

# PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

## QUARTERLY REPORT

August 2021



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

Website: [www.pftac.org](http://www.pftac.org) Email: [PFTACinquiries@imf.org](mailto:PFTACinquiries@imf.org) Facebook: @FijiPFTAC Phone: +679-330-4866

### I. Introduction<sup>1</sup>

**This report covers the first quarter of the 2022 Fiscal Year (FY2022/Q1) for the period May 1 to July 31, 2021.** After a particularly busy final quarter of FY2021, activity this quarter was somewhat subdued with 22 distinct missions or activities launched or completed that utilized 399 field TA days, accounting for around 15 percent of the planned TA days for the full year, but 11 percent of planned activities. All Capacity Development (CD) is being delivered by remote means, and given the COVID outbreak in Fiji since April, all staff activity is occurring under ‘work from home’ (WFH) conditions, mostly eliminating the in-person office synergies enjoyed during the six months before the current lockdown. A number of missions and activities that launched late in the previous quarter that were counted in that period’s results carried over into the first quarter with only additional inputs included to avoid double counting. Finally, very significant changes came into effect from May 1 with the operational launch of the IMF’s new CD Management and Administration Platform (CD-MAP). Extensive training and familiarization efforts as the platform stabilizes has diverted time and effort from direct CD delivery but will ultimately provide strong dividends over time from the management data and system functionality provides.

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### II. News

#### Steering Committee and Governance Issues

**The 2021 PFTAC Steering Committee (SC) meetings were convened virtually over two sessions on June 29 and July 2, 2021 respectively.** Each session was scheduled for two hours, with the July 2 session specifically dedicated to issues relating to the sixth phase of PFTAC operations that was originally due to commence in 2022. The June 29 meeting was strongly attended with at least 89 participants representing 10 of the 16 PFTAC member countries, all seven Phase V donors, a wide range of IMF officials, and representatives of 11 observer organizations. Deputy Governor Esala Masitabua from the Reserve Bank of Fiji (RBF) chaired both sessions on behalf of the Fijian authorities as the host of PFTAC and the 2021 meetings. Context setting presentations were made by Roger Nord, Deputy Director of the IMF’s Institute for Capacity Development (ICD) and Ms. Leni Hunter, IMF Regional Resident Representative in the Pacific on global



<sup>1</sup> PFTAC is generously funded by Australia, Korea, New Zealand, the Asian Development Bank (ADB), and the European Union, the Government of Canada from November 2019, and from December 30, 2020, the United States Treasury. From the start of Phase V in November 2016, member countries have also agreed to financially contribute to PFTAC costs. The IMF covers the salaries for the coordinator and local administrative staff, as well as various administrative costs.

macroeconomic trends and outlook, and how the IMF's CD efforts and resources have pivoted over the past year to respond to the COVID-19 crisis.



**Highlights of the FY2021 workplan and budget outturn were presented, noting the robust execution against pre-COVID plans, with extraordinary cost savings in the absence of travel and in-person training.** Presentation of FY2021 results and FY2022 plans drew on the 2021 PFTAC Annual Report that was published just prior to the SC meetings.<sup>2</sup> Three thematic presentations were made, including a relatively detailed explanation of the findings and recommendations of the mid-term external evaluation (see box below) as well as shorter

briefings on: (1) the outcomes of the third in a series of reviews of revenue reforms in the Pacific (see box below) over the period 2017 – 2020, and (2) an explanation of a new ICD initiative to deliver TA in macroeconomic programming to select Pacific nations that is additional but complementary to the PFTAC Macro program efforts. Niue offered to host an in-person SC meeting in 2022 if travel resumes, making up for the cancelled 2020 meetings they were ready to host.

#### PFTAC MID-TERM EVALUATION

All RDCs, including PFTAC, are subject to an independent external evaluation at the mid-point of the operating phase. Following competitive tendering, the Phase V mid-term evaluation of PFTAC was launched in late 2019 to review the first 30 months of Phase V operations between November 2016 and April 2019. The evaluation assessed the relevance, effectiveness, efficiency, sustainability and impact of 74 of its 91 projects in six programs, providing recommendations to improve performance and guide the future direction of the center. Representatives of the evaluators, *Universalia* presented their findings and recommendations at the June 29, 2021 SC meeting as follows:

- PFTAC Phase V programs and objectives are aligned with, and supportive of, member countries' national priorities. PFTAC responded effectively and in a timely manner to member countries' needs in most program areas and countries over the review period.
- All stakeholders agreed that PFTAC provided excellent overall value for money, offering high-quality TA and training in specialized topics on a cost-effective basis. PFTAC has strong systems in place to design and monitor the quality of CD products and services provided to member countries.
- PFTAC effectiveness varied by program area and jurisdiction. Across all programs, PFTAC CD projects realized, on average, 55 percent of planned milestones for the evaluation period. PFTAC projects contributed to changes and improvements in organizations in member countries, such as the production of data and analysis to inform decision making; the reduction of risk through improved oversight; and strengthened fiscal positions of some countries due to advancements in tax administration.
- Development partner coordination during Phase V was noted to have improved, with PFTAC playing an important role in developing regional networks.
- Eight recommendations have been made based on the Mid-Term Evaluation findings and lessons learned. These include strengthening the role of member countries in PFTAC governance; the continued adoption of a hybrid delivery model; and strengthening support for center staff and experts.
- Additionally, the Evaluation recommended improving the use of RBM to support a more program-based approach to country prioritization of needs, resource use, and sequencing of CD delivery.
- In responding to the evaluation findings, an IMF Action Plan will be presented to the SC later in 2021.

<sup>2</sup> [https://www.pftac.org/content/dam/PFTAC/Documents/Reports/Annual%20Reports/FY2021-PFTAC-Annual%20Report\\_Final.pdf](https://www.pftac.org/content/dam/PFTAC/Documents/Reports/Annual%20Reports/FY2021-PFTAC-Annual%20Report_Final.pdf)

**The June 29 SC meeting endorsed an ambitious FY2022 workplan and budget.** The FY2022 workplans (available on the PFTAC website<sup>3</sup> along with FY2021 outturn workplans) ambitiously targets delivery of 200 missions/activities with a US\$ 7.3 million budget. If achieved this would be a record outturn, but drawing on a smaller budget than earlier year peaks given that in-person CD delivery is only envisaged to resume in the second half of the year, resulting in lower than normal travel and in-person training costs that could be even further reduced if travel does not reopen as assumed.

**An extension to Phase V beyond the intended April 2022 end date was also endorsed.** Given abnormal FY2021 COVID-19 savings, plus earlier savings and cost efficiencies, a balance of between US \$ 5.2 and \$US 6.4 million is expected to be on-hand on April 30, 2022. This is ample to finance at least a six month extension, and if nearer the upper-end (subject to the FY2022 outturn), sufficient for a full year. The precise extension duration will be determined by November 2021 when a clearer picture of the FY2022 outturn should have emerged.

## Phase VI Developments

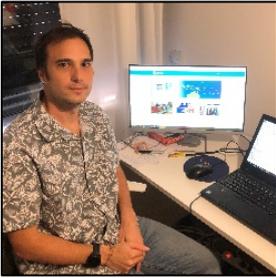
**The July 2 second day of SC discussions focused entirely on Phase VI.** With at least 68 participants from seven member countries, five donors, and ten observer organizations, participation was a little under the first day with a slightly different mix of delegates. In gathering stakeholder views and inputs in the last phase transition, at least a day of in-person brainstorming occurred, a luxury unavailable in a virtual setting. To maximize input and to provide structure in the consideration of Phase V achievements and potential Phase VI priorities, five Virtual Working Groups (VWG) were formed that met at least three times from April, each with membership of 3 – 4 member countries, 1 – 2 donors, and any relevant regional organization or partner. The PFTAC resident advisors helped facilitate the VWGs that covered: (1) Public Financial Management; (2) Revenue Policy and Administration; (3) Financial Sector Supervision; (4) Macroeconomic Statistics; and (5) Macroeconomic Programming and Debt Management.



**A rich array of observations and ideas were presented by Working Group spokespersons with follow-up discussions.** Each VWG circulated a summary note beforehand, with an IMF respondent commenting on each presentation. Each working group approached the task differently, with the financial sector group conducting a survey that elicited detailed prioritized responses from 11 member countries. These are extremely useful inputs for the next steps in moving towards Phase VI, beginning with an IMF Interdepartmental Working Group to develop a Phase VI strategy note for IMF management approval followed by preparation of a Program Document with the aim of presenting a draft at a November 2021 virtual SC update meeting. Beyond the important deliberations around program substance, several governance issues were presented beforehand in a short note around options to enhance SC governance; the suggested retention of the member country financial contribution model first introduced by consensus in Phase V; and some broad guidelines on various resource and budget scenarios for Phase VI. SC members requested that options to enhance governance be developed and tabled at the next meeting for further consideration. Several donors commented positively of their potential commitment and financial contribution to Phase VI and the proposed timeline, noting the importance that the Program Document is ready in early 2022.

<sup>3</sup> <https://www.pftac.org/content/PFTAC/en1/baselnewp.html>

### Farewell Comments from Luis Temes – Government Finance Statistics (GFS) Advisor



I would like to thank everyone for the support and friendship I found since my very first day at PFTAC. After two long years working in the region, I'm returning to my home country, Spain. It's been a great experience and I've learnt a lot about your culture and work.

The GFS program at PFTAC comes to an end. We have achieved together many objectives, including regular compilation of GFS/PSDS in the Pacific. I have tried to document all the GFS compilation processes as much as possible with a view to continue the regular compilation and dissemination in the future. An especially satisfying point during my assignment was seeing the friendship and relationship between the participants in the regional workshops we organized. The last year and a half has been challenging for everyone. I would have liked to meet you all in person and visit your beautiful countries. However, the new communication tools have shown us that remote work is also possible in the region. Please stay safe. We have all learnt that, even if I am 17,385 km away from Suva, I can be reached within seconds on a video call. Gracias! Luis

### Pre-Retirement Pacific Reflections – Scott Roger, former PFTAC Coordinator

For the past ten years, the Pacific has been at the center of my life and work at the IMF. In 2013 I took over from Matt Davies as Coordinator of PFTAC, the IMF's Technical Assistance center in Fiji, and handed over to David Kloeden in 2017. Since then I have been Deputy of the Pacific Islands Division and mission chief for Papua New Guinea. But my links go further back, to being mission chief for Fiji in the early 2000s, and crossing the Pacific by ship as a kid.



As Coordinator at PFTAC, I had the privilege of working with, and learning a great deal from, a small group of experts in the various areas that PFTAC covers, working with development partners, and with headquarters teams and the Small States unit headed by Patrizia Tumbarello. It was a tremendous experience. And, of course, I had the opportunity to visit many of the countries in the region and meet a great many people. Every country in the region is different in important ways, but one thing all share is hospitality and kindness to strangers. No matter where I went, I was treated as an honored guest. Once, in Palau, I was even visited in hospital by the Finance minister (his sister was my nurse)! And in Tonga, I was invited to attend the coronation of the king! Many adventures and many friends.

Back in Washington, I have sought to ensure that the close working relationship between country teams, PFTAC experts, national authorities and development partners are nurtured and maintained despite the comings and goings of staff. This has been especially important during the pandemic, where the absence of travel has made personal contact much more difficult.

Looking forward, dealing with climate change will be the Pacific's main existential and macroeconomic challenge for this century. The Pacific countries can't fix the problem, but there is much they must do to become more resilient, while advocating action by the large countries.

A second challenge for countries in the region is their small size and limited capacity. For the IMF and PFTAC, this requires tailoring our policy advice and technical assistance to reflect this reality. For countries in the region, it requires making the most of what they have. Their greatest resource is their people, and Pacific countries can do far more to get the best out of their people, by providing good education, good health care, and doing much more to support women in society and in the workplace.

Lastly, the region needs to harness the great potential of fiber-optic cables and new satellite networks to shrink distance and open new economic opportunities. But at the same time, care is needed to avoid having such connectivity from undermining the region's cultures and values.

Big challenges, but I'm sure the peoples of the Pacific will meet them.

### III. PFTAC Developments

#### FY2022/Q1 Activity – by country and program

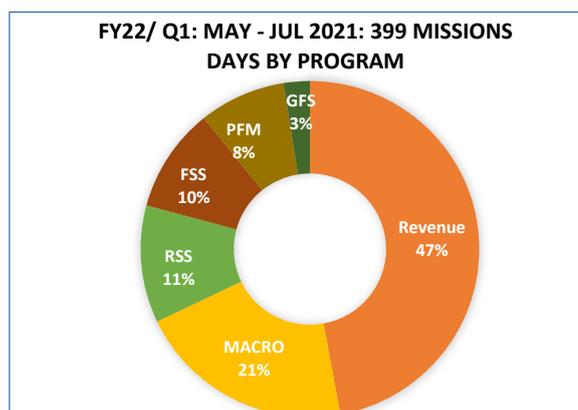
##### Activity – by program

Program	Qtr. 1 Outturn			
	LTX	STX	Total	Missions
Public Financial Management	27	6	33	1
Financial Sector Supervision	18	22	40	2
Government Finance Statistics	10	0	10	1
Real Sector Statistics	30	15	45	4
Revenue Administration	16	172	188	8
Macroeconomic Programming and Analysis	29	54	83	6
<b>Total</b>	<b>130</b>	<b>269</b>	<b>399</b>	<b>22</b>

PFTAC delivered 21 distinct missions and one regional webinar over 399 TA days over the first quarter between May and July 2021. CD delivery remained subdued partly due to the COVID pandemic that from late April necessitated a return to WFH arrangements as well as the continuation of some missions that began and were counted in earlier quarters but

were only completed between May and July. Additionally, the transition to CD-MAP slightly impacted the mobilization of missions as the team managed new procedures for CD execution that began in mid-April. Our past experience with virtual engagement and remote collaboration demonstrates that effective CD can be delivered via remote/hybrid modalities while we await a resumption of travel.

The revenue program accounted for almost half of the overall TA days, followed by the Macro program, with a third of total TA days accounted for by the remaining programs – Statistics, PFM and FSS. Nine of the 16 PFTAC member countries benefitted from 21 remotely delivered missions, with four missions provided to **Cook Islands**; three missions each to **Papua New Guinea** and **Marshall Islands**; two missions each to **Nauru**, **Niue**, **Palau**, **Solomon Islands** and **Tuvalu**; and a single mission to **Fiji**. Only one regional webinar was convened during the quarter under the Macro program in collaboration with ICD and the Singapore Training Institute (STI).



As the COVID pandemic continues to flare and impact several PICs while others fortunately remain COVID-free, there has been an increased emphasis on budget documentation, economic and revenue projections, availability of timely and frequent economic statistics, and assistance with fiscal measures. Revenue support focused on ‘work in progress’ to finalize and implement legislation (**Cook Islands**, **Palau**) carried over from FY2021. Other areas of revenue support included strengthening governance through the introduction of a large taxpayer office (**Solomon Islands**) and a new organization structure (**Papua New Guinea**), a review of the tax IT system (**Fiji**), implementation of a corporate strategy (**Tuvalu**), improving debt and returns management (**Cook Islands**), and developing standard operating procedures for core tax functions (**Cook Islands**).

The PFM program assisted **Marshall Islands** on budget documentation jointly with the Macro program and a PFM mission to **Tonga** commenced work to improve the reconciliation process and IPSAS reporting. The PFM advisors additionally worked with the PEFA Secretariat on the peer review and refinement of the draft PEFA assessment report for the **Cook Islands**, TA that commenced during the last quarter of FY2021. Once completed, the PEFA report will be finalized and submitted to the Cook Islands government for approval following the final PEFA Secretariat check before publication.

The Macro program assisted **Marshall Islands** with economic and revenue projections for their upcoming budget, provided comprehensive training to **Nauru** on revised macro-fiscal model (ongoing), reviewed non-tax revenue policies in **Niue** (ongoing), and constructed a new inflation forecasting model for the Central Bank of

the **Solomon Islands** along with providing comprehensive training on its use. The Macro advisor also provided training on the IMF's Financial Programming economic modelling approach as part of a scoping mission to **Papua New Guinea** led by IMF's Institute for Capacity Development.

The Statistics programs focused on updating the annual national accounts (**Niue, Nauru**), a review of GDP seasonal adjustment (**Cook Islands**), and provided training to the **Marshall Islands** on non-market production. TA on the compilation of quarterly GFS for the budgetary central government was provided to **Papua New Guinea** under the GFS program. The FSS program reviewed the risk management standards issued by the **Palau**

Program	Percent delivered by July 31			
	LTX	STX	Total	Missions
Public Financial Management	12%	2%	5%	3%
Financial Sector Supervision	20%	8%	11%	5%
Government Finance Statistics	40%	0%	19%	14%
Real Sector Statistics	23%	25%	24%	22%
Revenue Administration	13%	14%	14%	10%
Macroeconomic Programming and Analysis	24%	93%	47%	35%
<b>Total</b>	<b>18%</b>	<b>14%</b>	<b>15%</b>	<b>11%</b>

Financial Institutions Commission with the aim of developing revised standards in line with international norms and conducted training for off-site financial risk analysis for **Tuvalu** Ministry of Finance and Economic Development staff. CD to **Solomon Islands** initiated during late April continued on the review

of the off-site supervision framework.

The FY2022 work program targets a return to pre-COVID levels of activity and expands significantly on the FY2021 outturn that was quite impressive notwithstanding the COVID constraints. All planned activities through end-October are expected to be delivered remotely. From November onwards, the workplan is developed around a gradual resumption of travel and a return to face-to-face engagement. As a proportion of the baseline workplan, TA delivery in the first quarter was quite modest with just 11 percent of the planned number of missions delivered utilizing 15 percent of the planned TA Field days. This infers a more intensive effort required in the subsequent quarters to achieve a high proportion of the workplans being delivered. The workplan for the second quarter certainly steps up the pace and particularly for the workshop/seminar program where only one webinar was delivered in the first quarter under the Macro program on GDP Forecasting that will ramp up to eight regional webinars scheduled between August and October across all PFTAC programs.

## Financial Report

Phase V Financial Update @ August 1, 2021	
(all amounts in USD millions)	
<b>Ph V Program Document (PD) Fund-Raising Target:</b>	<b>\$ 39.7</b>
- Program period 66 months (Nov 1, 2016 - Apr 30, 2022)	
- Proposed 6 - 12 month extension, 72 - 78 months, between Oct 2022 and April 2023	
<b>Funds Raised (or assured):</b>	<b>\$ 38.1</b>
- From 7 Donors (ADB, Australia, Canada, EU, Korea, NZ, USA)	\$ 34.7
- From 14 countries (except Palau, Timor Leste):	\$ 2.9
- Brought forward from Phase IV:	\$ 0.5
<b>Expenses through April, 2021 (end FY21):</b>	<b>\$ 25.5</b>
- Actual for FY17 through FY21 (incl Trust Fund Fee):	\$ 25.5
<b>Funds Available for Balance of Phase V:</b>	<b>\$ 12.6</b>
<b>Proposed Budget Allocation for Balance of Phase V:</b>	<b>\$ 12.6</b>
- Endorsed FY22 Budget (assumes travel resumes late 2021):	\$ 7.3
- Funding scenarios for extension of Phase V for part or all of FY23:	
- Funds Available if 100 % FY22 outturn (\$7.3m):	\$ 5.3
- Funds Available if 90 % FY22 outturn (\$6.6m):	\$ 6.0
- Funds Available if 85 % FY22 outturn (\$6.2 m):	\$ 6.4
- Funds Available if 80 % FY22 outturn (\$5.9m):	\$ 6.8

While the Phase V Program Document set an original fund-raising target of \$US 39.7 million to finance a 66-month long program, actual funds raised or assured total \$US 38.1 million, and could be as much as \$US 39.0 if all remaining member contributions are received, although US\$ 0.65 million is unlikely in the absence of signed Letters of Understanding by two remaining member countries.

As noted in the FY2021 annual report, abnormal COVID-19 induced savings of \$US 3.9 million along with the welcome additional contribution of \$US 2 million from the US Government has expanded the budget envelope for the remainder of Phase V beyond the delivery and absorptive capacity for FY2022 that was expected to be the final year of the phase, but still has a very ambitious workplan and

budget of \$US 7.3 million just endorsed by the June 29 SC meeting. If 100 percent outturn of FY22 eventuates, a balance of \$US 5.3 million will remain available on May 1, 2022 to finance a period of extension into FY2023, too much for six months under any scenario, and not quite enough for a full 12 months without some modest scaling back. However, a 100 percent FY2022 budget outturn is unlikely given ongoing COVID constraints that

could delay a resumption of travel and in-person training that could generate an underspend notwithstanding a robust level of delivery. From the experience of pre-COVID years without such constraints or uncertainties, a budget outturn above 85 percent is not unusual. If such a scenario eventuated for FY2022, a savings of about \$US 1 million would increase the funds available on May 1, 2022 to around \$US 6.4 million, close to the resulting FY2022 outturn, and sufficient with careful execution management to finance a full year extension of Phase V from May 1, 2022 through April 30, 2023. An advantage of a full-year extension would be synchronization with IMF fiscal year accounting and reporting. The precise duration of the Phase V extension will be determined by mid-FY2022 and presented to a virtual SC meeting in November 2021 for final endorsement.

## IV. Report on Program Activities and Achievements

### Public Financial Management (PFM)

#### IMF Departmental Paper on Access to Climate Finance by Pacific Island Countries (PICs)

**The IMF's Asia Pacific Department (APD) and Fiscal Affairs Department (FAD) have been working on the preparation of a paper bringing together their research into climate finance access in the region.** APD & FAD members of the joint team took the opportunity to present to the Technical Working Group (TWG) meeting co-chaired by the Pacific Islands Forum Secretariat (PIFS) and PFTAC on May 21, 2021 that is focused on PFM and Climate Change finance. This was an opportunity to share experiences as PIFS sees the IMF work as complementary to its work on the topic.

For context, the IMF has been working on climate change issues for some time, but Small Island States have really been at the forefront given the macro-critical impact of natural disasters and climate change experiences in regions such as the Caribbean and the Pacific. The IMF's work on climate issues has now crystalized into three streams (i) **Mitigation** aimed at reducing and offsetting carbon emissions; (ii) **Transition** looking to minimize costs and risks during the transition to a low-carbon economy; and (iii) **Adaptation** in building resilience to the impact of climate events on infrastructure and other assets.

The presentation highlighted the role of capacity development (CD) in supporting the climate change agenda, including the armory of tools to facilitate this, such as the Climate Change Policy Assessment (CCPA); the Public Investment Management Assessment (PIMA) climate module; the Public Expenditure and Financial Accountability (PEFA) climate module; and Green Budgeting and climate tagging. The IMF has facilitated a number of peer-to-peer and regional workshops on these topics. The joint project between APD and FAD seeks to clarify opportunities and challenges around access to climate finance and offers recommendations to enhance access. The paper explores the characteristics and track record of climate finance access by PICs, general and Pacific-specific challenges to access, and PFM requirements, shortcomings, and hurdles to access. Case studies were undertaken to review access, hurdles and lessons learned, with a view to highlighting options for the way forward.

The climate finance landscape is complex with many bilateral and multilateral development partners and climate-dedicated funds (such as the Green Climate Fund (GCF), Adaptation Fund (AF), Global Environment Facility (GEF), and many others), each which have their own access requirements and modalities for implementation, e.g. through international and regional accredited entities, as well as through direct access. Preliminary data shows climate finance commitments of \$US 2.7 billion pledged to PICs. However, there is a big gap between commitments and disbursement of these funds, and there is a further gap between available finance and the full climate finance required to adequately address adaptation needs. Improving access is therefore critical, and the study assessed the hurdles for gaining accreditation, challenges in designing, and developing acceptable projects, general capacity challenges and macroeconomic challenges, including lack of fiscal space to fully accommodate all the cost requirements. The paper identifies scope for enhanced collaboration between the IMF, country authorities, climate-funds, and other partners and further integrating climate considerations into PFM tools and mainstreaming climate into PFM capacity development activities. Strong PFM systems are vital for effective access and utilization of climate funds. The PFTAC PFM team, in conjunction with other development partners, continues to facilitate the strengthening of PFM practices, including the mainstreaming of climate considerations into PFM reform activities.

**Cook Islands:** The Cook Islands PEFA assessment is currently at an advanced stage of peer review. The draft assessment report was submitted to the peer reviewers in mid-May. Feedback was received from ADB and the PEFA Secretariat in early June. The assessment team responded to the issues raised by the peer reviewers and PEFA Secretariat came back with additional comments to which responses are being finalized. It is intended the final report will be completed by early August.

**Marshall Islands:** an ongoing remote mission is being delivered by the PFM and Macro resident advisors with STX Anthony Higgins to assist the Ministry of Finance (MoF) of the Republic of the Marshall (RMI) Islands to improve the clarity, transparency and comprehensiveness of their budget documentation. The main objective is to assist the authorities produce an informative budget book to accompany the tabling of the Appropriation Bill to the Nitijela (legislature). Templates have been shared to present budget data by various levels of analysis, including by fund, ministry and economic item. Guidance has been provided on analyzing specific, large accounts in accordance with the principles of the *GFSM2014*.

**Papua New Guinea:** the resident PFM Advisor delivered ad-hoc advice to the Department of Finance, providing quality assurance on the proposed templates for the Annual Financial Statements of Statutory Authorities. The recommendations have all been taken on board to make the templates compliant with cash IPSAS.

**Regional:** the PIMA workshop, which commenced in April 2021 (See May 2021 Quarterly Report for more information) was completed in May during this first quarter of FY2022. The workshop was very well received by all participants. A blog has been published covering the workshop, which can be found on the link: [PFM blog: Infrastructure Investment and Climate Resilience in the Pacific \(imf.org\)](https://blogs.imf.org/2022/05/02/infrastructure-investment-and-climate-resilience-in-the-pacific/).

#### **Managing Risks from National Airlines in Pacific Island Countries (PICs)**

PICs are situated in one of the most geographically isolated and dispersed regions in the world and they rely on airline connectivity for tourism, education, employment opportunities, access to healthcare, and delivery of goods and services. This dependence has driven many PICs to have state-owned national airlines that cater to both domestic and international markets. However, financial losses and weak profitability have been long-standing concerns for several Pacific airlines, and COVID-19 has compounded these challenges. With virtually no international travel since March 2020, national airlines in the Pacific face mounting financial difficulties.

**Recovery from the current crisis presents an opportunity to overhaul governance and oversight of national airlines to mitigate future risks – as discussed in a recent Working Paper co-authored by PFTAC PFM advisers and APD colleagues.**<sup>[1]</sup> The Working Paper presents the state of national airlines in PICs and its impact on government budgets, a snapshot of the latest Public Financial Management (PFM) practices for overseeing airline governance and risk in PICs, an overview of best practices as well as a discussion of risk management and diagnostic tools available, and the guiding principles for offering financial support to national airlines. It was also noted that most PICs do not have the supportive PFM framework to prudently manage State Owned Enterprise (SOE) risks, including those arising from national airlines.

To enhance the monitoring of SOEs, a number of diagnostic tools were presented including the SOE Health Check; SOE Stress Test; the Public Sector Balance Sheet (PSBS), Fiscal Transparency Evaluation (FTE); and Market Access Countries Debt Sustainability Analysis (MAC-DSA) and the Low Income Country Debt Sustainability Framework (LIC-DSF) to monitor the debt sustainability risks from airlines (as well as for all SOEs more broadly). Greater transparency and accountability in the airlines, combined with rigorous oversight, would be the first step towards improved financial management of national airlines and management of the fiscal risks emanating therefrom.

The Working Paper can be found on the link below and a blog will be released soon:

[IMF Working Papers Volume 2021 Issue 183: Managing Fiscal Risks from National Airlines in Pacific Island Countries \(2021\)](https://blogs.imf.org/2022/05/02/infrastructure-investment-and-climate-resilience-in-the-pacific/)

<sup>[1]</sup> Managing Fiscal Risks from National Airlines in Pacific Island Countries - Authors: Vybhavi Balasundharam, Leni Hunter, Iulai Lavea and Paul Seeds

**Solomon Islands:** In May 2021, STX Joe Cavanagh completed the TA mission to review the draft 2018 Solomon Islands Government (SIG) financial statements for compliance with IPSAS cash. The review recommended alternative formats for the two main financial statements required by the Cash basis IPSAS – the Statement of Cash Receipts and Payments, and the Statement of Budgetary Performance. The mission also suggested moving to classifications and terminology for line items which are more consistent with developing international practice and which relate more directly to GFS classifications of revenue and expense. Amending governing legislation was also considered appropriate to support moving to IPSAS cash.

**Tonga:** a remote mission was launched in Q1 by STX Kris Kauffmann and will continue into Q2 to assist in the next stages to adopt International Public Sector Accounting Standards (IPSAS). **The mission will assist in planning for and commencing the preparation of 2020-21 public accounts with the objective of attaining compliance with IPSAS and realizing unqualified audit opinions.** PFTAC previously provided technical assistance to Tonga to plan and move towards adoption of IPSAS. Based on a Cabinet-level policy decision, and with the support of PFTAC, a regulation was prepared and promulgated which formally adopts IPSAS Cash Basis.

### Revenue Policy and Administration

**Cook Islands:** Over the past two years, the Cook Islands Revenue Management Division (RMD) has strengthened several strategic and operational areas identified by a November 2018 PFTAC diagnostic mission. PFTAC support has included assistance to improve the collections function with two missions in March and August 2019. During June 2021, a mission by STX Cheryl Lea Field **reviewed progress in the implementation of the debt and return filing strategy against previous recommendations and helped prepare collections manuals and guidelines, implement case management, and improve external communication. Assistance to measure return and debt collection performance and develop tax collector skills was also provided.**

#### Tax Reforms in Palau

The Palau Government is seeking to undertake tax reform to address the country's fiscal challenges and make the tax system fairer and more efficient. Previous IMF and PFTAC missions to Palau have recommended tax reform to replace existing import taxes and the highly ineffective Gross Revenue Tax (GRT) with a business profits tax, excise taxes applying to select imported and locally produced goods and a broad-based goods and services tax (GST). The authorities previously sought to introduce GST in 2014, but it was not passed by the Palau National Congress. However, the authorities consider now is an appropriate time to again pursue tax reforms.

**Reforming the tax system is a critical part of the Palau Government's objective of reigniting the economy and recovering from the COVID-19 pandemic.** The tax reforms, especially introducing the Palau Goods and Services Tax (PGST) will support the Government's intention to support small business and encourage foreign investment. PGST should deliver a stronger, more reliable tax base and is a better fit for the Palau economy of the future. Reforming the tax code and modernizing tax administration processes and systems will, together with other Government initiatives, improve the business climate and help to overcome the difficult economic situation due to the pandemic.

PFTAC provided legislative drafting assistance to facilitate the updating of the 2014 version of the tax reform bill. This drafting work culminated in a revised tax reform bill being submitted to the Senate in February 2021. The bill did not gain passage through the Senate in the April 2021 sitting as the Senate decided to conduct island wide public hearings and town hall meetings to gauge the level of community support for the far-reaching tax changes being proposed. Feedback from the Senate community consultation has been favorable, and it is now anticipated that the Government will seek passage of the legislation through both the Senate and the House of Delegates during the August 2021 Congressional sitting.

**In addition to legislative drafting support, PFTAC is also providing assistance to help all stakeholders get a better understanding of the proposed tax reforms** including how GST works, the impact on the citizens, employees and business taxpayers, and the scope of work involved in implementing the new tax reforms.

**Implementation of the new tax system is planned to start on January 1, 2023.**

## Tonga TADAT Assessment



PFTAC wishes to thank the Tonga Ministry of Revenue and Customs (MRC) CEO, Mr. Kelemete Vahe, his management team and staff, as well as the Tax Administration Diagnostic Assessment Tool (TADAT) Assessment Team comprising Paul Martens (Team Leader), John Middleton, Kosugi Naofumi, and Robert Woods, for the successful remote TADAT assessment of the Tongan tax administration during May 2021. Mr. Martens also provided TADAT awareness training to country representatives during April to prepare for the assessment. Completion of the assessment by remote engagement reflects the efforts of the MRC staff to work with the Assessment Team to achieve the assessment outcome.

The assessment found clear indications that the authorities are strongly motivated to pursue reform and improvements that adopt recognized international good practices with performance across the “core taxes” that were generally found to be sound. The tax administration has benefited from efforts to improve and introduce a range of good practices, such as third-party data matching; extensive use of withholding systems; and high-quality publications of activities, plans, and results. These improvements were recognized during the execution of the assessment and are notable given the substantial resource constraints and size of the organization. However, many challenges remain and some of these, such as the impact of the current worldwide COVID-19 pandemic are unavoidable and need to be factored into current and future planning. Improved IT support will assist greatly with improving the areas that are yet to adopt the recognized international good practices TADAT looks for.

***Congratulations to Mr. Vahe and his team for some notable achievements as evidenced by the A’s and B’s scored on several of the high-level indicators. The report provides a basis for further progress and reforms and PFTAC looks forward to working with the MRC as the results of this assessment are considered and actions launched on areas that require advancement.***

Some points to note about the TADAT diagnostic approach:

- TADAT assesses the performance outcomes achieved in the administration of the major direct and indirect taxes critical to central government revenues, specifically corporate income tax (CIT), personal income tax (PIT), value added tax (VAT), domestic excise tax, and Pay As You Earn (PAYE) amounts withheld by employers. By assessing outcomes in relation to administration of these core taxes, a picture can be developed of the relative strengths and weaknesses of a country’s tax administration;
- TADAT assessments are evidence-based; and
- TADAT provides an assessment within the existing revenue policy framework in a country, with assessments highlighting performance issues that may be best dealt with by a mix of administrative and policy responses.

The aim of TADAT is to provide an objective assessment of the health of key components of the system of tax administration, the extent of reform required, and the relative priorities for attention. TADAT assessments are particularly helpful in:

- Identifying the relative strengths and weaknesses in tax administration;
- Facilitating a shared view among all stakeholders (country authorities, international organizations, donor countries, and technical assistance providers);
- Setting the reform agenda (objectives, priorities, reform initiatives, implementation and sequencing);
- Facilitating management and coordination of external support for reforms and achieving faster and more efficient implementation; and
- Monitoring and evaluating reform progress by way of subsequent repeat assessments every three to five years.



PFTAC is also assisting RMD with the drafting of a new Tax Administration Act (TAA) with work undertaken from December 2020 to February 2021. RMD provided PFTAC detailed comments on the third draft and a proposed timeline for enactment and implementation of the TAA, with **legal STX Lee Burns preparing a consultation draft of the TAA along with a detailed technical note**. Additional assistance was provided on drafting the consequential amendments to the VATA, ITA, and Departure Tax Act.

**Cook Islands:** A remotely delivered assignment by STX Stan Shrosbree, Katrina Williams, and Mark Bell that started in July 2021 is assisting the RMD in the **design of new business processes supported by standard operating procedures (SOP) to improve RMD’s ability to streamline and strategically manage end-to-end core business processes** in line with RMD’s modernization plan.

**Fiji:** at the request of Fiji Revenue and Customs Service (FRCS), a remote mission by STX Wyatt Grant reviewed the implementation and functionality of the New Tax Information System (NTIS). The NTIS is in the final stages of implementation and is an important element of the FRCS strategy to address weaknesses identified in the 2015 TADAT diagnostic assessment. Previous PFTAC quality reviews highlighted opportunities to improve NTIS functionality. This latest review focused on ease of use and simplicity from the taxpayer perspective, the self-assessment process, data availability, integration with other systems, and security.

<b>Review of Pacific Tax Reforms (2017 – 2020)</b>	
	<p>This was the third such review and covers the period 2017 to 2020. The mission was headed by Mr. Thomas Story (External FAD Expert). Mr. Peter Mullins (FAD External Expert) was the lead advisor for tax policy matters. Other mission members were Ms. Dinar Prihardini, Economist, Tax Policy Division, FAD and Mr. John Ryan (External FAD Expert).</p> <p>The mission conducted its review through a series of remote discussions with five case study countries — <b>Fiji, Kiribati, Tonga, Samoa</b> and <b>Solomon Islands</b>, and through an analysis of data and other reference information covering all PFTAC member countries.</p> <p>The purpose of this study was to continue tracking the impact of tax reforms in the Pacific region, consider the lessons learned and take account of the COVID-19 pandemic, in guiding the future capacity development work of PFTAC. It will also inform the work of donors and other technical assistance providers to the region</p>
<p>The main findings of the review are as follows:</p>	
<p><b>Tax Policy</b></p> <ul style="list-style-type: none"> <li>• Tax policy reforms over the past 4 years have been limited, other than recent responses to COVID-19.</li> <li>• Most common reform for direct taxation is by raising the personal PIT tax-free threshold.</li> <li>• Revenues for most PICs were less significantly impacted by COVID-19 compared to worldwide trends.</li> <li>• However, PICs need to recover lost revenues once COVID-19 passes and address the revenue impact of PACER Plus – this necessitates tax policy reforms.</li> <li>• Progressing tax reforms requires political will and leadership.</li> <li>• Positive tax policy developments in PIT reforms - improved equity for individuals, but otherwise little progress in simplifying tax systems.</li> </ul>	<p><b>Tax Administration</b></p> <ul style="list-style-type: none"> <li>• Administrative reforms since 2017 include advances in governance, organization, business strategies, and information technology, but progress was uneven.</li> <li>• Improvements in core functions of tax administration, however on-time filing and payment of taxes and ensuring an accurate register of taxpayer population is less evident.</li> <li>• Since 2017, reforms include many new Compliance Improvement Strategies (CIS) for high-risk areas.</li> <li>• Previous review highlighted concerns for tax administration critical mass with some countries increasing investments in their tax systems.</li> <li>• Administrative reform challenges are heightened in the near term.</li> </ul>

In response to the findings and lessons learned, potential future reform priorities and areas for Capacity Development for PICs were identified:

<p><b>Tax Policy</b></p> <p><b>Develop Tax Policy Capacity</b></p> <ul style="list-style-type: none"> <li>Assist PICs to develop tax policy capacity (e.g., regional training), including advice on how to respond to international tax initiatives.</li> </ul> <p><b>Tax Policy Reforms – Post COVID-19 Recovery</b></p> <ul style="list-style-type: none"> <li>Develop tax policy reforms to recover revenues post-COVID-19 and to address potential revenue losses from PACER Plus.</li> </ul> <p><b>Review and Rationalize Exemptions</b></p> <ul style="list-style-type: none"> <li>Assist with developing strategies for the review and rationalization of exemptions, including preparing an estimate of revenue foregone from exemptions.</li> </ul> <p><b>Tax Administration</b></p> <p><b>Restore Revenue post COVID-19</b></p> <ul style="list-style-type: none"> <li>Develop and implement post pandemic plans to restore revenues.</li> </ul> <p><b>Investment in Tax Administrations</b></p> <ul style="list-style-type: none"> <li>Develop business cases to demonstrate the net benefits to government that arise from further investment in tax administration and the pursuit of modernization initiatives, particularly investments in information technology</li> </ul>	<p><b>Tax Administration (continued)</b></p> <p><b>Business Process Redesign and Upgraded IT</b></p> <ul style="list-style-type: none"> <li>Assist PICs in business process re-design as a pre-cursor to introduction of upgraded computer support in PICs</li> </ul> <p><b>Improve Core Processes with Focus on Registration</b></p> <ul style="list-style-type: none"> <li>Continue to focus on core tax administration processes, particularly taxpayer registration as the poor integrity of taxpayer registers is a common weakness across PICs.</li> </ul> <p><b>Data Cleansing</b></p> <ul style="list-style-type: none"> <li>Prioritize actions to cleanse the register of duplicate records, develop proof of identity policies, and lift data integrity.</li> </ul> <p><b>Technical Skills Development</b></p> <ul style="list-style-type: none"> <li>Focus on technical skills development to make full use of powers available under Tax Procedure Laws and Tax Administration Acts paying attention to governance.</li> </ul> <p><b>Improve Data Management</b></p> <ul style="list-style-type: none"> <li>Build capabilities for data management and risk analysis that makes full use of increasing data volumes.</li> </ul> <p><b>Build Capability for Large Taxpayer Units</b></p> <ul style="list-style-type: none"> <li>Develop regional approaches for building greater capability in newly established large taxpayer units.</li> <li>Explore consideration to develop “on-tap” approaches (perhaps through PITAA) to secure resources to tackle more complex work, such as international and transfer pricing issues.</li> </ul>
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**Palau:** a May 2021 remote mission by STX David Piper helped with preparations to launch the Palau Goods and Services Tax and Net Profit Tax. PFTAC support over recent months has helped raise awareness of the new tax system. The mission helped develop two tax reform information fact sheets covering revenue projections and the impact on prices from the tax reform. It also developed a tax reform communication and training strategy and helped finalize a list of questions and answers for stakeholders on the impact of the tax reforms.

**Papua New Guinea:** The remotely delivered mission by STX’s Raelene Vivian and Katrina Williams during June and July assisted the Papua New Guinea Internal Revenue Commission (IRC) with the development and introduction of the new organizational structure in support of effective and efficient operations consistent with a modern tax administration. The assignment focused on the establishment plan developed during a previous assignment that identified the critical actions for the first four months of the transition and steps to be taken. The transition steps are critical in building and maintaining momentum and getting the new structure in place while keeping business as usual undisturbed.

**Solomon Islands:** the remote mission by STX Stan Shrosbree facilitated the development of a Compliance Improvement Strategy (CIS) with a focus on the large taxpayer segment. It included: (a) discussions with SIIRD senior management team and Large Taxpayer Office (LTO) staff on the purpose and objective of introducing a CIS; (b) working with a dedicated SIIRD team to identify sources of internal and third-party data to depict taxpayer compliance levels/views and structuring this data to develop risk profiles; (c) assisting the SIIRD in the development of a first-generation Large Taxpayer CIS; and (d) discussion and agreement on performance measures and targets to assess the impact of implementing the CIS.

**Tuvalu:** towards the end of July, STX Rick Fisher started a remote mission to assist Tuvalu's Inland Revenue Department (IRD) **with the implementation of the Corporate Strategic Plan (CSP), Operational Plan, the Compliance Improvement Strategy (CIS) as well as finalization of the Business Continuity Plan (BCP)** that was developed during previous missions.

### Financial Sector Supervision (FSS)

**Palau:** the remote mission by LTX Rajinder Kumar and STX Jonida Kacani assisted in the review of the credit risk management standard issued by the Financial Institutions Commission (FIC) and helped develop new standards on risk management and business continuity management in line with international standards and best practices. In May 2018, an IMF/PFTAC mission completed a legal assessment of the Financial Institutions Act (FIA) of Palau. The amendments to the FIA, based on recommendations from the IMF's Legal Department drafted by the Commission were reviewed by IMF (LEG) in October 2020. While the FIC is taking steps to amend the FIA, PFTAC commenced the regulatory and supervisory enhancement program for Palau in July 2020 by organizing remote training for the staff of FIC on risk management. The remote mission in July 2021 was delivered at the request of FIC seeking a review of prudential and risk management regulations.

#### Future Financial Sector Supervision CD Priorities

In preparing for Phase VI, a Virtual Working Group with representation from the PICs and other TA providers in the Pacific with the facilitation of the resident FSS advisor conducted a comprehensive survey of PIC supervisory priorities that could be the focus of the PFTAC's CD activities during the next program cycle starting in 2023. The survey asked PICs to rank each of 40 potential CD activities grouped across 10 financial supervision topics as 'High', 'Medium', or 'Low' priority according to their own country situation. The survey received an overwhelming response with 11 countries submitting the inputs. The working group considered the responses received from the PICs and, with some moderation, produced an overall priority list for the Region with the following activities emerging as top 10 priorities for the region:

1. Monitoring of systemic risks
2. Preparation/review of supervision manual
3. NPL resolution
4. Preparation of Financial Stability Report
5. Supervisory stress testing of financial institutions
6. Bank resolution
7. Basel III Liquidity standards (LCR, NSFR, and liquidity risk monitoring tools)
8. Strengthening off-site supervision
9. Early intervention in weak banks
10. Development of prudential and risk management standards for non-banking credit institutions

The main objective of preparing the priority list is to identify the TA activities that PFTAC should consider on a thematic basis for implementation across the majority of the PICs. However, while considering the provision of TA for specific countries, the basis will be their individual priority. That means a thematic project will not be offered if it does not figure in a country's priority list. In a country, a project that has been indicated as 'High Priority' by the respective supervisory authority will be taken up first regardless of the priority of the region. Nonetheless, the results of the survey will help PFTAC select the topics for developing example standards/frameworks that can be adapted by individual PICs to their local specificities. The prioritization and thematic identification will also help in identifying the topics for workshops and conferences during the early years of Phase VI.

**Tuvalu:** the resident advisor provided remote training to the Director of Public Enterprise Reform and Monitoring Unit (PERMU), Tuvalu Ministry of Finance and Economic Development (MFED) and the staff attached to the Office of the Banking Commissioner. The training focused on reviewing and analyzing the prudential returns from banks and undertaking financial risk analysis of the banks. This was the third mission on the MFED's Supervision Framework Development Project that consists of three coordinated modules: the contractual engagement of an external supervision expert by the MFED to undertake direct off-site and on-site

supervision of the National Bank of Tuvalu (NBT) and the Development Bank of Tuvalu (DBT), assistance by PFTAC in developing supervisory capacity in the MFED (Director, PERMU and Office of the Banking Commission), and through training and staff capacity building on prudential reporting and financial analysis.

### Real Sector Statistics (RSS)

**Cook Islands:** In response to a request from the authorities, LTX Marcus Scheiblecker conducted a remote mission during June 7 – 18, 2021 to assist the Cook Islands Statistics Office (CISO). **The mission provided training on seasonal adjustment and worked with the authorities to finalize the seasonally adjusted quarterly national accounts (QNA).** GDP(P) estimates on a quarterly basis were successfully derived from Q1/2006 to Q4/2020 in constant prices and assisted in drafting press release documents accompanying the first time release. The results were to be available on the CISO's website in Excel format by end of July.

**Marshall Islands:** in response to a request from the authorities, LTX Marcus Scheiblecker began a remote mission to the Republic of the Marshall Islands during July 26 – August 6, 2021, to support the Economic Policy, Planning and Statistics Office (EPPSO) in compiling national accounts statistics. **The mission provides training to EPPSO compilers and assistance in analyzing Business Gross Revenue Tax (BGRT) as a source data for deriving production side GDP. Progress is reviewed on finalizing constant price estimations of value-added of electricity industry, fishing industry and water with training on deriving non-market industries production.**

#### Asian Development Bank (ADB) Pacific Statistics Projects

In May 2021, the Statistics and Data Innovation Unit of the ADB's Economic Research and Regional Cooperation Department reached out to advise PFTAC of two ADB projects that were approved by the ADB board in October 2020 that target the statistical environment of Pacific countries.

The first project ***"Strengthening Digital Information of the National Statistical Data Systems"*** intends to provide assistance to countries that have scheduled surveys in the near future. The project aims to support **Samoa, Nauru, Tuvalu, and Niue** with the implementation of computer assisted digital surveys as well as with the subsequent data validation, data transfer, and maintenance of relevant equipment.

The second project titled ***"Strengthening Economic Statistics for Measuring Progress Toward Sustainable Development Goals"*** covers the countries **Cook Islands, the Federated States of Micronesia, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Samoa, the Solomon Islands, Tonga, Tuvalu, Vanuatu, and Timor-Leste.**

The targets of this project are:

- Detailed supply-use tables and input-output tables of the System of National Accounts produced annually by the member countries;
- Consistency of BOP statistics with national accounts;
- Functional statistical business registers established in member countries;
- Member countries utilize big data for statistical compilation; and
- Data dissemination and knowledge sharing.

PFTAC and other partners assisting Pacific countries to strengthen the quality and timeliness of their statistical compilation and dissemination capacity welcome the additional support provided under these two ADB projects for Pacific National Statistics Offices and look forward to collaborating closely.

**Nauru:** during July, the resident advisor delivered a remote mission to support the Nauru Bureau of Statistics (NBoS) to improve national accounts statistics for decision-making. National accounts are compiled annually for Nauru using the production approach. The last mission in January 2021 implemented the Household Income and Expenditure Survey (HIES) 2012/13 as a new benchmark for several industries and for coverage of the informal economy and rebased the GDP(P) estimates from 2006/07 to 2012/13. **The mission progressed work**

**on updating GDP estimates to 2018-19 and 2019-20 subject to the availability of most recent data, with general training on national accounts.**

**Niue:** during May, STX Russel Freeman provided remote assistance to the Niue Statistics Office to update national accounts, following up on the substantial revision and updating by PFTAC in 2015 and further actualization in 2019. **The mission integrated both 2019 and 2020 data, improving data sources for national accounts, advancing documentation for the updated estimates, and provision of staff training.**

### Government Finance Statistics (GFS)

**Papua New Guinea:** the GFS advisor Luis Temes delivered a remote TA mission **to assist the Department of Treasury (DoT), Macroeconomic Policy Division (MEPD) to improve the compilation and dissemination of GFS and public sector debt statistics (PSDS) for surveillance and internal use.** The authorities continue to make progress based on previous mission recommendations, establishing an institutional sectorization committee and making a major review to Budget Volume II which presents expenditure details by agencies and sectors that was completed and will be published for the first time in the 2022 budget according to the GFS Manual (GFSM2014) guidelines.

The quarterly budgetary central government (BCG) GFS compilation procedures and the statistical tables in the budget books were reviewed and amendments were suggested for the upcoming submission for 2020/Q4 and the 2022 budget presentation tables. The mission encouraged the authorities to provide outstanding financial data on all state owned enterprises (SOEs) before the upcoming PSDS-D4D mission, reviewed the COFOG mapping, and discussed the GFS treatment of the G20 Debt Services Suspension Initiatives (DSSI).

### Macroeconomic Analysis and Programming

**Marshall Islands:** Macroeconomic adviser, Andrew Beaumont, provided support to the Republic of Marshall Islands to compile their economic and revenue forecasts for their upcoming budget. This involved the use of the PFTAC supported Marshall Islands Fiscal Model (MI-FM), while drawing upon the views of the Marshall Islands Marine Resource Authority, the US Graduate School, construction and tourism data, and the IMF's RMI team.

**Nauru:** At the request of the authorities, STX Jyoti Rahman **provided support in July and August on a revised macro-fiscal model for Nauru.** This model will incorporate revised economic and fiscal outcomes, including the recent repayment of significant outstanding defaulted debts. Comprehensive training is also being provided to the authorities on the operation and interpretation of the model.

**Niue:** **A comprehensive review of non-tax revenues was launched in July by STX Bob Millar and is almost complete.** The overarching objective of the mission is to provide the Niuean authorities with recommendations on potential changes to non-tax revenue charges by taking account of cost recovery, equity, and broader macroeconomic considerations. Tax expenditures were also considered as part of the mission.

**Papua New Guinea:** In May, **the macroeconomic adviser, Andrew Beaumont participated in a Financial Programming scoping mission, led by the IMF's Institute for Capacity Development. The mission provided training on the IMF's Financial Programming economic modelling approach** for the PNG Treasury and the Bank of Papua New Guinea. The mission will be followed up with further technical assistance with the eventual aim of developing a new integrated macro-fiscal model for use by authorities.

**Solomon Islands:** **A mission in June/July to the Solomon Islands constructed a new inflation forecasting model for the Central Bank of the Solomon Islands and the Ministry of Finance, with extensive training being provided on its use.** The model involved econometrically linking the 66 sub-components of the Solomon Islands CPI with a range of external data sources, including global commodity prices, exchange rates, and trading

partner inflation rates. Model testing indicates a high degree of short and medium term accuracy and suitability for monetary and exchange rate setting policy by the Central Bank of the Solomon Islands as well as budget preparation by the Ministry of Finance.

**Regional ‘Know Your Customer’ project:** Work is continuing on the construction of a regional Know Your Customer (KYC) facility. The project aims to reduce the cost of remittances between Australia, New Zealand, the US, and participating Pacific Island countries. By reducing costs associated with Anti-Money Laundering and Counter Financing of Terrorism compliance, the project, once completed, will also help to support the maintenance of Correspondent Banking Relationships (CBR) in the Pacific.



### Webinar on GDP Forecasting: July 21– 23, 2021



A three day webinar involving 55 participants from 11 countries (**Fiji, Marshall Islands, Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, and Vanuatu**) was jointly conducted by the PFTAC Macroeconomic adviser, Andrew Beaumont, the IMF’s Singapore Training Institute, and the IMF’s Institute for Capacity Development.

The topic of the webinar was forecasting GDP. It incorporated online lectures, an interactive session on forecasting from both the Expenditure and the Production side, as well as econometric-based nowcasting.

Projecting potential output

Centered moving average of GDP, e.g. five years

$$Y_t^p = \frac{Y_{t-2} + Y_{t-1} + Y_t + Y_{t+1} + Y_{t+2}}{5}$$

A centered moving average is used because potential output is a function of what happened in the past (e.g. drought destroyed crops) and expected economic activity.

Firms will increase productive capacity today if demand is expected to increase next year or the year after.

Firms will reduce capacity, e.g. not replace retiring workers, if demand is expected to slow.

This moving average is the property of the International Monetary Fund (IMF) and is provided to you by the IMF Institute for Capacity Development. © 2021 IMF Institute for Capacity Development. All rights reserved.



Overall feedback was positive with participants rating the overall course 4.6 out of a possible 5 in terms of both content and value. One comment, in particular, encapsulated the common theme of the feedback:

*‘Thank you very much IMF STI and PFTAC, and all the training facilitators for this very useful training -- the workshop materials (lecture and workshop materials including Eviews programs) using the Pacific country data is very helpful. Looking forward to using my own country data to practice on the workshops that we covered on Aggregate Demand, Expenditure-based Approach Forecasting and Nowcasting.’*

One particular focus of the webinar was on GDP(E), i.e. expenditure based forecasting. This approach can be particularly useful as it allows a more precise understanding of the effect of changes in government spending on the economy as well as that of ‘satellite’ sectors, such as tourism. Both of which are very important aspects of forecasting for Pacific Countries in the current economic climate.

## V. Planned TA Activities FY22/Q2: Aug – Oct 2021

### August 2021 Planned Activities

Country	Program	Description	Advisor/s	Dates
Cook Islands	RSS	Decrease discrepancy between GDP(P) and GDP(E) estimates and finalize and publish adjusted ESS estimates	STX – Andrews	Aug 9 – 20
	FSS	Review of Supervisory Manual	LTX – Kumar	Aug 9 – Sep 8 (15 days)
Nauru	RSS	Update annual national accounts to 2018/19	LTX – Scheiblecker	Aug 2 – 13
Palau	Revenue	Improve taxpayer services, debt and returns management	STX – Lawrence	Aug 16 – 23
	Macro	Tax Reform Modelling	STX – Hartwhich	Aug 2 – 20
Regional	Revenue	Regional workshop on Taxpayer Services and Communication	STX – Vivian STX - Lendon	Aug 17 - 26
Samoa	GFS	Government Finance Statistics	LTX – Temes	Aug 2 – 6
	PFM	Strengthen Risk Framework	STX – Colvin	Aug 2 – 13
Solomon Islands	Revenue	Strengthen tax audit function	STX – Sutherland	Aug 16 – 27
	FSS	Diagnostic of insurance sector and FHSI	STX –Hafeman	Aug 9 – 22
Tonga	Revenue	Renewal of MoRC Corporate Strategy and Operational Plans	STX – Fisher STX – Shrosbree	Aug 9 – 20
	Revenue	Development of POS Guidelines	STX - Fisher	Aug 21 – Sep 3
	FSS	Diagnostic of financial sector and review of select prudential standards	LTX - Kumar (18 days) STX - Awayiga (30 days) STX - Henderson (12 days)	Aug 16 – Oct 15
	RSS	Update extrapolation of QNA/ Provide training on QNA compilation	LTX – Scheiblecker	Aug 16 – 27
Tuvalu	PFM	Financial Reporting and Chart of Accounts	STX – Youngberry	Aug 16 – 27
Vanuatu	Revenue	Provide training to enable TADAT self-assessment	STX – Martens	Aug 16 – 25

### September 2021 Planned Activities

Country	Program	Description	Advisor/s	Dates
Cook Islands	Revenue	Strengthen the audit function	STX – Home STX -- Bell	Sep 13 – 24
	Revenue	Finalization and assistance with implementation of Tax Admin Act	STX – Burns	Sep 8 – 17
	PFM	Development of PFM Roadmap	LTX – Lavea STX – Marzan	Sept – Dec
Fiji	Revenue	Enhancing compliance improvement strategies, risk management and data analysis	STX – TBD STX – Hamilton	Sep 13 – 24
	Revenue	Further assistance with the Industry Partnership approach	STX – Shrosbree	Sep 6 – 17
Marshall Islands	GFS	Refine compilation technique	STX – Temes	Sep 13 – 17
Papua New Guinea	Revenue	Further development and introduction of new organizational structure	STX – Vivian STX - Williams	Sep 27 – Oct 8
Regional	FSS	Macro-prudential supervision and capital buffers	LTX – Kumar STX – TBD	Sep 2 – 3
	RSS	Regional workshop on QNA compilation	LTX – Scheiblecker STX – Horton (ABS)	Sep 13 – 17
Tonga	Revenue	Finalization of consumption tax rewrite	STX – Burns	Sep 13 – 22
	RSS	Implementation of QNA Part 2	LTX – Scheiblecker	Sept 27 – Oct 8
	PFM	Implementation Plan for the Asset Management Framework	STX - TBD	Sept – Dec
Tuvalu	Macro	Macro Fiscal Framework	LTX – Beaumont	Sep 6 – 24
Vanuatu	Revenue	Review of RMS master service agreement	STX - Grant	Sept 2 - 14
	FSS	Develop comprehensive suite of prudential standards	LTX – Kumar STX – TBD	Sept 20 – Oct 11

### October 2021 Planned Activities

Country	Program	Description	Advisor/s	Dates
Cook Islands	Debt Mgmt	Formulate Medium Term Debt Management Strategy (MTDS)	LTX – Ferguson STX – Vilanova	Oct 4 – 15
Fiji	FSS	Develop regulatory and supervisory framework for payment systems operators	HQ – MCMPI	Oct 15 – 26
	Macro	Revenue Forecasting	LTX – Beaumont	Oct 1 – 22
	Revenue	Enhance Public and Private Ruling Program	STX – Middleton	Oct 18 – 29
	Revenue	Strengthen Debt and Returns management	STX – Field	Oct 25 – Oct 5
	RSS	Implementing new annual benchmarks in QNA/ Review of business process documentation	LTX – Scheiblecker	Oct 18 – 29
FSM	GFS	Refine compilation techniques	STX – Temes	Oct 11 – 15
Kiribati	Revenue	Strengthening tax audit with focus on tax audit methods to detect undeclared income	STX – Bell	Oct 25 – Nov 5
	Revenue	Tax legislation reforms with focus on simplification for small taxpayers	STX – Burns	Oct 4 – 13
Marshall Islands	FSS	SFEP - Off-site financial risk analysis including training	LTX – Kumar STX – TBD	Oct 8 – 12
	PFM	Strengthening financial reporting, including alignment of the Chart of Accounts to GFSM2014	STX – Youngberry	Oct 18 – 29
Niue	Revenue	Improve taxpayer services, debt and returns management and audit function	STX – Fisher	Oct 25 – Nov 2
Papua New Guinea	FSS	Finalize comprehensive suite of prudential standards	LTX – Kumar STX – TBD	Oct 9 – 22
	FSS	SFEP - Finalize off-site financial risk analysis reform	LTX – Kumar	Oct 25 – Nov 7
Regional	Macro	Inflation Forecasting Workshop	LTX – Beaumont	Oct 27 – 29
	FSS	Workshop on Cyber Security Risk Management	HQ – tbd	Oct 2021
	Debt Mgmt	Regional Workshop on Debt Reporting and Monitoring	LTX – Ferguson STX – TBD STX – TBD	Oct 2021
	PFM	State Owned Enterprise (SOE) Fiscal Risks	LTX – Lavea LTX – Seeds	Oct 19 – 22
	Revenue	Seminar – Senior Management Group – Tier 1 and 2 – Robust and Fair Tax Administrations	STX - Fisher STX – Shrosbree	Oct 2021

Samoa	Revenue	Renewing of industry partnership for high risk industries	STX – Shrosbree	Oct 11 – 22
	RSS	Review of Seasonally Adjusted GDP	LTX – Scheiblecker	Oct 4 – 15
Solomon Islands	Revenue	Design and implementation of MTRS	LTX – Eysselein HQ – Koukpaizan	Oct 4 – 15
Timor-Leste	Revenue	TADAT Assessment	STX – Martens STX – Middleton STX – Woods	Oct 4 – 29
Vanuatu	Revenue	Strengthening return filing and tax arrears management	STX – Field	Oct 4 – 15

### Outturn of TA Activities FY2022/Q1: May – July 2021

#### May 2021 Delivered Activities

Country	Program	Description	Advisor/s	Dates
Cook Islands	PFM	Agile PEFA Assessment (remote from Fiji)	LTX – Lavea (12 days) LTX – Seeds (5 days)	May 3 – July 30
	Revenue	Finalization of Tax Administration Act (remote from Australia)	STX – Burns	May 26 – Jun 2
Niue	RSS	Update Annual National Accounts to 2018 (remote from US)	STX – Freeman	May 17 – 31
Marshall Islands	Macro	Macro-Fiscal Framework Support (remote from Fiji)	LTX – Beaumont	May 3 – 14
Palau	Revenue	VAT Implementation (remote from Australia)	STX – Piper	May 24 – Jun 10
Papua New Guinea	Macro	Scoping Mission with ICD (remote from Fiji)	LTX – Beaumont	May 17 – 28
Solomon Islands	Revenue	Implementation of Large Taxpayer Office (remote from New Zealand)	STX – Shrosbree	May 17 – Jun 14
	FSS	Review of off-site supervision framework (remote from Fiji and Australia)	LTX - Kumar (6 days) STX - William (9 days)	May 1 – 9

### June 2021 Delivered Activities

Country	Program	Description	Advisor/s	Dates
Cook Islands	Revenue	Debt and Returns Management (remote from Australia)	STX – Field	Jun 8 – 12
	RSS	Review Seasonal Adjustment of GDP (remote from Fiji)	LTX – Scheiblecker	Jun 7 – 18
Papua New Guinea	GFS	GFS for Budgetary Central Government (remote from Spain)	LTX – Temes	Jun 7 – 18
	Revenue	Development and Introduction of New Organizational Structure (remote from Australia and New Zealand)	STX – Vivian STX – Williams	Jun 26 – Jul 10
Solomon Islands	Macro	Inflation Forecasting (remote from Fiji)	LTX – Beaumont STX - Bullen	Jun 21 – Jul 9
Tonga	PFM	Review and implement improvements to reconciliation process (remote from Australia)	STX – Kaufmann	Jun 14 – Oct

### July 2021 Delivered Activities

Country	Program	Description	Advisor/s	Dates
Cook Islands	Revenue	Develop Standard Operating Procedures for Core Tax Function (remote from Fiji and New Zealand)	LTX – Eysselein STX – Bell STX – Shrosbree STX – Williams	Jul 14 – 29
Fiji	Revenue	Review of New Tax Information System (remote from Canada)	STX – Grant	Jul 13 – 28
Marshall Islands	PFM/ Macro	Improving the presentation of the Budget (remote from Fiji and Australia)	LTX – Seeds LTX – Beaumont STX – Higgins	July 19 - 30
	RSS	Training on Non-Market Production (Remote from Fiji)	LTX – Scheiblecker	July 26 – Aug 6
Nauru	RSS	Update Annual National Accounts to 2019 (remote from Fiji)	LTX – Scheiblecker	Jul 5 – 16
	Macro	Follow-up Macro-Fiscal Model (remote from Australia)	STX – Rahman	Jul 26 – Aug 6
Niue	Macro	Review of Non-Tax Revenue (remote from Australia)	STX – Millar	Jul 12 – 30
Palau	FSS	Review of risk Management Standards (remote from Fiji and Albania)	LTX – Kumar (8 days) STX – Kacani (16 days)	Jul 12 – Aug 31
Regional	Macro/STI	GDP Forecasting (remote from Fiji)	LTX – Beaumont	Jul 21 – 23
Tuvalu	FSS	Training on Off-Site Financial Risk Analysis (remote from Fiji)	LTX – Kumar	Jul 5 – 20
	Revenue	Review and enhance Corporate Strategy, CIP and BCP (remote from Canada)	STX - Fisher	Jul 26 – Aug 9

**Meetings, Seminars, and Training****May – July 2021**

TA Sector	Description	Location	Advisor	Mission Days	Participants		Month
					F	M	
Macroeconomic Programming	GDP Forecasting	Virtual	LTX – Beaumont	3	15	39	July 21 - 23, 2021

## TA Reports Transmitted to Country Authorities & Pending Finalization

May – July 2021

TA Sector	Country	Title of Report	Author	Mission Month	Transmittal Letter Date
<b>Public Financial Management (PFM)</b>	Cook Islands	PEFA Assessment (Agile)	Lavea/ Seeds/ Emery/ Marzan	Feb-Jul 21	Not Finalized
	Fiji	Review Internal Audit of Budget Process	Morrison	Apr-21	22-July-2021
	Samoa	Improvements to Audit Recommendations and Notes	Seeds/ Youngberry	Feb-Mar 21	17-May-2021
	Solomon Islands	Review of Financial Statements for compliance with IPSAS Cash Reporting	Cavanagh	Nov-20	21-July-2021
	Tonga	Review existing legislation, reforms, expectation	McKenzie	Sep-20	Not Finalized
	Tonga	Finalizing PFMA	Lavea/ McKenzie	Jun-21	Not Finalized
<b>Financial Sector Supervision</b>	Cook Islands	SFEP – Finalize Off-site Financial Risk analysis and Ratings Reforms	Kumar	Feb-21	27-July-2021
	Cook Islands	SFEP – Risk Rating Reforms	Kumar	Jan-21	28-July-2021
	FSM	Banking Regulatory Reform	Hefty	June-19	Not Finalized
	FSM	Banking Legislation and Prudential Standards	Carvalho	Apr-20	Not Finalized
	Marshall Islands	Banking Law and Regulations	Kumar/ Awayiga	Mar-21	Not Finalized
	Palau	Review of risk Management Standards	Kumar/ Kacani	Jul-Aug 21	Not Finalized
	Papua New Guinea	SFEP-Regulatory Framework-Prudential Standards	Kumar/ Pandey/ De Bie/ Henderson	Mar-Apr 21	Not Finalized
	Solomon Islands	SFEP – Regulatory Framework – Prudential Standards	Kumar/ De Bie	Dec-20	Not Finalized
	Solomon Islands	SFEP-Financial Risk Analysis Process	Kumar	Apr-May 21	Not Finalized
Tuvalu	Training on Off-Site Financial Risk Analysis	Kumar	Jul-21	Not Finalized	

<b>Revenue Administration</b>	Cook Islands	Review Reform Progress	Eysselein/Shrosbree	Nov-20	16-June-2021
	Cook Islands	Develop Taxpayer Service Strategy	Vivien/ Williams	Mar-21	Not Finalized
	Cook Islands	Debt and Returns Management	Field	Jun-21	Not Finalized
	Cook Islands	Develop Standard Operating Procedures for Core Tax Function	Bell/Shrosbree/Williams	Jul-21	Not Finalized
	Fiji	Tax Policy Review	Burns/ Mullins/ Baunsgaard	Apr-21	June-2021
	Fiji	Review of New Tax Information System	Grant	Jul-21	Not Finalized
	Marshall Islands	Review Tax Reforms and Core Tax Functions	Piper	Apr-May 21	Not Finalized
	Palau	Implementation Plan for PGST and Tax Reforms	Piper	Apr-21	Not Finalized
	Palau	VAT Implementation	Piper	May-Jun-21	Not Finalized
	Papua New Guinea	Development and Introduction of New Organizational Structure	Vivian/ Williams	Jun-Jul-21	Not Finalized
	Samoa	Development of Business Continuity Plans- COVID19 Impact and Post Recovery	Eysselein/ Shrosbree	Oct-20	26-July-2021
	Samoa	Improving Debt and Returns Management	Field	Feb-21	28-July-2021
	Samoa	Development of ICT Strategy	Fisher	Mar-21	16-June-2021
	Samoa	Taxpayer Service and Communication Strategy	Vivien/Williams	Mar-21	6-April-2021
	Solomon Islands	Function Based Structure (New Job Descriptions)	Shrosbree	Mar-21	Not Finalized
	Solomon Islands	Implementation of Large Taxpayer Office	Shrosbree	May-Jun-21	Not Finalized
	Tonga	TADAT Training and Assessment	Martens/ Middleton/ Woods	Apr – May 21	21-July-2021
	Tuvalu	Development of Business Continuity Plan	Fisher	Feb-21	22-July-2021
	Vanuatu	Compliance Improvement Strategy	Shrosbree	Apr-21	Not Finalized
<b>Macroeconomic Analysis and Forecasting</b>	Fiji	Macro-Fiscal Modeling and COVID Scenario Planning	Beaumont	Feb-Mar 21	13-May-2021
	Marshall Islands	Macro-Fiscal Framework Support	Beaumont	May-21	Not Finalized
	Nauru	Macro-Fiscal Model (follow-up)	Rahman	Jul-21	Not Finalized
	Niue	Review of Non-Tax Revenue	Beaumont/ Millar	Jul-21	Not Finalized

<b>Macroeconomic Statistics</b>	Cook Islands	Review Seasonal Adjustment of GDP	Scheiblecker	Jun-21	Not-Finalized
	Fiji	Government Finance Statistics	Temes	Mar-21	19-July-2021
	FSM	GFS for General Government Operations	Temes	Oct-20	21-May-2021
	Marshall Islands	Government Finance Statistics	Temes	July-20	21-May-2021
	Marshall Islands	Training on non-market production	Scheiblecker	Jul-Aug-21	Not Finalized
	Niue	Update Annual National Accounts to 2018	Scheiblecker/ Williams	May-21	Not Finalized
	Nauru	Mapping the National Chart of Accounts to GFS	Temes	Nov-20	21-May-2021
	Nauru	Rebase GDP(P)	Scheiblecker	Jan-21	Not Finalized
	Nauru	Update Annual National Accounts to 2019	Scheiblecker	Jul-21	Not Finalized
	Palau	GFS for General Government Operations	Temes	Sep-20	21-May-2021
	Papua New Guinea	GFS for Budgetary Central Government	Temes	Jun-21	28-July-2021
	Samoa	Government Finance Statistics	Temes	Feb-21	23-June-2021
	Solomon Islands	Refine Compilation Techniques	Jablonska	Feb-Mar 21	10-June-2021
	Solomon Islands	Rebasing Annual National Accounts	Scheiblecker	Mar-21	Not Finalized
	Tonga	Compilation of Experimental QNA Data on GDP	Scheiblecker	Nov20-Jan21	Not Finalized
	Tonga	Government Finance Statistics	Temes	Feb-21	15-June-2021
	Tuvalu	Rebase and Update GDP(P)	Andrews	Mar-21	Not Finalized
	Tuvalu	Balance of Payments	Rikardsson	Apr-21	26-July-2021
	Vanuatu	Government Finance Statistics	Temes	Jan-21	24-June-2021