

### RECENT & UPCOMING TA MISSIONS

#### February

PFM	Regional	Strategic Development Program (with AusDOFD) workshop
	Solomon Is.	PFM Roadmap Development Phase II
	FSM	PFM Roadmap Development
	Regional	Symposium on PFM Reform in the Pacific
	Nauru	Strengthening Fixed Asset Accounting and Management
Tax	Samoa	Strengthening Non Tax Revenue
	Nauru	Selection of Nauru Revenue Adviser
	Fiji	Final Mission - Review progress of Self Assessment and Final PAYE
Statistics	Palau	Public consultation and dialogue
	PNG	Improving National Accounts Statistics
	Niue	Annual National Accounts/BOP
Financial Supervision	Cook Is.	Quarterly National Accounts
	Timor-Leste	Offsite and Onsite Supervision
Macro	Regional	11 <sup>th</sup> European Development Fund (EDF) Pacific Regional Programming Meeting
	Nauru	Develop capacity to assess debt sustainability
	PNG	Develop monitoring and forecasting methodology

#### March

PFM	PNG	PEFA Self-Assessment Training
	Fiji	Budget Analyst Training
	Tokelau	PEFA Assessment
	Samoa	Strengthening Non Tax Revenue
	Nauru	Roadmap revisions and medium-term budgeting
	Solomon Is.	Strengthening Non Tax Revenue 1 <sup>st</sup> Stage

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#### March

Tax	Palau	Public consultation and dialogue
	Kiribati	Kiribati Adviser selection
Statistics	Cook Is.	Quarterly National Accounts /BOP
	Solomon Is.	National Accounts
Financial Supervision	Regional	Meeting with the development partners
	Regional	Risk Based Banking Supervision Training for Palau/RMI/FSM
Macro	Samoa	Develop revenue forecasting methodology
	Regional	Joint workshop with Bank of England Centre for Central Banking Studies
	Regional	Joint workshop with IMF Singapore Training Institute on Fiscal Analysis and Forecasting (FAF)

#### April

PFM	Vanuatu	Strengthening Internal Audit
	Fiji	PFM Roadmap, Budget Analyst Training-Medium-term budgeting
Tax	Nauru	Reform program consultations
	Marshall Is.	MICT Implementation
	Cook Is.	Deep Sea Mining Seminar
Statistics	Fiji	National Accounts Expenditure and Income
	Vanuatu	National Accounts Rebase
Financial Supervision	Tonga	Preparation for On-Site Examination
Macro	Palau	Develop revenue forecasting methodology

## MEETINGS, SEMINARS & WORKSHOPS

### SYMPOSIUM ON PFM REFORM IN THE PACIFIC, SUVA, FIJI, 13-14 FEBRUARY

The symposium was attended by PFM Advisor [Stephen Mayes](#) and hosted by PICPA and ANU's Crawford School. The focus was on ways in which partner supported programs aimed at helping improve PFM systems and performances can be better tailored to address the issues that are constraining implementation. Presentations covered experiences of reform in selected Pacific Island countries, and lessons being learned around the world

## TECHNICAL ASSISTANCE ISSUES

### CONSIDERATIONS IN ESTABLISHING SPECIAL FUNDS

By [Ron Hackett](#), PFM Advisor

Growing interest and speculation during the past few years about potential financing for PICs from proposed international climate change initiatives has spurred discussion in many countries about how such resources should be managed. One important issue is whether the resources should be held in special "extra-budgetary funds" (EBFs), separate from the government's main "general" or "consolidated" fund.

Governments around the world have established EBFs for a variety of reasons, but generally for the purpose of reserving a particular type or source of revenue for some specific government function. For example, revenues from non-renewable natural resources may be held in an EBF designed to ensure that the benefits are shared with future generations.

Whether establishment of EBFs is "good" or "bad" is very much a question that can be answered only with deep understanding of the country specific context. There are no simple answers fitting all situations. But, if a decision is made to establish a special fund, there are some generally agreed principles that are considered best practice. Most importantly, these principles emphasize the need for transparency and clear governance and management procedures.

This brief note focuses on four important elements of a policy approach toward managing EBFs:<sup>1</sup>

- The data on EBFs should be consolidated with the budget figures for the purposes of fiscal analyses and the presentation of information in fiscal reports. To this end, a comprehensive list of EBFs should be

about the most appropriate design, sequencing and prioritization of reforms in small developing countries.

It was agreed that reforms supported by donors need to be linked to delivery of measurable development impacts and to take account of capacity constraints faced by small Pacific countries. The discussions also underscored the need to ensure that reform efforts were focused on developing country capacity and strengthening existing PFM systems. The symposium concluded that road maps for strengthening PFM systems needed to be carefully nuanced and context-specific.

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prepared and classified in line with the concept of general government set out in the *GFSM 2001* framework. This requirement should apply even to EBFs that are independently managed under separate legislative authority. The lack of coverage of the EBFs in fiscal frameworks can seriously undermine transparency and the soundness of macro-fiscal analyses and advice. Advice for fiscal surveillance should also stress the need to identify and address the political economy factors and budgetary failures that lead to the creation of many EBFs.

- With respect to public financial management, minimum requirements need to be met. Information on EBFs should be included in the budget documentation; and common requirements should be established for the classification of expenditure and revenue, accounting, internal control, and internal and external audit and reporting, using either the budget system itself or comparable parallel procedures. Governments should be encouraged to introduce the concept of a consolidated budget and to ensure adequate coverage of the consolidated budget through the public financial management system.
- The approach to EBFs should distinguish between:
  - The need for the central authorities to exercise tight control of the EBFs' budget preparation and execution, and for the financial reporting of EBFs to be timely, transparent and subject to rigorous procedures of oversight and auditing; and
  - The need for EBFs to be given authority to establish their own internal governance arrangements, as appropriate, and manage their business planning and operations in accordance with decisions taken by their senior managers, subject to being held accountable for their organizational performance and results.

<sup>1</sup> Adapted from Richard Allen and Dimitar Radev, "Extrabudgetary Funds", IMF Fiscal Affairs Department, June 2010, Washington, D.C.

- In addition, strong gate-keeping mechanisms, political as well as technical processes should be established to reduce the probability that unjustified EBFs will slip under the radar and eventually damage the integrity of the budgeting system. For example, governments should be encouraged to develop and promulgate an agreed policy position on the minimum requirements for EBFs based upon the criteria shown in Box 1; and to formulate a legal framework for EBFs that encompasses essential principles of sound governance and financial management. Governments should also be encouraged to carry out a systematic review of their EBFs with a view to reducing the number of funds to the minimum necessary to achieve essential policy objectives.

**Box 1: Criteria for Evaluating and Reforming EBFs**

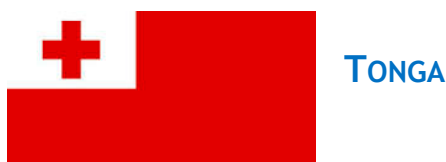
The following criteria may be useful in evaluating whether a country’s EBFs should continue to exist, be commercialized or privatized, or be abolished:

- Is there a satisfactory economic, governance and political economy case for establishing the EBF? If so, is it possible to consolidate information from the EBF with fiscal tables for the purposes of budget preparation and macro-fiscal analysis?
- Is the EBF properly classified according to the guidelines in *GFSM 2001*? If so, are the procedures

for preparing and executing its budget, and financial reporting, comparable to the government’s overall framework for managing budgetary expenditures and revenues?

- In cases where the EBF is financed by earmarked taxes, are the arrangements for collecting these revenues satisfactory and compatible with the overall efficiency of tax policy and tax administration?
- Is the legal basis for the EBF adequate in terms of financial management and reporting?
- Is the governance structure of the EBF (e.g., role, responsibilities and independence of the board, transparency of the decision-making process, etc.) compatible with the objectives of sound financial management?
- Is the EBF’s budget presented to the legislature in parallel with the state budget and subject to a similar process of scrutiny? If so, how integrated is the EBF with the fiscal objectives of the government?
- Is the EBF’s budget subject to audit by the Supreme Audit Institution according to a comparable process and timetable as the general budget?

## COUNTRY TA STRATEGIES



In the **public financial management** area, the focus will primarily be, together with AsDB, on refining the PFM roadmap developed on the basis of the 2010 Public Expenditure and Financial Accountability (PEFA) assessment (1.2). PFTAC will contribute specific technical areas to support the AsDB projects that aim to develop an effective medium-term budget framework (1.5) and improve budget execution. These are likely to be in more accurate macroeconomic analysis (5.1), more rigorous cash/debt management (1.6), and planning improvements to the functioning of their FMIS. In the medium term, PFTAC would look to assist the authorities implement a follow-up PEFA assessment, probably in 2014 (1.1).

In the **revenue** area, the main focus remains on assisting the authorities to continue with implementation of the recommendations of the October 2011 PFTAC strategic revenue review. The review and PFTAC's regional benchmarking exercise showed that Tonga is one of the regional leaders in implementing modern revenue administration practices. PFTAC inputs will be determined by ongoing discussions with Ministry of Customs and Revenue and will be supported by two new resident long-term advisors. PFTAC's specific inputs are likely to concentrate on implementing the new small/micro business tax regime (2.3), assisting with development and implementation of natural resource taxation (2.2, 2.3), implementation of risk management and compliance improvement strategies to improve consumption tax administration and collection (2.3), and implementation of a new taxpayer services sub-division(2.3).

In **statistics**, Tonga is relatively well advanced against the overall results framework; based on PFTAC advice, it produces National Accounts on two independent measures (4.1) with production of a range of income indicators (4.3). Balance of payments statistics are now

being developed according to BPM6 standards (4.9). However, the quality of statistics and source data need to be strengthened which was assisted during 2011 and 2012 by an AusAID funded resident advisor. As a result, direct PFTAC assistance was minimal during this period. PFTAC continued to coordinate with and be a resource for the resident advisor and to provide focused technical inputs in particular areas. Re-engagement with Tonga resumed during January 2014. Balance of payments and Government Finance Statistics support have been provided by IMF HQ.

In **financial sector supervision**, IMF/PFTAC has assisted the NRBT establish enhanced off-site analysis (3.3) and has provided support to on-site bank supervision (3.4). Intensive support is being provided in 2013/14 to build on-site supervision techniques through training in standard procedures, reports and analytical techniques (3.5-3.7). PFTAC is also providing follow-up support to ensure that NRBT can regularly prepare off-site analysis and monitoring reports (3.1) using base prudential returns developed by AFSPC. In 2014 this is likely to encompass implementation of the Reserve Bank of New Zealand (RBNZ) Financial Sector Information System (FSIS) (3.2). The year 2014/15 will see the introduction of technical assistance in the oversight of credit unions (3.9).

In the **macroeconomic** area, PFTAC continues to assist the NRBT in strengthening its capacity for macroeconomic analysis in cooperation with the research advisor from the Reserve Bank of Australia currently placed with NRBT (5.1). PFTAC also continues to assist the Ministry of Finance and National Planning to strengthen its capacity in macroeconomic and fiscal forecasting (5.3). Staffs of NRBT and MOFNP participated in a regional fiscal analysis and forecasting workshop held jointly by PFTAC and the Singapore Regional Training Institute in March 2014; NRBT staff attended a regional seminar on monetary policy management, analysis and operation held jointly by the Bank of England's Centre for Central Bank Studies and PFTAC in March (5.2).