanding PFTAC support that will accelerate in Phase VI, including with the addition of a specialist resident PFM advisor. Rising debt levels for some PICs and the need for fiscal consolidation will further challenge the large financing needs for climate change adaptation and heightens the importance of robust PFM to improve access to climate financing. Comprising mostly small island developing states (SIDS), almost half FCS, the Pacific faces further unique challenges and risks that require innovative and bespoke approaches that have been the hallmark of PFTAC over its existence that will further benefit from the IMF's new *FCS Strategy*.

SECTION II

ACHIEVEMENTS
DURING PHASE V

A

CAPACITY DEVELOPMENT
ACTIVITIES

CD delivery by PFTAC measured in volume, budget outturn, and FTE terms in Phase V was on a rising trend through FY 2019 until COVID-19 (Figure 1).¹ In Phases I – IV, an average of 77 missions/activities were delivered annually, growing above 100 in late Phase IV to a Phase V annual average of 136 missions, peaking at 153 in FY 2019, the last full year before the pandemic.

On average, eight missions were delivered annually to each of the 16 member countries and 18 mostly regional training events. Reflecting country size and demand for CD, institutional arrangements, and absorptive capacity, the average number of missions delivered annually ranged from just one for tiny Tokelau to 16 for Fiji.

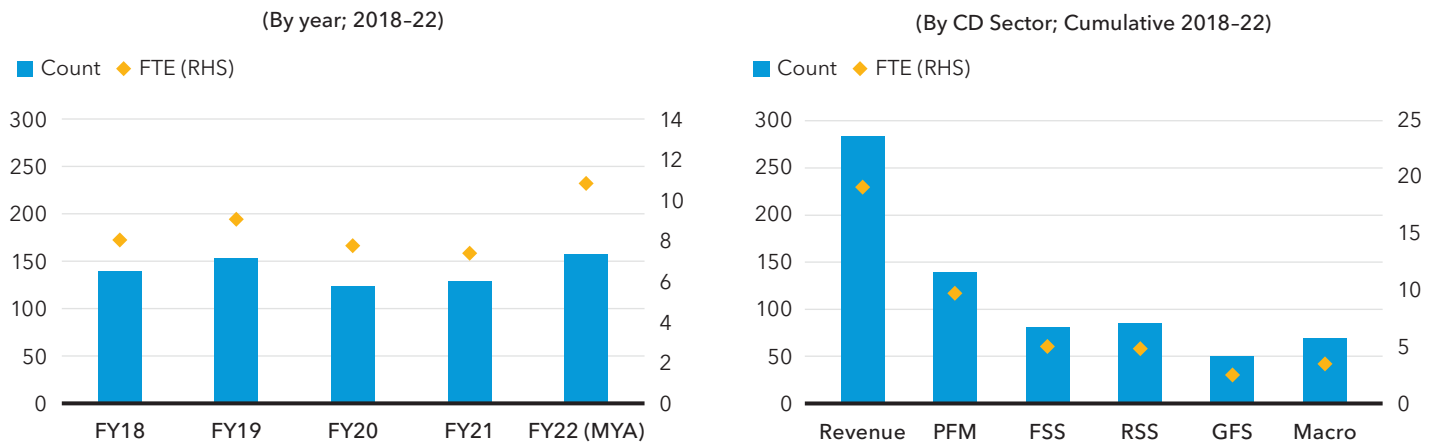
Country distribution of CD activities in Phase V can be broadly grouped into three categories of intensive, engaged, and moderate users. This generally reflects the level of institutional development and size, with generally larger economies (in order of usage: **Fiji, Samoa, Tonga, Cook Islands, Solomon Islands, and PNG**) each accounting for 8–11 percent of total PFTAC delivery; a group of mostly smaller economies (**Vanuatu, Kiribati, Palau, RMI, and Tuvalu**) using 4–6 percent of resources each, and micro-states using 2–3 percent of resources each (**Nauru, FSM, and Niue**), 1 percent by **Timor-Leste** and a tiny share by **Tokelau**. For some countries, CD demand and utilization changes over time, with intensified inputs sought to support specific reforms that may diminish as the changes take effect.

The historic share of fiscal CD of about half of the PFTAC program grew to an average of 65 percent for Phase V (Revenue 43 percent, PFM 22 percent), peaking at 68 percent in FY 2021. This growth came from a substantial scaling-up of the Revenue program from FY 2018 given unmet demand for CD and additional donor financing. Over Phase V, the average share of PFTAC activities of the other programs was: (1) Statistics – 17 percent, RSS – 11 percent, and GFS – 6 percent; (2) Financial Sector Supervision (FSS) – 12 percent; and (3) MAP – 8 percent.

In both mission and FTE terms, the average share of CD delivery to the seven fragile PFTAC states (**FSM, Kiribati, PNG, RMI, Solomon Islands, Timor-Leste, and Tuvalu**) was 34 percent over Phase V, declining in FY 2021 due to COVID-19 induced challenges for some FCS to adapt to remote CD engagement.

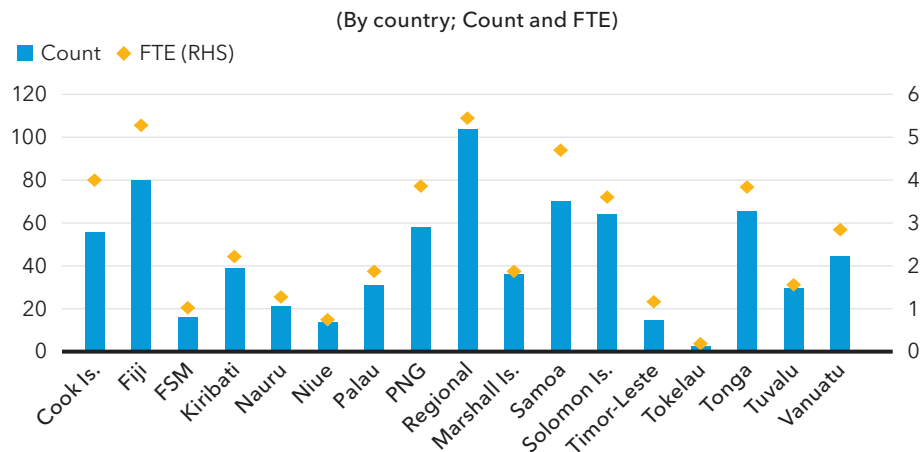
¹ Phase V began on November 1, 2016 at the mid-point of FY 2017 and was due to conclude at end-FY 2022 (April 2022) but was extended through FY 2023.

FIGURE 1. CD DELIVERY IN PHASE V



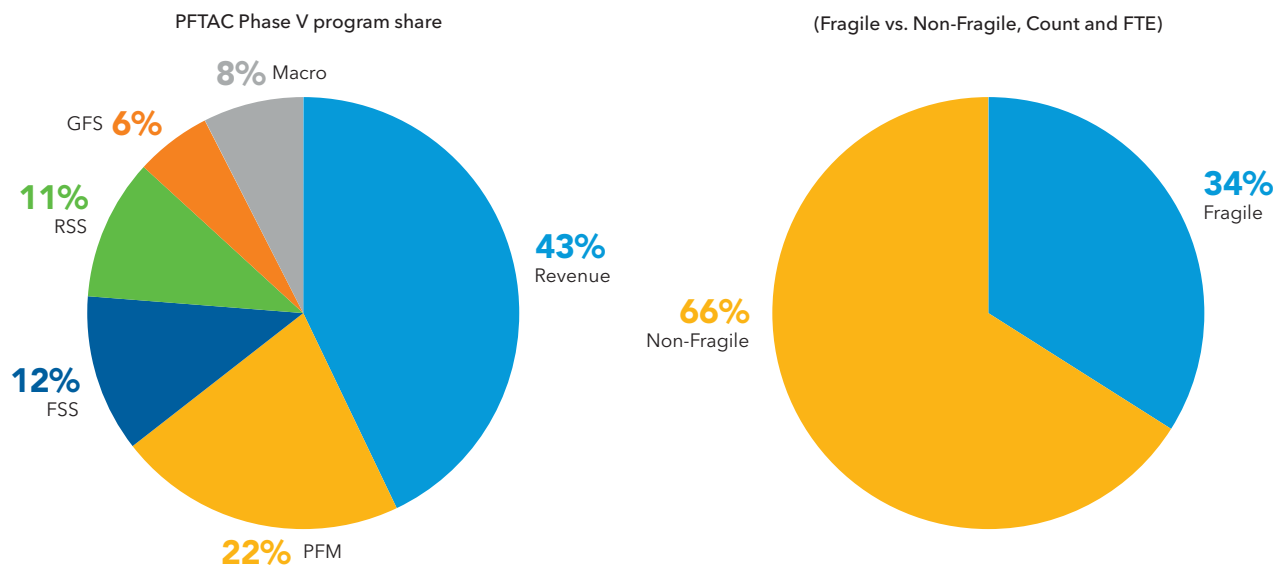
Source: PFTAC.

FIGURE 2. GEOGRAPHICAL DISTRIBUTION OF CD ACTIVITIES (CUMULATIVE FY 2018-22)



Source: PFTAC.

FIGURE 3. DISTRIBUTION BY PROGRAM AND FRAGILITY (CUMULATIVE FY 2018-22)



Source: PFTAC.

BOX 1. PFTAC RESPONSE TO COVID-19

Since early 2020, the Pacific has faced the most disruptive economic and social challenges possibly ever experienced by the region from the COVID-19 pandemic and a variety of natural disasters from high-intensity cyclones, seismic events including earthquakes, volcanic eruptions, and tsunamis, and from the extreme of drought to floods and coastal inundation. It has been a period like no other, of hardship, adaptability, resilience, and new learned ways of working remotely. Pacific nations have faced many challenges, with several battling COVID-19 outbreaks, closed borders, halted tourism, and great disruption to key economic sectors, together with additional health and social support costs in the midst of shrinking revenues and in some instances growing levels of debt

Pacific nations and citizens are extremely resilient, with a history of dealing with natural disasters that appear increasing in frequency and ferocity given the impact of climate change. Economic stability and a return to inclusive growth depends on containment of the COVID-19 pandemic within the PFTAC member countries, across the region, and globally. A key characteristic has been the adaptability that the 16 PFTAC member countries have demonstrated over the past two years, and similarly how PFTAC has successfully pivoted to respond to the changing needs and priorities of the membership and adjust to remote delivery modalities. A significant program of training and technical assistance (TA) was delivered remotely over this period.

For PFTAC, the greatest impact was a shift to remote delivery of Capacity Delivery programs as well as the need to work from home or place of

relocation, other than for a period of resumed PFTAC office operations from November 2020 until early April 2021 that is expected to resume by March 2022 once COVID-19 infections subside. An impressive volume of CD was delivered against plans, but with substantial budget savings given the absence of travel and in-person training events. A significant proportion of CD missions and training events pivoted to urgent topics and issues to help member countries react and respond to new COVID-19 realities. Most countries adapted well to the changed circumstances, including a few that received more CD than originally planned, while some members faced connectivity challenges and preferred deferring activities until a resumption of travel. Innovative approaches were trialed, including hybrid events for in-person participation in Suva and other locations using campus and network facilities of the University of the South Pacific (USP).

Within a few months of the crisis taking hold, an analysis of the PFTAC workplans was undertaken to classify the COVID-19 responsiveness of planned activities to ensure that priority was accorded to the most critical issues and new needs identified by the member countries. All activities were classified under four broad categories: (1) Not COVID-19 related; (2) Indirectly COVID-19 related – while the objective of the TA was unrelated to responding to the COVID-19 crisis, indirect benefits to the response are expected to result; (3) Moderately COVID-19 related – while the original objective of the TA was unrelated, the impact and benefits are more directly related to responding to the crisis;

and (4) Predominantly COVID-19 related – possibly in direct response to a request from the authorities, or existing work that was already strongly correlated to the crisis response or is after some recalibration. In FY 2021, nearly half of activities were classified as predominantly or moderately COVID-19 related and another third indirectly related, noting the importance of maintaining momentum on longer-term issues that may have been rated unrelated like some aspects of FSS.

Examples of predominantly COVID-19 related topics (classification 4) include revenue business continuity and compliance improvement responses, webinars on addressing COVID-19 issues, PFM reform roadmaps, cash management, public investment management (PIM), and QNA. Examples of moderately COVID-19 related topics (classification 3) include tax policy reviews, tax reform implementation, strengthened large taxpayer administration, improved tax arrears and filing, strengthened internal audit (particularly COVID-19 expenditures), improved GFS data, Gross Domestic Product-Expenditure GDP(E) compilation, medium-term macroeconomic forecasting, and managing cyber risks. Examples of Indirectly COVID-19 related topics (classification 2) include strengthening taxpayer services, IT strategies, strategic planning, organizational reforms, tax audit training, diagnostic assessments (PEFA, and Tax Administration Diagnostic Assessment Tool (TADAT)), strengthening budget documentation, ongoing financial supervision reforms, GDP rebasing, National Accounts training, and inflation forecasting.

KEY RESULTS BY WORKSTREAM

OVERVIEW

CD delivered by PFTAC over Phase V has significantly contributed towards three key objectives: (1) strengthening macro-financial resilience to natural disasters and economic shocks; (2) promoting macro-financial sustainability; and (3) facilitating inclusive economic growth. Resiliency is vital to the region with natural disasters increasing in terms of regularity and ferocity, further amplified by the COVID-19 pandemic. PFTAC's contribution and impact was reflected in MTE evaluation, as well as two FAD reviews of PFM and Revenue reforms and the PFTAC contribution over the preceding decade. While PFTAC has regularly and accurately reported the inputs utilized and outputs generated (e.g., budget, expert time, numbers of missions, and officials trained), results are the most important measure of impact and progress. RBM instituted at the start of Phase V has tracked 894 milestones that were progressively identified through mid-FY 2022, of which around 19 percent did not yet achieve traction, some being quite recently identified, or for other reasons like excessive optimism in log frame and milestone formulation, or where progress did not advance such as from the impact of COVID-19 that is clearly reflected in the

share of fully achieved milestones in FY 2021 and FY 2022 during the height of the pandemic.

Against a challenging backdrop, PFTAC assisted member countries to generate positive results across all its intervention areas in Phase V, including:

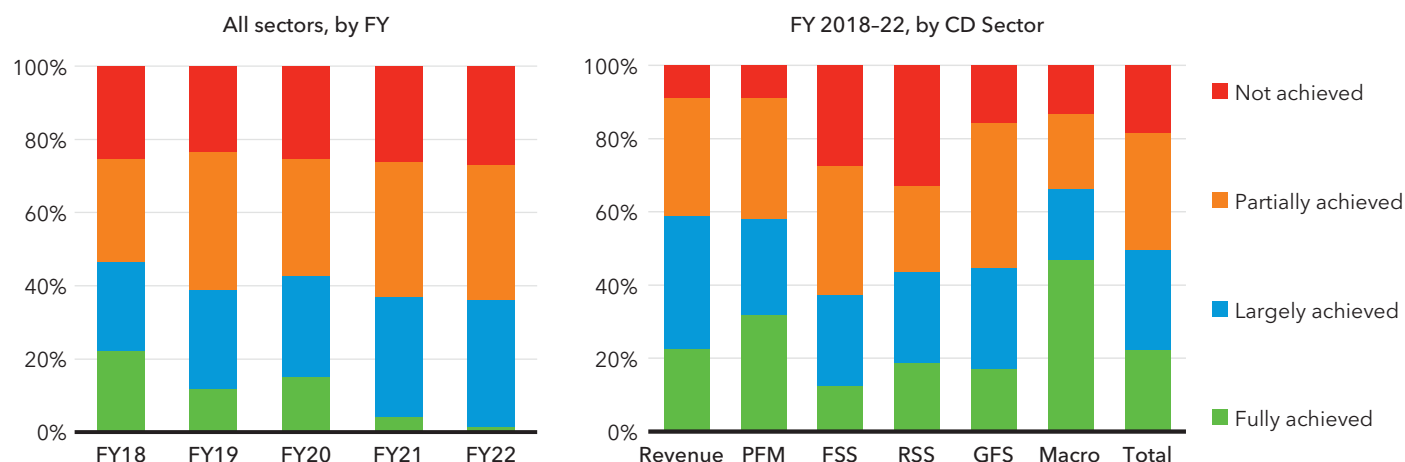
- Assisted member countries with **incremental improvements in their PFM systems and institutions** as measured by PEFA assessments, and more recent sub-assessments relating to the responsiveness of national PFM systems to gender and climate change issues.
- **Increased focus and support on climate change PFM issues** through bilateral CD to member countries and strong engagement and leadership at the regional level.
- **Strengthened revenue mobilization efforts** across the Pacific were observed through trending collection improvements from measures to improve taxpayer compliance and tax administration effectiveness, complemented where appropriate by CD and reforms of tax policy and tax legislation.

- **Financial sector advances** included the adoption of risk based supervision (RBS), regulatory risk frameworks, insurance sector reforms in select countries, and recent focus on cyber security associated risks and mitigation.
- **Increased timeliness and quality of statistical outputs**, including introduction of QNA in several countries and increased reporting of GFS.
- **Capacity and tools developed to improve analytical skills** and medium-term modeling and forecasting capability to enable evidence-based advice to policy makers.

FINANCIAL SECTOR SUPERVISION

A systematic approach was adopted in Phase V to strengthen financial sector regulation and supervision in the PICs. Following diagnostic missions early in the phase, most PICs launched various thematic FSS projects with a few countries beginning later in FY 2021, and others to follow. These activities seek to align financial sector regulation and supervision in the PICs with international standards.

FIGURE 4. RATINGS OF MILESTONES DURING FY 2018-22



Source: PFTAC.

PFTAC has concurrently launched and supported CD programs across four core themes to strengthen all major segments of the financial sector by:

(1) implementing RBS, and upgrading other supervisory processes; (2) developing and strengthening banking regulations in line with international standards; (3) developing and strengthening regulation and supervision of insurance companies; and (4) developing and strengthening cyber security regulations and supervision.

In terms of completed work with intended outcomes broadly accomplished: (1) RBS including introduction of prudential and risk management standards was initiated in 10 countries (**Cook Islands, Fiji, FSM, Marshall Islands, Palau, Samoa, Solomon Islands, Tuvalu, PNG, and Vanuatu**).

The on-site and off-site supervisory frameworks are at an advanced stage of completion in five countries (**Cook Islands, Fiji, Solomon Islands, PNG, and Vanuatu**), with most PICs expected to have these frameworks in place by end-FY 2023. Two countries (**Cook Islands and Samoa**) have completed revisions to regulatory and risk management frameworks during Phase V and work is underway in seven other countries (**Fiji, FSM, Marshall Islands, Palau, PNG, Solomon Islands,**

and Tonga) with reviews expected to be completed in most countries by end-FY 2023. A relatively new insurance project involves the review/development of legislative frameworks for regulation and supervision of insurance companies and development of prudential and risk management standards – nearing completion in the first three countries (**Fiji, Samoa, and Tonga**), and expected to extend in FY 2023 to several more with significant insurance sectors. Finally, a more recent project on cyber security regulation and supervision has been launched in four countries (**Fiji, Samoa, Tonga, and PNG**).

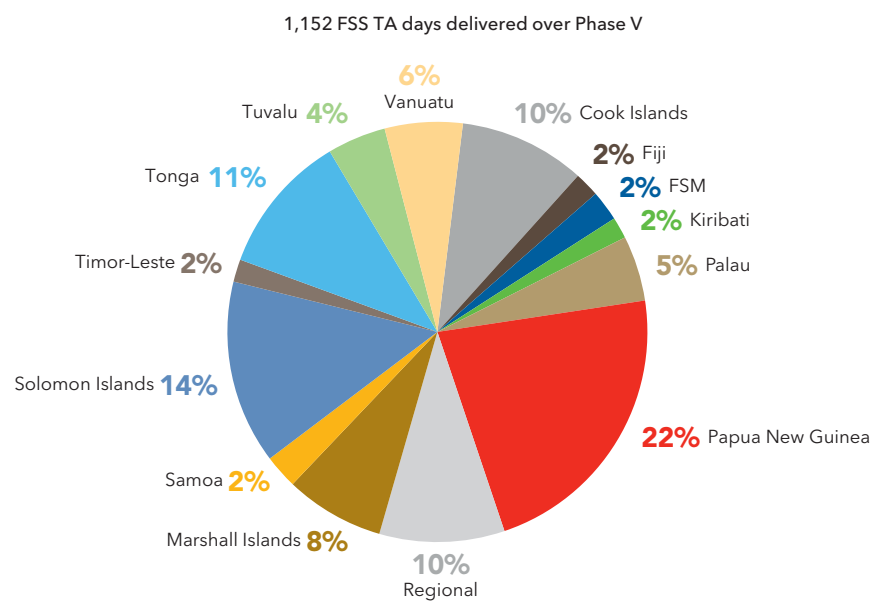
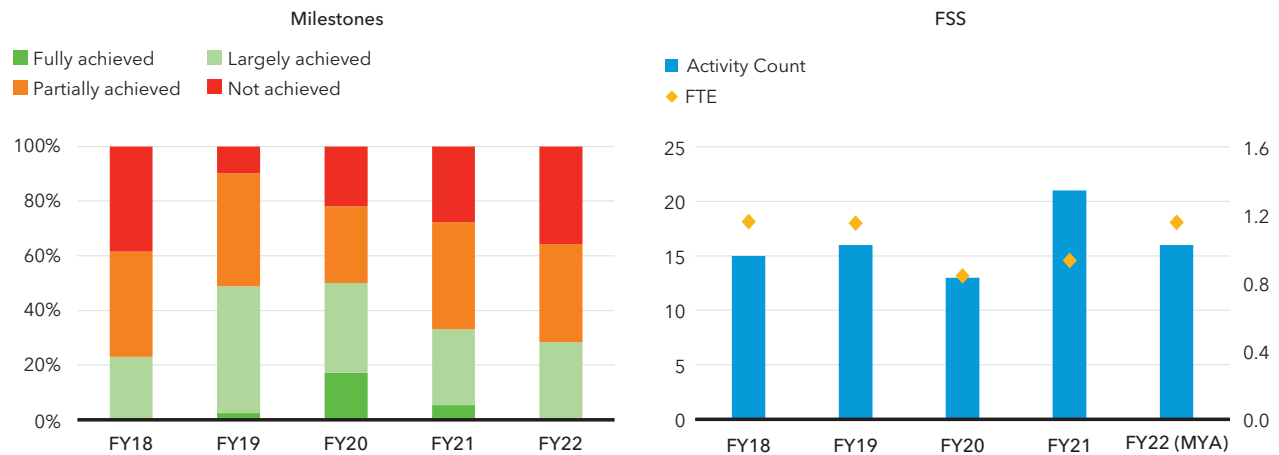
PUBLIC FINANCIAL MANAGEMENT

Many Phase V activities are longer-term efforts rather than one-off projects. Specifically, strengthening financial reporting through the implementation of cash based International Public Sector Standards (IPSAS) has seen meaningful improvements in several countries including **Nauru, Samoa, Solomon Islands, and Tonga**. Progress has been made with further alignment of countries' charts of accounts (CoA) with the *Government Finance Statistics Manual 2014 (GFSM 2014)* (**Cook Islands and Tonga**), and greater recognition of governments'

balance sheets strengthening identification, valuation, and recording of non-financial assets (**Solomon Islands and Vanuatu**).

For many years PFTAC has been the leader on PEFA assessments in the region in benchmarking country PFM practices, with an average of two assessments being led by PFTAC annually. This work has paved the way for formulating reform roadmaps which are both sequenced and prioritized appropriately, cognizant of national conditions and constraints. Climate change is of increasing importance with PFTAC piloting the PEFA Climate Change module in **Samoa**, a major milestone; work in this space will ramp up in coming years. PIMAs were completed in **Kiribati and Timor Leste** and further support in this area is anticipated, including a focus on the new PIMA climate module. Completed and ongoing projects have supported implementing modern PFM legislative frameworks (**Fiji, Niue, Timor Leste, and Tonga**); strengthening internal audit capacity using risk-based auditing practices (**Cook Islands, Fiji, Samoa, Tonga, and Vanuatu**); and strengthening cash management and budgetary control practices, amongst others.

FIGURE 5. FINANCIAL SUPERVISION AND REGULATION PERFORMANCE INDICATORS



Resource Utilization by Country (percent of Actual Program Delivery)							
	FY18	FY19	FY20	FY21	FY22	FY18-FY22	Trend
CKI	22%	5%	9%	6%	6%	10%	
FJI	0%	4%	0%	6%	0%	2%	
FSM	0%	0%	15%	0%	0%	2%	
KIR	6%	0%	0%	1%	0%	2%	
NRU	0%	0%	0%	0%	0%	0%	
NIU	0%	0%	0%	0%	0%	0%	
PLW	0%	4%	0%	12%	9%	5%	
PNG	24%	22%	36%	31%	4%	22%	
RMI	7%	4%	6%	17%	5%	8%	
WSM	0%	8%	0%	5%	0%	3%	
SLB	7%	13%	15%	9%	26%	14%	
TLS	0%	8%	0%	0%	0%	2%	
TOK	0%	0%	0%	0%	0%	0%	
TON	0%	8%	0%	9%	34%	11%	
TUV	1%	9%	2%	0%	9%	5%	
VAN	18%	0%	12%	0%	0%	6%	
REGIONAL	13%	16%	5%	4%	7%	10%	

Source: PFTAC.

BOX 2. PFM INNOVATIONS AND PRIORITIES IN THE PACIFIC

CLIMATE CHANGE AND PUBLIC FINANCIAL MANAGEMENT

Climate has taken on greater prominence in most PFTAC workstreams in recent years but none more so than in PFM. PICs have been elevating their management of environmental risks and disaster responses and building resilience into infrastructure planning. During Phase V, PFTAC increasingly mainstreamed elements of climate responsiveness of PFM systems and processes into CD activities. PFTAC led the pilot of the (globally) first PEFA Climate Module assessment in Samoa. This heralded the importance of climate considerations throughout the PFM cycle, with further PEFA climate assessments planned for FY 2023 and envisaged for Phase VI which will build upon this further and aided by the addition of a specialist climate PFM advisor.

In addition to the PEFA climate module, the IMF has developed a climate module for the PIMA which will be adopted strategically according to the needs of the PICs. The IMF has also developed a framework for implementing Green PFM which looks to mainstream climate considerations into the budget process while insisting on the need for an approach combining various entry points within the budget cycle.

The joint IMF/World Bank Climate Change Policy Assessment (CCPA) reviews countries' broader policies in the context of tackling climate issues, and assessments have been

undertaken in Tonga and FSM, and more recently, the IMF's successor to the CCPA, the new Climate Macroeconomic Assessment Program was completed in Samoa.

PFTAC has been working closely with the Pacific Island Forum Secretariat (PIFS) in co-chairing the technical working group on climate change and PFM issues. Direct access to climate funds has been challenging (to varying degrees) for PICs. FAD and APD developed a paper on [Unlocking Access to Climate Finance for Pacific Island Countries \(imf.org\)](https://www.imf.org/publications/workingpapers/2021/01/01/unlocking-access-to-climate-finance-for-pacific-island-countries). This paper looks at the barriers to accreditation and whilst strengthening PFM systems and processes are fundamental prerequisites, they alone cannot guarantee accreditation and access to climate financing. PFTAC will continue to assist countries in strengthening PFM practices, which will take on a progressively increased climate lens.

IMPORTANCE OF BETTER MANAGEMENT OF FISHERIES REVENUES

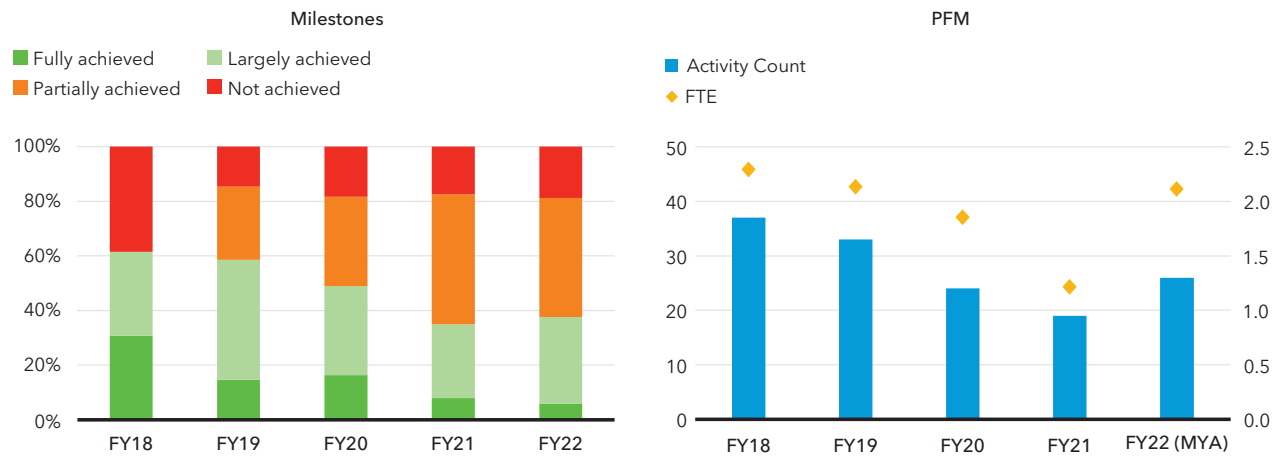
The advent of the Parties to the Nauru Agreement (PNA) signed in 1982 along with the Pacific Islands Forum Fisheries Agency founded in 1979 have seen the importance and macro-criticality of fishing revenues increase significantly for several PICs. These two institutions have gone a long way to protecting members' fisheries resources, ensuring equitable remuneration for fish taken, and maximizing economic returns. This has changed the revenue profiles

of member countries immeasurably, to the extent that fisheries revenues represent a major proportion of many PIC's total revenue collections, up to 65 percent of total revenues for Kiribati. In the Solomon Islands the tuna cannery is the largest single sector employer.

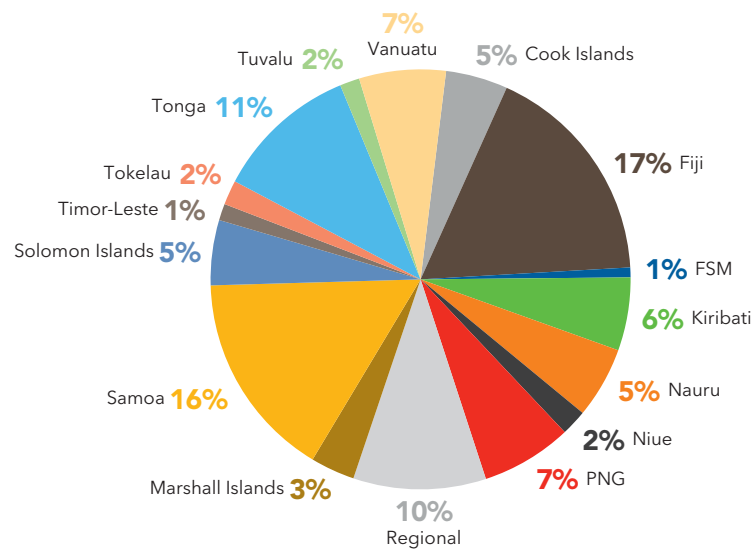
Being able to forecast these revenues reliably is important to PICs, and this is an area in which PFTAC has been assisting with workshops during Phase V and will continue to provide support. On many occasions, revenues have exceeded budget forecasts. The challenge has been in having the ability to respond strategically to "windfall" levels of revenues and ensuring effective allocation and utilization of these excess funds, in well planned supplementary budgets, with only the best projects accepted assuring appropriate value added to the economy.

There is interest amongst the countries to leverage the potential from the fisheries sector through further vertical integration within the value chain. This includes operating countries' own fishing fleets and direct selling of catches rather than the current focus (largely) on licensing foreign vessels to operate. It is believed that this will open up new or expand existing revenue streams. However, such operations are not without risk. PFTAC along with other partners and stakeholders will provide advice and guidance on good practice for economic appraisals, to assist countries' decision making in this regard.

FIGURE 6. PUBLIC FINANCIAL MANAGEMENT PERFORMANCE INDICATORS



2,113 PFM TA days delivered over Phase V



Resource Utilization by Country (percent of Actual Program Delivery)							
	FY18	FY19	FY20	FY21	FY22	FY18-FY22	Trend
CKI	0%	3%	4%	20%	4%	5%	
FJI	18%	18%	26%	4%	16%	17%	
FSM	0%	0%	0%	0%	3%	1%	
KIR	12%	8%	1%	0%	3%	6%	
NRU	3%	3%	2%	0%	17%	5%	
NIU	0%	0%	4%	4%	3%	2%	
PLW	0%	0%	0%	0%	0%	0%	
PNG	8%	6%	15%	4%	3%	7%	
RMI	1%	0%	0%	4%	12%	3%	
WSM	7%	26%	13%	33%	7%	16%	
SLB	13%	3%	4%	2%	0%	5%	
TLS	1%	1%	0%	2%	3%	1%	
TOK	4%	2%	0%	0%	2%	2%	
TON	1%	7%	19%	21%	13%	11%	
TUV	0%	0%	1%	0%	6%	2%	
VAN	16%	9%	5%	0%	0%	7%	
REGIONAL	15%	14%	5%	7%	8%	10%	

Source: PFTAC.

PFTAC has also started to incorporate gender considerations into its PFM CD delivery—specifically, undertaking assessments of the PFM gender responsiveness module of the PEFA framework in **Nauru** and **Tonga**. During Phase V, PFTAC has also been engaged in workshops and consultations with the Pacific Disability Forum (PDF) to ensure PFM systems are not only responsive to gender considerations but also towards persons with disabilities. Moving forward, the PFM program aims to mainstream climate and gender considerations into its CD delivery in the context of the recently developed strategies of how the IMF plans to contribute to these macroeconomically critical topics.

REVENUE ADMINISTRATION

In response to significant unmet demand and additional donor support, the Revenue program scaled-up from FY 2018 to become the largest PFTAC program in delivery and budget terms. This responded to the high priority agenda of most PICs to enhance revenue mobilization generally, and more specifically for several PICs, to offset longer-term losses of trade tax revenues under the PACER Plus regional trade agreement. A second resident advisor position was created in late 2021 and will be retained in Phase VI.

The Revenue Program has helped tax administrations develop strategic and operational plans (**Cook Islands, Tonga, Tuvalu, Palau** and an Information and Communication Technology strategy in **Samoa**) and access increased for government support and financing in **Cook Islands and Solomon Islands**. Organizational improvements including the introduction of functional structures and taxpayer segmentation models have allowed staff to focus more effectively across tax types to secure the most significant sources of revenue (**Cook Islands, Fiji, Nauru,**

PNG, Samoa, Solomon Islands, and Tonga). The Revenue program also funded several tax policy missions delivered by FAD including in **Fiji, Nauru, Palau, Samoa, and Tonga**. There was also close integration between the tax policy and legislative CD activities supported by the FAD and LEG.

Taxpayer compliance has been enhanced through compliance improvement strategies, industry partnerships, and risk management strategies. PFTAC has supported tax administrations in developing business continuity plans to maintain essential operations and revenue collections during disruptions and disasters, with recent focus on responding to COVID-19 challenges.

Improvements to core tax functions such as taxpayer services, taxpayer audit, management of arrears and return filing saw revenues across PICs gradually rise to an average of 20 percent of GDP by 2019, with some countries (**Tonga, Samoa and Cook Islands** with high tourism dependence) able to maintain reasonable revenues notwithstanding the impact of COVID-19. PFTAC assisted with: (1) more effective taxpayer services and communications through interactive training and implementation of taxpayer services strategies and improvement plans; (2) strengthened tax auditor capacity through targeted and tailored training specific to country needs, with new audit strategies and measures to leverage point-of-sales data; and (3) new approaches to tax arrears and return filing management introduced with training that recognizes and responds to taxpayer behavioral patterns.

PFTAC is providing substantial on-going support for a comprehensive tax reform program in **Palau** with the passage of the Tax Reform

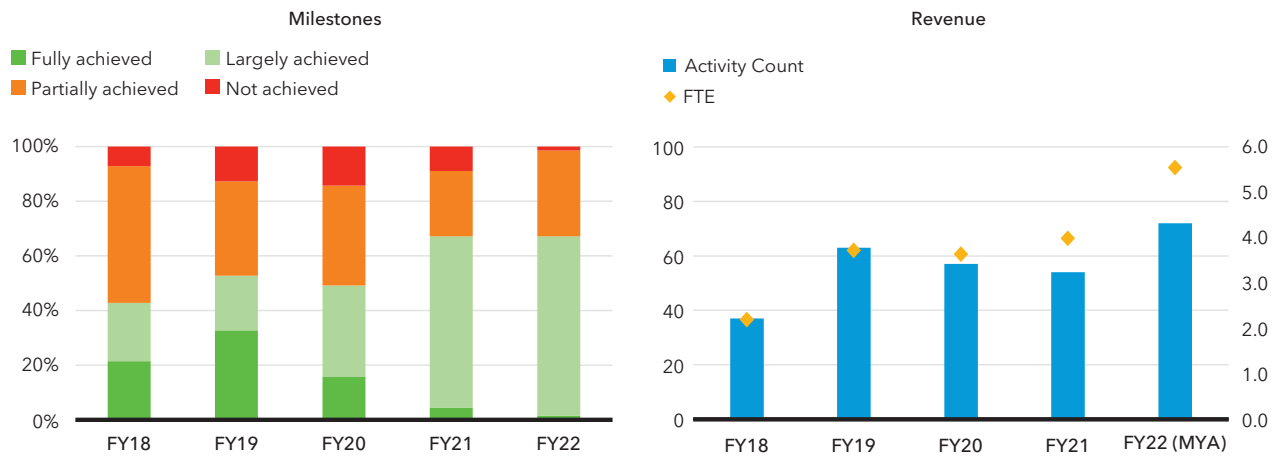
Bill that includes the implementation of the Palau Goods and Services Tax and Net Profit Tax. Prospects for similar tax reforms are possible in the **Marshall Islands** and **FSM** that face similar fiscal challenges. Other major tax reform initiatives where PFTAC support contributed included a MTRS in **PNG** in partnership with a FAD project under the IMF's Revenue Mobilization Trust Fund (RMTF), and a similar MTRS initiative in the **Solomon Islands** with the Asian Development Bank (ADB).

REAL SECTOR STATISTICS

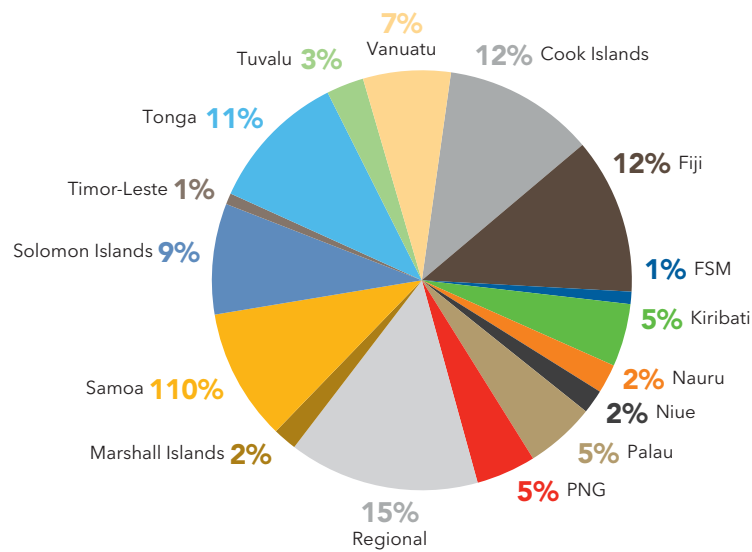
Through the combined modalities of traditional CD delivery and capacity supplementation, the RSS program aimed to sustain basic compilation programs to ensure the continued availability and consistency of annual national accounts, while enhancing the coverage, scope, and frequency of datasets to support policymaking. PFTAC provides an invaluable service supporting very small and capacity constrained National Statistical Offices (NSOs) in smaller and FCS to help compile GDP including in **Nauru, Tuvalu, and Kiribati**, and BOP statistics in **Kiribati** and **Tuvalu**. Regional national accounts training is provided annually to maintain and build NSO capacity particularly for newly recruited compilers that tend to have a high turnover rate.

Programs for QNA were introduced—or strengthened by building capacity on QNA seasonal and calendar adjustment techniques including in **Cook Islands, Fiji, Solomon Islands, and Tonga**. Coverage of the government sector in GDP improved in several economies (**Kiribati** and **Samoa**); and work on developing source data for key sectors as a basis for informing GDP forecasts was also undertaken. CD support in rebasing GDP has been provided to **Fiji, Nauru, Niue, Samoa, Tonga, and Tuvalu**.

FIGURE 7. REVENUE ADMINISTRATION PERFORMANCE INDICATORS



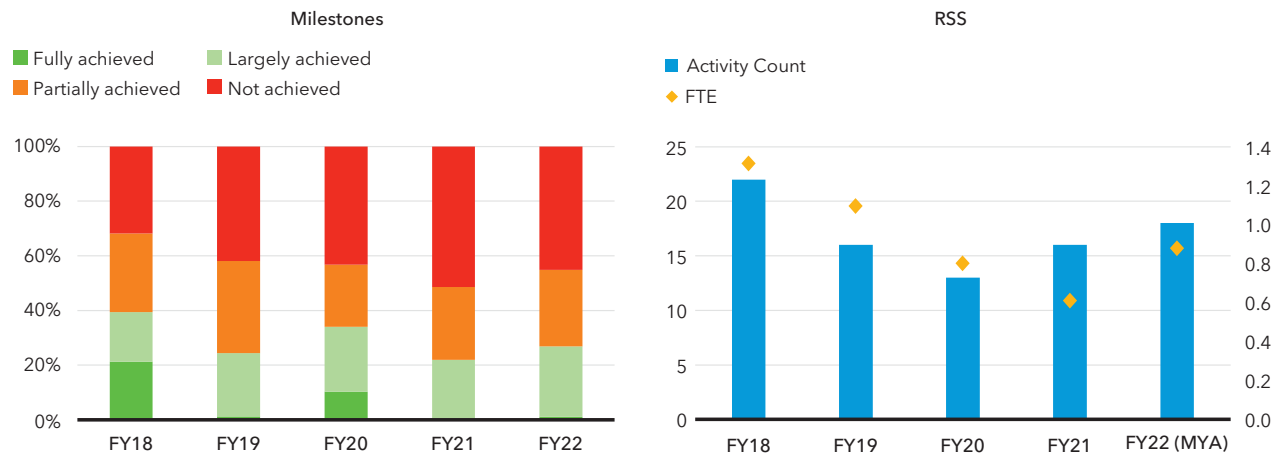
4,196 Revenue TA days delivered over Phase V



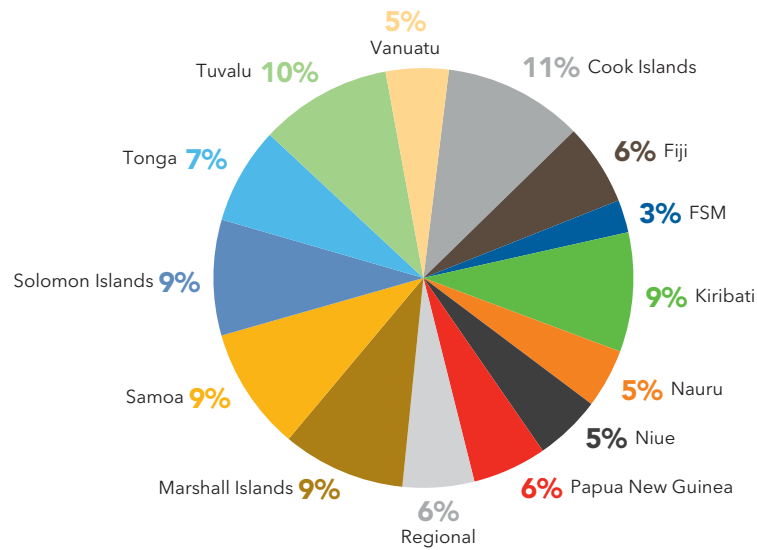
Resource Utilization by Country (percent of Actual Program Delivery)							
	FY18	FY19	FY20	FY21	FY22	FY18-FY22	Trend
CKI	0%	9%	15%	11%	16%	12%	
FJI	15%	19%	11%	13%	7%	12%	
FSM	5%	2%	0%	0%	0%	1%	
KIR	10%	7%	4%	5%	2%	5%	
NRU	0%	1%	3%	3%	3%	2%	
NIU	2%	4%	0%	1%	2%	2%	
PLW	12%	6%	1%	3%	7%	5%	
PNG	12%	4%	1%	1%	7%	5%	
RMI	4%	2%	2%	1%	1%	2%	
WSM	11%	4%	9%	16%	10%	10%	
SLB	3%	13%	13%	4%	8%	9%	
TLS	0%	0%	0%	0%	3%	1%	
TOK	0%	0%	0%	0%	0%	0%	
TON	2%	13%	16%	13%	8%	11%	
TUV	0%	3%	4%	4%	3%	3%	
VAN	6%	7%	6%	4%	10%	7%	
REGIONAL	17%	7%	15%	22%	14%	15%	

Source: PFTAC.

FIGURE 8. REAL SECTOR STATISTICS PERFORMANCE INDICATORS



1,033 RSS TA days delivered over Phase V



Resource Utilization by Country (percent of Actual Program Delivery)							
	FY18	FY19	FY20	FY21	FY22	FY18-FY22	Trend
CKI	15%	11%	7%	4%	12%	11%	
FJI	3%	4%	14%	9%	5%	6%	
FSM	9%	0%	0%	0%	0%	3%	
KIR	8%	15%	12%	0%	8%	9%	
NRU	3%	7%	0%	7%	5%	5%	
NIU	7%	7%	0%	0%	8%	5%	
PLW	0%	0%	0%	0%	0%	0%	
PNG	6%	10%	10%	0%	0%	6%	
RMI	7%	14%	7%	9%	10%	9%	
WSM	8%	5%	18%	16%	5%	9%	
SLB	11%	7%	0%	17%	10%	9%	
TLS	0%	0%	0%	0%	0%	0%	
TOK	0%	0%	0%	0%	0%	0%	
TON	7%	7%	7%	7%	10%	7%	
TUV	7%	7%	10%	18%	15%	10%	
VAN	4%	5%	7%	1%	6%	5%	
REGIONAL	4%	1%	10%	11%	5%	6%	

Source: PFTAC.

GOVERNMENT FINANCE STATISTICS

The Phase V program helped PICs refine compilation procedures and review the source data through a combination of traditional CD delivery and capacity supplementation. All countries except Tuvalu and Nauru were able to compile and submit GFS data to STA. Most countries compile at least budgetary central government (BCG) GFS data and can compile PSDS for central government (CG) or General Government (GG). **Fiji, FSM, Samoa, Timor-Leste, and Vanuatu** participate in the e-GDDS and disseminate GFS and debt data via their National Summary Data Page – a one-stop shop for official data dissemination. This helps enhance data transparency and creates strong synergies between data dissemination and surveillance by having comprehensive, timely, and accessible statistical data.

GFS progress in Phase V has strongly complemented PFTAC work on strengthening PFM and vice-versa. GFS assistance supported bridging the CoA economic and functional classification to the *GFSM 2014* with the aim of automating GFS in the Financial Management Information System (FMIS). The resident GFS advisor position was intended to end in FY 2020 but was extended initially for a year followed by several additional months, in response to requests from member countries given unfinished reforms and need for ongoing GFS assistance. The program will be revitalized in Phase VI with a return of a resident advisor position, with support maintained in the meantime from headquarters (HQ) with some STX assignments.

MACROECONOMIC ANALYSIS AND PLANNING

Phase V achievements include building and supporting macro-fiscal models for many countries. For example, a new macro-fiscal model was jointly constructed in **Fiji** with the Ministry of Economy and the Reserve Bank of Fiji with a focus on estimating the economic and fiscal impact of different timeline scenarios for the resumption of inbound tourism and the impact of cyclones.

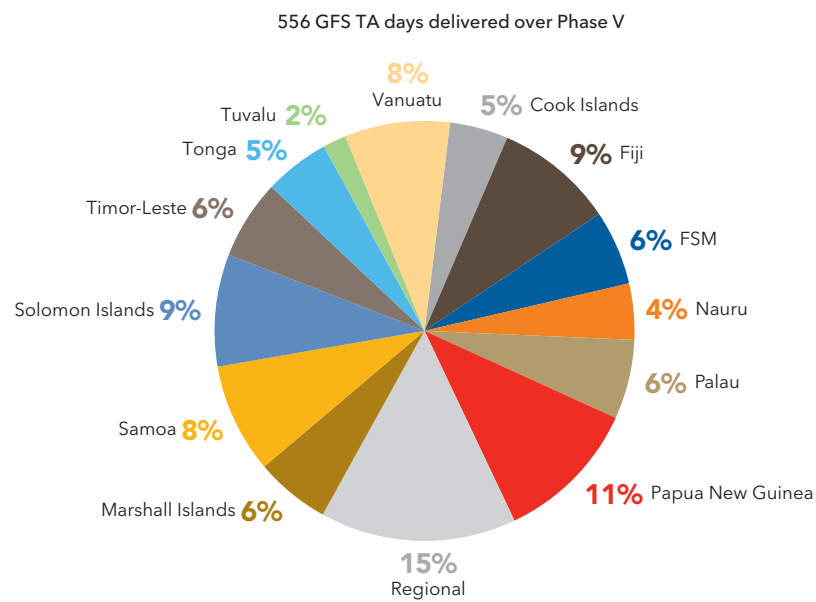
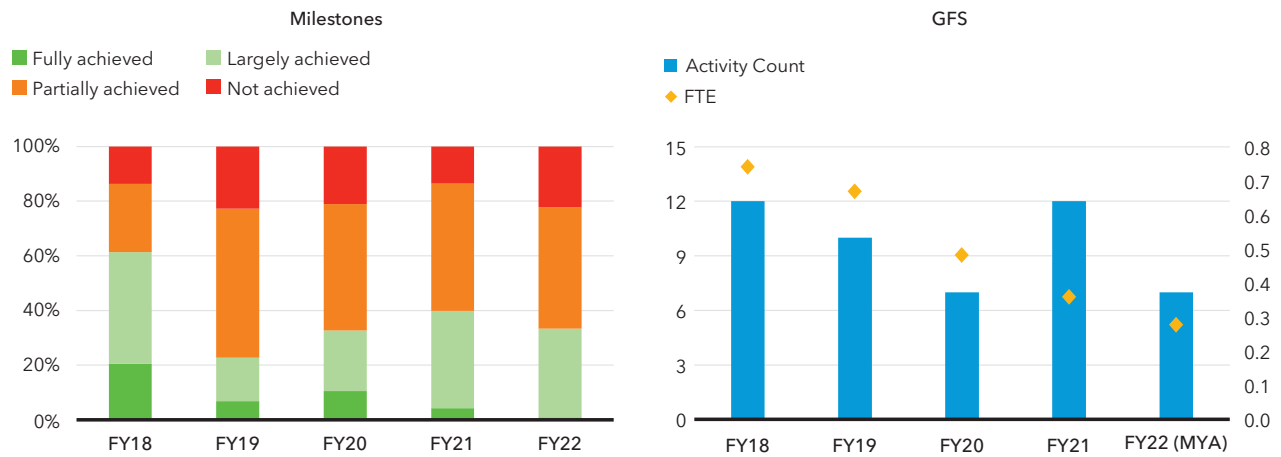
A range of broader macroeconomic modelling and TA was provided in response to country needs. In the **Solomon Islands**, a new detailed inflation forecasting model was constructed for monetary policy setting, entailing the econometric calibration of the Consumer Price Index (CPI) basket with a range of economic parameters. Other examples include the estimation of the contribution to the **Samoan** economy of the International Financial sector and the modelling of the new tax reform package in **Palau**. The pandemic shocks have accentuated the need to further bolster macroeconomic frameworks in the region giving rise to a proposal to appoint an ICD-backstopped Macroeconomic Frameworks advisor to complement and support the work of the APD Macroeconomic advisor. Macro frameworks TA projects led by ICD to **Solomon Islands, Samoa, Tonga** (involving semi-structural model-based macro frameworks), and **PNG, Timor-Leste, and Vanuatu** (involving accounting-based macro frameworks) commenced in 2021. These are planned to be multi-mission engagements spread over a three-year period. The proposed Phase VI ICD-backstopped Macroeconomic

Frameworks program will assist in the development of macroeconomic frameworks, particularly in financial programming and forecasting and policy analysis systems. This ICD program will help policymakers better incorporate the relationships between fiscal policy, monetary policy, and exchange rate regimes into macroeconomic policy making.

Many training workshops (including in conjunction with STI) were conducted including the macro-fiscal impact of COVID-19 in the Pacific, fiscal policy during the pandemic, GDP forecasting, inflation forecasting, and fishing revenue forecasting. These workshops focused on technical training, the sharing of country experiences, and discussions on policy and judgement with senior IMF officials. PFTAC also carries out tailored lectures on Macroeconomic topics, including to the Reserve Bank of Fiji and the USP. These training events at the regional and sub-regional level facilitate extensive knowledge sharing across national institutions as well as between member countries. They regularly lead to requests for customized and targeted CD to advance policies or national institutional capacity on the basis of observed peer experiences.

Since late 2019, and working closely with APD Pacific Islands Division, the Macro advisor has provided secretarial support for an initiative to develop a pilot electronic Know Your Customer (eKYC) platform being pursued to mitigate declining Correspondent Banking Relationship (CBRs) and strengthen the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) compliance.

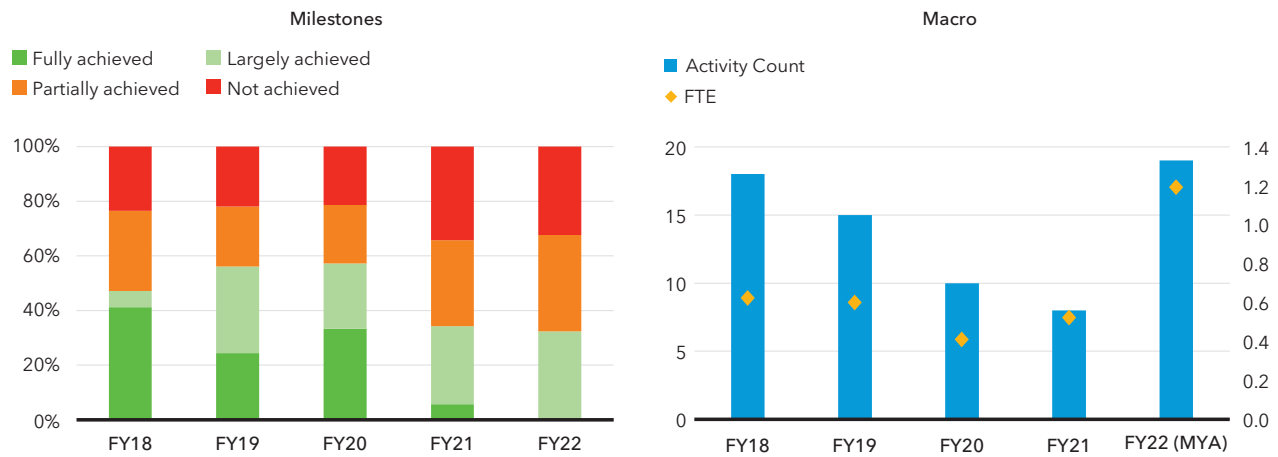
FIGURE 9. GOVERNMENT FINANCE STATISTICS PERFORMANCE INDICATORS



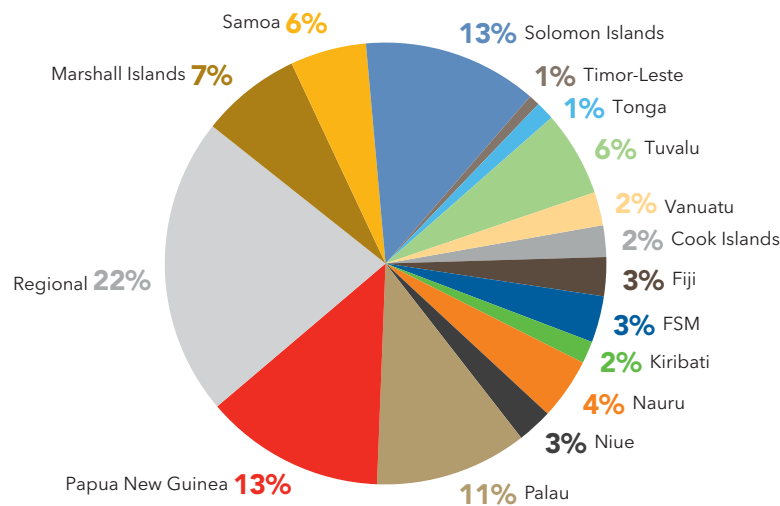
Resource Utilization by Country (percent of Actual Program Delivery)							
	FY18	FY19	FY20	FY21	FY22	FY18-FY22	Trend
CKI	3%	3%	5%	13%	0%	4%	
FJI	7%	8%	13%	6%	13%	9%	
FSM	3%	3%	7%	9%	13%	6%	
KIR	0%	0%	0%	0%	0%	0%	
NRU	10%	0%	5%	4%	0%	4%	
NIU	0%	0%	0%	0%	0%	0%	
PLW	3%	1%	7%	15%	13%	6%	
PNG	7%	8%	26%	0%	16%	11%	
RMI	3%	1%	7%	13%	13%	6%	
WSM	7%	11%	5%	6%	15%	8%	
SLB	7%	13%	5%	15%	0%	9%	
TLS	9%	8%	5%	4%	0%	6%	
TOK	0%	0%	0%	0%	0%	0%	
TON	7%	8%	0%	6%	0%	5%	
TUV	5%	1%	0%	0%	0%	2%	
VAN	12%	14%	0%	6%	0%	8%	
REGIONAL	16%	19%	17%	3%	16%	15%	

Source: PFTAC.

FIGURE 10. MAP PERFORMANCE INDICATORS



736 Macro TA days delivered over Phase V



Resource Utilization by Country (percent of Actual Program Delivery)							
	FY18	FY19	FY20	FY21	FY22	FY18-FY22	Trend
CKI	0%	13%	0%	0%	0%	2%	
FJI	1%	0%	0%	17%	0%	3%	
FSM	4%	0%	0%	0%	7%	3%	
KIR	0%	0%	0%	0%	5%	2%	
NRU	0%	0%	0%	10%	8%	4%	
NIU	0%	0%	0%	0%	7%	3%	
PLW	26%	7%	0%	0%	15%	11%	
PNG	16%	30%	6%	0%	11%	13%	
RMI	9%	0%	30%	3%	5%	7%	
WSM	8%	0%	6%	13%	4%	6%	
SLB	0%	20%	28%	13%	11%	13%	
TLS	0%	0%	0%	0%	2%	1%	
TOK	0%	0%	0%	0%	0%	0%	
TON	4%	0%	0%	0%	2%	1%	
TUV	6%	14%	11%	0%	4%	6%	
VAN	9%	0%	0%	0%	2%	2%	
REGIONAL	18%	17%	20%	43%	18%	22%	

Source: PFTAC.

THE INDEPENDENT MID-TERM EVALUATION

The independent mid-term evaluation covered PFTAC’s activities during the first three years of Phase V, from November 2016 to April 2019. The overall objective of the evaluation was to assess the relevance, effectiveness, efficiency, sustainability and impact of its projects across its six programs, against the Organisation for Economic Cooperation and Development-Development Assistance Committee’s (OECD-DAC) evaluation criteria. The evaluation provided a number of lessons learned and recommendations to improve CD effectiveness and guide the strategic direction of PFTAC’s future operations.

The assessment methodology consisted of: (1) an in-depth review of all PFTAC programs and related country-level objectives in four countries (**Fiji, Kiribati, PNG, and Samoa**); (2) a review of four programs (PFM, RPA, FSS, and RSS) in the remaining 12 PFTAC member countries; and (3) a review of PFTAC management and governance. While the approach was partly constrained due to the pandemic, the evaluation consulted a wide range of stakeholders with 108 interviews and five online surveys of member country authorities and counterparts.

The evaluation concluded that Phase V programs and objectives were aligned with and supportive of member countries’ national priorities, responding effectively to member country needs in a timely manner. PFTAC CD objectives were also found to be consistent with IMF Article IV engagements in the region, and in some programs actively support these. These included in the GFS, RSS, PFM, and Macro programs. Additionally, it was recognized that PFTAC programs have supported reforms and data improvements that are likely to be sustained in almost half of the projects reviewed.

All stakeholders agreed that PFTAC provided excellent value for money, offering high quality TA and training from its resident advisors on specialized topics and on a cost-effective basis. The evaluation noted that PFTAC has strong systems in place to design and monitor the quality of CD products and services provided to member countries, particularly with a broad range of modalities for delivering learner focused CD.

Across all programs, PFTAC CD projects achieved, on average, 55 percent of planned milestones for the evaluation period.

GSF, PFM and Macroeconomics were assessed as being the most effective PFTAC programs during the project period, supported by synergies among programs, strong relationships among CD providers and country authorities. PFTAC projects contributed to changes and improvements in organizations in member countries, such as the production of data and analysis to inform decision making; the reduction of risk through improved oversight; and strengthened fiscal positions of some countries due to advancements in tax administration. The evaluation concluded that a majority of these achievements were attributable to PFTAC's CD, that has been a key factor in preventing institutions such as NSOs, Ministries of Finance, and Tax Administration agencies

from regressing during the review period, especially in the smallest member countries.

Development partner coordination during Phase V was also noted to have improved during the Phase, with PFTAC playing an important role in developing regional networks.

The evaluation made eight key recommendations where it was found that further improvements could be made, in view of the evaluation's main findings. These include strengthening the role of member countries in PFTAC governance; the continued adoption of a hybrid delivery model for its operations and other delivery modalities; strengthening support for center staff and experts; and supporting the development of regional expertise.

The evaluation also recommended strengthening the RBM system to support a more program-based approach to country prioritization of needs, resource use and sequencing of CD delivery; better integrating priority thematic areas such as gender and climate change into PFTAC programs; and allocating resources to develop regional expertise.

Overall, the recommendations relate to issues both specific to PFTAC but also to a number of broader themes on institutional reform areas that would require consultation with HQ-based Departments. PFTAC will report regularly to the Steering Committee on the implementation of these recommendations including in its annual report to the SC.

SECTION III

RECENT MACROECONOMIC EVOLUTION AND FUTURE CHALLENGES

This section provides a broad overview of the macroeconomic environment for the PIC during 2016–2021—roughly coinciding with Phase V of PFTAC. Its purpose is to inform the strategy and resource allocation for PFTAC’s CD activities during Phase VI, especially as it relates to scaling up CD and addressing emerging new challenges. These include weakened fiscal positions in several countries and the need for domestic revenue mobilization, rising levels of public debt, remaining weaknesses in financial sector supervision, the need for additional and more timely national accounts statistics to inform policy makers, macroeconomic frameworks and forecasting capacity (particularly in the post-pandemic), and meeting the challenges of adapting to climate change and addressing gender inequalities.

PFTAC countries vary with respect to size, income, socio-economic indicators, and geographic location.

The total population in the region was about 13 million in 2021 (of whom 9 million lived in **PNG**), up by 10 percent relative to 2016. With the exception of **PNG** and **Timor-Leste**, all the rest of the countries in the region have a population of less than one million. GDP per capita at purchasing power parity ranges from less than USD 2,500 for **Kiribati** and **Solomon Islands** to above USD 12,000 for **Palau**. According to the United Nations Development Programme (UNDP) 2019 Human Development Index (HDI),² most PFTAC countries are in the medium and low human development groups, with the exception of Palau which is in the high human development group.³ PFTAC countries

are remote from markets, as a majority of them are at least 2,500 km away from any major ports. Most PFTAC countries are archipelagos consisting of a large number of inhabited islands that complicates service delivery, other than **Nauru** and **Niue** being countries consisting of a single Island.

Real GDP growth in many PFTAC countries has been impacted severely by the pandemic, but even without COVID-19 trend growth has generally been low and/or volatile. While emerging market and developing economies grew on average by 4.4 percent annually over 2015–19, PFTAC countries grew by an average of 2.9 percent annually over the same period with the lowest average growth rate registered in **Timor-Leste** at 0.6 percent and three countries (i.e., **Kiribati**, **PNG**, and **Tuvalu**) having an average growth rate above 4 percent—benefiting from fishing revenues or Liquefied Natural Gas production but at the expense of high volatility. Natural disasters remain a major source of volatility in GDP growth.

PFTAC countries remain vulnerable to a number of macroeconomic risks. Tourism had been an important source of export earnings, tax bases, and employment opportunities in

Cook Islands, Niue, Palau, Fiji, Samoa, Tonga, and Vanuatu. However, there is the risk that the post-pandemic aversion to international travel and persistent scarring in the tourist sector could prolong a full recovery. Countries relying on natural resource exploitation such as fishing revenues (**Kiribati, Marshal Islands, FSM, Nauru, and Tuvalu**), logging (**Solomon Islands**), and petroleum products (**Papua New Guinea and Timor Leste**) have to manage economic volatility caused by terms of trade shocks. Weakening of financial links in the region (manifest in declining number of CBR) poses challenges to remittance flows, could hinder import and export activities, and potentially affect banks' profitability.

As a group, PFTAC countries face particular challenges in enabling higher and sustained growth. Their geographic remoteness means that transportation costs associated with exporting to the rest of the world are high and imported inputs for domestic production are expensive, hindering investment and growth of manufacturing, and resulting in comparatively low shares of exports to GDP. Lack of scale due to small populations and land areas leads to low level of diversification, high dependence on imports,

² The HDI is a composite index of life expectancy, knowledge, and living standards. It is a measure of the quality of human capital, which is closely linked to the level and quality of development. The higher the score, the better a country's rank. See Human Development Report 2019, UNDP.

³ Fiji, Marshall Islands, Samoa, and Tonga are in the medium human development group; and Kiribati, Federated States of Micronesia, PNG, Solomon Islands, Timor-Leste, and Vanuatu are in the low human development group.

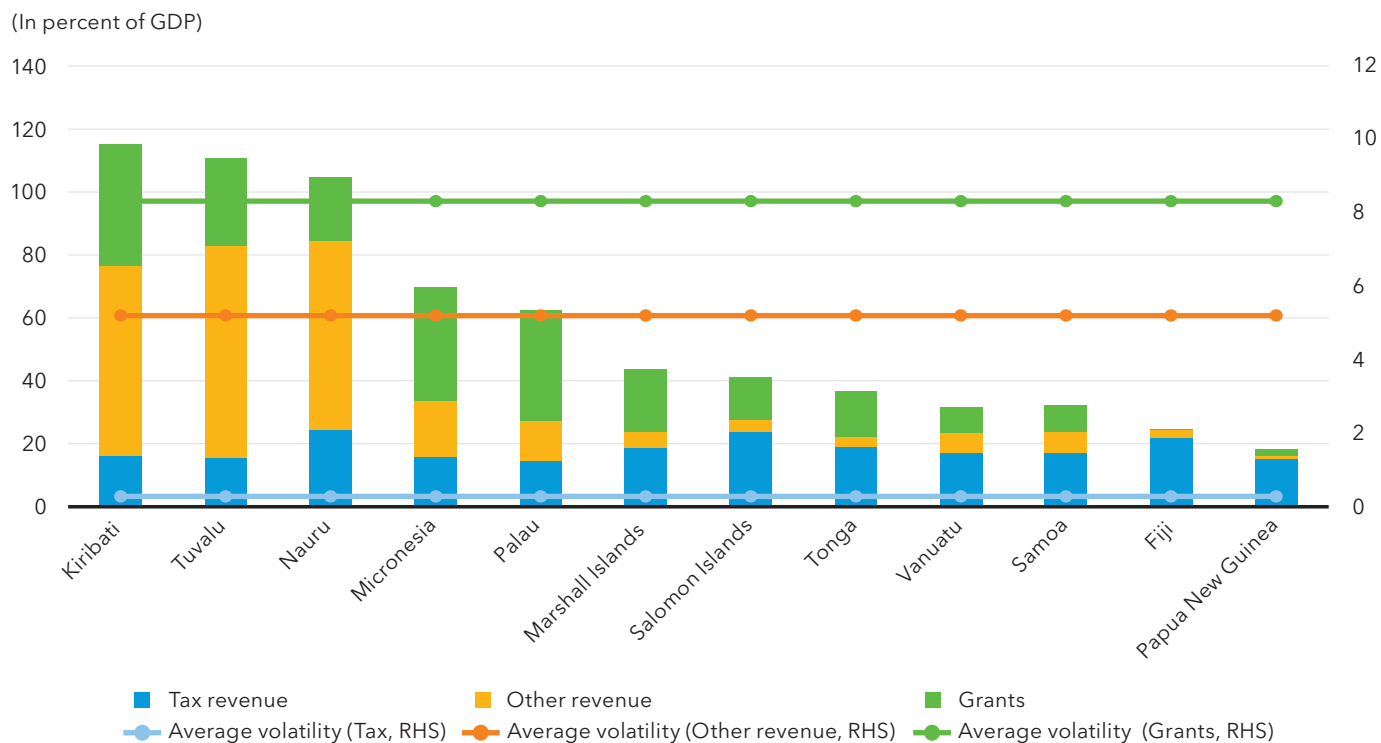
TABLE 1. PFTAC MEMBER COUNTRIES–SELECTED MACROECONOMIC AND SOCIAL INDICATORS^{1/}

		Population (1000)	GDP per Capita (ppp\$)	HDI (Rank) 2019	Distance to Major Port (km)	GDP Growth	Median GDP Growth 2005-19	Public Debt/GDP (percent)
Fiji	2021	905	11,902	0.786 (93)	2,788	-4.0	2.4	86.8
	2016	877	12,563			2.4		44.7
Kiribati	2021	121	2,281	0.630 (134)	2,957	1.8	2.0	20.9
	2016	112	2,007			5.1		21.9
Marshall Islands	2021	56	3,877	0.704 (117)	3,850	-1.5	3.0	14.4
	2016	54	3,275			1.4		29.3
Micronesia	2021	105	3,441	0.620 (136)	3,319	-3.2	0.9	15.1
	2016	104	3,151			0.9		24.2
Nauru	2021	13	10,167		3,341	1.6	8.3	28.2
	2016	13	8,927			3.0		79.6
Palau	2021	18	12,228	0.826 (50)	1,678	-19.7	0.6	87.5
	2016	18	15,007			0.6		26.6
Papua New Guinea	2021	8,964	3,936	0.555 (55)	1,591	1.2	4.7	45.5
	2016	8,085	3,686			5.5		33.7
Samoa	2021	200	5,541	0.715 (113)	3,916	-7.2	2.1	47.6
	2016	195	5,524			8.1		51.7
Solomon Islands	2021	700	2,410	0.567 (151)	1,751	1.2	4.9	20.4
	2016	619	2,278			5.9		7.1
Timor-Leste	2021	1,344	3,106	0.606 (141)	687	1.8	3.4	16.5
	2016	1,219	3,131			3.4		4.7
Tonga	2021	100	6,361	0.725 (104)	3,288	-2.0	0.8	45.6
	2016	101	5,518			6.6		49.4
Tuvalu	2021	11	5,289		4,059	2.5	3.4	6.0
	2016	11	3,812			4.7		11.5
Vanuatu	2021	309	2,725	0.609 (140)	1,967	1.2	3.1	46.1
	2016	272	2,586			4.7		43.6

Sources: World Economic Outlook Database; UNDP Human Development Index.

1/ Cook Islands and Niue are not included due to lack of data.

FIGURE 11. PICs: GOVERNMENT REVENUE MIX, 2010-20



Sources: Country authorities; and IMF staff estimates.

low investment, weak infrastructure in some areas, and sometimes low levels of administrative capacity. Damage to human capital, farmland, and infrastructure, and additional demands on public resources from climate change and natural disasters such as cyclones, droughts, and volcanic eruptions and seismic events further dampen economic growth and exacerbate gender inequalities.

The fiscal stance in PFTAC countries varies but is often characterized by a heavy reliance on multilateral and donor flows. There was a high variability between countries in terms of tax revenues as a share of GDP in 2019 while some countries had tax revenues below 20 percent of GDP (e.g., **Marshall Islands, Papua Guinea, Timor-Leste, and Tuvalu**). As public

spending in these countries ranged between 20 percent of GDP and above 100 percent of GDP in 2019, financial assistance from donors constitutes an important source of financing. Among the PFTAC countries, **Marshall Islands, FSM, and Palau** are recipients of financial assistance from the United States under the Compact of Free Association agreement. Multilateral donor support (mainly the ADB and the World Bank) and bilateral donor support are important for most countries in the region. Even before the pandemic, the reliance on donor support had increased for some countries (e.g., **Tonga**).

Financial systems in the PFTAC countries remain comparatively underdeveloped. The financial sector in most Pacific Islands is generally

dominated by foreign banks which have parent institutions in the region (such as banks in Australia, New Zealand, and the United States in the case of countries covered under the Compact of Free Association). Equity and debt markets are either shallow or non-existent. Financial inclusion is low in the region, as inadequate financial infrastructure is compounded by a large number of islands in widely dispersed archipelagoes. The number of CBRs in the Pacific has fallen by nearly 50 percent since 2011, more significantly than in most other regions, with U.S. dollar CBRs falling by more than 60 percent. This has led to a rise in the concentration of remaining CBRs in just a few banks—increasing the vulnerability of PICs to a complete loss of these vital financial channels.

RECENT ECONOMIC DEVELOPMENTS

The effects of the COVID-19 pandemic continue to weigh heavily—but not uniformly—on and within PFTAC countries.⁴

Many Pacific Islands remain COVID-19 free, but the effects of the pandemic and local containment measures have strained their economies. The region's output declined by 2.0 percent on average in 2021 and is expected to recover by 3.9 percent in 2022. Output losses have varied—largely as a function of dependence on tourism and commodity exports, the stringency of local lockdowns, and the size and efficacy of policy support.

Economic contractions have been most pronounced in tourism-dependent economies.

The sudden stop of tourism inflows immediately impacted such economic activities as restaurants and hotel services, transportation, and other business activities. As a group, the unweighted average real GDP of Pacific Islands with a reliance on tourism (**Fiji, Palau, Samoa, and Vanuatu**) contracted by 8.5 percent in 2020 and 7.4 percent in 2021. Growth for these countries is expected to recover to an average of 5.6 percent in 2022, but this outlook

is subject to considerable uncertainty. Countries with a heavy reliance on commodity exports (**Papua New Guinea, Solomon Islands, and Timor Leste**) also experienced economic contractions in 2020, due in part to the decline in external demand for their products. However, these countries benefited from the global recovery in 2021, and stand to see a further uptick in growth in 2022 and beyond.

Economic contraction, loss of revenues, and counter-cyclical fiscal measures generally widened fiscal deficits during the pandemic. The erosion in the tax base due to a shrinking economic base combined with lower revenues from tourism activities and commodity exports weakened the fiscal positions in many Pacific Islands. Higher public spending to mitigate the impact of the COVID-19 pandemic outbreak also contributed to fiscal gaps. Development partners increased their grants to support response plans in the PICs. Nevertheless, the unweighted average fiscal balance among the PICs shifted from a surplus of 1.7 percent of GDP in 2019, to a deficit of 0.5 percent in 2020 and a deficit of 6.8 percent in 2021. **Fiji, Kiribati, and Palau** recorded the most severe fiscal impact, with deficits in these countries rising into

the double digits. In most PICs, fiscal deficits are likely to persist in the coming years as output and revenues are expected to gradually approach the pre-pandemic trajectory.

Higher fiscal deficits are reflected in higher public debt, and the relative magnitudes across the PFTAC countries are significant.

The unweighted average debt-to-GDP ratio for PFTAC countries has risen by only 5.3 percentage points of GDP between 2019 and 2021 (from 31.5 to 36.8 percent). **Fiji** and **Palau** have been the most deeply affected, with the average debt-to-GDP ratio surging from 41.1 to 85.8 percent, on the back of a sharp decline in tourism receipts and associated large fiscal deficits. The risks to debt sustainability have increased substantially in both countries, especially under the alternative downside scenarios assuming macro-economic shocks related to natural disasters and contingent liabilities. While the debt-to-GDP ratio for other PFTAC countries remained at a relatively low level (29.7 and 28 percent in 2019 and 2021, respectively), there has been a generalized trend toward higher debt risk—exacerbated by low DM capacity and the absence of DM unit or strategy.

⁴ All figures are based on the unweighted average.

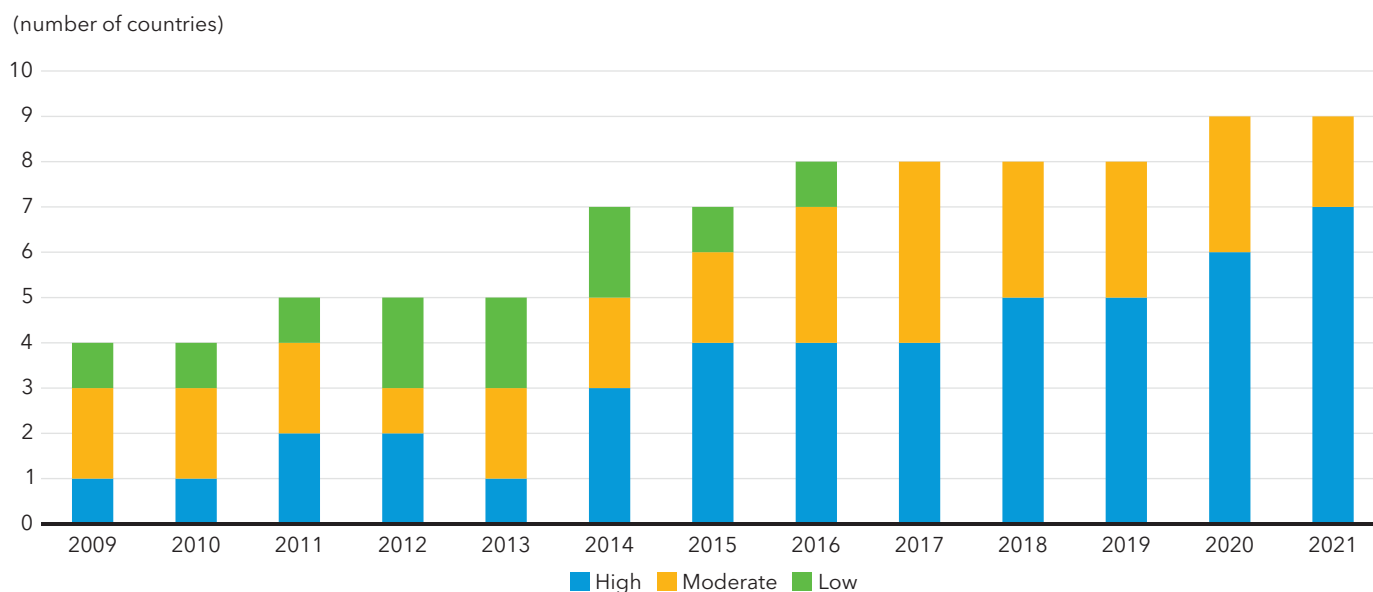
Financial sector risks have risen in the context of the pandemic.

Banking sectors in PFTAC countries appear generally sound based on financial sector indicators and capital buffers. However, the sharp contraction of economic activity in some of the Pacific Islands has contributed to a rise in NPL. Further, the widespread use of financial sector measures to combat the effects of the pandemic—such as relaxation

of loan classification requirements, loan repayment holidays, and debt moratoria—may have masked possible vulnerabilities in banks' balance sheets. Unwinding the damage from the pandemic may take years and will require continued efforts to upgrade legal and regulatory frameworks for FSS and enhance the supervisory capacity. Addressing the risks from declining CBRs will take further improvements in PFTAC

countries' capacity to meet AML/CFT requirements together with possible solutions from innovations in financial technology. While PFTAC does not currently provide CD on AML/CFT issues, LEG may be able to respond to such needs. The IMF continues to remain engaged to identify measures to address declining CBRs in the Pacific, and if CD could contribute to solutions, PFTAC resources and support could be considered.

FIGURE 12. PACIFIC ISLANDS: EVOLUTION OF DEBT RISK RATING



Source: LIC DSA database. Countries included are Kiribati, Marshall Islands, Micronesia, Nauru, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Data are unavailable for earlier years for some countries.

TABLE 2. PFTAC MEMBER COUNTRIES—SELECTED FINANCIAL SOUNDNESS INDICATORS

	NPL ratio		ROA		ROE	
	2019Q4	2021Q1	2019Q4	2021Q1	2019Q4	2021Q1
Fiji	3.8	7.4	2.7	1.7	20.6	11.9
Kiribati	-	-	-	-	-	-
Marshall Islands ^{1/}	2.2	1.1	3.5	1.9	27.9	16.5
Micronesia	0.3	0.2	2.0	0.6	26.2	9.7
Nauru	-	-	-	-	-	-
Palau	0.7	1.7	2.1	0.6	-	-
Papua New Guinea	3.8	6.1	4.1	5.7	28.4	37.0
Samoa ^{1/}	4.0	2.9	2.5	2.5	15.3	14.9
Solomon Islands	10.4	7.9	3.1	2.1	18.3	11.8
Timor-Leste ^{1/}	5.6	2.0	1.7	2.3	5.1	4.3
Tonga	3.2	3.6	3.7	1.0	17.2	4.4
Tuvalu ^{1/}	13.4	15.0	2.9	1.9	12.0	13.4
Vanuatu	14.4	18.2	0.1	1.1	0.9	9.0

Source: Financial Soundness Indicator database; and the national authorities.

1/ The most recent available data ends at 2020Q3 for Marshall Islands and Samoa; 2020Q4 for Timor-Leste and Tuvalu.



OUTLOOK AND MACROECONOMIC POLICY PRIORITIES

Uncertainty around the speed and depth of recovery is high and the divergence that characterized the impact of the pandemic is likely to be reflected in the years ahead. The pandemic has exerted a severe social toll. Unemployment has surged in many PICs, with significant differences observed by age and gender, and poverty levels have increased despite financial support provided to the most vulnerable. It is estimated that the pandemic has pushed many people into extreme poverty. A strong and inclusive recovery could help reverse the situation but risks to the outlook are high. Extended border closures due to a COVID-19 resurgence and new variants could undermine or prolong the recovery. The achievement of the SDGs that were already challenging before the pandemic may take even longer and be even less affordable. There is also a need for continued policy support to address scarring and mitigate some long-lasting effects of the pandemic such as increases in inequality. But fiscal space has already been diminished severely. The pace of vaccinations will be a critical factor. And economies depending on in-person services (such as tourism) will likely face a more protracted course of recovery.

Average real GDP growth is expected to rise by 3.9 percent in 2022, with further recovery in 2023 and beyond, but there are significant differences across countries. Vaccine supply and distribution, as well as evolution of the external environment and domestic policy support, will determine the pace of recoveries across Pacific Islands. For tourism-reliant countries, the key factors will be the timing of border opening—including in tourism source markets—and the pace of recovery in international tourism. Among the countries in this group, Fiji, Palau, and Samoa are expected to regain 2019 levels of per capita GDP during 2024–25. For commodity exporters, global demand for commodities as well as the evolution of their prices will be key determinants in their recovery. Supported by improved global commodity market conditions, **PNG** and **Solomon Islands** are likely to see a return to pre-pandemic levels of per capita GDP in 2022.

Fiscal buffers will need to be rebuilt to provide sufficient cushion for future shocks, including natural disasters. Forecasts from the IMF's October 2021 World Economic Outlook suggest that, on average, fiscal positions in the Pacific Islands may deteriorate by the end of the medium term in the absence

of corrective actions. The average fiscal deficit among the PICs is projected at about 6.4 percent of GDP in FY 2026, compared to the average fiscal surplus of 1.7 percent in 2019. Limited fiscal space highlights the need for focus on sustainable fiscal consolidation based on domestic revenue mobilization and better targeting of social spending. As most PICs are vulnerable to natural disasters, it is also crucial to establish a medium-term financing plan for resilient infrastructure and climate change adaptation.⁵

Public DM needs to be strengthened given the decrease in buffers and ongoing vulnerabilities. Risks to debt sustainability have generally risen across the Pacific due to economic fallout from the pandemic and an expansion of fiscal deficits to support economic activity and protect the most vulnerable. Even for countries that have relatively low debt levels, fiscal and external positions have weakened and debt vulnerability to natural disasters remains a significant concern—underscoring

⁵ Average investment needs for climate adaptation for the PICs is estimated at between 6½ and 9 percent of GDP annually (IMF (2021) "Unlocking Access to Climate Finance for Pacific Islands Countries" IMF Departmental Paper).

TABLE 3. PACIFIC ISLANDS – DEBT SUSTAINABILITY ANALYSIS INDICATORS
(most recent)

Country	DSA Type	Risk of Debt Distress
Fiji	MAC	Significant Risks
Kiribati	LIC	High
Marshall Islands	LIC	High
Micronesia	LIC	High
Nauru	MAC	Moderate
Palau	MAC	Significant Risks
Papua New Guinea	LIC	High
Samoa	LIC	High
Solomon Islands	LIC	Moderate
Timor-Leste	LIC	Moderate
Tonga	LIC	Moderate
Tuvalu	LIC	High
Vanuatu	LIC	Moderate

Source: IMF Article IV Staff Reports and DSAs.

the need for credible fiscal strategies and continued efforts to bolster DM capacity.

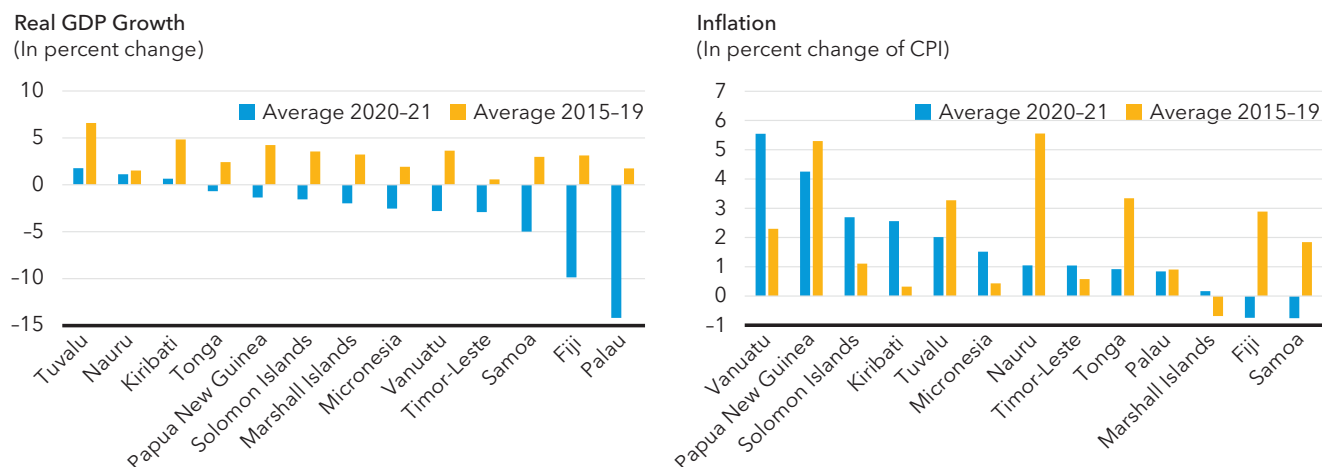
Financial sector soundness and stability remain a critical element for recovery and supporting sustainable and inclusive economic growth. NPL ratios in some PFTAC countries

may continue to rise as financial sector support measures are phased out. While banks have made loan-loss provisions and the capital adequacy remains above the minimum requirements in most countries, enhanced supervision and crisis/resolution frameworks will be needed to withstand credit risk shocks, particularly for the

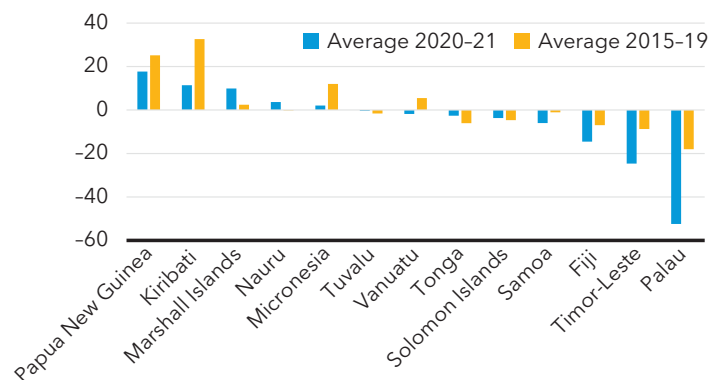
banks that have large loan exposure to tourism sector. Central banks and the financial supervisory authorities have closely monitored the asset portfolios and liquidity/credit risks by strengthening the supervisory framework, but potential risks to financial stability still remain. It is essential to ensure that a post-pandemic recovery can be sustained through structural reforms to improve access to private credit and facilitate financial inclusion.

Macroeconomic data and macro-forecasting capacity are at a premium in the Pacific and will remain so in the post-pandemic. Underdeveloped capacity in data collection, sharing, and analysis is further worsened by the disruptions from the pandemic, constraining policy makers' capacity to make timely and appropriate decisions. Continued external support will be needed to improve capacity in this area and help prepare PICs for future shocks. Strengthening the integration of CD and surveillance by the Fund would be helpful especially for the countries with low-capacity.

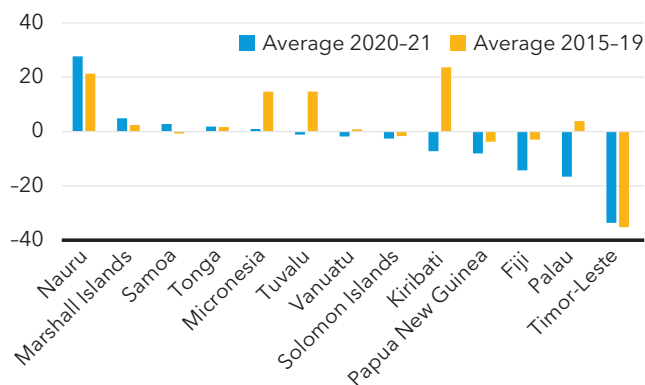
FIGURE 13. PACIFIC ISLAND COUNTRIES: MACROECONOMIC INDICATORS



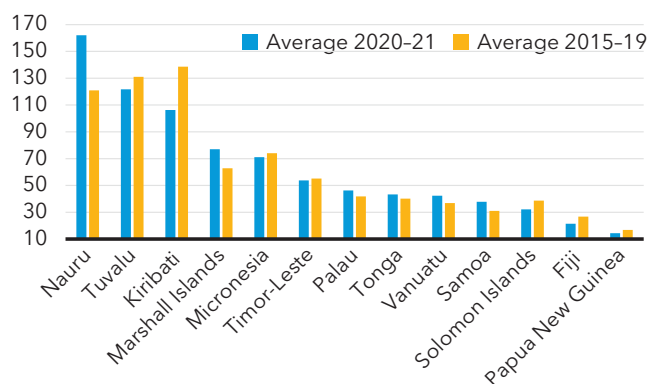
Current Account Balance
(In percent of GDP)



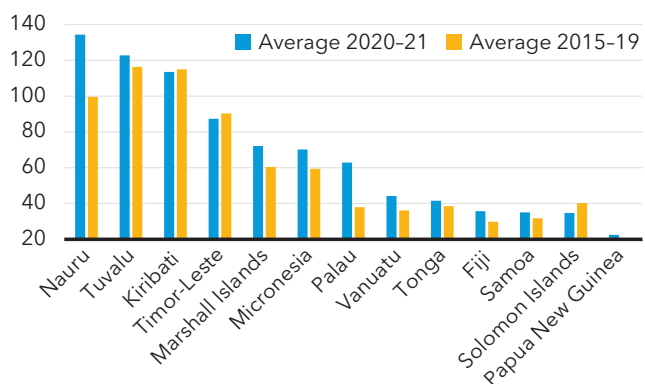
Fiscal Balance
(In percent of GDP)



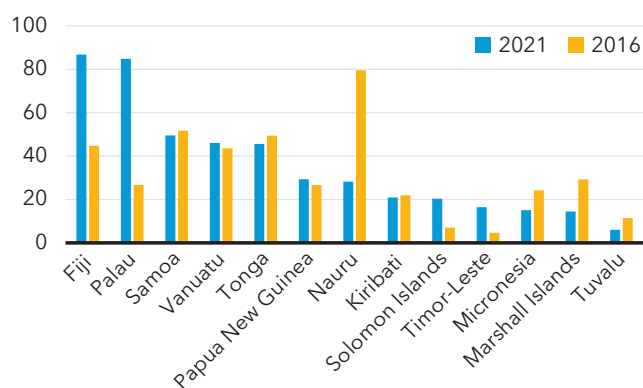
Government Revenue
(In percent of GDP)



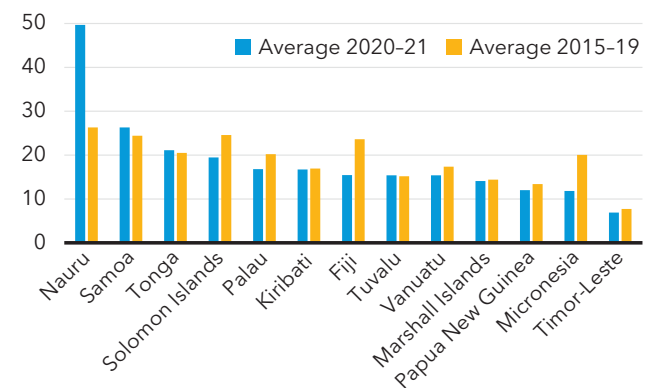
Government Expenditure
(In percent of GDP)



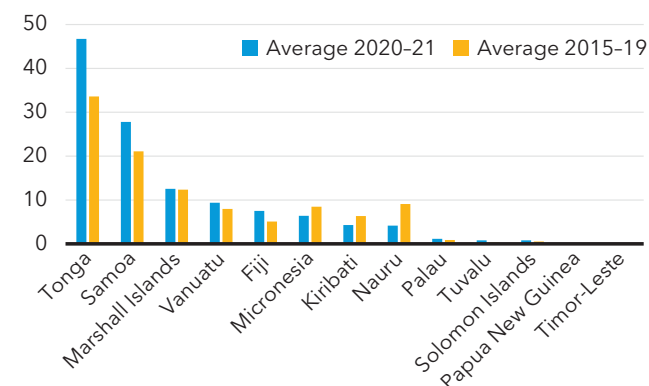
Public Debt
(In percent of GDP)



Tax Revenue
(In percent of GDP)



Remittances
(In percent of GDP)



Source: IMF staff calculations.

RISKS AND MITIGATION

ECONOMIC RISKS

In the near term, the overarching economic risk comes from the trajectory and timeline of the COVID-19 pandemic and its path to endemicity and a gradual return to normality as borders reopen. While this point

will hopefully arrive before the start of Phase VI, the impact and possible economic scarring from the crisis may linger for some time, placing a severe drag on growth for some PICs, a measure where the region was already underperforming most of the world. The pandemic has exposed weaknesses in the health care systems of many PICs and the underlying vulnerabilities of citizens given the very high prevalence of non-communicable diseases (NCD). Progress towards achievement of the SDGs including many such health and welfare metrics will be jeopardized by the setbacks of the pandemic and rebuilding required to return to pre-pandemic levels of economic activity and to further accelerate growth and to ensure progress in addressing gender inequalities is maintained. The policy dialogue between the member countries and the IMF country teams will be vital to chart a way forward from these challenging baselines, supported to the maximum

extent possible by CD provided by PFTAC, the IMF more generally, and other partners.

The impact of climate change and other natural disasters similarly drags on the region's recovery. The vulnerability of the region is well documented and the urgency for action particularly noted at the recent COP26 conference in Glasgow. The frequency and ferocity of events appears on the rise, with large economic damages being inflicted on some countries suffering cyclones, floods, coastal inundation, drought conditions in some circumstances, and the risk of changes to fishing stocks, a significant revenue source for several PICs. There has also been a significant toll from seismic events, from volcanic eruptions in Vanuatu and earthquakes in PNG, and most recently the underwater eruption near **Tonga** and the subsequent damage from tsunami and ash fallout. Through necessity, many PICs have capable disaster response organizations and capacity, that are often strongly supported by donors in the event of a crisis. The costs for the Pacific to respond to climate change are very large, predominantly through adaptation. The importance for the

region to respond to the risks of climate change are well recognized and are reflected in the stepped-up focus by PFTAC in Phase VI through a dedicated PFM advisor, as well as increased resources and response of the IMF generally given the macro-criticality of the issue.

Aid dependency may be a risk for some PICs, particularly for those that had pre-existing vulnerabilities before the COVID-19 crisis. Fiscal pressures and debt levels have grown given the massive decline in export earnings for some PICs such as through the loss of tourism while social spending needs have increased particularly for health care. Donor financing and support at the elevated levels provided to weather the pandemic may be unsustainable in the longer-term. Several PICs need to develop medium-term strategies for a clear pathway to fiscal and debt sustainability as their economies begin to recover and growth picks up. The CD available from PFTAC will be of even greater importance to ensure robust systems and institutions are adequately mobilizing revenue, managing debt, transparently managing budget processes and fiscal risks, ensuring financial stability

through effective supervision, and delivering timely and reliable macro-economic statistics.

POLITICAL AND SECURITY RISKS

Heightened geo-political interests in the Pacific provide opportunities for wider donor and partner support to the economic growth strategies of PICs and PFTAC operations more specifically, particularly where institutional and development objectives are well aligned. Conversely, risks arise where priorities pull in different directions, including a diversion of limited administrative capacity and resources, or deviation from internationally accepted standards and good practices. Mechanisms and forums for constant donor and development partner collaboration are crucial to mitigate these risks, desirably with leadership by member countries to drive the debate and regional priority setting. PFTAC will maintain and expand as necessary in conjunction with the IMF regional representative office engagement with high-level forums such as the Forum Economic Ministers Meeting and the supporting apparatus of Pacific Islands Forum Secretariat (PIFS) and well as Secretariat of the Pacific Community (SPC) and other regional groupings involved in economic and financial management such as financial regulators, tax administrators, government statisticians, and central bank and finance ministry officials with macroeconomic responsibilities. PFTAC's SC is also an important forum for information exchange.

Societal and economic fragility creates further challenges and risks for many PICs. Seven of the 16 PFTAC member countries are classified as fragile, although several others (like Cook Islands, Nauru and **Palau**) have climate fragility similarities to lower-income low-lying or atoll states like **Kiribati, the Marshall Islands, FSM, and Tuvalu** that are designated FCS due to their lower income status. **PNG, Solomon Islands, and Timor Leste** share climate vulnerabilities but additionally have had experiences of civil unrest or conflict, with a recent 2021 event flaring up in the **Solomon Islands** after a previous period of conflict and rebuilding a decade or more earlier. Capacity and institutional constraints and weaknesses are common traits of fragility that require bespoke CD approaches with longer horizons, additional resources, patience, and sometimes reversals on the path to progress. At times traditional CD must give way to capacity supplementation, but care is needed if sustainability is ultimately to be created to avoid outright capacity substitution. The IMF is finalizing a comprehensive FCS strategy that will provide clear guidance for PFTAC's support to FCS in Phase VI as well possibly additional resources.

PROGRAM RISKS

Programs of CD supported by PFTAC face a multitude of additional risks.

Success and sustainability of a reform initiative usually depends on national leadership, support, and resources. This is often observed where similar programs in different countries lead to vastly different outcomes. Examples of good reform progress

is being observed even with remote CD delivery during COVID-19 when the beneficiary clearly owns and is committed to the reform and devotes or acquires the necessary resources for success. The best strategies and expertise through CD will have limited impact if these prerequisites are not in place, and hence needs to be clearly acknowledged when new initiatives are launched. The importance of quality economic data to policymaking underlines the need for statistical programs to be adequately funded. Desirably the beneficiary country is in the driving seat in articulating and requesting specific CD inputs from various sources, but development partners must be proactive in coordinating with other actors. This has mostly worked well in Pacific, but with heightened interest and donor resources materializing, even greater coordination efforts will be essential. PFTAC stands ready to continue its leadership in key areas like Revenue and PFM. PICs sometimes face a risk of reform and CD overload, with multiple partners competing for the limited capacity and time of the authorities.

RBM has significantly matured with a sophisticated IT platform to better track and report on CD efforts and outcomes. Furthermore, staff now have much greater familiarity and experience with designing, monitoring, and reporting projects based on RBM principles, as well as ensuring greater understanding and commitment by the beneficiary. These learnings are expected to lead to greater precision and accuracy in project outcomes in Phase VI that were perhaps understated in Phase V as this knowledge base and skills were being developed.

SECTION IV

PRIORITIES AND OBJECTIVES FOR PHASE VI

PRIORITIES AND OBJECTIVES FOR PHASE VI

Priorities and objectives for Phase VI are partly a continuation of Phase V, and partly new ones with synergies or complementarities vis-à-vis existing objectives. The logframes are described below and the corresponding detailed tables are in Annex II. Individual projects will be detailed annually in the report to the SC.

Identification of priority programs, themes, and potential project topics for Phase VI was achieved through a highly collaborative and iterative process in the lead-up to the 2021 annual SC meeting. COVID-19 restrictions necessitated all meetings and dialogue to be undertaken virtually. To maximize stakeholder engagement and input, in the months preceding the 2021 SC meeting, thematic virtual working groups (VWGs) were convened with representation (and chairing) by member countries, one or two donors, relevant partners/observers, and IMF staff. Five groups met several times each covering the topics of Revenue, PFM, Macroeconomic Statistics, FSS, and a combined group of Macroeconomic Analysis and Programming and Debt Management. The groups considered the achievements, challenges, and unfinished

efforts of Phase V, and focused on the emerging priorities and needs for the future, documented in short notes that were presented and discussed by SC members. These priorities underpin the planning for Phase VI articulated in this document that followed further consideration and input by the IMF CD departments (CDDs)—FAD, STA, MCM, LEG, and ICD— as well as APD as the area department overseeing PFTAC operations to ensure close integration of CD with the surveillance and lending mandates of the Fund.

PFTAC has improved the integration of its CD with other IMF CD, surveillance, and financing activities. The annual workplan is prepared at the start of the calendar year and transmitted to APD and CDDs for review and consultation to ensure it is well integrated with other CD activities. This follows extensive and ongoing discussion with beneficiary countries as well as collaborating partners particularly for delivery of regional training events. The workplan pays particular attention to how CD can better assist country authorities in meeting structural reform commitments under IMF-supported programs (where applicable), or surveillance

recommendations. This is especially the case for FCS, where institutional capacities may be weak, and political commitment to reforms can be difficult to secure and sustain.

Further integration will be realized by prioritizing TA according to criteria set at the broader level of IMF activities, while factoring in realities on the ground and the need for flexibility to respond to changing country priorities. This has been a hallmark of PFTAC's nimbleness during the COVID-19 crisis in pivoting to new or heightened country priorities, adjusting to the realities of effectively delivering and receiving remote CD. As countries borrow from the IMF (and other sources) to deal with the consequences of the COVID-19 pandemic, as a complement to the surveillance oversight by the APD country teams, PFTAC will also assist member countries to strengthen DM capacity and help support robust PFM processes to ensure the transparent and effective use of funds.

These criteria include:

- Program support, especially where TA is essential to help the authorities meet program conditionality.

- FCS,⁶ where institutional build-up is crucial for policy design and implementation, and where short-term priorities may weigh heavily in reform priorities.
- Ownership and track record of implementing past CD recommendations.

The engagement in FCS will be scaled up. State fragility undermines macroeconomic stability and inclusive growth, with FCS at risk of falling further behind the rest of the world, particularly in the post-COVID-19 recovery. Seven⁷ of the 16 PFTAC member countries are classified as FCS. During Phase V, they received an average of 34 percent of PFTAC resources, declining during COVID-19 given the difficulties of remote CD delivery and other challenges faced by the member countries, including factors associated with fragility such as poor communication channels, and insufficient institutional capacity. An even greater proportion of PFTAC resources will be provided to fragile member states in Phase VI driven by need and demand. Expanded efforts will be guided by the comprehensive FCS Strategy the IMF has been recently developing and that will include tailored and innovative approaches that are country specific, particularly reflecting the disparity in size and economic structure of Pacific FCS. The FCS Strategy targets providing more intensive support through increasing the number of resident advisors in the Regional Capacity Development Center (RCDCs) and ensuring advice is tailored and well-integrated with other IMF engagement. Innovative approaches

will expand upon traditional CD modalities, including possibly more frequent and longer peripatetic engagements, leveraging regional groupings and encouraging more 'south-south' collaboration, and working with partners to increase the transition from capacity supplementation that is currently unavoidable in certain sectors such as statistics, to a longer-term state of sustained institutional capacity that is built over time.

The increase in support during Phase V to climate change related issues is expected to grow significantly in Phase VI. Natural disasters and climate risk are key issues for PICs, and existential for some. As with other small states, the economic and social damage from natural disasters and climate change are disproportionately large. With the size and frequency of such events on the rise, there will be continued need for investment in climate resilience and adaptation – more difficult now given the damage to fiscal buffers resulting from the pandemic. In Phase V, climate change was of increasing importance with PFTAC piloting the PEFA Climate Change module in **Samoa**, a major milestone, with assessments in additional PICs planned. Under the Macro program, the impact of cyclones and other natural disasters have increasingly been factored into medium-term frameworks to inform the outlook more realistically and resiliently. Climate change factors will become increasingly prevalent in all programs beyond PFM and Macro, including Revenue to support appropriate tax policies to minimize emissions and support adaptation, financial supervision to ensure climate related risks are recognized and mitigated, through enhanced statistical measures to track the climate related developments and the impact of policy responses. While climate change factors will be mainstreamed into all Phase VI programs, the most significant response will be focused on public finance to answer the increasing demand for CD to strengthen PFM

systems to be responsive to climate change issues and for member countries to potentially qualify for access to climate change financing. Accordingly, a new, third PFM advisor position will be established in Phase VI with a focus on climate change issues to respond to the growing demand at the member country level as well as regionally working collaboratively such as with PIFS and other partners.

Engagement on gender equality issues will be more explicitly reflected in Phase VI. Future PFTAC support in gender related topics will be guided by the IMF's *Gender Mainstreaming Strategy* that aims to bring a gender lens to all aspects of IMF work given the macro-criticality of the issue. Development of this strategy is ongoing, including a consultation concept note published on February 10, 2022, that seeks public input.⁸ Over time, the strategy will entail mainstreaming gender into the core mandates of the IMF, namely surveillance, programs and lending, and CD, in addition to enhancing collaboration with other International Financial Institutions. Fund provided gender CD in the past has been mostly via workshops leading to limited demand for tailored CD. This has been particularly demonstrated with gender responsive budgeting, and for PFTAC during Phase V, through PEFA assessments delivered in **Tonga** and **Nauru** that included an assessment using the gender responsive PFM module. As is the case of all PFTAC support, the provision of gender related CD will always be based on the requests and demands of the member countries, and should be targeted to areas where PFTAC can bring specific value added from a macroeconomic perspective, perhaps collaboratively

⁶ The IMF defines a *Fragile and Conflicted Affected State (FCS)*, or 'fragile state' as one that is classified as fragile if the three-year moving average of its World Bank Country Policy and Institutional Assessment (CPIA) index is higher than 3.2.

⁷ Kiribati, Marshall Islands, FSM, PNG, Timor-Leste, Tuvalu, and Solomon Islands are classified FCS.

⁸ Consultation Concept Note for Proposed Strategy for Mainstreaming Gender at the IMF: <https://www.imf.org/-/media/Files/Topics/Gender/gender-strategy-consultation-note-021022.ashx>

with other partners that specialize in broader gender programs. Given the high prevalence of disabilities in the Pacific, support for strengthened disability inclusion via responsive PFM policies and systems is also intended through expanded cooperation with the PDF. A gender responsive budgeting workshop is planned in the closing months of Phase V to be delivered by FAD public finance gender experts that could trigger interest and possible demand early in Phase VI. This could lead to interest in national assessments of the gender-responsiveness of PFM systems through the PEFA gender module and/or explicit CD to strengthen systems and institutions. Beyond expected increased

demand for gender responsive PFM CD in Phase VI, opportunities in other programs are envisaged for example through focused gender equitable revenue strategies to enhance revenue administration effectiveness and to strengthen taxpayer compliance.

The situation in the region during Phase VI allows for an increase in LTX resources from 7 to 10,⁹ with new advisors for PFM focused on climate change, Macroeconomic Frameworks, and the return of GFS/PSDS advisor. Overall, the expanded team comprises: (1) five fiscal LTX, two for Revenue two existing PFM advisors, and a new, third PFM advisor focused on climate change; (2) two

Statistics LTX, one each for RSS and the reinstatement of the GFS/PSDS position; and (3) an LTX each for FSS, the APD-backstopped MAP program, and the new ICD-backstopped Macroeconomic Frameworks program. The proposed increase in LTX is in line with the recommendations of the IMF's FCS Strategy. These numbers exclude the DM program and LTX that is Japan Selected Account (JSA) financed through end-FY 2024 and hopefully will be a strong candidate for a 3-year extension, but if further JSA-financing does not materialize, space and funding may need to be found within the PFTAC budget to absorb the program from the second year of Phase VI (i.e., FY 2025).

⁹ Dedicated workspaces for additional staff cannot be provided within the current office configuration unless the office is retrofitted to increase capacity or hybrid work arrangements are instituted that is likely in the post-COVID-19 era.

MACROECONOMIC ANALYSIS AND PROGRAMMING

GENERAL CONSIDERATIONS AND STRATEGIC OBJECTIVES

The early Phase VI years will coincide with the recovery from one of the world's greatest human tragedies and concomitant economic and fiscal shocks in many decades. Many PICs were adversely affected through a loss of tourism and closed borders. Additionally, pandemic induced lockdowns led to large negative shocks to domestic economies in many PICs.

These economic losses placed many governments' revenues, debt levels, and foreign exchange reserves under considerable pressure that will take time to recover. Furthermore, some PICs may continue to experience vaccination challenges, exacerbating economic uncertainty.

For these reasons, MAP will have a strong emphasis on macro-fiscal analysis and policy setting. Country authorities need to fully understand their short and long run economic and fiscal dynamics to plot sustainable pathways forward. The MAP program also provides flexibility and nimbleness to promptly respond to newly emerging but unforeseen issues that have macroeconomic importance for the requesting country that requires objective economic-grounded analysis.

Examples in Phase V have included cost/benefit reviews of offshore financial sectors of several PICs, review of Non Tax Revenue policies, and revenue modeling of policy options under consideration in the context of broad tax reforms supported under the revenue program. More substantively, since early 2020 the Macro advisor provided secretariat support to a Working Group of Pacific Central Banks exploring options to address loss of CBRs, including the development of an electronic *Know Your Customer* utility. Future PFTAC support to this initiative awaits the findings and decisions on future directions arising from the Working Group and an assessment of the contribution CD could provide. This flexibility and responsiveness will continue to be a hallmark of the MAP program in Phase VI.

TECHNICAL ASSISTANCE

TA will be tailored to country capacity, with a graduated level of assistance, depending on need and absorptive capacity. For some countries, this will initially involve assistance to compile medium term budgetary 'forward estimates', inclusive of expenditure, revenue, and economic forecasts. Such an approach will likely draw upon a range of 'partial' models. These 'partial'

models can provide accurate forecasts for particular economic indicators, for example inflation, and for use in monetary policy setting.

This enhanced forecasting capacity will in turn support Excel based macro-fiscal models that facilitate scenario analysis, particularly in relation to changes in government expenditure and the impact of shocks, such as climate related on both the economy and long run debt sustainability.

Longer term supported TA and training will also be available to enable countries with higher capacity to make use of even more sophisticated models and techniques.

TRAINING

Beyond TA, a range of training options and modalities –[including the areas of macroeconomics of climate change and of gender equality](#)– will be provided to all interested government and central bank officials, including joint offerings with IMF-Singapore Training Institute (STI) and ICD. This training may take the form of regular targeted 2-3 day seminars that incorporates both workshop style training and the sharing of practical experience and judgement. It may also include longer term technical training on selected topics.

PROGRAM INTERLINKAGES

TA provided under MAP is strongly linked with the other PFTAC programs, particularly the RSS and GFS programs. Accurate National Accounts data is essential for economic analysis and forecasting, with nominal and real expenditure based GDP particularly lending itself to analysis of the economic impact of changes in government spending. Furthermore, MAP has very close linkages with the PFM and DM programs, and will be closely coordinated with the complementary *Macroeconomic Frameworks* program. In Phase V, the MAP and PFM programs convened several stakeholder workshops to enhance data sharing and mutual understanding of the complexities in forecasting and managing fishing revenues that are macro-critical to a group of PICs.

OBJECTIVE

Ultimately, the objective of PFTAC MAP is to enable policy makers to better understand their current and future macro-fiscal environment and thereby set fiscal, monetary, exchange rate, and other economic policies appropriately in response.

EXPECTED OUTCOMES

The main targeted outcomes are summarized below, by strategic objective:

A key desired initial outcome is the publication of four years of economic, expenditure, revenue, and debt forecasts within a country's national budget. Extending forecasts beyond the initial budget year in this manner provides transparency in relation to the country's medium term macro-fiscal outlook. Improving the

accuracy of these forecasts is also a high priority as it allows authorities to make appropriate fiscal, monetary, exchange rate and other policy responses. A further critical outcome is improving authorities' understanding of the interlinkages within their economy. For example, a better understanding of the relationship between government spending, imports, and foreign exchange reserves will help governments to understand the broader economic impact of their spending decisions. Modelling these relationships on a tailored basis for individual countries will enable a full understanding of the impact that shocks, such as natural disasters, are likely to have on different sectors of the economy.

MACROECONOMIC FRAMEWORKS

GENERAL CONSIDERATIONS AND STRATEGIC OBJECTIVES

The ongoing pandemic and associated economic shocks to PICs – many also FCS – have accentuated the need to bolster CD on macroeconomic frameworks, macroeconomic forecasting, and analytical capabilities.

Governments have taken a variety of approaches to mitigate the impact of the pandemic on their economies. Evaluating the full implications of their policy choices requires a well-developed (and flexible) macroeconomic framework, appropriate near-term forecasting, debt dynamics and other projection tools, as well as institutional frameworks of central banks and ministries of finance to systematically feed the results of the macroeconomic projection tools into the policymaking processes. A deep understanding of the short- and long-run macroeconomic outlook, and ability to gauge the macroeconomic policy response to shocks is essential for countries to make appropriate macroeconomic policy decisions, both as the COVID-19 pandemic continues and afterwards during the recovery period.

In recent years, the ICD has stepped up its CD delivery to PICs through training and, more recently, macroeconomic frameworks TA.

This ICD program for Macroeconomic Frameworks is complementary to the PFTAC program for MAP. In recent years, the demand from IMF member countries for TA in macroeconomic forecasting and policy analysis has increased significantly. ICD has stepped up its TA with six new projects delivered from HQ in coordination with PFTAC and the STI. These interventions have complemented the already heavy work program of the PFTAC MAP advisor. In addition, while the role of the existing PFTAC MAP advisor includes TA in PFM and budgetary process and projections, extending in some cases to operational assistance to member countries, ICD-backed TA will focus on developing macroeconomic projection tools that help policymakers better incorporate the relationships between fiscal policy, monetary policy, and exchange rate regimes into macroeconomic policy making. This end-to-end ICD-led TA involves IMF experts working in the country's institutional context, allowing appropriate design of tools for macroeconomic analysis and forecasting, including through related training, tailored to country conditions to ensure strong ownership by recipient agencies. ICD's Macroeconomic Frameworks TA will

help PIC government and central bank institutions reach a deeper understanding of their macroeconomic outlook and to better respond to shocks. It will be essential for this additional ICD support to dovetail closely with the existing PFTAC MAP program.

The initial work of the Macroeconomic Frameworks Resident Advisor will focus on six TA projects that commenced in 2021.

Three of them used semi-structural models to develop a Forecasting and Policy Analysis System (FPAS) with the central banks of **Solomon Islands, Samoa, and Tonga**. Three more use accounting-type macro-frameworks to build analysis and forecasting capacity at the fiscal institutions of **PNG, Timor-Leste, and Vanuatu**, the latter two with STI support. All six projects are planned to involve up to nine TA missions/activities, spread over a three-year period (mid-2021 to mid-2024). Strong demand for macroeconomic frameworks TA is expected to continue increasing in the aftermath of the COVID-19 pandemic. The need for better tools for macroeconomic policy management are likely to come mainly from PICs, LICs, and FCS.

The main role of the ICD-backstopped macroeconomic frameworks resident advisor will be to implement ICD's macroeconomic frameworks program. In this way, the advisor will assist PICs to develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications at central banks, ministries of finance, and relevant government agencies in order to help promote macroeconomic stability, economic growth, and development. The ICD-backstopped Macroeconomic Frameworks advisor will work in close coordination with the existing APD-backstopped MAP advisor, with the division of labor coordinated on a case-by-case basis, based on the comparative advantage for the specific project's characteristics.

EXPECTED OUTCOMES

Macroeconomic framework CD will help recipient countries improve the macroeconomic analysis and forecasting capabilities of government institutions to support their macroeconomic policy decision-making

processes. Emphasis will be placed on assisting country officials strengthen their macroeconomic forecasting and analytical capacity; supporting the development of analytical tools to improve macroeconomic and macro-fiscal forecasting ability, credibility, and policy analysis; and helping identify and mitigate macroeconomic risks. In the context of monetary policy, this could involve establishing processes and organizational structures for a FPAS and incorporating it into the decision-making process of the central bank. This will provide a sounder basis for policy formulation by better linking monetary and fiscal policies to consistent macroeconomic scenarios, improving medium-term macroeconomic frameworks, and supporting institutional arrangements, analytical tools, and communication outputs and channels, both internally and externally. Depending on country needs and capacity, the macroeconomic-frameworks TA projects may range from building Excel-based, sectoral-relationship frameworks with supporting economic projection equations, to building semi-structural

gap models or even DSGE models of national economies. Near-term forecasting/nowcasting tools and macroeconomic projection tools and/or debt dynamics tools will also be included in these ICD-led macroeconomic frameworks TA and training projects. In view of the low capacity and small staff of many PICs, the agenda may include assistance with the implementation of basic elements of macroeconomic diagnostics, such as the analysis of equilibrium exchange rates, output gaps, and the basics of debt sustainability.

The resident advisor will help identify and address CD needs, taking account of individual countries' policy regimes, macro analysis and forecasting capability, as well as their capacity levels. The advisor will undertake these activities through TA missions, TA-related training engagements, and peer-to-peer learning activities, either alone or together with IMF staff and/or specialized STX employed by the IMF. The advisor will coordinate closely with ICD to ensure consistency with other IMF CD activities.

FINANCIAL SECTOR SUPERVISION

GENERAL CONSIDERATIONS

Though PICs have made significant strides, they have not kept pace with changes to international regulatory standards and supervisory practices from lessons drawn from banking crisis episodes and rapid financial sector advances.

International banking standards have expanded beyond capital to encompass liquidity and large exposure standards that are critical to ensuring survival of financial institutions under stress. Macro-prudential supervision has expanded regulatory capital to include various types of capital buffers that can be drawn down during periods of stress and includes identifying domestic systemically important financial institutions needing stronger supervision. Basel III standards on leverage and interest rate risk in the banking book further enhance the rigor of the regulatory framework. All standards for the measurement of risk weighted assets have also been comprehensively revised. While Basel standards were developed for advanced/larger economies, they provide scope for proportional implementation in smaller jurisdictions, with discretion for national circumstances and optional approaches for risk and capital measurement.

In this rapidly evolving world, COVID-19 shocks have interrupted reforms, with the distance to the target having increased in many developing countries. In this context, it is imperative that reforms set in train are not halted, or worse, rolled back. Completion of current thematic projects launched by PFTAC will lay the necessary foundation for the PICs to take their financial sector regulation to the next level. PFTAC stands ready to assist the PICs in achieving this objective.

STRATEGIC OBJECTIVES AND EXPECTED OUTCOMES

Alignment of financial stability frameworks of PICs with international standards is already underway and will remain a focus during Phase VI.

Since FY 2021, PFTAC has gradually started assisting PICs to review their prudential standards (e.g., definition of capital, large exposures, interest rate risk in the banking book, and liquidity standards) to align them with corresponding Basel III standards (**Marshall Islands, Tonga, Solomon Islands, and PNG**). In adapting the international standards in the Pacific, due attention is paid to making modifications as warranted by country specificity

and balanced by considerations of proportionality and regional comparability. In conjunction with the RBS upgrade, prudential returns are being aligned with revised prudential standards (**Tonga and Solomon Islands**). This work would likely continue well to the mid-point of Phase VI as the program expands to other PICs. Other topics (Macroprudential Supervision, Pillar II and Pillar III of Basel Capital Framework) will be added building on the foundation laid by the current projects, significantly narrowing the gap between the international standards and the current status of FSS in the PICs. Besides the mainstream reforms, PICs attach significant importance to improving supervision of non-banking credit institutions such as credit unions and other micro-finance institutions as well as development banks. PFTAC will continue to support the authorities in their endeavors as needed.

Based on an extensive Association of Financial Sector Supervisors of Pacific Island Countries (AFSPC) survey to prioritize supervisory needs, the PFTAC SC identified the following regional priorities: (i) monitoring of systemic risks; (ii) preparation/review of supervision manuals;

(iii) NPL resolution; (iv) financial stability reports; (v) supervisory stress testing of financial institutions; (vi) bank resolution; (vii) Basel III liquidity standards; (viii) off-site supervision; (ix) early intervention in weak banks; and (x) development of prudential and risk management standards for non-banking credit institutions. TA for specific countries will depend on individual country priorities, such that projects deemed 'High Priority' take priority, and ongoing projects

completed first before Phase VI. PFTAC will assist PICs in adopting international standards with suitable modification based on proportionality without compromising rigor. The priorities identified by the SC would guide the selection of topics for regional conferences and launching thematic projects across the PICs.

Phase V saw commencement of TA activities on emerging issues such as cyber risk management

and fintech which are expected to grow over Phase VI. Phase VI would also likely see some TA activity in the area of supervision of climate risk. The log frames at Annex II adequately cover all potential TA activities during Phase VI. The regulation of digital currencies is another emerging issue that could develop into an area of support, possibly introduced through awareness building workshops to ascertain relevance and interest.

GOVERNMENT FINANCE STATISTICS

GENERAL CONSIDERATIONS AND STRATEGIC OBJECTIVES

Improving GFS and PSDS is a high priority in the PFTAC region. Almost half of PFTAC members are FCS with significant data gaps in fiscal and debt statistics that hamper surveillance and informed policy and decision-making. During Phase VI, support to member countries will focus on strengthening institutional capacity for compilation and dissemination of high quality GFS and PSDS by improving data sources, statistical techniques and methodologies, coverage, periodicity, timeliness and data consistency. CD will be demand driven, with particular focus on seven FCS in the region.

Given the strong demand in the region for GFS and PSDS, STA will continue to have a GFS resident advisor based in Fiji. To ensure that the authorities and APD have basic and timely data for surveillance and decision-making, CD delivery modalities will include an element of ‘capacity supplementation’ to address special needs of countries with limited absorptive capacity. To address the rising concerns about debt sustainability among PICs, particular attention will be given to debt sustainability and debt issues—improving

sectoral and instrument coverage of debt data, as well as the holders of debt—in close coordination with CD providers in related programs so as to maximize synergies—JSA financed DM project and the Data for Decision (D4D) trust fund, which is managed directly by HQ.

EXPECTED OUTCOMES

Strengthened human and institutional capacities to compile and disseminate good quality GFS and PSDS:

Given the baseline differences between member countries, those countries that already achieved a steady progress would be supported through targeted CD to improve source data, statistical techniques and methodologies to compile and disseminate timely annual GFS and PSDS for the GG or other sectors of government that are considered essential for the understanding of fiscal risks, depending on local conditions. For countries with less developed statistical systems (in particular FCS), the focus would be on the BCG, but considering opportunities to expand coverage. TA, regional workshops, and online learning offerings will aim at strengthening human and institutional capacities.

Improved methodology in GFS and PSDS, data sources, statistical techniques, periodicity, timeliness, and data consistency:

Selected countries would need to complete the delineation of the public sector and expand sectoral coverage to include the GG. Countries will strengthen their classification systems to align to the latest *GFSM 2014* and the *Public Sector Debt Statistics Guide* for Compilers and Users 2011 (PSDSG 2011). Member countries will be supported to improve institutional frameworks for collecting adequate, reliable, and timely source data. In addition, and to further integrate CD with APD country work, countries will be supported through targeted CD to compile high frequency data (quarterly and/or monthly) and to expand sectoral and instrument coverage for PSDS. For countries with stronger institutional capacities, CD will be focused on improving availability of reliable, consistent and timely source data on state-owned enterprises to expand GFS and PSDS coverage to public nonfinancial corporations.

REAL SECTOR STATISTICS

GENERAL CONSIDERATIONS AND STRATEGIC OBJECTIVES

RSS are essential for evidence based economic policy-making. National accounts statistics provide information about a country's size of production and income as well as interactions between its different sectors of the economy. Furthermore, they provide the private sector, foreign investors, rating agencies, and the public in general with important inputs in their decision-making. National accounts compilation requires the development of independent, local capacity alongside data and methods improvements. Price statistics - as the other part of real sector statistics - inform about inflationary developments and guide monetary policy in their activities.

PFTAC member countries are characterized by relative heterogeneity concerning the level of development of their statistical systems. While larger countries typically are better staffed, allowing them to embark on new statistical products, many small countries struggle with the regular production of basic economic statistics due to limited human resources. Hence in the past, PFTAC had to react in a flexible manner to cope with the different needs of the countries.

PFTAC assisted countries like **Nauru, Niue, Tuvalu, Kiribati** and the **Solomon Islands** with updating their national accounts to the most recent year and rebasing. New statistics could be implemented in the larger countries like **Fiji** (QNA) and **Samoa** (expenditure side GDP) as well as the **Solomon Islands** (seasonal adjustment of QNA).

EXPECTED OUTCOMES

The Phase VI Priorities in real sector statistics build on initiatives to improve the accuracy, periodicity, and timeliness of key data and will therefore focus on: (i) implementing QNA programs in additional countries (**Tonga, the Solomon Islands, and Vanuatu**), (ii) enhancing compilation programs in price statistics, including to better measure services; and (iii) supporting the maintenance of RSS compilation programs to mitigate risks of slippages, including by providing continuous training and supporting source data improvements. Furthermore, the scope for developing climate indicators of physical risk will be examined as these become more critical in assessing the impact of climate-driven shocks and to support policy responses in FCS.

Work in national accounts and price statistics will continue to reflect the limited absorptive capacity of several national statistical offices, with priorities and modes of delivery evidencing a clearer distinction between micro-states (many also FCS) requiring capacity supplementation and those that have the potential to leverage CD to improve their compilation systems. In the case of capacity supplementation, more intensified engagements to ensure regular data availability will be facilitated by greater STX use –with the LTX providing essential links to Fund surveillance needs; and also focusing on those microstates that have the resources to sustain improvements. The RSS program will also seek opportunities to take a regional approach to capacity supplementation, including the use of common tools, methods, and where possible data sources.

Modest External Sector Statistics (ESS) support will further strengthen BOP data and compilation capacity. During Phase V, PFTAC annually supported several ESS missions for Pacific countries in conjunction with a regional program managed from Thailand for select Pacific nations. This will continue in Phase VI under the auspices of the RSS program.

PUBLIC FINANCIAL
MANAGEMENT**GENERAL CONSIDERATIONS AND STRATEGIC OBJECTIVES**

Phase VI will build upon the progress made during Phase V, with many ongoing projects continuing to further strengthen PFM practices in priority areas, including annual financial reporting and in-year budget execution reporting; cash management; updating national PFM Acts and Regulations; strengthening budget execution controls; and managing nonfinancial assets. Many PICs would benefit from a simplified and easily understood budget framework, with clear budget documentation, integration of recurrent and development budgets, presentation in accordance with international standards, e.g., *GFSM2014* for economic and functional classification, and through the publication of a Citizen's Budget. Newer areas of work, which will gain greater prominence in Phase VI are the management of fiscal risks, PIM, and climate related PFM activities such as the PEFA and PIMA Climate modules. Additionally, there has been a growing demand for advice on non-tax revenue, and this is an area being investigated in conjunction with the PFTAC MAP program.

As with previous phases, Phase VI will be responsive to country demands and emerging needs.

For many years PFTAC has been the leader on PEFA assessments in the region to evaluate and benchmark country PFM practices. This work has paved the way for formulating reform roadmaps which are both sequenced and prioritized appropriately, cognizant of national conditions and constraints. Taking on board the findings of the IMF Working Paper, *Review of the PFM Reform Strategy for Pacific Island Countries 2010-2020*¹⁰, Phase VI will be more cognizant of overambitious reform programs, ensuring feasibility of implementation within local capacity constraints. Also, balancing diagnostics with reform implementation, PEFA assessments will generally be undertaken not more frequently than every 5–6 years. PFTAC will continue to engage other development partners to ensure effective coordination and synergies in TA/CD delivery.

Most PFM reforms are based on the 'long game' with achievements building incrementally and progressively over time, rather than fielding

one-off projects in the expectation of significant immediate gains. That said, good progress has been noted in most countries during Phase V, which will shape the reforms for Phase VI. Missions will continue to be designed around the topic objectives and outcomes from the RBM catalog, which has been instrumental in maintaining an overview of the whole PFM cycle and providing a mechanism for measuring progress in between PEFA assessments.

Strengthening transparency and accountability throughout the PFM cycle will be key to addressing fraud and corruption risks. These principles are based on implementing internationally accepted good practice and international standards for fiscal reporting (*GFSM2014*), accounting (*IPSAS*), and Internal Audit (Institute of Internal Auditors - IIA), as well as the transparency practices as listed in the Fiscal Transparency Code of the IMF.

Taking onboard lessons from remote engagement since the outbreak of the COVID-19 pandemic, the PFM team will seek to bolster engagement using all communication channels to better understand constraints to countries' take up of CD and facilitate

¹⁰ <https://www.imf.org/-/media/Files/Publications/WP/2020/English/wpiea2020183-print-pdf.ashx>

a more even distribution in the levels of support provided to individual member countries.

EMERGING AREAS OF FOCUS FOR PFTAC

COVID-19 has had a significant impact on member countries' economies as well as on PFTAC's CD delivery. The recovery phase will start during the tail end of Phase V and continue well into Phase VI, and this will be taken into consideration in the design and delivery of missions. Several of the PIC administrations are extremely small and dependent upon capacity supplementation as well as development. The PFTAC PFM team will work closely with advisors provided by other development partners to coordinate respective efforts and leverage synergies.

Climate continues to be a major issue in the region and during Phase V, PFTAC supported the piloting of the PEFA Climate Change (CC) Module, assessing the responsiveness of PFM systems to climate in **Samoa**. Further PEFA CC assessments will be supported under Phase VI. Additionally, PFTAC plans to mainstream climate issues within CD delivery in topics such as PIMA climate change or PFM green budgeting. To this end, a dedicated PFM climate advisor will join the two existing PFM advisors to help mainstream climate within missions and training events undertaken against the PFM strategic objectives contained in the RBM catalog. Several PICs are striving for accreditation for accessing climate funds. Sound underlying PFM systems and practices are a prerequisite for access, although these alone do not guarantee access accreditation.

PFTAC has also started to incorporate gender considerations into its PFM CD delivery. Specifically, a pilot assessment of the PEFA gender module was undertaken and follow up PEFA gender module assessments will be undertaken in other countries, alongside

the core PEFA assessment. The **Nauru** PEFA assessment conducted in early 2022 will include a gender responsive component. As with climate, PFTAC is looking for opportunities to mainstream gender in CD delivery based on the needs and demands of the member countries.

EXPECTED OUTCOMES

PFTAC will continue to support progress in the seven RBM strategic objectives:

Improved PFM laws and effective institutions. All member countries will have PEFA assessments generally no older than 6 years, which will drive the updating, reprioritizing and resequencing of PFM roadmaps and action plans based on progress, outcomes, and issues arising during implementation.¹¹ Where it is a country priority, the PEFA assessments will incorporate the climate and gender modules to assess the responsiveness of PFM systems to these important areas. Financial management legislation will be updated in **FSM, Kiribati, Fiji, Solomon Islands, and Vanuatu**. Guidance will be provided on FMIS design and configuration in **Fiji, FSM, Kiribati, Marshall Islands, Tonga, and Tuvalu**, although this will primarily be undertaken in the context of core PFM functionality covered under the respective strategic objectives below.

Comprehensive, credible, and policy-based budget preparation. Work will seek to strengthen outcomes: (i) a more comprehensive and unified annual budget is published; (ii) a more credible medium-term budget framework is integrated with the annual budget process; (iii) information on resources and performance by program is included in budget

documentation; and (iv) planning and budgeting for public investments is more credible. In mainstreaming gender considerations, a gender lens is applied across all areas of PFM. For example, establishing the legal framework to support gender; into the budget preparation and allocation of resources; through budget execution; and in control and reporting. All countries would enhance transparency and clarity in budget documentation, specifically through presentation of an integrated (recurrent and development) budget aligned to the *GFSM2014* format for economic and functional classifications and strengthening capital budgeting practices. Medium-term budgeting frameworks will be strengthened in **Cook Islands, FSM, Fiji, Marshall Islands, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, and Vanuatu**, specifically through establishing sound revenue and forecasting models (in collaboration with the MAP program), analysis and explanation of successive budget forecasts and building local capacity to maintain the models. Presentation of performance information in budget documentation will be enhanced in **Fiji, PNG, Samoa, Timor-Leste, Solomon Islands, Tonga, and Vanuatu**.

Improved budget execution and control. Budget execution and controls will be strengthened with support delivered to all member countries. Automation of budget releases (for example through quarterly warrant releases) and system-based commitment controls will be strengthened in **FSM, Kiribati, Marshall Islands, Nauru, Niue, Palau, PNG, and Tuvalu**. Payroll controls will be reinforced in **PNG** for provincial payroll expenses. **Fiji, PNG, Samoa, Solomon Islands, and Tonga** will continue developing risk based internal auditing practices and implementation of IIA standards and strengthening the institutional support arrangements for Internal Audit.

¹¹ Allen and others "Review of the Public Financial Management Reform Strategy for Pacific Island Countries, 2010-2020". Working Paper 20/183, IMF

Improved coverage and quality of fiscal reporting. Timely publication of audited annual financial statements prepared according to international standards will contribute significantly to enhance transparency. The majority of countries are consolidating their accounting practices using cash based IPSAS, with many (**Cook Islands, Samoa, Solomon Islands, and Tonga**) progressively presenting information in accordance with the IPSAS ‘encouraged disclosures’, with a view to a longer-term adoption of accrual accounting. In-year budget execution reporting will become routine in countries where this is currently lacking, i.e., **FSM, Kiribati, Marshall Islands, Niue, Palau, Solomon Islands, Tonga, Tuvalu, and Vanuatu**. (Ongoing enhancements to charts of accounts will be made, further aligning to *GFSM2014*, in these same countries).

Improved asset and liability management. More accurate and timely cash flow forecasts would be achieved in **FSM, Kiribati, Marshall Islands, Nauru, Palau, and Tuvalu**. These reforms would be coupled with refining banking arrangements leading towards a more effective use of cash through the adoption of a

Treasury Single Account structure. The **Cook Islands, Fiji, PNG, Samoa, Solomon Islands, and Tonga** would provide more comprehensive and reliable data on nonfinancial assets leading to improved management of the government balance sheet—this would take account of climate considerations and facilitate assessment of fiscal risks of climate events.

Strengthened identification, monitoring, and management of fiscal risks. COVID-19 has significantly impacted governments’ State Owned Enterprises (SOE) sectors, especially those operating in the tourism sector, including airlines. Better oversight of SOEs and the fiscal risks emanating therefrom will be key during the recovery from the pandemic. Building on achievements during Phase V the **Cook Islands, Fiji, Samoa, and Tonga** will extend coverage and disclosure of SOE fiscal risks—this work will be expanded to incorporate additional areas of risk, with a view to publishing a formal fiscal risk statement. Other countries, including **Kiribati** will also initiate strengthened oversight and reporting on SOEs performance and risk, as first steps in fiscal risk management. The

CD will assist countries in strengthening the management of fiscal risks and in the use of the FAD fiscal risk toolkit among others.

Improved PIM. To date, the primary activity has been diagnostic, with PIMA undertaken in **Timor-Leste** and **Kiribati** with a **Cook Islands** assessment planned for FY 2023. Following the high interest generated during the regional workshop on PIMA delivered in April-May 2021, support to PIM will take on greater importance in Phase VI, and climate considerations will be prominent during all CD delivery, including planning resilience into infrastructure from the outset. There would be interlinkages with other strategic objectives, such as unified budgets ensuring all recurrent costs are duly reflected and identifying and measuring the stock of assets. Capital budgeting will be strengthened in all countries, coordinating with efforts of the Pacific regional Infrastructure Facility which is supporting the development and updating of the National Infrastructure Implementation Plans. The ability to evaluate and implement large scale projects will also be improved in these countries.

REVENUE POLICY AND ADMINISTRATION

GENERAL CONSIDERATIONS AND STRATEGIC OBJECTIVES

The considerably expanded Phase V program will continue into Phase VI to provide support to member countries on tax policy, tax legislation, and tax administration to meet country demands for revenue mobilization, modernization, and tax reforms. Domestic revenue mobilization is particularly important given the substantial cost of reaching SDGs and addressing fiscal deficits and for some countries, rising levels of public debt. The cost of reaching these goals is higher for those countries with climate vulnerabilities such as **Fiji, Kiribati, FSM, Samoa, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu**. Support will also be provided to PICs on tax policy options and revenue administration improvements to recover the trade revenue losses in terms of PACER Plus, a regional trade agreement between several PICs and Australia and New Zealand. Without a resident tax policy advisor in the center, the policy component of the revenue program will continue to be delivered through a combination of FAD Tax Policy-led missions and STX activities. Depending on the CD-needs and identified

resource availability, it may be considered to post a resident tax policy advisor to the region.

The two strategic objectives for Phase VI are: (1) strengthened revenue administration management and governance arrangements; and (2) strengthened core tax administration functions. A strong focus will be on the recovery from the COVID-19 impact on revenue and to meet future challenges such as climate change. Enhancing gender diversity and equality will be an important theme intertwined with CD delivery.

EMERGING ISSUES

The ongoing implications of COVID-19 pandemic for revenue administrations should be a priority for the next few years, especially for countries with large tourism sectors such as **Fiji, Cook Islands, Samoa, Tonga, Vanuatu, and Palau**. Administrations will need to reinvigorate revenue collections post-COVID and ensure that they have business continuity plans to safeguard continued revenue administration operations in the event of major disruptions such as pandemics,

epidemics, and natural disasters. Unwinding tax policy measures post COVID-19 also presents a challenge, in addition to the potential need for new tax policy measures to reverse revenue declines.

Future tax policy reforms should focus on broadening the base for income taxes and Value Added Tax (VAT), especially exemptions, zero-rated items, and refunds for countries with VAT and the introduction of VAT for countries that do not have it. Non-tax revenues such as fishing and compact grants are currently a significant revenue source for many PICs but are also volatile or have a limited future. Consequently, there is a need to strengthen traditional taxes due to their stability.

Countries having to address European Union (EU) and OECD requirements to be removed from the EU 'black' or 'grey' lists will have to gain a full understanding of the legal, compliance, and revenue implications of adopting a tax system to satisfy EU and OECD requirements before introducing such a system. Accessing expertise in revenue forecasting as well as tax policy analysis is a high priority.

A new emerging issue is the need for cooperation and collaboration with other development partner programs such as the OECD, World Bank, Australian Tax Office (ATO), Department of Foreign Affairs and Trade, Australia, Ministry of Foreign Affairs and Trade, New Zealand, and ADB who are increasing their presence and involvement in the Pacific Island region. There is also a future possibility to provide assistance in improving Customs administration in cooperation with the Oceania Customs Organization (OCO).

Joint training events with the PITAA have made a major positive contribution in Phase V and will be an important component of Phase VI training to reflect the needs of the membership whilst taking into account the demand on the time of executives, other managers, and staff of the tax administrations.

EXPECTED OUTCOMES

The expected outcomes for Phase VI are detailed below, and grouped by the two strategic objectives:

Strengthened revenue administration management and governance arrangements. The Phase VI outcomes under this strategic objective include the following: (a) supporting tax administration efforts for a critical mass of staff to fulfill their mandate, developing business cases that demonstrate the net benefits to governments arising from further investment in tax administrations and pursuit of modernization

initiatives, including investments in information technology; (b) ensuring robust and fair revenue systems to overcome the pandemic impact, maximize revenue collections, and counter trade revenue losses due to PACER Plus; (c) providing support for stronger IT systems, e-Tax and dealing with digitization and e-commerce; (d) improving risk management and data analysis that makes full use of the increasing data volumes flowing to tax administrations; (e) developing and renewing corporate strategies and operational plans and further improving organizational structures; (f) continuing with a strong focus on the large taxpayer segment; (g) assisting with emerging areas such as extractive industries; (h) increasing attention on small and medium enterprises, developing the capacity (and possibly the regulatory framework); (i) participating more fully in Exchange of Information protocols; (j) dealing with the challenges presented by international tax issues, designing and developing approaches to conduct the more complex work, including for international and transfer pricing issues, in partnership with PITAA; (k) designing and implementing Medium Term Revenue Strategies; (l) developing tax policy capacity and assisting with a review and rationalization of the widespread use of tax exemptions and incentives (especially with the VAT and CIT) and reviewing the tax policy measures introduced in response to COVID-19; (m) supporting the adoption of TADAT measures across the region; and (n) supporting customs, in close

collaboration with the OCO, with a primary focus on those countries that have joint tax customs agencies where enhanced tax customs collaboration will enhance revenue mobilization efforts; and (o) raising awareness of Human Resource Management and developing a minimum level of good practice that support effective tax administration.

Strengthened core tax administration functions. PFTAC will continue to support improvements to core tax functions, including: (a) developing a “post-crisis revenue collection action plan” to help revenue administrations re-establish their compliance levels and revenue collections as quickly as possible following COVID-19, but with due consideration of the economic impact that COVID-19 has had on businesses and individuals; (b) improving the taxpayer registration process and accuracy of the taxpayer registers through implementation of robust taxpayer registration policies and procedures, such as cleansing and routinely updating the registers, introducing proof of identity and physical location; (c) getting tax administration foundations right through development of standard operating procedures; (d) improving on-time filing and payment and the management of outstanding returns and tax arrears; (e) supporting voluntary compliance through taxpayer services and communication initiatives; and (f) improving audit techniques and implementing improved mechanisms to increase the capability to audit large and international corporations.



DEBT MANAGEMENT

GENERAL CONSIDERATIONS AND STRATEGIC OBJECTIVES

Maintaining sustainable debt levels and ensuring good debt management practices will be important for the region's development given that the

COVID-19 pandemic and ensuing fiscal measures have brought governments closer to debt distress given underdeveloped DM functions in many PICs.

Phase VI will build on the initial progress made in Phase V in developing the inaugural DM program in PFTAC¹². The program focuses on building capacity in the fundamentals of good DM and will continue to build on the programmatic approach for each member country to provide long-term, and sustainable absorption of TA.

During Phase V, support included developing capacity in debt transparency and monitoring, strengthening institutional arrangements, and building capacity in the medium-term debt management strategy (MTDS) framework.

In Phase VI, the DM Program will focus on the following strategic objectives:

- Strengthening institutional arrangements for more efficient and effective DM, including through the integration of cash and DM, and greater operational coordination with monetary policy.
- Improving transparency in debt management, through regular debt reporting and monitoring, ideally in the context of an active investor relations program to support market access and minimize borrowing costs for the government.
- Supporting each authority in developing and implementing MTDS to guide future financing based on effective cost-risk evaluation. This would include support to design an annual borrowing plan (ABP) and issuance calendar that provides regular and predictable issuance of local currency securities.
- Supporting the development of market infrastructure and capacity for cost-effective financing, including the development of the domestic public debt market, and advising on the issuance of climate-related securities that would help to diversify market financing in the member countries and build greater resilience in the macro-financial framework.

EMERGING ISSUES

The ongoing COVID-19 pandemic has had extensive implications for DM in the region. Continued border closures, and financing for financial support packages, have resulted in an increase in debt, pushing some PICs to a high risk of debt distress. While governments have taken action to reduce the financial impact through temporary debt service suspensions such as the Debt Service Suspension Initiative, the pandemic has highlighted that there is more to be done in DM in the region, including in improving institutional arrangements, legal frameworks, debt reporting and monitoring, and in the area of DM strategy. Following the pandemic, debt transparency will continue to be critical for understanding and managing the risks in member countries' balance sheets.

In addition to the pandemic, climate change and adaptation costs, as well as natural disasters, will continue to put pressure on government finances. Support in debt transparency, debt management strategy, and building knowledge and expertise in climate financing, will provide member countries with the capacity to address these inherent risks.

¹² The Public DM Program is financed entirely by the Government of Japan, but is co-located and integrated with PFTAC.

Continued efforts by country authorities to build and maintain resources and capacity in debt management will be key to achieving good DM practices in the region.

DM functions in many countries in the region are under resourced, undermining the ability to conform with good DM practice. PFTAC will continue to support authorities in strengthening institutional arrangements for DM.

EXPECTED OUTCOMES

The targeted outcomes by strategic objective, are summarized below:

- **Strengthening institutional arrangements for more efficient and effective DM:** Legislation provides an effective framework for DM; improved institutional structure for DM; improved monetary

policy coordination; improved DM audit; and improved operational risk management.

- **Improving transparency in debt management:** Improved staff capacity for debt recording, reporting, and monitoring; debt reported regularly to the public and relevant authorities; a functional operational framework for debt monitoring; improved back-office processes for debt recording; and debt is recorded effectively and comprehensively.
- **Supporting authorities develop and implement a MTDS:** Enhance capacity for debt management strategy formulation and implementation; staff can use the MTDS Analytical Tool effectively; DM strategy developed, documented, and published; an ABP is published

that is consistent with the debt management strategy; an effective risk management framework is implemented; an issuance calendar is produced and published regularly; cash and DM are integrated effectively; staff can assess, negotiate and record loan contracts; the DM entity undertakes effective investor relations.

- **Supporting the development of market infrastructure and capacity for cost-effective financing:** Enhanced capacity for domestic financing; effective financing through market-based instruments; an effective primary market with market-based issuance; the government securities market is supported by primary dealers; an effective domestic money market; introduction of instruments to improve resilience to climate shocks.

TRAINING AND OTHER REGIONAL EVENTS

GENERAL CONSIDERATIONS AND STRATEGIC OBJECTIVES

The PFTAC CD approach has evolved over Phase V to a model of close integration of training and TA. Beyond the provision of bilaterally delivered CD to member countries, PFTAC has had a long history of designing and delivering training events that respond to (sub) regional priorities, many undertaken collaboratively with regional professional groupings (e.g., tax administrators, financial regulators, government statisticians), regional institutions (e.g., PIFS and SPC), and development partners to leverage respective comparative advantages. Furthermore, workshops and similar events provide opportunities for south-south cooperation, with agendas designed and speakers secured for peer-to-peer sharing of experiences and challenges. Such events often generate interest by member countries in particular reform initiatives giving rise to requests for follow-on bilateral CD. Thus, workshops and training events are a vital reinforcing mechanism to build interest and traction in important economic reform and institutional capacity building priorities of the region.

Training topics and themes vary widely and respond to both regional needs as well as providing a window to emerging issues of importance, benefiting from the IMF's unique global macroeconomic coverage and mandate. They range from providing regional policy makers with the latest global developments, to building and reinforcing foundational capacity in technical issues like statistical compilation, managing taxpayer compliance, enhancing fiscal transparency, and supervising the financial system to international standards. Several issues where PFTAC has increasingly been engaged are expected to elevate in importance and resource allocation in Phase VI, particularly climate change and disaster resilience, the impact of fast moving technology developments (Fintech, Govtech, 'big data'), gender, inclusive growth, and post-COVID-19 issues of macro-critical importance to the region such as fishing revenues, tourism, fiscal risks relating to SOEs, and international taxation. Opportunities will also be leveraged to address specific challenges that small (island) states face in other regions such as the Caribbean, the Indian Ocean, and Africa.

Virtual training is expected to transition from a pandemic necessity to a complementary training modality when travel resumes. In-person training events of several days to a few weeks was the standard model before COVID-19, supplemented by the expanding catalogue of on-line IMF training course offerings. The pandemic necessitated all training to be offered virtually, requiring a careful restructuring of content and delivery approach to reflect delivery constraints that ranged from connectivity challenges, participant distractions, to the need to limit daily interaction to just a few hours to optimize effectiveness. Various virtual delivery innovations have enhanced the learning experience, such as the ability to include a richer array of presenters and participants from anywhere in the world, albeit with time zone implications. For several PFTAC training events, collaboration with the USP facilitated a hybrid approach where course participants joined a workshop from their local USP campus away from the distraction of their office environment, linking up participants at other campuses spread across the Pacific with the main Suva campus where Fiji participants

could participate in-person. This flexible model provided for a degree of person-to-person engagement, but was responsive to late pandemic lockdowns allowing remote connection from anywhere. Further development of this model will be pursued with USP.

Joint arrangements and cross-cutting events are highly effective.

Over Phase V, PFTAC delivered an average of 18 training events or workshops annually, at least one per program, many more for the bigger Revenue program. While at least half were focused on issues exclusive to the respective programs, several per year would address cross-program topics, with the MAP program collaborating most widely with PFM, Revenue, and RSS events. This would allow for a mix of participants with different perspectives on the issue, an example where tax officials joined statisticians to understand the importance of sharing tax data for GDP compilation, along with finance ministry officials who seek reliable and timely GDP data to forecast and model macroeconomic projections. Training will also continue to be closely integrated with the

programs of other IMF centers, particularly the STI, ICD, and as demonstrated during COVID-19 with Asian centers based in India and Thailand. About every 18 months, a major High-Level Dialogue event will be convened to bring senior policy-makers together for a highly topical issue at the culmination of a training event for technical staff. In Phase V examples included climate resilience, inclusive growth and CD, and a forthcoming debt sustainability and management event. Two well appreciated events in Phase V that brought officials of the Pacific, Caribbean and other SIDS together in Washington will be continued to reinforce networks of SIDS officials and to tackle issues of particular importance to small economies and administrations.

An increasingly rich array of training modalities will be utilized.

Considerable pent-up demand exists for a return to in-person training once borders reopen and group meetings are deemed safe. This is expected to gradually arise in FY 2023, and barring a reversal as the pandemic recedes, a return to normality is anticipated

by the start of Phase VI. However, valuable lessons and a growing training toolkit will allow for a richer variety of Phase VI training offerings beyond in-person, virtual, and hybrid modalities. The expanding array of IMF online training courses available to the public provides opportunities to streamline and target PFTAC offerings. For example, several PFM workshops have utilized material from the *PFMx* online IMF course to reinforce key learnings, with many more opportunities now available across most PFTAC programs including Revenue, FSS, and Macroeconomic Statistics. Prerequisite completion of foundational online IMF courses can also facilitate more advanced in-person events with an assurance that all participants have a minimum baseline of knowledge. The growing use of country-specific training is expected to continue, building on the successful collaborative efforts with STI and ICD where course programs and materials are adapted to draw in country data and relevant case studies. This is expected to be a key characteristic of the new Macroeconomic Frameworks program.

SECTION V

GOVERNANCE,
OPERATIONS, AND
FINANCIAL MANAGEMENT

GOVERNANCE

PFTAC is guided by a SC with members from recipient countries, donor partners, and the IMF. The SC provides strategic guidance and helps set PFTAC's priorities, including through endorsing workplans and annual budgets, reviewing annual reports and is a vehicle for feedback on TA quality. The Center also invites other stakeholders, including regional and international organizations and prospective donors, to SC meetings as observers. Before COVID-19, PFTAC's SC met annually in-person and was chaired by a senior finance ministry or central bank official of the country where the meeting was held. Given the success from more frequent SC meetings convened virtually during the pandemic, at least one virtual meeting is expected to be scheduled between each annual in-person meeting going forward.

An external evaluation of the work of PFTAC will be carried out by independent experts, mid-way through Phase VI to assess the relevance, effectiveness, efficiency, sustainability, coherence and impact of the Center's activities. Recommendations from the Phase V mid-term evaluation to enhance SC governance are under consideration including on the tenure and succession of the position of SC chairperson and the introduction of SC operational guidelines.

The Center comprises a director, resident advisors, and support staff. The director is responsible for administration of the Center, with strategic guidance from the SC and general oversight from the IMF. This entails managing day-to-day administrative, travel, budget, reporting, procurement, and accounting operations.

In consultation with the SC, APD, and CDDs, the director leads the preparation of the workplan and budgets and monitors their implementation. He/she is in regular contact with country authorities, relevant regional organizations, donors, and other CD providers in the region to keep them fully informed of the Center's activities and to facilitate coordination.

CDDs are responsible for the TA and training delivered by PFTAC. Working in conjunction with the director and resident advisors, they design, approve, and direct the CD programs delivered by resident advisors and STX, and provide quality control, monitoring, backstopping, and supervision. They lead the drafting of the sectoral workplans and supervise the technical content of the work.

WORKPLAN

The director leads PFTAC's annual workplan, in consultation with member countries and within the context of the IMF's TA prioritization processes, managed against the APD Regional Strategy Note (RSN) and broader IMF CD resource allocation.

This process takes into account the macroeconomic circumstances and priorities of each beneficiary country and their reform needs and strategy. The IMF's country teams and PFTAC resident advisors maintain a continuous dialogue with member countries to provide the basis to identify the key CD needs and priorities and to formulate detailed country CD programs. This ensures that CD activities are fully integrated with country reform agendas. The development of the annual workplan is also coordinated with the broader budget cycle and resource allocation processes of the IMF to ensure timely and predictable delivery of CD.

PFTAC's workplan consists of the TA programs of member countries (which may form part of broader regional projects), in-country training, regional workshops and seminars, and outreach to civil society at the country and regional levels. The PFTAC director seeks strategic guidance from SC

members on the workplan including by asking them to send their requests for TA needs, prior to seeking their formal endorsement. At each SC meeting, the PFTAC director delivers a report on the progress of the activities outlined in the workplan and lays out, in consultation with the chairperson, any strategic issues for the SC to consider.

The delivery of CD is carefully coordinated with other IMF multi-partner vehicles. These include D4D, the RMTF, and TADAT. PFTAC activities are also closely coordinated and integrated with other IMF delivered CD whether internally or bilaterally financed, such as the regional DM program and resident advisor collocated with PTAC that is financed by the Government of Japan. Additional collaboration with external (non-Fund) support is often accommodated to provide complementarity and synergies with the activities of PFTAC. This is appreciated by the TA providers and beneficiary countries and helps avoid overlap of TA provided.

DIRECTOR

The director is a staff member of APD. She or he is selected by APD, reports to APD, and ensures that the work of the Center is consistent with the overall strategy of APD and the IMF.

The director maintains constant contact with the SC members, in addition to (other) donors and development partners and APD and all relevant CD departments to identify broad strategic priorities and emerging issues and country needs.

STAFF

PFTAC staff comprises resident advisors in each of the relevant TA areas and support staff. CDDs, in consultation with the Center director, select and hire the resident advisors through external international advertising, providing them with the substantive support and backstopping required to ensure quality and consistency in their advice and activities. They are also responsible for hiring STX for peripatetic assignments, who are backstopped by the resident advisors. Efforts to identify suitably experienced and qualified experts from member countries in the Pacific are encouraged to facilitate a pipeline of regional expertise for the expert roster and to enhance PFTAC effectiveness. Support staff is selected and managed by APD and the Center director, who is responsible for all Human Resources (HR) issues. All selections are in accordance with the IMF's HR policies and procedures.

INTEGRATION OF SURVEILLANCE AND CD

APD mission chiefs and teams lead the identification of CD priorities arising from their policy dialogue with member countries. PFTAC workplans reflect the surveillance sourced priorities that are always 'demand driven' to respond to the needs of the member countries. Surveillance and CD integration is further reinforced through the co-location of PFTAC with the regional Resident Representative office of the IMF in the Pacific that facilitates close interaction between the PFTAC team and the Resident Representative and her/his team of local economists. In Phase V, PFTAC increasingly expanded collaboration with other IMF CD centers in the Asia Pacific region, particularly through joint training with STI and with the CD centers based in India and Thailand as well as the Regional Office of Asia and the Pacific in Japan.

ACCOUNTABILITY

PFTAC is designed and operated to ensure that IMF CD is delivered in a manner that is responsive and accountable to the recipient countries and donors. PFTAC must also meet and maintain the high-quality standards that are expected of IMF CD. The IMF's dissemination policy¹³ on sharing TA reports further supports accountability and facilitates coordination. Under the policy, TA reports may be shared with the SC members with consent of the TA recipient on a no-objection basis, and on the understanding that such information shall be kept confidential. Sharing of TA

reports with non-SC members will be determined on a case-by-case basis based on whether the institution in question has a legitimate interest in the TA report in question, for example through its engagement in related activities in the recipient country. TA reports may additionally be published with the explicit consent of the TA recipient which is encouraged to maximize transparency.

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

The inputs of beneficiary countries are sought at various stages of the planning and operations of PFTAC: during surveillance ("Article IV Consultations") programs and diagnostic missions that inform the CD planning process by APD and CDDs in their preparation of CD strategies, and through the input and oversight of PFTAC's SC. A feedback loop between member countries and PFTAC is a feature of the close working relationships maintained between the director and resident advisors and the country authority counterparts.

The 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

Approximately half-way through the phase, an independent evaluation of the work of PFTAC will be launched and carried out by a team of external experts. The evaluation will assess PFTAC's relevance, effectiveness, efficiency, impact and sustainability of its CD, bearing in mind the long-term nature of capacity-building. The

evaluation will subsequently formulate recommendations and lessons learned for improvement, which will inform discussions on PFTAC's future operations. It will also assess recommendations from previous mid-term evaluations.

QUALITY CONTROL

Maintaining the quality of the TA delivered is the responsibility of the HQ and PFTAC. HQ departments backstop the PFTAC resident advisors. Combining the recommendations of previous surveillance and TA missions with the needs of the country, the CDDs discuss with the resident advisors the objectives and outcomes of each activity with a view to ensuring a proper sequencing of TA and ensuring its effectiveness to build capacity and sustain reforms in the beneficiary countries. The CDDs provide supervision and support throughout the assignments of the resident and short term experts, with the backstopping of STX a shared responsibility of the resident advisors and HQ.

CDDs review and authorize the TA reports produced by the resident advisors and STX. Further, APD and CDDs work with country authorities to ensure follow-up on the recommendations of TA missions mainly through PFTAC. At all stages of TA, backstopping ensures the consistency and quality across countries.

Quality control is achieved by the director through his/her management of the day-to-day operations of PFTAC and from his/her close relationship with the country authorities and HQ. The director is well informed of the macroeconomic challenges of the member countries and how CD may be able to respond to these challenges. He/she coordinates closely with APD on these challenges and provides input to APD in building its annual RSN which details how

¹³ See <http://www.imf.org/external/np/pp/eng/2013/061013.pdf>. PFTAC has a password protected part of its website under which TA reports are posted and shared with SC members who signed confidentiality agreements in line with the policy. The dissemination policy also covers country-specific RBM data, which cannot be shared without countries' consent.

CD fits within the broader picture of surveillance and lending activities. In conjunction with APD, the director will forward TA requests that are within the expertise of CDDs but outside the mandate or resourcing of PFTAC. The director also monitors the progress of beneficiary countries in implementing reforms that are supported by PFTAC.

VISIBILITY FOR PFTAC AND DEVELOPMENT PARTNERS

The IMF recognizes the central role of RCDCs to champion effective communications with development partners, civil society, and governments on the contribution of IMF TA to macroeconomic management.

To this end, the director leads the planning and execution of outreach activities of the Center in collaboration with APD, ICD, and the resident representative to ensure consistent messaging across the key macroeconomic priorities for the region about how the CD efforts of PFTAC assists member countries. PFTAC outreach has substantially increased in Phase V, particularly through social media channels to highlight the impact of IMF and PFTAC programs, research, and CD activities, including collaborative efforts with partners and donors. PFTAC's 25th anniversary event in December 2018 highlighted the multichannel approach to messaging and awareness raising of the role and impact of PFTAC, and the critical support that donors and partners provide. This provides both visibility and transparency of CD to the wider public, and a heightened understanding of how PFTAC helps contribute to economic stability, development, and inclusive growth.

Existing tools (annual reports, newsletters, website, conferences, development partner briefings, and social media) will continue to be leveraged in Phase VI drawing on developments in delivery technology and messaging. Development partners will continue to be systematically recognized, with acknowledgement in publications and continued efforts to seek their involvement in the Center's activities. Acknowledgement is made in all outreach material and presentations about donor and member country financial contributions to PFTAC operations with appropriate placement of donor logos. Moreover, the director 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 HQ informed of progress under the workplan; and (iii) transmit information to development partners on the Center's latest developments and issues.

The strong collaboration with development partners and regional institutions and groupings will be further strengthened in Phase VI.

These relationships are diverse and mutually beneficial for both PFTAC and the collaborating entities to leverage respective comparative advantages and angles, and to enhance the potential sustainability and ownership of CD efforts. Collaboration is crucial where multiple organizations are concurrently working from different perspectives in similar spheres such as PFM, revenue mobilization, FSS, and statistics. These have included partnering: (1) academic institutions including the *USP and the South Pacific Centre for Central Banking* hosted by *Griffith University*, Brisbane; (2) regional entities including the *PIFS*

on PFM and climate change issues and the *SPC* on macroeconomic statistics with the *Statistics for Development Division*; (3) regional groupings of economic officials including the *South Pacific Central Bank Governors*, *PITAA*, *AFSPC*, *Pacific Association of Supreme Audit Institutions*, and the *Pacific Statistics Standing Committee*; (4) TA support from partner country entities including the *Australian Bureau of Statistics*, *New Zealand Statistics*, the *ATO*, the *Reserve Bank of Australia*, and the *Reserve Bank of New Zealand*; and (5) active development partners including the *UNDP*, *UN/ESCAP*, *UNCDF*, the *PEFA Secretariat*, the *TADAT Secretariat*, the *ADB's Asian Tax Hub*, the *OECD*, and the *Small Countries Financial Management Centre*.

PFTAC will continue to actively engage with donors regionally and at the country level where appropriate.

This is facilitated through various formal and informal grouping from a broad development perspective such as the established joint Budget Support dialogues with the Budget Support donors and the beneficiary Government at the country levels (**Fiji, Kiribati, Samoa, Solomon Islands, Tonga and Tuvalu**), and the annual *Friends of Pacific Budget Support* meeting to thematic groupings particularly around PFM or in conjunction with regional groupings such as *PITAA* and *AFSPC*. The increasing engagement on macroeconomic aspects of climate change particularly through a technical working group on PFM and Climate Change Finance co-chaired by PFTAC and PIFS will expand given the planned Phase VI focus and specialist resident PFM advisor.

FINANCIAL MANAGEMENT

Contributions from development partners and recipient countries will be made into the PFTAC Subaccount under the IMF's Framework Administered Account for Selected Fund Activities (the "SFA Instrument").

This Subaccount will be used to receive and disburse financial contributions for the Center's activities; all resources contributed to the Subaccount will be for the sole use of PFTAC.

The anticipated risks during Phase VI are heavily influenced by the eventual end and aftermath of the COVID-19 crisis plus the increasing frequency and ferocity of natural disasters.

The impact of COVID-19 in the Pacific has been severe, with collapsed tourism leading to large contractions in GDP, high unemployment, expanded fiscal deficits, and rising debt. The likely economic and financial scarring presents serious challenges as the pandemic recedes. After two years of pivoting to remote CD delivery, the return to pre-crisis operations will be gradual, with expectations of a continuation of remote delivery where the experience has been effective to reinforce and complement critically

awaited resumption of in-person engagement. Uncertainties prevail about the costs and ability for travel to resume in a region that was already underserved and expensive. The region is extremely prone to climate related and other natural disasters leading to disproportionate societal and economic damage that necessitates focus on resiliency and adaptation that will be an increasing focus of Phase VI support by PFTAC. For more than 25 years, PFTAC has been heavily reliant on donor support and funding, with members contributing up to 10 percent of costs for the first time in Phase V that will continue in Phase VI.

Letters of Understanding will form the basis for the financial arrangements between the IMF, PFTAC member countries, and donors.

These will establish the purposes of the contributions related to this Program Document and are 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.

Fiji will continue to host PFTAC operations in Phase VI. Following the recent recognition of the IMF as a Specialized United Nations agency by the Government of Fiji, a Memorandum of Understanding for the ongoing hosting of PFTAC is expected to be in place between the IMF and Fiji Government before the start of Phase VI operations. PFTAC office space is provided on a commercial rental arrangement in the Reserve Bank of Fiji building in Suva.

The IMF provides donor partners and PFTAC member countries with reports on the Subaccount's expenditures, liquidity and commitments through a secure external gateway

([PartnersConnect](#)). Financial reporting on the execution of PFTAC's budget will be provided at each SC meeting. Costs will be on an actual basis. 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. PFTAC is also subject to audits by the IMF's internal audit office.

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

RESOURCE NEEDS AND SUSTAINABILITY

The volume of CD delivery will increase in Phase VI, in line with the strategy outlined above. As such, three additional resident advisors will join the Center, in the areas of macro-economic frameworks, GFS/PSDS, and a new PFM advisor focused on fiscal issues relating to climate change. To support the increased workload, the Center will hire one additional assistant.

The total budget for Phase V, including external funding and IMF resources, is estimated at USD 43.5 million. External funding of USD 40.0 million is targeted, of which 90 percent (USD 36.0 million) is sought from donors and 10 percent (USD 4.0 million) from member countries,¹⁴ and the IMF contribution will

be USD 3.5 million. The IMF contribution will cover the cost of the Center director, including travel expenses related to his/her outreach and governance activities, and the salaries of all local staff. Additional IMF financing to cover certain further administrative costs or to possibly expand CD delivery on climate change and FCS support may be provided. External funding will cover all costs related to direct CD operations of the Center. The increase in LTX resources will be partially funded by efficiency gains from changes to the LTX/STX mix, and post-COVID-19 continuation of virtual CD delivery where appropriate under a hybrid model that is expected to evolve as travel and in-person training adapts to the new world.

The IMF will take a multi-pronged approach to manage the financial sustainability of the Center. During Phase V, the long-standing group of five PFTAC donors expanded with the addition of Canada and the United States. While budgetary pressures may be a factor for some donors, the expansion of the donor group and prospects for additional contributors will hopefully underwrite the modestly expanded scope and volume of CD planned for Phase VI. Close management and financial oversight of PFTAC operations seeks to maximize value for money, including by preserving the strong partnerships with existing donors—all of whom have expressed interest in continuing their contributions to Phase VI.

¹⁴ Ahead of Phase V, PFTAC member countries agreed on a contribution formula to finance 10 percent of costs that reflected the disparate size and level of development of the 16 member countries, their ability to contribute, and their relative share of PFTAC resources in Phase IV. The base formula had three weighted components: (1) national GDP - a weighting of 70 percent; (2) per capita GDP - a weighting of 15 percent; and (3) share of Phase IV PFTAC resources - weighting of 15 percent. Affordability was subject to a reasonableness test such that the annual contribution could reasonably fall between 0.01 percent and 0.02 percent of the annual government budget expenditure of each member, with a downward adjustment for one large member as an outlier that would have borne a disproportionate share of costs with a contribution closer to 0.005 percent of annual government expenditures. On these rankings, countries were grouped into several annual contribution clusters. Member countries agreed at the December 2021 SC meeting to the continued use of this contribution formula to cover 10 percent of Phase VI costs.

TABLE 4. PFTAC BUDGET FOR PHASE VI (USD MILLION)

	Phase V Budget
Capacity Development (by workstream)	
1. Public Financial Management (3 LTX) ^{1/}	8.5
2. Revenue Administration (2 LTX)	8.5
3. Macroeconomic Programming (1 LTX) ^{2/}	3.3
4. Real Sector Statistics (1 LTX)	4.3
5. Government Finance & Debt Statistics (1LTX) ^{3/}	3.3
6. Macroeconomic Frameworks (1 LTX) ^{4/}	3.0
7. Financial Sector Supervision (1 LTX)	4.3
8. Finance and Fiscal Legislation ^{5/}	0.7
9. Debt Management (1 LTX) ^{6/}	0.0
Administration^{6/}	0.8
Governance and Evaluation	0.3
Strategic Budget Reserve	0.4
Sub-total	37.4
Trust Fund Management Fee (7 percent of sub-total)	2.6
Total	40.0
IMF Expenses	3.5
Grand Total	43.5

Notes:

1/ Extra LTX focused on Climate Change PFM Issues

2/ Backstopped by Asia Pacific Department (APD)

3/ Return of GFS LTX also covering Debt Statistics

4/ New program backstopped by Institute for CD (ICD)

5/ STX inputs to PFM, Revenue, and FSS Programs

6/ Finance by Government of Japan

7/ All Local Staff paid by IMF

ANNEXES

ANNEX I. ACTION PLAN IN RESPONSE TO PHASE V MID-TERM EVALUATION

Recommendation / Priority	IMF Staff Response	Actions	Comments	Timing	Owners
<p>(1) The PFTAC Steering Committee (SC) should encourage and support member countries in playing a more active role in PFTAC governance (High)</p> <p>PFTAC stakeholders identified shortcomings with member country engagement in providing strategic guidance and oversight to the program. It also identified missed opportunities for more active engagement by member countries in SC meetings. To strengthen member countries' engagement in the SC, the PFTAC Steering Committee, with the support of PFTAC, should:</p> <ul style="list-style-type: none"> Establish an Executive Committee for the SC that will a) permit more regular engagement of SC members in PFTAC program and governance, and b) provide more regular guidance to the Center Coordinator on the program. The Executive Committee could include deputy governors and assistant CEOs as members. Develop a guiding document that formally updates and defines: a) the role of the Steering Committee in PFTAC governance, b) the responsibilities of SC members, and c) the responsibilities of an Executive Committee for the SC Conduct remote SC meetings quarterly in addition to the annual in-person SC meeting in order to support more regular engagement of SC members in PFTAC governance Support SC members in: a) learning about their governance responsibilities, b) playing active roles in program priority setting and making resource allocation decisions, and c) playing an oversight role in program implementation. 	Partially agree	<p>(1) Consult with SC members on the proposal to hold additional virtual meetings.</p> <p>(2) Seek HQ Departments' and the SC's guidance on the proposal of an Executive Committee and other reforms. SC reforms would take into account harmonization of RTAC practices, expected resource requirements and capacity of SC members.</p> <p>(3) Following consultations with SC members, revise the draft guidance note on SC governance for circulation at the next annual SC meeting for endorsement.</p>	<p>The IMF broadly agrees with the recommendation. We encourage members to play an active role in the Steering Committee.</p> <p>Additional virtual meetings are planned to be held between the annual in-person meeting, either once or twice a year as may be required.</p> <p>At the July 2, 2021 SC meeting members endorsed a proposal to develop ideas and options for SC governance issues and to a draft guidance note that would be presented at the next virtual SC meeting on December 2, 2021 for further discussion. A number of proposals have been made regarding the tenure of the SC Chair and creation of a Vice Chair role which will be considered.</p> <p>On supporting SC members in their governance responsibilities, the transition period between Phases V and VI offers additional opportunities for close engagement with SC members on a range of governance issues. The recent Virtual Working Groups for the preparation of Phase VI priorities is one such example. This, together with other initiatives, provide SC members with opportunities for exposure and peer-learning on PFTAC governance issues.</p> <p>In relation to proposed reforms to the structure of the Steering Committee, consultations with both SC members and HQ Departments will also be required taking into account the broader governance framework of the IMF's network of regional centers.</p>	FY 2023-Phase VI Ongoing	PFTAC ICD CDDs APD

ANNEX I. (CONTINUED)

Recommendation / Priority	IMF Staff Response	Actions	Comments	Timing	Owners
<p>(2) In Phase VI, the IMF and PFTAC should consider adopting a hybrid in-person/remote model for PFTAC TA delivery as well other modalities and initiatives that will enhance member countries' engagement and role in CD delivery (High)</p> <p>The IMF and PFTAC should:</p> <ul style="list-style-type: none"> • Develop a strategy for the use of the hybrid model of TA delivery and other modalities in programs, retaining LTX/STX field missions as the core of the model • Supplement field missions with additional virtual pre-mission and post-mission virtual engagement, providing continuing STX engagement and implementation support • Ensure timelines for CD are realistic, especially in FCS • Promote south-south, peer-to-peer learning through expanded use and frequency of attachments and exclusive use of PFTAC member data in training events (as was done with PNG Macro model) • Develop a manager's module in PFTAC programs to support the engagement of senior country officials, develop skills for managing programs under their purview, and promoting and implementing reform programs in their country • Provide training in the use of the manager's module 	Partially agree	<p>(1) Update SC members on the plans for hybrid delivery and consult with members on how the hybrid model is operating.</p>	<p>The IMF is considering the modalities and approaches for the future hybrid model through its Fund wide working group. Additionally, CD Departments have been undertaking pilot activities to examine best practices for CD operations in a hybrid model (e.g., synchronous/asynchronous activities and virtual/in-person engagements). The outcomes of this work will inform the hybrid model for future HQ and field-based operations. PFTAC will continue to work with HQ based Departments on the delivery model that is expected to be launched in FY 2023.</p> <p>In Phase V, a number of workshops on fiscal issues (PFM and Revenue) were specifically targeted at managers overseeing fiscal reforms which would continue and expand as appropriate. PFTAC will seek to incorporate greater use of peer-to-peer exchanges and attachments in view of their proven effectiveness. PFTAC will also work to develop a graduate internship program emulating the highly successful CARTAC program.</p> <p>In relation to the proposed manager's module, this would require further consideration beyond PFTAC. Factors that would also require assessment include greater clarity of what capacity is intended to be enhanced, whether the IMF/PFTAC has such expertise and which other providers are active in management and leadership training that may have a comparative advantage.</p>	Phases V and VI	ICD PFTAC CDDs

ANNEX I. (CONTINUED)

Recommendation / Priority	IMF Staff Response	Actions	Comments	Timing	Owners
<p>(3) PFTAC and the IMF should work together with development partners and other regional partners to develop long-term, sustainable, Pacific-centric solutions to pervasive gaps in states requiring capacity supplementation in PFTAC program areas. (High)</p> <p>PFTAC and other regional partners are providing capacity supplementation to a majority of PFTAC member countries. The capacity gaps affecting some program areas especially are pervasive. PFTAC should:</p> <ul style="list-style-type: none"> • Examine the extent of capacity supplementation required for PFTAC members, the TA programs and providers, and the gaps between supply and demand • Examine the resources needed for addressing the capacity gaps, including the human resources needed of PFTAC member countries • Develop long-term, sustainable, Pacific-centric solutions to address the capacity gaps. 	Partially agree	<p>(1) Engage with development partners on regional priorities and opportunities for further collaboration in Phase VI.</p>	<p>We place high importance on our partnerships and dialogue with other development providers, regional bodies and other stakeholders. These partnerships are vital to leverage impact and ensure that the comparative advantages and expertise of each organization are mobilized in an effective manner. In this context PFTAC consults regularly with development partners and regional bodies in addition to member countries to discuss strategic priorities and identify opportunities for collaboration on shared objectives.</p> <p>In the context of PFTAC, capacity gaps are primarily an issue in National Statistics Offices (NSOs) particularly in fragile and/or small states. A possible approach is being considered for Phase VI with respect to the statistics programs for an LTX to be assigned focusing on a small number of FCS (the proposal is aspirational at this stage). This would provide for greater and more intensive CD engagement to allow a gradual shift away from relying on capacity supplementation.</p>	Phase VI	<p>APD</p> <p>PFTAC</p> <p>CDDs</p>

ANNEX I. (CONTINUED)

Recommendation / Priority	IMF Staff Response	Actions	Comments	Timing	Owners
<p>(4) PFTAC and the IMF should improve HR practices with respect to LTXs. (High)</p> <p>Turnover and handover of long-term advisors are stages in HR management where PFTAC and its member countries are at risk of disruptions in the provision or quality of TA services in a program area. PFTAC and IMF Functional Departments should implement measures to ensure a well-planned recruitment of and smooth transition between advisors.</p> <ul style="list-style-type: none"> • Develop HR plan for use of LTXs in all programs for medium-term planning horizon • Select replacements well in advance of the end of the incumbent's contract • Ensure a formal overlap period of at least two months, including at least one TA mission • Develop standardized hand-over/transition procedures to maintain institutional knowledge • Expand on-boarding training to close identified gaps in support for LTX transitions. 	Fully agree	<p>(1) Work with HQ-based Departments to identify steps to strengthen LTX engagement in Phase VI as required.</p>	<p>We agree with the recommendation. The following areas are highlighted that would further strengthen HR practices:</p> <ul style="list-style-type: none"> • LTX succession planning at PFTAC during Phase V has been successful with the exception when LTXs applied and were selected for HQ positions before the end of their contracts. Recruiting departments should make RCDC continuity as high a priority as their own staffing needs in such circumstances. • Longer handovers between LTXs would be very desirable and achievable in collaboration with CDDs and can be at relatively low cost as shown during remote operations. 	Phase VI	CDDs

ANNEX I. (CONTINUED)

Recommendation / Priority	IMF Staff Response	Actions	Comments	Timing	Owners
<p>(5) PFTAC should improve its support to advisors from Center staff. (High)</p> <p>PFTAC has improved its support to advisors in Phase V, and capacity building to deliver logistical support and administrative services to a quality standard should be continued in Phase VI. PFTAC should:</p> <ul style="list-style-type: none"> • Set service delivery standards for logistical and administrative support services, including lead time requirements for requests from advisors for support • Design and implement standardized training for support staff, which should include regular support and training from HQ for HQ-owned systems and processes (at a minimum semi-annual), and annual “reminder” training for some elements of the standardized training (e.g., respectful workplace, information security, etc.), during which time improvements to processes can be relayed and launched • Implement annual and mid-year performance reporting for support staff, including a formal learning plan, and 360-feedback from subordinates, peers, LTXs, and supervisor(s) • Establish and implement a formal back-up matrix for all key administrative support service activities to ensure business continuity and mitigate risks of planned and unforeseen staff absences. 	Partially agree	<p>(1) Continue working with HQ based Departments on steps to further increase support to PFTAC advisors and local staff.</p>	<p>Service expectations for LTXs do exist and have been tracked and monitored. It is important to highlight that a number of measures have improved support to LTXs in Phase V. These include closer engagement between HQ staff and LTXs and the harmonization of HR functions between HQ and field offices. The creation of an Office Manager has also significantly contributed to strengthening local support.</p> <p>There are some ongoing initiatives that are expected to provide additional support in this area:</p> <ul style="list-style-type: none"> • A local staff performance assessment system has been instituted. Fund-wide arrangements are also being implemented and are expected to be completed by next year. • All opportunities to better train local staff in Fund procedures are welcome. The Fund-wide system will provide LTXs and local staff with access to training programs. • The roles and functions of support staff have been in a recent state of flux with the deployment of new IT platforms such as Capacity Development Management and Administration System (CDMAP). Once stabilized these should allow greater clarity of how support staff can be of maximum assistance to LTXs and alleviate their administrative workloads from the new systems and procedures. 	Phase VI	PFTAC CDDs

ANNEX I. (CONTINUED)

Recommendation / Priority	IMF Staff Response	Actions	Comments	Timing	Owners
<p>(6) PFTAC should improve its use of RBM in the design and delivery of CD to support a program-based approach to country prioritization of needs and resource use, and sequencing of CD delivery to member countries within country programs. (High)</p> <p>In Phase VI, PFTAC and its advisors should engage member countries more directly in the RBM approach and its potential benefits.</p> <ul style="list-style-type: none"> • Deliver RBM training to SC members and country counterparts • Engage member countries in the design and use of RBM log frames and information • Leverage RBM to take a country-program approach to planning and resource use • Engage member countries in the elaboration of country charters/ programs addressing their priorities for CD assistance and activities over medium-term period, with RBM measures and targets for improvements. 	Fully agree	<p>(1) Engage with SC members on the RBM framework and approach addressing issues raised by members.</p> <p>(2) Schedule workshops/ information sessions during Phase VI as may be required.</p>	<p>We agree with this recommendation. On engaging member countries and encouraging greater ownership, one proposed approach to implementing this recommendation could be to continue to allocate a session during SC meetings to discuss work plans, logframes and the RBM expectations with member countries at the strategic level, including the need to set commonly agreed strategic program objectives that are aligned with CD project log frames. It is planned to continue and expand upon this practice.</p> <p>At a broader level, the IMF continues to work on strengthening the logical frameworks and making the CD more impactful through results-based management approach. We expect that CDMAP will provide an opportunity to strengthen the framework in a harmonized way across the Fund and RCDCs.</p>	Phase VI	ICD PFTAC CDDs

ANNEX I. (CONTINUED)

Recommendation / Priority	IMF Staff Response	Actions	Comments	Timing	Owners
<p>(7) PFTAC and the IMF should better integrate priority thematic areas into PFTAC programs. (Medium)</p> <p>PFTAC's support to the priority thematic areas in Phase V (gender, climate change and financial inclusion) should be elaborated in a strategy and resourced to achieve targeted results. PFTAC and the IMF should:</p> <ul style="list-style-type: none"> • Prepare guidance on the mainstreaming of gender, climate change, and financial inclusion thematic priorities in PFTAC activities • Prepare guidance on the integration of thematic priorities into the CD design and implementation in each PFTAC program area • Incorporate elements relevant to gender, climate change, and financial inclusion in the IMF's RBM Catalog 	Partially agree	<p>(1) Report to SC members on the Fund's strategies on the cross-cutting areas as they extend to PFTAC and the planned work in these areas during Phase VI.</p>	<p>PFTAC has been highly responsive to the cross-cutting issues of climate change and gender. We have sought to identify opportunities to address these issues and support policies by integrating them in our work programs where feasible to support sustainable and inclusive growth. There may be scope for further integration of these areas into PFTAC programs, with the endorsement of IMF management, the Board and where clear policy guidance exists that translates into CD delivery. This is likely to evolve over time and opportunities for CD may expand through experience. An additional PFM climate expert is expected to be hired for Phase VI.</p> <p>It is emphasized that this process should be driven by the needs and demand of the beneficiaries and reflect PIC priorities. There should be a solid case for PFTAC's role if there are not obvious programs for its coverage, or if other partners are adequately addressing the issue with little potential value added by PFTAC. This has been the case for Financial Inclusion in Phase V.</p>	Phase VI	PFTAC CDDs

ANNEX I. (CONTINUED)

Recommendation / Priority	IMF Staff Response	Actions	Comments	Timing	Owners
<p>(8) PFTAC should allocate resources to develop regional expertise for engagement and use in the program (Medium)</p> <p>There are opportunities for PFTAC to increase its support and engagement of local and regional experts in the program. The program has used local authorities as resource persons for regional workshops, which should be continued and expanded where possible. PFTAC should find opportunities to increase its use of local and regional experts in a strategic approach comprising focused efforts to develop promising staff from member country ministries and agencies for engagement as STXs. PFTAC should:</p> <ul style="list-style-type: none"> • Develop and resource a strategy for supporting the development of local and regional expertise and the use of experts from the region in all PFTAC programs • Develop a performance measurement framework for the strategy • Identify promising officials from member ministries as potential STXs and provide them opportunities to participate in missions as training opportunities • Support train-the-trainer, mentoring, and coaching of regional experts • Expand the use of regional counterparts as resource persons for training across all programs • Develop strategic partnerships to deliver training in foundational elements of PFM, Statistics and Macro programs, such as the use of Excel, economic forecasting principles, data analysis principles and integration in policy formulation. 	Fully agree	<p>(1) Engage with SC members and regional institutions on proposals for the development of regional expertise</p> <p>(2) Conduct outreach with interested institutions in the region, such as University of the South Pacific (USP) and explore possible schemes such as intern placement programs.</p> <p>(3) Identify opportunities for delivering peer-to-peer CD activities during the phase in consultation with SC members.</p>	<p>We agree with the recommendation in principle. Expanding a pool and pipeline of STXs and even LTXs from the region is highly desirable. While significant time and effort are needed to advance this objective, it is an important and worthwhile investment. It is noted that this could also have a negative impact on national capacity if resources are drawn away from a very small pool that must always be a consideration.</p> <p>More south-south and peer-to-peer CD modalities are to be encouraged and will be considered where feasible. One example of this has been the convening of the Virtual Working Groups for Phase VI preparation.</p> <p>Pilot efforts to create an intern program should be scaled up based on the CARTAC experience, with intern placements both within PFTAC and with cooperating organizations within the region such as central banks and government agencies including statistics and revenue offices.</p>	Phase VI	PFTAC CDDs

ANNEX II. SECTORAL LOGFRAMES FOR PHASE VI

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
Macroeconomic Analysis and Programming - APD-backstopped																		
Well-functioning macroeconomic policy and institutions: improved macroeconomic policy advice to government	1. Improved public access to key monetary, fiscal and financial soundness information.	1. Medium term macroeconomic assumptions (including GDP growth and inflation detailed in Budget documentation).			•		•	•	•					•			•	
	2. Sound medium-term macroeconomic framework (inclusive of GDP and inflation, commodity prices, the external and monetary sectors and fiscal aggregates).	1. Countries are preparing and using macroeconomic forecasts as a basis for annual and medium term budgets.		•	•		•	•			•		•	•				•
	3. Strong institutional structures for macroeconomic policymaking.	1. A macroeconomic or fiscal policy unit or equivalent is established and provides advice to policy makers.				•		•	•									
Macroeconomic Frameworks - ICD-backstopped																		
Develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications	1. Authorities have a baseline understanding of their existing forecasting and analytical capabilities and opportunities for improvement	1. Diagnostic/ scoping produced an overview of existing (baseline) capacities and opportunities for improvement with an action plan and agreed outcomes and deliverables.									•	•	•	•		•		•
	2. Analytical models and forecasting tools are developed and operational	1. Macroeconomic Projection Tool (MPT) is developed with an Excel-based macroeconomic framework for forecasting and policy analysis, respecting accounting relationships.												•				•
		2. MPT is developed as a general equilibrium model with mainly adaptive behavior.									•							

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
		3. Centralized forecasting database created and linked to the forecasting system										•						
		4. Fully operational suite of satellite and sectoral tools is developed										•		•				•
		5. Fully operational near-term forecasting (NTF) models and tools are developed										•	•			•		
		6. A user manual on MPT, auxiliary models, and tools is prepared and available.									•		•			•		
	3. Improved analytical skills, and better macroeconomic forecasting and policy analysis capacity	1. Relevant staff have successfully completed agreed training delivered via various modalities (online, classroom courses, workshops)									•	•	•	•		•		•
		2. Analytical framework centered around the MPT is used to produce medium-term forecasts, scenarios as well as risk and policy analysis									•							
		3. Staff capable to independently operate the MPT and other auxiliary analytical models and tools									•			•		•		•
	4. Decision-making well-structured, streamlined, & documented, responsibilities well-defined	1. A Forecasting Team is created and institutionalized, with MPT Unit at the core.									•	•	•	•		•		•
	5. Decision makers understand structure/ function of MPT & use analysis and forecast in policy formulation. process	1. Forecasting team regularly interacts with policymakers									•							
		2. Policymaking committee/board demonstrates understanding of the NTF, nowcasting, and other satellite models and their auxiliary role in the forecasting process										•	•			•		

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
Public Financial Management (PFM)																		
Stronger PFM Laws and Institutions	1. A more comprehensive legal framework covering all stages of PFM is enacted	1. Comprehensive PFM legislation (FTC2.2.1)		•	•	•							•					
	2. The capacity of MOF to plan, implement and sustain PFM reforms is enhanced	1. Diagnostic of PFM systems		•	•	•	•		•		•	•	•	•	•	•		•
		2. Strategic and/or operational PFM action plans	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Comprehensive, Credible, Policy-based Budget Prep.	1. A more comprehensive and unified annual budget is published	1. Comprehensiveness of budget documentation (PEFA PI-5)	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
	2. A more credible medium-term budget framework is integrated with the annual budget process	1. Medium-term perspective in budget framework (PEFA PI-16, FTC 2.1.3)		•			•				•	•	•	•		•		•
Improved Budget Execution and Control	1. Budget execution and controls are strengthened	1. Effectiveness of internal controls for non-salary expenditure (PEFA PI-25)				•	•	•	•	•	•						•	
		2. Coverage and quality of standards and procedures applied in internal audit (PEFA PI-26)		•							•	•	•			•		
Improved Coverage and Quality of Fiscal Reporting	1. Audited annual financial statements are published, timely, and scrutinized by parliament.	1. Timeliness of Annual Financial Statements (FTC1.2.2)	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
	2. Comprehensiveness, frequency, and quality of fiscal reports is enhanced	1. Completeness, timeliness and consistency of annual financial reports (PEFA PI-29)	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
		2. Comprehensiveness, accuracy & timeliness of in-year budget reports (PEFA PI-28)			•	•	•	•	•	•			•	•	•		•	•
	3. The chart of accounts and budget classifications are aligned with international standards	1. Consistency and comparability of budget classification with international standards (PEFA PI-4, FTC 1.3.1)			•	•	•	•	•	•					•	•	•	

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
Improved Asset and Liability Management	1. Cash and debt management are strengthened and better integrated	1. Effectiveness and timeliness of cash flow forecasting and cash balance management (DEMPA DPI 11)									•							
Strengthened Identification, Monitoring, and Management of Fiscal Risks	1. Central fiscal oversight and analysis of public corporation risks are strengthened	1. Comprehensiveness and timeliness of monitoring and reporting public corporation's fiscal risks (PEFA PI-10.1, FTC 3.3.2, PIMA 3.c)	•	•	•						•					•		
	2. Analysis, disclosure and management of other specific fiscal risks are more comprehensive	1. Analysis, disclosure and management of specific fiscal risks (FTC3.1.2)	•	•	•						•					•		
Improved public investment management	1. Implementation of public investment projects is improved to deliver productive and durable public assets	1. Effective management and control of capital projects execution (PIMA14)		•	•						•	•	•	•		•		•
	2. Public investments are allocated to the right sectors and projects	1. Capital spending and related recurrent spending are undertaken through the budget process (PIMA7)	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Revenue Administration																		
Better revenue administration, management and governance arrangements	1. Capacity to reform increased due to clear reform strategy	1. Strategic and operational plans are prepared and adopted.			•		•											
		2. Multi-year reform implementation plan, with resource plan, adopted and well communicated.				•	•							•			•	
		3. Key performance indicators established, regularly reported and monitored									•	•	•	•		•	•	•
	2. Organizational arrangements enable effective delivery of strategy and reforms	1. Appropriate institutional settings are in place		•								•		•				•
		2. Clear org structure on functional lines and/or taxpayer segments operating			•							•		•				•

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
	3. Support functions enable more effective delivery of strategy and reforms	1. Support functions/ policies strengthened/ in place, with comms, infrastructure, finance, legal, and research.												•				
		2. Improved human resources strategies and practices support the tax administration	•	•						•	•	•	•	•		•	•	
		3. ICT strategies and systems support the tax administration			•		•				•	•				•		
	4. Transparency and accountability effectively through independent external oversight and internal controls	1. Internal controls cover all key core operations and staff integrity assurance mechanisms in place (TADTA POA9-25)		•							•			•				
		2. Financial/ops performance & plans more publicly reported (TADAT POA9-28)									•	•	•	•				
	5. Corporate priorities are better managed through effective risk management	1. Better identification, assessment, ranking & compliance risk determination via intelligence & research (TADAT POA2-3)1						•	•	•				•				
		2. Improved compliance risk mitigation activities monitoring/evaluation (TADAT POA2-5)									•			•				•
		3. Better identification, assessment, mitigation of institutional risks (TADAT POA2-6)			•						•			•			•	•
Strengthened core tax administration functions	1. The integrity of the taxpayer base is strengthened	1. More accurate and reliable taxpayer information held in centralized database (TADAT POA1-1)	•	•						•	•	•		•		•	•	
		2. Robust taxpayer registration policies and procedures (TADAT POA1-2)	•	•						•	•	•		•		•	•	

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
	2. Taxpayer services initiatives to support voluntary compliance are strengthened	1. Scope, currency & accessibility of info for taxpayers improves (TADAT POA3-7)				•	•	•										
		2. Service standards strengthened & routinely monitored. Performance standards improves over time (TADAT POA3-7)			•	•	•							•				
		3. Taxpayer perceptions of service monitored and improve over time (TADAT POA3-9)			•	•	•							•				
	3. A larger proportion of taxpayers meet filing obligations as per law	1. On-time filing ratio improves over time (TADAT POA4-10)	•	•							•	•				•		•
		2. Filing compliance management better over time	•	•							•	•				•		•
		3. Self-assessment to declare tax liabilities strengthened over time			•	•	•											•
	4. A larger share of taxpayers meet their payment per law	1. On-time payment ratio improves over time (TADAT POA5-14)	•	•								•				•		
		2. Management of refunds improves over time (TADAT POA8-24)			•						•							
		3. Management of tax arrears improves over time (TADAT POA5-15)	•	•								•				•		
	5. Audit and other verification programs more effectively ensure accuracy of report	1. Appropriate range of audits and other efforts to detect & deter fraud & inaccurate reporting (TADAT POA6-16)			•	•	•	•		•				•			•	
		2. Automated cross-checking used to verify return information (TADAT POA6-16)			•	•	•			•	•	•		•			•	•
		3. Sound methodologies to monitor extent of tax gap & inaccurate reporting (TADAT POA6-18, RA-GAP results)	•	•	•	•	•	•	•	•	•	•	•	•		•	•	•

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
Real Sector Statistics (RSS)																		
Strengthen compilation and dissemination of National Production, Income and Expenditure Accounts.	1. Improved periodicity, timeliness, and consistency of data	1. National Accounts statistics are published with a timeliness consistent with the country's subscription to the IMF data standard			•	•	•	•	•				•		•	•	•	
	2. Legal and institutional environment are adequate for the compilation and dissemination of statistics	1. Data sharing and coordination among data-producing agencies are adequate				•												
		2. Business processes documentation for compilation of macroeconomic and financial statistics is stored, accessed and regularly updated	•	•								•		•				•
	3. Methodological basis for the statistics follows internationally accepted standards, guidelines, or good practices.	1. New benchmarks have been developed aligned to international statistical standards and using the latest most comprehensive source data available			•	•	•	•	•		•		•	•	•	•	•	•
	4. A new data set has been compiled and disseminated internally and/or to the public	1. Developed and released a new vintage of Supply and Use Tables		•														
		2. Developed and released first time Supply and Use Tables								•	•							
Strengthen compilation and dissemination of High Frequency Economic Activity Indicators	1. Methodological basis for the statistics follows internationally accepted standards, guidelines, or good practices.	1. Developed and released a new vintage of quarterly estimates of GDP by activity at constant prices											•			•		•
	2. Source data are adequate for the compilation of these macroeconomic statistics	1. The source data are available at the same frequency as the target statistic/account														•		•

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
Strengthen compilation and dissemination of NAS - comprehensive updates and rebasing	1. A new data set has been compiled and disseminated internally and/or to the public	1. Developed and released a new vintage of annual estimates of GDP by activity at constant prices			●					●								
	2. Staff capacity increased through training, especially on developing source data, compilation methods, and dissemination.	1. Average score of the Overall Value section of the post-course survey	●		●		●	●	●		●	●		●		●	●	●
	3. Source data are adequate for the compilation of these macroeconomic statistics	1. Source data (censuses, surveys and administrative data) are regularly assessed for sampling and non-sampling error, revisions, changes to data collection procedures, temporal consistency and consistency with other related data	●		●	●	●	●	●	●	●		●	●	●	●	●	●
		2. The source data are available at the same frequency as the target statistic/account	●	●								●	●			●		●
Government Finance Statistics and Public Sector Debt Statistics (PSDS)																		
Strengthen compilation and dissemination of Government Finance Statistics	1. Methodological basis for the statistics follows internationally accepted standards, guidelines, or good practices	1. GFS are compiled following the GFSM 2001/GFSM 2014 framework, concepts, and definitions							●						●		●	
		2. GFS compiled for GG or public sector and its subsectors		●				●	●		●		●		●	●	●	●
		3. Institutional sectors defined in accordance with GFSM 2001/ GFSM 2014 guidelines						●	●		●			●	●		●	●
		4. Institutional scope includes all significant GG or public sector institutional units		●				●	●		●			●	●	●	●	●
		5. Scope of flows includes all transactions of GG or public sector units			●			●	●		●		●	●	●		●	●

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
	2. Improved periodicity, timeliness, and consistency of data	1. GFS for GG or public sector ops compiled & disseminated quarterly (or annual) basis		•				•	•		•		•		•	•	•	•
	3. Improved data and metadata accessibility	1. Business process docs exist, stored, accessible, regularly updated for compiling/ disseminating agency to sustain good statistical practices.		•	•			•	•				•	•	•	•	•	•
		2. SDDS/SDDS+ & GDDS/e-GDDS metadata reviewed and updated regularly	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
	4. Legal and institutional environment are adequate for the compilation and dissemination of statistics	1. Data sharing and coordination among data-producing agencies are adequate		•	•				•		•		•	•	•		•	•
	5. Source data are adequate for the compilation of these macroeconomic statistics	1. Source data are comprehensive to enable the compilation of GFS for GG (public sector) and subsectors	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
		2. Source data for annual GFS are available on a timely basis							•					•	•		•	
	5. Source data are adequate for compilation of these macro statistics	1. Source data comprehensive to compile GFS for GG and subsectors	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
		2. Source data for annual GFS are available on a timely basis							•					•	•		•	
	6. Statistical techniques are sound	1. Sub- and annual data reconciled regularly	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
		2. Statistical discrepancies and other potential indicators of problems in statistical outputs are investigated		•	•			•	•				•	•	•	•	•	•

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
Strengthen compilation and dissemination of Public Sector Debt Statistics (PSDS)	1. Methodological basis for stats follow international standards, guidelines, or good practices	1. PSDS are compiled on PSDSG 2011 framework, concepts, & definitions							•						•		•	
		2. Scope of stocks includes all debt liabilities of GG (or public sector) units						•	•	•				•	•	•	•	
	2. Improved periodicity, timeliness, and consistency of data	1. GG (or public sector) debt data compiled and disseminated monthly (or quarterly)						•	•	•				•	•	•	•	
	3. Improved data and metadata accessibility	1. A comprehensive sources & methods document disseminated and updated regularly	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
	4. Legal and institutional environment are adequate for the compilation and dissemination of statistics	1. Data sharing and coordination among data-producing agencies are adequate		•	•				•		•		•	•	•		•	•
	5. Source data are adequate for the compilation of these macroeconomic statistics	1. Accuracy of source data is verified for consistency with other data sources						•	•	•				•	•	•	•	
	6. Statistical techniques are sound	1. Annual & sub annual data are reconciled on a regular basis	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Financial Sector Supervision																		
Develop/strengthen banking regulations and prudential norms	1. Legal/prudential regs for risk management, governance framework & prudential ratios on consolidated basis, developed/ strengthened.	1. Legal and regs assessed/reviewed, gaps identified (e.g., evidenced by FSAP/internal BCP self-assessment)	•	•	•	•	•				•	•	•	•		•	•	•
	2. Legislation/ prudential regs on capital adequacy adequate, maintaining adequate capital structure with high capital instruments in line with Basel II/III.	1. Enhanced/new regs/guidelines for risk management/ corporate governance per int. standards meeting requirements of Pillar 1 and 2 of Basel II/III risks.	•	•	•	•	•				•	•	•	•		•	•	•

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
	3. The level of bank capital reflects well their risk profile.	1. Banks regularly assess capital risk profiles & business strategies and send ICAAP reports to supervisors.	●	●	●	●	●			●	●	●	●	●		●	●	●
		2. Supervisors set capital charges above min.to reflect banks' risk profiles and risk management capacity.	●	●	●	●	●			●	●	●	●	●		●	●	●
	4. Legislation/regs on liquidity adequate maintaining liquidity positions for short-term crises/shocks with stable funding to finance longer-term assets.	1. Banks measure their short-term liquidity position in line with the required liquidity coverage ratio (LCR)	●	●	●	●	●			●	●	●	●	●		●	●	●
		2. Banks measure their long-term liquidity position in line with the required net stable funding ratio (NSFR).	●	●	●	●	●			●	●	●	●	●		●	●	●
	5. Institutional structure and operational procedures for RBS enhanced/developed.	1. Supervisory structure and responsibilities are adopted to allow more cooperation between different functions, onsite and offsite.	●	●	●	●	●			●	●	●	●	●		●	●	●
	6. Forward-looking assessment of banks' risk strengthened.	1. Risk assessment matrix, with inherent risk assessment, evaluation of risk mgmt., & internal control and forward-looking risk direction.	●	●	●	●	●			●	●	●	●	●		●	●	●
		2. Early warning system (EWS) developed to detect risks early.	●	●	●	●	●			●	●	●	●	●		●	●	●
	7. Supervisors address at early unsafe/unsound practices/activities posing risks to banks or to the banking system.	1. An early warning system is implemented that identifies unsafe and unsound activities at an early stage	●	●	●	●	●			●	●	●	●	●		●	●	●

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
2. Develop/ strengthen cybersecurity regulations and supervisory frameworks	1. A legal/regulatory framework in place with regs implemented for supervision of cybersecurity risks in line international standards.	1. Prudential framework to manage cybersecurity risk, and internal controls in place.	•	•	•	•	•			•	•	•	•	•		•	•	•
		2. The legal/regulatory framework is materially in line with relevant international standards on cybersecurity risk management.	•	•	•	•	•			•	•	•	•	•		•	•	•
	2. A cybersecurity risk supervisory framework is developed/ strengthened and implemented.	1. The legal/regulatory framework materially in line with relevant international standards to manage cyber risk.	•	•	•	•	•			•	•	•	•	•		•	•	•
3. Develop/ strengthen financial conglomerates regulation and supervision	1. Action plan with key steps to establish/ strengthen reg. and approved supervision frameworks for financial conglomerates (FC).	1. Sequenced road map clearly identifies priorities and objectives to develop/ strengthen FCs reg. & supervision.	•	•							•							
	2. Legislation/ binding prudential regs underpin implementation of regs on a group-wide basis developed/ strengthened.	1. Legislation and regs assessed/reviewed, and gaps identified.	•	•							•							
		2. Legislation/ binding regs enable comp. group-wide supervision, clearly defining FCs and activities to undertake.	•	•							•							
4. Improve accounting & prudential provisioning regulatory guidelines	1. Framework to implement IFRS 9 relating to expected credit loss (ECL) developed.	1. Authorities approved an action plan for implementing IFRS 9 framework.	•	•	•	•	•			•	•	•	•	•		•	•	•
	2. Enhanced supervisor IFRS9 knowledge, incl. interplay ECL and Base reg. asset classification and provisioning requirements.	1. Supervisors trained on IFRS9 and interplay between ECL concept and Basel principles on credit risk and provisioning.	•	•	•	•	•			•	•	•	•	•		•	•	•

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
	3. Provisioning regs/guidelines strengthened balancing IFRS9 requirements of ECL concept and Basel principles on credit risk.	1. Legislation and regulations related to assets impairment and provisioning assessed/ reviewed, and gaps identified.	•	•	•	•	•			•	•	•	•	•		•	•	•
		2. Enhanced/new regs/guidelines on assets classification & provisioning balancing IFRS 9 requirements and Basel principles.	•	•	•	•	•			•	•	•	•	•		•	•	•
5. Develop/ strengthen non-bank credit institution reg. & supervision frameworks	1. Frameworks for regs and supervision for non-bank credit institutions (NBCI) developed, including a roadmap.	1. Action plan to enhance regulatory & supervisory frameworks for NBCIs developed.	•	•	•	•	•			•	•	•	•	•		•	•	•
	2. Legal/regulatory frameworks underpin implementation of regs and supervision of NBCIs enacted/ strengthened.	1. Legislation and regs authorizing/ assigning independent authority to regulate and supervise NBCIs in place effectively.	•	•	•	•	•			•	•	•	•	•		•	•	•
	3. Prudential regs/ guidelines in line with international standards enacted/strengthened.	1. Prudential frameworks for capital and liquidity adequacy and are established.	•	•	•	•	•			•	•	•	•	•		•	•	•
		2. Prudential frameworks for risk management, governance, and internal control in line with international standards and requirements.	•	•	•	•	•			•	•	•	•	•		•	•	•
	4. Strengthened institutional structure and operational and procedures for RBS implementation	1. Necessary legislation/regs to operationally underpin RBS were amended.	•	•	•	•	•			•	•	•	•	•		•	•	•
	5. Institutional structure and operational procedures for RBS enhanced/developed.	1. Risk-based processes and manuals are implemented.	•	•	•	•	•			•	•	•	•	•		•	•	•

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
6. Develop/strengthen supervision & regs frameworks for insurance companies (IC)	1. Legal/supervisory frameworks for ICs developed/strengthened.	1. Legal and regs assessed/reviewed, gaps on licensing criteria defined per Int. Assoc. of Insurance Supervisors' Insurance Core Principles (ICP) 4.	•	•	•	•	•			•	•	•	•	•		•	•	•
		2. Legislation/regs underpin IC's licensing regime amended/enacted and issued.	•	•	•	•	•			•	•	•	•	•		•	•	•
	2. Legal/prudential regulations for risk management, internal control actuarial, and governance developed/strengthened.	1. New/enhanced legislation regs/guidelines on sound risk mgmt., internal control, governance, & actuarial in line with ICPs requirements.	•	•	•	•	•			•	•	•	•	•		•	•	•
		2. Supervisors assess ICs' risk mgmt., internal control, actuarial matters, governance based on the issued legislation/regs and guidelines.	•	•	•	•	•			•	•	•	•	•		•	•	•
	3. Legal/prudential regs for risk-based capital adequacy are developed/strengthened in line with the requirements of ICP 14 and ICP 17.	1. Enactment/Issuance of amended legislation and regs to establish valuation for solvency and risk-based capital requirements aligned to ICP 14 & ICP 17.	•	•	•	•	•			•	•	•	•	•		•	•	•
		2. Supervisory authority set up intervention ladder for solvency in line with ICP 14 when weaknesses identified.	•	•	•	•	•			•	•	•	•	•		•	•	•
	4. Legal/regulatory framework underpins implementation of risk-based supervision (RBS) enhanced/developed.	1. Necessary legislation/regs to operationally underpin risk-based supervision enacted/strengthened.	•	•	•	•	•			•	•	•	•	•		•	•	•
7. Implement a framework to reduce private debt overhangs	1. A national strategy is produced to address the NPL overhang.	1. An inter-agency committee established to coordinate public sector initiatives that seek to facilitate NPL resolution.	•	•							•	•	•	•		•	•	•

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
	2. Legal framework is updated to facilitate private debt restructuring.	1. The legal framework has no impediments to effective enforcement of creditor rights.	●	●							●	●	●	●		●	●	●
		2. Insolvency laws and framework aligned with international best practice.	●	●							●	●	●	●		●	●	●
		3. Out-of-court debt restructuring mechanisms in place.	●	●							●	●	●	●		●	●	●
	3. Banking supervision and regulation of NPLs is enhanced.	1. Granularity of asset quality reporting improved.	●	●							●	●	●	●		●	●	●
		2. More conservative loan provisioning aided by realistic cashflow estimates and collateral valuations.	●	●							●	●	●	●		●	●	●
		Debt Management																
Formulate & implement a medium-term DM strategy (MTDS)	1. MTDS developed, documented and published	1. DM strategy agreed by the relevant authority			●	●	●	●	●	●				●		●	●	
		2. DM strategy document produced and published.			●	●	●	●	●	●				●		●	●	
	2. Staff can use the MTDS Analytical Tool (AT) effectively	1. Staff demonstrates competency in the use of the Analytical Tool.			●	●	●	●		●				●		●	●	
	3. Enhanced capacity for DM strategy formulation and implementation	1. Staff competent through presentations; discussions; or practical exercises on DM strategy formulation and implementation			●	●	●	●		●				●		●	●	
	4. An effective risk management framework is implemented	1. A risk policy framework document is produced	●					●	●	●				●		●		
		2. Enhanced reporting on debt portfolio risk & risk management	●					●		●	●		●	●				●
	5. Cash and debt management are integrated effectively	1. Regular cash forecasts are made available to the debt manager	●									●	●	●			●	

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
	6. Staff can assess, negotiate and record loan contracts	1. Simplified term sheets for loans produced for debt recording purposes.								•	•	•	•	•		•	•	
Establish efficient institutional framework for debt management	1. Improved institutional structure for DM	1. The DM entity is aligned on a front-middle-back office basis.	•		•	•	•	•		•			•			•	•	
		2. The DM entity is adequately resourced and staffed	•		•	•	•	•		•	•	•	•	•		•	•	•
		3. DM staff have specific job roles, tasks, & training plans	•		•	•	•	•		•	•	•	•	•		•	•	•
	2. Improved monetary policy coordination.	1. Regular information sharing on debt transactions and central government cashflows.			•	•	•	•		•	•	•		•		•		•
	3. Improved operational risk management.	1. Guidelines for operational risk management are in place	•	•	•	•	•	•	•				•			•	•	
		2. A written business continuity plan and disaster recovery plan are in place	•	•				•		•	•			•				•
Strengthen practices for debt recording, reporting, and monitoring	1. Improved staff capacity for debt recording, reporting, and monitoring	1. Staff competent in debt recording, reporting, & monitoring through presentations, discussions, or exercises	•		•	•	•	•	•				•				•	•
	2. Debt reported regularly to the public and relevant authorities.	1. Regular publication of a debt bulletin covering central government debt, debt operations, and guarantees	•		•	•	•	•					•					•
		2. Regular publication of annual report on DM and DM operations.	•		•	•	•	•					•				•	•
		3. Compliance with approved debt management strategy is discussed in annual report	•		•	•	•	•	•	•			•				•	•

ANNEX II. (CONTINUED)

Strategic Objective	Outcome	Verifiable Indicator	CKI	FJI	KIR	FSM	RMI	NRU	NIU	PLW	PNG	WSM	SLB	TLS	TOK	TON	TUV	VAN
Develop market infrastructure and capacity for cost effective financing	1 Enhanced capacity for domestic and/or international financing.	1. Staff competent via presentations or practical exercises on how to develop the domestic market or access international financing.	•								•	•	•	•				•
	2. An effective primary market, with market-based issuance	1. Market-based mechanisms are used for debt issuance	•								•	•	•					•
		2. Policies and procedures for the primary market are published.									•	•	•					•
		3. Settlement and custody are supported by effective systems										•	•			•		•
	3. An effective domestic money market.	1. Repo (or securities lending) market developed.		•							•	•	•			•		•



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