



Pacific Financial Technical Assistance Centre

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I. BACKGROUND

The *Pacific Financial Technical Assistance Centre* (PFTAC) in Suva, Fiji was jointly established in 1993 by the *United Nations Development Programme* (UNDP) and the *International Monetary Fund* (IMF) as the regional office to implement the “Fiscal and Monetary Management Reform and Statistical Improvement Project” in 15 Pacific island countries (PICs).¹ During its initial Phase I, the *Asian Development Bank* (AsDB) joined UNDP and the IMF with a cost-sharing contribution for training purposes. Following the successful completion of Phase I, Australia and New Zealand joined the project as donors and on April 1, 1996 two three-year extensions commenced under Phase II with funding by UNDP, IMF, AsDB, AusAID, NZODA, and the Forum Secretariat.

The establishment of the Centre responded to the observation that economic growth and development in PICs was hampered by the lack of technical skills and institutional capacity to formulate and implement appropriate economic and financial policies to remove structural distortions, increase efficiency, and reduce macroeconomic imbalances. While technical assistance to that effect had been available before, including from the IMF, its effectiveness had been limited because it had proved difficult to organize a systematic and sustained assistance in the case of the large group of PICs and their great dispersion.

The Centre's aim has been to build skills and institutional capacity in Member countries for effective economic and financial management that can be sustained at the national level. Toward these objectives, the Centre has provided technical advice and training in public financial management, tax administration and policy, banking regulation and supervision, and macroeconomic and financial statistics. Because of its expertise in these areas, the IMF was selected--in consultation with the governments of the Pacific island countries and the donors supporting the Centre--as the Executing Agency to ensure that technical assistance and advice provided by the Centre were analytically sound and consistent and met high international standards.

The format of the Centre includes a number of design features that have not only expanded and complemented traditional forms of assistance but also diversified available assistance and added new possibilities for organization and effectiveness of delivery. These features include above all the following characteristics:

¹ Participating countries are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu.

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- **Regional approach to technical assistance**, which allows the Centre to exploit positive externalities in the provision of technical assistance, given the commonality of a number of economic and social problems in Pacific island countries. It also allows the Centre to actively assist in the establishment and implementation of regional policy initiatives and agreements.
- **Scope for continuity** in the delivery of specialized advice and support on the basis of a strategic approach to technical assistance. In particular, the Centre's permanent presence in the region and closeness to clients as well as the regularity of visits and communication help keep up the momentum for reform and encourage implementation of measures in line with agreed action plans.
- **Quality of advice** from the Centre, which is buttressed by the stringent selection criteria applied by the IMF as the Executing Agency for the Centre's advisors and the regular "backstopping" of the Centre by the IMF's technical assistance departments. The close links with the IMF also ensure that important world-wide economic policy initiatives and key developments in economic analysis and reform are fed into the advice of the Centre.
- **Versatility and responsiveness** to emerging needs owing to the broad experience and strong qualifications of its advisors, as well as the simple administrative arrangements or general operations and the identification and processing of technical assistance needs.
- **Combination of different forms of technical assistance** which the Centre can offer under one roof enhances its effectiveness because countries often need a range of coherent and complementary advice and assistance, which may require an integrated strategic "package approach" to assistance.
- **Efficiency and cost effectiveness** of delivering technical assistance to the region. The design characteristics and regional approach of the Centre permit an exploitation of economies of scale in both the management and operations because of its high degree of flexibility in the use of its human and financial resources.
- **Multi-donor character of the Centre**. The involvement of five donors under a single project has underscored the importance of, and laid the foundation for, close cooperation and effective coordination on the basis of a shared set of objectives, close links between the Centre and its donors, and an extensive flow of information.

The performance of the Centre has been subject to major reviews in the context of three Tripartite Reviews and Steering Committee Meetings (TPR/SCM) in November 1994, 1997, and 1999. In all three cases, representatives of PICs and the Centre's donors expressed their exceptional satisfaction with the effectiveness of its operations, which had been high "*due to a combination of sound project design, rational implementation arrangements, administrative simplicity, and operational versatility.*"² Regarding the future, countries and donors came during the TPR/SCM 1999 to the conclusion that "*for a considerable time to come there will remain a clear need for PFTAC to serve as a provider of high-quality technical assistance to PICs.*"³ Consistent with this assessment, donors gave firm indications at the meeting that they would continue supporting the Centre's activities financially over the foreseeable future. During the 2001 TPR/SCM "*it was agreed that PFTAC had continued to play an important role in the design and delivery of technical assistance to PICs and the region*" and that its assistance "*had continued to meet high standards.*"

² Project document RAS/95/330 Phase II, page 8.

³ Minutes to the Tripartite Review and Steering Committee Meeting, page 9, first bullet point.

With the end of the second phase of the Centre's activities and financing approaching, there is now a need to set out the strategy and objectives of the Centre for a new three-year period of operations. The need for such a step is made more urgent by the fact that UNDP announced in mid-2001 that, because of a tight financial situation and a related reassessment of its activities and priorities worldwide, it would no longer be in a position to participate as a donor to the Centre from 2002 onward.⁴

The present document is a response to these developments. It describes the future objectives and operations of the Centre against the changes that have taken place in the region with respect to both individual countries' needs and regional concerns and objectives, while giving due attention to the recommendations formulated for the Centre's future operations at the 1999 and 2001 TPR/SCMs. While retaining the principal features of the earlier project documents which have contributed to the success of the Centre in the past, the document also integrates fresh thinking about economic management and effective technical assistance delivery and takes into account major international and regional developments affecting PICs. In addition, the withdrawal of UNDP as a donor to the Centre requires the exploration of options for PFTAC's continued operations under a different organizational and operational format as well as efforts to attract other donors who could fill the financing gap left by the departure of UNDP.⁵ New arrangements for donor contributions to the project and the financial management of the Centre's operations will be set out in a separate document as part of contractual arrangements between the IMF and donors supporting the Centre.

⁴ In the context of this reassessment it was decided that UNDP should concentrate more on those areas in which it has a comparative advantage and reduce activities in (macro-)economic policy and management issues where the two Bretton Woods organizations are seen to have a comparative advantage and a stronger mandate and in which PFTAC is offering technical assistance.

⁵ Efforts to attract other donors have advanced the most with the European Union.

II. PROJECT JUSTIFICATION AND CONTENT

The Pacific island countries served by the Centre are scattered across the vast expanse of the Pacific. Their generally small size and remoteness from major markets constitute an important handicap which cannot easily be overcome. In addition, the PICs have been susceptible to natural disasters. Their growth performance has therefore on the whole remained disappointing despite substantial external financial assistance. Against this backdrop, the need exists to formulate and implement economic and financial policies that achieve best results under limiting constraints and to ensure that the financial resources available from domestic and foreign sources are put to effective use in support of the development objectives of PIC governments.

Given the stage of development of PICs and their limited financial and human resources and inadequate skills and institutional capacity, technical assistance continues to be needed to support the achievement of these objectives despite some progress in management and reform in a number of countries following significant technical assistance by various providers in the past. New thinking on economic management, including the importance of governance and financial sector stability, also require assistance with the corresponding adaptation of policies and management in PICs. Moreover, given the challenges of globalization as well as an increasing number of international and regional initiatives regarding the nature and implementation of economic policies and management, technical assistance is also needed to ensure that the PICs remain in step with related international and regional developments and commitments.

The past format and special features of the Centre have proven to be effective in assisting PICs with the tasks confronted by them and will be broadly retained. At the same time, efforts will be undertaken to ensure that the Centre's operational structures and response mechanisms will be adapted as needed in order to ensure that the Centre continues to offer advice and assistance that are relevant and complement other advice and assistance offered in the region. Toward this objective, the Centre will give particular attention to a strengthening of cooperation and coordination on the basis of strategies that support national objectives and foster ownership and commitment.

A. Country Issues

The principal rationale for the Centre's technical assistance to PICs is that improved economic and financial management can make a significant contribution to economic growth and development. The range of policies and instruments that can help achieve this result is wide and may differ from country to country. However, recurring themes in PICs are the effective and efficient control of the public finances on both the revenue and expenditure side, the stability of the financial sector and its institutions, and the availability and wide dissemination of critical statistics for sound decision making in both the public and private sector. Despite some notable progress in a number of PICs in these areas, there remains substantial scope for further improvements in most of them, and technical assistance can assist in this process. In particular:

- The sustainability of the public finances and effective use of government resources remains in many cases hampered by outdated and often inappropriate legislative frameworks, weak budgetary and accounting procedures, lack of integration of budgeting and planning processes, limited implementation capacity, inefficient use of government personnel, and inefficiencies in the operation of public sector enterprises. Appropriate policy advice and

well-targeted technical assistance are therefore needed to strengthen public financial management on a broad basis.

- Tax and customs systems are often inefficient both in their administration and distributional effects, resulting in revenue loss for government and distortions in resource allocations that undermine the functioning of the economy. Revenue departments are frequently unable to adapt to rapidly changing environments because of inadequate and overly complex laws, regulations and procedures, weak organizational structures and limited management capabilities. Moreover, international and regional trade policy initiatives will require significant adaptations in tax and customs regimes of PICs, including improvements of their administration and integrity.
- Rapid and fundamental changes in the international financial environment, including for nonbank financial intermediaries and offshore sectors, call for frequent and often comprehensive adaptations in regulatory frameworks for financial institutions and operations. Action on prudential aspects of supervision and control will in some countries have to be complemented by measures on money laundering and other financial crimes. These developments continue to place additional demands on the skills and capacity of supervisory agencies to develop appropriate legal and regulatory systems and conduct effective prudential supervision.
- The growing recognition of the importance of transparency and the availability of information for economic development and accountable government has resulted in extensive efforts on the part of international organizations like the IMF to strengthen the availability of timely and reliable statistical information that meets international standards of classification and consistency. Although the needs of PICs are more limited than in larger countries, the importance of substantial improvements in their statistical systems and practices is not in doubt.

Progress in all these areas is in most Pacific island countries, if not all, narrowly circumscribed by tight human and financial resource constraints. It is therefore particularly important for PICs to develop institutions and processes that permit the definition and regular review of priorities and help determine the appropriate pacing and sequencing of actions. Technical assistance can be helpful in this context. Apart from reducing resource constraints directly through the transfer of skills and building of institutions, including for decision making bodies, it can assist in both the accurate assessment of constraints and the development of realistic and properly sequenced reform programs that reflect national priorities. Assistance in these areas will need to give particular attention to the sustainability of reforms and the development of broad-based ownership and firm commitment of the authorities.

B. Regional and International Issues

Globalization and the proliferation of international initiatives and agreements and introduction of standards and codes or “best practices” have entailed additional pressure on the absorptive capacity of Pacific island governments and economies. In this environment, it has been increasingly recognized that the PICs will need to engage in joint action and a pooling of their resources to overcome some of the handicaps they face because of their small size and limited resources. The right definition and effective implementation of such action, as well as the successful pooling of resources depends in good measure on a full and solid understanding of the implications of the issues involved. Specialized knowledge and technical assistance will increasingly be needed to prevent individual PICs as well as the region as a whole falling behind in

an increasingly competitive world and to ensure that their concerns are heard and their interests acknowledged in the international arena.

Regional approaches to technical assistance are also called for because of the high degree of commonality of issues and problems among Pacific island countries. In this environment, it is often useful and effective to develop assistance and support mechanisms that have validity and relevance for all of them before turning to country-specific solutions. Such an approach also responds to the increasing momentum toward regional economic integration which requires the presence of legal frameworks and policy principles that are compatible among PICs and non distortionary. Technical assistance may be needed to identify areas for which regional initiatives and actions are effective and assist in their implementation. It will be important in this context to ensure that such assistance is well coordinated and corresponds to the priorities established by PICs for themselves and the region. The establishment of effective mechanisms to that effect will over the coming years be an important challenge for regional bodies, donors, and technical assistance providers.

III. OBJECTIVES, ACTIVITIES AND OUTCOMES

A. Strategy for Use of Resources

The broad objectives, activities, and expected outcomes of the Centre's operations will remain fundamentally unchanged from those pursued by the Centre in the past.⁶ In particular, the Centre will retain its strong focus on improvements in economic and financial management in PICs and the region as a whole. In addition, the Centre will continue to concentrate activities on its four traditional areas of competence and mandate, namely public financial management, tax and customs policy and administration, banking regulation and supervision, and economic and financial statistics.

As in the past, the Centre's activities will above all include direct technical assistance from its four resident advisors in the context of short-term repeat visits to countries and through communication from the PFTAC office. The capacity of the resident advisors will be complemented and broadened by the engagement of short-term or peripatetic experts--hired by the Centre with the assistance of the IMF--who will mainly be employed in specialized areas of technical assistance or in areas requiring significant immediate attention. Training provided by the Centre will consist mainly of regional seminars and in country workshops, which will be complemented by the arrangement and financing of practical training through attachments of country officials to sister institutions in the region or other qualified administrations. In the assessment of technical assistance needs and development of assistance strategies, the Centre will give particular attention to the appropriate mix of the above types of assistance and the establishment of processes that strengthen cooperation between government agencies and among officials, and thereby support the development of ownership and foster sustainability.

In its operations, the Centre will continue to set the high standards that alone ensure that its advice is relevant and sound and that will assist PICs and the region as a whole to become an active and integrated part of the international economy. To that effect, the Centre will draw extensively on the experience and expertise developed in the area of economic and financial management

⁶ Overall objectives, project purpose and expected results are described in the attached logical framework matrix.

internationally and in the region. In particular, the Centre will continue to rely on the backstopping services of the IMF's technical assistance departments for quality control and guidance. The Centre will also intensify its contacts with organizations and bilateral donors active in the Pacific region to ensure that its advice takes regional economic and political dimensions into account and can be effectively coordinated.

In line with the outcomes and recommendations of the 1999 Tripartite Review and Steering Committee Meeting (TPR/SCM), the Centre will endeavor to remain an "honest broker" and neutral purveyor of advice and assistance whose activities are fundamentally driven by the needs and demands of PICs and the region as a whole. To that effect, the Centre will aim to retain a high degree of flexibility and responsiveness to emerging needs and circumstances. At the same time, the Centre, in close cooperation with the authorities and other providers of technical assistance, will seek to develop medium-term reform and technical assistance strategies and action plans that can serve as a framework for both policy action and the coordination of technical assistance. Priorities for the Centre's activities will be guided by the principles developed during the 1999 TPR/SCM, and confirmed by the 2001 TPR/SCM, as well as by considerations of comparative advantage⁷. Depending on the stage of development and advancement of reforms, the Centre's support to PICs may at times cover the entire range of technical assistance from policy advice or "upstream" to "hands-on" or "downstream" assistance.

In the assessment of technical assistance needs and development of support strategies, the Centre will give particular attention to prioritization and sequencing and the achievement of an appropriate balance between ambitiousness and realism.

B. Principal Areas of Technical Assistance

The principal areas of technical assistance of the Centre will remain unchanged and every effort will be made to select from the panels of experts of the IMF's technical assistance departments resident advisors whose experience and qualifications best meet the requirements of the job. While the needs of individual PICs may differ and change over time, the principal activities and objectives in the four areas covered by the Centre can be described as follows:

Public financial management

Activities in this area will seek to improve the capacity of the authorities to effectively control and efficiently manage the public finances, including domestic and external public debt. To that effect, assistance by the Centre will help PICs to strengthen their budgetary, cash management and accounting systems on the basis of well-defined strategic plans. Improvements will in particular be sought in budget planning and preparation, budget execution and monitoring, and the auditing and evaluation of public expenditure, including where appropriate those of government entities and enterprises and extra-budgetary funds. PICs will be encouraged to adopt or improve the use of modern budgetary tools such as program-oriented budget systems that can be sustained at the national level. In addition, assistance will be offered in the establishment or strengthening of effective treasury and cash management systems and accounting practices that can help control

⁷ At the TPR/SCM in 1999, it was broadly agreed that the Centre should assist in particular in the following way:

- Respond with priority to requests from those countries which have a solid reform agenda and have demonstrated commitment.
- Identify countries with specific and immediate needs.
- Respond to spontaneous requests and urgent needs.
- Where appropriate, launch or support regional initiatives that stand to benefit all or most PICs.

expenditure and rationalize and streamline their financing. Finally, technical assistance by the Centre will seek to improve the transparency of budget processes and public expenditure and strengthen accountability of ministries and officials through the promotion of key principles under the IMF's *Code of Good Practices on Fiscal Transparency*.

Tax and customs policy and administration

Activities in this area will seek to strengthen the capacity of the authorities to enhance the economic and administrative efficiency of domestic revenue systems and increase their yield. In particular, the Centre will assist the authorities in the formulation and implementation of policy reforms and improvements in tax and customs administration. This will include assistance in the redesign of revenue systems that become necessary as a result of international and regional trade policy initiatives such as World Trade Organization (WTO) rounds and the Pacific Island Countries Trade Agreement (PICTA), but will also include reforms intended to streamline and simplify existing regimes, increase their efficiency and broaden tax bases as for example in the case of a general value added tax (VAT) where this is feasible. In the area of revenue administration, assistance will concentrate on improving administrative processes and procedures and increasing compliance through a strengthening of collection, audit and tax payer service functions. In the advancement of reform, particular emphasis will be given to the involvement and consultation of stakeholders within the administration and outside.

Banking regulation and supervision

Activities in this area will seek to assist the authorities in the establishment and effective management of legislative and regulatory systems for the supervision of banks and other financial institutions that meet high international standards and support sound banking practices and financial sector stability. This will involve assistance in the formulation and adaptation of prudential regulation for banks and nonbank financial intermediaries as well as the building of institutional capacity and skills for their effective supervision through appropriate reporting systems, on-site and off-site inspections, and audits. Particular attention will be given to licensing procedures, risk assessment, capital adequacy, and provisioning. Given the increasing range and complexity of the issues involved in this area of activity, the Centre will continue to encourage and assist regional cooperation and the establishment of coordination frameworks and regional support mechanisms that permit effective supervision even in resource-constrained PICs. Assistance by the Centre will also address the regulation and supervision of offshore financial centres (OFCs) and their banking operations as well as measures to control money laundering and other financial crime. Where appropriate, cooperation with specialized agencies in the pursuit of financial crime will be sought and regional efforts to stem such crime assisted.

Economic and financial statistics

Assistance in this area will seek to strengthen statistical systems and practices in PICs in order to strengthen evaluation and decision making of government and support private sector development. Assistance will in particular seek to the achieve the regular and timely collection, compilation, analysis and dissemination of critical economic and financial statistics--complemented by fundamental social indicators--on the basis of international standards for consistency, definitions, coverage and accuracy such as the IMF's *General Data Dissemination System*. This will involve above all the establishment of processes and procedures that ensure an effective cooperation and coordination between statistics offices and other government agencies producing key statistics or administrative data. It will also involve the design of appropriate reporting forms and survey templates in support of the production of statistics. Given the limited possibilities of PICs, the Centre will give particular attention to the identification of resource constraints and priorities and the design of core sets of statistics in collaboration with the authorities and other providers of technical assistance.

C. Regional Initiatives and Objectives

Over the past four years, the Centre has responded to an increasing number of requests for assistance in matters that have a regional dimension. This has included the preparation of documents for consideration and decision at the *Forum Economic Ministers Meetings* (FEMM), the organization of regional conferences and seminars, participation as resource persons in regional workshops and seminars organized by other institutions, and the preparation of a number of discussion papers and articles on issues of regional interest. The Centre has also launched a regional initiative on cooperation in financial sector regulation and supervision.⁸

The Centre will continue to make contributions to regional dialogue and decision making. The overarching objective will be to assist PICs individually and as a group with the implementation of the *Forum Economic Action Plan* agreed by ministers during the 1997 FEMM in Cairns, Australia, and complemented during the subsequent meetings of Forum economic ministers. As the objectives stated in the *Action Plan* have in the main remained broad policy intentions, the Centre will seek to assist countries in the region with the development of a clearer understanding of the content of initiatives and with the definition of concrete action for their successful implementation. Experience over the past three to four years has demonstrated that technical assistance to that effect at the regional level can then be followed more effectively by assistance at the country level.

This two-stage approach is currently being pursued in the areas of public financial management and statistics. In public financial management, the Centre will continue to promote adherence to, and timely implementation of, the Forum's *Eight Principles of Accountability* and their supplement, the IMF's *Code of Good Practices on Fiscal Transparency*. Assistance to individual PICs in this area will be tailored to their capacity and needs. Where appropriate, it will be combined with the development, in concert with the authorities, of priorities for more general reform of public financial management on the basis of a thorough assessment of human and financial resource constraints. A similar approach has been pursued in statistics where the Centre has developed a regional *Questionnaire on Statistical Systems and Practices* which, in combination with the IMF's *General Data Dissemination Standard* (GDDS) as a consistent underlying framework, will be used for the design and tracking of coherent reform programs and the development of coordinated technical assistance plans.

In financial sector regulation and supervision, the Centre will continue to act as the Secretariat for the *Pacific Islands Prudential Regulation and Supervision Initiative*. In that context, the Centre will promote closer cooperation and coordination between supervisory authorities in the region and seek to assist in the development of regional support mechanisms for the effective supervision of banks and nonbank financial intermediaries.

⁸ The *Pacific Islands Prudential Regulation and Supervision Initiative* (PIPRSI) which includes Federated States of Micronesia, Fiji, Papua New Guinea, Republic of the Marshall Islands, Samoa, Tonga and Vanuatu.

D. Cooperation and Coordination

The Centre will continue its efforts to strengthen cooperation and coordination with international organizations, bilateral donors, and other providers of technical assistance in economic and financial management active in the region. To that effect, it will expand the coverage and distribution of information on its activities and seek to reach a common understanding on the principal technical assistance issues and strategies. Principal instruments in this context will remain the monthly issues of the Centre's *Three-Month Rolling Work Plan* as well as its semi-annual *Project Progress Report*, which already enjoy a wide distribution.

In addition, the Centre's Project Coordinator will remain in close contact with regional partners on their technical assistance plans and the scope for coordination. To the same ends, the Centre's advisors will continue to contact representatives and project managers of partners in the field. In cases of complementary assistance, and with the agreement of the authorities, the Centre will make its own reports and recommendations available to partners.

The Centre will also seek to support the establishment and strengthening of appropriate committees and cooperation and coordination mechanisms on economic and financial reform within countries. To that effect, it will give particular attention to the development of interactive work processes and channels of communication. More frequent use will also be made in future of in-country workshops which not only transfer skills but also foster cooperation. Successful implementation of these objectives will strengthen the capacity of PICs to take the lead in more general efforts to coordinate financial and technical assistance, including with the countries' development partners.

E. Beneficiaries and Measures of Success

The immediate beneficiaries of the Centre's technical assistance activities are the government agencies responsible for economic and financial policy formulation and implementation, including notably ministries of finance and planning, central banks and similar policy and supervisory authorities, the tax and customs authorities, and statistical offices and their counterpart institutions in government and central banks, as well as the business sector (through more accurate and timely economic data and some specific training).

More broadly, however, all segments of the population will benefit from the program through the enhanced capacity of PICs for economic and financial management, and its beneficial consequences for growth and development. In particular, improved management of the economy will contribute to a more effective functioning of government and its entities as well as a strengthening of private initiative and private sector growth. It will also result in a better use of resources toward development priorities, including the alleviation of poverty and availability of basic social services. Moreover, the Centre's efforts in all four areas of its mandate to strengthen transparency of government operations will make a critical contribution to accountability, and good governance more generally. The attainment of the objectives of the PFTAC project will be measured by demonstrated improvements in the capacity of the authorities to effectively control and efficiently manage the public finances, including their capacity to enhance the economic and administrative efficiency of domestic revenue systems and increase their yield. It will also be measured by the establishment and visible improvements in the effective management of legislative and regulatory systems that meet high international standards and support sound banking practices and financial sector stability. Finally, success of the Centre's activities will be measured by a demonstrable strengthening of statistical systems and practices involving the

regular and timely collection, compilation, analysis and dissemination of a core set of critical economic and financial statistics in line with international standards.

In the regional context, success of the Centre's activities will be measured by a broader and better understanding of international and regional economic and financial policy issues, and by the capacity of the PICs individually and as a group to organize and successfully implement regional reform and action to strengthen their role in the world economy.

Interim measures of success at various levels will become available as a result of a rigorous definition of objectives and evaluation of results in connection with a move toward a more performance based approach to the Centre's operations as recommended on the occasion of the 2001 TPR/SCM.

IV. MANAGEMENT, REVIEWS AND FINANCING

A. Institutional Arrangements

Role and responsibilities

The project will continue to be organized and administered as a multi-donor technical assistance institution under the name of *Pacific Financial Technical Assistance Centre* (PFTAC) based in Suva, Fiji, with the *International Monetary Fund* (IMF) as *Executing Agency*. In that capacity, the IMF will be broadly responsible for the relevance and quality of advice and assistance from the Centre. In particular, the IMF will:

- Assign a Project Coordinator to the Centre from its staff
- Select from its panels of experts the Centre's resident advisors and assist with the hiring of peripatetic experts for the Centre
- Provide backstopping services to the Centre's advisors
- Manage the cost-sharing contributions of donors and the financial operations of the Centre under the PFTAC Subaccount⁹

The strategic direction and approach of the Centre will be guided--within the framework of the present document--by the *Tripartite Review Committee* (TPRC), which will consist of representatives of the *Executing Agency*, the funding agencies, and the participating countries. Meetings of the TPRC will take place every 12-18 months. The chairman of the meeting will be the Governor of the Reserve Bank of Fiji. In addition, informal meetings can be arranged in connection with such regional events as the *Forum Economic Ministers Meeting*.

⁹ Specific administrative arrangements for the financing of the project are described in the attached annex. These arrangements are governed by the provisions set forth in the *Framework Administered Account for Technical Assistance Activities* Instrument of the IMF (April 3, 1995 as amended) and once approved in a Subaccount document, and will form the basis for agreements with individual donors.

The day-to-day management of the Centre and its operations will be the responsibility of the Project Coordinator. In particular, in cooperation with the Centre's resident advisors--and guided by the decisions of the TPRC--the Project Coordinator will be responsible for the work program of the Centre.¹⁰ The Project Coordinator will serve as Secretary to the TPRC. The Project Coordinator will work closely with the bilateral and multilateral funding agencies and also seek and foster cooperation with other development partners in the region.

Reporting and evaluation

The Centre will retain its strong commitment to transparency and accountability as a basis for an ongoing evaluation of the appropriateness and effectiveness of its activities. To that effect, it will continue to circulate widely its monthly *Three-Month Rolling Work Plan* as well as the Project Coordinator's semi-annual *Project Progress Report*. Apart from giving a comprehensive account of the Centre's activities over the preceding six months, the latter will also serve as a vehicle for regular and in-depth evaluation of the Centre's activities and results achieved in the four areas of its mandate. Formal and comprehensive reviews of activities and performance against objectives will be undertaken in the context of meetings of the *Tripartite Review Committee* which may decide to complement internal reviews by an external evaluation. Regular reviews will also be sought in connection with informal meetings at such regional events as the *Forum Economic Ministers Meeting*. Ongoing monitoring and evaluation of the Centre's work will take place in connection with the regular reporting of resident advisors to the IMF's technical assistance departments and their backstopping. In addition, the Project Coordinator will on a regular basis seek the feedback on the Centre's operations from participating countries and funding agencies.

B. Legal Context

This document in support of the continued operations of the *Pacific Financial Technical Assistance Centre* (PFTAC) shall be the instrument referred to as the *Project Document* in the context of the establishment of the *Pacific Financial Technical Assistance Centre Subaccount* within the IMF's *Framework Administered Account for Technical Assistance Activities*.

¹⁰ Priority setting will be guided by the broad criteria agreed at the 1999 *Tripartite Review and Steering Committee Meeting* and confirmed by the 2001 Meeting, namely:

- Respond with priority to requests from those countries, which have a solid reform agenda and have demonstrated commitment.
- Identify countries with specific and immediate needs.
- Respond to spontaneous requests and urgent needs.
- Where appropriate, launch or support regional initiatives that stand to benefit all or most PICs.

To ensure compatibility with these criteria, the Centre will seek regular feedback from countries and donors on its priority setting.

PFTAC--Proposed Management of Cost-Sharing Contributions

Following the withdrawal of UNDP from the PFTAC project it is proposed that the financial operations of PFTAC and cost-sharing contributions from donors be operated and managed by the IMF within the Fund's *Framework Administered Account for Technical Assistance Activities* (FAA).

The overall aim of this proposal is to ensure PFTAC's effective operation in the future and to ensure a seamless transition from the current UNDP-based arrangements to the new framework. The administrative functions currently performed by UNDP would be taken on by the PFTAC office and, where appropriate, directly by the IMF in Washington, D.C. The IMF would be responsible for administering cost-sharing contributions according to its well established procedures, including for accounting, reporting and auditing.

Arrangements are currently under way to establish a PFTAC multi-donor subaccount within the FAA, which would allow several donors to jointly finance TA implemented by PFTAC in correspondence with its new *Project Document*. The subaccount will consist of all resources contributed to PFTAC (except those from the IMF, which are charged directly to its administrative budget) and will be used only for PFTAC activities consistent with the FAA Instrument governing the use of subaccounts. The establishment of the subaccount will require Executive Board approval.

The basis for the financial arrangements between donors and the IMF will be a letter of understanding establishing the purposes of the contribution (support to PFTAC, with reference to the *Project Document*) and the methods, terms and conditions by which the costs of the technical assistance activities of PFTAC will be financed from the resources contributed to the subaccount by donors.

The IMF will annually, or more often if agreed with the donors, prepare a report on the subaccount's (i.e. PFTAC) expenditures and a review of the activities financed by it.

A guideline document describing in detail these management arrangements will be prepared.