



PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

ANNUAL REPORT 2013



STATEMENT BY THE CHAIRMAN OF THE PFTAC STEERING COMMITTEE

It is a pleasure to provide this statement for the 2013 Annual Report which actually marks the 20th anniversary of the Pacific Financial Technical Assistance Centre's existence.

PFTAC was the first IMF Regional Technical Assistance Centre to be established. It is a testament to the success of the PFTAC experiment that there are now eight such centres across the World.

Part of what makes PFTAC work is that it is in a very real sense a combined effort. The Advisors—now seven in number—working at PFTAC have strong backup from colleagues in IMF headquarters, and work closely with the IMF Article IV teams. But the Advisors also work closely with other development partners and agencies in the region, including several members of the Steering Committee, to deliver technical assistance and training. The sixteen PFTAC member countries are also playing an increasingly important role. The Steering Committee meeting itself provides a valuable opportunity for members to provide helpful input to PFTAC's work program priorities and the design of its technical assistance and training courses. In addition, regional professional associations are taking greater ownership of the design and implementation of reforms, so that PFTAC works with, rather than leads them.

A second part of what makes PFTAC work is that it is here in the region and here for the long haul. It is not a fly in, fly out consultancy. This is extremely important for this region in particular. The Pacific Islands need to reform and strengthen their macroeconomic management in order to meet the challenges of raising growth and coping with economic vulnerability, especially in an era of rapid climate change. Those reforms and strengthening are under way all over the region, with PFTAC assistance. But these are not easy things to do. They take time to put in place, and time to implement. Set-backs happen, and momentum can be lost. For this, the region needs sustained support and commitment from its development partners for these far-reaching reforms to succeed. That is what PFTAC does. And it would not be possible without the sustained and generous support of PFTAC's donors, to whom we are grateful.

Finally, I would like to recognize the contribution of Matt Davies, the immediate past head of PFTAC. His efforts went a long way towards ensuring the success of the Centre and the quality of the assistance provided to our member countries. On a similar vein I wish the current head, Scott Roger, the very best in his role and we look forward to the continued valuable cooperation between members and the Centre.

Vinaka vaka levu.



Barry Whiteside, Governor of the Reserve Bank of Fiji.

FOREWORD BY THE CENTER COORDINATOR

This Annual Report covers PFTAC's operations in the Centre's 2013 fiscal year (FY2013)—from May 1, 2012 to April 30, 2013—as well as the work plan for the year to April 2014.

The period covered in this report has seen substantial change at PFTAC. Under the current Phase IV funding cycle running from mid-2011 to mid-2016, the staff of resident experts was planned to increase through the addition of a second public sector financial management advisor, and a second statistics advisor. These advisors joined PFTAC during FY2013. In addition, three of its other advisors and the Coordinator were all replaced during FY2013 and the beginning of FY2014. So although PFTAC may be celebrating its 20th year, only one of the advisors present at this year's Steering Committee meeting was at last year's meeting.

As indicated in the review of FY2013, these staff changes meant that the scaling up of PFTAC's TA and training activities was slower than expected. Nonetheless, the level of TA being delivered was high, and reflected strong demand throughout the region for assistance in almost all areas of PFTAC's expertise. The Pacific Islands face a challenging economic environment, with high energy costs, weak demand for some major exports, and pressures to raise spending on education, health care, and climate change mitigation. These challenges put a premium on strengthening the management and efficiency of public spending and taxation, and placing public finances on a more sustainable, less vulnerable path sustainable. Room needs to be made for the private sector to play a fuller role in economic development, and for this a stable, efficient and inclusive financial system is essential.

In FY2014, PFTAC will continue to assist countries in the region with meeting these challenges, taking advantage of increased resources to innovate in the way that we deliver TA and training. At the same time, we are mindful of the need to be accountable to our members and donors for our performance. In this year's report, we have more fully implemented the results-based management (RBM) framework introduced last year. The framework should help us to plan and monitor our own activity, but should also help to focus our—and our members' attention—on how best to be defining and measuring progress in strengthening macroeconomic management. In FY2014, PFTAC is also planning to increase the transparency of its operations, both through the recently introduced monthly *Pacific Report*, and through a new quarterly report providing more timely information on PFTAC's finances and progress against the RBM framework.



Scott Roger, PFTAC Centre Coordinator

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ACRONYMS

| | |
|---------|--|
| ABS | Australian Bureau of Statistics |
| ADB | Asian Development Bank |
| AFSPC | Association of Financial Supervisors of Pacific Islands Countries |
| ANU | Australian National University |
| BPNG | Bank of Papua New Guinea |
| CAMELS | Capital adequacy, Asset quality, Management, Earnings performance, Liquidity and Sensitivity to market risks |
| DOFD | Australian Department of Finance and Deregulation |
| CBSI | Central Bank of the Solomon Islands |
| FEMM | Forum Economic Ministers Meeting |
| FSIS | Financial Sector Information System |
| FSM | Federated States of Micronesia |
| GDDS | General Data Dissemination System |
| GFS | Government Financial Statistics |
| HOPS | Heads of Planning and Statistics Meeting (SPC) |
| ICD | Institute for Capacity Development |
| ICP | International Comparison of Prices |
| IFC | International Finance Corporation |
| IFMIS | Integrated Financial Management Information System |
| IMF | International Monetary Fund |
| NSDS | National Strategies for the Development Statistics |
| NSO | National Statistical Office |
| OECD | Organization for Economic Cooperation and Development |
| PEFA | Public Expenditure and Financial Accountability |
| PEM TA | Pacific Economic Management Technical Assistance Project |
| PFM | Public Financial Management |
| PFTAC | Pacific Financial Technical Assistance Centre |
| PIC | Pacific Island Country |
| PICPA | Pacific Islands Centre for Public Administration |
| PIFMA | Pacific Islands Financial Management Association |
| PINACLE | Pacific Islands National Accounts Compilers and Local Experts |
| PITAA | Pacific Islands Tax Administrators Association |
| PSSC | Pacific Statistics Steering Committee |
| RBF | Reserve Bank of Fiji |
| RBNZ | Reserve Bank of New Zealand |
| RMI | Republic of the Marshall Islands |
| RTAC | Regional Technical Assistance Centre |
| SPC | Secretariat of the Pacific Community |
| TA | Technical Assistance |
| TYPSS | Ten Year Pacific Statistics Strategy |
| VAT | Value Added Tax |
| PNG | Papua New Guinea |
| GDP | Gross Domestic Product |
| RBM | Result-Based Management |

I. OVERVIEW OF THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

Institutional Framework

1. **PFTAC was established in 1993 to promote macro-financial stability in Pacific Island countries through a focused program of technical assistance and training.** PFTAC was set up in 1993 as the first of the IMF's regional technical assistance centers, representing a collaborative venture between the International Monetary Fund, the recipient countries, and bilateral and multilateral donors.¹ The goal of PFTAC is to strengthen the institutional capacity of Pacific countries to design and implement sound macroeconomic and financial policies. Macroeconomic and financial stability, in turn, are essential underpinnings for sustainable economic growth and the achievement of Millennium Development Goals.
2. **PFTAC assistance is provided to sixteen Pacific island countries (PICs).** These comprise 12 members of the IMF, including Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu, plus the Cook Islands, Nauru, Niue and Tokelau.
3. **PFTAC's operations are funded by contributions from a variety of sources.** In the current Phase IV funding cycle, running from mid-2011 to mid-2016 (FY12-FY16), funding is being provided by The Asian Development Bank (ADB), Australia, New Zealand, the European Union, and Korea. In addition, Fiji is contributing through the provision of free office space; recipient countries also contribute through in-kind and financial support for training activities in the region. The IMF contribution finances the coordinator and the running costs of the office, including local support staff.
4. **The framework for PFTAC's operations, as well as for its accountability, is largely determined by the program established at the beginning of each funding cycle.** The program for the Phase IV cycle continues to emphasize the provision of technical assistance (TA) and training in four traditional core areas: (i) public sector financial management (PFM); (ii) revenue policy and administration; (iii) financial sector supervision; (iv) macroeconomic statistics; and one new area (v) macroeconomic management. In each area, activities of the seven PFTAC resident advisors as well as short experts engaged by PFTAC are linked to specific outcome objectives in a Results-Based Management (RBM) framework. PFTAC provides accountability to its donors in the Annual Report, which reports on activities and performance in relation to those objectives, and through its Steering Committee meetings with members every 18 months. In addition, the program provides for a mid-course external review, scheduled to take place in 2014.

Technical Assistance Strategy

5. **TA and training provided by PFTAC needs to reflect the priorities set out in the agreed program but also be flexible in adapting to evolving regional priorities and the needs of member countries.** The objectives set out in the funding program provide a basic medium-term framework for guiding PFTAC's

¹ See Annex I for an overview of the IMF Regional Technical Assistance Centers (RTACs).

activities. At the same time, however, PFTAC priorities and activities need to take into account the evolution of objectives set by regional leaders, as well as the activities of other development partners. On a month-to-month or quarter-to-quarter basis, however, PFTAC's delivery of TA and training is largely driven by the widely varied needs of its members.

6. **Within each of the main areas of PFTAC activity, broad objectives and performance indicators are set**, and a range of specific activities undertaken to attain these over time while recognizing the varied needs in the region:

Public Financial Management

7. **The overall objective is to assist members with strengthening PFM systems.** Activities are guided by the regional PFM Roadmap approved by Pacific Islands Forum Leaders and Finance Ministers in 2010. They are concentrated in two main areas: (i) supporting the Public Expenditure and Financial Accountability (PEFA) assessment process and developing realistic reform priorities; and (ii) hands-on technical support and training in specific reform areas such as legal frameworks, budgeting cycles, budget preparation, medium-term fiscal planning, cash management, commitment control and accounting.

Revenue Policy and Administration

8. **The primary objective is to assist members with the design and implementation of broad-based efficient revenue systems.** PFTAC's activities are guided by its previous analysis of regional priorities and lessons learned and by benchmarking national tax administrations against the requirements of a model tax office developed through the regional tax administrators association (PITAA). Major areas of activity include: (i) design and implementation of tax reforms, including value added taxes (VAT) and small business taxes; (ii) assistance with legislative changes needed to support tax reforms, including in the natural resources area; and (iii) development and implementation of tax compliance and IT strategies.

Financial Sector Supervision

9. **The principal objective in this area is to limit financial system risks through the establishment and enforcement of appropriate prudential and supervisory frameworks.** Activities involve assisting central banks and supervisory agencies with development of appropriate regulations and statistical returns and regularly produce and analyze financial soundness indicators. The focus of support is now moving towards building capacity for on-site examinations, in particular analysis of loan quality and the implications on capital adequacy and earnings performance of banking institutions.

Macroeconomic Statistics

10. **The overall objective is to help members develop more timely and reliable macroeconomic datasets based on enhanced source data.** PFTAC's support to PIC's statistics takes place in the context of the Ten Year Pacific Statistics Strategy (TYPSS) created as a result of a regional statistical benchmarking study and implementation plan. National accounts statistics are the main current focus with additional advice and training being provided in external statistics, price indices and government finance statistics.

PFTAC coordinates closely with Secretariat of the Pacific Community (SPC) which has a large program of support for social/demographic statistics and some support for economic source data.

Macroeconomic Management

11. **This area was added in the Phase IV program and has the principal objective of assisting members to develop the macroeconomic analysis and forecasting tools needed to strengthen fiscal and monetary policy formulation.** PFTAC activities focus on three themes: (i) strengthening macroeconomic analysis, particularly in central banks; (ii) improving economic forecasting, particularly with regard to budget revenues; and (iii) building frameworks for the macroeconomic management of natural resource inflows. Building in-country capacity for debt sustainability analysis is also an important aim.

TA Management and Implementation

12. **PFTAC is managed by a Coordinator, and TA is provided by resident advisors with substantial expertise in their respective sectors.**² Under the Phase IV program, the number of resident advisors was raised by three to a total of seven, of whom two work in the PFM area, one in revenue administration, one in financial supervision, two in macroeconomic statistics, and one in macroeconomic analysis. The advisors are based in Fiji; they travel extensively throughout the region, which allows them to develop rapport with country authorities and familiarity with national and regional contexts and needs. The skill mix of the advisors reflects the priority needs of the beneficiary countries. The Coordinator and advisors are assisted in managing the TA program, finances, reporting and other Centre activities by a staff of four locally-engaged staff.

Work Planning

13. **As discussed earlier, the Phase IV program objectives provide general guidance for planning the TA activities of PFTAC.** Within this broad framework a more bottom-up approach is used to design, prioritize, and adapt work programs. Developing more detailed work programs, including country strategies and individual TA activities draws on a range of other inputs, including IMF headquarters advice, collaboration with other development partners and regional organizations, and close dialogue with PFTAC's member countries.

14. **The focus and quality of PFTAC's work benefits from close cooperation with IMF headquarters staff.** The planning of TA work by PFTAC advisors draws extensively on input from headquarters staff. Asia-Pacific Department staff help to provide a policy-oriented focus in identifying or prioritizing TA needs. The IMF's functional departments also provide dedicated backstoppers to support the Advisors at a technical or policy level. This kind of backup from headquarters helps to provide depth as well as breadth of experience together with greater consistency across countries and policy areas than would otherwise be possible.

² See Annex II for a listing of PFTAC Staff

15. **PFTAC also collaborates closely with regional organizations and development partners to develop complementary TA programs.** The Pacific Islands Forum (PIF) plays a key role in the region in setting priorities for reforms or capacity building that directly affects PFTAC's activities. As noted earlier, PFTAC's activities with regard to PFM follow the strategy established by the PIF leaders in 2010, while activities in the area of statistics come under the TYPSS. Additionally, and increasingly, TA priorities are being worked out in conjunction with regional professional associations supported by PFTAC (See Box 1). PFTAC also collaborates with other development partners in planning and delivering TA. Partners include multilateral organizations such as Asian Development Bank (ADB), the PIF, UN agencies, and the World Bank, as well as national agencies such as AusAID, the Australian Bureau of Statistics (ABS), the European Union, New Zealand Aid, the Reserve Bank of New Zealand, and Statistics New Zealand. Collaboration may take the form of information sharing in order to avoid duplication or working at cross-purposes, but can also involve more active cooperation in designing and delivering complementary TA.

Box 1: Pacific Regional Professional Associations

PFTAC has assisted in the development of four professional associations in the Pacific. These are the Association of Financial Supervisors of Pacific Countries (AFSPC), the Pacific Islands Tax Administrators Association (PITAA), the Pacific Islands Financial Managers Association (PIFMA) and PINACLE, a recently established association for the compilers of national accounts statistics.

These associations help reinforce national level reform efforts through sharing of knowledge and experience, and identification of common issues and best regional practices. They have also helped PFTAC and other development partners identify thematic priorities and have been used to organize and deliver training programs.

The associations are generally managed around annual heads' meetings. Annual governance meetings allow high-level discussion of regional issues and set the agenda for regional work. They also provide a forum for interaction with other development partners. The chairmanship generally rotates amongst member countries with the PFTAC advisor acting as secretariat. Funding comes from a mixture of member country and PFTAC funds. High-level seminars and training are occasionally attached to the heads' meetings.

Separate training events deliver capacity building. The associations have been used to organize training on topical issues. The training events often lead to clusters of country-level TA; for instance the ADB/PFTAC program of assistance on internal audit that followed PIFMA training. PFTAC has fully funded training events, including some study tours.

16. **TA programs are necessarily designed in close consultation with national authorities.** Effective collaboration is greatly enhanced by being based within the region, and by having advisors who typically spend several years at PFTAC. These relationships form the bedrock of PFTAC's success and are crucial for adapting the knowledge and skills available through PFTAC to the specific needs, timetables, and constraints of its members. In addition to substantive country visits, resident advisors provide rapid ad hoc advice to country officials, using e mail, phone and information technology. Work programs are regularly amended to enable urgent country requests to be responded to quickly while maintaining momentum towards strategic goals.

Modes of TA Delivery

17. **PFTAC delivers TA through a combination of bilateral TA and regional training.** Bilateral TA primarily involves missions by the advisors to the member countries to provide specific assistance. Such assistance can be quite varied in terms of content. It may involve very hands-on help with generating outputs (e.g. national accounts statistics), or training more clearly focused on capacity building, or higher level advice on design and implementation of policy or bureaucratic reform. Depending on the skills or knowledge needed, as well as on the availability of the advisors, PFTAC may staff such missions with external experts drawn from the relevant IMF department's roster of experts.

18. **PFTAC is also active in organizing and financing workshops and seminars on topics of broad regional relevance.** Such workshops are usually undertaken in collaboration with other organizations. For example, PFTAC works with the Australian Ministry of Finance and Deregulation (MOFD) to put on an annual workshop on PFM issues, collaborates with SPC in putting on workshops on economic statistics, and puts on macroeconomic analysis workshops in cooperation with the IMF's Singapore Training Institute (STI). Apart from facilitating regional level discussions of issues affecting the region as a whole, such workshops provide an opportunity for workshop participants to develop informal networks with their colleagues in the region.

Challenges

19. **Effective translation of the TA provided by PFTAC into attaining the ultimate objectives of such assistance faces several important challenges.** These include very limited absorptive capacity in several countries, limited ownership of reforms, and inconsistencies with assistance provided by other development partners, as well as PFTAC's own limitations:

- Almost all of PFTAC's activities involve working with, and helping to develop, an adequate pool of skilled staff. However, human capacity, both in terms of numbers and education levels, is a particular challenge in many member countries. Staff turnover, which may be fairly easily coped with in larger countries often leads to substantial reduction in technical capacity which is not easily replaced. As a consequence, an important part of TA and training in such countries is focused more on maintaining or restoring capacity rather than substantially raising it.
- Reforms may stall or be reversed unless there is broad political and popular support. This is particularly challenging in small countries, where personality politics are important and where the drive behind reforms may be associated with particular individuals. A change in government or finance minister can derail or delay a reform program. Moreover, PFM and tax reforms often involve changes that would limit the scope for unaccountable discretion in the use or misuse of public funds, and this may run against long-standing political or bureaucratic practices.
- Development partners with somewhat different objectives may well end up either competing over the allocation of scarce local human capacity, or may advocate inconsistent measures or priorities. Examples include how much of a country's statistical capacity to allocate to economic statistics versus health or environmental data, or foreign donors seeking to insulate development project finance and management from the general government budget.

- PFTAC's own staff resources are limited, and this also places limits on the ability to effectively use and manage outside experts. Additionally, PFTAC is limited in the kinds of TA and training that it can provide. In particular, it does not provide long-term in-country experts or advisors to governments, and has no on-line training capacity.

II. REVIEW OF FY2013 (MAY 2012-APRIL 2013)

This section describes PFTAC's major activities in FY2013. It provides an overview of PFTAC's performance over the period as well as an update on financing under the 4th funding cycle. The section also provides a more detailed reporting on performance in relation to the Results-Based Management objectives and work plan for 2013.

Overview

Introduction

20. **FY2013 was a challenging year for PFTAC, which experienced a large turnover in staff as well as a scaling up of the Centre's activities.** Delays in the planned addition of two advisors, together with turnover in three of the other advisor positions, meant that through FY2013, PFTAC's complement of advisors increased in effective terms by an average of less than one person year, rather than by the two envisaged. The PFTAC coordinator position also changed hands during the year.

21. **Lower than expected staffing levels contributed to under-spending relative to expectations.** TA and training costs, excluding overheads, came in at a little over \$4 million, 25 percent below budget expectations. Staff costs about 20 percent below budget partly explain the shortfall. However, other TA costs, including travel costs, headquarters-based missions, and backstopping costs, were even lower. To some extent this reflects complementarities between the presence of the advisors and the ability to carry out other aspects of TA. But it also reflects greater economy in the operations of PFTAC and less demand for some types of missions.

22. **Nonetheless, TA and training during the year largely met the operational objectives set out in the Results-Based Management (RBM) Logical framework for FY2013.** Highlights included assistance with:

- Progressive strengthening of Public Financial Management (PFM) within the region through Public Expenditure and Financial Accountability (PEFA) assessments and associated PFM roadmap development and reviews;
- Implementing tax reforms, especially VAT and natural resource tax regimes, in many countries in the region and increasing the efficiency of tax administration;
- Strengthening bank supervisors' on- and off-site bank monitoring capacity through improved reporting forms, software improvements, and training for supervisors;
- Developing or improving the quality, frequency, and information content of national accounts statistics, as well as providing training to build up skills in national statistics agencies;
- Adapting financial programming and other macroeconomic forecasting and analysis tools to the needs of finance ministries and central banks in the region.

23. **Progress in these areas would not have been possible without close cooperation with development partners and, increasingly, regional professional associations and intra-regional**

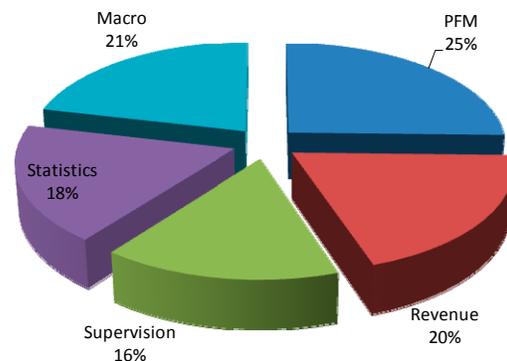
collaboration. In TA delivery, PFTAC continued to work closely on the ground with other TA providers. In training, PFTAC routinely partnered with other agencies in designing, funding, and delivering workshops and seminars. Increasingly, however, partners within the region, including the professional associations supported by PFTAC, as well as other groupings, such as PEFA peer reviewers, have taken on an increasingly important role in guiding and assisting PFTAC's activities.

Performance relative to Program Objectives

24. **PFTAC's delivery of TA and training in FY2013 focused heavily on bilateral TA and about two-thirds was delivered by resident advisors.** Altogether, PFTAC advisors participated in 80 TA and training missions during the year, very close to the 83 anticipated in the work plan.³ An additional 31 missions were undertaken by short-term experts engaged by PFTAC. Of these, 96 missions (87 percent of the total) involved bilateral TA, while the remaining 15 were regional. Altogether, these 111 missions involved nearly 1300 days (3½ person years) of staff and short-term experts' time on mission. TA in the macroeconomics and statistics sectors was heavily dominated by resident advisor missions, while in the supervision and revenue sectors, half to two-thirds of TA (in terms of mission days) was delivered by short-term experts.⁴

25. **PFTAC's work program focused on assisting PFTAC members with basic reforms and improvements in policy implementation to strengthen macroeconomic and financial stability.** In terms of days of TA delivered nearly half of the TA delivered by PFTAC, whether bilaterally or regionally, by PFTAC staff or by short-term experts, focused on PFM and revenue aspects of fiscal management. As discussed in greater detail in the sectoral reports below, and summarized in the Results-Based Management (RBM) Logical Framework presented in Annex III, PFM TA focused on strengthening and implementing PFM roadmaps, while revenue administration TA focused on implementing reforms, particularly VAT and natural resource taxation. These efforts were complemented by TA focused on providing finance ministries and central banks with tools to assist with formulation of sustainable fiscal policies, and by TA to improve national accounts statistics essential for macroeconomic analysis. As envisaged in the RBM framework, TA on financial supervision focused on assisting authorities with development of bank reporting forms and on- and off-site supervision capacity.

Fig. 1: Sectoral distribution of PFTAC TA in FY2013
(Percentage of total mission days)

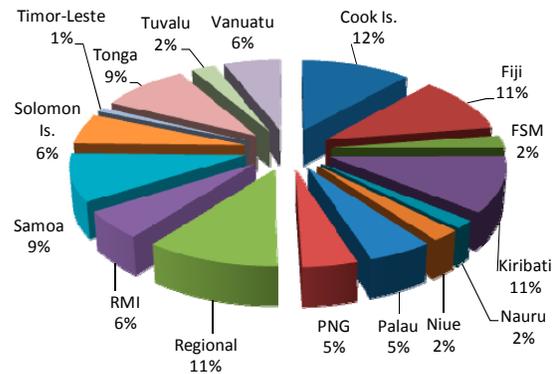


³ Details of the missions, meetings and workshops are provided in Annex IV.

⁴ The number of TA mission days gives a more accurate indication of the amount of TA delivered than the number of missions because the length of missions varies considerably.

26. **PFTAC’s TA delivery does not have targets in terms of the distribution of missions across members.** Where TA takes place in any given year is generally demand determined. In some cases, such as Timor-Leste or Papua New Guinea (PNG), substantial TA is received from other providers, so that demand for TA from PFTAC has been subdued. In some other countries, pickup in demand for TA may be driven by political developments such as the election of a new government and introduction of new reforms. In addition, for much of the TA provided, there tends to be a fairly concentrated sequence of missions to assist the authorities with the different elements of the project. In FY 2013, Cook Islands, Fiji, Kiribati, Samoa, and Tonga were the largest TA recipients. In the Cook Islands, the TA was mainly concentrated in development of balance of payments statistics and assistance with policy and legislation relating to deep sea mining. In Kiribati, TA focused on PFM reforms, introduction of VAT, and development of National accounts statistics. In Fiji, as in Samoa, extensive TA was directed to strengthening of macroeconomic analysis and forecasting. Tonga received extensive assistance with strengthening tax administration and building bank supervision capacity.

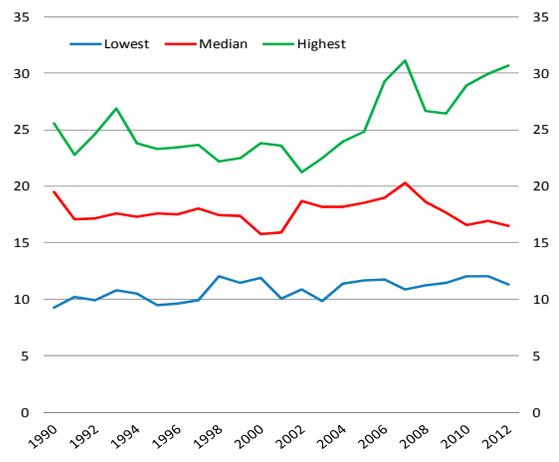
Fig. 2: Country distribution of PFTAC TA in FY2013 (Percentage of total mission days)



27. **Outcomes in some areas have been impressive, while in some others progress has been slow or disappointing.** Notable examples include:

- Ongoing strengthening of the PEFA process. Not only are more and more countries having second PEFA's, but the regional ownership of the process has been strengthened by self-assessments and peer reviews.
- Effective integration of planning and budgeting process remains a challenge throughout the region, while the need for meshing these processes is accentuated by the prospect of large scale project funding related to climate change.
- Despite extensive TA support for reforms of tax policy and administration, progress in raising tax revenues relative to GDP has been very mixed. In 2012, the median tax/GDP ratio on the region was a low 16.5 percent, and in 4 countries (Kiribati, RMI, Tonga, and Tuvalu), not only were tax collection rates low but had fallen over the previous 10 years. Over the same period, however, Fiji, Palau, PNG, and

Fig. 3: Tax/GDP ratios in PICs, 1990-2012 (in percent of GDP)



Source: IMF

Solomon Islands all experienced significant increases in tax/GDP ratios.

- The small size of units covering economic statistics in several countries continues to make them highly vulnerable to losses of skills through staff turnover.
- Development of the Financial Sector Information System (FSIS) software took longer than envisaged, delaying its deployment until FY2014.

PFTAC Spending and Financing in FY2013

28. **In FY2013, PFTAC expenditures fell well short of budget expectations (Table 1).** Donor funded expenses amounted to \$4.2 million, nearly 25 percent below the budgeted amount.⁵ About one-third of the shortfall reflected lower staff costs, mainly owing to the delays in the increase in the planned staff levels as well as gaps between departing and incoming staff, only partly offset by greater use of short-term experts than expected. Additionally, PFTAC funding of TA delivery by IMF headquarters staff was lower than budgeted, mainly owing to less demand than anticipated for diagnostic missions. Both of these

| International Monetary Fund Pacific Financial Technical Assistance Center Fourth Funding Cycle (Phase IV) June 2012 - April 2016 Table 1. Consolidated Financial Status (US\$ millions) | | | | | | |
|--|-------------------|-----------------------|--------------|-------------|-------------|-------------|
| ACTIVITY | FY 2012 – FY 2016 | | | FY 2013 | | |
| | BUDGET | EXPENSES ¹ | REMAINING | BUDGET | EXPENSES | REMAINING |
| Long-term experts | 12.13 | 2.81 | 9.33 | 2.33 | 1.79 | 0.54 |
| Short-term experts | 3.16 | 1.39 | 1.77 | 0.68 | 0.85 | -0.17 |
| Travel | 3.38 | 0.83 | 2.55 | 0.60 | 0.52 | 0.08 |
| Seminars | 2.58 | 0.72 | 1.86 | 0.56 | 0.38 | 0.19 |
| IMF Staff TA delivery | 1.22 | 0.05 | 1.17 | 0.33 | 0.05 | 0.28 |
| Miscellaneous | 0.69 | 0.17 | 0.51 | 0.08 | 0.107 | -0.02 |
| IMF Backstopping | 1.47 | 0.22 | 1.24 | 0.28 | 0.12 | 0.16 |
| Project management | 0.62 | 0.09 | 0.52 | 0.12 | 0.07 | 0.06 |
| Total TA Delivery | 25.24 | 6.28 | 18.96 | 4.99 | 3.88 | 1.11 |
| Evaluation | 0.2 | 0.00 | 0.2 | 0.2 | 0.00 | 0.20 |
| Trust fund management (7%) | 1.78 | 0.44 | 1.34 | 0.36 | 0.27 | 0.08 |
| GRAND TOTAL² | 27.22 | 6.72 | 20.50 | 5.55 | 4.15 | 1.39 |

¹ As at April 30, 2013
² Host Country and IMF contribution is not included

⁵ In addition to the donor-financed expenses PFTAC's administrative expenses, including office costs and the Coordinator's salary and costs are funded directly by the IMF. Office space rental costs are funded by the Reserve Bank of Fiji.

also led to lower travel, backstopping, and project management costs than expected. Most of these cost reductions are likely to be temporary, with costs rising as the staff complement rises to the program target of 7 and turnover declines in FY2014.

29. **On the funding side, as of end-FY2013, contributions received from PFTAC's Phase IV donors amounted to \$11.7 million (Table 2).** Pending contributions include: (i) the remaining balances outstanding in Table 2, although some of these have subsequently been paid in FY2014; (ii) rollovers of unused funds from the Third Funding Cycle; and (iii) pledges beyond those listed in Table 2, including an additional \$3 million pledge by AusAid and Euro 3.5 million by the European Union (EU).

| International Monetary Fund Pacific Financial Technical Assistance Center Fourth Funding Cycle (Phase IV) June 2012 - April 2016 Table 2. Status of Financial Contributions as of April 30, 2013 (Units as indicated) | | | | | | |
|---|-----------------------|--------------------------|-----------------------|--------------------------------|-------------------------------|------------------|
| Phase IV - Signed Agreements: | Pledge (US\$ dollars) | LOU Status | Contribution Currency | Pledge (Contribution Currency) | Contributions Received (US\$) | Balance (US\$) |
| ADB | 1,000,000 | <i>signed 7/29/2011</i> | <i>U.S. dollars</i> | 1,000,000 | 666,666 | 333,334 |
| EU | 1,345,000 | <i>signed 07/01/2011</i> | <i>Euros</i> | 1,000,000 | 1,210,500 | 134,500 |
| NZAID, New Zealand | 6,715,055 | <i>signed 06/16/2011</i> | <i>NZD</i> | 8,900,000 | 4,300,510 | 2,414,545 |
| AusAID | 7,500,000 | <i>signed 05/25/2011</i> | <i>U.S. dollars</i> | 7,500,000 | 5,000,000 | 2,500,000 |
| Korea | 2,181,000 | <i>signed 02/15/2012</i> | <i>Korean Won</i> | 2,500,000,000 | 545,257 | 1,635,743 |
| Subtotal | 18,741,055 | | | | 11,722,933 | 7,018,122 |

Sectoral Achievements in FY2013

Public Financial Management

30. **The addition of a second PFM advisor during FY2013 allowed the delivery of more TA and support to regional approaches.** Each advisor became the principal point of contact for 7-8 PICs on PFM matters, and took primary responsibility for sub-sets of PFM specialties, serving as the lead for that particular specialty when a country requests TA.

31. **In accordance with the RBM program (Annex III), the advisors' work in FY2013 was concentrated in three general categories:**

- PFM Roadmap support – support for PEFA assessments and the development of PFM Roadmaps;
- Specific TA missions or training designed to assess, discuss, and deliver solutions;
- Delivering training and supporting the development of regional institutions or processes with the aim of long-term PFM system sustainability

32. **PFM Roadmap support. Our approach to both PEFA and PFM Roadmaps continued evolving to emphasize greater participation of country officials in order to promote more country ownership of the**

products. To this end PFTAC sponsored a regional workshop in July 2012 on the PEFA Methodology. We were involved in three PEFA assessments during FY2013. These included:

- Both the self-assessment and formal assessment in Fiji;
- A self-assessment effort and participation in the Oversight Team for the Solomon Islands PEFA;
- A self-assessment in Palau (RBM objective 1.1).

The self-assessment exercises demonstrated that country officials, when given the opportunity, could fairly apply the PEFA criteria to evaluating their countries' PFM processes and procedures.

33. **In addition, PFTAC supported preparation of draft PFM Roadmaps** in Niue, Tuvalu, and RMI, and a PFTAC Advisor conducted a mission to Nauru to assist authorities there in revising an earlier Roadmap.

34. **Box 2 summarizes major lessons learned about emerging good practice in conducting PEFA assessments and developing PFM Roadmaps.**

Box 2: Emerging Good Practice for PEFA Assessments and PFM Roadmaps

It is important for countries to take ownership of the PEFA assessment and PFM Roadmap. This will ensure that the assessments contribute to the reform process. This requires engagement from senior and middle level staff in their preparation – not just as information providers, but as partners in the preparation of PEFAs and Roadmaps. This not only creates ownership, but also provides an educational opportunity, developing country staff so that over time they will be able to take more responsibility for driving PFM reform. It also institutionalizes the practice of regular self-assessment and self-improvement as part of the cultures of PIC finance ministries.

This requires time and careful planning. PEFAs and Roadmaps should only be started at a time of the year when key staff will be least distracted by other matters. A PEFA will require at least 6 weeks (3 weeks for a self-assessment and 3 weeks for a formal assessment) of fairly intense staff involvement.

Formal assessment teams should be appropriately staffed. Teams should be composed of around 3-4 people, with at least one member from the Government and one from a regional agency or peer country. Two experts will also normally be required (one of whom will probably have facilitated the self-assessment exercise). Additional expertise may also be required for additional assessments in areas such as procurement. Country staff should be heavily involved in writing both the formal PEFA assessment and PFM Roadmaps.

Consultation with development partners is also important. It should come both beforehand, through review of the terms of reference and team briefing, and also at the end of the process. The government should be in the lead in the consultation process.

A “low” PEFA score does not necessarily require action. PEFAs only tell a government how they are performing relative to what is generally considered best practice. Countries may not consider it appropriate to move to better practice across the whole range of PEFA scores. This may be because of constrained resources/capacity or because a country does not consider a higher PEFA rating to be desirable. Desiring higher ratings signals that a country wants to improve operations in a specific area, but there can be many routes to that condition.

Roadmaps should be about much more than just raising PEFA scores or meeting a donor requirement. They should not become just another plan-- created, published, and delivered to fulfill a donor requirement. Roadmaps should only be prepared if Government believes that improved PFM is important to improved delivery of public services; and they are committed to implementation. A properly prepared Roadmap will clearly indicate the actions that can and will be taken to arrive at the desired state and the timing of those actions. It should also identify the type of development partner support that will be required to

achieve sustainable improvements—engaging key partners during drafting is therefore critical.

Sound and disciplined PFM is not just a technical matter. Many of its most significant aspects hinge on how Cabinets and Legislatures deliberate on fiscal and policy issues, and in particular on how they integrate thinking about public service policies, budgets, and revenue constraints in arriving at decisions. PFM Reform Roadmaps should address these issues and should be formally approved by Cabinets.

35. **In addition to PEFA and Roadmap activities PFTAC continued its commitment to quickly respond to requests from countries for urgent assistance and from Donor Partners for TA assessment and planning.** FY2013 missions included:⁶

- Several to Kiribati to work with Country Officials and donors in defining the scope of proposed TA for Treasury management and FMIS enhancements, reorganizing the planning and budgeting function, improving debt management policy, and reviewing revenue forecasts;
- Support to the Cook Islands in improving the underlying information system for forward estimates and linking them to the Fiscal Management Model (developed with support from PEM TA);
- A review of proposals for IFMIS changes in Tonga;
- Support to the Cook Islands and the Solomon Islands to improve the PFM legal framework (RBM objective 1.3);
- Training Budget Analysts in the Fiji Ministry of Finance on approaches to Budget Analyses.

36. **Broader capacity development included training and development through regional institutions and processes:**

- **Improving PIFMA services was a major topic at the November 2012 PIFMA Heads Meeting.** PIFMA Heads endorsed proposals to expand PIFMA functions/services and get more PIC officials and development partners engaged. The endorsed proposals included:
 - Sponsoring of critical training for a variety of PFM professionals.
 - Maintaining a website for members with
 - good practice manuals;
 - simple down-loadable software to solve common problems;
 - community of practice chat-rooms for PFM professionals in similar positions to share ideas;
 - As of the end of FY2013 the website, still in development, provided materials on procurement and budget analyst training.
- **The annual Strategic Leadership Programme,** delivered in collaboration with the Australian Department of Finance and Deregulation (DOFD), continued with the February 2013 workshop focused on Procurement.
- **PFTAC began more active partnering with the USP and PICPA on sustainable training for PFM professionals in the region.** With satellite campuses in 12 PICs and sophisticated 2-way video

⁶ See Annex IV for a comprehensive listing of PFTAC missions, meetings and workshops in FY2013.

distance learning and other technology, USP has great potential to be able train much larger numbers of PFM professionals (both in Finance Ministries and LMs) than traditional and more expensive approaches to training (out-of-country workshops or flown-in experts). PICPA representatives were actively involved in preparation and delivery of the February 2013 PFTAC-DOFD Procurement Workshop. Nonetheless, deepening engagement with PICPA has progressed relatively slowly, reflecting PICPA staffing and organizational issues.

Revenue Policy and Administration

37. **During FY2013 there was strong demand for PFTAC support with development of modern revenue policy and administrative regimes, stretching PFTAC's capacity to deliver.** Indeed, TA delivery, measured in terms of mission days, was comparable to that delivered in the area of PFM and Statistics despite having only one resident advisor. To accomplish this, TA in the revenue area made exceptionally heavy use of short-term experts, who accounted for nearly half of all the TA delivered.

38. **Development and implementation of modern revenue policy and legislative frameworks remained a major focus in FY2013** (RBM objective 2.1). This work involved fundamental reforms to modernize tax systems and broaden tax bases in the areas of VAT; PAYE Final; Revenue Administration; Revenue Authorities; Deep Sea Mining Regimes; Excise Tax; Business Profits Tax; Small Business Tax Regimes. Key activities included:

- Policy reviews were carried out in Kiribati, Samoa, Cook Islands, Nauru, Tonga, and Fiji.
- Legislative drafting assistance was provided to Samoa, Kiribati, FSM, Tonga, Fiji and Cook Islands.
- Assistance in implementing reforms was provided to RMI, Fiji, Tonga and FSM.

39. **Significant success has been achieved by developing a comprehensive reform package (policy and legislation) in Kiribati and Government has shown a commitment to implement the reforms.** Similar reform packages developed in prior FY for RMI and FSM are progressing but it is in the nature of tax reform that progress is often slow because of local politics and a general uncertainty about change. PFTAC continues to support countries through this process. Deep Sea mining regimes in Cook Islands are progressing well with government support.

40. **Excellent progress in implementing comprehensive strategic and corporate planning has been achieved in Samoa and Solomon Islands** (RBM objective 2.2). To a lesser extent, success has been achieved in Fiji and Tonga but all PFTAC countries have to some extent developed corporate plans. The challenge for many PICs is creating the linkages between their plans and business activities and emerging risks.

41. **Improving IT capacity and capability is an important component of tax reform and PFTAC support for developing new modernized IT systems continued to be in demand in FY2013** (RBM objective 2.3). PFTAC provided technical assistance to Kiribati, Fiji and Samoa to develop IT Strategic Plans and worked with donors to identify funding for new and upgraded system. In FY13 a new system was approved for Kiribati, PNG continued with implementation of its new system and system upgrades carried out in Cook Islands and Samoa.

42. **PFTAC also arranged and funded a regional IT workshop to assist countries understand the role of IT in a modern tax administration.** Unfortunately the high cost of IT systems is a substantial barrier to many PICs and the absence of modern IT systems in their tax administrations is more a reflection of cost than intent. The majority of PICs that have an IT system have elected for commercially available off-the-shelf product rather than an in-house development (Fiji has the only in-house development) and fortunately, the system most commonly used is the most affordable currently available throughout the world.

43. **Most PICs have recognized the benefits of modern self-assessment administrative techniques but still struggle to fully embrace and implement several of the concepts** (RBM objective 2.4). Tax reform in PICs is often a slow process and the habits and attitudes built up over decades have been hard to change. In this context, change management has become an ever increasing priority and many PICs continue with an administrative system that requires 100 percent verification (assessment systems) and have difficulty accepting the principles of risk management (self-assessment).

44. **PFTAC has provided extensive support to improve administrative systems and processes.** In FY2013 assistance was provided in Cook Islands, Fiji, FSM, Kiribati, Nauru, RMI, Samoa, and Tonga. Samoa has managed to implement self-assessment with strong support from NZ Inland Revenue Department (IRD), but Cook Islands, Fiji, and Tonga, while acknowledging the benefits, struggle with implementation because of change management and risk management issues.

45. **All PICs now operate a functionally-based tax administration and have some degree of market segmentation (large taxpayers)** (RBM objective 2.5). However, organization structures continue to evolve to meet the emerging needs of each country and PFTAC continues to work to ensure that the structures are appropriate and that a practical balance is struck between functionally-based structures and market alignment.

46. **Excellent progress towards effective risk management and compliance improvement strategies has been made in Vanuatu, Samoa and Solomon Islands** (RBM objective 2.6). Vanuatu's VAT system is entirely risk based and in this regard, it is a leading example to all PICs. Risk management is not been entirely embraced by many PICs because it is a significant departure from their administrative style of the past 40 years. Successful implementation will require careful change management.

47. **Most PICs are in fundamental agreement through PITAA on tax systems and operating models that are appropriate for small island countries and are working towards implementation of like systems** (RBM objective 2.7). However, not all have been successful. Tax reform is a long term program and the considerable amount of political, community and bureaucratic education already carried out is not yet entirely successful. This remains a challenge for a number of PICs.

48. **Little progress was achieved in 2013 with developing regional support mechanisms for countries with common IT systems (e.g. PC Trade, RMS, CMS)** (RBM objective 2.8). While there good support in principle, it has proven difficult to implement in practice primarily because it requires donor funding. Discussion held in the 2013 PITAA meeting and regional telephone hook ups have served only to whet the

appetite for more regional co-operation but little advance has been made. The concept will require donor commitment to be successful.

49. **PFTAC has worked to ensure that revenue administrations with weak capacity are supported by resident advisors, backstopped by the PFTAC revenue advisor.** Provision of resident revenue advisors has been made possible through funding by various donors (AusAID, NZAID, and World Bank). Advisors are in place in FSM, Kiribati, Nauru, PNG, RMI, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu. In every case, they provide a vital source of day-to-day support to revenue administrations and are essential for small economies undertaking fundamental tax reforms. While PFTAC has not provided assistance to advisers in PNG and Solomon Islands because of their direct linkages to the Australian Taxation Office and NZ Inland Revenue Department (NZ IRD), all other countries rely heavily on PFTAC to provide leadership, strategic and operational advice, and to assist when necessary in identifying opportunities, drafting terms of reference and participating in the selection.

50. **PFTAC has continued its strong support of PITAA but encouraged progress towards developing more independence and self-reliance.** Tax administration heads have demonstrated their commitment to PITAA and, at the 2012 annual meeting in Kiribati, working groups presented a draft Charter, Constitution, and Funding Model. The majority of PICs have signed the documents and all PICs were expected to finalize their membership by FY2014. In addition, the Fiji Revenue and Customs Authority (FRCA) agreed to host and fully fund the PITAA Secretariat until the Constitution is finalized.

Financial Sector Supervision

51. **The soundness of commercial banks remained the focus of our support to countries during FY2013.** This was addressed through continuing to build sustainable capacity in bank supervision by:

- Enhancing off-site monitoring by building tools and techniques to ensure regulators obtain robust and appropriate data on a timely basis and are able to interpret it (RBM objective 3.2); and
- Strengthening on-site supervision (RBM objective 3.4) to ensure that off-site monitoring is working on valid data and that banks' policies and procedures are being appropriately implemented (RBM objective 3.6) and in a manner consistent with sound business and financial practices in order to maintain financial sector stability.

52. **Work on off-site monitoring focused on continued implementation of the base set of prudential returns** (RBM objective 3.1). These base returns and their associated standardized analytical reports, which were described in the FY2011 PFTAC Annual Report, are designed to provide a cost-effective means of improving the data available to supervisors and freeing up time to undertake performance analysis and on-site examinations. In FY2013, results were achieved in two areas:

- **Further implementation of base prudential returns** (RBM objective 3.2). FY2013 saw full implementation in Tonga and Cook Islands, in addition to Solomon Islands and Vanuatu.
- **The commitment to implementing RBNZ's Financial Sector Information System (FSIS) in FY2011 was accomplished in late FY13 with an agreement to deploy the FSIS as a pilot at the Central Bank of Solomon Islands** (RBM objective 3.2). FSIS will provide an excellent opportunity to

automate prudential reporting in a common manner across Pacific jurisdictions. A proposal drawn up jointly by PFTAC and RBNZ was warmly received by central banks at their 2011 meeting. RBNZ agreed to develop the software in 2012 and provide it free of charge to regional central banks who agreed to absorb the costs of hardware and then enter into a sharing agreement for the cost of an integrator to implement and support the system in the region.

53. **On-site supervision was strengthened through a mixture of regional training and hands-on support** (RBM objectives 3.5, 3.6). In collaboration with the FDIC, PFTAC delivered training on Credit Risk Analysis and Financial Statement Analysis. These activities passed on techniques and information from what FDIC uses in its supervisory regime which can then be used by Pacific jurisdictions in their supervision programs. PFTAC also provided hands-on support to Tonga and the Solomon Islands (RBM objective 3.5) in the conduct of their on-site supervision regimes which resulted in the central banks further improving their ability to critically assess the quality of commercial bank operations in the country.

54. **PFTAC also continued to engage with financial sector supervisors at the regional level.** In addition to implementation of the FSIS, the annual Association of Financial Supervisor of Pacific Country AFSPC meeting was a useful opportunity to discuss common issues with partner supervisory agencies and APRA (RBM objective 3.5). PFTAC also supported the regional central bank governors, including through an update of the analysis of interest rates and bank profitability.

Macroeconomic Statistics

55. **PFTAC's support in statistics was undertaken within the framework of the regional Ten Year Pacific Statistics Strategy (TYPSS).** This strategy was endorsed by the 2010 regional Heads of Planning and Statistics meeting (HOPS). In addition to guiding technical development, the strategy provides a useful framework for development partner coordination as all TA providers are expected to work within the TYPSS framework. Oversight of the implementation of TYPSS is provided by the Pacific Statistics Steering Committee (PSSC) which was formed by the HOPS. PFTAC statistics advisors advise the PSSC on macroeconomic statistics issues. PFTAC statistics advisors also worked closely with resident and peripatetic long-term economic statistics advisors in the Solomon Islands, Samoa and Palau.

56. **The TA resources available for economic statistics in the Pacific increased in FY2013.** PFTAC received a second statistics advisor late in 2012 (FY2013 Q3). The Australian Bureau of Statistics (ABS) also stepped up its engagement, with separate training and TA programs in Government Finance Statistics. ABS' major bilateral interventions were mainly in Fiji with the continuation of the statistical leadership program.

57. **IMF headquarters also significantly stepped up its statistical TA to the Pacific.** The Statistics Department accessed Japanese finance to fund four projects that make substantial resources available mainly to the Pacific Island Countries that are members of the IMF:

- **External sector statistics.** This project aims to improve the accuracy, availability, comparability, and timeliness of external sector statistics for selected countries in the Pacific region. The three-year program overseen by STA was launched in October 2012. The project includes an advisor

stationed in Fiji to deliver assistance and coordinate short-term expert assistance as well as training programs;

- **Government Finance Statistics.** This project aims to improve the quality of government finance statistics and to assist Pacific countries to migrate their fiscal statistics to **GFSM 2001** standards. It is expected that it will assist up to ten Pacific countries and includes Pacific regional training conducted jointly with the ABS in 2012. The project will also build on improvements to central government financial management systems underway in many countries;
- **General Data Dissemination System (GDDS).** The purposes of the GDDS are to encourage member countries to improve data quality, provide a framework for evaluating needs for data improvement and setting priorities in this respect; and guide member countries in the dissemination to the public of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic statistics. PFTAC also provided TA for the update of GDDS information for Kiribati;
- **International Comparison Program (ICP) project.** This project has been implemented as a true global initiative for the second time, with the reference year 2011. It has built on well-programmed activities of a wide network of national and bi- and multi-lateral institutions that have engaged in methodological research and review, survey activities, data processing, analysis in the areas of price statistics, national accounts and related fields with a view to estimating purchasing power parities (PPPs) of the world's principal economies. The ABS led the ICP in the Pacific region. Fiji is the only full partner in the Pacific region for the ICP process. In addition, IMF HQ provided TA for the development of a producer price index (PPI) in Fiji.

58. **Given these developments, PFTAC started to focus the inputs of its two resident advisors on achieving substantial improvements in national accounts statistics in the Pacific.** Increased resources allow more intensive delivery and support and foster the development of regional best practice and guidance. The two PFTAC advisors coordinate their activities with other TA providers in the context of the TYPSS.

59. **Progress in achieving RBM objectives during FY2013 included:**

- ***Production of at least two independent measures of GDP to a high standard in eight countries and improved coverage and quality of GDP measures in all countries*** (RBM objective 4.1). The compilation of two independent measures of GDP at current and constant prices enables data confrontation and identification of inconsistencies. Vanuatu developed and published GDP estimates by expenditure for the first time in 2012 with TA from PFTAC. The methodology for development of GDP estimates by expenditures started in Kiribati and reviews of existing methodologies were initiated in Palau. Methodological improvements achieved in Tuvalu have been continued with assistance by Secretariat of the Pacific Community (SPC). Improvements in Tonga were achieved with assistance from a resident advisor supplemented by guidance from PFTAC;
- ***Rebased constant price GDP estimates by production and by expenditures*** (RBM objective 4.2). The incorporation of results from the household income and expenditure surveys (HIES) recently

started in the Pacific region with support from the SPC will improve periodic benchmarks. The rebase of annual and quarterly GDP estimates in Samoa started with TA from a peripatetic advisor managed by Samoa Bureau of Statistics within an Institutional Strengthening Programme (ISP), funded by donors and the Government of Samoa;

- **Compilation of regular annual Gross National Income (GNI), Gross National Disposable Income (GNDI), saving and net lending/borrowing aggregates by at least eight member countries** (RBM objective 4.3). Improvements in ESS will contribute to the improvement of these estimates. GNI and GNDI are compiled for Palau, FSM and RMI by US-funded consultants and in Timor-Leste by a resident advisor. Kiribati is now publishing GNI and GNDI as well as Tuvalu with assistance from the SPC;
- **Production of quarterly national accounts (QNA) in four member countries** (RBM objective 4.4). Development of QNA estimates began in the Cook Islands during 2012. Samoa's QNA methodology was improved by the ISP consultant;

60. **PFTAC advisors also continued to provide hands-on assistance to compilation in those countries which do not have sufficient capacity to compile national accounts statistics on their own** (RBM objective 4.1). Where capacity remains insufficient, PFTAC focused on assisting the authorities to ensure that annual estimates are produced in a form useful to decision makers and development partners that support budgets in these countries.

Macroeconomic Analysis and Forecasting

61. **The main theme of the work program in FY2013 was the introduction of financial programming techniques in central banks and finance ministries in the region** (RBM objective 5.2). These efforts were centered around a regional financial programming workshop held jointly with the Singapore Regional Training Institute (STI) in Fiji in December 2012, based on a Fiji case study specifically developed by the IMF's Institute for Capacity Development (ICD) for this workshop. To capitalize on the training as well as PFTAC's work program in previous years leading up to financial programming, country-specific financial programming frameworks were developed for a first set of countries:

- **Solomon Islands:** PFTAC developed together with the Ministry of Finance (MoF) and the Central Bank of Solomon Islands (CBSI) a financial programming framework for Solomon Islands by drawing on MoF's fiscal-macroeconomic framework as well as elements of PFTAC's previous work program with CBI; the last included an empirical inflation model for imported inflation that was integrated into the framework to embed economic linkages between exchange rate assumptions, trading-partner prices and inflation. In order to provide practical training in the use of the framework, the likely macroeconomic impact of scaled-up mining revenues following the start up of a large new gold mine was explored (RBM objective 5.5).
- **PNG:** The development of PNG's financial programming framework involved several missions due to the complexities of issues the framework needs to be able to address such as the impact of the LNG project currently underway and the existence of a large natural resource sector that required modeling its linkages to fiscal and monetary policy as well as the BOP. The framework could draw

on sector files maintained by the Bank of PNG (BPNG) as well as BPNG research results supported in part by PFTAC's earlier work program such as output gap measures and empirical models for inflation and exchange rates.

- *Vanuatu*: The development of the Vanuatu financial programming framework was based on earlier work by Vanuatu's Ministry of Finance to tailor an ICD framework for Turkey to Vanuatu's needs, with PFTAC providing support in finalizing it. A release of a comprehensive set of national accounts data by Vanuatu's National Statistics Office—which in turn was supported by PFTAC's statistics advisor—was invaluable for completing this work. The specification of economic linkages within the framework benefited from close cooperation between Vanuatu's Ministry of Finance and Reserve Bank to develop an empirical inflation model and a forecasting module for exchange rates, also supported by PFTAC.
- *Fiji*: Utilizing earlier STI training, staff of the Reserve Bank of Fiji (RBF) developed a financial programming framework for Fiji. PFTAC supported this project by providing training in the use of the framework as well as making improvements such as incorporating elements from the ICD Fiji framework, which proved useful to enhance linkages between the external sector and the remainder of the framework.

62. **The work program in FY2013 also focused on gaining a better understanding of the determinants of inflation and exchange rates in the region.** This is important both for the analysis of current macroeconomic conditions (RBM objective 5.1) as well as forecasting (RBM objective 5.3). Empirical research projects supported by PFTAC in this area include the analysis of money demand and its link to inflation in Fiji and PNG, analysis of the purchasing-power parity conditions in both countries, estimation of an inflation model in Vanuatu, analysis of the real effective exchange rate in Fiji and Samoa in conjunction with the IMF's regional resident representative's office, and development of a bottom-up approach to inflation forecasting in Solomon Islands.

63. **Another strand of the work program focused on developing small macroeconomic models suitable for the region, with BPNG and RBF taking the lead in this area** (RBM objective 5.2). Regarding the former, work focused on developing together with the IMF's Research Department a medium-sized DSGE model with a natural resource sector that can be used for investigating the likely macroeconomic impact of the LNG project currently underway as well as available monetary and fiscal policy options (RBM objective 5.5). Another project continued with the development of a small empirically-based macroeconomic model that was started by the IMF's country team. With respect to the work program with RBF, PFTAC supported RBF's efforts to develop a small DSGE model suited to Fiji's circumstances.

64. **A regional central banking workshop was also held jointly with the Centre for Central Banking Studies** (Bank of England). The workshop, held in the Solomon Islands, provided an opportunity to share the results from the different research programs among central bankers in the region and to draw on the expertise of the Bank of England to discuss common policy challenges such as the management of surplus liquidity. A number of these research programs continue in FY2014.

65. **The final theme of the FY2013 work program was fiscal sustainability,** which followed two strands:

- The first focused on preserving natural resource wealth, with the corresponding work programs related to managing the wealth from gold mining and LNG projects in Solomon Islands and PNG outlined above already.
- The second strand focused on debt sustainability (RBM objective 5.4). This is a key issue for Samoa and to support Samoa's Ministry of Finance in assessing the debt sustainability consequences of various fiscal policy choices, the Samoan Economic and Revenue Forecasting (SERF) model—which itself has been extensively supported by PFTAC's work program during FY2013—was complemented with a medium-term fiscal framework that computes a comprehensive set of debt indicators. PFTAC also participated in a regional ADB workshop held in Fiji on providing training in the use of the Fiscal Management Model (FMM), which can be used for a similar purpose. Subsequently, PFTAC supported Fiji's Ministry of Finance in further developing the debt sustainability module of the FMM, with work on this project still ongoing in FY2014.

III. OBJECTIVES AND WORK PLAN FOR FY2014

This section describes PFTAC's principal objectives and activities planned for FY2014 (May 2013 to April 2014). It outlines the main themes in PFTAC's technical assistance strategy over the period and provides sectoral detail of activities planned to achieve the objectives in the RMB framework.

Overview

Introduction

66. **In FY2014, with PFTAC's staffing increase and turnover largely completed, operations should achieve full momentum.** Notwithstanding gaps between departing and incoming financial supervision and statistics advisors, PFTAC's effective complement of advisors is expected to average around 6½ person-years, more than 10 percent above the average for FY2013. This increase will boost the number of missions and training courses and workshops provided through PFTAC, as well as provide some scope for innovation in how the assistance is provided and in its content.

67. **The Results-Based Management (RBM) framework adopted in FY2013 is increasingly important in guiding PFTAC's work program** (See Box 3). In the past, the RBM framework served as a broad guide for PFTAC's activities, but is now being used much more as both a planning tool and a vehicle for monitoring performance. This has led PFTAC to look more carefully at the performance indicators, with a view to aligning these more closely to the real objectives of the TA being provided. This remains a work in progress, but the aim is to adopt indicators which better reflect the qualitative improvements being sought in the various areas of assistance rather than somewhat simplistic quantitative indicators.

Box 3: The Results Based-Management (RBM) framework

To strengthen transparency and accountability, in 2012 PFTAC adopted a Results Based-Management (RBM) framework (with objectives, outcomes, verifiable indicators, yearly milestones, outputs, and inputs) to guide the development, implementation and assessment of its technical assistance programs. PFTAC's medium-term strategic logical framework (log frame) spells out clearly the Center's core strategic objective: *Improved economic management and economic growth in the Pacific Islands*. The five topic area log frames are fully aligned with PFTAC's strategic log frame to ensure a cohesive and well coordinated technical assistance program.

PFTAC's RBM framework is expected to be a living document. Changing macroeconomic and political economy contexts in member countries may require modifications to milestones and indicators. In addition, PFTAC will draw lessons from the initial application of the proposed RBM and may propose better ways of tracking progress on TA delivery and implementation. The mid-term independent evaluation of PFTAC performance could also present an opportunity to review the center's priorities and metrics for measuring TA effectiveness.

The overall strategic log frame provides a snapshot of key topic objectives, verifiable indicators, and risks and related mitigation strategies based on the current five year (FY 2012-FY 2016) resource envelope of \$30 million. Five topic objectives are formulated for each area of TA covered by the Center: (i) PFM; (ii) revenue policy and administration; (iii) financial sector supervision; (iv) statistics; and (v) macroeconomics. Verifiable indicators are targeted only for FY 2016 (the endpoint of the PFTAC funding cycle), given the medium-term nature of reforms and long and uncertain transmission lags between TA and training outputs and actual results on the ground.

Progress on indicators will be reported annually, summarizing achievements under milestones included in each topic area log frame. PFTAC staff will also provide information on the evolution of the general risks and assumptions and how they affected progress on indicators. Based on this analysis, new risk mitigation strategies will be suggested if needed.

A separate topic area log frame is prepared for each TA area. Each topic log frame has the following components: (i) topic outcomes defined based on the initial PFTAC program document and the PFTAC diagnostic and needs assessment work; (ii) baseline values of indicators as of end fiscal year (FY) 2012; (iii) milestones for the next fiscal year; (iv) status of milestones; (v) specific risk and risk mitigation strategies; and (vi) outputs.

Milestones were defined for most TA activities to be undertaken in FY 2013 and FY 2014 taking into account specific assumptions. Milestones will measure the progress made by countries in achieving the desired objectives or outcomes in different areas of TA. At the reporting stage, PFTAC staff will indicate whether milestones were achieved by end-FY or expected to be achieved somewhat later or unlikely to be achieved. In the latter case, PFTAC staff will explain the reasons for non-achievement and suggest remedial measures, including possible reallocation of resources to other countries and concomitant changes to the outcomes, if warranted.

The annual work program log frame provides information on each planned TA mission or seminars/workshops. It classifies all activities by their contributions to the medium-term outcomes, and provides information on key objectives, inputs, and proposed milestones (if any). In selecting activities for the annual program, PFTAC staff takes into the account the following factors:

- Urgency of TA needs in light of existing pressures complicating macroeconomic management (e.g., revenue shortfalls, cash management problems);
- Significant vulnerabilities, which could be contained through steadfast progress in priority capacity building areas; and
- Evidence of ownership of reform measures, as demonstrated in the track record of previous TA advice implementation, the existing reform plans, and TA requests consistent with these plans.

68. **Within the RBM framework objectives (Annex V), an important aim and area for innovation in FY2014 is to strengthen both regional ownership of reforms and to build up regional support groups.** Progress in this direction will help to increase the sustainability and momentum behind reforms, lower the cost of providing technical support, and facilitate tailoring PFTAC's TA as effectively as possible to the region's needs. The key elements in this approach involve:

- Encouraging and working with regional professional associations⁷ to collaborate in establishing regional "models" or best practice guides for reforms in different areas; identification of priority areas for technical assistance and training; participating in delivery of TA; and sharing of relevant experience in implementing reforms.

⁷ Including the Association of Financial Supervisors of Pacific Countries (AFSPC); the Pacific Association of Supreme Audit Institutions (PASAI); the Pacific Islands Financial Managers Association (PIFMA), the Pacific Islands National Compilers and Local Experts Association (PINACLE); and the Pacific Islands Tax Administrators Association (PITAA).

- Working with authorities throughout the region to use common software platforms for their work and promoting use of regional support facilities. Examples include the adoption of common software and reporting forms for bank supervisors, but the same approach can benefit tax administrators and PFM managers and even macroeconomic forecasters.
- Supporting the use of PEFA peer reviews as well as experts from within the region to provide mentorship with self-assessments.
- Making greater use of small, well-focused, sub-regional workshops to meet common TA and training needs. Small, very hands-on workshops can provide a bridge between regional training and bilateral TA. The aim is to provide training that is as close to bilateral TA as possible, but to promote networking and some standardization of approaches to similar challenges in different countries. This approach should also lower the cost to participants in terms of days away from work, by holding such workshops within the sub-regions.

69. **PFTAC TA also needs to adapt to the evolving policy priorities and challenges within the region.**

Much of PFTAC's TA is geared towards strengthening of basic capacity in the various areas of expertise. Although such capacity building may be helpful at almost any time, it is likely to be most useful when provided to assist with meeting specific policy needs. IMF surveillance missions often identify areas in which improving macroeconomic performance requires not only modifications to macroeconomic or structural policies, but also strengthening of capacity. Close coordination between IMF mission teams and PFTAC is needed to ensure that TA is properly targeted to meet specific policy needs where and when it is needed. In the current environment, the IMF has emphasized the need for low income countries in particular to strengthen their resilience to potential shocks by building fiscal "space" to be able to absorb such shocks. In several countries in the region this will require both enhancing tax revenues relative to GDP and exercising greater fiscal restraint while protecting priority expenditure areas. In some cases, this requires well-targeted TA in both the revenue and PFM areas.

70. **The economics of climate change also raise issues for PFTAC TA.** Climate change finance raises several important challenges for PFM, including the need to strengthen monitoring and accountability frameworks in order to secure access to climate change finance, and the management of climate change programs and funds in a coherent way when spending and monitoring may be spread across multiple government agencies or departments, and extend over several years. These challenges are not unique to climate change, but require adapting PFM best practices to the specific needs of climate change. In addition, climate change, and the uncertainties associated with it in the Pacific raise challenges for long-term fiscal sustainability and fair treatment of future generations. Macroeconomic models for policy analysis need to be adapted to provide insights into how policy makers should respond to these uncertainties.

Sectoral Work Plans and Priorities

71. **In FY2014, the priority work areas for PFTAC's two PFM advisors include:**

- Ongoing support for PEFA assessments and development of PFM roadmaps;

- Assistance across the region with implementation of PFM reforms, including accounting, medium-term budgeting, financial management information systems, cash management and forecasting, and enabling legislation;
- Training in budget preparation, including medium-term budgeting frameworks;
- Support for PIFMA, including further website development.

72. **On the revenue side, priorities include:**

- Ongoing assistance with the policy design, legislation, and outreach associated with tax reform programs, including VAT and small-business tax;
- Assistance with implementation of administrative reforms, including self-assessment, risk management, and compliance frameworks;
- Support for upgrading or tax administration IT systems and regional support mechanisms;
- Working closely with PITAA to provide training and workshops on key topics and skills needs.

73. **Financial sector supervision activities in FY2014 are focused on:**

- Implementation of the Financial Supervision Information System (FSIS) and associated training;
- Training and support for on- and off-site banking supervision, including adoption of more risk-based approaches;
- Assistance with financial inclusion issues, including oversight of non-bank financial institutions.

74. **The primary focus of the macroeconomic statistics advisors is on:**

- Assistance with developing national accounts statistics, including production and expenditure, and income measures, rebasing of GDP, and production of quarterly GDP data;
- Hands-on assistance with compilation of national accounts statistics in some countries;
- Providing regional and sub-regional training in national accounts statistical methods;
- Cooperation with the Japanese government-funded regional TA program for production of external sector statistics, Government financial statistics, GDDS, and ICP statistics.

75. **The macroeconomics advisor's work program in FY2014 emphasizes:**

- Basic data analysis and forecasting methods for countries with very limited capacity;
- Continuation of training and adaptation of financial programming, fiscal and debt sustainability analysis tools, and integration of this analysis into medium-term budgeting;
- Provision of regional and sub-regional workshops on fiscal and monetary policy issues and analysis;
- Developing a small-scale macroeconomic model suitable for policy analysis and forecasting in Pacific Island countries.

Accountability and Transparency

76. **PFTAC's accountability and transparency arrangements are being strengthened in FY2014.** For most of PFTAC's existence, the main vehicles for accountability have been the meetings of the Steering Committee every 18 months, and the independent evaluations of the Centre at the mid-point of funding

cycles. In 2011, however, Annual Reports began to be published and a PFTAC website was set up, both substantially increasing the transparency of PFTAC's activities. Nonetheless, there is still some way to go in increasing transparency and accountability, and some important steps are underway in FY2014:

- Since August 2013, PFTAC has been publishing a monthly Pacific Report, reporting on staff participation in recent missions, workshops, and conferences, as well as staff developments, short reports on topical issues in PFTAC's work, and country TA strategy notes. The aim of these monthly reports is to keep readers up to date on recent activities and issues.
- To bridge the gap between the monthly reports and the Annual Report, PFTAC intends to begin publishing a quarterly report providing a more up-to-date accounting for PFTAC's activities, both financially and in terms of the RBM framework. This should benefit PFTAC's donors by providing information more closely aligned to their financial years, and will also help PFTAC monitor its own performance in terms of the RBM objectives.
- In 2013, PFTAC has worked with the New Zealand Ministry of Foreign Affairs and Trade (NZ MFAT), on an evaluation of technical assistance on tax revenue in the Pacific (See Box 4). PFTAC was involved in advising on the terms of reference for the evaluation group and also provided extensive input, in the form of documents and discussions, to the group's work. The final report is expected to be published in 2014.

Box 4: New Zealand MFAT Strategic Tax Revenue Reform Evaluation

The strategic tax revenue reform evaluation undertaken by the Ministry of Foreign Affairs and Trade with the Pacific Financial Technical Assistance Centre (PFTAC) focused on examining efforts to reform government revenue collection in order to draw lessons that can guide future work in the Pacific and inform improvements to the design and delivery of reform to taxation systems.

Sixteen countries were within scope of the evaluation. These countries share the common feature of being members of PFTAC and most of them have either tried or attempted some form of improvement to their tax policies or administration since the early 2000s. The evaluation revisits many of these taxation reform programmes to identify lessons learned from efforts by donors to assist reform of taxation systems in the Pacific in order to gain insights about their design and delivery. It delves deeper into the experiences of Solomon Islands, Tonga, Samoa and Kiribati and reports these as four case studies. The evaluation involved desk-based review of programme documentation and of literature, collection and analysis of data (both desk-based and in-country), and semi-structured interviews.

The preliminary key high-level takeaways from the evaluation include:

- Tax reform is a long journey, measured in increments of at least five years and more likely decades. Success requires sustained commitment, a wide range of skills, and a framework robust to shocks and setbacks;
- It requires a sustained dialogue. This involves managing a complex dialogue with many participants to clarify objectives and constraints and gain buy-in across each of the three stages: agenda setting, policy options and implementation phase;
- Tax reform requires a continuity of core relationships where relationships must be built and actively maintained between all players in the reform;
- Reform is a complex and multi-faceted journey and doesn't follow a pre-determined path. It combines top-down strategic vision and political drive with bottom-up capacity building and community support.
- Tax reform is location specific and dependent on local social, political and administrative context. These can

impose constraints that need to be recognized and addressed, so flexibility is needed.

The final evaluation report will be available early to mid-2014, which will include an evidence base to identify the success of taxation reform interventions in terms of both process and outcomes.

- An important event in 2014 will be the launch of an external evaluation of PFTAC (Box 5). Salient conclusions of the mid-term evaluation will be discussed during the Steering Committee meeting in 2015.

Box 5. Mid-Term Evaluation of PFTAC

The Essential Terms and Conditions governing the establishment and operation of the Pacific Financial Technical Assistance Center Subaccount provide for an evaluation of the Center's activities. The independent evaluation of the Center will start in mid-2014 and be completed by February 2015. Such an evaluation is an integral part of all RTACs' governance frameworks, and serves as a valuable opportunity to receive inputs on the effectiveness of the Center and recommendations to better serve its membership. The findings of the evaluation will frame discussions on the Center's operations for the remainder of the current five-year financing cycle (2011-16) and the next one (2016-21).

In line with IMF evaluation practice, an Evaluation Sub-Committee (ESC) will be set up comprising: donors, recipient countries, and relevant IMF departments. The role of the ESC is to provide strategic guidance for the evaluation and to ensure that key issues relevant to stakeholders are appropriately integrated into the design of the evaluation.

The evaluation will mainly:

- Assess the extent to which PFTAC is achieving its objectives as set out in the 2011 Program Document in an efficient and effective manner, and the extent to which the TA and training delivered is sustainable and has had a noticeable impact;
- Look at the challenges and risks that the Center has faced in implementing TA and training, and what has been done to address these challenges and/or mitigate risks; and
- Make recommendations regarding the future direction of PFTAC, including for example recommendations to address the Center's governance, financing, sustainability, results-based management framework, and challenges.

- PFTAC is also engaged in numerous outreach activities. Outreach has involved participation in conferences a broad range of general as well as specialized conferences and workshops in addition to those which PFTAC helps organize and finance. Events at which PFTAC staff have made presentations so far in FY2014 include the:
 - Economics Association of Fiji seminar (Suva: May);
 - PASAI workshop on Public Debt (Nadi: June);
 - Forum Economic Ministers' Meeting (FEMM) (Nuku'alofa: July);
 - 4th Heads of Planning and Statistics meeting (HOPS) (Noumea: July);
 - Conference on Harnessing Natural Resource Wealth for Inclusive Growth and Economic Development (Dili: September);
 - Regional Meeting on Global Climate Change Finance (Nuku'alofa: September);
 - Pacific Credit Union Congress (Nadi: September); and
 - Fiji Institute of Bankers Convention (Suva: October).

- In addition, PFTAC has been pro-active in setting up meetings with major donors to facilitate information sharing and coordination of development assistance. Country-specific meetings take place in advance of country consultations with donors, and more general meetings are arranged quarterly under the auspices of the Forum Secretariat.

PFTAC Operations

77. **During FY2014, efforts are being made to scale back travel costs.** Travel and seminar expenses are the one of the largest areas of PFTAC expenditure, amounting to around \$1 million per year. This figure is likely to rise with the increase in the effective staff level. If PFTAC also increases the number of sub-regional workshops, the travel expenses for participants are also likely to rise further. In order to accommodate such increases, PFTAC has already modified its travel policy and ticket purchasing in order to cut staff travel costs and to bring it more in lines with policies of other TA providers in the region. PFTAC is also reviewing its subsidies for travel, accommodation, and subsistence to participants in workshops, seminars, and conferences. Currently there is a wide range of different arrangements for different types of events. The intention is to achieve a greater degree of coherence in the payments, recognizing the need to give greater support for participants in poorer and more remote locations, while also requiring an important element of co-financing, as envisaged in the Phase IV program.

Sectoral Work Plans in FY2014

Public Financial Management

78. **The addition of a second PFM advisor is allowing PFTAC to deliver more TA and support on PFM issues to the regional.** During FY2014 each advisor will continue serving as a point of contact for 7-8 PICs on PFM matters. In addition, each advisor will be responsible for sub-sets of PFM specialties and will generally serve as the lead for that particular specialty when a country requests TA.

79. **As envisaged in the RBM program (Annex V), the advisors' work will continue to be grouped into three general categories:**

- PFM Roadmap support – support for PEFA assessments and the development of PFM Roadmaps;
- Specific TA missions or training designed to assess, discuss, and deliver solutions; and
- Delivering training and supporting the development of regional institutions and processes with the aim of promoting long-term PFM system sustainability.

80. **PEFA and PFM Roadmap support.** PFTAC will make resources available to conduct PEFA assessments in Cook Islands (self-assessment), PNG, Samoa, Tokelau, and Tuvalu (RBM objective 1.1). Assistance in completing/developing reform roadmaps (RBM objective 1.2) will focus on Fiji, FSM, RMI, and Samoa. These will take into account lessons learned from recent regional PEFA and Roadmaps, including the importance of substantial involvement of PIC official and staff in order to ensure country ownership. Self-assessment workbooks and lessons learned in conducting PEFA and developing Roadmaps will be posted on the PIFMA website.

81. **Technical assistance will be directed towards the priorities in the RBM framework.** In addition to these planned TA activities PFTAC will continue its commitment to quickly respond to requests from countries for urgent assistance and from Donor Partners for TA assessment and planning. FY2014 TA currently underway or scheduled includes:

- Support for accounting reform (RBM objective 1.4). This is expected to encompass training on IPSAS implementation in Fiji and possibly Solomon Islands, and continued coordination with the ADB in Kiribati.
- Support for practical approaches to medium-term budget (MTB) development (RBM objective 1.5). This will focus on developing best practice guidelines based on regional experience, and practical implementation support in Fiji, Samoa, Kiribati, Palau, Tonga, and the Cook Islands. Improved integration of planning and budgeting through reorganization, earlier starts to the budget development process and consolidation of numerous currently separate documents are among the strategies that may be pursued.
- Assistance in evaluating proposals for IFMIS changes. Work will continue in Kiribati, although other partners' assistance will be in the lead, and also in Tonga and the Cook Islands.
- Support to improve cash flow forecasting and cash management (RBM objective 1.6). This is expected to cover FSM, Kiribati, Palau, and RMI.
- Support to improve legal frameworks (RBM objective 1.3). In collaboration with IMF headquarters, PFTAC recommendations on an enhanced legal framework for PFM will be provided in Cook Islands, Kiribati, and the Solomon Islands.

82. **The indicators used in the RBM framework for monitoring progress towards the PFM objectives have been modified.** In our assessment, the indicators that had been set previously were insufficiently nuanced to reflect progress in different aspects of PFM reform in any given country, and also insufficiently graduated to capture incremental progress. In the revised RBM logical framework for PFM, the indicators are now being based on PEFA indicator ratings changes (see Annex VI). In our view, not only are these superior to the previous indicators, but also better align our assessment of performance with the implementation of PEFA reforms.

83. **Broader capacity development will include training and development of regional institutions and processes.**

- **PIFMA will continue to be the focus of regional capacity building.** PFTAC will continue to work with the PIFMA Heads to investigate how PIFMA can expand its functions/services and get more PIC officials and development partners engaged. The Annual Meeting is expected to provide feedback and guidance on direction.
- A website for members is under development. It is planned to provide:
 - Manuals of good practice;
 - Simple down-loadable software to solve common problems;
 - Chat rooms for PFM professional in similar positions to share ideas.

84. **Training inputs in FY2014 are likely to be in the budget preparation area.** PEFA indicators, as well as feedback from donors, continue to indicate problems with the lack of integration between planning and budgeting. Because of this, the February 2014 Strategic Development Programme, delivered in collaboration with the Australian DOFD, will focus on improving policy-focused medium-term budgeting. Medium-term budgeting is not just a technical numbers exercise. It must involve line ministries, cabinets, donors, and finance department officials in discussions about resource constraints, strategies and timelines for making public services more efficient and effective, and, most importantly, making choices among the many resource demands. At its core, medium-term budgeting is the major practical tool for achieving integration of plans and budgets. It forces plans to be more cognizant of revenue constraints, and the need to think carefully about the timelines that may be required to implement public service improvements. And it should also force budgeters to become more cognizant of the effectiveness and efficiency issues related to service delivery by line ministries.

85. **PFTAC will also continue a partnership with University of the South Pacific (USP) to train more PFM professionals in the region.** With satellite campuses in 12 countries and sophisticated 2-way video distance learning and other technology, USP has great potential to be able train much larger numbers of PFM professionals (both in Finance Ministries and line ministries) than traditional and more expensive approaches to training (out-of-country workshops or flown-in experts). Training expected to be emphasized in the near future includes Procurement and Skills for Budget Analysts.

Revenue Policy and Administration

86. **The TA strategy in the area of revenue policy and administration for FY2014 continues to focus on the eight broad objectives set out in the PFTAC RBM framework (Annex V).** These provide the cornerstones of all good tax systems and will continue to be the focus of technical assistance in the Pacific for the foreseeable future. In every respect, the priorities are adapted to suit the local country environment and political landscape but good tax systems throughout the Pacific are no different than they are in any other economically developed country.

87. **It is anticipated that significant milestones will be achieved in RMI and Kiribati in FY2014 with the enactment of their comprehensive reform packages** (RBM objective 2.1). While not as comprehensive, there will be an equally important milestone when Tonga enacts the first Small Business Tax regime in the Pacific. Tonga and Cook Islands are also working towards being the first Pacific countries to implement new Seabed Mining Tax regimes. The achievement of measurable reform outcomes has varied markedly from country to country and PFTAC will continue to support the implementation of tax reform in countries where the economic and political environment and the capacity of the public and private sector to manage and implement tax reform is still a challenge. However, tax reform is a lengthy process that should be measured in increments of 5 – 10 years and a long term commitment is necessary to achieve worthwhile gains.

88. **As noted earlier, a number of PICs have implemented corporate and strategic planning but the challenge for many is creating the linkages between their plans, business activities and emerging risks** (RBM objective 2.1). The plans should be living documents that reflect their local environment and the risks that are present and emerging but too often they do not do so. PFTAC will continue to work with all PICs to ensure that they are aware of the importance of evaluating their environment and putting in place strategies to deal with issues that can impact on their capacity to collect revenue.

89. **All PICs have shown concern at the emergence of issues such as the tax consequences of international transactions**, including transfer pricing, e-commerce; taxing regimes for extractive industries, and offshore deep sea mining regimes. These issues have existing importance from some Pacific countries (Fiji, PNG, Solomon Islands, and Timor-Leste) but will ultimately be relevant for all countries because of the impact of globalization and technology and PFTAC will provide assistance and training to ensure they have the capacity to deal with them. In June 2013, PFTAC also collaborated with PITAA and the International Finance Corporation (IFC) to put on a conference on Transfer Pricing Transfer Pricing and Tax Transparency.

90. **All PICs have a strong commitment to automation of revenue administration processes** (RBM objective 2.3) but face challenges with funding. Commercial off-the-shelf operating systems are the best option for all small to medium tax administrations but quite often the cost is prohibitive and donors do not have an infinite supply of funds. PFTAC will continue to work with all countries and donors to achieve automation in all PICs and ensure that they receive the best value for money.

91. **Implementation of self-assessment principles is a significant challenge for all PICs** (RBM objective 2.4). Samoa and Vanuatu now operate on a full self-assessment basis but most other countries are in transition and face cultural change management issues. These issues are not unexpected but PICs have limited capacity to deal with them. Where the tax laws have been amended to allow self-assessment (Fiji and Tonga), PFTAC will continue to work with them to change attitudes and assist implementation. PFTAC will also focus its efforts in countries where the laws are based on the traditional assessment methodology and encourage modernization.

92. **Risk management is an essential part of modern tax administration and all compliance improvement plans are built around risk management principles** (RBM objective 2.6). While PICs acknowledge the benefits of risk management, they have not yet made the transition from the old practices to the new. There are significant opportunities to improve administrative practices in most PICs as only Vanuatu has fully integrated risk management into all business practices. PFTAC will work with all PICs to implement better risk management and compliance improvement strategies and assist in overcoming the cultural barriers to change.

93. **The development of the Pacific Baseline Assessment framework across the region provides a useful benchmark or model for tax administrators to assess the development of their tax systems** (RBM objective 2.7). However, the framework will need to be modified to take into account the development of further IMF initiatives that intended to establish a global baseline. These initiatives are the Revenue Administration Fiscal Information Tool (RA FIT) and the Tax Administration Diagnostic Tool (TADT). These tools will provide a valuable resource to countries and development partners in assessing the relative performances of revenue administrations and identifying opportunities for improvement. The modification of these tools will be undertaken in FY2014, taking into account the needs of each PIC.

94. **At the 2013 PITAA meeting, the issue of establishing regional support mechanisms for countries with common IT systems was discussed** (RBM objective 2.8), but no headway made. This will require more progress in adopting common IT systems as well as funding arrangements.

95. **Progress in implementing tax policy and administration reforms will be supported by the expansion of resident advisors into more PICs.** This will affect the nature and scope of work undertaken

by PFTAC. PFTAC will continue to work collaboratively with other donors to help identify and recruit appropriately skilled in-country resident advisors. The resident advisors will assume responsibility for much of the general advice and hands-on support for strengthening revenue administration, but it is important that PFTAC take a leadership role in providing strategic advice and operational support as required. PFTAC will act as a conduit between the principal donors and the resident advisors on technical aspects of the reform program and monitor the reforms to ensure they are being developed and implemented as planned.

96. **PFTAC will focus more on niche specialist assistance, strategic advice and regional issues.** PFTAC is well placed to provide niche assistance (for example, legislation drafting, corporate strategies, and tax policy) as well as advice on reform strategy and implementation. Requests for comprehensive strategic revenue reviews are expected to increase as more countries reach the point where they are ready for the second wave of revenue reforms. PFTAC will draw on expertise from IMF headquarters to supplement its inputs on these reviews

97. **PFTAC will identify increased training opportunities,** focusing on the emerging needs of each PIC and work with training providers such as the Pacific Island Center for Public Administration (PICPA) and University of South Pacific to develop training programs that can be delivered effectively to the broadest possible audience.

98. **PFTAC will continue to support the PITAA strategic direction and provide technical assistance to support its move to greater autonomy.** PFTAC will promote greater regional cooperation and training, and will be actively engaged with PITAA, to maximize the outcomes for member countries.

Financial Sector Supervision

99. **Preparing for the regional implementation of the Reserve Bank of New Zealand (RBNZ) Financial Sector Information System (FSIS) will be a key focus of FY2014 activities** (RBM objective 3.1). PFTAC has worked with the RBNZ to set up the base set of prudential returns developed under AFSPC guidance in the FSIS environment. This version was piloted in the Solomon Islands in early FY2014 and PFTAC will provide input to the bank supervision component of the system as it will be incorporated into a training program, which will eventually include other regional central banks. PFTAC will also be available to assist adapting the base set of returns to specific countries. Likely candidates are Cook Islands, Palau, Samoa, Tonga, and Vanuatu. In addition resources will be devoted to assisting the North Pacific countries to establish their own set of base returns, for use by non-central bank jurisdictions.

100. **Further development of off-site supervision manuals and procedures will also be implemented** (RBM objectives 3.2 & 3.3). This will include preparing and providing training in the use of a “user’s guide” to output reports (uniform bank performance reports) for measuring and monitoring changes in the CAMELS components of banks. The output reports, which will be automatically generated by FSIS from the base returns, will include high level and detailed ratios necessary to properly monitor CAMELS components and changes in the condition and performance of a bank. Solomon Islands, as the pilot for implementing FSIS, will also be the pilot for developing the user’s guide along with Tonga, Vanuatu and Cook Islands who have expressed an interest in implementing FSIS and have moved to implement the base prudential returns (RBM objective 3.2). To provide a framework for monitoring and analyzing the

condition and performance of banks a comprehensive off-site monitoring manual will be monitored in Palau.

101. **Establishing stronger on-site supervision will continue to be emphasized.** A particular focus will be Tonga where, in FY2013, PFTAC finalized the development of manuals and procedures and trained staff so that the NRBT can effectively deliver a stepped-up on-site supervision schedule in FY2014 (RBM objectives 3.5, 3.6 & 3.7). This will be supplemented by some follow-up assistance with implementation of an on-site examination.

102. **Regional regulators are interested in increasing the level of oversight within their respective jurisdictions by strengthening current supervisory programs** (RBM objective 3.8). There is a desire to move towards risk-based banking supervision. PFTAC will undertake to introduce the concepts of Risk Based Banking Supervision in FY2014 to any central bank interested in migrating to this widely-used approach. This is generally considered a long-term objective and the advisor will be able to perform a needs assessment and assist with developing an integrated road map towards a successful transition.

103. **Development and implementation of revised legal frameworks could require additional resources** (RBM objective 3.8). PFTAC will support the development of a revised banking law in Marshall Islands and is assisting Tonga with reviews of its central bank and financial institutions acts, drawing on IMF Legal Department resources. PFTAC will also provide support to Kiribati and Tuvalu if they decide to implement their banking legislation. This though is likely to require resources well in excess of PFTAC's availability and so PFTAC will work with partners to identify appropriate financial and technical assistance. PFTAC will also continue coordinating with ADB to assist Nauru re-establish banking services in the country.

104. **Following on from analytical work on interest rates and bank profitability, an analysis of regional capital requirements will be continued** (RBM objective 3.8). PFTAC will provide to the regional Central Bank Governors group an analysis of how capital requirements in the region compare to other regions and international best practice. PFTAC will draw on AFSPC members to look at how actual capital holdings compare to minimum requirements.

105. **A number of countries are considering adding to their Central Bank responsibilities the oversight of a number of non-bank financial institutions, like credit unions and microfinance organizations, which play an important role in financial inclusion.** PFTAC is poised to provide technical advisory support to facilitate the inclusion of those sectors within a Central Bank's legislative, administrative and supervisory authority (RBM objective 3.8). This will require providing assistance in reviewing, amending or drafting legislation, regulations and byelaws as required. As the oversight of those institution increases there will be a need to develop appropriate on-site and off-site supervision programs, which will include manuals, policies, statutory reporting templates including training programs and sector consultation.

106. **In FY2014 the outreach on financial sector supervision issues will be increased** (RBM objective 3.8). The advisor will attend and participate in various workshops, congresses and conferences with the aim of sensitizing the various regional financial institution groups and officials to concepts that are relevant to. During FY2014, the advisor has already participated in a number of such events, including the Pacific Credit Union Congress, held in Nadi in September, the Fiji Institute of Bankers Convention, held in

Suva in October, and the Pacific Microfinance week, held in Nadi in October. PFTAC will continue to act as Secretariat for the Association of Financial Supervisors of Pacific Countries (AFSPC) and provide support in the hosting of the annual meeting and the annual workshop program.

Macroeconomic Statistics

107. **PFTAC's provision of TA and training in macroeconomic statistics will continue to be coordinated with development partners within the framework of the regional Ten Year Pacific Statistics Strategy (TYPSS).** PFTAC is leading an initiative to strengthen collaboration with other TA providers in the Pacific region including the ABS, the ADB, ESCAP and UNSD, SIAP, Statistics New Zealand, SPC, and the University of the South Pacific. This collaboration will be undertaken to address statistical issues identified or reinforced as priorities during the Head of Planning and Statistics meeting organized in July 2013. These include the development of supply-use tables, better use of administrative data, and assistance for the development of business surveys. PFTAC will continue to provide input to the Pacific Statistics Steering Committee (PSSC) on macroeconomic statistics and strategic issues for the development of statistics. PFTAC will also continue to coordinate closely with SPC's two economic statisticians in the areas of price statistics, national accounts, surveys and administrative data and international trade statistics.

108. **PFTAC may also contribute to the development of National Strategies for the Development Statistics (NSDS) in a number of countries** under the leadership of Paris 21, which is affiliated with the OECD. These strategies provide a framework for strengthening dialogue between the National Statistical Offices (NSOs) and their main users, help prioritize the production of statistics indicators and highlight the need for NSOs to be adequately resourced.

109. **With two resident statistics advisors, PFTAC will continue to focus on the improvement of national accounts statistics in the Pacific region.** Increased resources since late-2012 have enabled the delivery of more frequent TA missions resulting in enhanced engagement with the compilers of national accounts statistics.

110. **The work program in FY2014 reflects the objectives in the RBM framework (Annex V):**

- *Production of at least two independent measures of GDP to a high standard in eight countries and improved coverage and quality of GDP measures in all countries (RBM objective 4.1).* The development of two independent measures of GDP at current and constant prices is a key component of PFTAC's strategy to improve national accounts statistics in the region. The methodology development of GDP estimates by expenditures will continue in Kiribati and Fiji. Ongoing methodological reviews and developments will continue in Palau, Papua New Guinea and Timor-Leste.
- *Rebased constant price GDP estimates by production and by expenditures (RBM objective 4.2).* The incorporation of household income and expenditure survey (HIES) results will improve periodic benchmarks. PFTAC will provide TA for the rebase in the Solomon Islands and in Vanuatu as needed. The rebase of constant price GDP estimates from 2005 to 2008 prices has been completed in Fiji. The rebase of GDP estimates from 2005 to 2010 has started in Vanuatu and is expected to be finalized during 2014;

- *Compilation of regular annual Gross National Income (GNI), Gross National Disposable Income (GNDI), saving and net lending/borrowing aggregates by at least eight member countries* (RBM objective 4.3). Improvements in external sector statistics will continue to contribute to the improvement of these estimates;
- *Production of quarterly national accounts (QNA) in four member countries* (RBM objective 4.4). Development of QNA estimates in the Cook Islands is nearing completion. The development of QNA estimates will continue in Fiji and will start in Vanuatu. Samoa's QNA methodology has been improved by the ISP consultant;
- Continue to provide hands-on assistance to compilation in those countries which do not have sufficient capacity to compile on their own (RBM objective 4.1). Where capacity remains insufficient, PFTAC will continue assisting the authorities in improving the quality of national accounts statistics to support policy making and provide high quality economic statistics to the community.

111. **Technical assistance provided by IMF headquarters to its member countries using Japanese finance will continue to improve the quality of economic statistics including national accounts through the following projects:**

- External sector statistics (ESS). The three-year program overseen by STA aims to improve the accuracy, availability, comparability, and timeliness of external sector statistics.
- Government Finance Statistics (GFS). The three-year program aims to improve the quality of government finance statistics and to assist Pacific countries to migrate their fiscal statistics to GFSM 2001 standards.
- General Data Dissemination System (GDDS). The objective of this project is to enhance data and statistical practices among the membership.
- International Comparison Project (ICP). The ABS has led the ICP in the Pacific region where the concluding seminar was held in May 2013. This project has contributed to capacity building in price statistics and, more particularly, compilation of consumer price indexes in participating countries. The IMF HQ will continue to provide TA for the development of a producer price index (PPI) in Fiji.

112. **Training and capacity building will remain a key component of PFTAC's statistical support in the region.** Participants from 12 countries attended the annual regional training course in national accounts statistics during June 2013, and another such regional course is planned for 2014. In addition, PFTAC will increase its support in capacity building with the organization of sub-regional training courses. In November 2013, a sub-regional course in national accounts statistics is being held for the Federated States of Micronesia, Palau and the Republic of the Marshall Islands during November 2013. Statistical systems in the three countries have many similarities and the training course will be tailored to their needs.

113. **PFTAC intends to revive the Pacific Islands National Accounts Compilers and Local Experts Association (PINACLE)** to further assist in developing the capacity, expertise and infrastructures for the production and dissemination of high quality national accounts statistics in the region. PFTAC's statistics

advisors will also continue to work closely with resident and peripatetic long-term economic statistics advisors in the Solomon Islands, Timor-Leste, Samoa and Palau.

Macroeconomic Analysis and Forecasting

114. **The main objective of the work program in the macroeconomic area in FY2014 is to build on progress in the previous year in rolling out financial programming frameworks and techniques** (RBM objective 5.2). A key milestone was the financial programming workshop held jointly with the Singapore Training Institute in Fiji in December 2012. One important lesson from this workshop is that not all of PFTAC's member countries have yet the capacity to build, maintain, and make productive use of financial programming frameworks—those institutions lacking these capacities would benefit more from a capacity building program that focuses on basic tools and techniques, an issue that will be discussed below in more detail.

115. **For countries and institutions that have the necessary capacity, the FY2014 work program will focus on the following elements:**

- *Training in economic analysis and forecasting* (RBM objectives 5.1 & 5.3). The financial programming framework is a tool to support economic analysis and forecasting activities. It becomes more useful the more skillful economists are in economic analysis and forecasting. Hence, providing training in the use of the financial programming framework is closely linked to developing economic analysis and forecasting skills more generally (RBM objectives 5.1 & 5.3). To date, follow-up training in FY2014 has been provided in PNG and Solomon Islands, with additional training expected for Vanuatu later in the year.
- *Integrating forecasting tools into the policy process*: Financial programming like other forecasting and analysis tools are of little other than academic interest if they are not made use of as standard elements of macroeconomic policy formulation. This highlights the need to complement the development of financial programming and other forecasting tools an integrated macroeconomic monitoring and forecasting framework, which would define key steps, timing and outputs in monitoring and forecasting economic activity. PFTAC is exploring together with the National Reserve Bank of Tonga (NRBT) such a framework. Going forward, PFTAC will incorporate advice on forecasting processes into its training on the development and use of forecasting models.
- *Rolling out financial programming frameworks to additional countries*: the next country slated for the development of a financial programming framework is Samoa, utilizing existing tools such as the Samoan Economic and Revenue Forecasting (SERF) model, the medium-term fiscal framework and the toolkit for exchange rate assessment developed together with the Central Bank of Samoa (CBS) and the regional resident representative office. This work is scheduled to start towards the end of FY2014.

116. **Developing a work program for basic capacity building is another key objective for FY2014.** The focus is on relatively simple techniques for forecasting and data analysis that should be immediately applicable to the daily work of economists in central banks and ministries of finance (RBM objectives 5.1, 5.2 & 5.3). In the longer term, this work program may create the capacity for institutions to graduate to a

level where they can make effective use of more sophisticated techniques such as financial programming. PFTAC is currently cooperating with NRBT to develop building blocks for a workshop on basic forecasting techniques that would draw in part on an Excel-based forecasting template developed by NRBT. Following the rollout of the initial workshop, it is also conceivable to employ long-distance learning techniques to provide training to participants beyond the workshop, recognizing that regular training and practice will probably be critical for these techniques to sink in.

117. **The previous work program on fiscal sustainability will continue in FY2014** (RBM objective 5.4). In the area of debt sustainability, the focus will be on Samoa. Tools for debt sustainability analysis in Samoa have been established in previous years; the challenge now is how to formulate a fiscal policy response to the rising debt ratio that also respects Samoa's development objectives, followed by an implementation of this fiscal strategy as part of the annual budget process. Recognizing the overlap of macro-fiscal and PFM issues, PFTAC's macroeconomic and PFM advisors organized a joint workshop in September 2013 on medium-term budgeting in Samoa that highlighted upcoming challenges as well as how the budget formulation process could respond to these. In parallel, expanding Fiji's Fiscal Management Model to incorporate a detailed debt sustainability module continues in FY2014.

118. **The macroeconomic modeling program includes development of a small macroeconomic model that suits key characteristics of Pacific countries.** The work program in FY2014 includes on-going involvement with the central banks of Fiji and PNG in development of off-the-shelf DSGE models for small open economies. This work is supported by a research advisor from the Reserve Bank of Australia assisting the RBF in its research program. The regional central banking workshop that will be held together with CCBS in Fiji later in FY2014 will provide an opportunity to share the research results with central bankers in the region. In addition, PFTAC will aim to develop a very small excel-based forecasting model which could be used for basic policy analysis and forecasting in countries with more limited capacity. Key features of such a model include limited capital mobility, limited exchange rate flexibility, limited scope for government borrowing domestically, and significant stocks of either foreign debt or foreign assets.

ANNEX I: THE IMF REGIONAL TECHNICAL ASSISTANCE CENTERS (RTACs)

General Information on RTACs

Eight Regional Technical Assistance Centers (RTACs) in the Pacific, the Caribbean, in Africa, the Middle East, and Central America help countries strengthen human and institutional capacity to design and implement sound macroeconomic policies that promote growth and reduce poverty. Work is progressing on establishing a new regional center for Western Africa.

RTACs combine local expertise and on-the-ground capacity building with strategic advice from IMF headquarters. All technical assistance (TA) is integrated into the IMF's lending and surveillance operations, and coordinated with other IMF TA as well as that of other providers. All TA is backstopped by IMF headquarters, ensuring quality and consistency of policy advice.

RTACs' Key Areas of Work and Delivery Modes

RTACs host a team of resident advisors who assist countries in implementing their reform programs. The composition of competencies is tailored to the specific needs of the region and may include: public finance management, medium-term expenditure frameworks, tax and customs policy and administration, revenue administration, debt management, financial sector supervision and regulation, financial sector development, capital market development, monetary policy and operations, economic and financial statistics, national accounts and price statistics, financial programming, and training in macroeconomics. The work of the resident advisors is supported by short-term experts, including in areas that require specialized knowledge. Other delivery modalities include workshops and seminars, courses on key macroeconomic issues in collaboration with the IMF Institute, as well as short-term professional attachments.

RTACs' Regional Approach

The IMF's regional approach to technical assistance and training allows for better tailoring of assistance to the particular needs of a region, closer coordination with other assistance providers, and enhanced ability to respond quickly to emerging needs.

RTACs develop a deep knowledge of their countries and region, including cross-cutting and regional integration issues. They are close to their clients, and RTAC resident advisors are in frequent contact and travel to recipient countries to provide step-by-step assistance with TA implementation. Given their physical proximity, they can respond promptly to urgent TA requests and follow up, and are less costly in the delivery of TA. RTACs are using and building local expertise.

RTACs' Governance Structure and Operational Arrangements

RTACs are governed by Steering Committees (SC) composed of representatives of recipient countries, donors and the IMF. This governance structure has proven highly successful as it builds stakeholder

ownership of work programs, facilitates peer review and networking, and provides a platform for donor coordination.

TA needs are identified and prioritized by the country authorities in cooperation with area and TA departments at IMF headquarters and the centre, and the work plans are endorsed by the Steering Committee.

The day-to-day management of the center falls into the responsibility of the center coordinator who is an IMF staff member. The center's professional staff (resident advisors and short-term experts) are recruited, supervised, and backstopped by the IMF, ensuring quality and consistency of policy advice.

Existing RTACs

The **Pacific Financial Technical Assistance Centre (PFTAC)** was established in Suva, Fiji, in 1993, now serves 16 Pacific island countries and territories, including the Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, and Vanuatu. Its current program cycle is funded by the Asian Development Bank, Australia, the European Union, the IMF, Korea, New Zealand, and the host country Fiji.

The **Caribbean Regional Technical Assistance Center (CARTAC)** was established in Bridgetown, Barbados in 2001. It serves 20 Caribbean island countries and territories, including Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos. Its current program cycle is funded by Australia, Canada, the Caribbean Development Bank, the European Union, the IMF, the United Kingdom, the host country Barbados, and beneficiary countries.

The **African Regional Technical Assistance Centers (AFRITACs)** are part of the IMF's Africa Capacity-Building Initiative, launched in May 2002. Responding to calls from African leaders, including under the New Partnership for Africa's Development (NEPAD), the Initiative promotes strengthening the capacity of African countries to design and implement their poverty-reducing strategies, as well as to improve the coordination of capacity-building technical assistance in the Poverty Reduction Strategy Paper (PRSP) process. As part of the Initiative, four African Regional Technical Assistance Centers have been established:

East AFRITAC was opened in Dar es Salaam, Tanzania, in 2002, now serves seven countries in East Africa (Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, and Uganda).

West AFRITAC was opened in Bamako, Mali, in 2003 and moved to Abidjan, Côte d'Ivoire, in mid-2012 to serve ten countries in West Africa (Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo).

Central AFRITAC was opened in Libreville, Gabon, in 2007, to serve countries in the CEMAC group, plus Burundi, the Democratic Republic of the Congo, and São Tomé and Príncipe. AFRITAC South was opened

in Port Louis, Mauritius, in June 2011, to serve 13 countries in Southern Africa (Angola, Botswana, Comoros, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Zambia, and Zimbabwe).

Work is in progress to open one more AFRITAC in 2013, covering the non-francophone countries in West Africa (AFRITAC West 2). The AFRITACs are financed by contributions from a number of donors, the IMF, as well as host and beneficiary countries. Current donors include the African Development Bank, Australia, Brazil, Canada, the European Investment Bank, the European Union, France, Germany, Italy, Kuwait, Luxembourg, the Netherlands, Switzerland, and the United Kingdom.

The **Middle East Regional Technical Assistance Center (METAC)** was established in Beirut, Lebanon, in 2004 to serve ten countries/territories in the Middle East, including Afghanistan, Egypt, Iraq, Jordan, Lebanon, Libya, Sudan, Syria, West Bank and Gaza, and Yemen. METAC's main objective is to help strengthen capacity for effective macroeconomic and financial management in the region, and to support the region's integration into the world economy. A particular focus is to help post-conflict countries in the region achieve macroeconomic stability and develop basic institutions for policymaking. METAC is designed to enhance coordination among development partners and to promote effective implementation of economic initiatives within the Middle East region. METAC's current program cycle is financed by contributions from the European Investment Bank, the European Union, France, Germany, the IMF, Kuwait, Oman, the host country Lebanon, and beneficiary countries.

The **Central America, Panama and the Dominican Republic Regional Technical Assistance Center (CAPTAC-DR)** started operations in May 2009 in Guatemala. It serves Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. The Center's technical assistance is focused on financial sector supervision, tax and customs administration, medium-term expenditure frameworks and public financial management, money markets, and macroeconomic statistics. Improved institutions and increased regional integration are the objectives. The Center is funded by Canada, the Central American Bank for Economic Integration, the European Union, Germany, the Inter-American Development Bank, the IMF, Mexico, Spain, the host country Guatemala, and beneficiary countries.

ANNEX II: PFTAC STAFF

The Center is managed by a Coordinator and comprises seven resident advisors. PFTAC also employs short-term experts from the region and the IMF roster of experts.

SCOTT ROGER, PFTAC COORDINATOR

Scott joined PFTAC in January 2013. Scott is a Canadian & New Zealander, and served in the Bank of Canada, the Reserve Bank of New Zealand and at the Bank for International Settlements before joining the IMF. At the IMF he served in the Asia & Pacific and Monetary & Capital Markets Departments and, most recently, in the IMF European Office.



RON HACKETT, PUBLIC FINANCIAL MANAGEMENT ADVISOR

Ron joined PFTAC in July 2011. Ron is American and served for many years as a financial manager in the Minnesota State Government. Later he provided advice to many countries in the Middle East and Africa before joining PFTAC.



STEPHEN MAYES, PUBLIC FINANCIAL MANAGEMENT ADVISOR. Stephen joined PFTAC in July 2012. Stephen is Australian and, prior to joining PFTAC, worked in senior PFM roles for the IMF, the Australian Government, the World Bank and the European Union.



JOHN HAYES, TAX REVENUE POLICY AND ADMINISTRATION ADVISOR

John joined PFTAC in February 2013. John is Australian and has extensive experience in tax policy and administration, and has worked at the Australian Taxation Office in management, policy and operations, and as a technical advisor in the Pacific, South East Asia and elsewhere.



PIERRE SÉGUIN, FINANCIAL SECTOR SUPERVISION ADVISOR

Pierre Séguin joined PFTAC in July 2013. Pierre is Canadian and has over 30 years experience in financial sector regulation in the Ontario Ministry of Financial Institutions, as a Senior Inspector, the Canadian government, and as a technical advisor in Asia, Africa and the Caribbean.

**GREGORY LEGOFF, MACROECONOMIC STATISTICS ADVISOR**

Gregory Legoff joined PFTAC in October 2012, increasing the complement of statistics advisors to two. Gregory is French and Australian and has extensive experience in real sector statistics at the OECD in Paris, and national accounts statistics at the Australian Bureau of Statistics

**RUSSEL FREEMAN, MACROECONOMIC STATISTICS ADVISOR**

Russel Freeman joined PFTAC in September 2013, as one of two Statistics Advisers. Russel is a New Zealand citizen, and worked at Statistics New Zealand before becoming a TA consultant on prices and national accounts predominantly in the Pacific and Africa. More recently he worked as a senior economist in the IMF Statistics Department.

**DOUG HOSTLAND, MACROECONOMIC ANALYSIS ADVISOR**

Doug joined PFTAC in October 2013. Doug is a Canadian, and served in the Bank of Canada and Ministry of Finance, followed by experience with the IMF, the World Bank and the Institute of International Finance. Much of his career has focused on macroeconomic modeling, monetary and fiscal policy issues and international finance in a wide range of countries.

**MARIA NINA SAMUELA, SENIOR OPERATIONS ASSISTANT**

Nina is responsible for accounting and payments and coordinating travel and seminar arrangements. She has been working for the Centre since 1993. Prior to this, she worked in the travel industry and with USAID.



ELENOA BOGIWALU, SENIOR INFORMATION ASSISTANT

Elenoa is responsible for the general administration of the Centre, including documentation, IT development, and external relations and correspondence. She worked previously at the RBF and the ILO.



PETER AMPUTCH, LOGISTICS ASSISTANT

Peter supports the Operations assistant in the administration of travel and payment processing. Prior to this appointment, Peter was employed by the UNDP Office as a registry clerk.



RUSILA BITUWAQA, TEAM ASSISTANT

Rusila is the Centre's receptionist and is also responsible for travel liaison. She has a Diploma in Business Accounting from FIT.



ANNEX III: PFTAC RESULTS-BASED MANAGEMENT LOGICAL FRAMEWORK FY2013 (revised: August 2012)

Objective: Improved economic management and economic growth in the Pacific Islands

| Regional Program Objective | Verifiable Indicators | Progress on Indicators | General Risks/Assumptions/ Risk Mitigation |
|--|--|--|--|
| 1. Improved public financial management. | <p>Balanced reform progress achieved by PICs, as identified by improvements in PEFA markings:</p> <ul style="list-style-type: none"> -at least 3 indicators in the comprehensiveness and transparency area in 5 countries - at least 1 indicator in the budget cycle area in 5 countries - at least 4 indicators in the budget execution, accounting and reporting areas in 5 countries <p>Improvements in PFM systems noted in other assessments</p> | <p>Most (13) PFTAC countries have now had at least 1 PEFA Assessment. PFTAC has constructed a database of indicators which will be placed on the website. Summaries of current status are reported to FEMM on a periodic basis (see for example 2012 FEMM Paper. A more objective approach to measuring progress, placing greater reliance on the PEFA indicators, and in particular “changes” in ratings for countries with repeat PEFAs is proposed starting for FY2014. More details are found in the RBM Logical Framework for 2014.</p> | <p>Requires political commitment to implementing PFM reform roadmaps.</p> <p>Sustained progress is dependent on broader reforms to public sector, including recruitment, retention and remuneration.</p> <p>Coordinated development partner financial and technical support required for implementation of PFM reforms</p> |
| 2. Broader-based and more efficient revenue systems | <p>Increase in tax to GDP ratios.</p> <p>VAT productivity increases.</p> <p>Improved ratio of tax collected to administration expenses.</p> <p>Improved rankings on benchmarking of regional tax administrations</p> | <p>Tax to GDP ratios will be tracked through IMF macroeconomic data.</p> <p>VAT productivity data for a range of countries is calculated periodically in the context of PFTAC policy reviews and will be made available on the PFTAC website.</p> <p>Other indicators will be updated in the context of the baseline assessment and the IMF's RA-FIT database.</p> | <p>Political commitment to tax reform and adequate resourcing of tax administrations are essential for improved revenue collections</p> |

| | | | |
|---|---|---|--|
| <p>3. Increased resolution and minimization of the risk factors identified in the financial system</p> | <p>Timely assessment of the condition and performance of individual banks and the overall banking system by supervisory authorities.</p> <p>Increased frequency of on-site examinations of financial institutions.</p> <p>Greater compliance with Basel Core Principles across the Pacific.</p> | <p>Central banks and supervisory agencies currently maintain adequate off-site recording of the condition of the banking system but timeliness and quality of data could be enhanced.</p> <p>On site examinations are made by most jurisdictions; Tonga has recently committed to increasing the frequency.</p> | <p>Adequate financial and staff resources needed in supervisory institutions</p> |
| <p>4. More timely and reliable economic statistics</p> | <p>Improvement in PIC statistical capacity indicator scores; Improved GDDS participation and compliance.</p> | <p>Statistical capacity indicators will be monitored through the World Bank's public database.</p> <p>Since the start of Phase IV, 4 more countries have begun participation in the GDDS initiative.</p> | <p>Requires political commitment and sufficient resourcing of NSOs and other statistical agencies.</p> <p>Increased and better coordinated development partner assistance required for continued progress.</p> |
| <p>5. Improved macroeconomic analysis</p> | <p>Increased and better quality official publications on macroeconomic issues (e.g. budget documentation, central bank quarterly economic reviews).</p> | <p>Improvements in underlying analytical tools are being made in central banks and ministries of finance. However, as the process is relatively new, these have not yet made a significant impact on official publications. This is likely to occur later in the program period.</p> | <p>Requires political commitment to transparency of economic information.</p> <p>Staffing and resourcing of economic units required.</p> <p>Dependant on data availability and quality.</p> |

Public Financial Management Logical Framework FY2013 (August 2012)

Objective: Improved public financial management

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievements | Specific Risks/ Assumptions |
|---|---|---|---|--|
| 1.1 At least 1 PEFA assessment conducted in each PFTAC country during the funding cycle. | Since PFTAC was asked by the FEMM to coordinate the PEFA process it has conducted PEFAs in Cook Islands, RMI, FSM, and Niue. This brings to 11 the total countries having had PEFAs in the past 5 years (since 2007). | Formal completion of PEFA Assessments in RMI and FSM. Self assessments and formal assessments in Solomon Islands and Fiji; formal completion by end FY2013. | RMI, FSM, and Solomon Islands PEFA submitted to PEFA Secretariat and finalized. Fiji finalization expected for FY2014. | Assumes continued commitment to PFM roadmap process by FEMM and regional countries and development partners. |
| 1.2 Reform road maps developed following each PEFA assessment. | Roadmaps for Kiribati and Cook Islands have been developed. PFTAC provided advice to refine the initial draft in Kiribati. Tonga is in the drafting stage. | Authorities disseminate Tonga roadmap by September 2012. Draft roadmaps to be prepared with Tuvalu, Niue, RMI and FSM. | Tuvalu and Niue Roadmaps finalized and approved by country authorities. Tonga and RMI Roadmaps still in draft stage. Start date for FSM now expected for late FY2014. | Assumes continued commitment to PFM roadmap process by FEMM and regional countries and development partners. |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievements | Specific Risks/ Assumptions |
|--|--|--|---|---|
| 1.3 Modernized legal frameworks and financial Instructions implemented in 5 countries | <p>Kiribati has drafted updates to its Financial and Stores Regulations (with assistance from other donors).</p> <p>Solomon Islands has developed a draft PFM Act, additional input will include fiscal responsibility provisions provided under PFTAC funding in early 2012.</p> | <p>Assist authorities to develop new PFM Act in Solomon Islands.</p> <p>Propose amendments to PFM act in Cook Islands to take account of the use of mineral revenues.</p> | <p>Kiribati was assisted in developing a draft policy on debt and cash management, and work commenced in the CI on changes related to debt servicing and mineral resources.</p> <p>Solomon Islands developed a draft PFM Act with input from IMF/PFTAC and Australia.</p> | <p>Requires political and administrative commitment. Will be linked to regional work by ADB and Australian DOFD.</p> |
| 1.4 Updated accounting standards implemented in 5 countries. | <p>The Feb 2011 Leadership Development Programme (conducted jointly with the Australian DOFD and ANU) which involved participants from 12 PICs, focused on accounting and cash management.</p> <p>Kiribati has developed revisions to its Chart of Accounts and expense codes, with PFTAC support.</p> | <p>Kiribati chart of accounts amended to better include donor funds.</p> <p>Tonga IFMIS amended to allow multi-year analysis.</p> <p>Revised accounting procedures in RMI.</p> | <p>The Feb 2011 Leadership Development Programme (conducted jointly with the Australian DOFD and ANU) which involved participants from 12 PICs, focused on accounting and cash management.</p> <p>Kiribati has developed revisions to its Chart of Accounts and expense codes, with PFTAC support.</p> <p>Fiji continued work to revise its accounting standards.</p> | <p>Sufficient capacity to implement is required. Partnerships with other donors (USP/PICPA, ADB, DOFD) likely to be needed.</p> |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievements | Specific Risks/ Assumptions |
|---|--|---|---|---|
| 1.5 Medium-term budgeting at line agency level adopted in 4 further countries. | | Improvements in budget documentation and process in Kiribati. Enhancements information flows in Cook Islands MTB system. | Training for Budget Analysts provided in Fiji and Kiribati. Kiribati Budget / Planning / Aid Management reorganized along sectoral lines to achieve a “one-stop-shop” approach to integrating planning and budgeting. Samoa, Cook Islands, Solomon Islands, Tonga, Vanuatu and PNG have started implementing some aspects of medium-term budgeting. | Requires basics of reliable annual budgeting and execution to be in place first. TA to line agencies (on context of sector programs) vital for success. ADB and World Bank will be key TA partners. |
| 1.6 Aggregated quarterly cash plan based on line agency forecasts regularly produced in 5 countries. | | Strategic cash management options identified in Kiribati. | Strategic cash management options identified in Kiribati. | Requires political and administrative commitment and capacity in line ministries. |
| Inputs/Outputs | | | | |
| Technical advice and capacity building delivered through advisory missions – around 20 missions | 1-2 Regional and sub-regional training courses and seminars. Coordination of PEFA process in the Pacific and participation in and review of PEFAs | TA Reports Presentations at workshops & seminars Manuals and guidance notes on key areas of PFM policy and administration | Participation in recruitment and oversight of resident advisors recruited by AusAID (and others) On demand remote advice | |

Revenue Policy and Administration FY2013 (August 2012)

Objective: Broader-based and more efficient revenue systems

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievements | Specific Risks/ Assumptions |
|--|---|---|--|--|
| <p>2.1 Modernized comprehensive revenue policy and legislation framework adopted in 4 additional countries encompassing a VAT, Net Profit Tax, personal Income Tax, Revenue Administration Act and possibly a Presumptive Tax. Also including natural resources regimes where relevant.</p> | <p>Draft Income tax legislation in process for Fiji and Samoa.</p> <p>Natural resources legislation drafted for Solomon Islands.</p> <p>Fiscal policy framework reforms in RMI and FSM completed - legislation drafted. Under review.</p> <p>RMI – Draft legislation prepared.</p> <p>Nauru revenue policy proposal completed</p> | <p>Legislation completed in Samoa</p> <p>Legislation completed in Fiji</p> <p>Implementation of legislation in Fiji and Samoa.</p> <p>Submission of VAT legislation in RMI; full passage in all states in FSM.</p> <p>Development of detailed VAT and related policy proposals in Kiribati.</p> <p>Draft legislation completed in Kiribati</p> <p>Natural resources legislation drafted in Cook Islands</p> <p>Natural resources policy proposal in Tonga.</p> <p>Presumptive tax policy developed in Tonga.</p> <p>Policy reviews completed in Cook Islands and Samoa.</p> | <p>Fiji PAYE legislation completed.</p> <p>Fiji PAYE implemented 1st January.</p> <p>Legislation completed and enacted in Samoa</p> <p>Policy review completed in Kiribati</p> <p>VAT and administration draft legislation completed in Kiribati.</p> <p>Cook Island natural resources legislation drafted.</p> <p>Cook Island policy review completed.</p> <p>Samoa policy review completed.</p> <p>Tonga natural resources policy completed</p> | <p>Requires strong political commitment.</p> |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievements | Specific Risks/ Assumptions |
|--|--|---|--|--|
| 2.2 Effective Corporate Strategy and planning processes in place for 5 additional revenue administrations. | All countries have developed an immature form of corporate planning. Vanuatu, Fiji and Palau have developed new Corporate Strategies and business to implement the strategies. | Development of more effective corporate planning in Tonga and Samoa Review effectiveness of corporate planning in Samoa Implementation of corporate planning processes in Cook Islands, Solomon Islands, and Tonga. | Tonga planning process completed and improved. Samoa has implemented an effective corporate planning. | |
| 2.3 Revenue administration processes automated in 4 additional countries | Automation upgrades underway in Samoa. It planning underway in Kiribati. Tuvalu RMS maintenance issues identified and under review. PNG SIGTAS undergoing development | Regional IT workshop to be delivered IT funding secured for Kiribati, RMI and FSM Procurement of new IT system Kiribati, FSM, RMI. Funding secured for Tonga upgrade Upgrades completed in Tonga and Samoa. Strategic plan for update in Fiji Tuvalu maintenance issue resolved | IT Workshop completed RMS Upgrade completed in Samoa IT funding secured in Kiribati IT Strategic plan completed in Fiji | Requires funding commitments from countries and, in many cases, donors. PFTAC focus will be on aligning IT strategy with overall the business strategy |
| 2.4 Self assessment principles adopted for 6 additional countries | Tonga has self assessment laws but they are not implemented. Vanuatu VAT self assessment is effectively used. | Self assessment legislation drafted in Fiji and Samoa Self assessment implemented in Fiji, Tonga and Samoa, | Legislation drafted in Samoa and Fiji Legislation enacted in Fiji and Samoa. | Requires legislative underpinning and change management program in the tax administration. Substantial TA needed for success. |
| 2.5 Revenue administrations organized in taxpayer-focused operating model (functional or segmented) used in 4 countries | Most Pacific countries have functional models and some segmentation but it needs refinement. | Review operating models in member countries. Samoa to develop and implement new functional model | Review completed in Tonga Review completed in Samoa New functional model implemented in Samoa | |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievements | Specific Risks/ Assumptions |
|---|---|--|--|--|
| 2.6 Risk management and compliance improvement strategies adopted in 4 additional countries | Recommendations for CIS given to Fiji, Timor-Leste and Tonga. Samoa will introduce a CIS as part of its strengthening program. | New CIS in Samoa New CIS in Solomon Islands Compliance improvement strategies developed and implemented in Tonga and Kiribati. | CIS implemented in Samoa CIS implemented in Solomon Islands | The strategies operate with varying degrees of success and need continual support to be fully effective. |
| 2.7 Model tax office framework and legislation developed and agreed by PITAA | Model tax office framework developed and under review by members. Ongoing activity needed for regional solutions in key areas and sharing of best practice. | Development of model undersea mineral legislation. | Draft deep sea legislation prepared for regional consideration. | Model, represents a strong commitment to regional solutions on behalf of tax administrators but will require subsequent political and administrative commitment and TA, from PFTAC and others, for delivery. |
| 2.8 Regional support office mechanism for countries with common IT systems (e.g. PC Trade, RMS, CMS) | IT Support workshop held and recommended a user forum be established for RMS users. First forum was convened in November 2011 by Datatorque developers of RMS. | Establish IT User forums Deliver IT skills workshops | IT follow-up work shop delivered. | Modeled on the ASYCUDA regional support office. Will require funding (from countries and/or donors) |
| Inputs/Outputs | | | | |
| Technical advice and capacity building delivered through advisory missions - around 15 per year. | 1-2 Regional and sub-regional training courses and seminars, organized through PITAA | TA Reports Presentations at workshops & seminars Manuals and guidance notes on key areas of tax policy and administration | Participation in recruitment and oversight of resident advisors recruited by AusAID (and others) | |

Financial Sector Supervision Logical Framework FY2013 (August 2012)

Objective: Increased resolution and minimization of the risk factors identified in the financial system.

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|--|---|--|--|---|
| <p>3.1 Improved bank reporting requirements allowing supervisory authorities to regularly calculate "core" Financial Soundness Indicators and improve the capacity to calculate "encouraged" FSIs prescribed by the IMF and perform enhanced monitoring and assessment of financial condition and performance of banks.</p> | <p>Solomon Islands, Tonga and Cook Islands have begun implementing the bank prudential returns developed by the AFSPC with assistance from PFTAC. The new prudential returns provide data to allow for the calculation of both "core" and "encouraged" FISs.</p> <p>To further encourage supervisory authorities to regularly calculate FSIs, the AFSPC website has been revised to include individual portals which allow members to report and maintain FSI data for their country.</p> | <p>FSIS configured with base returns by end- 2012</p> <p>Piloting of FSIS completed in Solomon Islands by April 2013.</p> <p>Base prudential returns implemented in Vanuatu and scoped in Samoa.</p> <p>Base prudential returns amended for implementation in North Pacific countries by end 2012.</p> | <p>The RBNZ FSIS configuration progressing</p> <p>Postponed to Sept 2013</p> <p>Postponed July 2013</p> <p>Ongoing</p> | <p>Based on standard bank return being developed by AFSPC with assistance from PFTAC. Will lay the foundation for possible adoption of a common IT system for analyzing data to monitor and assess the condition and performance of banks and the overall system—this may require donor financial assistance.</p> |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|---|--|---|-------------------------------------|---|
| <p>3.2 Prudential returns data regularly used to assess CAMELS components of banks in 6 countries.</p> | <p>Off-site monitoring continues to be inefficient and laborious with key ratios for measuring and monitoring CAELS components requiring manual inputs and calculations. Assessment also continues to be weak due to the lack of deeper ratio and trend analysis.</p> <p>PFTAC has developed with AFSPC members a set of standardized outputs reports for analyzing CAELS components which allows for greater analysis through the use of expanded and additional ratios to assist in identifying the root causes of changes.</p> <p>PFTAC and RBNZ developed a proposal to make the RBNZ's Financial Sector Information System (FSIS) available to AFSPC members. This will facilitate the automation of the standardized output reports.</p> | <p>FSIS pilot in Solomon Islands allows automated calculation of CAELS component by May 2013.</p> | <p>Scheduled for September 2013</p> | <p>Requires management commitment to strict implementation of off-site monitoring policies and capacity to adequately process data.</p> |
| <p>3.3 Improved manuals for completing quarterly off-site monitoring report.</p> | <p>Assistance formulating/revising manuals for conducting quarterly off-site monitoring has not progressed pending the implementation of the base prudential returns and the preparation of standardized output reports for assessing CAELS components.</p> | | | <p>Continuity of supervision staff is a key risk. While PFTAC provides training in calculation and meaning of key analytical ratios and use of level and trend analysis, experience is needed to fully understand the interrelationship of CAMELS components.</p> |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|--|--|--|--|---|
| <p>3.4 Regular full-scope CAMELS examinations implemented in 5 countries.</p> | <p>Assistance has been provided to Solomon Islands and Tonga in conducting full-scope CAMELS examinations of all banks. Tonga has requested additional assistance to further reinforce staff training in conducting full-scope examinations and completing examination procedures. However, Tonga has committed to undertake independent on-site examination commencing in 2013.</p> | <p>Tonga finalizes written manuals by Feb 2013.</p> | <p>Manual completed</p> | <p>Continuity of supervision staff is a key risk. PFTAC will provide training in credit risk analysis and grading and other asset verification techniques to assist in validating compliance with lending and investment policies and the accurate disclosure of capital, earnings and loss reserves.</p> |
| <p>3.5 Implementation of standardized examination reports summarizing the findings of on-site examination to assure all banks are subject to a minimum level of review and analysis in 5 countries.</p> | <p>Standardized examination report templates have been developed and implemented in Palau, RMI, Solomon Islands and Tonga. The standardized reports have been instrumental in assisting supervisory staff in preparing written comments identifying the strengths and weaknesses of bank operations and in recommending appropriate supervisory responses to examination findings.</p> | <p>Tonga uses written procedures in at least 2 on-site examinations by April 2013. Palau refines implementation through use in an on-site examination of foreign bank branch.</p> | <p>On-site examination postponed to FY2014 Three branches were examined</p> | <p>Continuity of supervision staff is the key risk. PFTAC will provide assistance to authorities in design of standardized CAMELS examination report to ensure every bank is subjected to a minimum level of review and analysis.</p> |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|--|--|--|---|---|
| <p>3.6 Completion of written procedures for examining functional banking activities/areas of operation.</p> | <p>Extensive training and support has been and is being provided to Solomon Islands and Tonga in conducting on-site bank examinations. This assistance has resulted in the production of written examination procedures for examining loan portfolio and assessing liquidity risk. Written examination procedures for reviewing other assets and due from (nostro) bank accounts have also been developed.</p> | <p>Solomon Islands use procedures to assess liquidity risk during on-site examination of non-bank financial institution.</p> | <p>Procedures implemented and tested. Will be implemented in on-site examinations in FY2014</p> | <p>Continuity of supervision staff is the key risk. PFTAC can provide assistance in tailoring procedures to individual jurisdictions and training in completion of procedures but continuity of staff is necessary to enhance capacity to properly assess unique and different issues which arise.</p> |
| <p>3.7 Financial statement analysis regularly used in 5 countries to enhance evaluation of credit risk and verify the adequacy of loan grading and provisioning by banks.</p> | <p>A one-week training course was conducted in August 2011 to provide training to AFSPC members in the evaluation of bank credit risk and financial statement analysis in August 2011.</p> <p>Financial statement analysis is now regularly used in Solomon Islands, Tonga and Vanuatu as part of on-site examination procedures to assess the creditworthiness of large borrowers.</p> | <p>Solomon Islands, Tonga and Vanuatu to develop financial statement templates for use in onsite examinations</p> | <p>Templates developed</p> | <p>Continuity of staff is the key risk. While PFTAC can provide training and support in financial statement and credit risk assessment, this pro-active approach requires enhanced analytical skills which are generally gained with experience. More examination they perform better will be the performance of the staff.</p> |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|---|--|--|--|--|
| <p>3.8 Basel-compliant legal frameworks and supporting regulations in place.</p> | <p>Assistance has been provided to Cook Islands in revising and strengthening the supervisory powers of the Financial Institutions Commission to ensure the timely resolution of problem banks.</p> <p>Additionally, visits have been conducted to Nauru and Kiribati to discuss with the authorities and provide recommendations for implementing appropriate bank supervisory regimes.</p> | | | <p>Considerable progress has been made in improving regulations in recent years. PFTAC's focus will now be on implementation. Nevertheless, some work on legal and regulatory framework is needed in some countries.</p> |
| Inputs/Outputs | | | | |
| <p>Technical advice and capacity building delivered through advisory missions - around 12 per year.</p> | <p>Regional and sub-regional training courses and seminars – 1-2 per year organized through AFSPC</p> | <p>TA reports</p> <p>Presentations at workshops & seminars</p> <p>Manuals and guidance notes on key areas of financial supervision policy and administration</p> | <p>On demand remote advice (phone, e mail)</p> | |

Macroeconomic Statistics Logical Framework FY2013 (August 2012)

Objective: More timely and reliable economic statistics

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|--|--|--|---|---|
| 4.1 At least 8 countries compiling at least two independent measures of GDP to a high standard and improved coverage and quality of GDP measures in all countries | Training Seminar on expenditure measure of GDP in February 2012 followed by a workshop for several countries to begin GDP(E) development | Development of expenditure measures of GDP begun in Kiribati and Palau, and improvements made to existing measures in Fiji and Vanuatu | A second PFTAC Statistics Advisor began in October 2012. Progress is well advanced on developing expenditure measure of GDP in Kiribati and has begun in Fiji and Palau. | Requires better use of administrative data (tax, NPF, trade statistics, etc) |
| 4.2 Rebased constant price GDP(P) and GDP(E) estimates | Rebase planned for FY13 in Vanuatu and Samoa (Samoa TA from ISP). HIES methodology being redeveloped by SPC to improve results | Fiji and Vanuatu rebases to be completed. Cook Islands rebase to begin. Samoa rebase to be completed by consultants under the Samoan Bureau of Statistics Institutional Strengthening Programme. | HIES methodology redeveloped by SPC to improve results, surveys under way in Solomon Islands and Nauru. Fiji rebase completed, Vanuatu and Samoa largely completed. | Requires timely completion of HIESs and CPI rebases (TA mostly provided by SPC) |
| 4.3 Compilation of regular annual GNI, GNDI, saving and net lending/borrowing aggregates by at least 8 member countries | GNI and GNDI are compiled for FSM and RMI by US-based consultants. Kiribati to extend sequences of accounts in FY13. | Compile GNI, etc, in Cook Islands, Kiribati and Tuvalu. | GNI and GNDI are compiled for Palau, FSM and RMI by US-funded consultants and in Timor-Leste by resident advisor. Kiribati and Tuvalu are now publishing GNI and GNDI. | Requires NA and BOP |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|--|--|--|--|---|
| 4.4 Quarterly National Accounts being produced in 4 member countries | QNA development begun in Cook Islands and Vanuatu, progressing in Fiji | Complete development of QNA in Cook Islands and Vanuatu, continue development in Fiji. | QNA development begun in Cook Islands and Fiji. Samoa's QNA methodology improved by ISP consultant. | Requires better use of administrative data (tax, NPF, etc) |
| 4.5 Regular compilation of annual BOP estimates for countries with irregular compilation | Draft BOP estimates developed for Niue, Nauru, Palau and Tuvalu estimates updated. | HQ BOP project to provide TA to most countries. PFTAC to continue to assist with annual compilation and methodology development in Cook Islands, Nauru and Niue. | Improved methodology and updated estimates developed for Niue and Tuvalu. HQ BOP project took over TA on BOP for IMF member countries. | Access to customs and other data |
| 4.6 Improvement in the coverage, quality and timeliness of current account estimates | Limited improvement in Cook Islands, Fiji and Samoa | HQ BOP project to provide TA to most countries. PFTAC to continue to assist with annual compilation and methodology development in Cook Islands, Nauru and Niue | Limited improvement in Cook Islands, Fiji, Kiribati, Niue and Tuvalu. | Improvements to customs data and donors' data, additional surveys in some countries |
| 4.7 Improvements in the coverage and quality of investment income and external grants data and financial and II estimates for 8 countries | Limited improvement in Cook Islands, Fiji and Samoa | PFTAC to continue to assist with annual compilation and methodology development in Cook Islands, Nauru and Niue | Limited improvement in Cook Islands, Fiji, Kiribati, Niue and Tuvalu. | Improvements to donors' data, additional surveys in some countries |
| 4.8 Improved consistency of BOP and IIP estimates for at least 9 member countries with BPM6 standards | No progress | | Improvements in Cook Islands, Fiji, Kiribati, Niue and Tuvalu. | Requires improvement of data sources and methodology |
| 4.9 Compilation of PPI and trade price indexes by 4 countries (Fiji compiles PPI and trade indices, other countries compile only trade price index) | Restarted Fiji PPI development | HQ International Comparison Program project to assist Fiji with PPI. | HQ International Comparison Program project assisting Fiji with PPI. | |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|--|---|---|---|---|
| 4.10 Rebase of CPI for at least 7 member countries | SPC conducted a CPI training seminar. Australian Bureau of Statistics began Pacific ICP project. Both increased technical capacity in NSOs and identified needs for further TA on ongoing quality improvement. Improvements in Solomon Islands CPI proposed by PFTAC TA mission | Responsibility of SPC under the Ten Year Pacific Statistics Strategy. Dependent on Household Income and Expenditure Surveys, methodology for which is being redeveloped by SPC (PFTAC contributes to the HIES Technical Working Group). HIES's underway or planned for 2013 in Solomon Islands, FSM, Tuvalu, Nauru, Kiribati. | Australian Bureau of Statistics implementing Pacific ICP project, increasing technical capacity in NSOs Vanuatu CPI rebase nearing completion. | Timing to quickly follow HIES completion. SPC to take the lead in CPI rebases |
| Inputs/Outputs | | | | |
| Technical advice and capacity building delivered through advisory missions - around 18 per year. | Regional and sub-regional training courses and training courses and seminars - 1-2 per year | TA reports Presentations at workshops & seminars Manuals and guidance notes on statistical methods and administration. | On demand remote advice (phone, email) | |

Macroeconomic Analysis Logical Framework FY2013 (August 2012)

Objective: Improved macroeconomic analysis

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|--|---|--|-----------------------|--|
| <p>5.1 Enhanced analysis of current macroeconomic conditions (through inflation analysis, output gap measurement, and measurement of fiscal and monetary policy stance)</p> | <p>Regional CB training workshop organized jointly with RBF (Fiji) and Bank of PNG helped CBs to estimate quarterly GDP and output gaps.</p> <p>Regional CB training workshop led participants to prepare an analysis of current economic conditions and policy challenges for participants of the annual Governors’ meeting.</p> <p>RBF and BPNG staff prepared in-depth analyses of macroeconomic developments since 2006, which they presented at aforementioned regional workshop and to their senior management.</p> <p>RBF staff launched an econometric research program into the long-run determinants of inflation; this work will help inform measurement of monetary conditions.</p> | <p>Consolidation of analysis in the context of building forecasting frameworks</p> | <p>See below</p> | <p>Substantial TA needed for success</p> |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|--|--|---|--|--|
| 5.2 Introduction of macroeconomic modeling tools and financial programming frameworks | <p>RBF has constructed a rudimentary financial programming framework; a follow-up workshop extended the framework in early 2012.</p> <p>RBF staff has constructed and simulated a simple macroeconomic model with forward-looking expectations.</p> <p>Short and long term models have been developed and used in PNG for understanding the surge in LNG revenues. Improvements of the models are ongoing.</p> <p>Bank of PNG staff, with support from PFTAC, has developed tools for estimating quarterly GDP and output gaps which have been taken up by other central banks.</p> <p>PFTAC assisted MOF of Timor-Leste in improving their macroeconomic framework and its usage.</p> | <p>Operational DGSE model in Fiji by April 2013.</p> <p>Minimum toolset for financial programming established in PNG, Samoa, Solomon Islands and Vanuatu.</p> <p>Regional financial programming training based on Pacific case-study delivered.</p> | <p>DSGE model for Fiji has been developed and results published in a Working Paper.</p> <p>Financial programming frameworks have been developed for PNG, Solomon Islands and Vanuatu</p> <p>Regional financial programming framework was held jointly with STI</p> | <p>Substantial TA needed for success. Requires sustained commitments of RBF and Bank of PNG and retention of trained staff. Relies on effective coordination between central bank and Ministry of Finance. Work will need to be coordinated with ADB TA.</p> |
| 5.3 Improved forecasting techniques | <p>Improved methodology for revenue forecasts in Fiji.</p> <p>Incorporation of basic forecasting techniques into inflation modeling in Solomon Islands and Tonga.</p> <p>Review of GDP forecasting techniques and proposed refinements in Tonga (implementation will be supported by other partners).</p> <p>Updating of Samoa's revenue forecasting model (SERF), as part of the 2012/13 budget.</p> | <p>Stocktaking report on revenue forecasting in Fiji.</p> <p>Updated revenue forecasting model in Samoa.</p> <p>Documented bottom-up inflation forecast in Solomon Islands.</p> <p>Enhanced inflation model and macroeconomic framework in PNG.</p> | <p>Report on revenue forecasting methodology was produced by Fiji's MoF</p> <p>Samoa's revenue forecasting model was fundamentally updated</p> <p>Bottom-up inflation forecasting procedure in Solomon Island's was documented</p> <p>Inflation forecasting and macroeconomic models were developed together with BPNG staff for PNG</p> | <p>Work will need to be coordinated with ADB TA.</p> |

| Measurable Outcomes | Baseline at end-FY12 | Milestones (for FY13) | Milestone Achievement | Specific Risks/ Assumptions |
|---|--|---|--|---|
| 5.4 Regular production of tailored debt sustainability analyses. | Debt sustainability workshop in Samoa; results presented to senior MOF staff. The main fiscal sustainability challenge for Kiribati is maintaining sustainability of their wealth fund (RERF); PFTAC assisted Kiribati's MOF in linking RERF sustainability to their macro-fiscal framework. | Macro-fiscal analysis (including debt sustainability) strengthened for FY14 budget in Samoa. Debt sustainability outlook report prepared by Fiji MOF | Macro-fiscal framework for Samoa was developed Work started on developing debt sustainability framework for Fiji but outlook report has not yet been prepared | Work will need to be coordinated with EU TA (Samoa). |
| 5.5 Better understanding of macroeconomic policy options related to natural resource inflows | The modeling work outlined above with the Bank of PNG, Treasury and the IMF served primarily to gain a better understanding of the macroeconomic policy options related to natural resource inflows, and results were shared with senior staffs during a workshop in Port Moresby. Macroeconomic challenges of a resource boom, and different ways for modeling these, were discussed during the Timor-Leste visit. | Financial programming framework incorporates enhanced treatment of mining operations in Solomon Islands. Development of macroeconomic models for managing natural resource inflows in PNG. | Financial programming framework for Solomon Islands was designed to incorporate effects of startup of large gold mine DSGE model with natural resource sector was developed for PNG | Substantial TA needed for success. Relies on effective coordination between central bank and Ministry of Finance. |
| Inputs/Outputs | | | | |
| Technical advice and capacity building delivered through advisory missions - around 18 per year. | Regional and sub-regional training courses and training courses and seminars - 1-2 per year | TA reports Presentations at workshops and seminars Manuals and guidance notes on key areas of macroeconomic analysis, forecasting methodology and organization. | On demand remote advice (phone, email) | |

ANNEX IV: PFTAC MISSIONS AND MEETINGS IN FY2013

Public Financial Management

| Country | Description | Advisor Type | Mission Days | RBM Codes |
|-------------|--|-------------------|--------------|---------------|
| Cook Is. | Medium-Term Budgeting Framework Project | Short-Term Expert | 19 | 1.5 |
| | Debt Service Reserve/Mineral Resources Fund | Short-Term Expert | 9 | 1.3 |
| Fiji | Budget Analyst Training (Approx two 2 hour sessions/month) - Recurring | Resident Advisor | 2 | 1.5 |
| | Public Financial Management - PEFA | Short-Term Expert | 23 | 1.1 |
| FSM | PFM Advisor Introductory visit | Resident Advisor | 4 | 1.2 |
| Kiribati | Review of AusAid/ADB TA Progress & Debt/Cash Management Policy | Resident Advisor | 18 | 1.3, 1.6 |
| | Public Financial Management –Chart-of-Accounts | Resident Advisor | 4 | 1.4, 1.5, 1.6 |
| | Strengthen Cash Management | Short-Term Expert | 10 | 1.6 |
| | ADB/AusAid Fiscal Reform Program Inception Mission | Resident Advisor | 30 | 1.4, 1.5, 1.6 |
| | Public Financial Management- Debt/Cash Management & Budget Execution | Resident Advisor | 15 | 1.4, 1.5, 1.6 |
| Nauru | PFM Roadmap Review | Resident Advisor | 15 | 1.2 |
| Niue | PFM Roadmap Development | Short-Term Expert | 15 | 1.2 |
| Palau | PEFA Self-Assessment | Resident Advisor | 21 | 1.1 |
| RMI | Budget Execution Processes Review | Short-Term Expert | 30 | 1.4 |
| | PFM Advisor Introductory visit | Resident Advisor | 7 | 1.2 |
| | PFM Roadmap Development Initiation | Resident Advisor | 18 | 1.2 |
| | PFM Roadmap Development | Resident Advisor | 11 | 1.2 |
| Samoa | Non-Tax Revenue Review | Resident Advisor | 15 | 1.3 |
| Solomon Is. | PEFA Self-Assessment/PEFA Team Oversight | Resident Advisor | 5 | 1.1 |
| | PFM Law Review | Resident Advisor | 12 | 1.3 |
| | PFM Law Review | Resident Advisor | 6 | 1.3 |
| Tonga | Donor's Meeting and follow-up on PFM roadmap | Resident Advisor | 3 | 1.2 |
| Tuvalu | PFM Roadmap Development | Short-Term Expert | 22 | 1.2 |
| Regional | PEFA Assessment Methodology Workshop | Resident Advisor | 5 | 1.1 |
| | PFM Leadership Programme (With Australia DOFD) | Resident Advisor | 24 | 1.3 |
| | PIFMA Working Group & PIFMA Heads Meeting | Resident Advisor | | 1.1-1.6 |

Revenue Policy and Administration

| Country | Description | Advisor Type | Mission Days | RBM Codes |
|----------|---|--------------------------------------|--------------|--------------------|
| Cook Is. | Draft legislation giving effect to the natural resource tax policy regime | Short-Term Expert | 5 | 2.1 |
| | Revenue Administration | Resident Advisor | 12 | 2.1, 2.4, 2.6 |
| | Tax and Customs Administration | Short-Term Expert | 12 | 2.1, 2.4, 2.6 |
| | Draft legislation giving effect to the natural resource tax policy regime | Short-Term Expert | 25 | 2.1 |
| Fiji | Tax and Customs Administration | Short-Term Expert | 16 | 2.1, 2.3, 2.4 |
| | Technology Strategic Plan for FRCA | Short-Term Expert | 12 | 2.3 |
| | Tax Administration | Short-Term Expert | 2 | 2.1, 2.4 |
| | Implementing PAYE Final and the Self Assessment system | Short-Term Expert | 14 | 2.1, 2.2, 2.4, 2.5 |
| | Implementing PAYE Final and the Self Assessment system | Short-Term Expert | 12 | 2.1, 2.2, 2.4, 2.5 |
| FSM | Tax and Customs Administration | Short-Term Expert | 11 | 2.1, 2.3, 2.6 |
| | Revenue Administration | Resident Advisor | 4 | 2.1, 2.3, 2.6, 2.7 |
| Kiribati | Revenue reforms | Resident Advisor | 9 | 2.1, 2.8 |
| | Tax and Customs Administration | Short-Term Expert | 11 | 2.1 |
| | Tax Administration | Short-Term Expert | 11 | 2.1 |
| | Revenue Administration | Resident Advisor | 4 | 2.1, 2.6, 2.7 |
| Nauru | Revenue Administration | Resident Advisor | 7 | 2.7 |
| Palau | Revenue Policy and Administration | Resident Advisor | 6 | 2.1, 2.3, 2.6, 2.7 |
| RMI | PFTAC Outreach and discussion of revenue reforms | Resident Advisor | 4 | 2.1, 2.3, 2.6 |
| | Revenue Administration | Resident Advisor | 2 | 2.1, 2.3, 2.6, 2.7 |
| Samoa | Tax and Customs Administration | Short-Term Expert | 5 | 2.1 |
| | IT Strategy | Short-Term Expert | 12 | 2.3 |
| | Revenue Administration | Resident Advisor | 12 | 2.1, 2.4, 2.6 |
| | Tax and Customs Administration | Short-Term Expert | 12 | 2.1 |
| Tonga | Tax and Customs Administration | Short-Term Expert | 10 | 2.1, 2.2, 2.5 |
| | PFTAC Outreach and discussion of revenue reforms | Resident Advisor | 7 | 2.1 |
| | Corporate planning Workshop | Resident Advisor | 5 | 2.2 |
| | Corporate planning Workshop | Resident Advisor | 5 | 2.2 |
| | Tax Administration | Short-Term Expert | 12 | 2.1 |
| Regional | PITAA workshop on the Role of IT in Modern Tax Administration | Short-Term Expert | 4 | 2.3 |
| | PITAA Heads meeting | Resident Advisor & Short-term expert | 7 7 | 2.1-2.8 |

Financial Sector Supervision

| Country | Description | Advisor Type | Mission Days | RBM Codes |
|-------------|---|-------------------|--------------|-----------|
| Cook Is. | Bank Supervision | Resident Advisor | 15 | 3.1 |
| FSM | Banking Legislation | Short-Term Expert | 13 | 3.8 |
| Palau | Bank Supervision | Resident Advisor | 7 | 3.2 |
| | Bank Supervision | Resident Advisor | 17 | 3.5 |
| Solomon Is. | On-site Bank Supervision | Resident Advisor | 8 | 3.5 |
| | Bank Supervision | Resident Advisor | 16 | 3.2 |
| Tonga | Building Bank Supervision Capacity | Short-Term Expert | 21 | 3.6 |
| | Building Bank Supervision Capacity | Short-Term Expert | 19 | 3.6 |
| | Bank Supervision | Short-Term Expert | 19 | 3.6 |
| | Bank Supervision and Regulation | Short-Term Expert | 15 | 3.6 |
| Vanuatu | Bank Supervision | Resident Advisor | 15 | 3.1 |
| | Off-Site Bank Supervision | Resident Advisor | 16 | 3.1 |
| Regional | IMF/APRA/IOPS: Provident Funds and Pension Supervision Workshop | Resident Advisor | 3 | 3.1-3.8 |
| | AFSPC Annual Meeting | Resident Advisor | 6 | 3.1-3.8 |
| | Pacific Central Bank Governors' Meeting | Resident Advisor | 4 | 3.8 |

Macroeconomic Statistics

| Country | Description | Advisor Type | Mission Days | RBM Codes |
|-------------|--|--------------------|--------------|-----------|
| Cook Is. | Balance of Payments Statistics - Methodology Development | Resident Advisor | 20 | 4.5, 4.6 |
| | Balance of Payments Statistics | Resident Advisor | 21 | 4.5, 4.6 |
| | Balance of Payments Statistics | Resident Advisor | 13 | 4.5, 4.6 |
| Fiji | Balance of Payments Statistics | Short-Term Expert | 12 | 4.5, 4.6 |
| | National Accounts Statistics | Resident Advisor | 5 | 4.2 |
| | National Accounts Statistics - GDP(E) | Resident Advisor | 4 | 4.1 |
| Kiribati | National Accounts Statistics | Resident Advisor | 11 | 4.1 |
| | National Accounts Statistics | Resident Advisor | 7 | 4.1 |
| | National Accounts Statistics | Resident Advisor | 11 | 4.1 |
| | National Accounts Statistics | Resident Advisor | 15 | 4.1 |
| Niue | Balance of Payments Statistics | Resident Advisor | 15 | 4.5, 4.6 |
| Palau | National Accounts Statistics - GDP(E) | Resident Advisor | 17 | 4.1 |
| Samoa | National Accounts Statistics | Resident Advisor | 9 | 4.1 |
| Solomon Is. | National Accounts Statistics | Resident Advisor | 12 | 4.1 |
| | National Accounts Statistics | Resident Advisor | 6 | 4.1 |
| Timor-Leste | National Accounts Statistics | Resident Advisor | 11 | 4.1 |
| Tuvalu | Balance of Payment Statistics - Follow-up | Resident Advisor | 10 | 4.5, 4.6 |
| Vanuatu | National Accounts Statistics | Resident Advisor | 5 | 4.1, 4.2 |
| | National Accounts Statistics - Rebasing | Resident Advisor | 6 | 4.2 |
| Regional | GFS Training Seminar | Resident Advisor | 5 | n.a. |
| | Balance of Payments Workshop | Resident Advisor & | 3 | 4.5, 4.6 |
| | | Short-Term Expert | 4 | |
| | Merchandise trade statistics workshop | Resident Advisor | 5 | 4.6 |

Macroeconomic Analysis and Forecasting

| Country | Description | Advisor Type | Mission Days | RBM Codes |
|-------------|--|------------------|--------------|--------------------|
| Fiji | Training of economists in RBF and MOF, joint work on research projects with RBF staff; recurring | Resident Advisor | 40 | 5.1, 5.2, 5.3, 5.4 |
| PNG | DSGE modeling of natural resource inflows | Resident Advisor | 22 | 5.2, 5.5 |
| | Financial programming 1: initial development | Resident Advisor | 19 | 5.1, 5.2 |
| | Financial programming 2: completion of development | Resident Advisor | 18 | 5.1, 5.2 |
| Samoa | Revenue forecasting & debt sustainability analysis | Resident Advisor | 10 | 5.3, 5.4 |
| | Exchange rate assessment | Resident Advisor | 12 | 5.1, 5.2 |
| | Revenue forecasting | Resident Advisor | 15 | 5.3 |
| | Exchange rate assessment | Resident Advisor | 19 | 5.1, 5.2 |
| Solomon Is. | Financial programming framework development | Resident Advisor | 8 | 5.1, 5.2, 5.5 |
| | Inflation forecasting | Resident Advisor | 5 | 5.3 |
| Tonga | Coordination/support of ADB in macroeconomic forecasting | Resident Advisor | 6 | 5.2 |
| Vanuatu | Coordination with IMF country team & development of work program | Resident Advisor | 4 | 5.1, 5.5 |
| | Macro-modeling: inflation forecasting | Resident Advisor | 5 | 5.2 |
| | Financial Programming 1: initial development | Resident Advisor | 12 | 5.1, 5.2 |
| | Financial Programming 2: completion of development | Resident Advisor | 15 | 5.1, 5.2 |
| Regional | Financial Programming Workshop (PFTAC/ICD/STI) | Resident Advisor | 10 | 5.1, 5.2 |
| | CCBS/PFTAC Workshop | Resident Advisor | 23 | 5.1, 5.2, 5.3 |

Meetings, Seminars and Training in FY2013

| Topic | Location | Number of Participants |
|---|-------------|------------------------|
| Public Financial Management | | |
| PEFA Assessment Methodology Workshop | Fiji | 20 |
| PIFMA Working Group | Fiji | 6 |
| PFM Leadership Programme (with DOFD) | Australia | 14 |
| Revenue Policy and Administration | | |
| PITAA IT Training workshop | Fiji | 35 |
| PITAA Heads Meeting | Kiribati | |
| Financial Sector Supervision | | |
| IMF/APRA/IOPS: Provident Funds and Pension Supervision Workshop | Vanuatu | 18 |
| AFSPC Annual Meeting | Vanuatu | 18 |
| Pacific Central Bank Governors' Meeting | Australia | n.a. |
| Macroeconomic Statistics | | |
| National Accounts | Fiji | 23 |
| Merchandise trade statistics workshop | | |
| Macroeconomic Analysis and Forecasting | | |
| CCBS Workshop | Solomon Is. | 25 |
| Financial Programming Workshop (with STI & ICD) | Fiji | 39 |

ANNEX V: PFTAC RESULTS-BASED MANAGEMENT LOGICAL FRAMEWORK FY2014
(revised: May 2013)

Objective: Improved economic management and economic growth in the Pacific Islands

| Regional Program Objective | Verifiable Indicators | Progress on Indicators | General Risks/Assumptions/ Risk Mitigation |
|---|---|--|--|
| <p>1. Improved public financial management.</p> | <p>Progress relative to the May 2013 baseline, as measured by the “Percent of Members with Repeat PEFA’s showing Improvement or No Change with an A or B rating in both years”:</p> <ul style="list-style-type: none"> • the 4 indicators for “Credibility of the Budget” • the 6 indicators for “Comprehensiveness and Transparency” • 2 indicators (#11 & 12) for “Policy-Based Budgeting” • The 4 indicators for “Accounting, Recording, and Reporting” • The 3 indicators for “External Scrutiny and Audit” <p>Improvements in PFM systems noted in other qualitative assessments.</p> | <p>All but 2 of the PFTAC countries have now had at least 1 formal PEFA Assessment, though one of these has been through a PFTAC coordinated self-assessment. PFTAC has constructed a database of indicators used to monitor PFM progress.</p> <p>Summaries of current status will be put on the PIFMA Website and will be reported to FEMM on a periodic basis (see for example 2012 FEMM Paper).</p> <p>As of May, 2013, 8 PFTAC Members have had repeat PEFA Assessments. A summary assessment of progress across the region on the various indicators is reported in Annex VI.</p> | <p>Requires political commitment to implementing PFM reform roadmaps.</p> <p>Sustained progress is dependent on broader reforms to public sector, including recruitment, retention and remuneration.</p> <p>Coordinated development partner financial and technical support required for implementation of PFM reforms</p> |
| <p>2. Broader-based and more efficient revenue systems</p> | <p>Improved ratio of tax collected to administration expenses.</p> <p>Improved rankings on benchmarking of regional tax administrations</p> | <p>Tax to GDP ratios will continue to be tracked through IMF macroeconomic data but improving efficiency in revenue systems is a long term project where short term gains are not necessarily evident.</p> <p>VAT productivity data for a range of countries is calculated periodically in the context of PFTAC policy reviews and will be made available on the PFTAC website.</p> <p>IMF’s RA-FIT first cut of data has been finalized and a second round is now in process. The results will be published on the database.</p> | <p>Political commitment to tax reform and adequate resourcing of tax administrations are essential for improved revenue collections</p> |

| Regional Program Objective | Verifiable Indicators | Progress on Indicators | General Risks/Assumptions/ Risk Mitigation |
|--|---|---|--|
| | | The second round of PFTAC Benchmarking will be finalized in FY 2014 and results made available. | |
| 3. Increased resolution and minimization of the risk factors identified in the financial system | <p>Timely assessment of the condition and performance of individual banks and the overall banking system by supervisory authorities.</p> <p>Increased frequency of on-site examinations of financial institutions.</p> <p>Greater compliance with Basel Core Principles across the Pacific.</p> | <p>Central banks and supervisory agencies currently maintain adequate off-site recording of the condition of the banking system but timeliness and quality of data could be enhanced.</p> <p>On site examinations are made by most jurisdictions; Tonga has recently committed to increasing the frequency.</p> | <p>Adequate financial and staff resources needed in supervisory institutions</p> |
| 4. More timely and reliable economic statistics | <p>Improvement in PIC statistical capacity indicator scores;</p> <p>Improved GDDS participation and compliance.</p> | <p>Statistical capacity indicators will be monitored through the World Bank's public database.</p> <p>Since the start of Phase IV, 4 more countries have begun participation in the GDDS initiative.</p> | <p>Requires political commitment and sufficient resourcing of NSOs and other statistical agencies.</p> <p>Increased and better coordinated development partner assistance required for continued progress.</p> |
| 5. Improved macroeconomic analysis | <p>Increased and better quality official publications on macroeconomic issues (e.g. budget documentation, central bank quarterly economic reviews).</p> | <p>Improvements in underlying analytical tools are being made in central banks and ministries of finance. However, as the process is relatively new, these have not yet made a significant impact on official publications. This is likely to occur later in the program period.</p> | <p>Requires political commitment to transparency of economic information.</p> <p>Staffing and resourcing of economic units required.</p> <p>Dependant on data availability and quality.</p> |

Public Financial Management Logical Framework FY2014 (May 2013)

Objective: Improved public financial management

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievements | Specific Risks/ Assumptions |
|---|---|---|--|--|
| 1.1 At least 1 PEFA assessment conducted in each PFTAC country during the funding cycle. | <p>Since PFTAC was asked by the FEMM to coordinate the PEFA process it has conducted formal PEFAs in Cook Islands, RMI, FSM, Niue, and Fiji.</p> <p>In addition, during FY2013 it coordinated PEFA Self-assessments in the Solomon Islands and Palau.</p> <p>This brings to 14 the total countries having had either self-assessments or formal PEFAs (13) in the past 6 years (since 2007) funded by PFTAC or other donors.</p> <p>In July 2012 PFTAC sponsored a workshop in Nadi for PICs on the PEFA Methodology.</p> | <p>Formal completion of PEFA Assessments in Samoa and Tokelau are anticipated during FY2014.</p> <p>Self-assessments are also anticipated during FY14 in Cook Islands and PNG, with formal assessments following in FY2015.</p> | To be completed during implementation. | Assumes continued commitment to PFM roadmap process by FEMM and regional countries and development partners. |
| 1.2 Reform road maps developed following each PEFA assessment. | <p>7 PICs (Kiribati, Niue, Samoa, Tuvalu SI, CI, and Nauru) have developed PFM Reform Roadmaps.</p> <p>2 PICs (Tonga and RMI) have drafts.</p> <p>PFTAC efforts (including suggestions for revisions of earlier Roadmaps) during FY13 focused on Tuvalu, Niue, Tonga, RMI, and Nauru</p> | Tonga and RMI draft roadmaps are completed, and a draft is started for FSM. | | |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievements | Specific Risks/ Assumptions |
|---|--|---|------------------------|--|
| 1.3 Modernized legal frameworks and financial Instructions implemented in 5 countries. | <p>Solomon Islands developed a draft PFM Act with input from IMF/PFTAC and Australia.</p> <p>Kiribati was assisted in developing a draft policy on debt and cash management, and work commenced in the CI on changes related to debt servicing and mineral resources.</p> | <p>Assist authorities to develop new PFM Act and implementing instructions in Solomon Islands.</p> <p>Propose amendments to PFM act in Cook Islands related to debt management and use of mineral revenues.</p> <p>Assist authorities in Kiribati finalize amendments to policy/laws on budget development and debt management.</p> | | Requires political and administrative commitment. Will be linked to regional work by ADB and Australian DOFD. |
| 1.4 Updated accounting standards implemented. | <p>As of May 2013, as measured by PEFA performance indicator PI-25-3 (Accounting Standards) (See Annex VI):</p> <ul style="list-style-type: none"> 6 of the 14 PICs with PEFA received either an "A" or "B" rating; Of the 8 PICs with repeat PEFA, 2 either showed improvement or were already at an "A" or "B" rating <p>Improvements in accounting standards noted in other qualitative assessments</p> <p>The Feb 2011 Leadership Development Programme (conducted jointly with the Australian DOFD and ANU) which involved participants from 12 PICs, focused on accounting and cash management.</p> <p>Kiribati has developed draft revisions to its Chart of Accounts and expense codes and Fiji continued work to revise its accounting standards.</p> | <p>With ADB/AusAid support Kiribati will adopt a new chart of accounts to better characterize use of donor funds.</p> <p>Tonga IFMIS amended to allow multi-year analysis and produce reports in GFS format.</p> <p>Fiji advances new standards.</p> | | Sufficient capacity to implement is required. Partnerships with other donors (USP/PICPA, ADB, DOFD) likely to be needed. |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievements | Specific Risks/ Assumptions |
|---|---|---|------------------------|--|
| <p>1.5 Medium-term budgeting at line agency level adopted.</p> | <p>As of May 2013, as measured by PEFA performance indicator PI-12(Multi-year perspective in fiscal planning, expenditure policy and budgeting) (See Annex VI):</p> <ul style="list-style-type: none"> • none of the 14 PICs with PEFA received either an “A” or “B” rating; • Of the 8 PICs with repeat PEFA, 4 either showed improvement or were already at an “A’ or “B” rating <p>Improvements in Medium-term budgeting noted in other qualitative assessments</p> <p>Training for Budget Analysts provided in Fiji and Kiribati.</p> <p>Kiribati Budget/Planning/Aid Management reorganized along sectoral lines to achieve a “one-stop-shop” approach to integrating planning and budgeting.</p> <p>Samoa, Cook Islands, Solomon Islands, Tonga, Vanuatu and PNG have started implementing some aspects of medium-term budgeting.</p> | <p>Enhancements to information flows in Cook Islands MTB system. Improvements in budget documentation and process in Kiribati, Fiji, Samoa, and Tonga. The February 2014 Strategic Leadership Program, sponsored jointly by PFTAC and the Australian DOFD, will focus on medium-term budgeting.</p> | <p></p> | <p>Requires basics of reliable annual budgeting and execution to be in place first. TA to line agencies (on context of sector programs) vital for success. ADB and World Bank will be key TA partners.</p> |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievements | Specific Risks/ Assumptions |
|--|--|--|---|--|
| <p>1.6 Aggregated quarterly cash plan based on line agency forecasts produced regularly.</p> | <p>As of May 2013, as measured by PEFA performance indicator PI-16-1(Extent to which cash flows are forecast and monitored) (See Annex VI):</p> <ul style="list-style-type: none"> • 8 of the 14 PICs with PEFA received either an “A” or “B” rating on PI-16-1 • Of the 8 PICs with repeat PEFA, 7 either showed improvement or were already at an “A’ or “B” rating <p>Improvements in cash flow forecasting/monitoring noted in other qualitative assessments:</p> <p>Strategic cash management options identified in Kiribati.</p> | <p>Draft policy on cash and debt management for Kiribati.</p> | | <p>Requires political and administrative commitment and capacity in line ministries.</p> |
| Inputs/Outputs | | | | |
| <p>Technical advice and capacity building delivered through advisory missions – around 25 missions</p> | <p>1-2 Regional and sub-regional training courses and seminars.</p> | <p>TA Reports Presentations at workshops & seminars Manuals and guidance notes on key areas of PFM policy and administration</p> | <p>Participation in recruitment and oversight of resident advisors recruited by AusAID (and others) On demand remote advice</p> | |

Revenue Policy and Administration FY2014 (May 2013)

Objective: Broader-based and more efficient revenue systems

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievements | Specific Risks/ Assumptions |
|--|--|--|--|--|
| <p>2.1 Modernized comprehensive revenue policy and legislation framework adopted in 4 additional countries encompassing a VAT, Net Profit Tax, personal Income Tax, Revenue Administration Act and possibly a Presumptive Tax. Also including natural resources regimes where relevant.</p> | <p>Fiji PAYE legislation completed.</p> <p>Fiji PAYE implemented 1st January.</p> <p>Legislation completed and enacted in Samoa</p> <p>Policy review completed in Kiribati</p> <p>VAT and administration draft legislation completed in Kiribati.</p> <p>Cook Island natural resources legislation drafted.</p> <p>Cook Island policy review completed.</p> <p>Samoa policy review completed.</p> <p>Tonga natural resources policy completed</p> | <p>PAYE Final and Self Assessment legislation enacted in Fiji and implemented</p> <p>Review of Samoa VAT legislation.</p> <p>VAT, Net Profits Tax, Revenue Administration and Revenue Authority legislation in RMI submitted to Parliament;</p> <p>VAT, Excise Tax, and Revenue Administration legislation in Kiribati enacted and implemented.</p> <p>Palau VAT laws developed.</p> <p>Small Business Presumptive Tax enacted in Tonga. Implementation in process.</p> <p>Small Business Presumptive Tax policy recommendations provided in Samoa.</p> <p>Natural Resources legislation enacted in Tonga.</p> <p>Natural Resources legislation drafted in Cook Islands and endorsed by Cabinet.</p> <p>General tax policy and administration reviews completed in Cook Islands and Samoa and Palau.</p> <p>Comprehensive tax reform package in FSM enacted.</p> <p>Revenue policy and administrative review completed in Nauru.</p> | <p>Review of Samoa VAT completed July 2103.</p> <p>Small Business Presumptive Tax Regime enacted in Tonga in September 2013.</p> <p>Small Business Policy recommendations provided in Samoa.</p> <p>Tax policy reviews completed in Cook Islands, Nauru, Palau, and Samoa.</p> | <p>Requires strong political commitment.</p> |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievements | Specific Risks/ Assumptions |
|---|---|--|---|--|
| 2.2 Effective Corporate Strategy and planning processes in place for 5 additional revenue administrations. | All countries have developed an immature form of corporate planning. Tonga planning process completed and improved. Samoa has implemented a new corporate planning process. | Implementation of corporate planning processes in Cook Islands, Samoa, Solomon Islands, and Tonga. | Corporate plans are in place in: Cook Islands, Samoa, Solomon Islands, and Tonga | |
| 2.3 Revenue administration processes automated in 4 additional countries | Regional IT workshop completed RMS Upgrade completed in Samoa IT funding secured in Kiribati IT Strategic plan completed in Fiji No funding commitment for FSM & RMI PNG SIGTAS still undergoing development but with partial implementation | Fiji endorses the IT Strategic Plan. Procurement and implementation of RMS 7 in Kiribati finalised. Staged implementation of SIGTAS in PNG progresses according to plan. RMS7 upgrade completed in Solomon Islands. Procurement of RMS upgrade in Tonga. Partial implementation of RMS 7 in Tonga. Tuvalu RMS 5 maintenance issues resolved and system is operational. | Contracts signed for RMS in Kiribati. Staged implementation of SIGTAS in PNG achieved. Latest version of RMS implemented in Solomon Islands Funding approved for RMS upgrade in Tonga RMS in Tuvalu is operating. | Requires funding commitments from countries and, in many cases, donors. PFTAC focus will be on aligning IT strategy with overall the business strategy |
| 2.4 Self assessment principles adopted for 6 additional countries | Fiji and Samoa - self assessment introduced in their rewritten legislation with effect from 1 January 2013. | Self-assessment adopted in Fiji, Samoa, and Tonga. Self assessment review in Tonga and recommendations made | Self-assessment implemented in Samoa. Review completed in Tonga | Requires legislative underpinning and change management program in the tax administration. Substantial TA needed for success. |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievements | Specific Risks/ Assumptions |
|--|---|---|---|--|
| 2.5 Revenue administrations organized in taxpayer-focused operating model (functional or segmented) used in 4 countries | <p>Most Pacific countries have functional models and some segmentation but all need refinement.</p> <p>Samoa has realigned its operating model as part of their institutional strengthening program.</p> <p>Tonga has implemented a refined model</p> | Review of operating models in all member countries | Operating models reviewed in Fiji, Kiribati, Nauru, Palau, Solomon Islands | |
| 2.6 Risk management and compliance improvement strategies adopted in 4 additional countries | <p>Compliance Improvement Strategies operate with varying degrees of success and need continual support to be fully effective.</p> <p>Most countries (except Samoa) do not have a formal Compliance Improvement Plan (CIP)</p> <p>Risk management is accepted in principle by PICs but there is a reluctance to embrace them.</p> | <p>Compliance improvement strategies to be reviewed in Samoa, Tonga, and Vanuatu and Tuvalu.</p> <p>Risk management reviewed in Tonga</p> | <p>CIS implemented in Samoa and Vanuatu.</p> <p>Review completed in Tuvalu</p> <p>Review completed in Tonga</p> | <p>The strategies operate with varying degrees of success and need continual support to be fully effective.</p> <p>Change management issues impede the adoption of risk management</p> |
| 2.7 Model tax office framework and legislation developed and agreed by PITAA | <p>Model tax office framework agreed.</p> <p>Ongoing activity needed for regional solutions in key areas and sharing of best practice.</p> | Cross-cutting milestones for outcomes 2.1 – 2.6 | Crosscutting achievements for milestones 2.1 -2.6 | Model, represents a strong commitment to regional solutions on behalf of tax administrators but will require subsequent political and administrative commitment and TA, from PFTAC and others, for delivery. |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievements | Specific Risks/ Assumptions |
|---|---|---|--|---|
| 2.8 Regional support office mechanism for countries with common IT systems (e.g. PC Trade, RMS, CMS) | IT Strategies developed and workshop held for all member countries. First user forum was convened in November 2011 by Data Torque (RMS). | DataTorque regional support strengthened. Establishment of regional teleconferences Establishment of regional discussion forums at PITAA meeting. | Two regional teleconferences held PITAA discussion held | Modeled on the ASYCUDA regional support office. Will require funding (from countries and/or donors) |
| Inputs/Outputs | | | | |
| Technical advice and capacity building delivered through advisory missions - around 15 per year. | 1-2 Regional and sub-regional training courses and seminars, organized through PITAA | TA Reports Presentations at workshops & seminars Manuals and guidance notes on key areas of tax policy and administration | Participation in recruitment and oversight of resident advisors recruited by AusAID (and others) | |

Financial Sector Supervision Logical Framework FY2014 (May 2013)

Objective: Increased resolution and minimization of the risk factors identified in the financial system.

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|--|--|---|---|---|
| <p>3.1 Improved bank reporting requirements allowing supervisory authorities to regularly calculate "core" Financial Soundness Indicators and improve the capacity to calculate "encouraged" FSIs prescribed by the IMF and perform enhanced monitoring and assessment of financial condition and performance of banks.</p> | <p>Solomon Islands, Tonga and Cook Islands have begun implementing the bank prudential returns developed by the AFSPC with assistance from PFTAC. The new prudential returns provide data to allow for the calculation prudential ratios.</p> <p>To further encourage supervisory authorities to regularly calculate FSIs, the AFSPC website has been revised to include individual portals which allow members to report and maintain FSI data for their country.</p> | <p>Complete implementation of prudential returns in Solomon Islands, Tonga, Cook Islands and Palau Base prudential returns also implemented in Vanuatu and scoped in Samoa.</p> <p>Base prudential returns amended for implementation in North Pacific countries by end 2013.</p> <p>AFSPC members are inputting data on the web site. PFTAC will continue to monitor and encourage AFSPC members to participate in the voluntary disclosure of FSIs.</p> | <p>Prudential returns implemented in Solomon Islands, Tonga, Cook Islands, Palau and Vanuatu.</p> <p>Prudential returns scoped in Samoa.</p> <p>The AFSPC site is up to date with data.</p> | <p>Based on standard bank return being developed by AFSPC with assistance from PFTAC. Will lay the foundation for possible adoption of a common IT system for analyzing data to monitor and assess the condition and performance of banks and the overall system—this may require donor financial assistance.</p> |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|---|---|--|--|---|
| <p>3.2 Prudential returns data regularly used to assess CAMELS components of banks in 6 countries.</p> | <p>Off-site monitoring continues to be inefficient and laborious with key ratios for measuring and monitoring CAMELS components requiring manual inputs and calculations. Assessment also continues to be weak due to the lack of deeper ratio and trend analysis.</p> <p>PFTAC has developed with AFSPC members a set of standardized outputs reports for analyzing CAMELS components which allows for greater analysis through the use of expanded and additional ratios to assist in identifying the root causes of changes.</p> <p>PFTAC and RBNZ developed a proposal to make the RBNZ's Financial Sector Information System (FSIS) available to AFSPC members. This will facilitate the automation of the standardized output reports.</p> <p>Solomon Islands will stage the FSIS pilot implemented by the RBNZ</p> | <p>RBNZ configures FSIS with base returns by end-2013</p> <p>FSIS pilot in Solomon Islands allows automated calculation of CAMELS components.</p> <p>Planning for additional FSIS implementation to be performed in late 2013.</p> <p>One country to be selected to receive the RBNZ FSIS based on the success of the pilot project.</p> | <p>RBNZ completed the configuration of prudential returns developed by PFTAC to be compatible with FSIS.</p> <p>Solomon Islands FSIS pilot completed</p> | <p>Requires management commitment to strict implementation of off-site monitoring policies and capacity to adequately process data.</p> <p>There is a requirement for upgrading the central bank's hardware to accommodate the FSIS. This is an additional cost</p> <p>Central banks will have to provide staff with competency in Microsoft Excel at the intermediary level.</p> <p>FSIS is an information and data depository system. It is not a system designed to automatically produce reports. Central bank staff will have to be trained on how to use the system to retrieve data and produce reports.</p> |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|--|--|--|---|---|
| <p>3.3 Improved manuals for completing quarterly off-site monitoring report.</p> | <p>No activity in this section</p> <p>The implementation of the base prudential returns and the preparation of standardized output reports for assessing CAMELS components must be completed before this component may be activated.</p> | <p>No activity is expected in this section, until the prudential returns program is fully implemented and used on a continuous basis.</p> <p>Revision will be based on feedback from users.</p> | <p>Ongoing on site supervision is performed based on prudential returns submitted by banks.</p> | <p>Continuity of supervision staff is a key risk. While PFTAC provides training in calculation and meaning of key analytical ratios and use of level and trend analysis, experience is needed to fully understand the interrelationship of CAMELS components.</p> |
| <p>3.4 Regular full-scope CAMELS examinations implemented in 5 countries.</p> | <p>Solomon Islands and Tonga received technical training in banking supervision and requested PFTAC assistance in conducting full scope CAMELS examinations of all banks.</p> <p>Tonga received onsite examination training and requires additional PFTAC assistance to reinforce staff in conducting full scope examinations and completing examination procedures.</p> | <p>Tonga and Solomon Islands perform two full scoped on-site examinations using the approach learned during the training.</p> | <p>Solomon Islands performed 4 on-site examinations</p> | <p>Continuity of supervision staff is a key risk. PFTAC will provide training in credit risk analysis and grading and other asset verification techniques to assist in validating compliance with lending and investment policies and the accurate disclosure of capital, earnings and loss reserves.</p> |
| <p>3.5 Implementation of standardized examination reports summarizing the findings of on-site examination to assure all banks are subject to a minimum level of review and analysis in 5 countries.</p> | <p>Standardized examination report templates were developed for Palau, RMI, Solomon Islands and Tonga. The standardized reports is instrumental in assisting supervisory staff in preparing written comments identifying the strengths and weaknesses of bank operations and in recommending appropriate supervisory responses to examination findings.</p> | <p>A number of countries receive standardized examination reporting templates following a series of TA on the subject delivered in FY14</p> <p>Tonga uses written procedures in at least 2 on-site examinations by the end of 2013.</p> <p>Palau re refines the implementation through the use of templates in an on-site examination program for foreign bank branch.</p> | <p>Standardized examination reports are in use in Tonga.</p> | <p>Continuity of supervision staff is the key risk. PFTAC will provide assistance to authorities in design of standardized CAMELS examination report to ensure every bank is subjected to a minimum level of review and analysis.</p> |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|--|--|--|---|---|
| <p>3.6 Completion of written procedures for examining functional banking activities/areas of operation.</p> | <p>Extensive training and support was provided by PFTAC to Solomon Islands and Tonga for conducting on-site bank examinations. This assistance resulted in the production of written examination procedures for examining loan portfolio and assessing liquidity risk.</p> <p>A written examination procedure for reviewing other assets and due from bank accounts is required.</p> | <p>Solomon Islands will use the training received to develop procedures to assess liquidity risk during on-site examination of non-bank financial institution.</p> <p>Tonga will incorporate written examination procedures when examining loan portfolios and assessing liquidity risk.</p> | <p>Solomon Islands are using procedures to assess liquidity risk during onsite examinations.</p> <p>Tonga incorporated examination written procedures when examining loans.</p> | <p>Continuity of supervision staff is the key risk. PFTAC can provide assistance in tailoring procedures to individual jurisdictions and training in completion of procedures but continuity of staff is necessary to enhance capacity to properly assess unique and different issues which arise.</p> |
| <p>3.7 Financial statement analysis regularly used in 5 countries to enhance evaluation of credit risk and verify the adequacy of loan grading and provisioning by banks.</p> | <p>A one-week training course was conducted in August 2011 to provide training to AFSPC members in the evaluation of bank credit risk and financial statement analysis.</p> <p>Financial statement analysis is now regularly used in Solomon Islands, Tonga and Vanuatu as part of on-site examination procedures to assess the creditworthiness of large borrowers.</p> <p>Training in Financial statement analysis is available from PFTAC</p> | <p>Tonga, Vanuatu and Solomon Islands continue to include financial statement analyses while performing on-site examination.</p> <p>Palau, Samoa and Micronesia proceed with the implementation of the analysis framework</p> | | <p>Continuity of staff is the key risk. While PFTAC can provide training and support in financial statement and credit risk assessment, this pro-active approach requires enhanced analytical skills which are generally gained with experience. More examination they perform better will be the performance of the staff.</p> |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|---|---|--|--|--|
| <p>3.8 Basel-compliant legal frameworks and supporting regulations in place.</p> | <p>Cook Islands requested PFTAC assistance in revising and strengthening the supervisory powers of the Financial Institutions Commission to ensure the timely resolution of problem banks.</p> <p>Nauru and Kiribati requested PFTAC technical assistance for implementing appropriate bank supervisory regimes.</p> <p>A number of jurisdictions require an updated Credit Unions Act.</p> | <p>Cook Islands will receive TA assistance in strengthening supervisory powers.</p> <p>Non Bank – Credit Unions and Microfinance</p> <p>Legislative reform – Palau, Micronesia, Fiji, Tonga, Samoa, Vanuatu, Cook Islands and Solomon Islands are all considering upgrading legislation.</p> <p>To be followed with oversight of the sector.</p> | | <p>Considerable progress has been made in improving regulations in recent years. PFTAC’s focus will now be on implementation. Nevertheless, some work on legal and regulatory framework is needed in some countries.</p> |
| Inputs/Outputs | | | | |
| <p>Technical advice and capacity building delivered through advisory missions - around 12 per year.</p> | <p>Regional and sub-regional training courses and seminars – 1-2 per year organized through AFSPC</p> | <p>TA reports</p> <p>Presentations at workshops & seminars</p> <p>Manuals and guidance notes</p> | <p>On demand remote advice (phone, e mail)</p> | |

Macroeconomic Statistics Logical Framework FY2014 (May 2013)

Objective: More timely and reliable economic statistics

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|---|--|--|--|---|
| <p>4.1 At least 8 countries compiling at least two independent measures of GDP to a high standard and improved coverage and quality of GDP measures in all countries</p> | <p>A second PFTAC Statistics Advisor began in October 2012.</p> <p>Progress is well advanced on developing expenditure measure of GDP in Kiribati and has begun in Fiji and Palau.</p> | <p>Development of an expenditure measure of GDP in Kiribati, Fiji.</p> <p>Methodology review of expenditure and production measures in Palau and Timor-Leste.</p> <p>Regional training course in June 2013 built on the February 2012 seminar with a main focus on GDP (E). A sub-regional training course will be organized in November 2013 for the Federated States of Micronesia, the Marshall Islands and Palau.</p> <p>Completion of agreement among development partners on responsibilities/leadership on provision of TA on economic statistics under TYPSS</p> | <p>Methodology development for the compilation of an expenditure measure of GDP well advanced in Kiribati and methodology review started in Fiji, Palau and Papua New Guinea. Methodology improved in the Solomon Islands. Limited TA will be provided to Timor-Leste due to support provided by other agencies.</p> | <p>Requires better use of administrative data (tax, NPF, trade statistics, etc)</p> |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|--|--|--|--|---|
| 4.2 Rebased constant price GDP(P) and GDP(E) estimates | HIES methodology redeveloped by SPC to improve results, surveys under way in Solomon Islands and Nauru. Fiji rebase completed, Vanuatu and Samoa largely completed (Samoa TA from consultants under the Samoan Bureau of Statistics Institutional Strengthening Programme). | Samoa and Vanuatu rebases to be completed. Cook Islands rebase to begin. Solomon Islands methodology substantially improved. HIES on new methodology planned for Cook Islands, FSM, Kiribati, and Palau. | Rebase of GDP estimates finalized in Fiji. Plan for rebase of GDP estimates started in Vanuatu. | Requires timely completion of HIESs and CPI rebases (TA mostly provided by SPC) |
| 4.3 Compilation of regular annual GNI, GNDI, saving and net lending/borrowing aggregates by at least 8 member countries | GNI and GNDI are compiled for Palau, FSM and RMI by US-funded consultants and in Timor-Leste by resident advisor. Kiribati and Tuvalu are now publishing GNI and GNDI. | Improvements in BOP needed in the Cook Islands and the Solomon Islands to compile GNI and GNDI. | Improved external sector statistics partly incorporated in national accounts estimates in Kiribati. Business survey questionnaire redesigned in Palau to collect data for the compilation of balance of payments statistics. | Requires national accounts and balance of payments statistics |
| 4.4 Quarterly National Accounts being produced in 4 member countries | QNA development begun in Cook Islands and Fiji. Samoa's QNA methodology improved by ISP consultant. | Complete development of QNA in Cook Islands. Continue development in Fiji, begin development in Vanuatu. | | Requires better use of administrative data (tax, NPF, etc) and additional staff resources in NSOs |
| 4.5 Regular compilation of annual BOP estimates for countries with irregular compilation | Improved methodology and updated estimates developed for Niue and Tuvalu. HQ external sector statistics (ESS) project took over TA on balance of payments statistics for IMF member countries. | PFTAC to continue to assist with annual compilation and methodology development in Cook Islands, Nauru and Niue. | | Access to customs and other data |
| 4.6 Improvement in the coverage, quality and timeliness of current account estimates | Limited improvement in Cook Islands, Fiji, Kiribati, Niue and Tuvalu. | HQ ESS project to provide TA to most countries. PFTAC to continue to assist with annual compilation and | HQ external sector statistics project to provide TA to most countries. | Improvements to customs data and donors' data, additional surveys in some countries |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|--|---|--|---|---|
| 4.7 Improvements in the coverage and quality of investment income and external grants data and financial and II estimates for 8 countries | Limited improvement in Cook Islands, Fiji, Kiribati, Niue and Tuvalu. | methodology development in Cook Islands, Nauru and Niue | | Improvements to donors' data, additional surveys in some countries |
| 4.8 Improved consistency of BOP and IIP estimates for at least 9 member countries with BPM6 standards | Improvements in Cook Islands, Fiji, Kiribati, Niue and Tuvalu. | | | Requires improvement of data sources and methodology |
| 4.9 Compilation of PPI and trade price indexes by 4 countries (Fiji compiles PPI and trade indices, other countries compile only trade price index) | HQ International Comparison Program project assisting Fiji with PPI. | Development of a PPI in Fiji with assistance from HQ.. | | Further PPI development would improve national accounts estimates but would require a considerable increase in resources in NSOs. |
| 4.10 Rebase of CPI for at least 7 member countries | Australian Bureau of Statistics implementing Pacific ICP project, increasing technical capacity in NSOs Vanuatu CPI rebase nearing completion. | Responsibility of SPC under the Ten Year Pacific Statistics Strategy. Dependent on HIES. | Rebase of the CPI finalized in Kiribati with assistance from the SPC. | Timing to quickly follow HIES completion. SPC to take the lead in CPI rebases |
| Inputs/Outputs | | | | |
| Technical advice and capacity building delivered through advisory missions - around 24 per year, by two resident advisors. | Regional and sub-regional training courses and training courses and seminars - 1-2 per year | TA reports Presentations at workshops & seminars Manuals and guidance notes | On demand remote advice (phone, email) | |

Macroeconomic Analysis Logical Framework FY2014 (May 2013)

Objective: Improved macroeconomic analysis

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|--|---|---|---|--|
| <p>5.1 Enhanced analysis of current macroeconomic conditions (through inflation analysis, output gap measurement, and measurement of fiscal and monetary policy stance)</p> | <p>Fiji: RBF staff has launched research projects into the long-run determinants of inflation using cointegration techniques</p> <p>PNG: the macroeconomic toolkit of BPNG for analyzing output and inflation developments has been expanded considerably</p> <p>Regional: a procedure for developing a quarterly output series on the basis of annual national accounts data for GDP and quarterly indicators has been developed and disseminated in the Pacific, which can form, inter alia, the basis for output gap measures</p> <p>Samoa: real exchange rate measures have been developed together with the Central Bank of Samoa)</p> | <p>Fiji: RBF will publish working papers summarizing their research on (i) money demand in Fiji and (ii) the role of PPP for inflation in Fiji</p> <p>Fiji: develop core inflation measures</p> <p>Fiji: develop output gap measures</p> <p>PNG: improve GDP estimation by making full use of survey data (BPNG)</p> <p>Samoa: extend external competitiveness analysis to import determinants</p> <p>Regional: enhance skills in fiscal policy analysis through workshop with ICD</p> <p>Regional: training in exchange rate analysis through workshop with CCBS</p> | <p>To be completed during implementation</p> <p>[Fiji: -RBF WPs mostly done -RBF core inflation project partly done -RBF output gap measure partly done PNG: to be done, jointly with Gregory Samoa: done Regional: to be done]</p> | <p>Continuous TA needed for success as well as large inputs of staff time of counterparts working on the various projects; long-term success depends also on retention of trained staff.</p> |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|--|---|---|---|---|
| 5.2 Introduction of macroeconomic modeling tools and financial programming frameworks | <p>Fiji: previous work program developed an “off-the-shelf” DSGE model for Fiji</p> <p>Regional: financial programming frameworks have been developed for Fiji, PNG, Solomon Islands and Vanuatu; regional financial programming workshop held jointly with STI provided training to participants from most of PFTAC’s member countries</p> | <p>Fiji: customized DSGE model for Fiji</p> <p>Regional: provide follow-up training for using and expanding financial programming frameworks in Fiji, PNG, Solomon Islands and Vanuatu</p> | <p>To be completed during implementation</p> <p>[Fiji: only modest progress on model Regional: -PNG & SI: done -Fiji & Vanuatu: to be done]</p> | <p>Continuous TA needed for success. Requires sustained commitments of central banks and MoFs participating in training and retention of trained staff. Relies on effective coordination between central bank and Ministry of Finance in maintenance and use of financial programming frameworks.</p> |
| 5.3 Improved forecasting techniques | <p>Samoa: the Samoa Economic and Revenue Forecasting (SERF) model has been fundamentally updated and substantial training was provided in its use</p> <p>Solomon Islands: training in basic forecasting techniques was provided, especially for forecasting inflation</p> <p>Regional: PFTAC participated in a workshop organized by ADB TA on rolling out the Fiscal Management Model (FMM) for fiscal forecasting and policy analysis</p> | <p>Samoa: continued support in the use of the SERF model for revenue forecasting</p> <p>Tonga: utilizing newly-rebuilt database of NRBT, provide training in basic forecasting techniques to staffs of NRBT and MoF</p> <p>Regional: hold regional workshop on basic forecasting techniques</p> | <p>To be completed during implementation</p> <p>[Samoa: to be done in February Tonga: partly done, more support needed Regional: to be done]</p> | <p>Continuous TA needed for success. Requires sustained commitments of central banks and MoFs participating in training and retention of trained staff.</p> |

| Measurable Outcomes | Baseline at end-FY13 | Milestones (for FY14) | Milestone Achievement | Specific Risks/ Assumptions |
|---|--|--|--|---|
| 5.4 Regular production of tailored debt sustainability analyses. | Samoa: macro-fiscal framework has been developed and training in debt sustainability provided Fiji: macro-fiscal framework has been developed as part of ADB TA (Fiscal Management Model) | Samoa: hold workshop on macro-fiscal analysis and integration of this analysis into the budget preparation process in conjunction with PFM advisors Fiji: develop debt sustainability template by extending the Fiscal Management Model developed as part of ADB TA | To be completed during implementation [both done] | Continuous TA needed for success. Requires sustained commitments of MoFs in retaining staff and adjusting budget procedures to make use of the results from debt sustainability analysis. |
| 5.5 Better understanding of macroeconomic policy options related to natural resource inflows | PNG: DSGE modeling toolkit for analyzing macroeconomic management of natural resource inflows has been developed Solomon Islands: financial programming framework contains a 'gold-mining' sector | PNG & Solomon Islands: issues related to macroeconomic management of natural resource issues will be covered as part of financial programming training (see 5.2) | See above | Continuous TA needed for success. Requires sustained commitments of central banks and MoFs participating in training and retention of trained staff. |
| Inputs/Outputs | | | | |
| Technical advice and capacity building delivered through advisory missions - around 15 per year. | Regional and sub-regional training courses and training courses and seminars – 2-3 per year | TA reports Presentations at workshops and seminars Manuals, guidance notes and regional analysis | On demand remote advice (phone, email) | |

ANNEX VI: PEFA INDICATOR RATING CHANGES IN PFTAC MEMBER COUNTRIES, October 2013

As of October 11, 2013 eight (8) PFTAC Members have had repeat PEFA's. The table below shows for each indicator the number of these Members having improvement, no change, or a worsening of performance on the most recent PEFA compared to the previous assessment.

| PEFA Performance Indicator | PEFA Performance Changes | | | | | | | Percentage of countries with repeat PEFA's showing improvement or no change with an "A" or "B" rating in both years |
|--|---|-----------------------------|--------------------------|-------|---------|---|---|---|
| | Better | No change Already A or B | No change Less Than B | Worse | Total | "Better" + "No change - Already A or B" | "Worse" + "No change - Less than B" | |
| | A | B | C | D | A+B+C+D | A+B | C+D | |
| Number of Countries | | | | | | | | |
| Credibility of the budget | | | | | | | | |
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | | | | | | | |
| | 4 | 2 | 2 | 0 | 8 | 6 | 2 | 75% |
| PI-2 | Composition of expenditure out-turn compared to original approved budget | | | | | | | |
| | 5 | 1 | 1 | 1 | 8 | 6 | 2 | 75% |
| PI-3 | Aggregate revenue out-turn compared to original approved budget | | | | | | | |
| | 0 | 4 | 1 | 3 | 8 | 4 | 4 | 50% |
| PI-4 | Stock and monitoring of expenditure payment arrears | | | | | | | |
| | 1 | 2 | 3 | 2 | 8 | 3 | 5 | 38% |
| Comprehensiveness and Transparency | | | | | | | | |
| PI-5 | Classification of the budget | | | | | | | |
| | 2 | 3 | 3 | 0 | 8 | 5 | 3 | 63% |
| PI-6 | Comprehensiveness of information included in budget documentation | | | | | | | |
| | 4 | 3 | 1 | 0 | 8 | 7 | 1 | 88% |
| PI-7 | Extent of unreported government operations | | | | | | | |
| | 2 | 0 | 4 | 2 | 8 | 2 | 6 | 25% |
| PI-8 | Transparency of inter-governmental fiscal relations | | | | | | | |
| | 2 | 3 | 2 | 1 | 8 | 5 | 3 | 63% |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities. | | | | | | | |
| | 2 | 1 | 3 | 2 | 8 | 3 | 5 | 38% |
| PI-10 | Public access to key fiscal information | | | | | | | |
| | 3 | 0 | 4 | 1 | 8 | 3 | 5 | 38% |
| Policy-Based Budgeting | | | | | | | | |
| PI-11 | Orderliness and participation in the annual budget process | | | | | | | |
| | 4 | 3 | 0 | 1 | 8 | 7 | 1 | 88% |
| PI-12 | Multi-year perspective in fiscal planning, expenditure policy and budgeting | | | | | | | |
| | 5 | 0 | 2 | 1 | 8 | 5 | 3 | 63% |
| Effectiveness of Tax Administration | | | | | | | | |
| PI-13 | Transparency of taxpayer obligations and liabilities | | | | | | | |
| | 5 | 1 | 1 | 1 | 8 | 6 | 2 | 75% |
| PI-14 | Effectiveness of measures for taxpayer registration and tax assessment | | | | | | | |
| | 4 | 1 | 1 | 2 | 8 | 5 | 3 | 63% |
| PI-15 | Effectiveness in collection of tax payments | | | | | | | |
| | 2 | 0 | 5 | 1 | 8 | 2 | 6 | 25% |

| PEFA Performance Indicator | PEFA Performance Changes | | | | | | | Percentage of countries with repeat PEFA's showing improvement or no change with an "A" or "B" rating in both years | |
|---|---|-----------------------------|--------------------------|-------|---------|---|---|---|-----|
| | Better | No change Already A or B | No change Less Than B | Worse | Total | "Better" + "No change - Already A or B" | "Worse" + "No change - Less than B" | | |
| | A | B | C | D | A+B+C+D | A+B | C+D | | |
| | Number of Countries | | | | | | | | |
| Predictability and Control in Budget Execution | | | | | | | | | |
| PI-16 | Predictability in the availability of funds for commitment of expenditures | 5 | 0 | 2 | 1 | 8 | 5 | 3 | 63% |
| PI-17 | Recording and management of cash balances, debt and guarantees | 4 | 0 | 3 | 1 | 8 | 4 | 4 | 50% |
| PI-18 | Effectiveness of payroll controls | 5 | 0 | 3 | 0 | 8 | 5 | 3 | 63% |
| PI-19 | Competition, value for money and controls in procurement | 2 | 0 | 4 | 2 | 8 | 2 | 6 | 25% |
| PI-20 | Effectiveness of internal controls for non-salary expenditure | 5 | 0 | 2 | 1 | 8 | 5 | 3 | 63% |
| PI-21 | Effectiveness of internal audit | 4 | 0 | 3 | 1 | 8 | 4 | 4 | 50% |
| Accounting, Recording and Reporting | | | | | | | | | |
| PI-22 | Timeliness and regularity of accounts reconciliation | 5 | 1 | 1 | 1 | 8 | 6 | 2 | 75% |
| PI-23 | Availability of information on resources received by service delivery units | 2 | 0 | 6 | 0 | 8 | 2 | 6 | 25% |
| PI-24 | Quality and timeliness of in-year budget reports | 2 | 1 | 4 | 1 | 8 | 3 | 5 | 38% |
| PI-25 | Quality and timeliness of annual financial statements | 2 | 0 | 5 | 1 | 8 | 2 | 6 | 25% |
| External Scrutiny and Audit | | | | | | | | | |
| PI-26 | Scope, nature and follow-up of external audit | 4 | 0 | 3 | 1 | 8 | 4 | 4 | 50% |
| PI-27 | Legislative scrutiny of the annual budget law | 1 | 0 | 5 | 2 | 8 | 1 | 7 | 13% |
| PI-28 | Legislative scrutiny of external audit reports | 4 | 0 | 2 | 2 | 8 | 4 | 4 | 50% |

Source: PFTAC PEFA Database, constructed from all the detailed PEFA ratings (since 2005) for each PFTAC member

ANNEX VII: COUNTRY STRATEGY NOTES

Cook Islands: PFTAC Country Strategy 2013-2015

Background

The Cook Islands has returned to growth following the global economic crisis. After two years of negative growth, GDP grew moderately in 2009/10 and is expected to pick up, mainly on the back of a strong tourism sector. However, the economy remains highly reliant on tourism, which, along with aid, underpins the government budget. The authorities have been gradually rolling back the role of the offshore financial sector.

The Cook Islands has been a heavy user of PFTAC TA. This has mainly been the result of a sustained period of assistance to support the introduction of medium-term budgeting in the ministry of finance. Support has also strengthened off-site bank supervision and the development of national accounts and balance of payments statistics. Recently, PFTAC helped the authorities develop a draft revenue policy framework for future sea-bed mining operations.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.⁸

PFTAC TA aims to support the authorities consolidate and build upon results of recent PFTAC TA. Assistance is expected to focus on further extension of the medium-term budget framework and on development of broader, more frequent national accounts aggregates. This is likely to mean a decline from recent high volumes of support.

In the **Public Financial Management** area, PFTAC will support areas specified in the authorities' PFM Roadmap (for which the PFTAC-supported PEFA assessment was a key input). In the short-term assistance is expected to focus on streamlining information systems that underlie the budgeting and treasury management processes, assisting with the preparation of laws governing a debt management account and a mineral resources account, and training central and line agency staff on MTB development (RBM objective 1.5).

In the **tax revenue policy and administration** area, PFTAC will provide assistance to develop and implement recommendations made in the FY2013 policy and administrative review. This assistance will include drafting new tax laws and development of sea-bed mining policy recommendations. PFTAC has recommended a number of administrative changes but it is unlikely that support will be needed to assist implementation of these changes because a number of NZ Inland Revenue advisers in country.

⁸ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective 1.6), refers to the cash management framework objective code 1.6 in the RBM framework.

In **macroeconomic statistics**, PFTAC will continue support to develop quarterly national accounts and methodology improvements (RBM objective 4.4); and to broaden the scope and completeness of balance of payments statistics. Assistance is being provided by an IMFS headquarters-based project to improve GFS statistics and bringing them more into line with international standards.

In **financial sector supervision**, PFTAC will assist Financial Institutions Commission finalize the base set of prudential returns developed by AFSPC to the Cook Islands context in advance of the regional implementation of RBNZ's information system (FSIS) (RBM objectives 3.1, 3.2).

No TA is currently planned in the area of **macroeconomic analysis**.

Federated States of Micronesia: PFTAC Country Strategy 2013-2015

Background

FSM has rebounded well from the global economic crisis but needs to take continued action to safeguard long term fiscal sustainability. The economic recovery is expected to continue in the near term supported by ongoing construction activities and expansion of the fisheries sector, but faces headwinds over the medium-term from the scheduled declines in Compact sector grants. Continued efforts to advance tax reforms, targeted expenditure cuts, and structural reforms to nourish private sector growth are essential to secure long-term fiscal and economic sustainability.

FSM has been a moderate user of PFTAC TA. The most significant input has been in the revenue area where PFTAC has supported the design of revenue policy and administration reforms, including the drafting of legislation that awaits approval. There has also been input in PFM, most recently through support for a PEFA assessment, and financial sector supervision.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.⁹

PFTAC TA aims to support the authorities continue to move towards long-term fiscal sustainability. Activities will focus on assisting the authorities achieve tangible results from the foundations laid with previous PFTAC assistance, and will include strategic support in the PFM area and continued input on revenue, in coordination with AusAID. Financial sector work will also continue, with a possible expansion into the insurance sector.

In the **Public Financial Management** area, the focus will be on supporting the authorities develop a PFM roadmap (RBM objective 1.2). Activities to support the roadmap's implementation will be planned in coordination with other partners, in particular the ADB, but are expected to include strengthened cash management (RBM objective 1.6) and implementation of a results-focused medium-term budgeting to better integrate planning and budgeting.

In the **tax revenue policy and administration** area, the nature of assistance will be dependent upon approval of tax reform recommendations made in previous PFTAC missions (RBM objective 2.1). PFTAC has provided considerable technical assistance to draft the new tax laws and will continue to work with the implementation team and the AusAID-funded resident advisor to assist the reform process. As FSM requires all four states to agree to the reform package, the process is slow and at times difficult. Clearly there is some opposition to tax reform and the reform team is working through issues with relevant

⁹ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective 1.6), refers to the cash management framework objective code 1.6 in the RBM framework.

officials. If the reforms proceed through Parliament, PFTAC will assist in implementing the changes and provide support in developing the administrative capacity of staff at a national and state level.

In **financial sector supervision**, PFTAC will focus on assisting the Banking Commission to modernize the Banking Act (RBM objective 3.8) and to strengthen off-site reporting through the adoption of enhanced prudential returns and better, more-automated analysis (RBM objective 3.1, 3.2 & 3.3). Strengthening of the ability to assess banks on a CAMELS basis (RBM objective 3.4) will also continue. PFTAC will coordinate with IMF headquarters and other TA providers to ensure that the newly-formed insurance commission has access to suitable capacity building but is unlikely to be able to devote significant resources to this area given resource constraints and that insurance does not feature in Phase IV's results framework.

FSM's **macroeconomic statistics** are mainly produced by Compact-funded projects and input is therefore expected to be relatively limited in this area in the short-term. Provided adequate staffing remains available in the statistics office, PFTAC will look to support enhancements in the range of national accounts aggregates that are produced (RBM objective 4.3) and provide hands-on training in compilation methods while IMF HQ will continue to support balance of payments (RBM objective 4.7) and government finance statistics development.

No TA is currently planned in the area of **macroeconomic analysis**.

Fiji: PFTAC Country Strategy 2013-2015

Background

Fiji has faced a difficult macroeconomic environment in recent times. However, growth has begun to recover. Political developments have meant that few development partners are active in PFTAC's focus area.

Fiji has been PFTAC's largest user of TA in recent years. TA priorities concentrate in revenue management supported by work on assessing PFM systems and fiscal forecasting. Other work will focus on building macroeconomic modeling and analysis capacity at the RBF.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹⁰

PFTAC TA aims to sustain the authorities' progress on fiscal consolidation and enhance the framework for macroeconomic policy making. In the fiscal area, revenue will continue to be the main focus as the authorities are keen to improve revenue performance.

In the **Public Financial Management** area, the main focus will be assisting in strengthening weaknesses identified in the 2012 PEFA assessment. This may include assistance in looking at the roles, responsibilities and structure of the Ministry of Finance. Areas of specific follow-up assistance will be influenced by the action plan drawn up following the PEFA (RBM objective *1.2*) but are likely to be focused on strengthening accounting and financial reporting processes and systems, formal adoption of IPSAS, transition to accrual accounting (perhaps drawing on IMF HQ expertise), budget execution (RBM objective *1.4*), and continuation of training budget officers in methods for budget preparation/analysis. Assistance in cash and debt management may also be a focus (RBM objective *1.6*), if resources are available. PFTAC will coordinate closely with the ADB's PEM TA project.

In the **tax revenue policy and administration** area, Fiji is one of the regional leaders in terms of administrative processes but is keen to improve revenue performance. PFTAC assistance will focus on (i) finalizing the legislation for PAYE Final Tax to enable the laws to be promulgated; (ii) implementing PAYE Final Tax; planning for and implementing VAT self assessment; and reviewing the planned changes to FRCA's operating model and structure relative to the implementation of PAYE FINAL and self assessment. PFTAC will also follow up on recommendations arising from the strategic review of FRCA's information technology processes carried out in August 2012 and contribute to the enhancement of FRCA's capability to manage the fiscal regime for the mining sector and international tax issues.

¹⁰ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

In **financial sector supervision**, PFTAC will continue to be available for consultations with RBF and will work on regional issues with the RBF's head of bank supervision who is executive director of AFSPC. PFTAC will be ready to assist RBF adapt the base set of prudential returns developed by AFSPC to the Fijian context in advance of the regional implementation of RBNZ's information system (FSIS) (RBM objectives 3.1 & 3.2). The RBF currently relies on APRA for support to on-site supervision; PFTAC could supplement this if requested.

In **macroeconomic statistics**, the focus of support will be further development of the national accounts. The ultimate aim is to have quarterly national accounts estimates being produced by 2014 (RBM objective 4.4), but in advance of that PFTAC will support the finalization of rebased estimates planned for October 2013 (RBM objectives 4.1 & 4.2) PFTAC will also support the development of GDP estimates by expenditures with the expectation to produce draft estimates by December 2013 (RBM objective 4.1) and will continue to provide limited follow-up on price indices with support from IMF headquarters (RBM objective 4.8). IMF headquarters will also provide support for enhancing balance of payment statistics and government finance statistics.

In the **macroeconomic analysis** area, work will focus on building macroeconomic modeling and analysis capacity in the RBF (RBM objectives 5.1 & 5.2), with the aim of having better inflation and external forecasts to feed into monetary policy making. Key projects include the measurement of core inflation, empirical work on inflation determinants, and estimating potential growth and the output gap in Fiji. With respect to fiscal policy, the focus is on capacity building in debt-sustainability analysis (RBM objective 5.4), a project that builds on the development of a fiscal framework by PEM TA in 2012. Another area of support is improving the financial programming framework maintained by the Reserve Bank of Fiji by drawing on the framework developed by the IMF's Institute for Capacity Development (ICD) for the regional financial programming workshop held jointly with the Singapore Regional Training Institute (STI) in 2012 that used Fiji as a case study

Kiribati: PFTAC Country Strategy 2013-2015

Background

Kiribati has faced a difficult macroeconomic environment in recent times which has resulted in pressures on fiscal sustainability. Following the global economic crisis growth stagnated, the RERF (Kiribati's sovereign wealth fund) dropped in value and revenue declined. With state-owned enterprises continuing to require budgetary support budget deficits were financed by increased drawdowns from the RERF. These drawdowns were well in excess of sustainable levels. Fiscal adjustment and increases in donor support are required to return Kiribati to fiscal sustainability. Development partners are discussing a shared policy matrix to coordinate this support and have coordinated well behind a government-owned PFM reform plan..

PFTAC has stepped up its TA to Kiribati. This reflects increased commitment from the authorities to improve public financial management systems, in part to trigger development partner budget support. PFTAC is taking the lead in supporting revenue reforms envisaged under the PFM roadmap and working closely with AusAid, ADB, EU and other partners to support budget preparation and execution reforms. In addition, PFTAC has been assisting building capacity in simple macroeconomic analysis to underpin the budget and in developing enhanced methodologies for macroeconomic statistics. Initial work has been undertaken to build capacity to supervise the financial sector.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹¹

PFTAC TA aims to support the authorities sustain progress on improving fiscal sustainability. PFTAC will continue to work closely with the broader development partner group to ensure coherence and will aim to support implementation of actions in the authorities' PFM roadmap and shared policy matrix (once it emerges). Revenue is expected to be the most intensive area of assistance, reflecting the agreed division of labor in supporting the PFM roadmap. Support in cash management and macroeconomic analysis is likely to continue, delivered in coordination with the ADB and others. This will be supported by further development of national accounts. PFTAC will stand ready to support the establishment of financial sector regulation but given resource constraints will not be able to take the lead.

In the **Public Financial Management** area, the focus will primarily be on supporting the strategic oversight of the PFM roadmap (RBM objective 1.2). Other development partners are taking the lead in supporting the implementation, in particular AusAid and ADB with a focus on strengthening accounting and cash management (RBM objective 1.4), and improving the FMIS utilization and performance. AusAid also will fund a director for the National Economic and Planning Office (NEPO) to strengthen an integrated

¹¹ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective 1.6), refers to the cash management framework objective code 1.6 in the RBM framework.

approach to planning/budgeting. PFTAC will maintain close links with the AusAid and ADB financed support, including participating in review missions for those projects. PFTAC will also contribute additional expertise to assist the government move to better approaches to debt and cash management (RBM objective 1.6). In addition macroeconomic support will be provided, in coordination with the AusAid/ADB-financed budget advisor and the new NEPO Director, to improve forecasting (RBM objective 1.3) and create a better framework for RERF management (RBM objective 1.5). In the medium-term, PFTAC would look to assist the authorities implement a follow-up PEFA assessment, possibly with a Self-Assessment in 2014 and a formal assessment in 2015 (RBM objective 1.1).

In the **tax revenue policy and administration** area, PFTAC will focus on assisting in the implementation of the new VAT regime and IT system but in doing this, it will be necessary to assist in improving the overall tax administration systems and process and data cleansing. PFTAC will work with and provide strategic guidance to the AusAID funded resident tax advisor as the scope of work required is beyond the capacity of one person.

In **financial sector supervision**, PFTAC will continue to provide strategic guidance to the authorities as they move to implement the Financial Institutions Act that was drafted some years ago with IMF assistance (RBM objective 3.8). Given the lack of in-country capacity establishing a basic on and off site supervision program (RBM objective 3.1 & 3.4) will require TA resources well in excess of PFTAC's availability. As in other sectors though, PFTAC would be able to provide strategic oversight to the process if other partners were able to provide resources for on the job support.

In **macroeconomic statistics**, PFTAC advice will focus on national accounts, in particular developing methodologies for the compilation of GDP estimates by expenditures (RBM objective 4.1) and maintaining an annual series of broader measures of national income and saving (RBM objective 4.3). IMF HQ will provide resources to produce better current and capital accounts of the balance of payments (RBM objective 4.6-4.8) and government finance statistics.

No TA is currently planned in the area of **macroeconomic analysis**.

Nauru: PFTAC Country Strategy 2013-2015

Background

Nauru's economy remains reliant on phosphate exports and aid. Nauru has recently returned to growth following years of stagnation, mainly due to a pick-up in phosphate exports. The fiscal position has stabilized, but remains compromised by high debt, low revenues and poor state-owned enterprise performance. There is no domestic financial sector, following the collapse of the Bank of Nauru in 1995.

Nauru has been a relatively light user of PFTAC TA. This reflects a number of AusAID financed resident. PFTAC has however, supported the authorities in refocusing an earlier PFM Reform Roadmap, developing draft financial instructions, and establishing a revenue office and policy framework. PFTAC TA has also supported the production of national accounts and balance of payments statistics.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹²

PFTAC will support the larger efforts of other development partners in strengthening the fiscal position. Australian and ADB support to strengthen public financial management is likely to moderate the need to PFTAC TA in Nauru over the period. PFTAC will however continue to follow up on previous work and provide detailed technical support to the Finance Ministry as required.

In the **Public Financial Management** area, PFTAC will stand ready to provide additional training and support for the financial instructions developed in 2010 (RBM objective *1.3*) and improvements to accounting, reporting and financial systems. Other assistance will be coordinated with the AusAid and ADB-supported projects. Resources will be made available for a follow up PEFA assessment in 2014 (RBM objective *1.1*) if requested.

In the **tax revenue policy and administration** area, PFTAC will follow up on previous policy missions and promote the development and implementation of tax reform. If there is an appetite for reform, PFTAC will assist in developing the policy and administrative reform detail and work closely national and international staff to ensure that there is community and political buy in. There may also be a need to assist in developing the capacity of staff to administer any new tax system and PFTAC will work with, and provide strategic advice to the AusAID funded revenue advisor. As Nauru's existing tax system is not broadly based and does charge tax on income or consumption, it is likely that there will be a considerable amount of work necessary to implement a national revenue office and a tax system. As the scope of this work will be beyond the capacity of national staff and the revenue adviser, a considerable amount of technical assistance may be necessary.

¹² Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

In **financial sector supervision**, PFTAC will be available to advise on the prudential issues relating to establishing banking services in Nauru, the expectation is that other partners will take the lead in assisting with discussions with potential financial service providers.

In **macroeconomic statistics**, PFTAC will continue to provide detailed assistance to allow the regular compilation of basic macroeconomic datasets—national accounts (RBM objective 4.1) and balance of payments (RBM objective 4.5). As source data improves, the focus will gradually shift to methodological development.

No TA is currently planned in the area of **macroeconomic analysis**.

Niue: PFTAC Country Strategy 2013-2015

Background

Niue's economy is very fragile. Government activities, tourism and fisheries account for the large majority of GDP. Economic activity faces many constraints: limited access to reliable air services, shortages of skilled professionals and entrepreneurial expertise, limited land and poor soil quality. Natural disasters, especially cyclones, have long lasting impact. Niue's economic difficulties are exacerbated by, and reflected in, the long-term decline of its population. Niue's fiscal position is highly dependent on external aid, particularly from New Zealand with which Niue has very close ties.

Niue has not drawn heavily on PFTAC TA. This reflects the leading role that New Zealand takes in TA provision by virtue of the close ties between the two countries. PFTAC has however recently been more active: supporting a PEFA assessment, developing a PFM Reform Roadmap, and providing advice on tax policy and administration following Niue's successful implementation of a consumption tax.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹³

PFTAC's main focus will be to support PFM reforms and maintain the production of statistics to support policy making. Given Niue's limited absorptive capacity and the dominant role of New Zealand in TA provision, overall levels of TA are expected to remain relatively moderate.

In the **Public Financial Management** area, PFTAC will support the authorities as they implement their PFM Roadmap (RBM objective *1.2*) based on the findings of the PFTAC-supported PEFA assessment, and assistance in developing a draft Roadmap.

In the **tax revenue policy and administration** area, Niue has implemented tax policy reforms with the support of New Zealand Inland Revenue and PFTAC has no current plans for bilateral TA. However, support could be provided if there is any request for further policy and administrative reform.

In **financial sector supervision**, PFTAC will be ready to provide advice on the prudential aspects of any changes in the limited banking environment on Niue.

In **macroeconomic statistics**, PFTAC continued to provide assistance to enable Niue to produce more comprehensive balance of payments statistics (RBM objective *4.5*). Support to ensure regular and timely national accounts compilation will also be available if requested.

No TA is currently planned in the area of **macroeconomic analysis**.

¹³ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

Palau: PFTAC Country Strategy 2013-2015

Background

Palau's economy has recovered strongly from the 2008–09 downturn, led by a rebound in tourist arrivals. An overarching challenge for Palau is to achieve self sufficiency when the renewed Compact grants expire in FY2024. Growth is expected to be favorable at 3 percent in FY2012 and average 2 percent over the medium term. But the outlook is clouded by an unsettled global environment and downside risks dominate. Highly dependent on tourism, imports of food and fuel, and foreign aid, Palau remains vulnerable to external headwinds and has limited policy space to counter these risks. Fiscal consolidation therefore remains the highest priority.

Palau has been a heavy user of PFTAC technical assistance in recent years. In Phase III (FY2009-2011) there were 21 missions, spread across all sectors, with the largest concentration in Public Financial Management, where the focus was on strengthening cash management and laying the groundwork for the development of medium-term budgeting. Other results achieved in phase III included revenue compliance strategies and strengthened bank supervision through the adoption of regulations, improved bank reporting and the establishment of an on-site supervision program. Methodologies for producing a broader range of national income and balance of payments statistics were also developed.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹⁴

PFTAC TA aims to support the authorities sustain progress on fiscal consolidation and strengthen the financial sector. Priorities will be strengthening revenue administration and, in close coordination with ADB, strengthening PFM. Continued strengthening of financial sector supervision will also be required.

In **Public Financial Management**, the focus will be on continuing to support the ADB project on developing medium-term budgeting. PFTAC will support Palau in undertaking a formal PEFA assessment in early 2015 if requested, following on its Self-Assessment in early 2013. Follow up support on accounting and cash management may also be required.

In the **tax revenue policy and administration** area, PFTAC will follow up on Palau's recent decision to introduce a VAT Bill in Congress by providing technical assistance to ensure that the Bill is consistent with international policy and administrative practices. If necessary, PFTAC will provide assistance to redraft the VAT legislation and provide recommendations on tax policy and administrative reforms that may be necessary to successfully implement a VAT. The capacity of the revenue division to administer the existing tax laws is not strong and it is likely that should Palau proceed with tax reform, there will be a need for

¹⁴ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

ongoing PFTAC technical assistance. Given the scope of work required to uplift administrative capacity and implement a new tax regime, it is probable that this assistance alone, will be insufficient and PFTAC will work with aid agencies to identify funding for a resident tax adviser. PFTAC has previously provided assistance to develop an IT strategic plan and if tax reform proceeds, the implementation of this plan and identification of donors to fund the IT development will also be a priority.

In the **financial sector supervision** area, support in the off-site area will be in developing prudential returns that allow ultimate integration with the automated statistical system currently being developed by PFTAC and RBNZ for implementation in the South Pacific Central Banks. Capacity building in on-site supervision will also continue-likely in late-2012.

In **macroeconomic statistics**, PFTAC will continue to provide technical assistance for the development of GDP estimates by expenditures and will assist with capacity building in national accounts statistics. IMF HQ will provide resources to produce better current and capital accounts of the balance of payments (RBM objectives 4.6-4.8) and government finance statistics.

No TA is currently planned in the area of **macroeconomic analysis**.

Papua New Guinea: PFTAC Country Strategy 2013-2015

Background

Papua New Guinea's main macroeconomic challenges are from managing the impacts of resource boom. Sound macroeconomic policies helped to turn around the economy from two decades of decline to solid growth since 2002. However, poverty remains high and a large majority of the population lacks access to basic public services. High commodity prices and the construction of a liquefied natural gas facility are boosting GDP growth and generating inflation pressures. The authorities plan to establish a sovereign wealth fund to manage revenue volatility and ensure steady financing for development.

PNG has not requested much PFTAC TA. Large volumes of assistance are available from other development partners with significant local presences. PFTAC has therefore focused its assistance on limited technical areas where PFTAC has a comparative advantage. These have recently been focused on macroeconomic analysis and modeling, including on the macroeconomic impacts of scaling up public expenditure based on projected resource inflows. PFTAC has also supported IT strategy development in the revenue area and development of enhanced Balance of Payment statistics.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹⁵

PFTAC TA aims to support the authorities manage the macroeconomic impacts of resource-based growth. The main focus is expected to remain in the macroeconomic area, including statistical development. However, there may be opportunities for PFTAC to contribute to the development of more robust public financial management and banking systems.

In the **Public Financial Management area**, PFTAC will make resources available to support training on the PEFA methodology and conducting a repeat PEFA assessment, should the authorities wish to undertake one to inform future PFM reform initiatives (RBM objective *1.1*). No direct support beyond that is currently anticipated.

In the **tax revenue policy and administration** area, PNG is supported by the Australian Taxation Office (ATO) and has a number of long-term in country ATO advisers. The Inland Revenue Commission (IRC) has additional support under the ATO / IRC twinning program and several other internationally and locally funded international advisers. IMF HQ has provided strategic advice to IRC in the Natural Resources area and support will continue in this area should the authorities wish to undertake reform. PNG will be encouraged to take a stronger role in supporting regional tax reform and sharing training opportunities provided by the ATO with fellow PIC tax administrators.

¹⁵ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

In **financial sector supervision**, PFTAC could, if requested, assist BPNG adapt the base set of prudential returns developed by AFSPC to the PNG context. This would be particularly relevant if BPNG decided to take part in the regional implementation of RBNZ's information system (FSIS) (RBM objectives 3.1 & 3.2).

In **macroeconomic statistics**, PFTAC will provide technical assistance to strengthen the methodologies and data sources used for the compilation of national accounts statistics. Significant training is needed to increase capacities and TA will be provided to optimize the use of the available source data including the business surveys. The IMF headquarters has also significantly stepped up its statistical support in government finance and external sector statistics since 2012 with funding from the Government of Japan.

In the **macroeconomic analysis** area, the PFTAC resident advisor worked in the previous two years with Treasury and BPNG staff on building models that can inform macroeconomic strategies that lead to a prudent utilization of revenue flows from natural resource projects (RBM objective 5.5). For FY2014, the focus has shifted towards more general macroeconomic analysis and forecasting, utilizing a financial programming framework for PNG developed by BPNG staff with PFTAC assistance. The last is supported by a small empirically-estimated macroeconomic model for PNG that helps to better understand the main transmission mechanism of fiscal and monetary policies as well as assessing the potential impact of alternative policy responses (RBM objectives 5.1 & 5.2). PFTAC will continue to look to BPNG's economic team to help lead collaboration on macroeconomic training and dialogue.

Republic of the Marshall Islands: PFTAC Country Strategy 2013-2015

Background

The Republic of the Marshall Islands (RMI) has recovered steadily since the global economic crisis but faces a need for considerable fiscal adjustment. Growth has picked up, led by fisheries and construction and public spending has been kept under control. However, continued losses in the state-owned enterprise sector, growing shortfalls in social security, high public debt and the potential loss of compact grants mean that urgent measures are needed to ensure fiscal sustainability. These include implementation of a planned tax reform, SOE reform and containing public sector pay.

RMI has been a moderate user of PFTAC TA. The most significant input has been in the revenue area where PFTAC has supported the design of revenue policy and administration reforms, including the drafting of legislation that awaits approval. There has also been input in PFM, most recently through support for a PEFA assessment, working with MOF officials to draft a PFM Reform Roadmap, and financial sector supervision.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹⁶

PFTAC TA aims to support the authorities move towards long-term fiscal sustainability. Activities will focus on assisting the authorities achieve tangible results from the foundations laid with previous PFTAC assistance, and include strategic and detailed support in the PFM area and continued input on revenue, in coordination with AusAID and ADB. Financial sector work will continue, with a focus on strengthening the legal framework and off-site supervision. Statistical and macroeconomic capacity building is expected to be led by other development partners.

In the **Public Financial Management** area, the focus will be on supporting the authorities finalize a PFM roadmap (RBM objective *1.2*). Activities to support the roadmap's implementation will be planned in coordination with other partners, in particular the ADB, but are expected to include moving towards medium-term budgeting (RBM objective *1.5*), modernization of legislation and financial instructions (RBM objective *1.3*) and strengthened cash management, accounting and financial reporting (RBM objective *1.6*). PFTAC will also provide assistance in analyzing the funding situation for the Social Security fund and developing options to improve its sustainability.

In the **tax revenue policy and administration** area, the nature of assistance will be dependent upon the progress of tax reforms, recommended in previous PFTAC missions. Technical assistance has been provided to draft the new tax laws and they are progressing slowly through Parliament. It is likely that the

¹⁶ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

laws will be successfully enacted and if so, PFTAC will work closely with and support the tax reform implementation team. The AusAID-funded resident tax advisor is providing in country support to the tax reform team and PFTAC will continue to work with the adviser providing strategic and technical support where necessary.

In **financial sector supervision**, PFTAC will focus on assisting the Banking Commission to modernize the Banking Act (RBM objective 3.8) and to strengthen off-site reporting through the adoption of enhanced prudential returns and better, more-automated analysis (RBM objective 3.1, 3.2, & 3.3). Strengthening of the ability to assess banks on a CAMELS basis (RBM objective 3.4) will also continue.

RMI's **macroeconomic statistics** are mainly produced by Compact-funded projects and there are few local counterparts for PFTAC TA. Little input is therefore expected in this area in the medium-term. If staffing levels improve, PFTAC will look to support enhancements in the range of national accounts aggregates that are produced (RBM objective 4.3) while IMF headquarters will provide support on balance of payments development (RBM objective 4.7) and government finance statistics.

No TA is currently planned in the area of **macroeconomic analysis**, but PFTAC could lend support the development of enhanced debt sustainability analysis if requested (RBM objective 5.4).

Samoa: PFTAC Country Strategy 2013-2015

Background

Samoa has faced a difficult macroeconomic environment in recent times. Following the global economic crisis growth stagnated, remittances fell and fiscal revenues declined sharply. This was exacerbated by a devastating tsunami in mid-2009. Samoa responded with a substantial fiscal stimulus financed by domestic and external debt accumulation and also with monetary stimulus including central bank lending to non-bank financial institutions. Growth has however been slow to pick up and with fiscal deficits still relatively high, debt levels elevated and international reserves declining the authorities will continue to face macroeconomic management challenges. Fortunately, with strong policy frameworks, good donor dialogue and coordination and a number of large institutional strengthening projects (ISP) already in place, Samoa is well placed to meet these challenges.

PFTAC has provided moderate TA to Samoa in recent years mainly on macro-fiscal and statistics. PFTAC TA was instrumental in setting up a foundation for medium-term budgeting and the development of quarterly national accounts in Samoa. Recent TA has been primarily in the macroeconomic area and is focused on developing a more reliable macroeconomic framework for the budget. Support has also been provided in Samoa's modernization of its income tax legislation.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹⁷

PFTAC TA aims to support the authorities sustain progress on fiscal consolidation and to improve the macroeconomic environment. PFTAC will continue to focus on building macroeconomic analysis capacity and delivering specific technical inputs in the context of larger ISPs. One instance of this is expected to be support to assessing revenue potential.

In the **Public Financial Management** area, inputs are expected to be relatively small given the large project-based support available to support the Ministry of Finance's PFM reform plan. A PEFA self-assessment and formal assessment (RBM objective *1.1*) are being conducted in September/October 2013. In addition, PFTAC in coordination with staff from the Australian Department of Finance and Deregulation has been assisting with a review of line ministry service charges. PFTAC will be available to provide follow-up support to previous work to strengthen the medium-term budgeting system (RBM objective *1.5*), and (in cooperation with the Australian Department of Finance and Deregulation) improving management of non-tax revenues.

¹⁷ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

In the **tax revenue policy and administration** area, Samoa has made significant improvements in enhancing its overall administrative capacity through the 2010 – 2012 Institutional Strengthening Project (ISP). The ISP has been funded through multi lateral aid and resources to implement reforms have been drawn from NZ Inland Revenue. However, the PFTAC 2013 review of tax policy and administration mission identified a number of reforms that would contribute to a more effective tax system and tax administration. PFTAC is available to assist Samoa in developing and implementing these reforms but it is possible that phase 2 of the ISP will provide sufficient resources to enable the reforms to be carried out. Given the success of phase 1 of the ISP, Samoa will be encouraged to play a greater role in supporting other PICs in their reform process.

In **financial sector supervision**, PFTAC will be ready to assist CBS adapt the base set of prudential returns developed by AFSPC to the Samoan context in advance of the regional implementation of RBNZ's Financial Sector Information System (FSIS) (RBM objective 3.1 & 3.2). CBS currently relies on the Australian Prudential Regulatory Authority (APRA) for training support in conducting on-site bank examinations, but PFTAC would be ready to supplement this if requested.

In **macroeconomic statistics**, Samoa is relatively well advanced against the overall results framework; based on PFTAC advice, it produces quarterly National Accounts on 2 independent measures (RBM objective 4.1) with production of a range of income indicators (RBM objective 4.3). Balance of payments (BOP) statistics are now being developed according to BPM6 standards (RBM objective 4.8). Further development is expected to continue under the ISP, although PFTAC can assist with major methodological developments and rebases in the national accounts (RBM objective 4.1 & 4.2) and IMF headquarters will offer support in BOP and GFS.

Assistance in the **macroeconomic analysis** area will continue to be instrumental to the success of budget reforms. PFTAC will continue assisting the Ministry of Finance to improve the accuracy and sophistication of its revenue and GDP forecasting (RBM objectives 5.1 & 5.3) and in building capacity to produce its own debt sustainability analyses (RBM objective 5.4). To help better integrate the results from macro-fiscal analysis into the budget preparation process, PFTAC's macroeconomic and PFM advisors are cooperating on organizing a workshop on medium-term budgeting issues scheduled for September 2013. Going forward, it is planned to build a financial programming framework for Samoa in cooperation with the Ministry of Finance and the Central Bank of Samoa (CBS), drawing on tools developed with the Ministry of Finance for GDP and revenue forecasting as well as research by CBS on linkages between the exchange rate and trade, which was supported by PFTAC (RBM objective 5.2).

Solomon Islands: PFTAC Country Strategy 2013-2015

Background

The Solomon Islands has recovered well from a precarious position during the global economic crisis. Growth has accelerated rapidly and international and fiscal reserves increased, on the back of increased logging and mining, but also due to better fiscal management and increased international assistance. The medium-term reform agenda under the Core Economic Working Group emphasizes, amongst other things, strengthening of public financial management in particular with regard to the management of natural resource revenues.

Solomon Islands has been a moderate user of PFTAC TA. Despite the large international presence, mainly through RAMSI which caters for much of the technical assistance needs in the government, PFTAC has made specific technical contributions in particular with regard to the fiscal regime for natural resources. In the PFM area, PFTAC has reviewed and provided suggestions on a draft PFM law and provided follow up support to a revision of accounting standards. Significant amounts of support have been provided to CBSI in formulating and implementing new prudential regulations for banks and also in developing a more robust inflation forecasting regime.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹⁸

The main focus of PFTAC TA will be on strengthening fiscal management, particularly with regard to natural resource management and solidifying the financial sector. In the Government area inputs will either be at the strategic/policy level or dealing with niche requirements where IMF/PFTAC has a comparative advantage. Support for implementation is expected to continue to come from other donors, in the context of RAMSI or its successor.

In the **Public Financial Management** area, following on the results from the 2012 PEFA, the main focus is expected to be assisting the authorities to develop a revised PFM Roadmap in the context of the Core Economic Working Group. The process will guide the need for any PFTAC support to implementation, but priorities are likely to be follow-up on accounting reform, developing implementing instructions for a revised PFM law, and development of systems to appropriately manage natural resource revenues (including fiscal responsibility provisions). The authorities have also requested assistance with training on Cash Basis IPSAS for provincial governments.

In the **tax revenue policy and administration** area, support to the implementation of the fiscal provisions for the mining sector designed with PFTAC TA will be financed by HQ-based trust funds. The Solomon

¹⁸ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

Islands receives significant revenue administration support from New Zealand Inland Revenue Department under RAMSI and this assistance is expected to continue to be in place for some time. PFTAC has supported the development of natural resources administrative skills through a recent 'international tax' regional workshop and is developing a more detailed program that will be carried out in 2014. It is anticipated that Solomon Islands would figure strongly in that program. The 2013 Pacific Islands Tax Administrators Association (PITAA) will hold its annual meeting in Solomon Islands in September and a general review of Solomon Island TA needs will be carried out at that time. PFTAC will make resources available to support modernization on income tax legislation and any other reform initiatives should the authorities choose to pursue this (RBM objective 2.1).

In **financial sector supervision**, making use of PFTAC support, the CBSI has made great strides in improving its on-site supervision. As a result of extensive assistance over the past year, supervisors now have the skills and processes to effectively carry out on-site examinations of banking institutions with a lower level of technical assistance-probably with one visit a year from the PFTAC advisor for onsite examination (RBM objective 3.4). Additionally support will be provided in September 2013 to the CBSI as they act as the pilot for the implementation of the Reserve Bank of New Zealand's information technology system to enhance supervision (RBM objective 3.1). Technical advisory assistance will also be provided in strengthening the oversight of credit unions and IMF HQ will provide assistance to the CBSI in strengthening the supervision of the country's provident fund.

In **macroeconomic statistics**, PFTAC has recently assisted the NSO enhance national accounts and balance of payments statistics and CPI statistics. Follow-up TA will be provided to complement inputs by the resident statistics advisor, with a particular focus on expanding the range of aggregates available in the national accounts (RBM objective 4.3). Methodological improvements on the balance of payments (RBM objectives 4.6 & 4.7) and GFS are expected to be supported by HQ TA. PFTAC support for implementing the recommendations of the review of the methodology and data sources for the CPI may also be available (RBM objective 4.10).

In the **macroeconomic analysis** area, work will focus on building macroeconomic modeling and analysis capacity in CBSI (RBM objectives 5.1 & 5.2) with the aim of having better inflation and external forecasts to feed into monetary policy making. Work on developing fiscal forecasts, including for the natural resource sector will continue with the Ministry of Finance, including inputs into their financial programming framework (RBM objectives 5.3 & 5.5).

Timor-Leste: PFTAC Country Strategy 2013-2015

Background

Timor-Leste continues to grow strongly, although inflation and public sector capacity pose risks to the outlook. Petroleum revenues have increased revenues and allowed a rapid increase in government spending that has enabled strong non-oil GDP growth, which is expected to continue. Key risks to the outlook are high inflation, a fall in oil prices, and slow progress in building public financial management capacity. The financial sector remains small and fragile, although the newly-formed central bank is continuing to strengthen financial sector regulations and supervision.

Timor-Leste and PFTAC are still in the early stages of partnership. Timor-Leste became a member of PFTAC at the beginning of Phase IV (July 2011). PFTAC has provided small amounts of TA thus far, mainly in conjunction with IMF HQ missions on revenue administration and macroeconomic management of resource revenues. Timor-Leste officials have also begun participating in Pacific regional training delivered/financed by PFTAC.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.¹⁹

PFTAC TA is expected to remain relatively small, given the large scale efforts of other development partners. The new phase of the substantial World Bank administered PFM reform project caters for many of the TA needs in PFTAC's specialist areas. In addition, Timor-Leste receives significant amounts of IMF TA, including resident advisors, which is expected to continue. This will limit the scope for PFTAC TA. PFTAC inputs are expected to focus on areas where the Pacific experience is most relevant, most likely in the revenue and statistics areas.

In the **Public Financial Management** and macroeconomics areas, IMF assistance is expected to continue through a resident budget advisor and peripatetic macro-fiscal advisor and there will be broader support through the World Bank administered PFM reform project. PFTAC advisors will participate in IMF review missions and look to build links between Timor-Leste officials and those in Pacific countries working with similar issues. This is likely to be focused on sharing tools and techniques in the area of macroeconomic management of resource revenues (RBM objective 5.5).

In the **tax revenue policy and administration** area, PFTAC will liaise with the Timor-Leste delegate to the 2013 PITAA meeting in Solomon Islands and encourage its tax division to request a general review of tax administration. Timor-Leste has received considerable international support since its secession and

¹⁹ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

independence and for that reason, and PFTAC has not been called on to provide any assistance. However, assistance is available if requested.

In **financial sector supervision**, the Central Bank is expected to continue to benefit from IMF HQ assistance. PFTAC will aim to integrate central bank officials with the Association of Financial Supervisors of Pacific Island Countries (AFSPC) as a means of peer-learning and to identify the need for bilateral PFTAC TA.

In **macroeconomic statistics**, PFTAC has started reviewing the methodology and the system used to compile national accounts statistics (RBM objective 4.1) in conjunction with the Australian Bureau of Statistics (ABS). Key recommendations from the review are the simplification of the compilation system and the development of statistical capacity for the compilation of national accounts. Timor-Leste has been integrated into the Pacific regional training in this area. PFTAC will continue to coordinate capacity building with the ABS but PFTAC TA is expected to be limited due to the extensive ABS assistance program in Timor-Leste. Strengthening of balance of payments (RBM objective 4.5 & 4.6) and government finance statistics is now supported by IMF headquarters-managed projects.

No TA is currently planned in the area of **macroeconomic analysis**.

Tokelau: PFTAC Country Strategy 2013-2015

Background

Tokelau is highly dependent on New Zealand for financing government operations. Economic activity is limited on the atolls and largely subsistence in nature. Most of the government budget is financed by aid from New Zealand, of which Tokelau is a non self-governing territory. However, Tokelau has begun to take on more responsibility for its own administration including budget management which is supported by a Trust Fund and aid. Tokelau is also attempting to build local revenue generation, mainly through non-tax fees and charges.

Tokelau rarely accesses PFTAC TA. This reflects the leading role that New Zealand takes in TA provision by virtue of the close ties between the two countries and the travel challenges inherent in Tokelau's geography. PFTAC has however provided some assistance in statistics via the representative office in Apia and Tokelau officials participate in some regional training.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.²⁰

PFTAC TA to Tokelau is expected to remain rare and ad hoc. Given the dominant role of New Zealand in TA provision, overall levels of TA are expected to remain very small. Although there are no immediate plans for PFTAC support, the most likely areas of TA will be in public financial management, perhaps through support for a PEFA assessment and developing a PFM roadmap (RBM objectives *1.1* & *1.2*) and in statistics (RBM objectives *4.1* & *4.5*).

²⁰ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

Tonga: PFTAC Country Strategy 2013-2015

Background

Tonga has faced a difficult macroeconomic environment in recent times. Following the global economic crisis growth stagnated, remittances fell and fiscal revenues declined sharply. The financial sector also came under pressure as a result of high levels of non-performing loans in the banking sector. High debt levels constrained fiscal space and the authorities approached development partners to provide budget support to enable key services to continue. Recent donor conferences have endorsed the authorities' prudent fiscal strategy and development partners are currently working on a joint policy matrix to underpin budget support—TA will be critical for successful implementation.

PFTAC has provided TA to Tonga in all sectors in recent years, collaborating closely with other development partners. This has been particularly so in the PFM area where PFTAC has worked with the ADB to assist the authorities design and implement a realistic reform roadmap. Regular TA has also been provided in the compilation of National Accounts and Balance of Payment statistics. Support has also been provided to the NRBT in offsite and onsite banking supervision (IMF HQ has also provided TA for on-site supervision) and in exchange rate management.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.²¹

PFTAC has provided TA to Tonga in all sectors in recent years, collaborating closely with other development partners. This has been particularly so in the PFM area where PFTAC has been working with the ADB to assist the authorities design and implement a realistic reform roadmap. Limited TA has also been provided in the compilation of National Accounts and Balance of Payment statistics. Support has also been provided to the NRBT in offsite and onsite banking supervision (IMF headquarters has also provided TA for on-site supervision) and in exchange rate management.

In the **Public Financial Management area** PFTAC will contribute specific technical areas to support the ADB projects that aim to improve the functioning of Tonga's FMIS and to develop an effective medium-term budget framework (RBM objective *1.5*), including more accurate macroeconomic analysis (RBM objective *5.1*) and more rigorous cash/debt management (RBM objective *1.6*). In the medium-term, PFTAC would look to assist the authorities implement a follow-up PEFA assessment, possibly in 2014 (RBM objective *1.1*) if requested by the authorities.

In the **tax revenue policy and administration** area, PFTAC will continue to assist in implementing the recommendations of the PFTAC strategic revenue review. Tonga's reform program in recent years has

²¹ Specific objectives in the RBM framework are identified in italics in the section. For example, (RBM objective *1.6*), refers to the cash management framework objective code 1.6 in the RBM framework.

placed it as one of the regional leaders in implementing modern administrative practices but following the 2012 change in leadership and departure of all resident tax advisers, PFTAC will undertake a watching brief to ensure that the past successes are maintained. In addition to the watching brief, PFTAC's specific inputs are likely to be focused on policy enhancements, including natural resource taxation (RBM objective 2.1), IT development (RBM objective 2.3), and risk management and compliance strategies (RBM objective 2.5).

In **financial sector supervision**, PFTAC has assisted the NRBT establish enhanced off-site analysis (RBM objectives 3.1 & 3.2) and has provided support to on-site bank supervision. Intensive support will be provided in 2012/2013 to build on-site supervision techniques through training in standard procedures, reports and analytical techniques (RBM objectives 3.5-3.7). PFTAC will also provide follow-up support on to ensure that NRBT can regularly prepare off-site analysis and monitoring reports (RBM objectives 3.1-3.3) using base prudential returns developed by AFSPC. In 2013 this is likely to encompass implementation of the RBNZ FSIS system.

In **macroeconomic statistics**, Tonga is relatively well advanced against the overall results framework; based on PFTAC advice, it produces National Accounts on two independent measures (RBM objective 4.1) with production of a range of income indicators (RBM objective 4.3). Balance of payments statistics are now being developed according to BPM6 standards (RBM objective 4.8). However, the quality of statistics and source data need to be strengthened which is being assisted by an AusAID funded resident advisor. As a result, direct PFTAC assistance is expected to reduce. PFTAC will, however, continue to coordinate with and be a resource for the resident advisor and be available to provide focused technical inputs in particular areas. This may include assistance with rebasing of the National Accounts (RBM objective 4.2) using new HIES data. Balance of payments support will be provided by IMF headquarters.

In the **macroeconomic analysis** area, the PFTAC macroeconomic advisor will continue to develop measures of pass through to inflation to assist NRBT enhance its macroeconomic policy making (RBM objective 5.1). PFTAC will coordinate with macroeconomic input under the ADB PFM TA project to ensure GDP and fiscal forecasting becomes more robust (RBM objective 5.3). The advisor may also support the development of debt sustainability analysis (RBM objective 5.4).

Tuvalu: PFTAC Country Strategy 2013-2015

Background

Tuvalu has faced a difficult macroeconomic environment in recent times which has resulted in pressures on fiscal sustainability. Following the global economic crisis growth stagnated and the resources available for budget financing from the Tuvalu Trust Fund (TTF) declined due to its fall in value. With domestic revenues under performing and weakened expenditure control fiscal pressures became overbearing. This was exacerbated by drought conditions in 2011. Development partner budget support has enabled operations to continue while the authorities work with partners to develop a joint policy matrix to underpin future budget support. Tuvalu became an IMF and World Bank member in 2009.

PFTAC TA has been moderate and concentrated in the PFM, revenue and statistics sectors. Recent PFTAC TA has been focused on assisting the authorities in preparing a PFM Reform Roadmap, and achieving the gains planned from revenue reforms through on-the-job assistance in revenue administration following the completion of an ADB project that supported the PFTAC-designed reforms. There has also been significant assistance in developing national accounts and balance of payments statistics, in part to allow Tuvalu to meet the requirements of IMF membership.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.²²

PFTAC TA aims to support the authorities sustain progress on improving fiscal sustainability. PFTAC will continue to work closely with the broader development partner group to ensure coherence and will aim to support implementation of actions in the authorities' shared policy matrix. Supporting activities identified in the PFM Roadmap and enhancement of national accounts statistics are expected to be the main focus.

In the **Public Financial Management** area, PFTAC assisted authorities in 2012 with development of a PFM roadmap based on the 2011 PEFA (RBM objective *1.2*). Support to implementation of specific elements will also be available, in coordination with other development partners and in particular the AusAID-supported budget and treasury advisors. PFTAC would look to assist the authorities implement a follow-up PEFA assessment, probably in 2014 or 2015 (RBM objective *1.1*).

In the **tax revenue policy and administration** area, PFTAC will review the success of tax reforms carried out under the ADB reform program and provide strategic support to the AusAID-financed resident tax advisor. Tuvalu has experienced significant difficulties with the operation of its IT system funded by the ADB program and maintenance of the software and infrastructure will be a critical element if the ongoing

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success of tax administration (RBM objective 2.3). Depending on the outcome of the PFTAC review, it is possible that PFTAC will be required to provide assistance to enable the administration to adopt risk management and compliance improvement strategies and to enhance corporate planning (RBM objectives 2.5 & 2.3).

In **financial sector supervision**, PFTAC will be available to provide strategic support should the authorities begin implementing the financial institutions act passed in 2010. Given the lack of in-country capacity, establishing a basic on- and off-site supervision program (RBM objective 3.1 & 3.4) will require TA resources in excess of PFTAC's capacity. As in other sectors though, PFTAC would be able to provide strategic oversight to the process if other partners were able to provide resources for on-the-job support.

In **macroeconomic statistics**, PFTAC will continue to provide assistance on national accounts compilation (RBM objective 4.1) if requested and training to increase capacity in the statistics office so that ultimately broader measures of national income and saving (RBM objective 4.3) can be regularly produced. IMF HQ will provide resources to produce better current and capital accounts of the balance of payments (RBM objectives 4.6-4.8) and GFS.

No TA is currently planned in the area of **macroeconomic analysis**, with the TTFAC and ADB's PEM TA currently taking the lead in these areas. Planned regional training in longer-term budget planning and financial programming will provide skills transfer though and PFTAC could provide follow-up TA if requested.

Vanuatu: PFTAC Country Strategy 2013-2015

Background

Vanuatu weathered the global economic crisis well reflecting sound fundamentals. However, recent domestic political instability, increased competition in tourism have contributed to [slowing growth] and expanding fiscal deficits. In order for Vanuatu to maintain its strong macroeconomic position, further progress on reducing underlying deficits will be required, including action on the revenue and expenditure fronts. Continued attention to financial sector stability is also required, particularly with regard to the offshore financial sector.

Vanuatu has been a relatively heavy user of PFTAC TA. Input has been heaviest in the revenue area, aimed at strengthening administrative systems, including through intensive on the job training. PFTAC has also helped the authorities investigate tax policy options to increase Vanuatu's relatively low tax to GDP ratio. In cooperation with AusAID, PFTAC also supported the rebasing and development of Vanuatu's economic statistics. Ongoing support has also been delivered in financial sector supervision.

Strategy 2013-2015

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the Results-Based Management (RBM) framework for the current PFTAC funding cycle.²³

PFTAC TA aims to support the authorities accelerate progress on fiscal consolidation and maintaining a sound financial sector. In the fiscal area the focus will be on supporting the authorities to increase revenue through policy changes and in enhancing their ability to analyze macroeconomic policy options, including through enhanced statistics. Enhanced on and off site bank supervision will also be supported.

In the **Public Financial Management** area, Vanuatu receives support from a number of development partners, including AusAID and ADB. No direct inputs are anticipated in the short-term, but PFTAC will provide resources to support a PFM Roadmap.

In the **tax revenue policy and administration** area, direct support to the tax administration reform is provided by an AusAID funded resident advisor who is helping the administration implement reforms recommended by previous PFTAC TA. There has been some recent discussion with the revenue authorities regarding possible policy changes in the area of income tax and small business tax and if the authorities decide to pursue policy reforms, PFTAC will provide policy and administrative support to design and implement reforms.

In **financial sector supervision**, PFTAC will assist RBV adapt the base set of prudential returns developed by AFSPC to the Vanuatu context in advance of the regional implementation of RBNZ's information system

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(FSIS) (RBM objectives 3.1 & 3.2). Support to the on-site supervision process will continue with the aim of adapting techniques applied in the offshore banking sector to the domestic banks (RBM objectives 3.4 & 3.5). A need for technical assistance to support the implementation of the oversight of credit unions, based on the amended Credit Union Act, including the impact this will have on the supervision department, was discussed with the RBV.

In **macroeconomic statistics**, PFTAC will continue to support the rebasing of the national accounts (RBM objective 4.2) in 2013 and moving towards the production of quarterly accounts (RBM objective 4.4) in 2014. IMF headquarters will provide support in strengthening the BOP and GFS statistics.

Support in the **macroeconomic analysis** area will build on the enhanced economic statistics by using them to assist the Ministry of Finance strengthen its financial programming framework and to deliver training and capacity building to Finance and Central Bank staff (RBM objective 5.2).