



PFTAC, Reserve Bank of Fiji T7, Pratt St., Suva, Fiji

Web site: www.pftac.org E-mail: apdpftac1@imf.org Phone: (679) 3304866 Fax: (679) 3304045

RECENT & UPCOMING MISSIONS

September

Macro	Samoa	Macro-fiscal analysis as input into budget preparation process.
	Tonga	Macroeconomic forecasting
PFM	Kiribati	Debt Cash Management
	Samoa	PEFA Self Assessment
	Tonga	Regional Meeting on Climate Change Finance using Budget Support Modalities
Tax	Solomon Islands	Pacific Islands Tax Administrators Annual Meeting (PITAA)
	Palau	Implementation of PAYE (Palau Study)
	Fiji	PAYE notes, regulations & amendments
	Cook Islands	Follow up mission on natural resources
	Fiji	Credit Union Technical Congress (CUTC) Annual Meeting
Banking	Solomon Islands	FIS Implementation training in conjunction with RBNZ
Statistics	PNG	National Accounts
	Kiribati	National Accounts
	Vanuatu	Improving the methodology to compile national accounts
Conference	Timor-Leste	Conference on Harnessing Natural Resource Wealth for Growth and Economic Development

October

PFM	Samoa	PEFA Self-Assessment
	Tonga	PFM Roadmap
Tax	Kiribati	Revenue Administration mission
	Nauru	Revenue Administration mission
Statistics	Fiji	National Accounts
	Palau	National Accounts - Expenditure
Banking	Samoa	Meeting on Association of Financial Supervisors of Pacific Countries (AFSPC)
	Fiji	2013 bi-annual Pacific Microfinance week

IN THIS ISSUE

Recent & Upcoming Missions	1
Meetings : Seminars & Workshops	1
Staff Developments	2
TA Issues: Tax compliance & risk management	2
Country TA Strategies : PNG	3

November

PFM	Samoa	PEFA Self-Assessment
	Tonga	PFM Roadmap
Tax	Tonga	Small Business Regime/ Presumptive tax compliance
	Fiji	Tax and Customs Review
Statistics	FSM	National Accounts Workshop
	Vanuatu	PFTAC Steering Committee and IMF Pacific Islands Conference
PFTAC/IMF		

MEETINGS, SEMINARS & WORKSHOPS

PACIFIC ISLANDS TAX ADMINISTRATORS ASSOCIATION (PITAA) ANNUAL MEETING, HONIARA, SOLOMON ISLANDS: 10-12 SEPTEMBER.

PFTAC Revenue Advisor [John Hayes](#), IMF Revenue Advisor [Margaret Cotton](#), and PFTAC Coordinator [Scott Roger](#) participated in the 10th Annual Meeting, which was attended by all 16 member countries. Main topics included: (i) progress with tax reforms; (ii) business tax and compliance issues (see article below); (iii) tax administration diagnostics; (iv) tax software; and (v) development of PITAA. PITAA has become a fully self-managed organization, establishing a funding model and secretariat. PFTAC will continue to support and work closely with PITAA.

CONFERENCE ON HARNESSING NATURAL RESOURCE WEALTH FOR INCLUSIVE GROWTH AND ECONOMIC DEVELOPMENT, DILI, TIMOR-LESTE: 17-19 SEPTEMBER.

PFTAC Coordinator [Scott Roger](#) made a presentation on *Financial Development and Economic Diversification* at the conference, which focused on key issues for natural



resource-rich low-income countries, especially macro stability, financial development, and economic diversification to spark sustainable growth. It brought together ministers and senior officials, academics, and representatives of civil society and development partners from Asia, Africa, Australia and the South Pacific, the Caribbean, and the Middle East.

REGIONAL MEETING ON CLIMATE CHANGE FINANCE USING BUDGET SUPPORT MODALITIES, NUKU'ALOFA, TONGA: 25-27 SEPTEMBER.

The meeting brought together national authorities of small island developing states, regional and international organizations to share experiences with climate change finance and budget support modalities. PFM Advisor [Ron Hackett](#) made a presentation on *Integrating Planning and Budgeting*. A key issue in this area is with the use of off-budget climate change trust funds, which undermine

TECHNICAL ASSISTANCE ISSUES

TAX COMPLIANCE AND RISK MANAGEMENT

by John Hayes

The 10th annual meeting of the Pacific Island Tax Administrators Association (PITAA) was held in Honiara, Solomon Islands from September 10 - 12, 2013. PITAA was established under the auspices of PFTAC in 2003 but it is now apparent that it is well down the path to full autonomy.

Tax reform and modernization is high on the agenda for many PICs and a number of member countries outlined their achievements in the preceding year. The International Finance Corporation was invited to attend the meeting to outline tax reform that it has been associated with in South East Asian Countries (SEACs) and it was apparent that there are many similarities between the reform agendas of that region and PICs. Of particular relevance to PICs are the development of new tax regimes for small business taxpayers and the implementation of risk management in all administrative systems and processes.

Most PICs have difficulty in administering the tax obligations of very small businesses because their numbers are large and their capacity to comply voluntarily with their tax obligations is low. Tax administrators have limited resources and it makes good business sense to apply those resources to ensuring that the largest tax payers (large business) pay the right amount of tax. Inevitably that means that the resources available for compliance improvement in the small business sector are limited. As a result there is a very high level of non-compliance in registration, filing and payment.

fiscal transparency and effective macroeconomic management.

STAFF DEVELOPMENTS

RUSSEL FREEMAN, STATISTICS ADVISOR

Russel Freeman joined PFTAC in September, replacing [Michael Andrews](#) 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.



The majority of business activity in all PICs is at the small business level and, while their overall impact on tax collections is only marginal, the high level of non-compliance in the small business sector does affect the integrity of the tax system and the tax administrators.

Compliant taxpayers often question why they should continue to pay their taxes when there are so many others who do not and regularly (unfairly) question the competence of tax administrators for not enforcing small business tax obligations. This adverse reaction by compliant taxpayers negatively impacts on the effectiveness of the tax system and has led many countries to replace their profits-based tax regimes with alternative tax regimes for small business that make it easier for both taxpayers and tax administrators.

PITAA delegates also noted that the emergence of risk management in SEACs countries is as much an issue in those countries as it is in PICs. Risk management is now one of the cornerstones of good tax administration. Administrators in every country recognize that they must get the best value for their resources and cannot carry out all the activities that might be necessary to maximize compliance.

However, the greatest challenge for PICs and SEACs is not so much the recognition of the benefits of risk management as it is dealing with staff change management issues. In the transition from old staff practices and attitudes to a new administrative regime that focuses resources on areas that will make the greatest contribution, many activities that may have been carried out since the 1970s no longer have a place because their value added is comparatively low. A prime example is in the implementation of self-assessment and many staff have difficulty accepting that the old assessment function has no place in a modern environment.

COUNTRY TA STRATEGIES



PAPUA NEW GUINEA

Public Financial Management

In the PFM sector, PFTAC assisted in the preparation of a ROSC, which was published in October 2000. The PFTAC PFM Advisor has participated in occasional FAD technical assistance missions, and an attachment of one PNG official to PFTAC was completed in April 2007. PNG participated, with four officials, in the US Treasury study visit in September 2008. In May 2011, the PFTAC macroeconomic advisor participated in an FAD mission on advising PNG on the SWF. In July, 2013 a PFTAC PFM Advisor visited PNG at the request of the Treasury Minister to review the budget preparation process, and discuss with authorities plans for training in the PEFA methodology, and tentative scheduling for a PEFA in 2014.

Revenue Administration

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

Statistics

In February 2006, the Advisor briefly assessed the BOP compilation with a view to improve its quality, and to assess progress against recommendations made by previous missions. A multi-sector statistics mission in September 2006 assessed the statistical systems (BOP, national accounts, prices statistics, government finance statistics, and monetary statistics), with the PFTAC Advisor assessing the national accounts and providing overall coordination.

The BOP expert provided some TA to progress improvements to the methodology and source data. In 2008 and 2009 the Advisor undertook balance of payment (BOP) statistics missions to review statistics prerequisites,

progress in improving compilation methods and source data, as well as to assist Bank of PNG statistics staff in assessing the feasibility of electronic data collection.

A PFTAC Advisor conducted a mission during August 2013 to start reviewing the methodologies and data sources used for the compilation of national accounts statistics. Follow-up assistance with strengthening national accounts statistics is envisaged in 2014.

Financial Sector Supervision

There is no current PFTAC involvement in this area. In October 2005, the BPNG hosted the annual meeting of the Association of Financial Supervisors of Pacific Countries, for which PFTAC is the secretariat. In March 2007, PFTAC funded an attachment for two supervisors from BPNG to assist the Cook Islands' supervisory authority to undertake an on-site examination of a domestic bank. In 2008, PFTAC funded an attachment of one supervisor to assist the Reserve Bank of Fiji under an on-site examination of a local branch of a PNG-based bank.

Macroeconomics

Following a request by the Bank of Papua New Guinea (BPNG) for assistance in building up a financial programming capacity, a PFTAC work program starting in 2011 created together with BPNG staff a number of tools such as empirical output gap measures and inflation models as inputs into a financial programming framework, followed by the development of a PNG-specific financial programming framework in 2012 and 2013.

Training in use and updating of the framework was provided to staffs of both BPNG and the Department of Treasury, most recently in August 2013. Staffs from both institutions also benefitted from training in financial programming techniques provided jointly by PFTAC and the Singapore Regional Training Institute during a regional workshop in Fiji in December 2012.

A separate work program with the Department of Treasury and BPNG, in collaboration with the APD country team and the IMF's Research Department, developed modeling tools for exploring the macroeconomic impact of the surge in natural resource revenues that is expected as the LNG project enters into production. Two workshops for rolling out the resulting model and providing training in its use were held in 2011 and 2012 respectively. Results were shared with a broader public through a seminar organized by a local research institute in 2013.