



PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

ANNUAL REPORT 2014



STATEMENT BY THE CHAIRMAN OF THE PFTAC STEERING COMMITTEE

It is with particular pleasure that I have the opportunity to chair this year's PFTAC Steering Committee meeting in Nadi, Fiji. Bula Vinaka and welcome to Fiji!

The purpose of the meeting of the Steering Committee is not simply to review what PFTAC did in the past year, or to see what is planned in the year ahead. It is also an opportunity for us, as senior management of finance ministries and central banks in the region, or as donors and development partners, to focus on and discuss together what kinds of technical assistance and training will be most helpful to us. We need to use the opportunity as effectively as possible.

For all of us, a basic objective of our policies is to help our economies develop and prosper in a sustainable manner. But PFTAC is not in the business of helping to provide infrastructure like roads, power plants, or hospitals. Nor is it in the business of helping to provide public services such as public health or secondary education. Instead, PFTAC is in the business of helping us to do our jobs better in managing our economies. It is about assisting our staff to develop the skills, organization, and work processes that will allow us to generate better economic and financial data, conduct better macroeconomic and financial analysis, improve tax collection and expenditure management, and to strengthen fiscal and monetary policy decision making. For this to work well, we need to work well with PFTAC and vice versa. And we both need to work well with our other development partners.

The Steering Committee meeting, and the forthcoming PFTAC evaluation exercise, provides the opportunity for us to reflect on, discuss, and provide crucial input on what the priorities should be in terms of technical assistance and training; what works and does not work in terms of the way that technical assistance is delivered; where to improve coordination with other development partners; and what we, as recipients, can do to make sure that we use such assistance most effectively. There is much to discuss. I look forward to a productive meeting.

Vinaka vakalevu



Barry Whiteside, Governor of the Reserve Bank of Fiji.

FOREWORD BY THE CENTRE COORDINATOR

This Annual Report covers PFTAC's operations in the Centre's 2014 fiscal year—from May 1, 2013 to April 30, 2014—as well as the work plan for the year to April 2015.

This year PFTAC has been operating at close to full strength, with staff well settled into their jobs. This has facilitated an impressive increase in PFTAC's output compared with FY2013. In the past year, the number of technical assistance missions and workshops run by PFTAC staff and short-term experts increased by about 25 percent. At the same time, our overall spending has been almost unchanged at a little over US\$ 4 million, well under the program budget. So we are doing our work more efficiently.

Providing technical assistance and training efficiently is important, but what ultimately counts is whether this pays off in terms of strengthened capacity, policy performance, and economic outcomes in our member countries. Assessing this is challenging because PFTAC assistance is only one ingredient in the mix of conditions needed to achieve stable and sustainable growth in the region. Moreover, the beneficial impacts of the kinds of reforms and improvements that PFTAC supports may take many years to bear fruit. All these considerations mean that it is very hard to assess how big an impact PFTAC's work has on the ultimate objectives.

Nonetheless, we can point to a number of successes in the past year, as discussed in Chapter II. In FY2015 we intend to build on these successes through well-focused technical assistance and training, as discussed in Chapter III. In our view, elements that will help maximize the effectiveness of our assistance in building capacity and strengthening the design and implementation of economic policies in the region include ensuring strong local ownership of reform processes; making training as hands-on and focused as possible; coordinating our efforts closely with those of other development partners; adapting our strategy and modes of technical assistance delivery in the light of experience; and maintaining high standards of accountability and transparency in our operations.

The upcoming Steering Committee meeting and the PFTAC evaluation taking place over the remainder of FY2015 will be important occasions for getting all our members' input on things that we should do more of, things that we should do less of, and things we can do better.

The PFTAC team looks forward to the Steering Committee meeting in Nadi, and to working with our members in the coming year.



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
APRA	Australian Prudential Regulatory Authority
BOP	Balance of Payments
BPNG	Bank of Papua New Guinea
CAMELS	Capital adequacy, Asset quality, Management, Earnings performance, Liquidity, and Sensitivity to market risks
CBSI	Central Bank of the Solomon Islands
CCBS	Centre for Central Banking Studies
COTS	Commercial Off-The-Shelf
CU	Credit Union
DFAT	Australian Department of Foreign Affairs and Trade
DOF	Australian Department of Finance
DSA	Debt Sustainability Analysis
DSGE	Dynamic Stochastic General Equilibrium
ESS	External Sector Statistics
EU	European Union
FEMM	Forum Economic Ministers Meeting
FMM	Fiscal Management Model
FSI	Financial Soundness Indicator
FSIS	Financial Sector Information System
FSM	Federated States of Micronesia
FP	Financial Programming
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GFSM	Government Finance Statistics Manual
GNI	Gross National Income
GNDI	Gross National Disposable Income
HIES	Household Income and Expenditure Survey
HOPS	Heads of Planning and Statistics Meeting
HQ	(IMF) Headquarters
ICD	Institute for Capacity Development
ICP	International Comparison of Prices
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
LEG	IMF Legal Department
LOU	Letter of Understanding
MFAT	New Zealand Ministry of Foreign Affairs and Trade
MOF	Ministry of Finance
NSDS	National Strategies for the Development Statistics
NRBT	National Reserve Bank of Tonga

NTR	Non-Tax Revenue
NSO	National Statistical Office
OECD	Organization for Economic Cooperation and Development
QNA	Quarterly National Accounts
PASAI	Pacific Association of Supreme Audit Institutions
PAYE	Pay As You Earn
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
PIF	Pacific Islands Forum
PIFMA	Pacific Islands Financial Management Association
PINACLE	Pacific Islands National Accounts Compilers and Local Experts Association
PITAA	Pacific Islands Tax Administrators Association
PNG	Papua New Guinea
PPI	Producer Price Index
PSSC	Pacific Statistics Steering Committee
RA-FIT	Revenue Administration Fiscal Information Tool
RAP	Resource Allocation Plan
RBF	Reserve Bank of Fiji
RBM	Results-Based Management
RBNZ	Reserve Bank of New Zealand
RMI	Republic of the Marshall Islands
RMS	Revenue Management System
RTAC	Regional Technical Assistance Centre
SERF	Samoa Economic and Revenue Forecasting model
SPC	Secretariat of the Pacific Community
STI	Singapore Training Institute
SOE	State-owned Enterprise
SOPAC	SPC Applied Geoscience and Technology Division
STX	Short-term Experts
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
TYPSS	Ten Year Pacific Statistics Strategy
USP	University of the South Pacific
VAT	Value Added Tax

I. OVERVIEW OF THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

A. Institutional Framework

- 1. The Pacific Financial Technical Assistance Centre (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 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 (FY2012-FY2016), funding is being provided by the Asian Development Bank (ADB), Australia, New Zealand, the European Union (EU), 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 five core areas: (i) public sector financial management (PFM); (ii) revenue policy and administration; (iii) financial sector supervision; (iv) macroeconomic statistics; and (v) macroeconomic management. In each area, the activities of the seven PFTAC resident advisors, as well as of supporting short-term experts, are linked to specific outcome objectives in a Results-Based Management (RBM) framework. PFTAC provides accountability to its members through the *Annual Report*; since 2014, through *Quarterly Reports*, which report on activities and performance in relation to those objectives; since 2013, through the monthly *Pacific Report* on recent and upcoming activities; and through its Steering Committee meetings, which are now held on an annual basis. In addition, the program provides for a mid-course external review, taking place in FY2015.

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

B. Technical Assistance Strategy

5. **TA and training provided by PFTAC reflects the priorities set out in the agreed program but also needs to adapt 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 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. The broad thrust of the annual work program is agreed at the beginning of the year but changes are made in the course of the year to accommodate emerging TA requests.

6. **PFTAC's broad objectives and performance indicators are set out in its Results-Based Management (RBM) framework** (see Annexes III and V), and a range of specific activities are undertaken to attain these objectives 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 and 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 promote development and implementation of sound financial system regulation and supervision,** so that financial systems may contribute to economic development and growth without excessive risks to financial stability. Activities involve assisting central banks and supervisory agencies with development of appropriate regulations and statistical returns and to regularly produce and analyze financial soundness indicators. The focus of support is now moving towards building capacity for on-site examinations, analysis of financial returns, and adoption of a risk-based approach to assessment for banks, and modernization of regulatory and supervision frameworks for credit unions.

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 assessment by finance ministries and central banks of current economic conditions; (ii) improving macroeconomic forecasting and policy analysis frameworks and processes; and (iii) developing specific frameworks for analysis of external debt sustainability, management of natural resource wealth, and fiscal implications of climate change.

C. TA Management and Implementation

12. **PFTAC is managed by a Coordinator, and TA is provided by seven resident advisors with substantial expertise in their respective sectors, and supported by four administrative staff in our Suva office (see Annex II).** 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 delivering the TA program, finances, reporting, travel arrangements, workshop and conference logistics and other Centre activities by a staff of four locally-engaged staff.

Work Planning

13. **The Phase IV program objectives provide general guidance for planning the TA activities of PFTAC.** 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. Close integration with IMF headquarters staff enhances the focus and quality of PFTAC work. Under the umbrella of the broad TA strategic priorities defined by the IMF Board, the Asia and the Pacific Department plays a key role in identifying and prioritizing TA needs, in close collaboration with functional (TA) departments and country authorities. The TA departments (specifically, in the case of PFTAC, the Fiscal Affairs Department, the Monetary and Capital Markets Department and the Statistics Department)

are responsible for TA delivery. In conjunction with PFTAC resident advisors, they lead the work plan development, and design, approve and direct the implementation of TA programs delivered by RTAC resident advisors, short-term experts (STX) as well as missions from headquarters as needed. They also provide overall quality control, monitoring, backstopping, and supervision. This integration between PFTAC and IMF headquarters helps to provide depth as well as breadth of experience together with greater consistency of advice across countries and policy areas than would otherwise be possible.

14. PFTAC collaborates closely with regional organizations and development partners to ensure that TA programs are complementary. 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 the Australian Department of Foreign Affairs and Trade (DFAT), the Australian Bureau of Statistics (ABS), the EU, the New Zealand Ministry of Foreign Affairs and Trade (MFAT), the Reserve Bank of New Zealand (RBNZ), 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 the Pacific Islands National Accounts Compilers and Local Experts Association (PINACLE).

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.

15. 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 email, 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

16. PFTAC delivers TA through a combination of bilateral TA and regional training. Bilateral TA primarily involves missions by resident and short-term 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 organizational reform. Depending on the skills or knowledge needed, and to leverage the inputs of the resident advisors, PFTAC may staff such missions with short-term experts drawn from the relevant IMF functional department's roster of experts.

17. 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 Department of Finance (DOF) to put on an annual workshop on PFM issues; with the Pacific Association of Supreme Audit Institutions (PASAI) on auditing issues; collaborates with SPC in putting on workshops on economic statistics; and puts on macroeconomic analysis workshops in cooperation with the IMF's Institute for Capacity Development (ICD), the Singapore Training Institute (STI), and the Bank of England's Centre for Central Banking Studies (CCBS). 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

18. 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, coordination weaknesses with 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 overall volume of TA and training, although effective use of short-term experts allows PFTAC to extend its support well beyond the capacity of its staff based in Suva. 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, although the IMF's Institute for Capacity Development (ICD) has recently begun to provide on-line training courses available to a broad audience.

II. REVIEW OF FY2014 (MAY 2013-APRIL 2014)

This section describes PFTAC's major activities in FY2014. 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 2014.

A. Overview

Main achievements

19. In FY2014, covering the period from May 2013 through April 2014, PFTAC saw a large increase in the scale of its activities. In FY2013 significant staff turnover had limited the ramping up of activity envisaged in the 5-year program. In FY2014, however, PFTAC's scaling up of staff to the full complement of seven Suva-based advisors came into full effect. As a result, the effective complement of advisors rose nearly 12 percent to 6.5 person years from 5.8 during FY2013. Moreover, since it takes some time for staff to settle into the job, the effectiveness of the team increased beyond what the number of person years suggests. This is reflected in the fact that PFTAC was able to increase the number of missions and participation in workshops, seminars and conferences by around 25 percent over FY2013.

20. Despite the increase in PFTAC activity, overall spending was little changed from 2013 and well below budget expectations. Donor-funded costs for TA and training, excluding overheads covered by the IMF and the Reserve Bank of Fiji, came in at US\$4.1 million, almost the same as in the previous year. This is roughly 25 percent below the program budget. Increased spending on salaries and travel costs were essentially offset by lower costs for short-term experts, missions from headquarters and training and conferences.

21. PFTAC TA and training during the year continued to focus on the objectives set out in the Results-Based Management (RBM) Logical framework for FY2014 (Annex III):

- 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, including VAT and natural resource tax regimes, 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.

22. Highlights of activities and outcomes during FY2014 include:

- In the area of PFM reforms:

- Further progress with PEFA assessments, re-assessments, and development of PFM roadmaps across the region, with increased country ownership of the processes;
- Near completion of a comprehensive review and reform of non-tax revenue in Samoa;
- Substantial progress in Kiribati with reforms to debt and cash management, and budgeting and planning processes.
- In tax policy and administration:
 - Completion of the introduction of VAT in Kiribati and initiation of VAT development in Palau;
 - Completion and passage of deep sea mining tax legislation in the Cook Islands;
- In financial sector supervision:
 - Further adoption and use of PFTAC-designed bank prudential returns in the region;
 - Implementation of Financial Supervision Information System (FSIS) pilot project in Solomon Islands;
 - Completion of a review of financial supervision and central bank laws in Tonga.
- In macroeconomic statistics
 - Progress with developing alternative Gross Domestic Product (GDP) measures in Fiji, Kiribati, and Palau;
 - Re-basing of GDP in Cook Islands, Fiji, Solomon Islands, and Vanuatu;
 - Re-engagement with PNG with assistance for GDP estimation and methodology.
- In macroeconomic analysis and forecasting:
 - Training on financial programming for PNG and Solomon Islands;
 - Improvements to the SERF forecasting model in Samoa and training in forecasting in Tonga;
 - Projects underway on medium-term debt sustainability in Fiji and Samoa.

23. Progress in much of PFTAC's work requires 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.

24. An important innovation in PFTAC's work in the past year has been the use of specialized, sub-regional workshops. These allow training to be much more closely tailored to the specific needs and capacity of the countries involved, so that they more closely resemble hands-on TA rather than more general training. Workshops have been held on national accounts compilation and on risk-based banking supervision in the northern Pacific, and on fiscal policy and monetary policy issues in the southern Pacific.

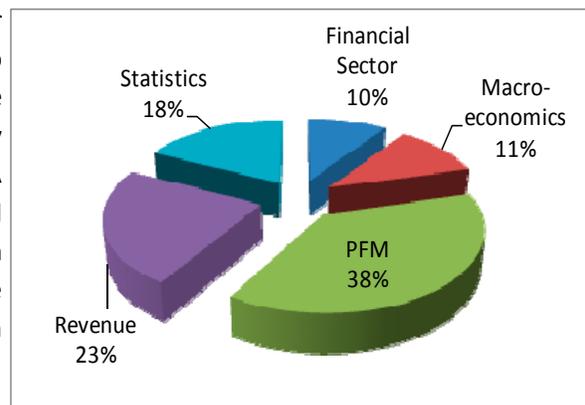
Feedback on these workshops has been very positive, so PFTAC is planning to go further in this direction in the coming year.

25. PFTAC strengthened its efforts to increase its transparency and to coordinate activities with development partners. In FY2014 PFTAC continued to publish a monthly *Pacific Monitor*, providing updates on recent and planned TA, workshops and conferences, as well as selected country TA strategy notes, and articles on topics that we feel deserve a wider audience, either because they illustrate the sort of work that PFTAC has been doing, or highlighting issues of regional relevance that may not be well-understood by most non-specialists. In addition, and as indicated at the 2014 Steering Committee Meeting, PFTAC has also begun publishing a *Quarterly Report*, providing an update on PFTAC finances, monitoring progress on RBM objectives, as well as reporting highlights of the activities during the quarter. PFTAC has also been an active participant in meetings aimed primarily at improving coordination among development partners. Efforts to strengthen coordination with development partners have included participation in re-establishing quarterly meetings of economic TA providers and donors in Suva; Heptagon meetings of development partners; the Pacific Statistics Steering Committee; information sharing ahead of and following donor meetings with authorities or IMF missions; as well as more ad hoc meetings with development partners.

TA and training delivery in FY2014

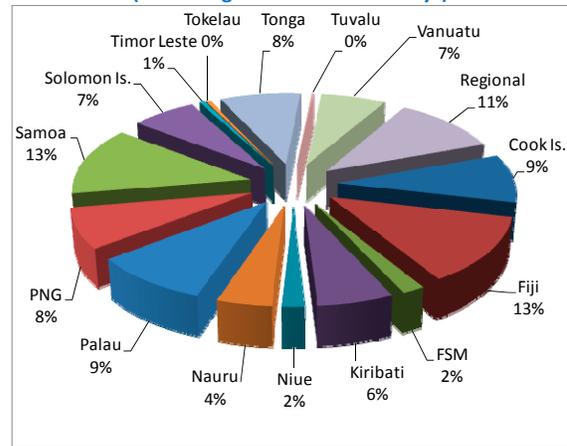
26. In FY2014 PFTAC conducted 140 TA missions, up 26 percent from FY2013, and was involved in 15 workshops and seminars, up 25 percent from the previous year. Of the TA missions, 104, or 74 percent, were carried out by PFTAC's Suva-based advisors, while the remaining 36 missions were conducted by either short-term experts (STX) or headquarters-based staff. Headquarters staff also continued to provide backstopping support for the advisors and missions, contributing to the quality and consistency of our TA. The distribution of TA provided across different sectors largely reflected the numbers of staff involved, although in the area of tax policy and administration relatively intense use of short-term experts continued, particularly in providing assistance on tax legislation.

Fig. 1: Sectoral distribution of PFTAC TA in FY2014
(Percentage of total mission days)



27. In geographical terms, PFTAC’s TA delivery in FY2014 was widely distributed. Where TA takes place in any given year is generally demand determined. As a result, it tends to reflect where PFTAC has conducted a fairly concentrated sequence of missions to assist the authorities with the different elements of the project. In FY2014, Cook Islands, Fiji, and Samoa were particularly large TA recipients. In the Cook Islands, extensive TA was provided for tax legislation relating to deep sea mining. In Fiji, TA covered a range of different areas, including auditing, national accounts statistics, and macroeconomic analysis. In Samoa, TA was, as in FY2013, largely related to non-tax revenue reforms, and strengthening of macroeconomic analysis and forecasting. In contrast with recent years, PNG also became an important user of PFTAC TA, notably in the areas of macroeconomic statistics, PFM reforms, and macroeconomic forecasting.

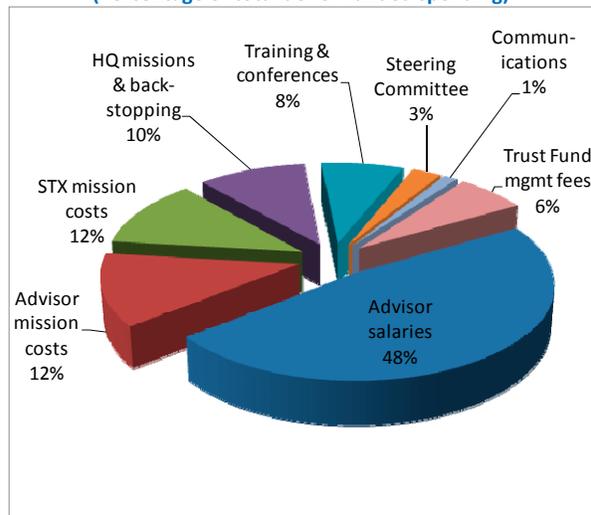
Fig. 2: Country distribution of PFTAC TA in FY2013 (Percentage of total mission days)



B. PFTAC Spending and Financing in FY2014

28. In FY2014, despite a substantial increase in PFTAC’s TA and training activities, total donor-funded expenditure remained a little over US\$4 million. Of this, 60 percent (US\$2.5 million) was accounted for by the salaries of PFTAC’s 7 Suva-based advisors and their mission travel. Another quarter (US\$0.9 million) reflected costs of missions by short-term experts; as well as HQ-led missions, backstopping, and project management fees. A further 12 percent (US\$0.5 million) covered training, participation in conferences; steering committee costs; and communications to support TA activities. The remaining 6 percent (US\$0.3 million) comprised Trust Fund management fees.

Fig. 3 PFTAC expenditure components in FY2014 (Percentage of total donor-funded spending)



29. PFTAC expenditures again fell well short of budget expectations (Table 1). Donor funded expenses amounted to \$4.1 million, nearly 25 percent below the budgeted amount.² Half of the shortfall (US\$0.5 million) reflected significantly lower staff costs than had been anticipated when the program was planned. The other areas in which spending

² In addition to the donor-financed expenses PFTAC’s administrative expenses, including and costs office costs and the Coordinator’s salary and travel are funded directly by the IMF. Office space rental costs are funded by the Reserve Bank of Fiji.

fell short of expectations were about equally split between HQ-based missions and seminars and conferences. The former largely reflects a decline in demand for diagnostic missions, while the latter reflects the shift towards smaller scale regional workshops. While lower-than-expected salaries and demand for diagnostic missions are likely to persist, spending on sub-regional workshops and TA provided by short-term experts is likely to increase.

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	FY 2014		
	Budget	Expenses ¹	Remaining	Expenses (IMF)	Budget	Expenses (IMF)	Remaining
Long-term experts	12.13	4.76	7.38	1.79	2.42	1.95	0.47
Short-term experts	3.16	1.92	1.23	0.85	0.58	0.53	0.05
Travel	3.38	1.48	1.90	0.52	0.60	0.65	-0.05
Seminars and Trainings	2.58	1.03	1.55	0.38	0.56	0.32	0.25
Staff TA delivery	1.22	0.13	1.09	0.05	0.33	0.08	0.25
Miscellaneous	0.69	0.25	0.43	0.11	0.08	0.08	0.00
Backstopping	1.47	0.34	1.12	0.12	0.28	0.12	0.16
Project management	0.62	0.14	0.47	0.12	0.12	0.05	0.07
Total TA Delivery	25.24	10.07	15.17	3.94	4.98	3.78	1.20
Evaluation	0.20	0.00	0.20	0.00	0.00	0.00	0.00
Trust fund management							
(7%)	1.78	0.70	1.08	0.28	0.35	0.26	0.09
Grand Total²	27.22	10.77	16.45	4.22	5.33	4.05	1.29

¹ As at April 30, 2014

² Host Country and IMF contribution is not included

30. It may be noted that PFTAC has increased its use of information on expenditures in addition to the monitoring of its activities. PFTAC has begun to compile data on expenditures and linking these to missions and training country recipients' information, and RBM objectives. This information gives us a better picture of how PFTAC expenditure relates to the outcomes of our activities. It also provides helpful information for costing the work program for the coming year.

31. Contributions by donors to PFTAC almost doubled in FY2014 to a cumulative US\$22.4 million as of end-April (Table 2). Of this, US\$5.0 million was accounted for by fulfillment of pledges under the Phase IV Funding Cycle. Beyond fulfilling its first LOU funding commitment to PFTAC under the current cycle, the EU has generously made two major additional contributions to PFTAC, totaling €4.5 million. Most of this, amounting to US\$5.7 million has been received. We are most grateful for these contributions, as they will ensure that we will be able to carry out the work program through to the end of the cycle.

International Monetary Fund
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Fourth Funding Cycle (Phase IV) June 2012 - April 2016

Table 2. Status of Financial Contributions

as of April 30, 2014
(units as indicated)

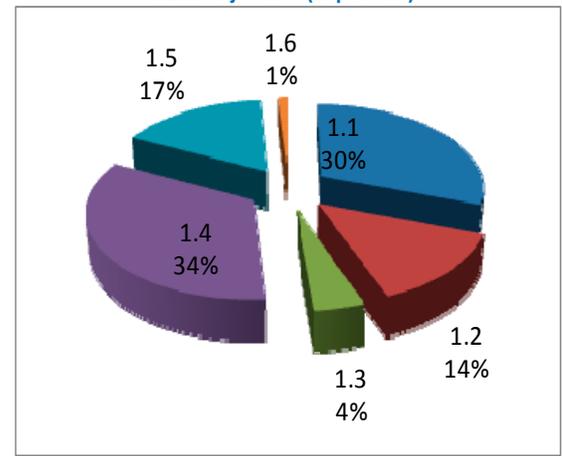
Phase IV - Signed Agreements	Secured (US\$ dollars)	LOU Status	Contribution Currency	Pledge (Contribution Currency)	Contributions Received (US\$)	Balance (US\$)
ADB	1,000,000	<i>signed 07/29/2011</i>	<i>U.S. dollars</i>	1,000,000	1,000,000	-
EU	1,345,339	<i>signed 07/01/2011</i>	<i>Euros</i>	1,000,000	1,345,339	-
New Zealand NZAID	7,343,983	<i>signed 06/16/2011</i>	<i>NZD</i>	8,900,000	5,781,826	1,562,157
Australia DFAT	7,500,000	<i>signed 05/25/2011</i>	<i>U.S. dollars</i>	7,500,000	7,500,000	-
Korea	2,337,870	<i>signed 02/15/2012</i>	<i>W (Korean Won)</i>	2,500,000,000	1,124,390	1,213,480
EU (ACP)	1,391,400	<i>signed 10/04/2013</i>	<i>Euros</i>	1,000,000	1,391,400	-
EU (2nd LOU)	4,754,295	<i>signed 12/27/2013</i>	<i>Euros</i>	3,500,000	4,281,795	472,500
Total	25,672,887				22,424,750	3,248,137

C. Sectoral Achievements in FY2014

Public Financial Management (PFM)

33. In FY2014, PFTAC carried out 38 missions (totaling 535 person days) on PFM topics, at a cost of US\$1.1 million. Of these missions, 63 percent were conducted by the two Suva-based PFM advisors, while the others were conducted by short-term experts or HQ-based staff. The major areas of work related to Public Expenditure and Financial Accountability (PEFA) assessments (RBM objective 1.1); PFM roadmap development (RBM objective 1.2); and accounting and cash management, including non-tax revenue reforms (RBM objectives 1.3 - 1.5). The major recipients of TA in the PFM area included Samoa, Fiji, and Cook Islands.

Fig. 4: 2014 PFM missions: Distribution of mission days by RBM objectives (in percent)



34. In accordance with the PFTAC program objectives (Annex III), the work of the PFM advisors continued to be concentrated in three general categories:

- PEFA and 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

35. As in previous years, a key focus of PFTAC TA has been to support PEFA assessments across the region (RBM objective 1.1). Our approach to both PEFAs and PFM Roadmaps continued to emphasize greater participation of country officials in order to promote more country ownership of the products. Box 1 describes in more detail the PFTAC process for conducting PEFAs. During the year we worked with four PICs on PEFAs including:

- a self-assessment and (repeat) formal assessment in Samoa;
- Self-assessments in the Cook Islands and Tokelau;
- Self-assessment training in PNG.

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.

Box 1 : PFTAC's Approach to Conducting PEFA's and Developing PFM Roadmaps

In their 2010 meeting, the Forum Economic Ministers agreed that the PEFA process could be strengthened by establishing a central point for supporting the assessments in the Pacific, and that PFTAC was ideally placed for that role. With additional funding and staffing under the current program, PFTAC has taken on responsibility for coordinating PEFA's as well as assisting members with developing PFM reform Roadmaps.

Since taking on these responsibilities PFTAC has changed the approach that had been used in conducting PEFA's and preparing Roadmaps. In early PEFA's and Roadmaps in the region country officials were often viewed by consultants largely as "providers of information" on processes to be "PEFA'd" or reformed, and not as active participants in discussions about conclusions or choices to be made. Such approaches created nice-looking reports but did little to create country skills or ownership.

PFTAC's new approach is designed to both create broader understanding of PFM good practices by a larger audience of PFM officials and create more ownership of conclusions and choices.

To achieve these objectives the PEFA process was broken into two phases- "self-assessment" and "formal assessment":

- The **self-assessment** is intended to familiarize country officials with the PEFA rating and documentation criteria and to give them experience using those criteria to evaluate their own systems. While a major objective is to prepare staff for a formal assessment, self-assessments need not be immediately followed by the formal assessment. Some PICs have asked for a self-assessment in order to identify weaknesses to correct before a formal assessment – which might not occur until 6 months or a year later. To assist the self-assessment effort, PFTAC provides a Facilitator and has developed Self-Assessment Workbooks.*

So far, 7 PICs have worked on self-assessments. Overwhelmingly, participating staff have demonstrated they are capable of fairly applying the rating criteria to the processes in their countries. In many cases their ratings have actually been more conservative than those given during the formal assessments.

Conducting a self-assessment covering all PEFA indicators will require roughly 3 weeks, so these should not be started during times of other major intense activities. The standard approach is to divide the effort into roughly 25 sessions spread out over 2-3 weeks. The first session provides an overview of the PEFA Framework. The remaining 24 sessions are organized around the individual indicators or indicator groups. Participants in each group will include the PFTAC Facilitator, a country appointed Coordinator (from the MOF), and key officers most relevant to the specific process on which the indicator is focused. The Facilitator will explain the indicator, the rating criteria, and documentation requirements. Participating officials then rate the process according to the criteria, begin gathering supporting documentation, and start drafting a brief rationale for the rating.

- The major product of the **formal assessment** is a PFM Performance Report- the narrative/interpretive part of a PEFA Review. This has not changed from earlier practices. What PFTAC has tried to change is the process for developing the report. While in the past report preparation has largely been done by consultants, PFTAC is encouraging a process that puts more responsibility on country staff to prepare the reports. While PFTAC provides advisors experienced in applying the PEFA Framework and interpreting/applying the rating criteria, their major role is to guide the country staff in preparing their own assessment using the PEFA standards. This process requires that responsibility for drafting all sections of the Report be assigned to country staff. PFTAC Advisors can provide editorial assistance, but we firmly believe that Country ownership of the report is greatly improved if the report is written by country staff. As with the self-assessment, preparing a draft PFM Performance Report will require at least 3 weeks, so these should not be started during times of other major intense activities.

* The Workbooks are available for download at the PIFMA website: <http://class.pftac.org/login/index.php>. (Note: After accessing this site, click on "Login as Guest", then as new pages open click sequentially on: "PIFMA", "PEFA Issues", "PEFA Self-Assessment Workbooks").

36. **PFTAC supported preparation of draft PFM Roadmaps** (*RBM objective 1.2*) in the Solomon Islands, and FSM, as described in **Box 2**. PFTAC also conducted a mission to Nauru to assist authorities with revision of earlier versions of their Roadmap, and Fiji also commenced work on its Roadmap with PFTAC support.

Box 2: PFM Reform Roadmap Projects Started in the Solomon Islands and the Federated States of Micronesia

Both the Solomon Islands and the Federated States of Micronesia (FSM) started work during FY2014 to develop PFM Reform Roadmaps to guide their development of PFM changes over the medium term. Work on the Roadmaps followed completion of PEFA during 2012 which identified for each country the strengths and weaknesses of their PFM systems. In both countries the Roadmap development projects are expected to involve 2-3 PFTAC missions spread over a period of 3-5 months.

Past efforts by donors sponsoring work on roadmaps have often fallen short of developing crucial country ownership – this was largely because the roadmaps were developed primarily by consultants with inadequate involvement of country staff. Since PFTAC has become more involved in assisting with roadmap development this has changed. We have aimed to limit the role of consultants/advisors more to facilitators and mentors, and to get country officials – department or division heads – to do more of the prioritizing and action plan writing. This is intended to build country ownership and also to build staff management skills, both of which are essential to successful implementation of PFM Reforms.

Over the past years as PFTAC has implemented a new “self-assessment” phase in conducting PEFA, we have found in all countries a consistent fairness among staff in applying the PEFA rating criteria to their own systems. In other words, they understand the strengths and the weaknesses in those systems, and they largely understand what needs to change in order to improve the systems. This understanding is the essential first element to generating ownership for change, but it is not sufficient. The “management culture” that exists in a country must be one that defines “management” not just as a process for “enforcing rules” but one that expects its middle and senior professional staff to constantly identify, prioritize, and solve problems, and regularly evaluate the performance of the services they oversee. For PFTAC’s Roadmap development process to succeed, therefore, it is essential that middle and senior-level managers:

- Be actively involved in identifying problems;
- Be actively involved in proposing and prioritizing solutions;
- Be willing to commit their divisions or units in writing to concrete actions in a specified realistic time frame;
- Have support from higher level officials to implement improvements.

While the specifics of preparing their PFM Roadmaps varied between the Solomon Islands and the FSM, they generally followed this approach:

- Country officials identified key senior and middle-level staff to participate;
- They named a coordinator from among the staff to manage staff efforts in contributing to the roadmap;
- Sessions were held with relevant staff to review results for each of the PEFA indicators. The purpose of this was to get the participants to clearly understand the PEFA rating criteria for each of the different aspects of PFM. This process was supported by use of PFTAC’s “PEFA Self-Assessment Workbooks” as well as the most recent PEFA Assessment;
- During the review of each PEFA indicator the PFTAC facilitator directed discussion to the following questions particularly important to PFM Roadmap development for indicators where performance was weak (C or lower):
 - Why does the weakness exist? (Technical or legal reasons? A shortage of appropriate staff or skills? Resistance from civil servants because of workload issues? Opposition to greater discipline or transparency?)
 - Is improving the rating really strategically important to achieving other national development goals?
 - Is improving the particular aspect of PFM measured by this indicator a current priority, or something that

could be delayed in order to focus first on other higher priority PFM improvements

- If this aspect of PFM is a priority for improvement, what specific actions will be taken to improve performance, when will they be taken, and how long do you anticipate implementation would require?
- For those aspects of PFM determined to be of highest priority for improvement, the middle and senior managers who would be responsible for implementation were asked to draft action plans identifying the various changes to be made and the timelines
- The country coordinator, supported by the PFTAC facilitator, would prepare an integrated report covering all proposed PFM reforms.

PFM Roadmap Development Projects, from start to finish, will generally require at least 3-4 months of consultations, reviews, and revisions. The desired end product is not just a report, but an action plan agreed by middle and senior officials, and endorsed for implementation by the Finance Minister and the Cabinet.

37. PFTAC has also been heavily involved in efforts to improve the integration of planning and budgeting, and piloting a process for reviewing and updating non-tax revenues (RBM objectives 1.3-1.5):

- Weaknesses in the integration of planning and budgeting have been reflected in the low PIC scores on the PEFA indicators for “policy-based budgeting”, and has been a frequent complaint from many donors. To address these weaknesses PFTAC advisors during FY2014 have:
 - made presentations on this topic in regional workshops (SPC Climate Change Workshop-Tonga; Strategic Development Workshop on Budget Preparation- Canberra);
 - conducted training for budget analysts (Fiji and Kiribati);
 - advised on PFM law changes to improve planning/budgeting integration (Kiribati and Solomon Islands);
 - recommended adjustments to budget preparation processes and calendars (FSM, Kiribati, and Nauru);
 - recommended combining and reorganizing separate planning, budgeting, and aid management divisions (Kiribati and Nauru);³
 - emphasized the importance of an “all-funds” approach (i.e. no “special funds” like development, climate change, minerals, or education, for example, would escape review during the regular annual budget development process) (Kiribati, Nauru, and PNG);and
 - provided templates for more policy focused medium-term budgets to replace several currently separate plans and budgets (FSM, Kiribati, and Nauru)
- A project to review non-tax revenues in Samoa continued into FY2014 with several joint missions by PFTAC Advisors and staff from the Australian Department of Finance (See Box 4). By the end of FY2014 other countries started expressing interest in similar reviews. In Samoa the review team found several fees and charges that had not been changed for 20 years. The Samoan Government has approved increases in some of the reviewed fees. The increases have been estimated to have a value of nearly 1 percent of GDP.

³ In May 2013 Kiribati reorganized its National Economic and Planning Office, allocating staff from previously separate “Budget”, “Planning” and “Aid Management” divisions into Sector Teams (Social Services, Infrastructure, General Government) and redefined staff responsibilities so that each staff economist assigned to liaise with a ministry became a “one-stop-shop” with respect to that ministry.

Box 4: Review of Non-tax Revenues in Samoa

The objective of the Non-Tax Revenue (NTR) Project in Samoa is to strengthen the Government's non tax revenue management through a series of technical assistance missions and follow-up work. The mission activities have been jointly undertaken by PFTAC and the Australian Department of Finance (AusDOF). The main activities have been to assist the authorities to undertake a fundamental review of the fees and charges levied by thirty-three line ministries and budget-dependent agencies, and provide advice on the design and implementation of a new NTR management framework, including the NTR legal framework, policies and operating guidelines, standard NTR charging statements, systems for costing activities, and changes to the Government's budgeting, accounting and reporting frameworks.

The project commenced with a joint PFTAC/AusDOF scoping study mission, undertaken in October 2012, to carry out an assessment of Samoa's non-tax revenue framework. This was followed by other missions that reviewed the NTR's of several ministries, making recommendations on NTR re-basing and proposing key elements of a reform program for the development of a strengthened system of NTR administration.

As part of the rebasing reviews, the missions have worked closely with each of the line ministries and agencies, in collaboration with the MOF, to determine: the scope and type of chargeable activities; the legislative basis for chargeable activities; the current policy intent of each current charge; the cost of each chargeable activity; the funding model for each chargeable activity, scope of services to be charged for by either using fee for service, cost recovery levies, fines and penalties, commercial licenses or funded through general revenue; whether rationalization/simplification could occur through bundling of activities and charges; the cost-effectiveness and efficiency of each chargeable activity; options for restructuring or abolishing the charge. Through a series of intensive workshops and discussions between the mission team, MOF and each line ministry, revised and updated charging policies and fee and charges structures have been progressively developed. The proposed new charging policies and fee levels under each line ministry have been documented in formal Non Taxation Revenue Charging Statements.

In addition to the ministry NTR rebasing review work, the mission team has also worked progressively on the development of several key elements of the future NTR management framework. The NTR project has been working with the MOF Legal Division and the Office of the Attorney General (OAG) on amendments to the NTR legal framework. The team has commenced work on the drafting of a comprehensive NTR policy and procedures manual. Work has commenced on the development of NTR Budgeting templates (to be incorporated in the annual Budget Circular) and changes to the Government's budgeting and forecasting systems. Work has also commenced on changes to the current Chart of Accounts and future NTR accounting and reporting systems.

At the end of each rebasing review, the mission has produced a report providing a comprehensive description of the scope and methodology followed by the rebasing review, a summary of the review outcomes, a summary of the salient policy, cost and pricing matters considered during the review of each ministry NTR portfolio, and a copy of the detailed NTR Charging Statements prepared for each of the line ministries and SOEs reviewed. In addition, the Reports have set out recommendations on the design of the structural elements of the strengthened NTR management framework, and a recommended action plan for the further stages of the NTR reform project.

38. PFTAC continued its commitment to respond quickly to unanticipated requests for assistance on a variety of other issues including:⁴

- Reviews of FMIS and Treasury management issues in Kiribati and Nauru (*RBM 1.3*);
- Improving debt management policy in Kiribati;

⁴ See Annex IV for a comprehensive listing of PFTAC missions, meetings and workshops in FY2014.

- Starting an asset register in Nauru;
- Support to the Cook Islands, Kiribati, and the Solomon Islands to improve the PFM legal framework (*RBM 1.3*);
- Implementation of international accounting standards in Fiji (*RBM 1.4*);
- A macro-fiscal workshop in Samoa in co-ordination with PFTAC’s Macro-economic Advisor;
- Support (in cooperation with IMF HQ’s Expenditure Policy Division) in reviewing pension and social security issues in RMI and FSM.

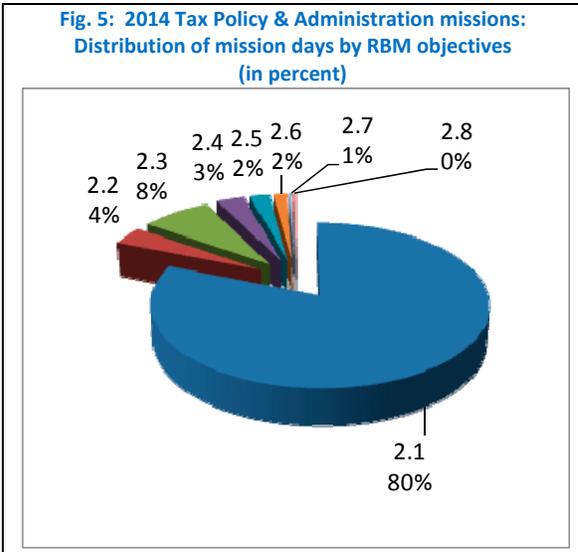
39. Broader capacity development included training and development through regional institutions and processes:

- The annual Strategic Development Programme, delivered in collaboration with the Australian Department of Finance, continued with the February 2014 workshop focused on Budget Preparation.
- 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 distance learning and other technology, USP has great potential to be able train much larger numbers of PFM professionals (in both Finance and line ministries) than traditional and more expensive approaches to training (out-of-country workshops or flown-in experts). Discussions with PICPA on developing/implementing training have focused primarily on procurement, training for budget analysts, accounting, and internal audit.
- Participation in PASAI training focused on their members’ performance audits of debt management.
- Delivering a presentation on problems in the PICS of integrating planning and budgeting at an SPC Climate Change Workshop.

Revenue Policy and Administration

40. In FY2014, PFTAC carried out 36 missions (totaling 331 person days) on revenue policy and administration issues, at a cost of US\$0.7 million. Of these missions, 47 percent were conducted by the Suva-based tax administration advisor, while the rest were conducted by short-term experts and HQ-based staff. The major area of work related to modernizing tax policy and legislative frameworks (*RBM objective 2.1*). The principal recipients of TA in the area of tax policy and administration included Palau, Fiji, Nauru, and Kiribati.

41. Tax reform is a slow process, the time line often measured in decades rather than years but 2014 was a year of considerable success and progress for several countries. It was also a year in which the partnership between DFAT and PFTAC was



strengthened by collaboration on a number of revenue fronts. The achievements in 2014 are a reflection of commitment and effort by finance and revenue authorities and the strong support from development partners.

42. A highlight for the year was the assistance provided to Kiribati and Palau for the development of new Value Added Tax (VAT) regimes (RMB 2.1). The implementation of a VAT in Kiribati had been a long-standing PFTAC recommendation but it gained momentum in 2012 when Cabinet formally decided to accept the recommendation and proceed with a new revenue system. Kiribati implemented the new tax system in April 2014, and its success reflects careful planning and strong support from two of its development partners, PFTAC and DFAT. PFTAC initially provided TA to develop VAT, excise tax and revenue administration policy with subsequent TA for legal drafting and implementation support. DFAT provided funding to engage a full-time revenue adviser, this being a critical element in the success of the project. The PFTAC and DFAT advisers worked collaboratively with the tax office to ensure that the fine policy detail was embedded in the law and that staff and the community were prepared for the change.

43. VAT has been proposed in Palau at various times as far back as the mid 1980s. Draft legislation was prepared in 1999 but it was not until January 2013 that the Bill was introduced in Congress. Subsequently, PFTAC and IMF headquarters provided TA to review tax policy, established a transition plan and drafted VAT and net profits income tax legislation. To assist the Palau authorities with training to manage the new tax system, and to prepare the community to comply with their obligations, TA was provided to address these issues through seminars, workshops and community consultation. The VAT and Net Profits Tax Bills will be submitted to the Senate early in FY2015 and PFTAC has enlisted support from Palau's development partners to secure in-country adviser assistance to help implement the new tax system. This support will be provided by the Asian Development Bank.

44. Major tax policy initiatives are also under way in Nauru and PFTAC has supported the development of a tax regime for employee taxes and business profits (RBM 2.1). Nauru will have unique challenges in developing and implementing a tax system as it has historically relied on phosphate and fishing for revenue. There is no community culture of paying direct taxation (income and profits) nor is there any direct taxation administrative capacity. PFTAC and DFAT will continue to support Nauru in developing and implementing the employee tax system by October 2014 and the business profits tax system by July 2015.

45. PFTAC continues to work with all PICs to improve revenue administration (RBM 2.2, 2.4, 2.5, 2.6), and in selected countries has enhanced its cooperation with other development partners to achieve improved outcomes. PFTAC's guidance and strategic oversight is an important element in all reform programs but enhancing the partnership with DFAT has been a factor in enabling implementation and improving tax revenue collection. DFAT provides funding for revenue advisers through bi-lateral aid in Federated States of Micronesia, Kiribati, Nauru, Republic of Marshall Islands, Tonga, Tuvalu and Vanuatu and via multi-lateral aid in Samoa. PFTAC has also assisted countries with recruitment of suitable advisers. The outcome of this partnership has been significant achievements in policy and administration; greater than would have otherwise been achieved without long term, in-country support.

46. Other notable PFTAC-supported achievements during the year include:

- Implementation of a new small business tax (presumptive tax) regime in the Kingdom of Tonga (*RBM 2.1*). The new regime will make compliance and administration much easier and will also generate considerably more tax revenue from the small business sector than previously collected. Samoa also commenced a review of its small business regime following the success in Tonga;
- Cook Islands and Tonga have developed new tax regimes for deep sea mining (*RBM 2.1*). The draft laws in Cook Islands were passed by parliament in December 2013, while public consultation in Tonga is still underway;
- A new employment tax system has been implemented in Fiji (*RBM 2.1*). The system will simplify administration and make it easier for employees to comply by removing their filing obligations.

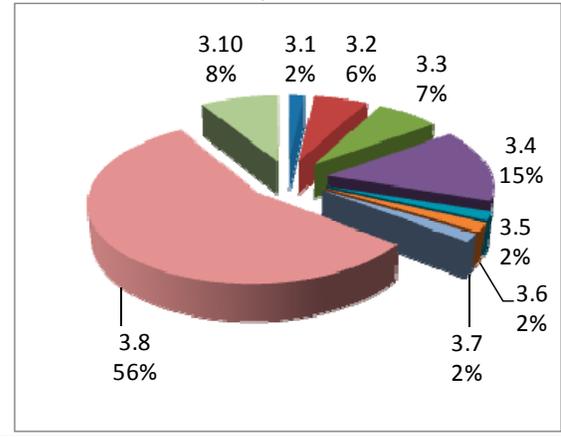
47. Information Technology continues to be an issue for all PICs (*RBM 2.3*). Effective information technology systems greatly enhance revenue administration and PFTAC has provided TA to develop IT plans and assist in identifying funding sources but the use of IT in PICs is still relatively limited by world standards. An inexpensive, simple IT system suitable for small tax administrations does not exist. The most common product used in the Pacific is the Revenue Management System (RMS) but its cost (albeit low by international standards) is a challenge for many administrations. Samoa, Solomon Islands, Kiribati and Tonga have secured funding and implemented the latest version RMS v7 (Tonga still in process). PNG has partially installed a Canadian system (SIGTAS) and Fiji has received approval to self-fund a redevelopment of its ageing IT system. It is likely that the Republic of China (Taiwan) will assist Palau in developing a new system but RMI, FSM and Nauru will need assistance.

48. The tax consequences of cross-border transactions have received international prominence in 2014 and the larger PICs have identified this as the most significant emerging issue they face. PFTAC has supported its development partner, the International Finance Corporation, in hosting two workshops focused on transfer pricing and auditing of multi-nationals. PFTAC recognizes that there are other agencies operating in the Pacific with specialist skills in this complex area and will support the development of PIC skills by working in partnership with those agencies.

Financial Sector Supervision

49. In FY2014, PFTAC carried out 16 missions (totaling 138 person days) in the area of financial sector supervision, at a cost of US\$0.4 million. Of these missions, 81 percent were conducted by the Suva-based financial sector supervision advisor, while the rest were conducted by short-term consultants and HQ-based experts. The major areas of work related to strengthening supervision policy frameworks, including legislation and regulations (*RBM objective 3.8*), implementation of prudential returns, a Financial Sector Information System and off-site supervision (*RBM objectives 3.1-3.3*), and on-site supervision (*RBM objectives 3.4-3.6*). TA in these areas was provided primarily to Tonga, Vanuatu, and through regional and sub-regional workshops.

Fig. 6: 2014 Financial Sector Supervision missions: Distribution of mission days by RBM objectives (in percent)



50. 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 the development of appropriate regulations and statistical returns and regularly producing and analyzing 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 for capital adequacy and earnings performance of banking institutions. With the increasing emphasis on financial inclusion as a regional policy objective, PFTAC will also consider providing technical support with strengthening oversight regimes for the non bank financial institutions sector.

51. Financial sector supervision activities in FY2014 were focused on:

- Completing the deployment of the base set of prudential returns program;
- Implementation of the Financial Supervision Information System (FSIS) and associated training;
- Training and support for on-site inspection and off-site banking supervision, including adoption of more risk based approaches;
- Assistance with financial inclusion issues, including oversight of non-bank financial institutions;
- The development of a credit unions reform program.

52. Work on the implementation of the base set of prudential returns was completed this year (*RBM 3.1*). This off-site supervisory tool and its associated standardized analytical reports, which were described in the FY2011 PFTAC Annual Report, were 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 FY2014 we saw the final implementation of the program in Solomon Islands and Vanuatu. This concluded the implementation program which had started with Tonga, Palau and Cook

islands as its original integration units. Support will continue to ensure the prudential returns are kept current and commercial banks continue to provide the information on a timely fashion.

53. Off-site prudential supervision in Vanuatu was reviewed this year, following the implementation of prudential returns for reporting by commercial banks (RBM 3.1, 3.2). The Reserve Bank implemented the Prudential Return program in all commercial banks which are now reporting on a monthly basis. The technical advisor analyzed the reports produced by the commercial banks and the analysis performed by the supervision department. The reporting is in line with expectations and the supervisors are monitoring the commercial banks on a monthly basis and reporting to the Reserve Bank's senior management. Once the Reserve Bank is comfortable with the reporting, the implementation of the FSIS program will be forthcoming. The Technical Advisor further reviewed the current status of legislation related to the oversight of non-banks and performed the review of an investment fund.

54. The commitment to implementing RBNZ's Financial Sector Information System (FSIS) in FY2011 was started this year with the deployment of the FSIS as a pilot at the Central Bank of Solomon Islands (RBM 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 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. The FSIS will be offered to Palau, Vanuatu, Cook Islands, Tonga and Solomon Islands. The pilot at the Central Bank of the Solomon Islands was successful and it is anticipated that the program will be deployed to the other four countries in the near future.

55. PFTAC also continued to engage with financial sector supervisors at the regional level (RBM 3.3, 3.4, 3.5). The 2013 Annual Meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC) was held in Samoa in October, and was a useful opportunity to discuss common issues with development partners, supervisory agencies, and the Australian Prudential Regulatory Authority (APRA). The association provided input as to the level of training member states would require in complementing the training currently available in risk-based banking supervision and off-site supervision. It was agreed that a series of workshops should be held in 2014/15; one for the Northern Pacific region and one for the Southern Pacific region. This would facilitate participation from member states and allow the workshops to be better tailored to the needs in each sub-region. A third session will be designed for supervisors and managers of inspection departments.

56. The first component of PFTAC's sponsored training program undertaken under the auspices of the AFSPC was held in Guam (RBM 3.3, 3.4, 3.9). The theme of the workshop was Risk-Based Banking Supervision and the oversight of non-banks. The training was aimed at members originating from the Northern region of the Pacific (Palau, Micronesia and Marshall Islands). The workshop was held in Guam and included representatives from each of the region's supervisory authorities. Under the guidance of the Technical Advisor, participants exchanged views and experience on various topics including; on-site supervision, statutory reporting, on-site examination, credit unions examination and AML and know-your-client legislation. The group also invited representatives from the Bank of Guam, who provided them with an overview of the Bank's operations in the region.

57. On-site supervision was strengthened through a mixture of regional training and hands-on support (RBM 3.4, 3.5). PFTAC provided hands-on support to Tonga and Solomon Islands in the preparation of their on-site supervision programs. This allowed the central banks to further improve their ability to critically assess the quality of commercial bank operations in their countries. PFTAC provided hands-on support to Tonga with the preparation of its on-site supervision program by performing an assessment of the training received to date, a review of a series of on-site examinations performed during the year and a scoping mission was completed in preparation for a full examination of a commercial bank early in 2015.

58. The National Reserve Bank of Tonga (NRBT) received technical assistance in its review of the National Reserve Bank Act and the Financial Institutions Act (RBM 3.8). The IMF Legal department undertook a comprehensive review of both Acts. The technical mission, sponsored by PFTAC, provided assistance in reviewing and amending Tonga's banking and central banking legal framework in accordance with international best practices. This was done in order to provide for more effective banking supervision, clear enforcement actions for contraventions and to establish the suitability for the NRBT to act as regulator for pensions, retirement funds, non-banks and provident funds.

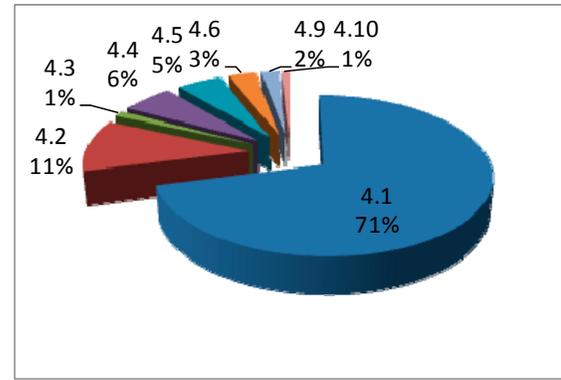
59. A number of countries are considering adding to their Central Bank responsibilities the oversight of non-bank financial institutions, like credit unions and microfinance organizations, which play an important role in financial inclusion (RBM 3.9). PFTAC this year developed a strategy to deliver technical advisory support to facilitate the inclusion of those sectors within a Central Bank's legislative, administrative and supervisory authority. This will require providing assistance in reviewing, amending or drafting legislation, regulations and bylaws as required. As the oversight of those institutions 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 public consultation. The IMF Legal Department will be supporting PFTAC in the drafting of appropriate legislation.

60. In FY2014 outreach on financial sector supervision issues was increased (RBM 3.10). The advisor attended various workshops, congresses and conferences with the aim of sensitizing the regional financial institution groups and officials to concepts that are relevant to the region. The events included; 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 AFSPC and provide support in the hosting of its annual meeting and workshop program. PFTAC also supported the annual Governor's meeting held in Papua New Guinea.

Macroeconomic Statistics

61. In FY2014, PFTAC carried out 34 missions (totaling 251 person days) in the area of macroeconomic statistics, at a cost of US\$0.7 million. All the missions were conducted by the two Suva-based statistics advisors. The primary area of work related to training and assistance with compilation and improvements in national accounts measures (RBM objective 4.1). A second important area of work was in assisting countries with rebasing of national accounts (RBM objective 4.2). Major recipients of such TA included Fiji, Solomon Islands, and Vanuatu, and TA was also provided extensively through regional and sub-regional workshops.

Fig 7: 2014 Macroeconomic Statistics missions: Distribution of mission days by RBM objectives (in percent)



PFTAC has continued to focus the TA of its two resident advisors on achieving substantial improvements in national accounts statistics in the Pacific region. Increased resources have allowed more frequent support and fostered the development of best practices and guidance.

62. The work program in FY2014 reflected the objectives in the FY 2014 RBM framework (Annex III):

- **Producing at least two independent measures of GDP to a high standard (RBM objective 4.1):** *Fiji, Kiribati and Palau.* The compilation of two independent measures of GDP at current and constant prices enables data confrontation, the identification of inconsistencies and ultimately supports the improvement of estimates. This is a key component of PFTAC's strategy to improve national accounts statistics in the region. The methodology development of GDP estimates by expenditures has been supported by external consultants in Palau.
- **Improving national accounts data sources and methodologies (RBM 4.1):** *Papua New Guinea:* Reengagement with the authorities was continued by delivering TA to improve the coverage of economic activities included in GDP estimates and to enhance methodologies used to compile value added estimates. Cooperation between stakeholders is a key factor of success for improving the quality of macroeconomic statistics and discussions have started for the creation of a Macroeconomic Statistics Committee in Papua New Guinea.
- **Rebasing constant price estimates at least every 10 years (RBM 4.2):** *Cook Islands, Fiji, Solomon Islands, and Vanuatu.* Regular rebases of constant price GDP estimates are essential to maintain a relevant pattern of relative prices. PFTAC has provided TA to assist with the rebase of GDP estimates in Fiji using 2008 as a base year. Rebased estimates were published during October 2013. Preparatory work was started in the Cook Islands, Solomon Islands and Vanuatu. Household income and expenditure surveys (HIES) have been conducted in several Pacific Islands countries with support from the Secretariat of the Pacific Community. The incorporation of HIES results in national accounts statistics will improve periodic benchmarks of national accounts.

- **Producing quarterly estimates of GDP (RBM c4.3): Cook Islands, Fiji, and Vanuatu.** In countries where data sources enable the compilation of more frequent estimates, quarterly GDP estimates enable better monitoring of the state of the economy leading to improved decision making. The development of methodologies and the compilation of quarterly estimates were completed during 2013 in the Cook Islands and the results were published during December 2013. Development work was started in Fiji and planning started in Vanuatu.
- **Building capabilities for the compilation of national accounts statistics (supporting RBM 4.1): Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau.** The first sub-regional national accounts training course was delivered to compilers from the Northern Pacific during November 2013. This approach enabled a focus on local statistical issues in a cost effective way. The presented material was adapted to suit the needs of the participants and the workshop focused on introducing them to methodologies, data sources and other related statistics. The course provided participants with a better understanding and a basis for implementing improvements. This workshop was very well received and participants requested a second workshop focused on compilation.
- **Assisting the authorities with capacity supplementation (supporting RBM 4.1): Solomon Islands.** Where resources were insufficient, capacity supplementation has enabled regular compilation and availability of recent national accounts statistics. Following TA from PFTAC, the GDP estimates for the Solomon Islands for the period 2007-2012 were released during October 2013. The dissemination of relevant data and metadata in a timely manner is a key aspect to ensure proper and efficient use of national accounts statistics to support policy making and provide high quality economic statistics to the community. PFTAC regularly advocates for improving dissemination practices and following recommendations made during 2013, the 2012 national accounts statistics for Kiribati were released during April 2014.

63. 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 and 2013 regional Heads of Planning and Statistics (HOPS) meetings. 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 2010 HOPS meeting. PFTAC has advised the PSSC on macroeconomic statistics issues. PFTAC statistics advisors have worked closely with the resident and peripatetic long-term economic statistics advisors in the Solomon Islands, Samoa and Palau.

64. IMF headquarters has continued to provide significant TA to IMF member countries in the Pacific region, supported by Japanese funding for the following projects:

- **External sector statistics.** This project has continued 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 the Statistics Department 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. Kiribati and Tuvalu sent the balance of payments and international investment position templates to the IMF Statistics Department in

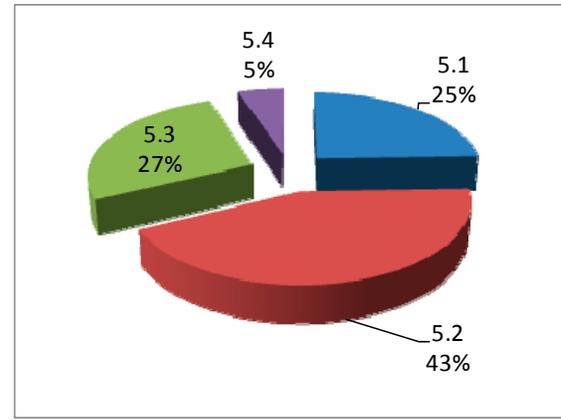
order to be published for the first time in the *International Financial Statistics and the Balance of Payments Statistics Yearbook*. The Fiji Bureau of Statistics finalized the compilation of quarterly external debt statistics according to the *External Debt Statistics: Guide for Compilers and Users* with a view to begin reporting data to the *World Bank's Quarterly External Debt Statistics* database;

- **Government Finance Statistics.** This project has contributed to improving the quality of government finance statistics and to assisting Pacific countries to migrate their fiscal statistics to *Government Finance Statistics Manual (GFSM) 2001* standards. Twelve Pacific Island Countries have committed to participate in the project. The following six countries now report government finance statistics according to the *GFSM 2001* standards to the IMF Statistics Department: Kiribati, Samoa, Palau, the Federated States of Micronesia, the Republic of the Marshall Islands, and Timor-Leste. The project also builds 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 to guide member countries in the dissemination to the public of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic statistics. PFTAC also supports regular updates of GDDS information. Palau, the Cook Islands, and the Federated States of Micronesia recently joined the GDDS. A workshop was conducted during April 2014 involving 16 macroeconomic statistical compilers from nine countries;
- **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 of the world's principal economies. The Australian Bureau of Statistics led the ICP in the Pacific region. Fiji is the only full partner in the Pacific region for the ICP process. The *Summary of Results and Findings of the 2011 International Comparison Program* was published during April 2014. In addition, the IMF headquarters has provided TA for the development of a producer price index in Fiji.

Macroeconomic Analysis and Forecasting

65. In FY2014, PFTAC carried out 16 missions (totaling 155 person days) in the area of macroeconomic analysis and forecasting, at a cost of \$0.4 million. All missions were carried out by the Suva-based macroeconomics advisor. The major areas of work related to enhancing analysis of current macroeconomic conditions (*RBM objective 5.1*); assisting with development of analytical methods and models (*RBM objective 4.2*); and improving forecasting techniques (*RBM objective 4.3*). Major recipients of such TA included Samoa, Tonga, and PNG, and TA was also provided extensively through regional and sub-regional workshops.

Fig. 8: 2014 Macroeconomic Analysis missions: Distribution of mission days by RBM objectives (in percent)



66. An active area of the work plan in FY2014 involved follow-up support on financial programming (*RBM objective 5.2*). In FY2013 financial programming (FP) frameworks were developed in Fiji, PNG, Solomon Islands and Vanuatu. Follow-up support at the country level was provided to help staff integrate their core monitoring and projection activities into a FP framework.

- Solomon Islands:** A workshop was held for CBSI staff to update the FP framework developed in FY2013. The first stage of the workshop provided staff with hands-on training on how to develop a process for monitoring current developments and generating a medium-term macroeconomic outlook. The second stage demonstrated how the monitoring/projection process can be incorporated into the FP framework to ensure consistency across the various sectors. Continued support is required to enable staff to use the FP framework effectively.
- PNG:** The FP framework developed for PNG is complicated by the large natural resource sector. The recent transition of the LNG project from the construction phase to the production phase has a major impact across all sectors, adding complexity to the linkages in the model. As a consequence, staff found the FP framework difficult to work with. A simplified version of the FP framework was developed to help staff understand how to maintain consistency across sectors in their monitoring and projection activities. Continued support is required to assist staff in using the FP framework on a routine basis.

67. Assisting with developing countries' monitoring and projection frameworks was another active area (*RBM 5.1, 5.3*). This entailed working with staff to identify a set of indicators that provide information on current macroeconomic developments and to put together a medium-term outlook using information from several sources. Given the data limitations in most countries, qualitative information is often very useful (information obtained from industry visits being a prime example). An important aspect of training exercises involves analyzing how staff can incorporate such information into the monitoring/projection process effectively.

- *Fiji*: PFTAC has worked in cooperation with the ADB to develop MOF staff's capacity for long-term planning and assessing debt sustainability. ADB TA has supported MOF staff in developing a Fiscal Management Model (FMM) for medium-term fiscal planning. PFTAC has worked on enriching the debt accumulation component of the FMM framework. Further support in FY2015 is planned to develop the framework further so that it can be used by staff to assess debt sustainability.
- *Tonga*: PFTAC has worked with NRBT staff to improve their GDP monitoring and projection framework (*RBM 5.1, 5.3*). National accounts data are released with a long lag and hence, various indicators are used to gauge the current pace of recent economic activity. Additional indicators have been used to refine the framework, supplemented by qualitative information, notably information obtained from industry visits. Initial steps have been taken to expand the framework to project fiscal revenues and extend the projection horizon.
- *Samoa*: PFTAC has worked with staff to simplify the structure of the Samoa Economic and Revenue Forecasting (SERF) model to generate macroeconomic and fiscal projections, and make it easier for staff to construct a medium-term baseline scenario based on several sources of information. Continued support is required to develop the medium-term properties of the SERF model as a basis for fiscal planning and assessing debt sustainability (*RBM 5.4*).

68. Training has progressed on fiscal policy analysis and forecasting. PFTAC, together with the IMF Singapore Regional Training Institute (STI) and the IMF Institute for Capacity Development (ICD), organized a course to give participants an overview of fiscal policy issues. Topics included analyzing macro-fiscal linkages, assessing debt sustainability and applying practical methods for forecasting revenues and expenditures. Seven countries participated, chosen on the basis of comparable levels of capacity. The material and presentation was adapted to meet the specific needs of 25 participants. Tailoring the course in this manner proved very effective in enhancing the productivity of the lectures and workshops. Given this positive experience, a similar approach will be taken in planning workshops for the other countries in the region.

69. Progress has also been made on modeling the monetary policy transmission mechanism. The Bank of England Centre for Central Banking Studies (CCBS) and PFTAC organized a course for the six countries in the region that have their own currency. The material largely focused on the weak interest rate channel and surplus liquidity in banking sectors throughout much of the region. A central objective was to enrich participants' understanding of conventional monetary policy transmission mechanism and some of the unique constraints faced by central banks in the region. A prototype model of the monetary policy transmission mechanism was developed to capture those constraints, and serve as the basis for analyzing monetary policy options. The informal venue was conducive to active participation, resulting in a rich source of experience sharing across countries. There is scope to develop this valuable aspect in future courses by having participants play a more prominent role in leading discussions and commenting on presentations.

70. Initial steps have been taken to model the potential fiscal impact of natural disasters in the region. A review of the existing literature and a case study of Samoa have been completed. The analysis provides a conceptual foundation for developing a modeling framework that can provide policy makers with a rough estimate of liquidity needs in the immediate aftermath of a natural disaster as well as the potential cost of repairing and rebuilding damaged capital stock over the medium term. Once operational, the modeling framework will be calibrated for individual countries, enabling policy makers to better manage the risks associated with natural disasters.

III. OBJECTIVES AND WORK PLAN FOR FY2015

This section describes PFTAC's principal objectives and activities planned for FY2015 (May 2014 to April 2015). 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 RBM framework.

A. Overview

71. Demand for PFTAC TA and training remains strong. Authorities in most countries in the region know that major reforms in economic management are needed to achieve the goals of boosting sustainable growth and reducing macroeconomic volatility. Ambitious PFM and tax reforms are underway across the region and need technical support for implementation. Concerns for financial stability, and the role of the financial system in promoting growth and inclusive development have also spurred demand for TA in the area of financial system supervision. Demand for TA in the areas of macroeconomic statistics and macroeconomic analysis and forecasting is also being generated by members' understanding that good macroeconomic data and good analytical and forecasting capabilities are essential ingredients for sound and sustainable macroeconomic policies.

72. In FY2015, PFTAC will operate with a full complement of staff and build on initiatives taken in the past two years. Staffing is now at the intended program level of 7 long-term advisors. Although there is turnover in the revenue administration and one of the PFM advisor positions, our effective level of Suva-based capacity is likely to be similar to that seen in FY2014. To meet the demand for technical assistance we will focus on increasing our impact through greater use of short-term experts. These experts will generally follow-up on TA initiated by our resident advisors and/or requiring specialized expertise.

73. We will increase the use of short-term experts to meet the needs of our members and to complement and leverage the Suva-based advisors. In using short-term experts, we will aim at providing a high degree of continuity on TA projects so that members do not have to deal with significant turnover in who carries out the TA. We favor employing qualified experts from within the region where possible, but this is not always feasible or desirable. We welcome and invite guidance from our Steering Committee about how this can be done in a manner that does not interfere with qualified officials carrying out their duties for their own governments.

74. Improving coordination and cooperation with development partners is a major objective in FY2015. Strengthening cooperation and coordination in TA activities is widely accepted as desirable, but really putting it into practice often seems difficult. PFTAC is working with development partners to give substance to coordination both in three principal areas:

- **Coordination of reform plans and TA.** A key area of cooperation between development partners and PIC governments is in preparing and periodically modifying policy reform matrices associated with budget support. One area in which there is room for improving coordination is to ensure that these discussions take into account reforms being planned in other contexts, notably PFM reform roadmaps. There is also substantial scope and need for more explicitly linking the planning of

reforms to the planning of TA and training in support of such reforms. Doing so should help in establishing realistic timing and sequencing of reforms, as well as in prioritizing TA and training.

- **Coordination in delivery of TA.** Even when TA priorities have been determined, coordination is needed to ensure that the work of various TA providers is complementary, appropriately sequenced, and does not overload the capacity of recipients. Of course, there is already a substantial amount of coordination in various areas, but there is also significant scope for improvement. PFTAC and other TA providers are already working to improve coordination of TA in the area of economic statistics, and we have also begun to do so in the area of financial supervision, but there is room for strengthening coordination in other areas including various aspects of PFM and tax administration reforms, as well as macroeconomic modeling and policy analysis.
- **Coordination and collaboration in training.** A crucial complement to implementation of reforms and delivery of TA is the need to provide training in many areas of economic management across the region. PFTAC already cooperates with several other organizations in the region in providing training courses. Indeed, most of our training is now done jointly with others. However, we can go further in this direction, and such training can be more explicitly linked to reform programs. In this context, regional professional organizations have a crucial role to play in identifying priority areas for training support, as well as assisting with training. As examples of where PFTAC is aiming to step up its collaboration in regional training, it is working with PASAI on training on auditing issues; with IFC on taxation of multi-national enterprises; with SPC on deep sea mining; and with ADB on banking supervision. PFTAC will also step up its efforts to support PICPA and USP in provision of training programs in various areas of public administration focusing on PFM, and will explore the scope for expanding this to include tax administration. In addition, we are looking at the possibility of establishing a regional body to bring together macroeconomic modelers and forecasters from the region as well as TA providers involved in these issues.

75. The use of small, focused, sub-regional workshops will be expanded. In FY2014 PFTAC experimented with the use of focused sub-regional workshops designed to strengthen linkages between training and TA. These workshops proved to be quite effective in allowing PFTAC's advisors to address specific issues in small groups of countries much more effectively than is possible in larger workshops. They also allow more flexibility in the workshop program and tend to reduce the time away from office for the participants. In FY2015, the intention is to use such workshops to a greater extent in delivering TA and training; indeed we are already doing so.

76. PFTAC will continue to enhance the Results-Based Management (RBM) framework as a planning and monitoring tool. In the past year we have made some important improvements. In particular, specific objectives and indicators have been reviewed and adjusted for each sector in order to recognize evolving priorities within the PFTAC program, and to align them more closely with performance areas and indicators used in the PEFA and TADAT diagnostic tools, TYPSS, and so on, to facilitate monitoring. In addition, monitoring of PFTAC activities and expenditures has been more systematically linked to RBM objectives, facilitating accounting for the use of donor funds in terms of outcomes rather than inputs. The framework remains a work in progress, however, and in FY2015 further improvements will be pursued, particularly in strengthening the setting and monitoring of progress towards project milestones.

77. On a sectoral basis, planned TA and training activities are described below, and more details are provided in the FY2015 Logical Framework (Annex V) and in the individual Country Strategy Notes (Annex VIII). Nonetheless, some highlights may be noted here:

- **Support for PEFAs and PFM road map development will continue.** PEFAs have proven to be very useful diagnostic exercises, and the emphasis now placed on having the assessment largely carried out by local officials, with PFTAC playing mainly a mentoring and quality control role, will continue. PFTAC will similarly support the development of PFM roadmaps aimed at remedying weaknesses identified in PEFAs. Again, local knowledge and involvement is crucial to success. In addition, recognizing that sustained political support and high level coordination is vital to carrying through on PFM reforms, PFTAC will continue to work with members on high level dialogue exercises in support of PFM road map implementation. PFTAC will intensify its efforts to coordinate implementation of reform action plans with donors and through provision of TA support by both the resident and short-term experts.
- **TA in tax administration will involve a mix of assisting with administration of existing tax regimes and supporting implementation of tax reform programs.** In most countries in the region, assistance is needed with improving the implementation of existing tax regimes, notably in the areas of self-assessment, compliance, and risk management. In addition, several countries are at various stages of implementing substantial tax reforms, notably introducing VAT, business, or income taxes. In all cases, close, hands-on assistance is needed to ensure that reforms do not get stalled and that tax administrators are provided with training tailored to specific needs.
- **In financial supervision, key initiatives are in the areas of training and improving regulation and supervision of non-bank financial institutions.** With good progress being made in the area of improving the collection of crucial data from banks, attention is shifting towards complementary on-site inspections and analysis of results. For both areas PFTAC will provide assistance in building supervisory capacity both bilaterally and through workshops. In addition, assistance is being provided with establishing legal, regulatory, and supervisory frameworks for credit unions, which have the potential to provide important competition for banks and improve financial access to the general public.
- **TA in macroeconomic statistics will continue to focus on improving national accounts statistics through a combination of capacity building and capacity supplementation.** In many countries in the region, upgrading the quality, coverage, and timeliness of key macroeconomic statistics is challenged by capacity limitations. In such circumstances, although progress is being made in several countries, it is hard-won and fragile, and in some others, PFTAC staff is often in the role of capacity supplementation. Given the limited capacity in many national statistical organizations, careful coordination is needed between TA providers in the area of statistics, and improving coordination is a priority for PFTAC in the coming year.
- **With regard to macroeconomic analysis and forecasting, the focus of TA will be on developing analytic frameworks, with TA tailored to suit diverse capacity levels of staff.** There is considerable diversity of capacity in terms of macroeconomic analysis across the region. Consequently, PFTAC TA will focus on sub-regional and bilateral TA, concentrating on analysis of

common issues, while recognizing the wide diversity of capacity across the region. In addition, PFTAC will work closely with development partners to develop a small number of fairly standardized and coherent analytical and forecasting frameworks so as to minimize overburdening authorities with multiple and inconsistent models.

B. Work Program and Budget

78. PFTAC’s work program for FY2015 is tightly integrated with the overall Fund TA annual planning cycle and is formally approved each year by the HQ TA departments. The Asia and Pacific Department (APD) plays a key role in defining the strategic priorities for Fund TA. They engage functional (TA) departments and country authorities at an early stage in discussions about TA needs and strategic priorities. The TA departments, responsible for TA delivery by the resident advisors, work in conjunction with the PFTAC resident advisors, and lead the work plan development, and design. The TA departments approve and direct the implementation of TA programs delivered by RTAC resident advisors and short-term experts (STX). PFTAC’s input involves proposing missions largely reflecting discussions between long-term advisors and country authorities, ensuring that the work plan is properly resourced from within the PFTAC budget and leading the discussions with the RTAC Steering Committee (SC) to obtain endorsement of the proposed work program.

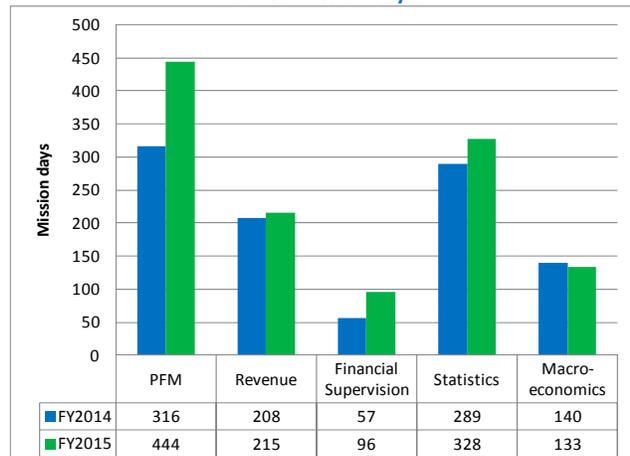
79. Our expectation is that PFTAC activity in all sectors is likely to increase over 2014. Although more intensive use of sub-regional workshops will tend to reduce the number of bilateral TA missions, we also expect to use more short-term experts especially in the tax, PFM, and statistics areas, with the result that we could easily see overall expenditure in the range of US\$ 4.5 - \$4.7 million.

80. PFTAC’s projections are based on the IMF TA Resource Allocation Plan (RAP). This identifies all planned and probable missions, together with details of staffing, length, and so on. The RAP for FY2015, based on information up to late May, anticipates a total of 149 PFTAC funded TA missions and workshops to PFTAC members, involving 1216 person days. Both figures represent increases of nearly 20 percent over the RAP figures for FY2014.

81. The RAP-based figures tend to understate the actual outcomes. First, during the course of a year, more missions tend to get added to the work program than are postponed or cancelled. Second, our experience is that when missions move from planning to implementation, the mission length typically increases. For both reasons, the total

number of mission days may be well above the planned number. In FY2014, the actual number of missions came out at 139, 11 percent above the figure in the RAP, and the number of mission days, at 1368, was nearly 35 percent above the RAP projection. In FY2015, we do not anticipate as large a discrepancy. But the RAP-based figures should probably be viewed as a downward-biased projection of the likely outcome.

Fig. 9: PFTAC Work Program: FY2015 vs. FY2014
Planned mission days^{1/}



1/ FY2015 figures based on 27 May RAP. FY2014 figures based on end-April 2014 RAP.

82. The RAP projection of missions in FY2015 has been used together with our information on costs of different missions to estimate budget expenditure projection for FY2015. Overall expenditure is projected at close to US\$4.3 million. As suggested above, this is likely to represent a downward-biased estimate. Advisor salaries, which make up roughly half our costs, are estimated to rise modestly, reflecting salary differential between incoming and outgoing staff, inflation adjustments, and expected gaps between staff changeovers. Estimated costs associated with staff missions, short-term expert missions, headquarters-based missions, backstopping and project management costs, as well as workshop and training costs are based on PFTAC estimates of FY2014 average costs for these different kinds of missions and services, with a 3 percent inflation allowance.⁵ Steering Committee and communication costs are based on FY2014 data, while the trust fund management fee is calculated at 7 percent of the preceding costs.

PFTAC FY2015 Budget Projection (US\$ millions)		
Expenditure areas	FY2014 Outcome ^{1/}	FY2015 Estimate
Advisor salaries	1.95	2.10
Advisor mission costs	0.51	0.61
STX mission costs	0.48	0.45
HQ missions & backstopping	0.41	0.32
Training & conferences	0.31	0.40
Subtotal	3.65	3.88
Steering Committee	0.11	0.10
Communications	0.05	0.06
Trust Fund management fee	0.27	0.28
Total	4.08	4.32
1/ Based on PFTAC data.		

83. Expenditure is likely to be greater than projected if the number and length of missions is greater than currently anticipated. On past experience this seems probable. Clearly, the intention of using more short-term experts in PFTAC's provision of TA will work in this direction. At the same time, however, we are trying to be more realistic about expected mission lengths, so there may be less upward risk from this source. Our assessment is that unplanned missions over the coming year could add US\$0.2-0.4 million to baseline projection.

C. Sectoral Work Plans in FY2015

Public Financial Management

84. With two PFM advisors, and the use of well-respected short-term regional advisors, PFTAC will be able to deliver more TA and support on PFM issues. During FY2015 each full-time 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.

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

- PFM Roadmap support for PEFA assessments and the development of PFM Roadmaps;

⁵ In FY2014 our figures indicate that the average mission cost for our Suva-based advisors was around US\$ 4,900, not including salaries, and about US\$ 18,600 including salaries. For short-term experts, the average cost was US\$ 18,700 (including salaries, but not Suva-based advisor salary costs associated with supporting these missions), while headquarters-based missions (excluding salaries) averaged US\$ 19,300, not including salary costs.

- 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.

86. PEFA and PFM Roadmap support. PFTAC will make resources available to conduct PEFA assessments in the Cook Islands, PNG, Tonga, Tokelau, and Kiribati (RBM objective 1.1). Assistance in completing/developing reform roadmaps (RBM objective 1.2) will focus on Cook Islands, Fiji, FSM, RMI Samoa, Solomon Islands, Tonga, and Tokelau. 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.

87. 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. Some of the major projects in FY2015 currently underway or scheduled includes:

- **Non-tax revenue reviews.**

In 2012, at the request of the Samoa Ministry of Finance, PFTAC and the Australian Department of Finance began a project to review the management of Samoa's many non-tax revenues. The project focused both on the processes for reviewing these revenues, as well as analysis of most of these revenues from Samoa's line ministries, with recommendations for re-basing many. The Samoa project is expected to be complete by July 2014. Other PICs, including the Solomon Islands, have requested PFTAC and Australia assistance in starting similar reviews during FY2015.

- **Better integration of planning and budgeting for the medium-term.**

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 DOF, focused on improving budget preparation. 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.

Following on the 2014 Strategic Development Program, several countries (including Nauru, Niue, Fiji, Tuvalu, Kiribati, Tonga, Solomon Islands, and the Cook Islands) are considering changes to their budget preparation processes to achieve greater integration of planning and budgeting. 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. PFTAC stands ready to provide TA to these countries through training and direct TA, as possible in coordination with other donors.

- **Assisting in structuring the management of resources from climate change funds and funds established for natural resource mining.**

With the possibility of additional resources coming to the PICs from many donors, PFTAC has been asked to participate in forums and workshops to shape policies guiding the management of these resources. Similarly, with regard to resources available from sea minerals, PFTAC input has been sought by organizations such as SOPAC as well as by individual PICs. Particularly important for both potential revenues is that their management be transparent and maintained as part of the regular annual budget processes in each country – letting use of these resources go « off-budget » would be a big step backwards in terms of developing transparency and accountability. Additional issues faced by countries exploring possible revenues from deep sea mining include establishing policies to fairly allocate revenues among generations and containing recurrent government costs to levels that will be sustainable when the natural resources are depleted.

- **Assistance in Accounting Reform and evaluating FMIS systems.**

Accounting systems and methodologies used in the region do not provide a full overview of countries' financial situation, especially with regard to fiscal risk emanating from the larger public sector. In Fiji, an IMF HQ mission carried out a review on modernizing financial reporting, and introducing (elements of) internationally accepted accounting standards. This is a reform direction PFTAC will want to promote in the coming years in the region.

Financial Management Information Systems can be very costly to set-up. Donors and PICs themselves have requested assistance from PFTAC to evaluate systems and recommend strategies for moving forward. In FY2015, TA support for this important aspect of PFM is expected to continue for PNG, Tonga, Kiribati, and Nauru.

- **Social security/pension reform.**

Because of their long-term nature, social security and pension programs must be very carefully developed and managed. During FY2014, PFTAC (in cooperation with the IMF HQ's Expenditure Policy Division) started working with both FSM and RMI to evaluate and explore pension issues facing those countries. Continuation of these activities into FY2015 is anticipated.

- **Improving Debt and Cash Management.**

Many PICs face significant debt management problems- often created by poorly performing and semi-autonomous state-owned enterprises. PFTAC anticipates continued assistance to Kiribati on debt management during 2015, and potentially also Tuvalu and Nauru.

Cash planning and lack of access to short-term financing remain important issues in the region. Temporary, within-year mismatches in revenue and expenditure tend to disrupt orderly execution of the budget, leading to poor service delivery, cash rationing, and/or (temporary) accumulation of arrears. This is an area where new TA activities will be promoted in FY2015.

88. The indicators used in the RBM framework for monitoring progress towards the PFM objectives have been further 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 more clearly aligned with the major groupings of PFM objectives in the PEFA framework (see Annex VI). More comprehensive information about PIC PEFA ratings will be presented in each annual report showing progress, and identifying PFM strengths and weaknesses. 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.

89. 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.**

Currently it provides manuals and presentations on good practice in several aspects of PFM, including modules for PEFA Self-assessments, procurement, budget preparation, and budget analyst training.⁶

90. PFTAC will also continue a partnership with the Pacific Islands Center for Public Administration (PICPA) at the 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 regularly 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, Skills for Budget Analysts, Accounting, and Internal Audit.

Revenue Policy and Administration

91. TA in revenue administration in 2015 will continue to focus on the program objective of promoting broader-based and more efficient revenue systems. To this end, the work of PFTAC falls broadly into three areas:

- Assistance with institutional reforms, including design of revenue policy frameworks and legislation;
- Assistance with strengthening key elements of tax administration;
- Assistance with modernizing organizational management and accountability processes.

92. Modes of TA delivery will continue to employ a mix of bilateral assistance with implementing reforms, and regional or sub-regional training on specific issues of broader interest. In some areas, such

⁶ The pilot website can be accessed at: <http://class.pftac.org/login/index.php> (Note Log-in as « Guest », then click on “PIFMA”)

as tax policy framework design and legislation, PFTAC draws on external expertise and HQ-based staff, while the bulk of tax administration TA is provided by a mix of assistance from the Suva-based long-term advisor and short-term experts. Training activities are often organized in conjunction with other development partners, and in close coordination with the Pacific Islands Tax Administrators Association (PITAA).

93. The tax policy and administration work plan for FY2015 anticipates delivery of an expanded STX program of approximately 26 missions totaling 280 days concentrated on 8 PFTAC member countries and an increase in regional workshops. The long-term advisor will divide his time equally between direct TA, management and oversight of the short-term expert TA delivery program and support for regional initiatives including regional workshops and the Pacific Islands Tax Administrator's Association (PITAA). Fiji has traditionally been a big user of tax administration TA and it is expected that this will continue. The long-term advisor will assume much of the responsibility for TA delivery to Fiji thus freeing up STX time for other PFTAC member countries. The long-term advisor will also assume responsibility for providing high level strategic TA before STX resources are committed. Additional STX TA time will also be provided for legislation drafting under the technical guidance and support of IMF headquarters Legal department. It is expected that the number of tax administration workshops will increase from 3 to 6 in FY2015 focusing on areas of core need as outlined in the baseline assessment and priority areas as identified by the PITAA.

94. Technical assistance on tax policy and administration issues arising from the exploitation of natural resources is also provided to some PFTAC member countries directly from IMF headquarters. PFTAC member countries who have received and, will continue to receive, assistance under the Managing Natural Resource Wealth Topical Trust Fund (MNRW-TTF) include Papua New Guinea, Solomon Islands and Timor Leste (Palau is also eligible). The resident advisor will collaborate closely with IMF headquarters teams where this MNRW-TTF assistance is provided.

95. Evaluation of country tax administrative processes against a standard external benchmark provides valuable information for prioritizing reforms and TA. PFTAC commenced a qualitative baseline assessment in 2010 with PITAA. This assessment has been updated in 2014 and indicates a significant shift towards achievement of modernization initiatives reflected in improved tax policy, legislation, and modern revenue administration practices.

96. The 2014 baseline analysis showed that a priority work area will continue to be development of modern tax policy frameworks and effective legislation (See Annex VII) (RBM 2.1; 2.2). Revenue policy development and new legislation will be carried out under the technical guidance and supervision of IMF headquarters Tax Policy and Legal Divisions and will include work on VAT (Palau, FSM, RMI,); business income tax for larger business (FSM, RMI, Nauru); presumptive tax for smaller business (Kiribati, Nauru, Samoa); monthly collection of employment taxes with no employee filing (Nauru); and resource taxes (Tonga).

97. Recently, a Tax Administration Diagnostic Assessment Tool (TADAT) framework has been developed by the IMF and development partners. TADAT provides a standardized framework for assessing tax administration performance by outcome area and will assist in determining future reform priorities. A TADAT assessment will focus on outcomes rather than inputs, outputs or processes and is based around 9 high-level performance outcome areas. It will pinpoint the relative strengths and weaknesses of a country's tax administration, providing a clear and objective assessment to all

stakeholders. When implemented, this will be very useful for PFTAC in determining TA priorities, as well as in assessing the impact of TA.

98. In anticipation of the implementation of TADAT, PFTAC has modified the classification of its revenue policy and administration TA activities in the RBM framework. The new classifications or codes encompass all the activities under the previous codes, but bring them into closer alignment with the TADAT codes and with those used in PFTAC's own qualitative baseline assessments. In Annex III, the RBM reporting of PFTAC activities in FY2014 uses the previous coding system, while the forward-looking RBM logframe for FY2015 in Annex V is based on the revised codes.

99. PFTAC will support PICs in establishing a baseline for their country and enabling cross-country comparison by utilizing the Revenue Administration Fiscal Information Tool (RA-FIT). RA-FIT will enable countries to record their qualitative and quantitative revenue administration data through a series of online forms. RA-FIT commenced as a data gathering initiative in 2012. Data consolidation and formatting has taken longer than expected, and a web-based platform has now been launched for round 2 data gathering. It is the intention of IMF to provide all participants with a report as an annual service to member countries.

100. Most PICs now have the core administrative business processes in place but the effective use of these processes and the extent to which they reflect modern tax administration principals varies considerably from one jurisdiction to another. Taking into consideration that considerable progress has been achieved in the development of tax policy, more emphasis will not be placed on refining processes geared towards improving voluntary compliance aimed at increasing revenues for government. This work will include:

- Processes for verifying and maintaining the integrity of taxpayer information and compliance obligations (registration, filing and payment) (*RBM 2.3*) (Kiribati, Nauru, Palau, Tonga, FSM, RMI);
- Ensuring that business systems and processes are based on risk management principles and utilize modern techniques such as self assessment (*RBM 2.4*) (FSM, Fiji, Kiribati, Nauru, RMI Tonga);
- Developing compliance improvement plans and strategies that are risk based and utilize a mixture of service and enforcement approaches (*RBM 2.5*) (Kiribati, FSM, RMI, Palau, Tonga, Vanuatu);
- Ensuring Modern IT operating systems are in place and operating effectively (*RBM 2.6*) (Fiji, Nauru, regional assistance on disaster recovery and IT strategic planning models);
- Ensuring organizational and operating structures are relevant to the business to allow for the effective use of resources (*RBM 2.7*) (Nauru); and
- Assisting in the strategy, planning and implementation of modern IT infrastructure and operating systems that are effectively utilized and maintained (*RBM 2.8*) (Fiji, regional workshops).

101. Corporate governance and accountability continues to be an area where some PICs will need support and PFTAC will continue to work in this area (*RBM 2.8, 2.9*) (Fiji, regional workshops). Effective corporate strategies, business planning processes and management information reports are important

tools in effective revenue administration. These tools need to be regularly updated and linked to the administrative processes.

102. PFTAC will continue to strengthen its cooperation with development partners. In particular, we will continue to provide strategic guidance and oversight to countries with DFAT funded resident revenue advisors and collaborate closely with those advisors to facilitate implementation of the PFTAC recommendations.

103. In association with PITAA, PFTAC will continue to provide regional workshops and training courses to improve the effectiveness of revenue administrators. In addition, PFTAC will work with other agencies and support joint tax administration workshops in areas of regional priority. In 2015, resources permitting, PFTAC will aim to increase its use of workshops and training in building up tax administrators' knowledge and skills across the region. Specifically PFTAC will support the PITAA priorities on capacity building (high risk industry issues, cash economy and debt management) and regional models (disaster recovery and IT strategic planning) with at least 4 workshops.

Financial Sector Supervision

104. All countries involved in the implementation of the base set of prudential returns have completed the program (RBM objective 3.1). Commercial banks from the five participating nations, Vanuatu, Solomon Islands, Palau, Cook Islands and Tonga are fully engaged and reporting on a monthly basis to its corresponding oversight authority. The off-site banking supervisors are assessing the information received and producing reports on their findings which are submitted to senior management on a regular basis. The information received is used in a risk assessment of each commercial bank. This is then used in determining the priorities for on-site examinations. The Technical Advisor will continue to monitor those activities and this year we are planning to develop a simplified version of the returns aimed at smaller institutions.

105. The regional implementation of the Reserve Bank of New Zealand (RBNZ) Financial Sector Information System (FSIS) will be part of our activities for FY2015 (RBM objective 3.2). In FY2014 PFTAC worked with the RBNZ to set up a pilot for the implementation of the FSIS based on the set of prudential returns developed under AFSPC guidance in the Solomon Islands. The pilot will be monitored early this year and the results will form the basis for continued implementation in the other participating countries. Likely candidates for FY2015 are Cook Islands and Vanuatu.

106. Further development of off-site supervision manuals and procedures will also be implemented (RBM objective 3.3). The FSIS generates a series of reports compiled by using the data collected from the prudential returns submitted by each commercial bank. This results in the production of high level and detailed ratios analysis necessary to properly monitor any 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 set of user guide templates that will be required to gather the information extracted from the FSIS, perform the required ratio analysis and report its findings. This year will also see the development and implementation of a one page ratio report designed to provide senior management with an overview of the performance of each commercial bank on a monthly basis. This program will be developed in cooperation with members of the AFSPC.

107. Establishing stronger on-site examination skills will continue to be our priority. PFTAC will provide regional risk based banking supervision workshops for staff of supervisory departments aimed at strengthening their skills in performing actual on-site examinations (*RBM objectives 3.4-3.6*). The workshops will be structured based on the level of experience and number of participants. The AFSPC recommended that one session be held in the Northern region of the Pacific while the second will involve Southern region examiners. In addition a workshop will be designed for managers of supervision departments on managing in a Risk Based Banking Supervision Environment. An advanced workshop on specific risks will also be held in Fiji. The Technical advisor will be supporting the on-site examination program for Tonga by participating in a least two on-site examinations and performing a series of scoping missions to other nations based on request.

108. The 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 continue assisting Tonga with reviews of its central bank and financial institutions acts, drawing on IMF Legal Department resources. PFTAC will also provide support to Tuvalu if they decide to implement their banking legislation. All this however is likely to require resources well in excess of PFTAC's 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.

109. A number of countries are 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 will be providing technical advisory support to facilitate the inclusion of those sectors within a Central Bank's legislative, administrative and supervisory framework (*RBM objective 3.9*). This will require providing assistance in reviewing, amending or drafting legislation, regulations and bylaws as required. As the oversight of those institutions 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. PFTAC will receive support from the IMF Legal Department and will endeavor to coordinate with developing partners to ensure a comprehensive program is delivered.

110. In FY2015 the outreach on financial sector supervision issues will be increased (*RBM objective 3.10*). The Technical Advisor will speak at and mentor various workshops, congresses and conferences with the aim of sensitizing the regional financial institution community and its officials to concepts that are relevant to the sector. PFTAC will continue to act as Secretariat for the Association of Financial Supervisors of Pacific Countries (AFSPC), provide support in the hosting of its annual meeting and the annual workshop program and further support the annual Governors' meeting.

111. Following from analytical work on interest rates and bank profitability performed in the past, additional analysis on regional trends will be continued (*RBM objective 3.10*). PFTAC will provide to the regional Central Bank Governors' group an analysis on various trends in the region compared to other regions and international best practice. PFTAC will draw on AFSPC members for the data.

Macroeconomic Statistics

112. With two statistics advisors, PFTAC will focus on the improvement of national accounts statistics in the Pacific region by conducting advisory in-country missions, providing remote support and

delivering additional training using sub-regional training courses. Sub-regional training enables a better focus on local statistical issues in a cost effective way and PFTAC is increasing this mode of delivery with sub-regional training courses for countries from the Northern Pacific (Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau) and Melanesia (Papua New Guinea, the Solomon Islands and Vanuatu).

113. 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) Phase II (2015–2017). PFTAC is working with development partners to strengthen the effectiveness of the Pacific Statistics Steering Committee (PSSC) in the implementation of Phase II. For example, PFTAC is leading an initiative to improve coordination of TA and training by technical agencies in the Pacific region with regard to economic and environmental statistics. This involves clarifying responsibilities and identifying the first point of contact for various areas of statistics.⁷ PFTAC has continued to provide input to PSSC on macroeconomic statistics and intends to lead a working group on economic statistics with regional statisticians and other TA agencies to support the work of the PSSC. Modalities of the working group should be established during 2014.

114. PFTAC will also continue to coordinate closely with economic statisticians at the Secretariat of the Pacific Community (SPC) in the areas of price statistics, national accounts, surveys and administrative data, and international trade statistics. PFTAC will continue to work closely with resident and peripatetic long-term economic statistics advisors in Palau, Samoa, the Solomon Islands, and Timor-Leste.

115. The Partnership in Statistics for Development in the 21st Century (PARIS21), provides TA for the development of National Strategies for the Development of Statistics (NSDS) in a number of countries in the region. These strategies provide a framework for strengthening dialogue between the NSOs and their main users, help to prioritize the production of statistics indicators, and highlight the need for NSOs to be adequately resourced. PFTAC may contribute to the development of the NSDS.

116. The focus of the TA provision will be to address statistical issues identified or reinforced as priorities during the HOPS meeting organized in July 2013. Improvement of macroeconomic statistics involves improving the coverage, quality and timeliness of national accounts statistics. GDP is the key indicator used to measure economic performance and PFTAC focuses on improving its quality and coverage. In countries where statistical systems are more advanced, the scope of national accounts is being extended to develop different measures of GDP, increase periodicity and measure the impact of net income from overseas. The results-based management framework has been redesigned to focus on these key developments with the following measurable outcomes:⁸

- 4.1. At least 8 countries compile at least two independent measures of GDP;

⁷ Agencies involved include the Australian Bureau of Statistics, the Asian Development Bank, the Economic and Social Commission for Asia and the Pacific and the United Nations Statistics Division, the Statistical Institute for Asia and the Pacific, Statistics New Zealand, the Secretariat of the Pacific Community, and the University of the South Pacific.

⁸ The RBM results in FY2014 are reported on the basis of the old classifications, as shown in Annex III. The FY2015 RBM framework, shown in Annex V, however, is based on the revised classifications.

- 4.2 Constant price GDP estimates are rebased at least every 10 years;
- 4.3 At least 8 member countries compile regular annual GNI, GNDI, saving and net lending/borrowing aggregates;
- 4.4 At least 4 countries compile quarterly national accounts;
- 4.5 Data sources are adequate and methodologies are sound;
- 4.6 National accounts statistics are consistent with other statistics including balance of payments and government finance statistics;

117. The development of at least two measures of GDP when compiled using independent data sources enables data confrontation and the resolution of inconsistencies which contributes to data quality improvements. Regular rebases of constant price GDP estimates are essential to maintain a relevant pattern of relative prices. In countries where data sources enable the compilation of more frequent estimates, the compilation of quarterly GDP estimates enables a better tracking of the state of the economy leading to improved decision making. It is also important to ensure that national accounts statistics are consistent with other statistics published by official statistics producers and comply with recommended international standards in order to produce comparable statistics. In particular, consistency with balance of payments (Balance of Payments) and government finance statistics (GFS) is maintained with the integrated system of national accounts. The IMF regional technical assistance centers also have a comparative advantage given the opportunity of collaborating with other advisors on fiscal, revenue and banking.

118. Often neglected, the dissemination of relevant data and metadata is essential to ensure proper and efficient use of national accounts statistics. PFTAC supports the implementation of the GDDS and focuses on dissemination practices with the following measurable outcome:

- 4.7 National accounts statistics and associated metadata are readily available.

119. The development of sources and methods documents contributes to the improvement of metadata and creates crucial institutional memory. Price statistics are a key component for the compilation of national accounts and PFTAC also support improvements in this area—such as the consistency of CPI weights and household final consumption estimates—with the following measurable outcome:

- 4.8 Price statistics are of good quality and base years up to date.

120. The IMF External Sector Statistics (ESS) and Government Finance Statistics (GFS) projects funded by the Government of Japan aim to improve the accuracy, availability, comparability, and timeliness of statistics through country-specific TA and regional training workshops for the region. Activities for this program are spread out over an approximately three-year period and the program is expected to be completed by 2015. PFTAC closely collaborates with the IMF ESS and GFS experts and will continue to coordinate or deliver TA for the improvement of balance of payments statistics in non-IMF countries with the following measurable outcome:

- 4.9 Improvement in the coverage, quality and timeliness of balance of payments estimates.

121. PFTAC will continue contributing to the coordination of statistical developments with major surveys such as the household income and expenditure surveys (HIES) which are used to benchmark national accounts estimates and rebase constant price GDP estimates. PFTAC will continue to contribute to the HIES technical working group with development partners and representatives from national statistics offices in order to assist with standardizing HIES outputs in the region to national accounts requirements.

122. With support from statisticians from the region, 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. Papers are available on the PINACLE Internet site: <http://pinacle.pftac.org/page/Training/National/>

Macroeconomic Analysis and Forecasting

123. A central theme in the FY2015 work program addresses the need for countries to develop a more integrated macroeconomic monitoring / projection process (RBM objective 5.1). Monitoring and projection activities tend to be fragmented across and within institutions. As a consequence, policy analysis generated within and across institutions are often based on different underlying macroeconomic assumptions and do not take into account linkages to other divisions / institutions. Financial programming methods have been developed in a few countries to help ensure consistency across sectors. More can be done to share information and analytic capacity within and across institutions, especially in countries where capacity constraints are a major challenge. More frequent interaction between analysts within and across institutions can play a more prominent role in building capacity. Closer integration of analytic resources can also help management minimize disruption due to staff turnover.

124. Developing countries' capacity for medium-term fiscal planning and assessing debt sustainability are two other key objectives for FY2014 (RBM objectives 5.2 and 5.3). Fiscal planning in most countries tends to focus on a one to two-year horizon. As a consequence, longer-term fiscal pressures often do not play a prominent role in the policy discussions. A medium-term fiscal planning framework provides policy makers with a longer-term perspective along with a deeper appreciation of the need to manage the inherent uncertainty that surrounds macroeconomic and fiscal projections. Managing such risks is a central element of debt sustainability assessments (DSAs). Few countries in the region have the capacity to conduct their own DSAs effectively.

125. Medium-term fiscal planning encompasses the management of sovereign wealth / trust funds. This is of particular importance in Palau, FSM and RMI where Compact grants are set to expire in ten years. The sooner those countries are able to put in place a long-term fiscal adjustment plan, the smoother the transition. Developing capacity for long-term fiscal planning in those countries is therefore a high priority. Other countries in the region face the challenge of managing natural resource wealth, notably Papua New Guinea and Timor-Leste. In those countries, effective management of sovereign wealth funds can help preserve macroeconomic stability, while pursuing intergenerational equity objectives. Integrating the operation of sovereign wealth funds into the macroeconomic and fiscal framework is therefore a high priority for capacity building in those countries.

126. A related area of support stems from the need for countries to manage fiscal risks caused by natural disasters. Several countries in the region are vulnerable to severe cyclones and tsunamis, which often result in major economic losses and damage. Recovery and reconstruction efforts often entail major fiscal costs, which replace other spending priorities. Key development projects can get delayed for several years as a consequence, curtailing countries' growth potential over the longer term. While natural disasters are inevitable, countries can put in place contingency plans to help mitigate the economic costs. For example, building a contingency financial reserve can help ensure that the government can quickly access the liquidity needed to support its immediate response efforts. Technical support can provide countries with estimates of adequate levels of contingency reserves. Contingency planning can also play an important role in assessing debt sustainability. Countries vulnerable to natural disasters need to be mindful that a lower initial debt burden can provide them with room to borrow in the event of a major disaster. Technical assistance can be provided to help countries factor disaster risks into debt sustainability assessments.

127. Capacity building in these areas will continue through a combination of sub-regional training workshops and follow-up support at the country level. In the case of Samoa, for example, analysts participated in a regional workshop on Fiscal Analysis and Forecasting (jointly organized by PFTAC, the IMF Singapore Regional Training Institute and the IMF Institute for Capacity Development), as well as a debt sustainability workshop organized by the World Bank. A series of missions are planned to assist analysts in applying methods introduced in those workshops, while developing a medium-term fiscal planning framework that can be used to assess debt sustainability, keep decision-makers informed about the future cost consequences of policies already adopted or being seriously considered, and assist them in understanding when they will need to make adjustments to revenue policies or policies driving spending, as well as the magnitude of the adjustments that may be required. A similar strategy is planned for Fiji, RMI and FSM, where the ABD has provided technical assistance on developing a Fiscal Management Model (FMM). In those cases, follow-up support is needed to help analysts incorporate a more detailed debt sustainability module into the FMM.

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

A. General Information on RTACs

Nine 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.

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.

B. 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.

C. 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.

D. 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.

E. 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).

West AFRITAC 2 was opened in Accra, Ghana, in December 2013, covering the non-francophone countries from the Economic Community of West African States (ECOWAS) that are not served by the current West AFRITAC: Cape Verde, The Gambia, Ghana, Liberia, Nigeria, and Sierra Leone.

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.



CHITA MARZAN, PUBLIC FINANCIAL MANAGEMENT ADVISOR

Chita will be joining PFTAC in September 2014. Chita is a Filipino, and served in senior positions in financial and budget management in the Philippines government during the first part of her career. Subsequently, she worked as a PFM adviser with the UNDP in Rwanda and Bangladesh before joining the IMF Fiscal Affairs Department as a PFM technical adviser.



JOHN HAYES, REVENUE ADMINISTRATION ADVISOR

John joined PFTAC in February 2013 and is leaving in June 2014. 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.

**STAN SHROSBREE, REVENUE ADMINISTRATION ADVISOR**

Stan joined PFTAC in June 2014. Stan is South Africa and started his career in the South African Revenue Services before joining the IRD in New Zealand. He later served as Advisor to the Directorate General Taxation in Indonesia. Since joining the IMF in 2006, he has been involved in tax reform initiatives in South Eastern Europe.

**PIERRE SÉGUIN, FINANCIAL SECTOR 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, 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, 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 FY2014

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 both of these have 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 presented in PFTAC’s Annual Reports and will be reported to FEMM on a periodic basis (see for example 2013 FEMM Paper).</p> <p>As of May, 2014, 8 PFTAC Members have had repeat PEFA Assessments. Aspects of PFM showing the most significant improvement are:</p> <ul style="list-style-type: none"> • Aggregate expenditure out-turn compared to original approved budget • Composition of expenditure out-turn compared to original approved budget • Comprehensiveness of information included in budget documentation • Orderliness and participation in the annual budget process • Timeliness and regularity of accounts reconciliation <p>A more detailed summary 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>IMF’s RA-FIT first round indicated costs of collection for low income countries was approximately 2.4% against a low middle income average of 2.15 and a high income country average of 1.1%. There was insufficient data from PICs for PIC data to be extracted</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
		<p>separately. The second round of RA-FIT is now underway and it is expected that costs of collection for PICs will be known in time for the 2015 PFTAC annual report.</p> <p>The second round of PFTAC Benchmarking has been completed and results are attached in Appendix VII.</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;</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>Methodology improvements in second GDP measures effected in a number of countries; quarterly GDP newly published in one, and being developed in two others.</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 FY2014

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. In addition self-assessments were conducted in Palau and the Solomon Islands in FY2013.</p> <p>This brings to 15 the total countries having had at least one self-assessments or formal PEFA assessment funded by PFTAC or other donors since the PEFA process started in the PFTAC region.</p>	<ul style="list-style-type: none"> • Self-assessments are anticipated during FY14 in Cook Islands and PNG, with formal assessments following in FY2015. • Formal completion of PEFA assessments in Samoa and Tokelau are anticipated during FY2014. 	<ul style="list-style-type: none"> • Cook Islands and Tokelau completed PEFA Self-assessments, and have scheduled formal assessments for FY2015. • Training on the PEFA methodology was conducted in PNG. Their self-assessment started in May 2014, and a formal assessment is expected for March 2015. • Samoa completed the formal PEFA assessment. 	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>Cumulatively, since the PFM Roadmap development process started:</p> <ul style="list-style-type: none"> • 7 PICs (Cook Islands, Kiribati, Nauru, Niue, Samoa, Solomon Islands & Tuvalu) have developed PFM Reform Roadmaps. • 2 PICs (Tonga and RMI) have drafts. • PFTAC efforts (including suggestions for revisions of earlier Roadmaps) during FY13 focused on Nauru, Niue, RMI, Tonga & Tuvalu. 	<ul style="list-style-type: none"> • Tonga and RMI draft roadmaps are completed, and a draft is started for FSM. 	<ul style="list-style-type: none"> • Fiji draft started. • FSM draft started • RMI Roadmap awaiting Cabinet endorsement. • Solomon Islands draft near completion. • Tonga has revised its draft. Final version expected in FY2015. 	

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievements	Specific Risks/ Assumptions
<p>1.3 Modernized legal frameworks and financial Instructions implemented in 5 countries.</p>	<ul style="list-style-type: none"> • Work commenced in the Cook Islands on changes related to debt servicing and mineral resources. • Kiribati was assisted in developing a draft policy on debt and cash management. • Solomon Islands developed a draft PFM Act with input from IMF/PFTAC and Australia. 	<ul style="list-style-type: none"> • Cook Islands: Propose amendments to PFM act related to debt management and use of mineral revenues. • Kiribati: Assist authorities finalize amendments to policy/laws on budget development and debt management. • Solomon Islands: Assist authorities to develop new PFM Act and implementing instructions. 	<ul style="list-style-type: none"> • Cook Islands: Debt management and mineral trust fund acts adopted. • Kiribati: Recommendations provided on debt management and budget development law amendments– awaiting further action. • Solomon Islands: New PFM Act adopted and recommendations prepared for implementing instructions for both PFM Act and Constituency Funds. 	<p>Requires political and administrative commitment. Will be linked to regional work by ADB and Australian DOFD.</p>
<p>1.4 Updated accounting standards implemented.</p>	<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>Kiribati has developed draft revisions to its Chart of Accounts and expense codes and Fiji continued work to revise its accounting standards.</p>	<ul style="list-style-type: none"> • Fiji advances new standards. • Kiribati: Adopt a new chart of accounts to better characterize use of donor funds, with ADB/DFAT support. • Tonga IFMIS amended to allow multi-year analysis and produce reports in GFS format. 	<ul style="list-style-type: none"> • Cook Islands: Review of FMIS conducted. • Fiji successfully produced annual financial statements in accordance with international accounting standards (cash basis IPSAS). • Kiribati has adopted a new COA to better characterize use of donor funds. • Tonga: TA provided on needed COA/FMIS improvements including multi-year institutional analysis and automated production of GFS functional reporting. 	<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-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 PEFAs received either an “A” or “B” rating; • Of the 8 PICs with repeat PEFAs, 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>Cook Islands, PNG, Samoa, Solomon Islands, Tonga, & Vanuatu have started implementing some aspects of medium-term budgeting.</p>	<ul style="list-style-type: none"> • Cook Islands: Enhancements to information flows MTB system. • Fiji, Kiribati, Samoa & Tonga: Improvements in budget documentation and process. • Regional: The February 2014 Strategic Leadership Program, sponsored jointly by PFTAC and the Australian DOFD, will focus on medium-term budgeting. 	<ul style="list-style-type: none"> • Fiji: Started a more outcome-focused medium-term approach. • Kiribati: Organization of NEPO has improved to facilitate better integration of planning and budgeting. • Nauru: Commenced fixed assets stock-take and recording. • RMI: PFTAC and the Expenditure Policy Division of IMF prepared a brief review of the Social Security program and financing issues. • Samoa: PFTAC and AusDOF supported a very thorough (and continuing) review and updating of non-tax revenues. • Tonga: “One Team-One Process” approach has improved planning and budgeting integration with a medium-term focus, • Regional: 12 PICs participated in the Feb 2014 Strategic Leadership program focused on budget preparation and several requested follow-up TA to advance a medium-term approach. • Regional: PFTAC assisted PASAI in setting framework for a performance audit of debt management in several PICs. • Regional: PFTAC presented at Climate Change Workshop (Sept 2013—Tonga) on issues related to integration of planning & budgeting. 	<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>	<ul style="list-style-type: none"> • Kiribati: Draft policy on cash and debt management. 	<ul style="list-style-type: none"> • Kiribati: Cabinet has adopted a policy of more disciplined debt and cash management. 	<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>	<ul style="list-style-type: none"> • TA Reports. • Presentations at workshops & seminars. • Manuals and guidance notes on key areas of PFM policy and administration. 	<ul style="list-style-type: none"> • Participation in recruitment and oversight of resident advisors recruited by AusAID (and others). • On demand remote advice. 	

Revenue Policy and Administration FY2014

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>	<ul style="list-style-type: none"> • Fiji PAYE legislation completed. • Fiji PAYE implemented 1st January. • Legislation completed and enacted in Samoa. • Policy review completed in Kiribati. • VAT and administration draft legislation completed in Kiribati. • Cook Islands natural resources legislation drafted. • Cook Islands policy review completed. • Samoa policy review completed. • Tonga natural resources policy completed 	<ul style="list-style-type: none"> • Cook Islands, Palau and Samoa: General tax policy and administration reviews completed. • Cook Islands: Natural Resources legislation drafted and endorsed by Cabinet. • Fiji: PAYE Final and Self-assessment legislation enacted and implemented. • FSM: Comprehensive tax reform package enacted. • Kiribati: VAT, Excise Tax, and Revenue Administration legislation enacted and implemented. • Nauru: Revenue policy and administrative review completed. • Palau: VAT laws developed. • RMI: VAT, Net Profits Tax, Revenue Administration and Revenue Authority legislation submitted to Parliament. 	<ul style="list-style-type: none"> • Cook Islands: Consultation on deep sea mining policy finalized. Policy review of VAT and IT settings endorsed by Cabinet. • Cook Islands: Deep sea mining legislation drafted and passed by Parliament. Changes to VAT and Income tax laws drafted and passed by Parliament. • Fiji: PAYE Final implemented. New Income Tax Decree drafted and public consultation in process. • FSM: Tax reform laws drafted but they have not received support from all 4 states. Public consultation continues. • Kiribati: VAT and Excise Tax laws drafted and implemented. New Revenue Administration laws drafted and implemented. • Nauru: Business tax, employment tax and withholding tax policy framework recommendations developed and adopted by Cabinet. • Palau: Policy framework recommendations developed and adopted. Public consultation completed with participation 	<p>Requires strong political commitment.</p>

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievements	Specific Risks/ Assumptions
		<ul style="list-style-type: none"> • Samoa: Review of VAT legislation. • Samoa: Small Business Presumptive Tax policy recommendations provided. • Tonga: Small Business Presumptive Tax enacted and implementation in process. • Tonga: Natural Resources legislation enacted. 	<p>from Bureaucrats, Congressmen and PFTAC TA. Legislation drafted referred to Congress.</p> <ul style="list-style-type: none"> • RMI: VAT, Revenue Administration, Revenue Authority and Net Profits drafted and public consultation in process • Samoa: Policy recommendation to adopt a simplified (presumptive) tax regime for small business adopted. Public consultation in process. Review of VAT laws is underway. • Tonga: Presumptive tax policy for small business finalized and laws drafted. New regime to be implemented by 1 July, 2014. Deep Sea Mining laws drafted. 	
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 .	<ul style="list-style-type: none"> • Tonga: 2015 corporate plan completed and reviewed by PFTAC. • Regional: The 2014 PITAA baseline assessment showed corporate planning exists for most PICs but effectiveness as a planning, process and monitoring tool is questionable. 	
2.3 Revenue administration processes automated in 4 additional countries.	<ul style="list-style-type: none"> • Regional IT workshop completed. • RMS Upgrade completed in Samoa. • IT Strategic plan completed in Fiji. • IT funding secured in Kiribati. • No funding commitment for FSM & RMI. • PNG SIGTAS still undergoing development but with partial implementation. 	<ul style="list-style-type: none"> • Fiji: endorses the IT Strategic Plan. • Kiribati: Procurement and implementation of RMS 7 finalized. • PNG: Staged implementation of SIGTAS progresses according to plan. • Solomon Islands: RMS7 	<ul style="list-style-type: none"> • Fiji: Board of Governors approves replacement of Fiji Integrated Tax System. PFTAC TA provided to review COTS systems. • Kiribati: New IT system (RMS) implemented. • Tonga: Upgrade to latest version of RMS 7 in process • Tuvalu: RMS 5 operating difficulties 	Requires funding commitments from countries and, in many cases, donors. PFTAC focus will be on aligning IT strategy with overall the business strategy.

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievements	Specific Risks/ Assumptions
		<p>upgrade completed.</p> <ul style="list-style-type: none"> • Tonga: Procurement of RMS upgrade. • Tonga: Partial implementation of RMS 7. • Tuvalu: RMS 5 maintenance issues resolved and system is operational. 	<p>resolved. Maintenance agreement now in place. Data cleansing in process.</p>	
<p>2.4 Self assessment principles adopted for 6 additional countries.</p>	<p>Fiji and Samoa: Self-assessment introduced in their rewritten legislation with effect from 1 January 2013.</p>	<ul style="list-style-type: none"> • Self-assessment adopted in Fiji, Samoa, and Tonga. • Self assessment review in Tonga and recommendations made. 	<ul style="list-style-type: none"> • Fiji: Self assessment review identified an overall deficiencies in income tax self assessment. VAT operates well but not income tax. Self assessment pilot in process. More work is necessary. • Kiribati: Self assessment policy recommendation agreed in principal. PFTAC TA to develop new regime. • Tonga: Self-assessment review identified deficiencies in income tax self assessment. More implementation work is necessary • Vanuatu: Strong risk based systems are in place. 	<p>Requires legislative underpinning and change management program in the tax administration. Substantial TA needed for success.</p>
<p>2.5 Revenue administrations organized in taxpayer-focused operating model (functional or segmented) used in 4 countries.</p>	<ul style="list-style-type: none"> • Most Pacific countries have functional models and some segmentation but all need refinement. • Samoa has realigned its operating model as part of their institutional strengthening program. • Tonga has implemented a refined model. 	<p>Review of operating models in all member countries.</p>	<ul style="list-style-type: none"> • Regional: The 2014 PITAA baseline assessment showed that most PICs are operating on a functionally-based structure. • Nauru: Cabinet approval to merge Customs and Revenue. Recommendations provided for new functional organization structure. 	

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievements	Specific Risks/ Assumptions
2.6 Risk management and compliance improvement strategies adopted in 4 additional countries.	<ul style="list-style-type: none"> Compliance Improvement Strategies operate with varying degrees of success and need continual support to be fully effective. Most countries (except Samoa) do not have a formal Compliance Improvement Plan (CIP) Risk management is accepted in principle by PICs but there is a reluctance to embrace them. 	<ul style="list-style-type: none"> Compliance improvement strategies to be reviewed in Samoa, Tonga, Tuvalu and Vanuatu. Risk management reviewed in Tonga. 	<ul style="list-style-type: none"> Samoa and Vanuatu have implemented compliance improvement initiatives with a strong proactive service culture. Tonga: compliance improvement plan has been implemented but needs to be updated. Planning for new taxpayer service division is under way. Tuvalu: compliance improvement activities are well advanced and showing very good results. 	<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.	<ul style="list-style-type: none"> Model tax office framework agreed. Ongoing activity needed for regional solutions in key areas and sharing of best practice. 	<p>Regional: Cross-cutting milestones for outcomes 2.1 – 2.6</p>	<p>Regional: Adopted.</p>	<p>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.</p>
2.8 Regional support office mechanism for countries with common IT systems (e.g. PC Trade, RMS, CMS)	<ul style="list-style-type: none"> IT Strategies developed and workshop held for all member countries. First user forum was convened in November 2011 by Data Torque (RMS). 	<ul style="list-style-type: none"> Regional: Data Torque regional support strengthened. Regional: Establishment of regional teleconferences. Regional: Establishment of regional discussion forums at PITAA meeting. 	<p>Regional: Sub -committees established through PITAA. Workshops planned for early 2015.</p>	<p>Modeled on the ASYCUDA regional support office. Will require funding (from countries and/or donors).</p>
Inputs/Outputs				

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievements	Specific Risks/ Assumptions
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.	36 TA missions to 8 PFTAC countries completed. Completed TA reports, VAT manuals, and revenue administration manuals.	.

Financial Sector Supervision Logical Framework FY2014

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 reporting & monitoring of prudential information:</p> <ul style="list-style-type: none"> Improved bank reporting requirements, Allow supervisory authorities to regularly calculate “core” Financial Soundness Indicators, Perform enhanced monitoring and assessment of financial condition and performance of banks, Data regularly used to assess banks in 5 countries. 	<ul style="list-style-type: none"> Implementation of Prudential Returns developed by the AFSPC with assistance from PFTAC. The new prudential returns are completed by the commercial banks and submitted to the central bank. It provides data to allow for the calculation of prudential ratios. At the end of FY13 the following countries had implemented the program: Cook Islands, Palau, Solomon Islands & Tonga. PFTAC will continue to monitor and encourage AFSPC members to participate in the voluntary disclosure of FSIs on the AFSPC web site. 	<ul style="list-style-type: none"> Vanuatu: Implement Prudential Returns. Commercial banks are reporting on a monthly basis. AFSPC members are inputting data on the web site. Regional: Training in Excel (as required). 	<ul style="list-style-type: none"> Vanuatu: Prudential returns implemented. Commercial banks are reporting monthly in Cook Islands, Palau, Solomon Islands, Tonga & Vanuatu. Regional: AFSPC members are reporting financial information on the association’s web site. Regional: Staff is proficient in Excel. 	<p>The forms were designed by a TA from PFTAC. Under the understanding that;</p> <ul style="list-style-type: none"> The commercial banks’ staff will have the technical ability to complete the forms, The Central Banks’ staff will have the technical ability to process the information submitted, The Central Bank staff can trouble shoot the software. <p>The underlining risk is that:</p> <ul style="list-style-type: none"> The software will fail and no one will be able to correct the error messages, Institutions will not have the technical staff to adequately complete the forms.
<p>3.2. Implementation of Financial Sector Information System (FSIS):</p> <ul style="list-style-type: none"> A system developed by the Reserve Bank of New Zealand 	<ul style="list-style-type: none"> Following the successful implementation of Prudential Returns, the Reserve Bank of New Zealand offered to develop a Financial Sector Information System (FSIS) that would receive the information provided by banks under the 	<ul style="list-style-type: none"> Regional: RBNZ will configure its FSIS to accept the data from the PFTAC Prudential Returns which are submitted by the commercial banks. 	<ul style="list-style-type: none"> Regional: RBNZ completed the configuration of prudential returns developed by PFTAC to be compatible with its FSIS 	<ul style="list-style-type: none"> Requires management commitment to strict implementation of off-site monitoring policies and capacity to adequately process data.

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievement	Specific Risks/ Assumptions
<p>for the collection and storage of data submitted by commercial banks through the completion of the monthly Base Set of Prudential Returns designed by PFTAC.</p>	<p>PFTAC Prudential Returns scheme and upload them onto a data base system (FSIS) that would provide the staff of Central Banks with ease of data access to perform off-site monitoring and key ratio analysis.</p> <ul style="list-style-type: none"> This will further facilitate the automation of various standardized output reports. The RBNZ approved the project Solomon Islands was selected for the pilot project. 	<ul style="list-style-type: none"> The Central Bank of Solomon Islands will be the Pilot jurisdiction for the implementation of the FSIS. Hardware / Software test – Aug 2013; RBNZ Training – Sept 2013; Data input – monthly, starting in Oct 2013 	<ul style="list-style-type: none"> Solomon Islands Pilot Program: <ul style="list-style-type: none"> Hardware / Software installed Training completed Data input performed monthly starting in Oct 2013 RBNZ monitoring the pilot program 	<ul style="list-style-type: none"> There is a requirement for upgrading the central bank’s hardware to accommodate the FSIS. This is an additional cost. Central banks will have to provide staff with competency in Microsoft Excel at the intermediary level. 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. Currently FSIS is only compatible with Prudential returns designed by PFTAC.
<p>3.3 Effective off-site supervision:</p> <ul style="list-style-type: none"> Manuals for completing quarterly off-site monitoring report. 	<p>The implementation of the base prudential returns and the preparation of standardized output reports for rating banks will have to be completed before this component may be activated.</p> <p>There were delays implementing the prudential returns therefore the proposed assistance to formulate / revise manuals for conducting quarterly off-site monitoring has not progressed.</p>	<p>No activity is expected in this section.</p> <p>The completion of the prudential return component 3.1 is required before this component can be activated.</p>	<p>The result of the Pilot at the Central Bank of Solomon Islands will be required in order to activate this section.</p>	<ul style="list-style-type: none"> Staffing: Turnover of supervision staff is a key risk. While PFTAC provides training in calculation of key analytical ratios and trend analysis, staff experience is needed to fully apply the concept of financial institutions composite ratings.

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievement	Specific Risks/ Assumptions
<p>3.4 Effective on-site examination:</p> <ul style="list-style-type: none"> • Aiming towards, implementing Risk-Based Banking Supervision, • Emphasis on credit, market, liquidity and operational risks , • Examination performed in 5 countries, 	<p>Assistance will be provided to a number of countries in conducting full-scope examinations of Financial institutions.</p> <p>Solomon Islands & Tonga received substantial training support and TA in this sector.</p>	<p>Solomon Islands, Tonga & Vanuatu will undertake at least one full scoped on-site examination using the approach learned during the training.</p> <p>Regional: Regional Training course in Risk Based Banking Supervision.</p>	<ul style="list-style-type: none"> • Solomon Islands & Vanuatu: Overview of program completed. • Tonga: On-site examination scoping performed. • Regional: 5-day workshop on risk-based supervision held for participants from FSM, Palau & RMI. 	<ul style="list-style-type: none"> • Staffing; Turnover of supervision staff is a key risk. • PFTAC will provide training in risk based banking supervision, including special focus on credit risk analysis, market risk, liquidity risk and compliance with lending and investment policies and the accurate disclosure of capital, reserves, earnings and loss.
<p>3.5 Use of examination reports</p> <ul style="list-style-type: none"> • 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>Standardized examination report templates were developed and implemented in: Palau, RMI, Solomon Islands & Tonga.</p> <p>The standardized report will be instrumental in assisting the examiners to prepare written comments identifying the strengths and weaknesses of bank’s operation and in outlining examination’s findings and recommendations.</p>	<ul style="list-style-type: none"> • Palau will refine implementation through the use in an on-site examination program for foreign bank branch. • Tonga will use written procedures in at least 1 on-site examination by the end of FY2014. 	<p>This section is not completed – postponed to FY15.</p>	<ul style="list-style-type: none"> • Staffing; Turnover of supervision staff is the key risk. • PFTAC will provide assistance to authorities in designing standardized examination report to ensure every bank is subjected to a minimum level of review and analysis.
<p>3.6 Established policies and procedures</p> <ul style="list-style-type: none"> • Completion of written procedures for examining banking activities and specific areas of operation. 	<p>Training and support was provided to Solomon Islands and Tonga in conducting on-site bank examinations.</p> <p>This assistance resulted in the production of written examination procedures for examining loan portfolio and assessing liquidity risk.</p> <p>Written examination procedures for reviewing other assets and due from bank accounts have</p>	<ul style="list-style-type: none"> • Solomon Islands will use the training received to develop procedures to assess liquidity risk during on-site examination of financial institution. • Tonga will incorporate written examination procedures when examining loan portfolios and 	<ul style="list-style-type: none"> • Solomon Islands are using procedures to assess liquidity risk during onsite examinations. • Tonga incorporated examination written procedures when examining loans and assessing liquidity Risk. 	<ul style="list-style-type: none"> • Staffing: Turnover of supervision staff is the key risk. • Lack of experience and tenure is another risk. • PFTAC can provide assistance in tailoring procedures to individual jurisdictions and training in completion of procedures. The stability of the staffing

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievement	Specific Risks/ Assumptions
	also been developed.	assessing liquidity risk.		complement and the ability to recruit qualified entrant is a challenge for small jurisdictions.
<p>3.7 Use of financial statement analysis and templates</p> <ul style="list-style-type: none"> Financial statement analysis regularly used to enhance evaluation of credit risk and verify the adequacy of loan grading and provisioning by banks. 	<p>A one-week training course was conducted in August 2011 to provide training to AFSPC members in the use of financial statement analysis and the evaluation of bank credit risk. 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. Training is contemplated for other jurisdictions.</p>	<ul style="list-style-type: none"> Solomon Islands, Tonga & Vanuatu continue to include financial statement analyses while performing on-site examination perform. There is an expectation that FSM, Palau & Samoa will proceed with the analysis framework 	<p>Tonga: A ratio reporting template developed.</p>	<ul style="list-style-type: none"> Staffing: Turnover of trained staff in this sector 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. The more examinations they perform better will be the performance of the staff.
<p>3.8 Sound legal framework</p> <ul style="list-style-type: none"> Basel-compliant legal frameworks and supporting regulations in place. 	<ul style="list-style-type: none"> Request received from Tonga for assistance in modernization the Reserve Bank Act and other related legislation. Similar request are being contemplated for Kiribati, Nauru & Tuvalu to discuss with the authorities legislative reform and to provide recommendations for implementing appropriate bank supervisory regimes. 	<p>Tonga: Revision of the National Reserve Bank of Tonga Act and the Financial Institutions Act.</p>	<p>Tonga: The drafting of the National Reserve Bank of Tonga Act and the Financial Institutions Act was performed by the IMF Legal Department under the sponsorship of PFTAC.</p>	
<p>3.9 Modernized legal and supervisory frameworks for non-banks, credit unions, and micro-finance institutions.</p> <ul style="list-style-type: none"> Modern legal and regulatory frameworks established for regulation and supervision of 	<ul style="list-style-type: none"> Credit unions are operating under dated legislation and there is a trend to modernize the sector. A number of countries have expressed a desire to receive TA to upgrade the sector. Microfinance Institutions are increasing their operations and adding products which cross the line from small lenders to deposit taking 	<ul style="list-style-type: none"> Assistance in revising the Credit Unions Act, Regulation, credit union Bylaws. Training in supervising credit unions Training reporting financial results. 	<ul style="list-style-type: none"> Request for assistance in drafting a new Credit Unions Act, Regulations and Bylaws was received from Timor-Leste and Palau. Drafting process started with backstopping assistance from LEG approved. 	

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievement	Specific Risks/ Assumptions
<p><i>such institutions.</i></p> <ul style="list-style-type: none"> • <i>Training provided to supervisors.</i> 	<p>and banking operation, thus requiring an oversight regime to be implemented.</p>	<ul style="list-style-type: none"> • Microfinance legislation 		
<p>3.10 Outreach</p> <ul style="list-style-type: none"> • <i>Organizing and/or participating at conferences and events.</i> • <i>Association of Financial Supervisors of Pacific Countries.</i> • <i>Governors' annual meeting.</i> • <i>Financial sector Regional and International Conferences.</i> 	<ul style="list-style-type: none"> • PFTAC organizes the annual AFSPC conference. • PFTAC participates at the Governors' Annual Meeting. • In order to be current on financial sector activities in the region the TA will attend relevant congresses and conferences. • The TA will also provide outreach by presenting on relevant topics at conferences. 	<ul style="list-style-type: none"> • Regional: AFSPC annual meeting Samoa. • Regional: Governor's Meeting in PNG. • Regional: Attend Pacific Financial sector conferences on behalf of PFTAC. 	<ul style="list-style-type: none"> • Regional: AFSPC annual meeting Samoa - Nov. 2013. • Regional: Governor's Meeting in PNG - Dec. 2013. • Regional: CU Congress Fiji - Sept. 2013. • Regional: Pacific Microfinance Conference – Oct 2013. • Regional: Development Partners meeting Sydney – March 2014. 	
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. Presentations at workshops & seminars. Manuals and guidance notes.</p>	<p>On demand remote advice (phone, e mail).</p>	

Macroeconomic Statistics Logical Framework FY2014

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>	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Fiji, Kiribati: Development of an expenditure measure of GDP. Palau, Timor-Leste: Methodology review of expenditure and production measures. Regional: Regional training course in June 2013 built on the February 2012 seminar with a main focus on GDP (E). Regional: A sub-regional training course will be conducted in November 2013 for the FSM, Palau, & RMI. Regional: Completion of agreement among development partners on responsibilities/leadership on provision of TA on economic statistics under TYPSS. 	<ul style="list-style-type: none"> Cook Islands, Fiji, Palau, PNG, the Solomon Islands and Vanuatu: Methodology improvements. Kiribati: Further methodology development for the compilation of an expenditure measure of GDP. Nauru & Tuvalu: Plans to provide TA started. Tonga: TA resumed in following the departure of the resident advisor during 2013. Timor-Leste: Limited TA to be provided in due to support provided by other agencies. Regional: Sub-regional training courses used increasingly to meet specific local needs and build capacity. Regional: Agreement on regional TA responsibilities obtained for endorsement at future PSSC. 	<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.	<ul style="list-style-type: none"> HIES methodology redeveloped by SPC to improve results, surveys under way in Solomon Islands and Nauru. Fiji rebase completed. Samoa and Vanuatu rebases largely completed (Samoa TA from consultants under the Samoan Bureau of Statistics Institutional Strengthening Programme). 	<ul style="list-style-type: none"> Cook Islands, FSM, Kiribati, and Palau: HIES on new methodology planned. Cook Islands: Rebase to begin. Samoa and Vanuatu Rebases to be completed. Solomon Islands: Methodology to be substantially improved. 	<ul style="list-style-type: none"> Fiji & Nauru: HIES complete. FSM & Palau: HIES under way. Kiribati, Niue, & RMI: HIES is planned. Fiji & Vanuatu: Rebase of GDP estimates under way. Cook Islands & Solomon Islands: Rebase of GDP estimates in planning stage. Solomon Islands: Now publishes a core inflation index. PNG: Potential use of Laspeyres chain volume indices being explored. 	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.	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Cook Islands & Solomon Islands: Improvements in BOP needed to compile GNI and GNDI. 	<ul style="list-style-type: none"> Regional: Improved ESS provided by the HQ ESS project progressively incorporated in national accounts estimates of IMF PICs. Cook Islands & Niue: Redevelopment and documentation of BOP statistics underway. 	Requires national accounts and balance of payments statistics.
4.4 Quarterly National Accounts being produced in 4 member countries.	<ul style="list-style-type: none"> Cook Islands and Fiji: QNA development begun. Samoa: QNA methodology improved by ISP consultant. 	<ul style="list-style-type: none"> Cook Islands: Complete development of QNA. Fiji: Continue development of QNA. Vanuatu: Begin development of QNA. 	<ul style="list-style-type: none"> Cook Islands: Initial QNA estimates published in December 2013. Fiji: Initial work being undertaken. Vanuatu: plan to begin after the rebase. 	Requires better use of administrative data (tax, NPF, etc) and additional staff resources in NSOs.

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievement	Specific Risks/ Assumptions
4.5 Regular compilation of annual BOP estimates for countries with irregular compilation.	<ul style="list-style-type: none"> • Niue and Tuvalu: Improved BOP methodology and updated estimates developed. • HQ external sector statistics (ESS) project took over TA on balance of payments statistics for IMF member countries. 	<ul style="list-style-type: none"> • Cook Islands, Nauru and Niue: PFTAC to continue to assist with annual compilation and methodology development. 	<ul style="list-style-type: none"> • Regional: HQ ESS project provided TA to most countries. • Cook Islands: BOP statistics compilation methodology redeveloped. • Nauru: Review of BOP incorporated in 2015 plan. • Niue: Annual BOP update completed. 	Access to customs and other data.
4.6 Improvement in the coverage, quality and timeliness of current account estimates.	<ul style="list-style-type: none"> • Limited improvement in Cook Islands, Fiji, Kiribati, Niue and Tuvalu. 	<ul style="list-style-type: none"> • Regional: HQ ESS project to provide TA to most countries. • Cook Islands, Nauru and Niue: PFTAC to continue to assist with annual compilation and methodology development. 	<ul style="list-style-type: none"> • Regional: HQ ESS project provided TA to most countries. • Cook Islands and Niue: BOP assistance provided with staff training and documentation. 	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 IIP estimates for 8 countries.	<ul style="list-style-type: none"> • Limited improvement in Cook Islands, Fiji, Kiribati, Niue and Tuvalu. 	<ul style="list-style-type: none"> • Regional: HQ external sector statistics project provided TA to most countries. 	<ul style="list-style-type: none"> • Regional: HQ ESS project provided TA to most countries. • Cook Islands and Niue: BOP assistance provided to both. 	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.	<ul style="list-style-type: none"> • Limited improvement in Cook Islands, Fiji, Kiribati, Niue and Tuvalu. 	<ul style="list-style-type: none"> • Regional: HQ ESS project to provide TA to most countries. 	<ul style="list-style-type: none"> • Regional: HQ ESS project provided TA to most countries. • Cook Islands and Niue: BOP assistance provided to both. • Nauru: Review of BOP incorporated in 2015 plan. 	Requires improvement of data sources and methodology.

Measurable Outcomes	Baseline at end-FY13	Milestones (for FY14)	Milestone Achievement	Specific Risks/ Assumptions
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).	<ul style="list-style-type: none"> • Fiji: HQ International Comparison Program project assisting with Producer Price Index (PPI). 	<ul style="list-style-type: none"> • Fiji: Development of a PPI with assistance from HQ. 	<ul style="list-style-type: none"> • Fiji: PPI price collections started for both historical prices and ongoing quarterly with assistance from HQ and PFTAC. 	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.	<ul style="list-style-type: none"> • Australian Bureau of Statistics implementing Pacific ICP project, increasing technical capacity in NSOs. • Vanuatu: CPI rebase nearing completion. 	<ul style="list-style-type: none"> • Responsibility of SPC under the Ten Year Pacific Statistics Strategy. Dependent on HIES. 	<ul style="list-style-type: none"> • Kiribati: Rebase of the CPI finalized with assistance from the SPC. • Vanuatu: Assistance provided where a new compilation system is needed. 	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

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>	<ul style="list-style-type: none"> • Fiji: RBF staff has launched research projects into the long-run determinants of inflation using cointegration techniques. • PNG: the macroeconomic toolkit of BPNG for analyzing output and inflation developments has been expanded considerably. • Samoa: real exchange rate measures have been developed together with the Central Bank of Samoa). • 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. 	<ul style="list-style-type: none"> • Fiji: <ul style="list-style-type: none"> ○ RBF will publish working papers summarizing their research on (i) money demand in Fiji and (ii) the role of PPP for inflation in Fiji. ○ Develop core inflation measures. ○ Develop output gap measures. • PNG: improve GDP estimation by making full use of survey data (BPNG). • Samoa: extend external competitiveness analysis to import determinants. • Regional: enhance skills in fiscal policy analysis through workshop with ICD. • Regional: training in exchange 	<ul style="list-style-type: none"> • Fiji: <ul style="list-style-type: none"> ○ RBF WP on money demand completed. ○ RBF projects on measuring core inflation and output gap in progress. • PNG: developing GDP estimates – ongoing. • Samoa: completed. • Regional: two workshops on monetary and fiscal policy held in March. 	<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
<p>5.2 Introduction of macroeconomic modeling tools and financial programming frameworks.</p>	<ul style="list-style-type: none"> • Fiji: previous work program developed an “off-the-shelf” DSGE model for Fiji. • Fiji, PNG, Solomon Islands and Vanuatu: Financial programming frameworks have been developed. • Regional: Financial programming workshop held jointly with STI provided training to participants from most of PFTAC’s member countries. 	<p>rate analysis through workshop with CCBS.</p> <ul style="list-style-type: none"> • Fiji: customized DSGE model. • Regional: provide follow-up training for using and expanding financial programming frameworks in Fiji, PNG, Solomon Islands and Vanuatu. 	<ul style="list-style-type: none"> • Fiji: modest progress on model. • Fiji and Vanuatu: Training in financial programming scheduled for FY2015. • PNG and Solomon Islands: follow-up training in financial programming provided. 	<ul style="list-style-type: none"> • 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>	<ul style="list-style-type: none"> • Samoa: the Samoa Economic and Revenue Forecasting (SERF) model has been fundamentally updated and substantial training was provided in its use. • Solomon Islands: training in basic forecasting techniques was provided, especially for forecasting inflation. • Regional: PFTAC participated in a workshop organized by ADB TA on rolling out the Fiscal Management Model (FMM) for fiscal forecasting and policy analysis. 	<ul style="list-style-type: none"> • Samoa: continued support in the use of the SERF model for revenue forecasting. • Tonga: utilizing newly-rebuilt database of NRBT, provide training in basic forecasting techniques to staffs of NRBT and MoF. • Regional: hold regional workshop on basic forecasting techniques. 	<ul style="list-style-type: none"> • Samoa: supported staff in developing SERF model. • Tonga: supported staff in developing monitoring / projection framework. • Regional: workshop on fiscal policy analysis and forecasting held in March. 	<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.	<ul style="list-style-type: none"> • Fiji: developed debt sustainability template by extending the Fiscal Management Model developed as part of ADB TA. • Samoa: held workshop on macro-fiscal analysis and integration of this analysis into the budget preparation process in conjunction with PFM advisors. 	<ul style="list-style-type: none"> • Fiji: develop debt sustainability template by extending the Fiscal Management Model developed as part of ADB TA. • Samoa: develop medium-term fiscal planning / debt sustainability framework. • Regional: hold fiscal/debt sustainability workshop for FSM, Palau and RMI. 	<ul style="list-style-type: none"> • Fiji: preliminary version of template completed; further development scheduled for FY2015. • Samoa: development of medium-term fiscal planning framework under way. • Regional: workshop rescheduled; support on developing framework for fiscal sustainability in Palau under way. 	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.	<ul style="list-style-type: none"> • PNG: developed DSGE model for analyzing macroeconomic management of natural resource revenue. • Solomon Islands: incorporation of 'gold-mining' sector into financial programming framework. 	<ul style="list-style-type: none"> • PNG & Solomon Islands: issues related to macroeconomic management of natural resource issues will be covered as part of financial programming training (see 5.2). 	<ul style="list-style-type: none"> • 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 IV: PFTAC MISSIONS AND MEETINGS IN FY2014

Public Financial Management

Country	Description	Advisor Type	Mission Days	RBM Codes
Cook Is.	Review of IFMIS and Accounting Classification	Resident Advisor	17	1.4
	PEFA self-assessment in conjunction with FEMM secretariat	Resident Advisor	26	1.1
	Assistance with PEFA Self Assessment	Short-term Expert	24	1.1
	Debt Management and Sea Minerals Trust fund Law	Short-term Expert	13	1.4
Fiji	Implementation of International Accounting Standards	Resident Advisor	16	1.4
	Implementation of International Accounting Standards	Short-term Expert	20	1.4
	Implementing Accrual Accounting	Resident Advisor	14	1.4
	Implementing Accrual Accounting	IMF Staff	14	1.4
	Financial Management Reform Programme Development Facilitator- phase 1	Short-term Expert	12	1.2
	Budget Analyst Training	Resident Advisor	5	1.5
FSM	PFM Roadmap Development	Resident Advisor	20	1.2
Kiribati	Review of DFAT/ADB TA progress; budget analyst training ; & Debt/Cash Management Policy- Phase 1	Resident Advisor	18	1.3-1.6
	Debt/Cash Management Policy- Phase 2	Resident Advisor	11	1.3,1.5,1.6
	Debt/Cash Management Policy- Phase 3	Resident Advisor	5	1.3,1.5,1.6
Nauru	Fixed Assets Management and Fiscal Reporting	Resident Advisor	5	1.4
	PFM Roadmap revision & Medium-term budgeting development	Resident Advisor	10	1.2, 1.5
PNG	Support to Res Rep mission on Budgeting issues	Resident Advisor	7	1.5
	Review PNG FMIS/ICT issues	Short-term Expert	31	1.4
	Training of PNG MOF officials in use of the PEFA Self-Assessment Workbooks	Resident Advisor	16	1.1
Samoa	PEFA Self-Assessment- Phase1	Resident Advisor	11	1.1
	PEFA Self Assessment- Phase 2	Resident Advisor	11	1.1
	Non-Tax revenue Reform Project – rebasing review	Resident Advisor	10	1.3-1.5
	PEFA Final Assessment	Resident Advisor	22	1.1
	PEFA Assessment Support	Short-term Expert	53	1.1
	Macro-fiscal and Medium-term Budgeting Workshop	Short-term Expert	7	1.5
	Non-Tax revenue Reform Project – rebasing review	Resident Advisor	19	1.3-1.5
Tokelau	PEFA Assessment	Resident Advisor	7	1.1
Tonga	Review of Accounting classification and IFMIS	Resident Advisor	14	1.4
Solomon Is.	Implementation Rules- PFM & Constituency Fund Rules	Resident Advisor	12	1.5
	PFM Roadmap Development Guidance-Phase I	Short-term Expert	14	1.2
	Review of Non-Tax Revenue	Resident Advisor	7	1.3-1.5

Country	Description	Advisor Type	Mission Days	RBM Codes
Regional	PFM Roadmap Guidance- Phase 2	Short-term Expert	20	1.2
	Strategic Development Program (with AusDOF) M-T Budgeting	Resident Advisor	20	1.5
	PASAI Meeting - Presentation on Debt Management	Resident Advisor	2	1.1,1.6
	PFTAC Steering Committee Meeting	Resident Advisors	5	n.a.
	PFTAC Steering Committee Meeting	Short-term Expert	5	n.a.
	Symposium on PFM Reform in the Pacific	Resident Advisor	1	n.a.
	PFM-Climate Change Finance Workshop	Resident Advisor	5	1.5

Revenue Policy and Administration

Country	Description	Advisor Type	Mission Days	RBM Codes
Cook Is.	Draft Regulations for VAT Revenue Administration and Excise tax	Short-term Expert	9	2.1
	Follow up Mission on natural resources/Palau study tour	Resident Advisor	2	2.1
	Tax and Customs Administration – legal	Short-term Expert	13	2.1
Fiji	Legislative Drafting of all PAYE regulations	Short-term Expert	5	2.1
	Scoping Options for Replacement of Current IT System	Short-term Expert	13	2.3
	Review Progress of Self Assessment and Final PAYE.	Short-term Expert	12	2.1,2.4
	Legislative Drafting of all PAYE regulations	Short-term Expert	5	2.1
	Implementing Assessment and Final PAYE	Short-term Expert	12	2.1-2.5
Kiribati	Kiribati Adviser Selections & VAT Implementation	Resident Advisor	8	2.1, 2.3, 2.6
	Draft Regulations for VAT, Revenue Administration and Excise tax	Short-term Expert	5	2.1
	VAT Training and Implementation & Kiribati adviser Selections	Resident Advisor	14	2.1
	Implementing VAT & Administration Reforms	Resident Advisor	11	2.1
Nauru	Interview of PACTAM Advisers	Resident Advisor	5	2.1
	Develop Tax Reform Agenda	Resident Advisor	12	2.1
	Revenue Reforms	Resident Advisor	15	2.1
	Revenue Reforms Implementation strategy	Resident Advisor	8	2.1
Palau	Follow up on VAT	Resident Advisor	4	2.1
	Legislative Drafting on the Palau VAT Bill	Short-term Expert	5	2.1
	Public Consultation and dialogue	Resident Advisor	23	2.1
	Bill and Regulations	Short-term Expert	4	2.1
	VAT Bill and Regulations Description	Short-term Expert	13	2.1
	Revenue Policy and Administration Mission	Resident Advisor	13	2.1
	Tax administration diagnostic	IMF Staff & Short-term Experts	14	2.1
Samoa	Review of Small Business Presumptive Tax	Short-term Expert	5	2.1
Tonga	Drafting Regulations and Notes for deep sea mining and small business tax	Short-term Expert	10	2.1
	Small Business Regime /Presumptive Tax Compliance Improvement	Resident Advisor	9	2.1,2.4,2.6
	PACTAM tax advisers for Tonga	Resident Advisor	8	2.1
Tuvalu	Strategic guidance to resident long-term tax advisor	Resident Advisor	3	2.1
Regional	PITAA International Transfer Pricing Workshop	Short-term Expert	12	2.1
	PITAA International Transfer Pricing Workshop	Resident Advisor	4	2.1
	PITAA Meeting	Resident Advisor	8	2.1-2.8
	PFTAC Steering Committee meeting	Resident Advisor	5	n.a.

Financial Sector Supervision

Country	Description	Advisor Type	Mission Days	RBM Codes
Fiji	Financial Sector Supervision	Resident Advisor	3	3.4
Solomon Is.	FIS Implementation training in conjunction with RBNZ	Resident Advisor	6	3.2
Timor-Leste	Financial Sector Supervision & Credit union Oversight	Resident Advisor	8	3.3,3.4,3.9
Tonga	Preparation for On-Site Examination	Resident Advisor	5	3.3-3.4
	TA in Central Banking & Banking Law (with PFTAC)	IMF Staff	12	3.8
	Building Bank Supervision Capacity	Resident Advisor	6	3.3-3.7
Vanuatu	Financial Sector Supervision	Resident Advisor	8	3.4
	Financial Sector Supervision	Resident Advisor	3	3.3
	Banking Prudential returns	Short-term Expert	48	3.1
Regional	11 th EDF Pacific Regional Programming Workshop	Resident Advisor	1	3.10
	Meeting with Development Partners	Resident Advisor	1	3.10
	Pacific Microfinance Workshop	Resident Advisor	5	3.8-3.10
	Northern Regional Annual Banking Supervision Workshop	Resident Advisor	10	3.3 - 3.9
	South Pacific Central Bank Governors' Meeting	Resident Advisor	5	3.10
	PFTAC Steering Committee Meeting	Resident Advisor	5	n.a.
	Association of Financial Supervisors of Pacific Countries	Resident Advisor	5	3.10

Macroeconomic Statistics

Country	Description	Advisor Type	Mission Days	RBM Codes
Cook Is.	National Accounts – Quarterly	Resident Advisor	5	4.1,4.4
	National Accounts – Balance of Payments	Resident Advisor	10	4.5,4.6
	National Accounts - Quarterly and Balance of payments	Resident Advisor	10	4.1,4.4,4.5,4.6
Fiji	National Accounts	Resident Advisor	10	4.1
	National Accounts – Expenditure	Resident Advisor	16	4.1
	National Accounts – Quarterly	Resident Advisor	5	4.1,4.4
	Producer Price Index	Resident Advisor	5	4.9
FSM	National Accounts	Resident Advisor	5	4.1
Kiribati	National Accounts – Expenditure	Resident Advisor	8	4.1
	National Accounts	Resident Advisor	5	4.1
Niue	National Accounts & Balance of Payments - Quarterly	Resident Advisor	15	4.1,4.5
Palau	National Accounts – Expenditure	Resident Advisor	10	4.1
PNG	National Accounts	Resident Advisor	6	4.1
	Improving National Accounts Statistics	Resident Advisor	6	4.1-4.2
	Improving National Accounts Statistics	Resident Advisor	7	4.1,4.2,4.10
Samoa	National Accounts Conference	Resident Advisor	5	4.1
Solomon Is.	National Accounts – Production	Resident Advisor	19	4.1
	National Accounts	Resident Advisor	5	4.1,4.2
	National Accounts	Resident Advisor	4	4.1,4.2
Tonga	Improving National Accounts Statistics	Resident Advisor	10	4.1
Vanuatu	National Accounts - Rebase	Resident Advisor	15	4.1,4.2,4.4
	National Accounts – Rebase	Resident Advisor	3	4.1,4.2,4.4
	National Accounts	Resident Advisor	5	4.1,4.2,4.4
	National Accounts – Rebase	Resident Advisor	12	4.1,4.2
Regional	Training: National Accounts Workshop (Fiji)	Resident Advisors	10	4.1
	Training: National Accounts Workshop (FSM)	Resident Advisors	10	4.1
	Regional Steering Committee Meeting	Resident Advisors	6	4.1
	Workshop to develop a standard approach for incorporation of household income (New Caledonia)	Resident Advisors	10	4.1
	PFTAC Steering Committee Meeting	Resident Advisors	4	n.a.
	Measuring Tourism in the Pacific Conference	Resident Advisor	2	4.1

Macroeconomic Analysis and Forecasting

Country	Description	Advisor Type	Mission Days	RBM Codes
Nauru	Develop capacity to assess debt sustainability	Resident Advisor	6	5.4
Palau	Develop long-term fiscal planning/fiscal sustainability	Resident Advisor	7	5.3, 5.4
PNG	Develop macro and fiscal monitoring/projection methodologies	Resident Advisor	6	5.1-5.3
	Macroeconomics monitoring and forecasting framework and attend Governor's meeting	Resident Advisor	7	5.3
	Updating the Financial Programming Framework	Resident Advisor	22	5.1-5.2
Tonga	Develop macro monitoring/projection methodologies	Resident Advisor	12	5.1-5.3
	Improving data analysis & forecasting techniques in NRBT	Resident Advisor	16	5.1-5.2
	Improving medium-term forecasting techniques in NRBT	Resident Advisor	11	5.1-5.2
Samoa	Develop macroeconomic/fiscal projection framework	Resident Advisor	8	5.3-5.4
	Develop macroeconomic/fiscal projection framework	Resident Advisor	8	5.3-5.4
	Macro-fiscal analysis as input into budget preparation process	Resident Advisor	15	5.3-5.4
	Macro-fiscal analysis as input into budget preparation process	Resident Advisor	16	5.3-5.4
Regional	Fiscal Analysis and Forecasting Workshop	Resident Advisor	2	5.2,5.3
	CCBS/PFTAC Workshop on Monetary Policy Management, Analysis and Operation	Resident Advisor	5	5.3-5.4
	World Bank workshop on Debt Sustainability	Resident Advisor	2	5.4
	PFTAC Steering Committee Meeting	Resident Advisor	5	n.a.
	Financial Programming Workshop	Resident Advisor	15	5.1-5.2

Meetings, Seminars and Training in FY2014

Topic	Location	Number of Participants
Public Financial Management		
PFM Leadership Programme (with DOFD)	Australia	14
Symposium on Public Financial Management Reform in the Pacific	Fiji	25
Revenue Policy and Administration		
International Transfer Pricing Workshop	Fiji	26
PITAA Heads Meeting	Solomon Is.	55
Auditing Multinational Enterprises	Fiji	20
Financial Sector Supervision		
AFSPC Annual Meeting	Samoa	18
Northern Regional Annual Banking Supervision Workshop	Guam	10
South Pacific Central Bank Governors' Meeting	PNG	n.a.
Pacific Microfinance Workshop	Fiji	n.a.
Macroeconomic Statistics		
National Accounts	Fiji	22
National Accounts	FSM	8
Macroeconomic Analysis and Forecasting		
CCBS Workshop	Fiji	22
Fiscal Analysis Forecasting Workshop (IMF STI)	Fiji	25
Other		
PFTAC Steering Committee Meeting	Vanuatu	60
Heptagon Group Pacific Donors Meeting	Australia	n.a.

ANNEX V: PFTAC RESULTS-BASED MANAGEMENT LOGICAL FRAMEWORK FY2015

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, but both of these have been through a PFTAC coordinated self-assessment. PFTAC has constructed a database of indicators used to monitor PFM progress.</p> <p>Summaries of up-to-date PEFA results will be presented in PFTAC’s Annual Reports and will be reported to FEMM on a periodic basis.</p> <p>As of May, 2014, 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 the 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>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>PITAA benchmarking is conducted bi-annually and the next round will be completed at the end of the PFTAC program cycle.</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
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>Increased quarterly publication of GDP and expenditure measures.</p>	<p>Statistical capacity indicators will be monitored through the World Bank's public database.</p> <p>Since the start of Phase IV, 7 more countries have begun participation in the GDDS initiative.</p> <p>Methodology improvements in second GDP measures effected in a number of countries and quarterly GDP newly published in one with two others being developed.</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. Improve overall quality of analysis underlying macroeconomic policy.	<p>5.1 Development of integrated macroeconomic monitoring / projection process.</p> <p>5.2 Development of multi-year fiscal planning framework.</p> <p>5.3 Ability to assess debt sustainability.</p> <p>5.4 Development of contingency plans to provide financing in the event of a natural disaster.</p>	<p>5.1 Financial programming framework introduced in some countries; few use the framework to support core monitoring / projection activities.</p> <p>5.2 Few countries routinely analyze fiscal planning beyond a two-year budget horizon.</p> <p>5.3 Few countries are able conduct their own debt sustainability assessments.</p> <p>5.4 Some countries incorporate contingency reserves into the budget process; some trust funds can provide limited contingency financing.</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 FY2015

Objective: Improved public financial management

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
1.1 At least 1 PEFA assessment conducted in each PFTAC country during the funding cycle.	<ul style="list-style-type: none"> Since PFTAC was asked by the FEMM to coordinate the PEFA process it has conducted formal PEFAs in Cook Islands, Fiji, FSM, Niue, RMI, and Samoa. In addition, through the end of FY2014 it has coordinated PEFA Self-assessments in the Cook Is., Palau, Solomon Is., and Tokelau. This brings to 16 the total countries having had at least one self-assessment or formal PEFA assessment funded by PFTAC or other donors since the PEFA process started in the PFTAC region. In FY2014 PFTAC conducted self-assessment training in PNG in preparation for their FY2015 self-assessment and formal assessment. 	<ul style="list-style-type: none"> Repeat assessments for Cook Islands and PNG. Formal completion of a first PEFA for Tokelau. Completion of a self-assessment for Tonga. 	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.	<ul style="list-style-type: none"> 7 PICs (Cook Is., Kiribati, Nauru, Niue, Samoa, Solomon Is., and Tuvalu) have developed PFM Reform Roadmaps. 3 PICs (RMI, Solomon Is., and Tonga) have drafts. FSM has started a draft. PFTAC efforts (including suggestions for revisions of earlier Roadmaps) through FY2014 have focused on FSM, Nauru, Niue, RMI, Solomon Is., Tonga, and Tuvalu. 	<ul style="list-style-type: none"> Draft roadmaps for Cook Is., Fiji, FSM, RMI, Samoa, Solomon Is., and Tonga are completed and adopted by respective governments. 	Assumes continued commitment to PFM roadmap process by FEMM and regional countries and development partners.
1.3 Modernized legal frameworks and financial Instructions implemented	<ul style="list-style-type: none"> Cook Is. has adopted new laws related to debt servicing and mineral resources. Kiribati was assisted in developing a draft policy on debt and cash management. Solomon Is. adopted a new PFM Act and commenced 	<ul style="list-style-type: none"> Solomon Is.: Assist authorities to finalize implementing instructions for the PFM and Constituent Development Fund Laws. Kiribati: Assist authorities to finalize amendments to policy/laws on budget development and debt 	Requires political and administrative commitment. Will be linked to regional work by ADB and Australian DOFD.

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
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drafting implementing instructions for that and Constituency Fund Act with input from IMF/PFTAC and Australia.

management.

1.4 Budget Credibility Improves (PEFA Indicators 1-4).

Outcomes (based on data as of May, 2014):

Performance indicator	% PICs with A/B ratings ⁹	% PICs with repeat PEFA's showing improvement or with A/B ¹⁰
PI-1:Aggregate expenditure out-turn compared to original approved budget	71%	75%
PI-2:Composition of expenditure out-turn compared to original approved budget	43%	75%
PI-3:Aggregate revenue out-turn compared to original approved budget	57%	50%
PI-4:Stock and monitoring of expenditure payment arrears	29%	38%

PFTAC Outputs:

- **Kiribati:** Continued support to review revenue and expenditure forecasts.
- Other PFTAC interventions are expected through advice provided in supporting country Roadmap drafting. Roadmap focus in FY2015 is expected to be on:
 - Cook Islands
 - Fiji
 - FSM
 - Samoa
 - Solomon Islands
 - Tonga

Requires political and administrative commitment. Will be linked to regional work by ADB and Australian DOFD.

⁹ Percentages reflect a country's most recent PEFA ratings. Some countries most recent ratings could be 3-4 years old.

¹⁰ Improvement could mean a score increase from, for example, a "D" to a "C", or from a "C" to a "B".

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions												
	<ul style="list-style-type: none"> • Kiribati: PFTAC, IMF HQ, and the World Bank have worked together for special reviews of revenue and expenditure forecasts. • This is also a standard component of most Article IV missions, and is closely related to the work of PFTAC’s macroeconomics Advisor. • Samoa: During FY2014 PFTAC’s PFM and macroeconomics Advisors conducted a joint Macro-Fiscal workshop for officials. • PFTAC’s other interventions in these areas have come through guidance provided by advisors in assisting countries prepare their PFM Reform Roadmaps. 														
<p>1.5 Budget Comprehensiveness and Transparency Progresses Toward International Standards (PEFA Indicators 5-10).</p>	<p>Outcomes (based on data as of May, 2014):</p> <table border="1" data-bbox="451 735 993 1136"> <thead> <tr> <th>Performance indicator</th> <th>% PICs with A/B ratings¹¹</th> <th>% PICs with repeat PEFA’s showing improvement or with A/B¹²</th> </tr> </thead> <tbody> <tr> <td>PI-5: Classification of the budget</td> <td>43%</td> <td>63%</td> </tr> <tr> <td>PI-6: Comprehensiveness of information included in budget documentation</td> <td>57%</td> <td>88%</td> </tr> <tr> <td>PI-7: Extent of unreported government operations</td> <td>21%</td> <td>25%</td> </tr> </tbody> </table>	Performance indicator	% PICs with A/B ratings ¹¹	% PICs with repeat PEFA’s showing improvement or with A/B ¹²	PI-5: Classification of the budget	43%	63%	PI-6: Comprehensiveness of information included in budget documentation	57%	88%	PI-7: Extent of unreported government operations	21%	25%	<ul style="list-style-type: none"> • Kiribati & Nauru: Continued support to improve budget documentation. • Niue: TA to improve budget documentation. • Other PFTAC interventions are expected thru advice provided in supporting country Roadmap drafting. Roadmap focus in FY2015 is expected to be on: <ul style="list-style-type: none"> ○ Cook Islands ○ Fiji ○ FSM ○ Samoa ○ Solomon Islands ○ Tonga • Regional Workshops: Continued emphasis on keeping new funds created for climate change or minerals proceeds transparently managed as part of PICs’ annual budget processes. 	<p>Requires political and administrative commitment. Will be linked to regional work by ADB and Australian DOFD.</p>
Performance indicator	% PICs with A/B ratings ¹¹	% PICs with repeat PEFA’s showing improvement or with A/B ¹²													
PI-5: Classification of the budget	43%	63%													
PI-6: Comprehensiveness of information included in budget documentation	57%	88%													
PI-7: Extent of unreported government operations	21%	25%													

¹¹ Percentages reflect a country’s most recent PEFA ratings. Some countries most recent ratings could be 3-4 years old.

¹² Improvement could mean a score increase from, for example, a “D” to a “C”, or from a “C” to a “B”

Measurable Outcomes	Baseline at end-FY14		Milestones for FY15	Specific Risks/ Assumptions
PI-8: Transparency of inter-governmental fiscal relations	43%	63%		
PI-9: Oversight of aggregate fiscal risk from other public sector entities	14%	38%		
PI-10: Public access to key fiscal information	29%	38%		

PFTAC Outputs:

Aside from recommendations to PICS during PFM Roadmap preparation, PFTAC has provided country specific and regional consultations:

- **Kiribati, Nauru:** Designed model budget documents that emphasize comprehensive coverage of all funds.
- **Kiribati , Solomon Islands:** Recommended law changes requiring:
 - Greater transparency and comprehensiveness of the annual budget process;
 - More careful annual review during the regular budget process of SOE funding challenges;
 - More rigorous MOF reviews of any SOE request for any borrowing.
- **Regional:** Presentation at Regional Climate Change Workshop (Sponsored by SPC in Tonga- Oct, 2013): Advised against creating any “off-budget” funds and keeping any new “funds” part of the regular annual budget review process.

Measurable Outcomes	Baseline at end-FY14			Milestones for FY15	Specific Risks/ Assumptions									
<p>1.6 Budgeting Becomes More Policy Focused with a Medium-term Orientation (PEFA Indicators 11-12).</p>	<p>Outcomes (based on data as of May, 2014):</p>			<ul style="list-style-type: none"> • Fiji: Continued TA to improve budget process and document content. • Kiribati, Nauru: Continued support to improve budget documentation with a particular focus on integrating planning/budgeting information. • Niue: TA to improve integration of budget/planning information. • Regional: Continue planning/quality control work with PICPA/USP to start regularly offered training through PICPA/USP to prepare/upgrade budget analysts. • Regional: Presentation on planning/budgeting integration at joint PFTAC/SOPAC Deep Sea Minerals Workshop. • Regional: Participation in a PIFS coordinated effort to get greater donor harmonization of approaches to integrating PIC planning, budgeting and aid management. • Other PFTAC interventions are expected thru advice provided in supporting country Roadmap drafting. Roadmap focus in FY2015 is expected to be on: <ul style="list-style-type: none"> ○ Cook Islands ○ Fiji ○ FSM ○ Samoa ○ Solomon Islands ○ Tonga 	<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>									
<table border="1"> <thead> <tr> <th>Performance indicator</th> <th>% PICs with A/B ratings¹³</th> <th>% PICs with repeat PEFA's showing improvement or with A/B¹⁴</th> </tr> </thead> <tbody> <tr> <td>PI-11: Orderliness and participation in the annual budget process</td> <td>64%</td> <td>88%</td> </tr> <tr> <td>PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting</td> <td>0%</td> <td>63%</td> </tr> </tbody> </table>	Performance indicator	% PICs with A/B ratings ¹³	% PICs with repeat PEFA's showing improvement or with A/B ¹⁴			PI-11: Orderliness and participation in the annual budget process	64%	88%	PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	0%	63%			
Performance indicator	% PICs with A/B ratings ¹³	% PICs with repeat PEFA's showing improvement or with A/B ¹⁴												
PI-11: Orderliness and participation in the annual budget process	64%	88%												
PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	0%	63%												
<p>PFTAC Outputs: Aside from recommendations to PICS during PFM Roadmap preparation, PFTAC's other specific activities relating to these aspects of PFM have included:</p> <ul style="list-style-type: none"> • Fiji, Kiribati: Budget analyst training. • Kiribati: Designed and supported a re-organization plan for the National Economic and Planning Office. • Kiribati, Nauru: Design of model budget documents to improve integration of planning/budgeting. • Regional: Presentation on Integrating Planning and Budgeting at Climate Change Workshop (Sponsored by SPC in Tonga- Oct, 2013). • Regional: Co-sponsored with Australia Department of Finance a 2-week workshop at Australia National University focused on Budget Preparation. 														

¹³ Percentages reflect a country's most recent PEFA ratings. Some countries most recent ratings could be 3-4 years old.

¹⁴ Improvement could mean a score increase from, for example, a "D" to a "C", or from a "C" to a "B".

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
	<ul style="list-style-type: none"> Regional: Started discussions with PICPA/USP to develop regularly offered training through PICPA/USP to prepare/upgrade budget analysts. 		
Inputs			
<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>	<ul style="list-style-type: none"> TA Reports. Presentations at workshops & seminars. Manuals and guidance notes on key areas of PFM policy and administration. 	

Revenue Policy and Administration FY2015

Objective: Broader-based and more efficient revenue systems

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>Tax Policy Framework</p> <ul style="list-style-type: none"> • 2.1 Modern tax policy frameworks are adopted. 	<ul style="list-style-type: none"> • Cook Is.: Consultation on Deep Sea Mining policy finalized. Policy review of VAT and IT settings endorsed by Cabinet. • Fiji: PAYE Final implemented. • FSM: Policy discussion on new tax regime not yet finalized. Public consultation continues. • Nauru: Business tax, employment tax and withholding tax policy framework recommendations developed and adopted by Cabinet. • Palau: Policy framework recommendations developed and adopted. Public consultation completed with participation from Bureaucrats, Congressmen and PFTAC TA. Legislation referred to Congress. • PNG: National review of tax policy and administration review under way. • RMI: Policy discussion on new tax regime not yet finalized. Public consultation continues. • Samoa: Policy recommendation to adopt a simplified (presumptive) tax regime for small business adopted. Public consultation in process. Review of VAT laws in underway. • Tonga: Presumptive tax policy for small business finalized. New regime to be implemented by 1 July, 2014. Deep Sea Mining policy development in process. 	<p>Assistance will be provided to those countries in the region that have political support to introduce or update current tax policy.</p> <ul style="list-style-type: none"> • Nauru intends to implement business and presumptive taxes. • Palau will finalize and submit VAT policy to Congress • Samoa will develop a presumptive tax regime. • Tonga will finalize Deep Sea Mining policy • FSM will develop new reform strategies that recognize current implementation barriers. • RMI is reviewing its tax policy reform options. 	<p>TA in this area is provided under the technical guidance and supervision of IMF headquarters, Fiscal Affairs Department, Tax Policy Division. Detailed Headquarters review of the milestones under section 2.1 is underway.</p> <p>Requires strong political will and community acceptance.</p> <p>Requires significant TA support to ensure that the strengths and weaknesses of a new system are adequately explained.</p>

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>Tax Policy Framework.</p> <ul style="list-style-type: none"> • 2.2 Appropriate legislation and regulations for effective policy implementation are adopted. 	<ul style="list-style-type: none"> • Cook Islands: Deep sea mining legislation drafted and passed by Parliament. Changes to VAT and Income tax laws drafted and passed by Parliament. • Fiji: New Income Tax Decree drafted and public consultation in process. • FSM: Tax reform laws drafted but they have not received support from all 4 states. • Kiribati: VAT and Excise Tax laws drafted and implemented. New Revenue Administration laws drafted and implemented. • Palau: VAT and Net Profits tax laws drafted. • RMI: VAT, Revenue Administration, Revenue Authority and Net Profits drafted and public consultation in process. • Tonga: Presumptive tax laws for small business drafted and passed by Parliament. Deep Sea Mining legislation drafted and public consultation in process. 	<ul style="list-style-type: none"> • Technical assistance for legislation drafting will be provided where there is strong political support backed by tax administration preparedness and community support. • Nauru will draft employment, business and presumptive tax laws and present them to Parliament. • Palau will finalize VAT laws and present them to Congress. • Samoa will draft laws for presumptive tax. • Tonga will implement Deep Sea Mining laws. 	<p>TA in this area is provided under the technical guidance and supervision of IMF headquarters, Legal Department.</p> <p>Requires strong political will and community acceptance.</p> <p>Requires significant TA support to ensure that the strengths and weaknesses of a new system are adequately explained.</p> <p>Requires significant TA support to ensure that the administration and the community are adequately prepared</p>
<p>Policy Implementation and Administration</p> <ul style="list-style-type: none"> • 2.3 Modern and integrated processes are adopted to verify & maintain taxpayer information & compliance obligations (registration, filing, and payment). 	<p>Compliance in the small medium sector is generally weak in all PICs. Business processes for compliance monitoring and enforcement by large businesses are generally good in all PICs.</p>	<p>Technical assistance will help develop reform strategies geared towards improving voluntary compliance, modernizing core business processes including registration, filing and timelines of tax payments.</p> <ul style="list-style-type: none"> • Kiribati: New PAYE process implemented eliminating all employees filing returns. • Nauru: Implement administrative processes for Employment tax, business tax and presumptive tax. • Palau: New VAT processes developed and implemented. • Tonga: New service processes and small business taxpayer processes to be implemented. • RMI: improve business processes in preparation for implementation of new tax laws. • FSM: Improve business processes in preparation for implementation of new tax laws. 	<p>Change management issues impede the effective implementation of business processes.</p>
<p>Policy Implementation and</p>	<ul style="list-style-type: none"> • Fiji: Self-assessment review identified an overall 	<ul style="list-style-type: none"> • Assistance will be provided to help identify, assess 	<p>The strategies operate with varying</p>

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>Administration</p> <ul style="list-style-type: none"> • 2.4 Business systems & processes are based on risk-management principles. 	<p>deficiencies in income tax self assessment. VAT operates well but not income tax. Self-assessment pilot in process. More work is necessary.</p> <ul style="list-style-type: none"> • Kiribati: Self assessment policy recommendation agreed in principle. PFTAC TA to develop new regime. • Tonga: Self-assessment review identified deficiencies in income tax self-assessment. More implementation work is necessary. • Vanuatu: Strong risk-based systems are in place. 	<p>rank, quantify and address priority revenue risks.</p> <ul style="list-style-type: none"> • Fiji: work towards implementing self assessment and refining its approach to risk management. • Kiribati and Tonga will work towards introducing full self assessment. • Nauru and Tuvalu will commence the design of a tax risk management strategy. • Regional: Strengthen risk management through regional workshops on industry issues as prioritized by PITAA • Regional: Improving management of core tax functions, particularly audit management, taxpayer services and arrears collection. 	<p>degrees of success and need continual support to be fully effective.</p> <p>Change management issues impede the adoption of risk management.</p>
<p>Policy Implementation and Administration</p> <ul style="list-style-type: none"> • 2.5 Compliance improvement strategies use a mixture of service and enforcement approaches. 	<ul style="list-style-type: none"> • Palau: Formal compliance improvement plan is in place. Enforcement and service activities need strengthening. • Samoa and Vanuatu: have implemented compliance improvement initiatives with a strong proactive service culture. • Tonga: Compliance improvement plan has been implemented but needs to be updated. Planning for new taxpayer service division is underway. 	<ul style="list-style-type: none"> • Technical assistance will be provided to facilitate the development and enhancement of compliance improvement strategies • Kiribati will further strengthen its overall approach to compliance management. • Nauru and Palau will design and implement a taxpayer services strategy. • Tonga will further strengthen its approach to compliance management and introduce a new taxpayer services strategy and division. • Tuvalu will take steps towards adopting a broader functional approach to compliance management. 	<p>New enforcement strategies will require strong political support.</p>
<p>Policy Implementation and Administration</p> <ul style="list-style-type: none"> • 2.6 Modern IT operating systems and infrastructure are in place and operate effectively. 	<ul style="list-style-type: none"> • Fiji: Board of Governors approves replacement of Fiji Integrated Tax System. PFTAC TA provided to review COTS systems. • Kiribati: New IT system (RMS) implemented. • PNG: New revenue management IT operating system (SIGTAS) partially installed (Group Tax and Withholding Tax). • Solomon Islands: Upgrade to latest version of RMS 7 completed. 	<ul style="list-style-type: none"> • Support will be provided to those countries who wish to enhance or replace their IT systems. • Fiji: New IT system vendors identified and progress towards procurement. • Regional: Workshop to developing regional models for disaster recovery and IT strategic planning 	<p>Requires funding commitments from countries and, in many cases, donors. PFTAC focus will be on aligning IT strategy with overall the business strategy.</p>

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
	<ul style="list-style-type: none"> • Tonga: Upgrade to latest version of RMS 7 in process. • Timor-Leste: Upgrade of old version of SIGTAS under review. • Tuvalu: RMS 5 operating difficulties resolved. Maintenance agreement now in place. 		
<p>Corporate Governance</p> <ul style="list-style-type: none"> • 2.7 Organizational and operating structures are relevant to the business and allow for the effective use of resources. 	<ul style="list-style-type: none"> • Nauru: Cabinet approval to merge Customs and Revenue. Recommendations provided for new functional organization structure. • Regional: The 2014 PITAA baseline assessment showed all PICs operating on a functionally-based structure. 	<ul style="list-style-type: none"> • Nauru: Progress towards new revenue organizational structure and merger with Customs. 	<p>Broader public sector governance arrangements affect proposals in this area.</p>
<p>Corporate Governance</p> <ul style="list-style-type: none"> • 2.8 Good corporate strategies, business planning processes and management information reports are adopted, implemented and updated regularly. 	<ul style="list-style-type: none"> • Tonga: 2015 corporate plan completed and reviewed by PFTAC. • Regional: The 2014 PITAA baseline assessment showed corporate planning exists for most PICs but effectiveness as a planning, process and monitoring tool is questionable. 	<ul style="list-style-type: none"> • Assistance will be provided to build efficient tax administration operations which focus on the most important functions and outcomes. • Fiji will implement its new strategic plan. • Palau will consolidate the VAT implementation plan with its wider business plan. 	<p>The benefits of effective corporate planning may be overtaken by day-to-day demands.</p>
<p>Corporate Governance</p> <ul style="list-style-type: none"> • 2.9 The organisation is transparent and accountable with adequate dispute resolution processes. 	<ul style="list-style-type: none"> • Regional: PITAA 2014 baseline assessment showed accountability to be generally at a low level. 	<ul style="list-style-type: none"> • Regional: Focus through PITAA (and in country visits) on an overall improvement in reporting and accountability by using IT tools(including RA-FIT) to record performance outcomes 	<p>Change in this area is typically has a long term horizon to achieve effective governance and accountability.</p>
Inputs			
<p>Technical advice and capacity building delivered through</p>	<p>4-6 Regional and sub-regional training courses and seminars, organized through PITAA.</p>	<ul style="list-style-type: none"> • TA Reports. 	

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
advisory missions - around 36 per year.		<ul style="list-style-type: none"> • Presentations at workshops & seminars. • Manuals and guidance notes on key areas of tax policy and administration. 	

Financial Sector Supervision Logical Framework FY2015

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

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>3.1 DEVELOPMENT AND IMPLEMENTATION OF PRUDENTIAL RETURNS</p> <p>Goals:</p> <ul style="list-style-type: none"> • Improved bank reporting requirements, • Allow supervisory authorities to regularly calculate “core” Financial Soundness Indicators, • Perform enhanced monitoring and assessment of financial condition and performance of banks, • Data regularly used to assess banks in 5 countries. 	<ul style="list-style-type: none"> • Implementation of Prudential Returns developed by the AFSPC with assistance from PFTAC. • The new prudential returns are completed by the commercial banks and submitted to the central bank. It provides data to allow for the calculation of prudential ratios. • At the end of FY14 the following countries had implemented the program: Cook Islands, Palau, Solomon Islands, Tonga, and Vanuatu. • PFTAC will continue to monitor and encourage AFSPC members to participate in the voluntary disclosure of FSIs on the AFSPC web site. 	<ul style="list-style-type: none"> • Commercial banks are reporting on a monthly basis. • AFSPC members are inputting data on the web site. • Templates are developed and shared between supervisors. 	<ul style="list-style-type: none"> • The forms were designed by a TA from PFTAC, with the understanding that: <ul style="list-style-type: none"> ○ The commercial banks’ staff will have the technical ability to complete the forms; ○ The Central Bank’s staff will have the technical ability to process the information submitted; ○ The Central Bank staff can trouble shoot the software. • Key risks are that that: <ul style="list-style-type: none"> ○ The software will fail and no one will be able to correct the error messages; ○ Institutions will not have the technical staff to adequately complete the forms.
<p>3.2 IMPLEMENTATION OF FINANCIAL SECTOR INFORMATION SYSTEM (FSIS)</p> <ul style="list-style-type: none"> • A system developed by the Reserve Bank of New Zealand for the collection and storage 	<p>Following the successful implementation of Prudential Returns, the Reserve Bank of New Zealand offered to develop a Financial Sector Information System (FSIS). FSIS is designed to receive the information provided by banks (using the PFTAC Prudential Returns) and upload them onto a data base system (FSIS).</p>	<ul style="list-style-type: none"> • RBNZ will configure its FSIS to accept the data from the PFTAC Prudential Returns which are submitted by the commercial banks (upgrade version). • Solomon Islands: Central Bank pilot completed. • Two more Central Banks will be upgraded with the 	<ul style="list-style-type: none"> • Requires management commitment to strict implementation of off-site monitoring policies and capacity to adequately process data. • There is a requirement for

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p><i>of data submitted by commercial banks through the completion of the monthly Base Set of Prudential Returns designed by PFTAC.</i></p>	<p>FSIS should provide the staff of central banks with ease of data access to perform off-site monitoring and key ratio analysis, and will facilitate the automation of various standardized output reports.</p> <ul style="list-style-type: none"> The RBNZ approved the project. Solomon Islands was selected as pilot and received the software and training in Y14. 	<p>software and training.</p> <ul style="list-style-type: none"> Templates are developed and shared between Central Banks. 	<p>upgrading the central bank’s hardware to accommodate the FSIS. This is an additional cost.</p> <ul style="list-style-type: none"> Central banks will have to provide staff with training in Microsoft Excel at the intermediate level. 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 in how to use the system to retrieve data and produce reports. Currently FSIS is only compatible with Prudential returns designed by PFTAC.
<p>3.3 STRENGTHENED OFF-SITE SUPERVISION</p> <ul style="list-style-type: none"> <i>Manuals prepared for completing quarterly off-site monitoring report.</i> 	<p>The implementation of the base prudential returns and the preparation of standardized output reports for rating banks will have to be completed before this component may be activated.</p> <p>The prudential returns are now implemented therefore the proposed assistance to formulate / revise manuals for conducting quarterly off-site monitoring may proceed.</p>	<ul style="list-style-type: none"> Develop a ratio reporting template for senior management of central banks. Template to be developed in Cooperation with AFSPC members. In use in a number of countries. 	<ul style="list-style-type: none"> Staffing: Turnover of supervision staff is a key risk. While PFTAC provides training in calculation of key analytical ratios and trend analysis, staff experience is needed to fully apply the concept of financial institutions composite ratings.

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>3.4 STRENGTHENED ON-SITE EXAMINATION</p> <ul style="list-style-type: none"> • <i>Aiming towards implementing risk-based banking supervision.</i> • <i>Emphasis on credit, market, liquidity and operational risk.</i> • <i>Examination performed in 5 countries.</i> 	<ul style="list-style-type: none"> • Tonga and Solomon Islands received substantial training support and TA in this sector. 	<ul style="list-style-type: none"> • Assistance will be provided to a number of countries in conducting full-scope examinations of financial institutions. • Tonga, Vanuatu and Solomon Islands will undertake to perform at least one full scoped on-site examinations using the approach learn during the training. • Expand scoping assistance to other countries. • Regional: Training course in Risk Based Banking Supervision: <ul style="list-style-type: none"> ○ Workshop for the Northern countries ○ Workshop for the southern countries ○ Workshop on managing in a risk based banking supervision environment 	<ul style="list-style-type: none"> • Staffing; Turnover of supervision staff is a key risk.
<p>3.5 DEVELOPMENT OF STANDARDIZED EXAMINATION REPORTS</p> <ul style="list-style-type: none"> • <i>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.</i> 	<ul style="list-style-type: none"> • Technical Assistance in 2013: Standardized examination report templates were developed and implemented in: Palau, RMI, Solomon Is., and Tonga. • The standardized report will be instrumental in assisting the examiners to prepare written comments identifying the strengths and weaknesses of bank's operation and in outlining examination's findings and recommendations. 	<ul style="list-style-type: none"> • Tonga, Solomon Is., and Vanuatu will use written procedures in at least 2 on-site examinations by the end of FY2015. • Tonga will receive TA in performing two on-site examinations including reporting results. 	<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>
<p>3.6 IMPLEMENTATION OF SOUND POLICY AND PROCEDURES</p> <ul style="list-style-type: none"> • <i>Completion of written procedures for examining banking activities and specific areas of operation.</i> 	<ul style="list-style-type: none"> • Tonga and Solomon Islands: Training and support was provided in conducting on-site bank examinations. This assistance led to the production of written examination procedures for examining loan portfolio and assessing liquidity risk. • Written examination procedures for reviewing other assets and due from bank accounts have also been developed. 	<ul style="list-style-type: none"> • A one week workshop on banking supervision for all countries in the region will be provided through AFSPC. Participants will use the training received to develop procedures to assess liquidity, credit and operational risks during on-site examinations of financial institution. 	<ul style="list-style-type: none"> • Turnover of supervision staff is the key risk. • Lack of experience and tenure is another risk. • PFTAC can provide assistance in tailoring procedures to individual jurisdictions and training in completion of procedures. The stability of the staffing

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>3.7 FINANCIAL STATEMENT ANALYSIS AND TEMPLATES DEVELOPED</p> <ul style="list-style-type: none"> Financial statement analysis regularly used to enhance evaluation of credit risk and verify the adequacy of loan grading and provisioning by banks. 	<ul style="list-style-type: none"> A one-week training course was conducted in August 2011 to provide training to AFSPC members in the use of financial statement analysis and the evaluation of bank credit risk. 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. Training is planned for other jurisdictions. 	<p>No intervention within this section is expected this year.</p>	<p>complement and the ability to recruit qualified entrant is a challenge for small jurisdictions.</p> <ul style="list-style-type: none"> Turnover of trained staff in this sector 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. The more examinations they perform better will be the performance of the staff.
<p>3.8 MODERNIZED LEGAL FRAMEWORK</p> <ul style="list-style-type: none"> Basel-compliant legal frameworks and supporting regulations in place. 	<ul style="list-style-type: none"> Tonga received from IMF LEG assistance in modernization the Reserve Bank Act and the Financial Institutions Act. Similar request are being contemplated for Kiribati, Nauru , and Tuvalu, to discuss with the authorities legislative reform and to provide recommendations for implementing appropriate bank supervisory regimes. 	<ul style="list-style-type: none"> Tonga: Continued assistance in completing the legislative process required to finalize the revision of the Reserve Bank Act and the Financial Institutions Act. 	<p>TA in this area is provided under the technical guidance and support of IMF headquarters Legal Division.</p> <p>Considerable progress has been made in improving regulations in recent years. PFTAC’s focus will now be on implementation.</p> <p>Nevertheless, some work on legal and regulatory framework is needed in some countries.</p>

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>3.9 NON-BANKS , CREDIT UNIONS, MICROFINANCE</p> <ul style="list-style-type: none"> Strengthened legal, supervisory and operational frameworks. 	<ul style="list-style-type: none"> Most Credit Unions Acts in the region are over 30 years old. With the onset of financial inclusion as the new approach to increasing access to financial services, credit unions are seeing a revival. They recognize a need to modernize the sector and are approaching relevant authorities to consider the enactment of new legislation that would enhance public confidence. A number of countries have expressed a desire to receive TA to upgrade the sector. Microfinance Institutions are increasing their operations and adding products which cross the line from small lenders to deposit taking and banking operation, thus requiring an oversight regime to be implemented. 	<ul style="list-style-type: none"> Assistance in revising the Credit Unions Act, Regulation, CU Bylaws in: <ul style="list-style-type: none"> FSM Palau Timor-Leste Tonga Regional: Training in Supervising CU. Regional: Training in reporting financial results. Regional: Attend Pacific CU Congress. 	<p>TA in this area is provided under the technical guidance and support of IMF headquarters Legal Division.</p>
<p>3.10 OUTREACH</p> <ul style="list-style-type: none"> Organizing and/or participating at conferences and events. Association of Financial Supervisors of Pacific Countries. Governors' annual meeting Financial sector Regional and International Conferences. 	<ul style="list-style-type: none"> PFTAC organizes the annual AFSPC conference. PFTAC participates at the Governors' Annual Meeting In order to be current on financial sector activities in the region the TA will attend relevant congresses and conferences. The TA will also provide outreach by presenting on relevant topics at conferences. 	<ul style="list-style-type: none"> AFSPC annual meeting Samoa. Governor's Meeting in PNG. Attend a number of Pacific Financial sector conferences on behalf of PFTAC. Attend WOCCU as attendee or speaker. 	
Inputs			
<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>	<ul style="list-style-type: none"> TA reports. Presentations at workshops & seminars. Manuals and guidance notes. 	

Macroeconomic Statistics Logical Framework FY2015

Objective: More timely and reliable economic statistics

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
4.1 At least 8 countries compile at least two independent measures of GDP.	<ul style="list-style-type: none"> • Kiribati: Further methodology development for the compilation of an expenditure measure of GDP. • Cook Islands, Fiji, Palau, the Solomon Islands and Vanuatu: Methodology improvements. • Timor-Leste: Limited TA to be provided owing to support provided by other agencies. 	<ul style="list-style-type: none"> • Fiji: Methodologies used to compile GDP estimates by expenditure and by income to be reviewed and improved, with expectations to produce estimates during 2014. • Kiribati: Methodology development for the compilation of GDP estimates by expenditure to continue, depending on resource constraints. • Palau, Solomon Islands, and Vanuatu: Methodologies used to compile GDP estimates by expenditure to be improved. 	Requires better use of administrative data (tax, NPF, trade statistics, etc).
4.2 Constant price GDP estimates are rebased at least every 10 years.	<ul style="list-style-type: none"> • Cook Is. and Solomon Is.: Rebases in the planning stage. • Fiji and Vanuatu: Rebases of GDP estimates underway. • PNG: PNG: Development of chain Laspeyres volume indices being explored. • Nauru and Fiji: HIES complete. • FSM: HIES nearly complete. • Palau: HIES under way. • Kiribati, Niue, and RMI: HIES is planned. 	<ul style="list-style-type: none"> • Cook Is. and Solomon Is.: Rebases to be started, using the most recent HIES results. • Fiji and Vanuatu: GDP estimates by production to be rebased. • PNG: The implementation of chain Laspeyres volume indices will depend on resources. 	Requires timely completion of HIESs and CPI rebases (TA mostly provided by SPC).

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
4.3 At least 8 member countries compile regular annual GNI, GNDI, saving and net lending/borrowing aggregates.	<ul style="list-style-type: none"> • Regional: Improved ESS provided by the HQ ESS project progressively incorporated in national accounts estimates of IMF Pacific Islands Countries. • Cook Islands and Niue: Redevelopment and documentation of the BOP statistics underway. • Palau: Business survey questionnaire redesigned to collect data for the compilation of national accounts and balance of payment statistics. 	<ul style="list-style-type: none"> • Regional: ESS improved and used in national accounts estimates. • Cook Islands and Niue: Further BOP improvements. • Palau: The redesigned questionnaire will be used depending on data needs following the implementation of a VAT scheme. 	Requires national accounts and balance of payments statistics.
4.4 At least 4 countries compile quarterly national accounts.	<ul style="list-style-type: none"> • Cook Islands: Initial QNA estimates published. • Fiji: Initial work being undertaken. • Vanuatu: Plan to begin after the GDP rebase. 	<ul style="list-style-type: none"> • Cook Islands: QNA system further refined. • Fiji and Vanuatu: Development of methodologies to continue. 	Requires better use of administrative data (tax, NPF, etc) and additional staff resources in NSOs.
4.5 Data sources are adequate and methodologies are sound.	<ul style="list-style-type: none"> • Cook Islands and PNG: Methodology improvements being implemented. • Nauru and Tuvalu: Plans to provide TA have started. • Niue: Further TA to be provided. • Regional: Sub-regional training courses used increasingly to meet specific local needs and build capacity. 	<ul style="list-style-type: none"> • Regional: Methodologies and data sources to be improved in all countries. Staff capacities to compile national accounts improved during regional and sub-regional training courses, and during country advisory missions. • Cook Islands, Niue, and Vanuatu: Further improvements to national accounts methodology. 	Ongoing TA provided during most missions.
4.6 National accounts statistics are consistent with other statistics including balance of payments and government finance statistics.	<ul style="list-style-type: none"> • Regional: Agreement on regional TA responsibilities obtained for endorsement at future PSSC. • Regional: Improved ESS and GFS provided by the HQ projects gradually incorporated in national accounts of IMF Pacific Islands Countries. 	<ul style="list-style-type: none"> • Regional: Compiled and published national accounts estimates consistent with other major datasets. • Regional: Agreement on regional TA responsibilities obtained for endorsement at future PSSC. 	Close collaboration with HQ projects on ESS and GFS. Relies on good governance of PSSC and efficient coordination of regional activities.
4.7 National accounts statistics and associated metadata are readily available.	<ul style="list-style-type: none"> • Kiribati: 2012 national accounts estimates finalized and published with extensive PFTAC TA. • Fiji, Solomon Islands: 2012 GDP estimates published 10 months after the reference period. 	<ul style="list-style-type: none"> • Regional: Improve timeliness and availability of data on the Internet. Availability of metadata improved with support from the HQ GDDS project. 	Commitment from NSOs to disseminate statistics and metadata on the Internet and communicate with users.

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>4.8 Price statistics are of good quality and base years up to date.</p>	<ul style="list-style-type: none"> ● Fiji: PPI price collections started for both historical prices and ongoing quarterly with assistance from HQ and PFTAC. ● Solomon Is.: a core inflation index is now published. 	<ul style="list-style-type: none"> ● Fiji: PPI Price collection to be continued. ● Vanuatu: CPI rebase to be completed. ● Regional: Plans in preparation for CPI rebase in countries with completed HIESSs. 	<p>Responsibility of SPC. Further PPI development would improve national accounts estimates but would require a considerable increase in resources in NSOs.</p>
<p>4.9 Improvement in the coverage, quality and timeliness of balance of payments estimates.</p>	<ul style="list-style-type: none"> ● Regional: HQ ESS project provided TA to most countries. ● Cook Islands and Niue: BOP assistance provided. 	<p>ESS data quality improved in all countries with support from HQ project and directly from PFTAC for non-IMF countries.</p>	<p>Requires improvement of data sources and methodology.</p>
Inputs			
<p>Technical advice and capacity building delivered through advisory missions - around 24 per year, by two resident advisors.</p>	<p>Regional and sub-regional training courses and seminars - 1-3 per year.</p>	<ul style="list-style-type: none"> ● TA reports. ● Presentations at workshops & seminars. ● Manuals and guidance notes. 	

Macroeconomic Analysis Logical Framework FY2015

Objective: Improved macroeconomic analysis

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>5.1 Development of integrated macroeconomic monitoring / projection frameworks.¹⁵</p>	<ul style="list-style-type: none"> Financial programming (FP) frameworks have been developed for Fiji, PNG, Solomon Islands and Vanuatu. PNG: extensive FP framework has been developed with a focus on the resource sector but is not used by staff due to capacity constraints. Solomon Islands and Vanuatu: staff has encountered difficulties in using the FP framework effectively. 	<ul style="list-style-type: none"> Tailor FP frameworks to meet diverse needs of individual countries and capacity levels of staff. Regional: Effective coordination of policy analysis and information sharing across and within institutions. PNG, Solomon Islands and Vanuatu: simplify existing FP framework and provide further training to integrate framework into core monitoring / projection activities. 	<p>Continuous TA needed with significant staff resource commitments to ensure steady progress.</p> <p>Cooperation between staff and management at central banks and finance ministries is essential.</p> <p>Retention of trained staff remains a key risk.</p>

¹⁵ This integrates aspects from three RBM measurable outcomes in the FY2014 logical framework: 5.1 Enhanced analysis of current macroeconomic conditions; 5.2 Introduction of macroeconomic modeling tools and financial programming frameworks; and 5.3 Improved forecasting techniques.

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
<p>5.2 Development of multi-year fiscal planning process.</p>	<ul style="list-style-type: none"> • Regional: Most countries in the region focus on one- or two-year fiscal planning horizon. • Palau: initial steps taken to develop long-term fiscal planning framework for analyzing expiry of Compact grants. • PNG: Model developed to analyze how sovereign wealth fund can be used to manage resource revenue flows. 	<ul style="list-style-type: none"> • FSM, Palau, and RMI: Develop long-term fiscal planning frameworks to analyze policy options for fiscal adjustment. • PNG, Samoa, Solomon Islands and Vanuatu: Extend fiscal planning exercise to medium-term horizon. • PNG: Use model to develop operational rules for managing sovereign wealth fund to preserve macroeconomic stability. 	<p>The need for a medium-term fiscal planning may not garner adequate support from political process.</p> <p>Countries may not have adequate resources to develop and maintain medium / long term fiscal planning framework.</p> <p>Staff turnover poses major risks to sustained capacity building in some countries.</p>
<p>5.3 Develop ability to assess debt sustainability.</p>	<ul style="list-style-type: none"> • Regional: Few countries in the region conduct their own DSAs or comment on DSAs conducted by Fund teams. 	<ul style="list-style-type: none"> • Regional: Training supported sub-regional workshops, organized in coordination with other TA providers (notably the Asian Development Bank and the World Bank). • Fiji, Samoa and PNG: Develop simplified DSA frameworks and provide further training to enable staff to conduct DSAs, with alternative scenarios designed to address key risks specific to each country. 	<p>TA needed to build capacity over time, beginning with simplified DSA templates.</p>
<p>5.4 Development of contingency plan to provide financing in the event of a natural disaster.</p>	<ul style="list-style-type: none"> • Regional: Some countries incorporate a contingency reserve in the budget process. • Regional: Some countries have sovereign wealth / trust funds with limited contingency funds available. 	<ul style="list-style-type: none"> • Regional: Conduct research studies to provide guidance on fiscal planning to address diverse needs of individual countries: <ul style="list-style-type: none"> ○ A study that will provide estimates of the amount of contingency reserves required to support immediate response effort in the event of a natural disaster. ○ A study on how countries can take into account fiscal risks associated with natural disasters when assessing debt sustainability. 	<p>TA needed to provide estimates of adequate levels of contingency reserve.</p> <p>TA needed to help incorporate fiscal risks associated with natural disasters in DSAs.</p>

Measurable Outcomes	Baseline at end-FY14	Milestones for FY15	Specific Risks/ Assumptions
Inputs			
<p>Technical advice and capacity building delivered through advisory missions - around 15 per year.</p>	<p>Regional and sub-regional training courses and training courses and seminars – 2-3 per year.</p>	<p>TA reports. Presentations at workshops and seminars. Manuals, guidance notes and regional analysis.</p>	

ANNEX VI: PEFA INDICATOR RATING CHANGES IN PFTAC MEMBER COUNTRIES, MAY, 2014

As of May 30, 2014 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%

	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"	Percentage of countries with repeat PEFAs showing improvement or no change with an "A" or "B" rating in both years	
	A	B	C	D	A+B+C+D	A+B	C+D		
	Number of countries								
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%
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

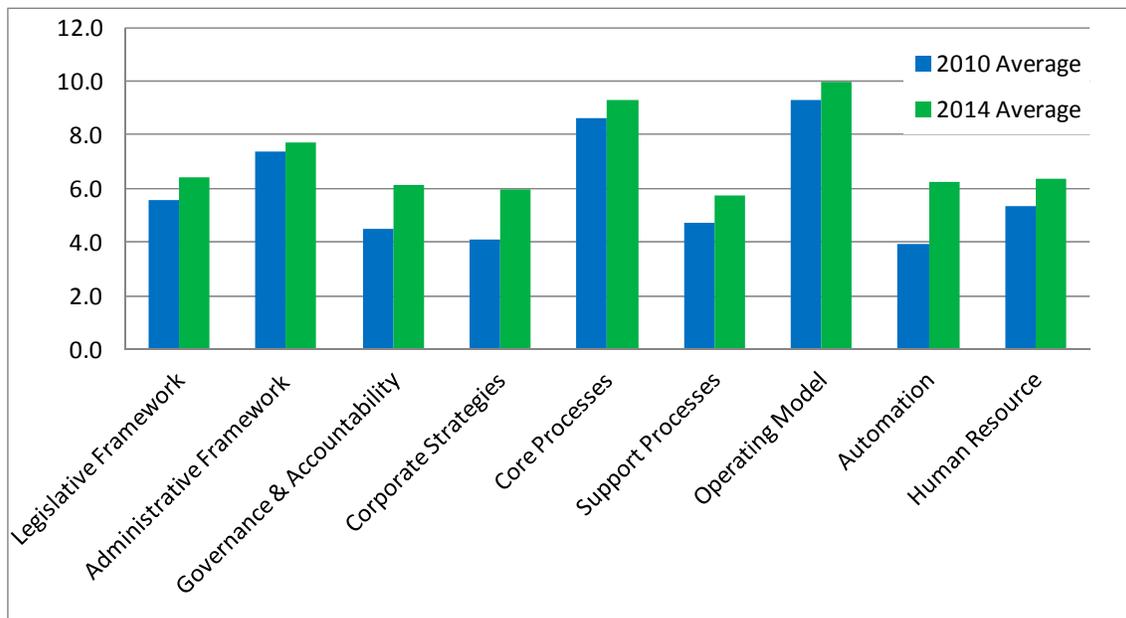
ANNEX VII: EVOLUTION OF THE PFTAC TAX BASELINE ASSESSMENT: 2010-2014

The PFTAC baseline assessment was developed in 2010 as a qualitative tool for Pacific Island tax administrators to assess the operational capacity of their administrations against a benchmark model tax administration. The assessment is based on nine core components of a modern tax administration and uses objective indicators to identify the extent to which these core components exist in each country's tax regime. The baseline assessment does not measure the effectiveness of the components.

The initial baseline was established in 2010 and a follow up self-assessment was carried out in 2014, using the same indicators.¹⁶ The model tax office core components are: (i) Legislation Framework; (ii) Administration Framework; (iii) Governance and Accountabilities; (iv) Corporate Strategies; (v) Core Processes; (vi) Support Processes; (vii) Operating Model; (viii) Automation; and (ix) Human Resource Management and Development. Within each core component there are 10-15 indicators used to arrive at a rating for that component.

The chart below shows a comparison between the 2010 and 2014 assessments and indicates the extent to which Pacific Island countries have been able to improve their structural and institutional frameworks. The results of the self-assessments indicate that, on average, progress has been made in all core components of Tax administration, but also that the areas of relative weakness identified in 2010 remain relatively weak.

Fig. 10: Tax Administration Baseline Assessment: Development of Core Components 2010-2014



¹⁶ This included all PFTAC members excepting Tokelau.