



PFTAC STEERING COMMITTEE

MARCH 22, 2012

MEETING MATERIALS

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I. SUMMARY OF ISSUES

1. **This note and the PFTAC FY11 Annual Report forms the material for the March 2012 PFTAC Steering Committee.** This note reports on activities since those captured in the annual report and provides information on strategies and activity plans for FY13 and beyond.¹ The material here, amended according to Steering Committee guidance and the conclusion of the IMF annual TA planning exercise, will form the core of the PFTAC FY12 Annual Report

2. **Key points for the Steering Committee to consider and endorse are:**

- The proposed scaling up strategy (para 5) and rolling over of unused Phase III funds (para 4).
- The proposed implementation strategy for sharing of TA reports (para 7).
- The relationship between PFTAC advisors and the increasing number of country resident advisors fielded by other donors in PFTAC areas of focus (para 13, 25).
- The format and content of PFTACs new country strategies (para 14 and Appendix C) and the workplan that derives from them (Appendix D).
- The strategy for professional associations and the nature of PFTAC's input para 15).
- Partnerships, particularly in the training area, being built between PFTAC and regional organizations (para 16, 22 and Box 1).
- The division of duties between PFTAC's two PFM advisors (para 18).
- The integration of PFTAC's revenue administration baseline with the IMF RA-FIT initiative (para 24).
- The appropriate level of PFTAC involvement in customs administration (para 27).
- The partnership between PFTAC, RBNZ and regional central banks to introduce a statistical information system (paragraph 30).
- An intensification of PFTAC statistical work in the national accounts area (para 38).
- The evolution of the work programme in the macroeconomics area (para 42-45).
- The schedule for the next steering committee meeting (para 46).

¹ The IMF financial year runs from May 1—April 30. For instance, FY13 indicates the financial year ending in April 2013.

II. UPDATE ON PHASE IV FINANCING AND STRATEGY

3. **For the first year of Phase IV PFTAC has operated at a scale below that envisaged in the program document.** At the beginning of the cycle in July 2011, funding commitments and pledges were around US\$3 million short of the US\$30 million targeted in the program document. As a result, PFTAC postponed hiring additional public financial management (PFM) and statistics advisors and for the first year of the cycle operated with the existing complement of five advisors (see section III of annual report for details).

4. **Phase IV is now fully financed and scaling up can begin.** Since the FY11 Annual Report, Korea has confirmed its funding for Phase IV at 2.5 billion Korean Won (around US\$2.1 million) and Australia has committed a further US\$3 million making total pledged and committed financing at slightly over US\$30 million. The SC should however note some assumptions:

- The total remains vulnerable to exchange rate movements—New Zealand, Korea and EU contributions are denominated in their own currencies.
- It also is dependent on two tranches of pledged funding being finally committed: the second 3.5 million euro tranche of EU funding is due to be approved in mid -2012 and Australia's pledged funding of US\$3 million for the final two years of Phase IV is expected to be processed in FY14.
- The budget also assumes rollover of the funds remaining from Phase III—around US\$400,000 (see FY11 Annual Report, Table 3). This will require formal approval from Phase III financiers—Australia, New Zealand, ADB and Korea—which will be sought early in 2013. *Phase III financiers are invited to signal their willingness to rollover unused funding.*

5. **Recruitment has begun for the second PFM advisor and will soon commence for the second statistics advisor.** Funds firmly committed and received fully cover expected expenses in FY13, including for two additional resident PFTAC advisors. However, if EU additional funding is not finalized during FY13, a scaling down would have to occur in FY14. Given the strong likelihood of EU financing being confirmed, and the importance of reaching program objectives, PFTAC plans to have both additional advisors in place by mid 2012. A revised program budget is attached Table 1. *SC members are invited to endorse or comment on this scaling up strategy.*

6. **Program strategy remains in line with the program document.** Sectoral strategies have, however, been refined in line with country developments and priorities and to integrate with government/ development partner coordination initiatives where they exist. Changes are described, where relevant in section IV.

III. PROGRESS IN PHASE IV

7. As proposed in the program document a number of cross-sectoral initiatives have been implemented since the last steering committee.

- **Website redesign and secure portal** – the PFTAC website has been significantly redesigned, including enhanced areas for the regional professional associations. These areas include password-protected information sharing and discussion areas, that are intended to facilitate interaction amongst country officials between training courses and association meetings.
- **TA report dissemination** – as stated in the program document, PFTAC intends to commence making TA reports available to steering committee member via the password protected area of the website. This is in line with the provisions of the IMF policy on TA dissemination.² *Prior to PFTAC making the reports available the Steering Committee is requested to endorse the proposed procedures below.*
 - Advice provided to country authorities remains confidential and can only be shared with others with the consent of the recipient institution. Under the IMF dissemination policy, however, recipients are assumed to agree to sharing final TA advice with institutions with a legitimate interest on a no objection basis.
 - Final reports of PFTAC TA missions (following incorporation of the authorities and IMF comments) will be sent formally to the TA recipient. The transmission letter will note that if the authorities do not object within 60 days the report will be made available on request to interested parties.
 - PFTAC donors and member countries will be assumed to have a legitimate interest in PFTAC TA. Clicking on a report in the secure area will be treated as a request.
 - Only institutions that have signed a confidentiality agreement will be allowed access to TA reports.
 - Where assignments do not produce a final TA report, or where permission to share the full report has been withheld, a summary report will be placed on the website instead. This report will be in the form of the previously-produced

² See: <http://www.imf.org/external/np/pp/eng/2009/040609.pdf>

donor report and will outline the main areas of TA provided and key non-confidential findings.

- **Annual report production** – the first published PFTAC annual report was released in 2011. It contains details on activities, results and workplans. We hope that it proves a useful resource for donors and countries. Future annual reports will contain information on results achieved against immediate outcomes during the reporting period; a first draft for FY12 is contained in Appendix A.
- **Baseline RBM report** – in order to track progress against the high level outcomes in the results framework an initial assessment of the baseline at the beginning of the cycle is currently being prepared for the FY12 annual report. Some indicators require additional data collection to identify an effective and monitorable baseline. This may result in some changes to the high-level indicators.

8. **Sectoral progress has generally been good.** Information on progress against the results targeted is contained in the sectoral results framework at Appendix A and a detailed activity report at Appendix B. Given the relatively short time since the program was initiated, results thus far have been limited. Key highlights include:

- **Further momentum on PEFA Assessments and PFM Roadmaps.** Funding constraints prevented the hiring of the second PFM advisor intended to allow the new PEFA/PFM roadmap coordination and support facility envisaged under the funding for Phase IV. Nevertheless, PFTAC did devote resources to the facility: new PEFA assessments were conducted in RMI and FSM, including self-assessments in advance of the main assessment mission. Support was also provided to Kiribati and Tonga in developing and refining their PFM roadmaps. The annual PIFMA meeting shared country experiences on PEFA assessments.³ In addition, Cook Islands developed their PFM roadmap (building on the PFTAC-supported PEFA assessment in Phase III) and the ADB supported a PEFA assessment in Tuvalu.
- **Regional central banks committed to implementing RBNZ's Financial Sector Information System (FSIS).** A proposal drawn up jointly by PFTAC and RBNZ was warmly received by central banks at their 2011 meeting. RBNZ will provide the software free of charge to regional central banks who will finance the costs of hardware and share the cost of an integrator to implement and support the system in the region.

³ Total PFTAC resources devoted to PEFA/PFM Roadmap issues in Phase IV are estimated to be in the region of: US\$0.2 million. These were supplemented by in-kind resources to the PEFA assessment missions by the Forum Secretariat and AusAID.

- **A major review of revenue policy and administration in Tonga.** The review assessed Tonga's tax policy and administration against regional and international best practice and recommended potential amendments to increase tax collections and enhance fiscal sustainability. The review was undertaken as an integral part of the construction of the joint policy framework that the government of Tonga and development partners are constructing to underpin future budget support.
- **Building capacity to assess economic activity and policy stances in regional central banks.** In the macroeconomic area, bilateral TA missions and regional training focused on assisting central banks develop within-year indicators of economic activity and to use these to assess the influence of demand conditions on macroeconomic indicators. This culminated in a successful training seminar, conducted jointly with the ADB PEM TA project, in which economic staff from regional central banks shared modeling and analytical tools and used them to make presentations on macroeconomic policy issues to central bank governors in advance of their annual meeting.
- **National accounts assistance included improving the range and quality of national accounts statistics.** In particular, the focus was on developing a second, independent measure of GDP. PFTAC assisted the process by mounting (in coordination with IMF HQ), a regional training course that focused on the expenditure measure of GDP (GDP(E)) and was followed by a workshop for several countries to begin the development of their own estimates of GDP(E). Missions were also conducted to Cook Islands, Fiji and Samoa for range and quality improvements.

9. **There have been some areas where progress was less than expected.** These

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considers issues that span the sectors, many of which were highlighted in the program document.

11. **Enhanced IMF HQ engagement with the region.** The IMF is stepping up its engagement with the Pacific and other small-island countries. In the Pacific, following the establishment of the regional resident representative office, this is taking the form of increased research, a high-level conference, more intensive surveillance, a new program in the Solomon Island, and an increase in the level of HQ-delivered TA (particularly in, but not limited to, the statistics sector). This is expected to lead to a step-up in the demand for PFTAC TA, as enhanced TA, surveillance and research identifies new country priorities.

12. **Changing methods and levels of partner support to PFTAC countries.** Following the global financial crisis and the establishment of the Forum Compact on Development Effectiveness there have been a number of tangible changes in the type and level of donor support to PFTAC countries. A key feature has been higher levels of budget support, increasingly delivered in coordination behind government-owned policy frameworks with coordinated provision of supporting TA. PFTAC has been an active member of donor coordination groups in a number of these countries (Tonga, Tuvalu, Kiribati) which is expected to continue to affect the nature of demand for its TA.

13. **More intensive TA provision from development partners.** As a result of the joint policy framework process and as a result of increased donor resources devoted to the Pacific increased TA is being made available to support countries in areas where PFTAC has often taken the lead. In particular, AusAID has been increasing its range of resident advisors in the economic management area and has looked to draw on PFTAC's expertise to enhance their impact. A similar arrangement is also conducted with ADB advisors in some country projects. This has generally included providing input into the identification and terms of reference for assignments and participating in the selection of resident advisors. This has been particularly intense in the revenue area (section C below) but is not restricted to it. An outstanding issue is what relationship PFTAC advisors should have with these advisors during their assignment and how the greater prevalence of resident advisors will change the nature of the PFTAC advisor's role. *The Steering Committee is invited to provide guidance in this area.*

14. **Country strategies.** In order to draw a tighter link between the regional results framework and the workplan and to assist medium-term planning, PFTAC has drawn up draft country strategies that outline the main results that PFTAC hopes to assist countries achieve. The draft strategies are attached at Appendix C. These strategies reflect ongoing projects, activities under discussion and tentative plans based on initial discussions with countries. PFTAC remains committed to responding to country demand; it intends to discuss and agree the strategies with country authorities on a periodic basis to make sure that medium-term

plans align with country priorities. Activity plans will continue to respond to urgent and emerging demands from countries. *The Steering Committee is invited to endorse the production of country strategies; PFTAC requests countries' views on the country strategies and would willingly schedule discussions to refine them.*

15. **Progress towards self sufficiency of professional associations.** This was an objective set out in the program document. In the tax area, FIRCA took on a significant amount of secretariat functions for the 2011 PITAA meeting and members covered a substantial portion of the meeting costs. PITAA members have developed a draft constitution with a view to it becoming an independent organization. In PIFMA a working group has been appointed to review progress thus far against the organization's objectives and to assess means of reinvigorating group. One question all groups will have to consider is the financing of their operations. *The Steering Committee is invited to comment on the extent to which members can be expected to step up their financial contribution to the running of the professional associations and the extent to which they wish for PFTAC to continue to take on the bulk of secretariat operations.*

16. **Partnerships.** In addition to participation in many of the coordinated donor processes in the region, PFTAC is attempting to develop partnerships with a number of organizations to increase the effectiveness of its TA and training. These include:

- **The World Bank.** Phase III included a pilot of enhanced cooperation between PFTAC and the World Bank. Lessons from that experience, which have been reported to previous steering committees, have led to a reconfiguration of the arrangement. Beginning March 1, 2012 a World Bank staff economist is located in the PFTAC office in Suva. Their main focus will be: leading country program work, including development of grants and loans, on a number of South Pacific countries; supervising and participating in Bank analytical work in the PFM area, including expenditure policy work such as Public Expenditure Reviews. The economist's work will not duplicate the work of PFTAC's advisors but will enhance country level coordination of World Bank and PFTAC work. It will also enhance the linkages with IMF surveillance, through the regional resrep office, and with donor coordination mechanisms in Suva.
- **ADM PEM TA.** The PEM TA project operates in a similar way to PFTAC (small-scale, responsive advisory TA) and in similar sectors to PFTAC. In line with Steering Committee guidance, care has been taken to ensure that duplications are avoided and that PFTAC and PEM TA activities are as complementary as possible. This has been achieved in a number of ways: the PFTAC coordinator sits on the PEM TA Steering Committee; regular coordination meetings in Suva between the PEM TA Team Leader, PFTAC Coordinator and PFTAC Macroeconomic Advisor; discussion of

appropriate lead agency where country requests interest areas of activity and, where relevant, joint activities. These have included joint training courses in macroeconomic and PFM areas and joint missions. To ensure continued coordination, PEM TA will report to the PFTAC Steering Committee on activities and workplans.

- **Training partnerships.** PFTAC continues to partner with other organizations, both within and outside the region, to provide relevant training materials. Ongoing partnerships include Australian Department of Finance and Deregulation (DOFD) and ADB in PFM (see below) and, Bank of England Centre of Central Banking Studies (CCBS) in the macroeconomic area. Within the region, PFTAC partners with Bank of BPNG and RBF staff in developing training programs. PFTAC is also looking to make increasing use of IMF HQ resources in the training areas, including a more substantial use of IMF Institute by drawing on their staff to deliver courses tailored to the Pacific context on a regular basis. One off collaborations such as with the US Federal Deposit Insurance Corporation (FDIC) in 2011 will also continue as possible. PFTAC aims, however, to draw tighter links between TA provision and training. This could take a number of forms: ensuring that topics are chosen in light of emerging regional/sub-regional priorities, by planning bilateral TA to follow-up on issues identified in training events; by planning training in a more medium-term context; by using IT to have a more structured follow up; and by taking a more proactive approach in identifying candidates for training.. *The Steering Committee is invited to endorse this outline training strategy.*

17. **A draft work plan, consistent with the country strategies and budget resources is provided in Appendix D.** The plan remains in draft form and will be refined in the coming weeks on the basis of Steering Committee guidance and the conclusion of the IMF's annual TA planning process. As usual, the work plan will be updated regularly during the year to take account of changing country and regional priorities. Updates will be posted at least quarterly on PFTAC's website. The presentation of the work plan is expected to be enhanced during the year through the adoption of templates being developed for all of the IMF's regional technical assistance centres as part of Fund-wide RBM reforms.

B. Public Financial Management

18. **FY13 will see PFTAC move to two PFM advisors.** The precise division of duties will be decided once a candidate has been selected. The program document envisages the second advisor being a PEFA advisor. However, if the two advisors have complementary technical skills and both have PEFA skills; PFTAC proposes that the PEFA and technical assistance roles will be shared between the two advisors. This will not dilute the resources available to support regional PFM roadmap issues in Phase IV and will allow PFTAC to deliver hands on support across a broad range of PFM issues. *The Steering Committee is asked to endorse this division of responsibilities between the two PFM advisors.*

19. As envisaged in the program document, the advisors' work will be grouped into three general categories:

- PFM Roadmap support – support for PEFA assessments and the development of PFM Roadmaps.
- Specific TA missions or training designed to assess, discuss, and deliver solutions; and
- Delivering training and supporting the development of regional institutions or processes with the aim of long-term PFM system sustainability

20. PFM Roadmap support will be three pronged. PFTAC will make resources available to conduct PEFA assessments in Fiji, Solomon Islands and Palau (result 1.1). These will take into account lessons learned from recent regional PEFAs, including the need to first undertake a self-assessment. Lessons learned will be collated on the PIFMA website and regional PEFA training (in collaboration with the PEFA Secretariat) will be delivered. Resources will also be made available to assist countries develop reform roadmaps (result 1.2); these may include RMI, FSM, Tuvalu and Fiji.

21. Technical assistance will be directed towards the priorities in the results framework. In addition to these planned TA activities PFTAC will continue its commitment to quickly respond to requests from countries for urgent assistance and from Donor Partners for TA assessment and planning.

- Support for accounting reform (result 1.4). This is expected to encompass training on IPSAS implementation in Fiji and possibly Solomon Islands, and continued coordination with the ADB in Kiribati.
- Support for practical approaches to MTB development (1.5). This will focus on developing best practice guidelines based on regional experience (an action point from the regional seminar held jointly with ADB. It will also include country support to the Cook Islands in improving the underlying information system for the forward estimates and linking them to the Fiscal Management Model (developed with support from PEM TA).
- Assistance in evaluating proposals for IFMIS changes. Work will continue in Kiribati, although other partners' assistance will be in the lead, and also in Tonga.
- Support to improve cash flow forecasting and cash management (result 1.6). This is expected to cover Palau, RMI and FSM.
- Support to improve legal framework (1.3). Using HQ resources funded by PFTAC recommendations on an enhanced legal framework for PFM will be provided in Solomon Islands.

22. Broader capacity development will include training and development of regional institutions and processes.

- **PIFMA will continue to be the focus of regional capacity building.** PFTAC will work with the PIFMA working group to investigate how PIFMA can expand its functions/services and get more PIC officials and development partners engaged. The annual meeting is expected to consider the proposals in more details. They are expected to include:
 - Sponsoring of critical training for a variety of PFM professionals.
 - Maintaining a website for members with
 1. good practice manuals,
 2. simple down-loadable software to solve common problems
 3. chat-rooms for PFM professional in similar positions to share ideas.
- **Training inputs in FY13 are likely to be in the budget preparation area.** The annual Leadership Development Programme, delivered in collaboration with the Australian DOFD is expected to focus on the integration of planning and budgeting (see Box 1). PFTAC plans to also mount a regional seminar on the macroeconomic elements of budgeting, including debt sustainability analysis.
- **PFTAC will also investigate a sustainable partnership with USP to train more PFM professionals in the region.** With satellite campuses in 12 PICs and sophisticated 2-way video distance learning and other technology, USP has great potential to be able train much larger numbers of PFM professionals (both in Finance Ministries and LMs) than traditional and more expensive approaches to training (out-of-country workshops or flown-in experts).

The Steering Committee is asked to endorse the outlines of the PFM work program for FY13 and comment on the priority it wishes to be given to building a partnership with USP in the training area.

Box 1: PFM Collaboration with Australian Department Of Finance and Deregulation (DOFD)

PFTAC and DOFD have agreed a training and technical assistance collaboration. DOFD wish to coordinate their assistance to the Pacific more firmly within regional institutions so that they can have a more lasting effect on capacity and see PFTAC as an ideal partner. PFTAC recognizes the large body of expertise in best practice PFM housed in DOFD and believes that a strategic partnership will improve the chances of achieving some of its key PFM objectives.

The Partnership is expected to have four elements. It will follow the format of the 18 month pilot that is coming to a close, with some modifications to enhance its impact. Subject to confirmation of funding, the program will consist of:

- **An annual training course** – the topic for which will be jointly decided by DOFD and PFTAC, in consultation with PIFMA. Participants will, as far as possible, be those already engaged in reform efforts in the specified area. The course will be developed and delivered by ANU in collaboration with DOFD and PFTAC staff. It is hoped that USP will also become a major partner with the possibility that ultimately participants could receive academic credit towards USP qualifications
- **Structured course follow up.** Course participants will construct a project during the course to be implemented during their work over the following 6 months. PFTAC and DOFD will interact regularly with participants individually and as a group (using information technology such as USP video-conferencing and the PFTAC website) to monitor progress and isolate areas where more intensive TA support will be needed. It is hoped that the group work will help develop communities of practice in elements of PFM that can support broader PIFMA development.
- **Short-term TA assignments** from DOFD to support the PFTAC work program. These will be either to follow up on issues arising from course projects and to support the production of PEFAs and PFM roadmaps.
- **A stand-alone DOFD project**, consisting of TA and secondments to DOFD. The topic for this project will be discussed with PFTAC and agreed in advance with PIFMA.

The Steering Committee is requested to endorse the parameters of the collaboration with DOFD.

C. Revenue

23. **The baseline assessment of tax administrations across the region will continue to provide the cornerstone for the revenue sector activities in FY13.** In keeping with the findings of the PFTAC Program Document, six priority areas for revenue sector technical assistance will be focused on: modernized and comprehensive legislation frameworks (Samoa, Fiji, RMI, FSM); automation of revenue processes (RMI, FSM, Palau, Kiribati) and cross-regional IT support; introduction of self assessment into the administrative framework (Fiji, RMI, FSM), adoption of integrated or functional operating models (FSM, RMI);

expansion of the corporate strategy set to include risk management and compliance improvement strategies (Fiji, Tuvalu, Nauru, FSM, RMI).

24. The current baseline framework will be amended to take into account a major IMF initiative—RA FIT—intended to establish a global baseline. The Revenue Administration Fiscal Information Tool (RA FIT) will provide a consistent set of global revenue administration baseline data and will be used by the IMF to provide a common approach to RBM and evaluation of revenue technical assistance. It should also provide a valuable resource to countries and development partners in assessing the relative performances of revenue administrations and identifying opportunities for improvement. This will replace the quantitative element of the PFTAC-developed PITAA baseline framework. The 2nd assessment against the PFTAC framework will be undertaken in 2012, taking into account the information provided in the context of RA FIT. The high-level outcomes in the PFTAC results framework may also be amended to make them more consistent with the RA FIT initiative. *The Steering Committee is requested to endorse the integration of PFTAC's revenue administration baseline with the IMF's RA FIT initiative.*

25. The expansion of resident advisors into more Pacific Island countries will affect the nature and scope of work undertake by PFTAC. PFTAC will continue to work collaboratively with other donors to help identify and recruit appropriately skilled in-country resident advisors. The resident advisors, once in situ, will assume responsibility for much of the general advice and hands on support for revenue administration strengthening that might otherwise have been provided by PFTAC. PFTAC instead is being called upon to act as a conduit from the principal donor to the resident advisors to ensure the proposed strategic reforms are being implemented as planned and provide guidance to the resident advisors. *The Steering Committee is invited to endorse PFTAC's ongoing relationship with resident advisors financed by other development partners.*

26. PFTAC will focus more on niche specialist assistance, strategic advice and regional issues. PFTAC is well placed to provide niche assistance (for example, legislation drafting, corporate strategies and tax policy) and strategic advice. Requests for comprehensive strategic revenue reviews are expected to increase as more countries reach the point where they are ready for the second wave of revenue reforms. A comprehensive revenue review was undertaken in Tonga in late 2011 and it is expected that Samoa will request a similar review as it prepares for the second phase of its institutional strengthening programme. Other reviews could also take place if countries request. PFTAC will seek to bring in IMF HQ expertise to supplement its inputs on these reviews

27. PFTAC is receiving more requests for Customs assistance. This may be as a result of the inclusion of Customs in technical assistance provided on corporate strategies, fiscal policy and revenue mobilization. *The Steering Committee is requested to comment on*

whether PFTAC should attempt to accommodate these requests, despite it not being part of the Phase IV results framework.

28. The revenue sector will aim to continue to make use of regional consultants.

Nearly 5 months of technical assistance was provided by regional consultants in 2011 consisting primarily of in-country on-the-job training (Tuvalu and Vanuatu). This highlighted gaps in existing practice and led to both countries seeking support for longer term resident advisors. PFTAC will look to provide regional consultants to ensure momentum is maintained as a stop gap before long term resident advisors can be recruited.

29. PFTAC will continue to support the PITAA strategic direction, where possible identifying cross-regional support mechanisms for issues of regional priority. In 2012 the regional issues PFTAC will support include the regional training program development of the regional IT support strategy, and a regional support mechanism for issues concerning natural resource taxation. This latter will be developed in conjunction with the work being undertaken by the World Bank in Solomon Islands. Cross-regional issues will also be identified as the baseline assessment is updated.

D. Financial Sector Supervision

30. Preparing for the regional implementation of the RBNZ FSIS system will be a key focus of FY13 activities (result 3.1). This will include working with RBNZ to deliver a firm proposal for Governors to consider. Following that, PFTAC will work with RBNZ to set up the base set of prudential returns developed under AFSPC guidance in the FSIS environment. This version will be piloted in the Solomon Islands and PFTAC will provide input on the bank supervision elements of the system into the training which will also include other regional central banks. PFTAC will also be available to adapt the base set of returns to the particular context of their countries; likely inputs are Vanuatu, Samoa and Fiji. In addition resources will be devoted to assisting the North Pacific countries establish their own set of base returns, adapted to the slightly different regulatory context. *The Steering Committee is requested to endorse the PFTAC collaboration with RBNZ and regional central banks.*

31. Further development of off-site supervision manuals and procedures will also be developed (results 3.2 and 3.3). This will include preparing and providing training in the use of “user’s guides” to output reports (uniform bank performance reports) for measuring and monitoring changes the CAELS components of banks. The output reports, which will be automatically generated by FSIS. The output reports, which will be automatically generated by FSIS from the base returns, will include high level and detailed ratios necessary to properly monitor CAELS components and changes in the condition and performance of a bank. Solomon Islands, as the pilot for implementing FSIS, will also be the pilot for

developing the user's guide along with Tonga and Cook Islands who have expressed an interest in implementing FSIS and have moved to implement the base prudential returns. To provide a framework for monitoring and analyzing the condition and performance of banks a comprehensive off-site monitoring manual will be prepared for Palau.

32. **Establishing stronger on-site supervision will continue to be emphasized.** A particular focus will be Tonga, where PFTAC will build on TA delivered in FY12, to finalize the development of manuals and procedures and train staff so that the NRBT can effectively deliver a stepped-up on site supervision schedule (results 3.5, 3.6 and 3.7). This will be supplemented by some follow-up assistance to the intensive program of support that has previously been delivered to the Solomon Islands.

33. **Development and implementation of revised legal frameworks could require resources (result 3.8).** PFTAC will support the development of a revised banking law in Marshall Islands, potentially drawing on IMF Legal Department resources. PFTAC will also provide support to Kiribati and Tuvalu if they decide to implement their banking legislation. This though is likely to require resources well in excess of PFTAC's availability and so PFTAC will work with partners to identify appropriate financial and technical assistance. PFTAC will also continue coordinating with ADB to assist Nauru re-establish banking services in the country.

34. **Following on from analytical work on interest rates and bank profitability, an analysis of regional capital requirements will be developed.** PFTAC will provide to the Governors group an analysis of how capital requirements in the region compare to peers in other regions and international best practice. PFTAC will draw on AFSPC members to look at how actual capital holdings compare to requirements.

E. Economic Statistics

35. **PFTAC's statistics support will continue to be undertaken within the framework of the regional Ten Year Pacific Statistics Strategy (TYPSS).** This strategy was approved by the 2010 regional Heads of Planning and Statistics meeting (HOPS).⁴ In addition to guiding technical development the strategy provides a useful framework for development partner coordination as all TA providers are expected to work within the TYPSS framework. Oversight of the implementation of TYPSS is provided by the Pacific Statistics Steering Committee (PSSC) which was formed by HOPS. The PFTAC statistics advisor advises the

⁴ HOPS is held every three years, hosted by the Secretariat of the Pacific Community (SPC), Noumea, New Caledonia. Refer to the "Downloads" page of <http://www.spc.int/sdp/> for documents from the 2010 meeting.

PSSC on macroeconomic statistics issues. The PFTAC statistics advisor also works closely with resident long-term economic statistics advisors in Solomon Islands and Tonga.

36. The TA resources available for economic statistics in the Pacific are increasing.

In addition to PFTAC's imminent transition to two statistics advisors, SPC has also moved to two economic statisticians. The Australian Bureau of Statistics (ABS) is also stepping up its engagement, with separate training and TA programs in Government Finance Statistics and implementing the principles of the International Comparison Program (ICP) in the Pacific Islands. ABS' major bilateral interventions are expected to be in Fiji, Solomon Islands and Vanuatu.

37. IMF HQ is also significantly stepping up its statistical TA to the Pacific. The Statistics Department has accessed Japanese finance to fund four projects that will make substantial resources available to the Pacific Island Countries that are members of the IMF

- Balance of Payments – This is a major [3 year] project which is awaiting final approval from the donor, for implementation beginning May 1, 2012. It aims to strengthen Balance of Payments in Asia and the Pacific. The project will have a large Pacific module that will include an advisor stationed in the region to coordinate and deliver assistance; short-term expert assistance and training programs.
- Government Finance Statistics. This project aims to assist Asia Pacific countries to migrate their fiscal statistics to *GFSM 2001* standards. It is expected that it will assist up to ten Pacific countries and begin with Pacific regional training to be conducted jointly with the ABS in early 2012. The project will also build on improvements to central government financial management systems underway in many countries.
- General Data Dissemination System (GDDS). A seminar in early 2012 will encourage participation and further TA will be provided to countries to develop relevant metadata.
- ICP project – in the Pacific only Fiji is a full partner in the ICP process, and they will be receiving TA from this project. The project also has funds for training, which the Pacific benefitted from in early 2012 through a joint STA/PFTAC training course. A further regional course on price statistics is likely to be delivered, depending on planned inputs from other development partners (ABS, SPC).

38. Given these developments, PFTAC intends to focus the inputs of its two resident advisors on achieving substantial improvements in national accounts in the Pacific. This approach assumes that balance of payments and government finance statistics needs of the IMF members will be to a large extent handled by the IMF HQ projects. PFTAC advisors will focus on developing national accounts. The increased resources will allow more

intensive delivery and support and also to develop regional best practice and guidance. The two advisors will also act as a coordinating point for IMF activities and ensure that they are coordinated with other partners' work in the context of the TYPSS and handling residual demand in balance of payments in countries that are not IMF members. PFTAC will also discuss with SPC whether, given this increase in TA availability on the main macro datasets, if they can focus their work in PFTAC member countries on price statistics and on the development of source data for national accounts and balance of payments. *The Steering Committee is requested to endorse this revision of the strategy for PFTAC's Phase IV statistics activity.*

39. Progress on the national accounts results framework will include:

- **Quarterly national accounts** are expected to be established in Fiji and initiated in Cook Islands and Vanuatu (Result 4.4). Work in Fiji will build upon previous and ongoing methodological assistance by PFTAC on the annual accounts and on developing quarterly estimates.
- PFTAC will work closely with IMF HQ TA in developing estimates of national expenditure (vital for international comparative purposes and for internal confrontation of GDP estimates).
- Assist 3 countries to **rebase national accounts** based on updated survey data (result 4.2). Samoa, Tonga and Vanuatu will develop revised benchmarks of current price estimates and rebase their constant price estimates following completion of Household Income & Expenditure Surveys (HIES)⁵.
- Begin development of **expenditure measures of GDP** in Cook Islands, and Kiribati and improve the experimental measures of GDP(E) in Samoa and Vanuatu (Result 4.1). This process will build on HIESs and other key source data and will gradually develop methodologies and indicative estimates with publication expected to commence in 2013. Some assistance will also be provided on GDP(E) under the IMF Statistics Department Asia-Pacific regional program on the International Comparison Project (ICP). Following the price statistics workshops in FY12 some follow-up TA on price statistics may be required from PFTAC, depending on SPC's ability to meet countries' needs.
- Continue to provide **hands-on assistance to compilation** in those countries which do not have sufficient capacity to compile on their own (result 4.1). Where capacity remains insufficient, PFTAC will focus on assisting the authorities ensure annual

⁵ TA will be provided by the Samoa Institutional Strengthening Project, a resident advisor in Tonga and PFTAC respectively.

estimates are produced in a form useful to decision makers and the development partners that support budgets in these countries. In 2013 this is expected to be a focus in Nauru, Palau and Tuvalu⁶.

40. **Regional work though the PSSC will focus on laying the groundwork for improvement and development of national accounts and balance of payments.** PFTAC will coordinate closely with SPC's two economic statisticians, one of whom assists countries with their price statistics and to some extent with national accounts, the second on improving surveys and administrative data for business statistics and trade statistics which will lead to improved source data for macroeconomic statistics. PFTAC will also continue to provide input to the PSSC on macroeconomic statistics.

41. **On balance of payments, assistance will include ensuring ongoing publication of robust statistics for small countries, and improvements to source data to facilitate the transition to BPM6.** Significant progress has been made in the region on balance of payments, and further gains are dependant in part on improvements in source data. A key data source needing improvement is trade statistics, a need recognized by the TYPSS, resulting in the appointment of a second economic statistician at SPC with a key result area being improvement of trade statistics. Beginning with the August 2012 release of the *International Financial Statistics* and *Balance of Payments Statistics* online databases, the IMF will disseminate BOP and IIP statistics on a *BPM6* basis, raising the importance of countries' transition to the current international standard.

F. Macroeconomic Analysis and Frameworks

42. **The key theme will be the introduction of financial programming techniques in central banks and finance ministries** (result 5.2). The initial work program in the macroeconomic area has been on training central banks and, to a lesser extent, finance ministries on the essential building blocks for establishing robust financial programming frameworks. This has included training in the general macroeconomic analysis of current conditions, forecasting techniques, and modeling of behavioral relationships. Financial programming requires a big picture analysis of current economic conditions, a model of key behavioral relationships and adequate forecasts. Having done this in many countries in the region, the focus will be to move on towards financial programming exercises. This will be done through country level financial programming workshops (Fiji, Vanuatu, Solomon Islands, and PNG). These will provide background to a financial programming course for the whole region course to be mounted jointly with the IMF Institute in late 2012. The course will use a Pacific case study

⁶ Collaboration with SPC will be a key part of assistance with hands-on assistance to compilation.

43. **Building better understanding of the interactions between exchange rates and inflation will also be an important focus (result 5.1).** The small, highly open nature of the Pacific Islands economies requires careful usage of standard macroeconomic models. PFTAC will continue to support research initiatives in central banks—Solomon Islands, Fiji, Tonga and PNG—to improve understanding of the local driving forces as well as the key behavioral relationships. For example, RBF staff is looking into the long-run determinants of inflation in Fiji. These research initiatives will be supported in FY13, with a regional central banking workshop organized jointly by PFTAC and the Bank of England providing an opportunity to share first results as well as to draw on the knowhow of Bank of England staff. The workshop will also look into policy issues shared across the region such as the management of excess liquidity.

44. **Building on work in Kiribati, PNG, and Samoa during FY 2012, fiscal sustainability will be another theme for FY 2013 (result 5.4).** In Samoa, the underlying issue is one of debt sustainability, whereas for Kiribati and PNG the issue is one of preserving natural resource wealth. The work program for FY13 will follow two tracks. One is further investigation of the broader macroeconomic implications of different fiscal policy choices regarding natural resource wealth, an issue that is going to be pursued together with staffs of the Bank of PNG, Treasury, and the IMF. The second track is linking fiscal sustainability considerations to fiscal policy choices in the budget preparation process. Here, simple fiscal frameworks that provide information on sustainable expenditure levels can be useful tools. The related techniques and policy issues will be disseminated in a regional fiscal policy workshop organized in conjunction with PFTAC's PFM advisor and ADB's PEM program.

45. **The work program will also continue to emphasize basic capacity building.** These programs range from providing training in basic fiscal analysis and Excel skills (Kiribati) to more advanced econometric forecasting techniques (Solomon Islands) as well as regression analysis (Tonga) to the operation of existing revenue forecasting and fiscal frameworks (Samoa). Many of the training modules require repetition in order for staffs to gain familiarity with the materials and for the training to sink in. Even then success cannot be guaranteed due to staff turnover and very limited capacity to institutionalize knowledge.

V. OTHER ISSUES

46. **The Steering Committee is scheduled to meet in a further 18 months.** This would imply a meeting in October 2013. A key objective of the meeting will be to agree the terms of reference and process for the next PFTAC evaluation, which is scheduled to take place in 2014. *The Steering Committee members are asked to endorse this timetable.*

Table 1: Revised Program Budget

Appendix A: Progress against Phase IV Results Framework

The tables below show progress made in FY12 against the Phase IV results framework. The tables show the immediate outcome and baseline status as presented in the FY11 annual report and show updated target countries. A new column is added that describes assistance provided and results achieved in FY12. The content will be refined following comments received during and after the steering committee and presented in its final format in the FY12 annual report.

Public Financial Management: Results Framework

Code	Immediate Outcome	Baseline Status	Target countries	Results Thru March 2012
1.1	At least 1 PEFA assessment conducted in each PFTAC country during the funding cycle	5 countries have had a PEFA assessment in the last 5 years	All. Priorities are: Solomon Islands. Fiji and Palau.	Since PFTAC was asked by the FEMM to coordinate the PEFA process it has conducted PEFAs in Cook Islands, RMI, FSM, and Niue. This brings to 11 the total countries having had PEFAs in the past 5 years (since 2007)
1.2	Reform road maps developed following each PEFA assessment	Kiribati currently embarking on a roadmap, Tonga also (although divorced from PEFA assessment)	All countries that have undertaken a PEFA assessment. (Niue, FMI. FSM, Tuvalu are short term priorities)	Roadmaps for Kiribati and Cook Islands have been developed. PFTAC provided advice to refine the initial draft in Kiribati. Tonga is in the drafting stage
1.3	Modernized legal frameworks and financial Instructions implemented in 5 countries.	Financial Instructions have been updated in Palau in 2007, SI in 2007 and Nauru in 2010. Budget laws in some countries remain very old.	Financial instructions: Nauru, Solomon Islands, Palau and 2 more countries (work in Samoa underway)	Kiribati has drafted updates to its Financial and Stores Regulations (with assistance from other donors). Solomon Islands has developed a draft PFM Act, additional input to include fiscal responsibility provisions will be provided under PFTAC funding in early 2012.
1.4	Updated accounting standards implemented in 5 countries-	Most countries operate accounting based on local cash based or modified accrual accounting standards.	Fiji and Solomon Islands will be the immediate priorities. Lead to a guidance document on implementing IPSAS based cash accounting.	The Feb 2011 Leadership Development Programme (conducted jointly with the Australian DOFD and ANU) which involved participants from 12 PICs, focused on accounting and cash management. Kiribati has developed revisions to its Chart of Accounts and expense codes, with PFTAC support.
1.5	Medium-term budgeting at line agency level adopted in 4 further countries	Samoa and Cook Islands have made significant progress. Tonga and RMI	Tonga, Kiribati, Solomon Islands	

Code	Immediate Outcome	Baseline Status	Target countries	Results Thru March 2012
		have partial systems, but limited efficacy.		
1.6	Aggregated quarterly cash plan based on line agency forecasts regularly produced in 5 countries	Systems installed in RMI, Palau and Nauru.	Palau, RMI and Nauru, moving towards commitment control systems integrated with cash management. Introduce cash management in Kiribati and advise Solomon's on it.	

Revenue Policy and Administration: Results Framework

Code	Immediate Outcome	Baseline Status	Target countries	Progress to March 2012
2.1	Modernized comprehensive revenue policy and legislation framework adopted in 4 additional countries encompassing a VAT, Net Profit Tax, Personal income tax, , Revenue Administration Act and possibly a Presumptive Tax. Also including natural resources regimes where relevant.	Tonga, Tuvalu	Comprehensive policy framework RMI, FSM, Kiribati, Vanuatu, Modernized legislation Fiji, Samoa. Natural resources, Fiji, Solomon Islands, Cook Island, Tonga.	Income tax legislation rewritten (and enacted) for Fiji and Samoa. Natural resources legislation drafted for Solomon Islands Fiscal policy framework reforms in RMI and FSM – legislation drafted awaiting enactment.
2.2	Effective Corporate Strategy and planning processes in place for 5 additional revenue administrations.	Samoa, PNG, Solomon Islands and Tonga have plans. Fiji and Vanuatu are developing them.	Vanuatu, Fiji, Palau, Nauru	Vanuatu, Fiji and Palau have developed new Corporate Strategies and business to implement the strategies.
2.3	Revenue administration processes automated in 4 additional countries	Good Automation in Tuvalu, Cook Islands, Tonga, Vanuatu	Introduce automation RMI, FSM, Kiribati, Improvements and refinements in: PNG, Samoa, Fiji, Palau	Automation upgrades following PFTAC developed IT Strategic plans implemented in Samoa and underway in Kiribati. Tuvalu maintenance update followed PFTAC intervention. Palau underway but difficulty sourcing donor funding.
2.4	Self assessment principles adopted for 6 additional countries:	Currently used in Tonga and in principle in Tuvalu	Fiji, RMI, FSM, Samoa, Kiribati Vanuatu, Tuvalu	Fiji and Samoa - self assessment introduced in their rewritten legislation with effect from 1 January 2013.
2.5	Revenue administrations organised in taxpayer-focused operating model (functional or segmented) used in 4 countries:	Currently in Tonga,	Samoa, FSM, RMI, Palau, Fiji, Kiribati	Samoa has realigned its operating model as part of their institutional strengthening program. Palau has co-located enforcement activities and Timor Leste will move to a functional model with segment focus.

Code	Immediate Outcome	Baseline Status	Target countries	Progress to March 2012
2.6	Risk management and compliance improvement strategies adopted in 4 additional countries	Strategies in use in Palau and Vanuatu.	Fiji, Samoa, FSM, RMI, Kiribati	

Financial Sector Supervision: Results Framework

Code	Immediate outcome	Baseline Status	Target countries	Results to date
3.1	Improved bank reporting requirements allowing supervisory authorities to regularly calculate “core” Financial Soundness Indicators (FSIs) and improve the capacity to calculate “encouraged” FSIs prescribed by the IMF and perform enhanced monitoring and assessment of the financial condition and performance of banks.	Core FSIs are not regularly published in PFTAC countries. Some countries calculate them on a partial and periodic basis but participation in the AFSPC program of publication has been very limited.	Solomon Islands, Vanuatu, Fiji, Tonga, Cook Islands, Palau, RMI	<p>Assistance has been provided to Solomon Islands and Tonga in implementing new bank reporting requirements using the bank prudential returns developed by the AFSPC with assistance from PFTAC. Additionally, assistance has been given to Cook Islands in tailoring the base returns for use there and implementation is expected in 2012. The new prudential returns provide data to allow for the calculation of both “core” and “encouraged” FSIs.</p> <p>To further encourage supervisory authorities to regularly calculate FSIs, the AFSPC website has been revised to include individual portals which allow members to report and maintain FSI data for their country. PFTAC continues to monitor and encourage AFSPC members to participate in the voluntary disclosure of FSIs.</p>
3.2	Prudential returns data regularly used to assess CAELS components of banks in six countries.	CAELS are monitored and assessed through implementation of comprehensive off-site monitoring program in Palau, RMI, FSM, Tonga, Cook Islands and PNG. Assessment, however, remains weak.	Palau, Tonga, Vanuatu, Solomon Islands, FSM, RMI	<p>Off-site monitoring continues to be inefficient and laborious with key ratios for measuring and monitoring CAELs components requiring manual inputs and calculations. Assessment also continues to be weak due to the lack of deeper ratio and trend analysis.</p> <p>To improve supervisory efficiencies PFTAC has developed a set of standardized output reports for analyzing CAELs components which allows for greater analysis through the use of expanded and additional ratios to assist in identifying the root causes of changes. Additionally, PFTAC is working with the Reserve Bank of New Zealand (RBNZ) to make available to AFSPC members the use of its Financial</p>

Code	Immediate outcome	Baseline Status	Target countries	Results to date
				Sector Information System (FSIS). FSIS is a proprietary software system developed by RBNZ for collecting, housing and organizing data from multiple sources and facilitating the creation of reports such as the standardized output reports. Currently, PFTAC is working with RBNZ to implement FSIS in Solomon Islands. Implementation is expected to take place in 2012 followed by other AFSPC members who adopt the base set of prudential returns.
3.3	Improved manuals for completing quarterly off-site monitoring report	Manuals developed and adopted in: Palau, Solomon Islands.	FSM, RMI, Vanuatu, Tonga	Assistance formulating/revising manuals for conducting quarterly off-site monitoring has not progressed pending the implementation of the base prudential returns and the preparation of standardized output reports for assessing CAELS components.
3.4	Regular full-scope CAMELS examinations implemented in 5 countries	While the composite CAMELS rating is currently disclosed in on-site examinations reports prepared by Palau and RMI, no country discloses individual CAMELS component ratings.	FSM, Palau, RMI, Tonga, Vanuatu, Solomon Islands	Assistance has been provided to Solomon Islands and Tonga in conducting full-scope CAMELS examinations of all banks. Tonga has requested additional assistance to further reinforce staff training in conducting full-scope examinations and completing examination procedures. However, Tonga has committed to undertake independent on-site examination commencing in 2013.
3.5	Implementation of standardized examination reports summarizing the findings of on-site examination to assure all banks are subject to a minimum level of review and	Progress made in Vanuatu, RMI, Palau,	FSM, Palau, RMI, Solomon Islands, Tonga, Vanuatu	Standardized examination report templates have been developed and implemented in Palau, RMI, Solomon Islands and Tonga. These standardized reports are organized around the assessment of CAMELS components, providing standard tables of key ratios to

Code	Immediate outcome	Baseline Status	Target countries	Results to date
	analysis in 5 countries			assure a minimum level of review of CAELS components and the presentation of narrative comments. The standardized reports have been instrumental in assisting supervisory staff in preparing written comments identifying the strengths and weaknesses of bank operations and in recommending appropriate supervisory responses to examination findings.
3.6	Completion of written procedures for examining functional banking activities/areas of operation	Written procedures have previously been provided in PFTAC handbook but need to be tailored to individual jurisdictions.	Fiji, PNG, Tonga, Palau, FSM, Vanuatu, Solomon Islands, RMI, Cook Islands	Extensive training and support has been and is being provided to Solomon Islands and Tonga in conducting on-site bank examinations. This assistance has resulted in the production of written examination procedures for examining loan portfolio and assessing liquidity risk. Written examination procedures for reviewing other assets and due from (nostro) bank accounts have also been developed.
3.7	Financial statement analysis regularly used in 5 countries to enhance evaluation of credit risk and verify the adequacy of loan grading and provisioning by banks.	Currently used in Cook Islands, Palau and FSM	Vanuatu, Fiji, PNG, Solomon Islands, Tonga, Samoa	<p>A one-week training course was conducted in August 2011 to provide training to AFSPC members in the evaluation of bank credit risk and financial statement analysis in August 2011. Participants from all ten AFSPC members attended the training seminar which included presentations by staff of the U.S. Federal Deposit Insurance Corporation and the PFTAC Financial Sector Supervision Advisor. During that workshop participants were provided with instructions and procedures for examining bank loan portfolios and standardized templates reviewing and assessing a loan. Extensive training was provided to participants in the use of key ratios and level and trends in evaluating the creditworthiness of large borrowers and assigned credit risk grades.</p> <p>Financial statement analysis is now regularly used in</p>

Code	Immediate outcome	Baseline Status	Target countries	Results to date
				Solomon Islands, Tonga and Vanuatu as part of on-site examination procedures to assess the creditworthiness of large borrowers.
3.8	Basel-compliant legal frameworks and supporting regulations in place	Appropriate laws and regulations in place in: 6 central bank countries, FSM, and Palau	Banking laws/revisions: Tuvalu, Cook Islands, RMI, Kiribati	Assistance has been provided to Cook Islands in revising and strengthening the supervisory powers of the Financial Institutions Commission to ensure the timely resolution of problem banks. Additionally, visits have been conducted to Nauru and Kiribati to discuss with the authorities and provide recommendations for implementing appropriate bank supervisory regimes.

Economic Statistics: Results Framework

Code	Immediate outcome	Baseline Status	Target countries	Achievements during FY12
4.1	At least 8 countries compiling at least two independent measures of GDP to a high standard and improved coverage and quality of GDP measures in all countries	Currently 5 countries: Fiji, Palau, Samoa, Solomon Islands, Tonga	FSM, Kiribati, Marshall Islands, Nauru, Vanuatu	Training seminar on expenditure measure of GDP in February 2012, followed by a workshop for several countries to begin GDP(E) development.
4.2	Rebased constant price GDP(P) and GDP(E) estimates	Recent rebases in: Vanuatu, Fiji, Cook Islands, Kiribati, Tuvalu	FSM, Marshall Islands, Niue, Palau, Samoa, Tonga	

Code	Immediate outcome	Baseline Status	Target countries	Achievements during FY12
4.7	Improvements in the coverage and quality of investment income and external grants data and financial and IIP estimates for 8 countries	Reasonable estimates in Fiji, Samoa, Tonga, Vanuatu, PNG	Cook Islands, FSM, Kiribati, Palau, RMI, Solomon Islands, Vanuatu	Limited improvement in Cook Islands, Fiji and Samoa.
4.8	Improved consistency of BOP and IIP estimates for at least 9 member countries with <i>BPM6</i> standards	Transition underway in most countries	Cook Islands, Fiji, FSM, Kiribati, Palau, RMI, Samoa, Solomon Islands, Tonga, Vanuatu	No progress.
4.9	Compilation of PPI and trade price indexes by 4 countries (Fiji both, other countries trade price index)	Under development in Fiji, Samoa, Solomon Islands, Tonga	Fiji (PPI and trade price), Samoa, Solomon Islands, Tonga	Restarted Fiji PPI development.
4.10	Rebase of the CPI for at least 7 member countries			SPC conducted a CPI training seminar. Australian Bureau of Statistics began Pacific ICP project. Both increased technical capacity in NSOs and identified needs for further TA on ongoing quality improvement. Improvements in Solomon Islands CPI proposed by PFTAC TA mission.

Macroeconomic Analysis and Frameworks: Results Framework

Code	Immediate Outcome	Baseline Status	Target countries	Update FY 2012 as of January 2012
5.1	Enhanced analysis of current macroeconomic conditions (through inflation analysis, output gap measurement, and measurement of fiscal and monetary policy stance)	Partially implemented by central banks in the region.	Fiji, PNG, Samoa, Solomon Islands, Timor-Leste.	<ul style="list-style-type: none"> Regional CB training workshop organized jointly with RBF (Fiji) and Bank of PNG helped CBs to estimate quarterly GDP and output gaps. Another regional CB training workshop led participants to prepare an analysis of current economic conditions and policy challenges for participants of the annual Governors' Meeting and policy experts from the IMF and ADB. RBF staff (Fiji) prepared an in-depth analysis of macroeconomic developments since 2006, which they presented at aforementioned regional workshop and to senior RBF staff. RBF staff launched an econometric research program, with PFTAC's assistance, into the long-run determinants of inflation; this work will help inform measurement of monetary conditions. The output of the newly developed short-run forecasting and simulation model for PNG (see below) was used to assess current economic conditions, with results presented to senior Bank of PNG staff. <p>Non-results:</p> <ul style="list-style-type: none"> Samoa: no further progress on SERF model during FY 2012; loosely planned to be taken up in June/July 2012
5.2	Introduction of macroeconomic modeling tools and financial programming frameworks	Fiji's RBF is in the process of building a financial programming framework based	Fiji, PNG, Timor-Leste.	<ul style="list-style-type: none"> Drawing on training by the IMF's Institute in Singapore and ongoing guidance by PFTAC, Fiji's RBF has constructed a rudimentary financial programming framework; first results were presented in the context of the 2011 Article 4

		on IMF training courses; Timor-Leste is using a macroeconomic framework built by IMF staff.		<p>consultations.</p> <ul style="list-style-type: none"> • RBF staff has constructed a small Excel based tool for simulating a simple macroeconomic model; this serves to gain a better understanding of key behavioral relationships. Work is underway to improve this tool to allow simulation of more complex models. • The Bank of PNG, Treasury, IMF HQ and PFTAC jointly launched a major modeling project to better understand the macroeconomic challenges of the expected surge in LNG revenues; this project has yielded two distinct models (one focuses on the medium to long term whereas the other is for short-run forecasts and policy simulations); simulation results and policy implications were presented to senior Bank of PNG and Treasury staff during a workshop in Port Moresby. Preparations for follow-up workshops and improvements of the models are ongoing. • Bank of PNG staff, with support from PFTAC, has been central to developing tools for estimating quarterly GDP and output gaps • PFTAC assisted MoF of Timor-Leste in improving their macroeconomic framework and its usage.
5.3	Improved forecasting techniques	Basic techniques are used by MoFs and central banks in all member countries.	Fiji, Kiribati, PNG, Solomon Islands, Tonga.	<ul style="list-style-type: none"> • PFTAC assisted Fiji's MoF in assessing the quality of their revenue forecasts and devise an improved methodology. • An inflation forecasting workshop introduced CBSI and MoF staff in Solomon Islands to basic forecasting techniques and their application to inflation forecasting. • Tonga: PFTAC launched a work program with the Reserve Bank of Tonga to help them improve their inflation forecasting techniques and analyze

				the exchange rate pass through to inflation. The mission helped Tonga's MoF reviewing their GDP forecasting techniques and proposed refinements which will be supported by other partners.
5.4	Regular production of tailored debt sustainability analyses.	Countries currently rely on IMF/World Bank analyses.	Fiji, Samoa, Tonga, Kiribati.	<ul style="list-style-type: none"> • PFTAC held a debt sustainability workshop with Samoa's MoF; results were presented to senior MoF staff. • The main fiscal sustainability challenge for Kiribati is maintaining sustainability of their wealth fund (RERF); PFTAC assisted Kiribati's MoF in linking RERF sustainability to their macro-fiscal framework.
5.5	Better understanding of macroeconomic policy options related to natural resource inflows	PNG successfully implemented medium-term fiscal strategy managing recent commodity price boom, but coordination with monetary policy is lacking.	Fiji, PNG, Solomon Islands, Timor-Leste.	<ul style="list-style-type: none"> • The modeling work outlined above with the Bank of PNG, Treasury and the IMF served primarily to gain a better understanding of the macroeconomic policy options related to natural resource inflows, and results were shared with senior staffs during a workshop in Port Moresby. • Macroeconomic challenges of a resource boom, and different ways for modeling these, were discussed during the Timor-Leste visit.

Appendix B: Activities in FY12

Jan 2012	COK	PFM roadmap development	Resident Advisor
	KIR	Country visit and follow-up mission	Resident Advisor
Mar 2012	TON	Roadmap Development	Resident Advisor
Jul 2011	Regional	Forum Economic Ministers Meeting	Resident Advisor
Aug 2011	KIR	Developing a realistic plan for financial management	Resident Advisor
	Regional	Australia Ministry of Finance Meeting	Resident Advisor
		PASAI Meeting	Resident Advisor
Sep 2011	FSM	Conduct PEFA self-assessment	Resident Advisor
	MHL	Conduct PEFA self-assessment	Resident Advisor
Oct 2011	MHL	Conduct PEFA self-assessment	Resident Advisor
		PEFA Assessment	Short-Term Expert
	TON	Roadmap Development	Resident Advisor
Nov 2011	FSM	PEFA Assessment	Short-Term Expert
		Public Finance	Resident Advisor
	PLW	Country visit and follow-up visit	Resident Advisor

Jan	2012	KIR	Financial Regulation and Supervision	Resident Advisor
			Supervision	Resident Advisor
Feb	2012	COK	Financial Sector Supervision	Resident Advisor
Mar	2012	FSM	On-site Bank Supervision	Resident Advisor
		MHL	On-site Bank Supervision	Resident Advisor
Aug	2011	COK	Off-site monitoring and bank prudential reporting	Resident Advisor
		SLB	On-site Bank Supervision	Resident Advisor
Sep	2011	TON	Strengthening Bank Supervision & Regulation	Short-Term Expert
Nov	2011	TON	Training on new prudential bank reporting requirements	Resident Advisor
		WSM	Financial Sector Supervision	Resident Advisor

Jan	2012	COK	National Accounts Review	Resident Advisor
		SLB	Consumer Price Index	Short-Term Expert
Feb	2012	FJI	Training Seminar on NA	Resident Advisor
Jul	2011	TUV	Balance of Payments Statistics Follow Up	Resident Advisor
Aug	2011	FJI	NA Mission	Resident Advisor
		WSM	National Accounts Review	Resident Advisor
Sep	2011	FJI	National Accounts Follow-Up Mission	Resident Advisor
Oct	2011	PLW	Balance of Payment Statistics Follow Up	Resident Advisor
Nov	2011	WSM	Balance of Payments Statistics Follow Up	Resident Advisor

Jan	2012	TON	Tax Administration	Resident Advisor
Feb	2012	FSM	Strategic and review of Customs	Resident Advisor
		MHL	Strategic guidance to long term advisor	Resident Advisor
		TON	IT Review	Short Term Expert
		WSM	Revenue Administration	Short Term Expert
Mar	2012	MHL	Revenue reform and introduction of VAT	Short Term Expert
		NRU	National Revenue Office introduction of a GST	Short Term Expert
Jul	2011	COK	Mining Taxation Framework	Short Term Expert
		WSM	Income Tax rewrite	Short Term Expert
Aug	2011	FJI	PFTAC Regional Program	Short Term Expert
		KIR	Updated Implementation Timeframe	Resident Advisor
		NRU	Update Implementation timeframe	Resident Advisor
		Regional	IT Regional Training Program	Short Term Expert
			PITAA Meeting	Resident Advisor
		SLB	Customs Training Risk Management and Post Clearance	Short Term Expert
Sep	2011	PLW	Customs Administration (Phase 2)	Short Term Expert
		TON	Policy Issues for Revenue Review	Short Term Expert
			Revenue Review	Short Term Expert
		TUV	Revenue Administration	Short Term Expert
Oct	2011	MHL	Revenue	Resident Advisor
		TL	Revenue Administration	Resident Advisor
		TON	Customs Issues for Revenue Review	Short Term Expert
Nov	2011	FJI	Income Tax Final	Short Term Expert
		FSM	Strategic guidance to new long term advisor	Short Term Expert
		PLW	To develop a corporate strategy and business plan for the Bureau of Customs & Revenue	Short Term Expert
		TLS	Update Implementation timeframe	Resident Advisor
		WSM	Legislation drafting finalise	Short Term Expert

Feb	2012	KIR	Creating a macro-fiscal framework		Resident Advisor
		SLB	Macroeconomic mission		Resident Advisor
		TLS	Macroeconomic mission		Resident Advisor
		WSM	Revenue forecasting (in the context of work plan)		Resident Advisor
Mar	2012	VUT	Scoping visit		Resident Advisor
Jul	2011	PNG	Macroeconomic modeling course, management of natural resources		Resident Advisor
		TLS	Macroeconomic mission		Resident Advisor
Sep	2011	KIR	Creating a macro-fiscal framework		Resident Advisor
Oct	2011	PNG	Macroeconomic modeling course		Resident Advisor
		SLB	Macroeconomic modeling course		Resident Advisor
Nov	2011	PNG	Macroeconomic modeling course		Resident Advisor
		TON	Macroeconomics Scoping mission		Resident Advisor
		WSM	Macroeconomic modeling course		Resident Advisor
Dec	2011	WSM	Debt sustainability workshop		Resident Advisor

Appendix C: Draft PFTAC Country Strategies

Cook Islands: PFTAC Country Strategy 2012-2014

Background

The Cook Islands has returned to growth following the global economic crisis. After two years of negative growth, GDP grew moderately in 2009/10 and is expected to pick up, mainly on the back of a strong tourism sector. However, the economy remains highly reliant on tourism, which, along with aid, underpins the government budget. The authorities have been gradually rolling back the role of the offshore financial sector.

The Cook Islands has been a heavy user of PFTAC TA. This has mainly been the result of a sustained period of assistance to support the introduction of medium-term budgeting in the ministry of finance. Support has also strengthened off-site bank supervision and the development of national accounts and balance of payments statistics. Recently, PFTAC also took the lead in a PEFA assessment and helped the authorities develop a draft revenue policy framework for future sea-bed mining operations.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for the current PFTAC funding cycle.⁸

PFTAC TA aims to support the authorities consolidate and build upon results of recent PFTAC TA. Assistance is expected to focus on further extension of the medium-term budget framework and on development of broader, more frequent national accounts aggregates. This is likely to mean a decline from recent high volumes of support.

In the **Public Financial Management** area, PFTAC will support areas specified in the authorities' PFM Roadmap (for which the PFTAC-supported PEFA assessment was a key input). In the short-term assistance is expected to focus on streamlining information systems that underlie the budgeting process and training central and line agency staff on MTB development (1.5).

In the **revenue** area, the Cook Islands receives ongoing support from New Zealand and is not expected to draw significantly on PFTAC resources. PFTAC will provide support as required for implementation of the recent sea-bed mining policy recommendations (2.1)

In **statistics**, PFTAC will provide detailed support to moving accounts towards the production of quarterly accounts (4.4) in 2013; and to broadening the scope of Balance of

⁸ The specific result in the framework that activities target is identified in italics in the section, for example cash management is referred to as (1.6), where 1.6 is the code in the result framework in the program document.

Payment and GFS statistics and bringing them more into line with international standards.

In **financial sector supervision**, PFTAC will assist Financial Institutions Commission finalise the base set of prudential returns developed by AFSPC to the Cook Islands context in advance of the regional implementation of RBNZ's information system (FSIS) (3.1, 3.2).

No bilateral support is currently envisaged in the **macroeconomics** area.

Fiji: PFTAC Country Strategy 2012-2014

Background

Fiji has faced a difficult macroeconomic environment in recent times. Growth has begun to recover after being anemic for a number of years. Reserves have recovered since the 2009 devaluation but high public debt and contingent liabilities arising from state-owned enterprises constrain the space for fiscal stimulus. The financial sector is sound but monetary policy transmission has been weak—credit growth is slow despite reductions in policy rates and high liquidity in the banking sector. Political developments have meant that few development partners are active in PFTAC’s focus areas.

Fiji has been PFTAC’s largest user of TA in recent years. The revenue sector has been the main area of focus. PFTAC has supported FIRCA in a comprehensive modernization process including the development of enhanced corporate planning, simplified income tax legislation and streamlined personal income taxation policies and procedures. There has also been significant progress made in the statistics area with improved national accounts balance of payments and price statistics. In the PFM area, support has been focused on building internal audit and accounting capacity while in macroeconomics the focus has been on building modeling skills, including for potential natural resource revenues.

Strategy 2012-2014

PFTAC’s TA strategy is guided by the APD regional strategy note and is planned within the results framework for the current PFTAC funding cycle (Appendix).¹

PFTAC TA aims to support the authorities sustain progress on fiscal consolidation and enhance the framework for macroeconomic policy making. In the fiscal area the majority of inputs will continue to be in the revenue area supported by work on assessing PFM systems and fiscal forecasting. Enhanced statistics will support strengthened modeling capacity in RBF and Ministry of Finance which should ensure policy makers are better informed.

In the **Public Financial Management** area, the main focus will be assisting take stock of systems and the institutional environment through a PEFA assessment in mid-2012 (*1.1*). This process may also include assistance in looking at the roles, responsibilities and structure of the Ministry of Finance, perhaps drawing on IMF HQ expertise. Areas or specific follow-up assistance will be influenced by the action plan drawn up following the PEFA (*1.2*) but are likely to be focused on accounting and budget execution (*1.4*). Assistance in cash and debt management may also be a focus (*1.6*), if resources are available. PFTAC will coordinate closely with the ADB’s PEM TA project.

¹ The specific result in the framework that activities target is identified in italics in the section, for example cash management is referred to as (*1.6*), where 1.6 is the code in the result framework in the program document.

In the **revenue** area, Fiji is one of the regional leaders in terms of administrative processes but is keen to improve revenue performance. PFTAC assistance in the near-term will focus on bringing to fruition a number of initiatives: a thorough modernization and simplification of the income tax law that will pave the way for effective self-assessment; subsequent modifications to the VAT law and the implementation of PAYE as a final tax (2.1, 2.4). Some further support to the implementation of the new corporate plan may also be required (2.2, 2.5) PFTAC will also contribute to the development of a fiscal regime for the mining sector (2.1), although HQ-financed resources will also be needed on the policy and drafting side. Following the completion of these projects, potential areas for assistance include building capacity in dealing with transfer pricing (2.6) and implementing the 2009 FAD recommendations on streamlining tax incentives (2.1). The authorities have also expressed interest in support in the customs area, which is unlikely to be possible given resource constraints.

In **statistics**, the focus of support will be further development of the national accounts. The ultimate aim is to have quarterly national accounts being produced by 2013 (4.4), but in advance of that PFTAC will support the implementation of recommendations from the recent review of national accounts methodology, including the rebase planned in 2012 (4.1, 4.2) PFTAC will also support HQ-financed work on the further development of GDP-E (4.1) and will continue to provide limited follow up on price indices (4.8). IMF HQ will provide support for enhancing balance of payment statistics and government finance statistics.

In **financial sector supervision**, the PFTAC advisor will continue to be available for consultations with RBF staff and will work on regional issues with the RBF's head of bank supervision who is executive director of AFSPC. PFTAC will be ready to assist RBF adapt the base set of prudential returns developed by AFSPC to the Fijian context in advance of the regional implementation of RBNZ's information system (FSIS) (3.1, 3.2). RBF currently relies on APRA for support to on-site supervision, but PFTAC would be ready to supplement this if requested.

In the **macroeconomic** area, work will focus on building macroeconomic modeling and analysis capacity in RBF (5.1, 5.2) with the aim of having better inflation and external forecasts to feed into monetary policy making. Work on developing fiscal forecasts, including for the natural resource sector will continue with the Ministry of Finance (5.3, 5.5). Subject to inputs from the PEM TA project, capacity building in debt-sustainability analysis could take place in 2012 (5.4). It is hoped that the regional financial programming course planned for late-2012 in cooperation with the IMF Institute will be based around a Fiji case study—PFTAC hopes to involve Fijian staff in the preparation of the course.

Kiribati: PFTAC Country Strategy 2012-2014

Background

Kiribati has faced a difficult macroeconomic environment in recent times which has resulted in pressures on fiscal sustainability. Following the global economic crisis growth stagnated, the RERF (Kiribati's sovereign wealth fund) dropped in value and revenue declined. With state-owned enterprises continuing to require budgetary support budget deficits were increased financed by increased drawdowns from the RERF. These drawdowns were well in excess of sustainable levels. Fiscal adjustment and increases in donor support are required to return Kiribati to fiscal sustainability. Development partners are discussing a shared policy matrix to coordinate this support and have coordinated well behind a government-owned PFM reform plan..

PFTAC has stepped up its TA to Kiribati. This reflects increased commitment from the authorities to improve public financial management systems, in part to trigger development partner budget support. PFTAC is taking the lead in supporting revenue reforms envisaged under the PFM roadmap and working closely with ADB, EU and other partners to support budget execution reforms. In addition, PFTAC has been assisting building capacity in simple macroeconomic analysis to underpin the budget and in developing enhanced methodologies for macroeconomic statistics. Initial work has been undertaken to build capacity to supervise the financial sector.

Strategy 2011-2013

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for PFTAC's current funding cycle.¹

PFTAC TA aims to support the authorities sustain progress on improving fiscal sustainability. PFTAC will continue to work closely with the broader development partner group to ensure coherence and will aim to support implementation of actions in the authorities' PFM roadmap and shared policy matrix (once it emerges). Revenue is expected to be the most intensive area of assistance, reflecting the agreed division of labour in supporting the PFM roadmap. Support in cash management and macroeconomic analysis is likely to continue, delivered in coordination with the ADB and others. This will be supported by further development of national accounts. PFTAC will stand ready to support the establishment of financial sector regulation but given resource constraints will not be able to take the lead.

In the **Public Financial Management** area, the focus will primarily be on supporting the strategic oversight of the PFM roadmap (1.2). Other development partners are taking the lead

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in supporting the implementation, in particular ADB with a focus on strengthening accounting and cash management (1.4). PFTAC will maintain close links with the ADB financed support, including participating in the inception and review mission for the project. PFTAC will also contribute additional expertise to assist the government move to better financing of short-term cash shortfalls (1.6). In addition **macroeconomic** support will be provided, in coordination with the ADB-financed budget advisor, to improve forecasting (5.3) and create a better framework for RERF management (5.5). In the medium-term, PFTAC would look to assist the authorities implement a follow-up PEFA assessment, probably in 2014 (1.1).

In the **revenue** area, the main focus will be on improving domestic revenue collections, in particular through supporting the implementation of IT systems that will allow Kiribati's scarce administration resources to achieve better collection performance (2.3). This will include strategic guidance to the AusAID-supported resident advisor. Following this, PFTAC will provide support to enhancements of the policy framework, including possible implementation of a VAT (2.1) which may include legislation drafting support.

In **statistics**, PFTAC advice will focus on national accounts, in particular developing expenditure side GDP accounts (4.1) and maintaining an annual series of broader measures of national income and saving (4.3). IMF HQ will provide resources to produce better current and capital accounts of the balance of payments (4.6-4.8).

In **financial sector supervision**, PFTAC will continue to provide strategic guidance to the authorities as they move to implement the Financial Institutions Act that was drafted some years ago with IMF assistance (3.8). Given the lack of in-country capacity establishing a basic on and off site supervision program (3.1 and 3.4) will require TA resources well in excess of PFTAC's availability. As in other sectors though, PFTAC would be able to provide strategic oversight to the process if other partners were able to provide resources for on the job support.

Marshall Islands: PFTAC Country Strategy 2012-2014

Background

Marshall Islands has recovered steadily since the global economic crisis but faces a need for considerable fiscal adjustment. Growth has picked up, led by fisheries and construction and public spending has been kept under control. However, continued losses in the state-owned enterprise sector, growing shortfalls in social security, high public debt and the potential loss of compact grants mean that urgent measures are needed to ensure fiscal sustainability. These include implementation of a planned tax reform, SOE reform and containing public sector pay.

Marshall Islands has been a moderate user of PFTAC TA. The most significant input has been in the revenue area where PFTAC has supported the design of revenue policy and administration reforms, including the drafting of legislation that awaits approval. There has also been input in PFM, most recently through support for a PEFA assessment, and financial sector supervision.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for current PFTAC funding cycle.¹

PFTAC TA aims to support the authorities move towards long-term fiscal sustainability. Activities will focus on assisting the authorities achieve tangible results from the foundations laid with previous PFTAC assistance, and include strategic and detailed support in the PFM area and continued input on revenue, in coordination with AusAID and ADB. Financial sector work will continue, with a focus on strengthening the legal framework and off-site supervision. Statistical and macroeconomic capacity building is expected to be led by other development partners.

In the **Public Financial Management** area, the focus will be on completing the PEFA assessment (1.1) and supporting the authorities develop a PFM roadmap (1.2). Activities to support the roadmap's implementation will be planned in coordination with other partners, in particular the ADB, but are expected to include moving towards medium-term budgeting (1.5), modernization of legislation and financial instructions (1.3) and strengthened cash management (1.6).

In the **revenue** area, the nature of assistance will be dependent on the approval of tax reforms designed with PFTAC-assistance (2.1). PFTAC will coordinate closely with and support a proposed AusAID-funded resident advisor who will be responsible for day to day support to

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the tax administration. Assuming the reforms go ahead, PFTAC will also deliver support on specific technical areas, including development of an IT strategy (2.3), analytical support on the impact of the tax reforms (2.1), corporate planning (2.2) and, ultimately, compliance improvement strategies (2.6).

Marshall Islands' economic **statistics** are mainly produced by Compact-funded projects and there are few local counterparts for PFTAC TA. Little input is therefore expected in this area in the medium-term. If staffing levels improve, PFTAC will look to support enhancements in the range of national accounts aggregates that are produced (4.3) while IMF HQ will provide support on balance of payments development (4.7).

In **financial sector supervision**, PFTAC will focus on assisting the Banking Commission to modernize the Banking Act (3.8) and to strengthen off-site reporting through the adoption of enhanced prudential returns and better, more-automated analysis (3.1, 3.2, 3.3). Strengthening of the ability to assess banks on a CAMELS basis (3.4) will also continue.

In **macroeconomics**, no direct input is currently anticipated but PFTAC could lend support the development of enhanced debt sustainability analysis if requested (5.4).

Federates States of Micronesia: PFTAC Country Strategy 2012-2014

Background

FSM has rebounded well from the global economic crisis but needs to take continued action to safeguard long term fiscal sustainability. The economic recovery is expected to continue in the near term supported by ongoing construction activities and expansion of the fisheries sector, but faces headwinds over the medium-term from the scheduled declines in Compact sector grants. Continued efforts to advance tax reforms, targeted expenditure cuts, and structural reforms to nourish private sector growth are essential to secure long-term fiscal and economic sustainability.

FSM has been a moderate user of PFTAC TA. The most significant input has been in the revenue area where PFTAC has supported the design of revenue policy and administration reforms, including the drafting of legislation that awaits approval. There has also been input in PFM, most recently through support for a PEFA assessment, and financial sector supervision.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for current PFTAC funding cycle.¹

PFTAC TA aims to support the authorities continue to move towards long-term fiscal sustainability. Activities will focus on assisting the authorities achieve tangible results from the foundations laid with previous PFTAC assistance, and will include strategic support in the PFM area and continued input on revenue, in coordination with AusAID. Financial sector work will also continue, with a possible expansion into the insurance sector.

In the **Public Financial Management** area, the focus will be on completing the PEFA assessment (1.1) and supporting the authorities develop a PFM roadmap (1.2). Activities to support the roadmap's implementation will be planned in coordination with other partners, in particular the ADB, but are expected to include strengthened cash management (*1.6*).

In the **revenue** area, the nature of assistance will be dependant on the approval of tax reforms designed with PFTAC-assistance (2.1). PFTAC will coordinate closely with and support an AusAID-funded resident advisor who will be responsible for day to day support to the tax administration. Assuming the reforms go ahead, PFTAC will also deliver support on specific technical areas, including further development and implementation of an IT strategy (2.3), and in the more medium-term corporate planning (2.2) and compliance improvement strategies (2.6).

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FSM's economic **statistics** are mainly produced by Compact-funded projects and input is therefore expected to be relatively limited in this area in the short-term. Provided adequate staffing remains available in the statistics office, PFTAC will look to support enhancements in the range of national accounts aggregates that are produced (4.3) and provide hands-on training in compilation methods while IMF HQ will offer support on balance of payments development (4.7).

In **financial sector supervision**, PFTAC will focus on assisting the Banking Commission to modernize the Banking Act (3.8) and to strengthen off-site reporting through the adoption of enhanced prudential returns and better, more-automated analysis (3.1, 3.2, 3.3). Strengthening of the ability to assess banks on a CAMELS basis (3.4) will also continue. PFTAC will coordinate with IMF HQ and other TA providers to ensure that the newly-formed insurance commission has access to suitable capacity building but is unlikely to be able to devote significant resources to this area given resource constraints and that insurance does not feature in Phase IV's results framework.

In **macroeconomics**, no direct input is currently anticipated.

Nauru: PFTAC Country Strategy 2012-2014

Background

Nauru's economy remains reliant on phosphate exports and aid. Nauru has recently returned to growth following years of stagnation, mainly due to a pick-up in phosphate exports. The fiscal position has stabilized, but remains compromised by high debt, low revenues and poor state-owned enterprise performance. There is no domestic financial sector, following the collapse of the Bank of Nauru in 1995.

Nauru has been a relatively light user of PFTAC TA. This reflects a number of AusAID financed resident advisors and the limited absorption capacity in the main institutions. PFTAC has however, supported the authorities as they developed draft financial instructions and the established of a revenue office and policy framework. PFTAC TA has also supported the production of national accounts and balance of payments statistics.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for current PFTAC funding cycle.¹

PFTAC will support the larger efforts of other development partners in strengthening the fiscal position. The ADB are planning a US\$2million project to strengthen public financial management which is likely to moderate the need to PFTAC TA in Nauru over the period. PFTAC will however continue to follow up on previous work and provide detailed technical support to the Finance Ministry as required.

In the **Public Financial Management** area, PFTAC will stand ready to provide additional training and support for the financial instructions developed in 2010 (1.3). Other assistance will be coordinated with the ADB-supported PFM TA project. Resources will be made available for a follow up PEFA assessment in 2014 (1.1).

In the **revenue** area, PFTAC will work closely with the AusAID financed revenue advisor to improve revenue policies and processes, with a view to ultimately implement a basic consumption tax. This is likely to involve a policy mission in 2012 (2.1) with follow up on corporate planning and processes in 2013 (2.2).

In **statistics**, PFTAC will continue to provide detailed assistance to allow the regular compilation of basic macroeconomic datasets—national accounts (4.1) and balance of payments (4.5). If source data improves, the focus will gradually shift to methodological development.

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In **financial sector supervision**, PFTAC will be available to advise on the prudential issues relating to establishing banking services in Nauru, the expectation is that other partners will take the lead in assisting with discussions with potential financial service providers.

No bilateral support is currently envisaged in the **macroeconomics** area.

Niue: PFTAC Country Strategy 2012-2014

Background

Niue's economy is very fragile. Government activities, tourism and fisheries account for the large majority of GDP. Economic activity faces many constraints: limited access to reliable air services, shortages of skilled professionals and entrepreneurial expertise, limited land and poor soil quality. Natural disasters, especially cyclones, have long lasting impact. Niue's economic difficulties are exacerbated by, and reflected in, the long-term decline of its population. Niue's fiscal position is highly dependent on external aid, particularly from New

In **financial sector supervision**, PFTAC will be ready to provide advice on the prudential aspects of any changes in the limited banking environment on Niue.

No bilateral support is currently envisaged in the **macroeconomics** area.

Palau: PFTAC Country Strategy 2012-2014

Palau's economy has recovered strongly from the 2008–09 downturn, led by a rebound in tourist arrivals. An overarching challenge for Palau is to achieve self sufficiency when the renewed Compact grants expire in FY2024. Growth is expected to be favorable at 3 percent in FY2012 and average 2 percent over the medium term. But the outlook is clouded by an unsettled global environment and downside risks dominate. Highly dependent on tourism, imports of food and fuel, and foreign aid, Palau remains vulnerable to external headwinds and has limited policy space to counter these risks. Fiscal consolidation therefore remains the highest priority.

Palau has been a heavy user of PFTAC technical assistance in recent years. In phase III (FY2009-2011) there were 21 missions, spread across all sectors, with the largest concentration in Public Financial Management, where the focus was on strengthening cash management and laying the groundwork for the development of medium-term budgeting. Other results achieved in phase III included revenue compliance strategies and strengthened bank supervision through the adoption of regulations, improved bank reporting and the establishment of an on-site supervision program. Methodologies for producing a broader range of national income and balance of payments statistics were also developed.

Strategy 2011-2013

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for current PFTAC (Phase IV) FY11-FY16 funding cycle.¹

PFTAC TA aims to support the authorities sustain progress on fiscal consolidation and strengthen the financial sector. Priorities will be strengthening revenue administration and, in close coordination with ADB, strengthening PFM. Continued strengthening of financial sector supervision will also be required.

In public financial management, the focus will be on continuing to support the ADB project on developing medium-term budgeting. PFTAC will also encourage Palau to undertake a PEFA assessment and look to support it in early 2013, in line with the objectives of the regional PFM roadmap. Follow up support on accounting and cash management may also be required.

In **tax administration and policy**, follow up to recent TA on IT development and improved corporate strategy, business planning and compliance will be provided. Ultimately, the aim is to lay the foundation for a modernized tax policy and the introduction of VAT. Assistance in this area is not expected to commence until 2013. If resources are available, additional

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assistance may be available in the customs administration area, in line with recent informal discussions with the authorities.

In the **financial sector supervision** area, support in the off-site area will be in developing prudential returns that allow ultimate integration with the automated statistical system currently being developed by PFTAC and RBNZ for implementation in the South Pacific Central Banks. Capacity building in on-site supervision will also continue-likely in late-2012.

In **economic statistics**, PFTAC will be available to build capacity to produce National Accounts and Balance of Payments statistics under the methodologies developed in phase III and implemented with ongoing PFTAC support. However, with significant levels of Compact-related statistics support expected to begin in 2012 there may not be a demand for substantial PFTAC TA support.

In the **macroeconomic analysis and frameworks** area, little demand for direct TA is currently anticipated. Officials will though be encouraged to participate in financial programming and macro-fiscal issues planned for 2012.

Papua New Guinea: PFTAC Country Strategy 2012-2014

Background

Papua New Guinea's main macroeconomic challenges are from managing the impacts of resource boom. Sound macroeconomic policies helped to turn around the economy from two decades of decline to solid growth since 2002. However, poverty remains high and a large majority of the population lacks access to basic public services. High commodity prices and the construction of a liquefied natural gas facility are boosting GDP growth and generating inflation pressures. The authorities plan to establish a sovereign wealth fund to manage revenue volatility and ensure steady financing for development.

PNG has not demanded much PFTAC TA. Large volumes of assistance are available from other development partners with significant local presences. PFTAC has therefore focused its assistance on limited technical areas where PFTAC has a comparative advantage. These have recently been focused on macroeconomic analysis and modeling, including on the macroeconomic impacts of scaling up public expenditure based on projected resource inflows. PFTAC has also supported IT strategy development in the revenue area and development of enhanced Balance of Payment statistics.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for the current PFTAC funding cycle.¹

PFTAC TA aims to support the authorities manage the macroeconomic impacts of resource-based growth. The main focus is expected to remain in the macroeconomic area, including statistical development. However, there may be opportunities for PFTAC to contribute to the development of more robust public financial management and banking systems.

In the **macroeconomics** area, the PFTAC resident advisor will continue to work with Treasury and BPNG staff to build models that can inform macroeconomic strategies that lead to a prudent utilization of revenue flows from natural resource projects (5.5). In conjunction with this support will continue to be provided to BPNG's development of financial programming tools, in particular to better understand the drivers of domestic inflation and the potential impact of alternative policy responses (5.1, 5.2). PFTAC will continue to look to BPNG's economic team to help lead collaboration on macroeconomic training and dialogue.

In the **Public Financial Management** area, PFTAC will make resources available to support a PEFA assessment, should the authorities wish to undertake one to inform future PFM

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reform initiatives (*1.1*). No direct support beyond that is currently anticipated, including in the **revenue** area.

In **statistics**, IMF HQ will offer support in strengthening the BoP and GFS statistics to BPNG and Ministry of Finance. The National Statistical Office is currently supported by other development partners.

In **financial sector supervision**, PFTAC could, if requested, assist BPNG adapt the base set of prudential returns developed by AFSPC to the PNG context. This would be particularly relevant if BPNG decided to take part in the regional implementation of RBNZ's information system (FSIS) (3.1, 3.2).

Samoa: PFTAC Country Strategy 2012-2014

Background

Samoa has faced a difficult macroeconomic environment in recent times. Following the global economic crisis growth stagnated, remittances fell and fiscal revenues declined sharply. This was exacerbated by a devastating tsunami in mid-2009. Samoa responded with a substantial fiscal stimulus financed by domestic and external debt accumulation and also with monetary stimulus including central bank lending to non-bank financial institutions. Growth has however been slow to pick up and with fiscal deficits still relatively high, debt levels elevated and international reserves declining the authorities will continue to face macroeconomic management challenges. Fortunately, with strong policy frameworks, good donor dialogue and coordination and a number of large institutional strengthening projects (ISP) already in place, Samoa is well placed to meet these challenges.

PFTAC has provided moderate TA to Samoa in recent years mainly on macro-fiscal and statistics. PFTAC TA was instrumental in setting up a medium-term budgeting system and the development of quarterly national accounts in Samoa, both of which are now supported by ISPs. Recent TA has been primarily in the macroeconomic area and is focused on developing a more reliable macroeconomic framework for the budget. Support has also been provided in Samoa's modernization of its income tax legislation.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for PFTAC's funding cycle.¹

PFTAC TA aims to support the authorities sustain progress on fiscal consolidation and to improve the macroeconomic environment. PFTAC will continue to focus on building macroeconomic analysis capacity and delivering specific technical inputs in the context of larger ISPs. One instance of this is expected to be support to assessing revenue potential.

In the **Public Financial Management** area, inputs are expected to be relatively small given the large project-based support available to support the Ministry of Finance's PFM reform plan. PFTAC will be available to provide follow-up support to previous work to strengthen the medium-term budgeting system (1.5). In the medium-term, PFTAC would look to assist the authorities implement a follow-up PEFA assessment, probably in 2014 (1.1).

Assistance in the **macroeconomics** area will continue to be instrumental to the success of budget reforms. PFTAC will continue assisting Ministry of Finance improve the accuracy and sophistication of its revenue and GDP forecasting (5.1, 5.3) and in building capacity to

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produce its own debt sustainability analyses (5.4). This work will continue to aim to build stronger links with Central Bank of Samoa (CBS)

In the **revenue** area, Samoa has made great strides in improving administration, which was reflected in an award at the 2011 PITAA annual meeting. Reflecting this, PFTAC hopes to draw on Samoan experiences to provide advice to other PFTAC members. Support to Samoa's revenue administration will continue to be mainly delivered under the ISP, which will include implementation of self-assessment (2.4) in line with the modernized income tax act, prepared with PFTAC support. PFTAC is ready to supplement the ISP, most likely through assisting the authorities undertake a strategic revenue review in late 2012 that will analyze recent revenue developments and identify policy (2.1) and administrative (2.2-2.5) actions that could help increase revenues. This may identify other areas for PFTAC support, including developing risk management and compliance strategies (2.5).

In **statistics**, Samoa is relatively well advanced against the overall results framework; based on PFTAC advice, it produces quarterly National Accounts on 2 independent measures (4.1) with production of a range of income indicators (4.3). Balance of payments statistics are now being developed according to BPM6 standards (4.8). Further development is expected to continue under the ISP, although PFTAC can assist with major methodological developments and rebases in the national accounts (4.1 and 4.2) and IMF HQ will offer support in BoP.

In **financial sector supervision**, PFTAC will be ready to assist CBS adapt the base set of prudential returns developed by AFSPC to the Samoan context in advance of the regional implementation of RBNZ's Financial Sector Information System (FSIS) (3.1, 3.2). CBS currently relies on APRA for training support in conducting on-site bank examinations, but PFTAC would be ready to supplement this if requested.

Solomon Islands: PFTAC Country Strategy 2012-2014

Background

The Solomon Islands has recovered well from a precarious position during the global economic crisis. Growth has accelerated rapidly and international and fiscal reserves increased, on the back of increased logging and mining, but also due to better fiscal management and increased international assistance. The medium-term reform agenda under the Core Economic Working Group emphasizes, amongst other things, strengthening of public financial management in particular with regard to the management of natural resource revenues.

Solomon Islands has been a moderate user of PFTAC TA. Despite the large international presence, mainly through RAMSI which caters for much of the technical assistance needs in the government, PFTAC has made specific technical contributions in particular with regard to the fiscal regime for natural resources. In the PFM area, PFTAC has also contributed to a World Bank-led PER and provided follow up support to a revision of accounting standards. Significant amounts of support have been provided to CBSI in formulating and implementing new prudential regulations for banks and also in developing a more robust inflation forecasting regime.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for the current PFTAC funding cycle.¹

The main focus of PFTAC TA will be on strengthening fiscal management, particularly with regard to natural resource management and solidifying the financial sector. In the Government area inputs will either be at the strategic/policy level or dealing with niche requirements where IMF/PFTAC has a comparative advantage. Support for implementation is expected to continue to come from other donors, in the context of RAMSI or its successor.

In the **Public Financial Management** area, following on from participation in the World-Bank-led PER, the main focus is expected to be assisting the authorities conduct a follow-up PEFA assessment in late-2012 (*1.1*). The assessment will lead to revised PFM reform priorities to be taken forward in the context of the Core Economic Working Group. The process will guide the need for any PFTAC support to implementation, but priorities are likely to be follow-up on accounting reform and development of systems to appropriately manage natural resource revenues (including fiscal responsibility provisions).

¹ The specific result in the framework that activities target is identified in italics in the section, for example cash management is referred to as (*1.6*), where 1.6 is the code in the result framework in the program document.

In the **revenue** area, support to the implementation of the fiscal provisions for the mining sector designed with PFTAC TA will be financed by HQ-based trust funds. The Solomon Islands has made significant progress in improving revenue administration—it recently was awarded one of two regional awards at regional tax administrators association. The RAMSI TA that assisted in this is expected to continue to take the lead in supporting administration reforms. PFTAC will make resources available to support modernization on income tax legislation and VAT implementation should the authorities choose to pursue this (2.1).

In **statistics**, PFTAC has recently assisted the NSO enhance national accounts and balance of payments statistics and CPI statistics. The main focus of follow up TA will be to complement inputs by RAMSI-funded advisors, with a particular focus on expanding the range of aggregates available in the National Accounts (4.3). Methodological improvements on the balance of payments (4.6, 4.7) and GFS are expected to be supported by HQ TA. PFTAC support for implementing the recommendations of the review of the methodology and data sources for the CPI may also be available (4.10).

In **financial sector supervision**, making use of PFTAC support, the CBSI has made great strides in improving its on-site supervision. As a result of extensive assistance over the past year, supervisors now have the skills and processes to effectively carry out on-site examinations of banking institutions with a lower level of technical assistance—probably with one short review visit a year from the PFTAC advisor (at around the same time as an on-site exam) (3.4). Additionally support will be provided to the CBSI as they act as the pilot for the proposed implementation of the Reserve Bank of New Zealand’s information technology system to enhance supervision (3.1). IMF HQ will provide assistance to the CBSI in strengthening the supervision of the country’s provident fund.

In the **macroeconomic** area, work will focus on building macroeconomic modeling and analysis capacity in CBSI (5.1, 5.2) with the aim of having better inflation and external forecasts to feed into monetary policy making. Work on developing fiscal forecasts, including for the natural resource sector will continue with the Ministry of Finance, including inputs into their financial programming framework (5.3, 5.5).

Timor-Leste: PFTAC Country Strategy 2012-2014

Background

Timor-Leste continues to grow strongly, although inflation and public sector capacity pose risks to the outlook. Petroleum revenues have increased revenues and allowed a rapid increase in government spending that has enabled strong non-oil GDP growth, which is expected to continue. Key risks to the outlook are high inflation, a fall in oil prices, and slow progress in building public financial management capacity. The financial sector remains small and fragile, although the newly-formed central bank is continuing to strengthen financial sector regulations and supervision.

Timor-Leste and PFTAC are still in the early stages of partnership. Timor-Leste became a member of PFTAC at the beginning of Phase IV (July 2011). PFTAC has provided small amounts of TA thus far, mainly in conjunction with IMF HQ missions on revenue administration and macroeconomic management of resource revenues. Timor-Leste officials have also begun participating in Pacific regional training delivered/financed by PFTAC.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for the current PFTAC funding cycle.¹

PFTAC bilateral TA is expected to remain relatively small, given the large scale efforts of other development partners. The new phase of the substantial World Bank administered PFM reform project caters for many of the TA needs in PFTAC's specialist areas. In addition, Timor-Leste receives significant amounts of IMF TA, including resident ad- -.0m revenues 5 -.15

training (2.1). Detailed assistance is expected to be delivered in the context of the larger PFM project.

In **statistics**, PFTAC may provide support to a revision of National Accounts methodology, as a follow-up to recent recommendations by an IMF HQ mission (4.1) and Timor-Leste will be integrated into Pacific regional training in this area. Strengthening of balance of payments (4.5, 4.6) and GFS statistics will be supported by IMF HQ projects.

In **financial sector supervision**, the Central Bank is expected to continue to benefit from IMF HQ assistance. PFTAC will aim to integrate central bank officials with the Association of Financial Supervisors of Pacific Island Countries (AFSPC) as a means of peer-learning and to identify the need for bilateral PFTAC TA.

Tokelau: PFTAC Country Strategy 2012-2014

Background

Tokelau is highly dependent on New Zealand for financing government operations.

Economic activity is limited on the atolls and largely subsistence in nature. Most of the government budget is financed by aid from New Zealand, of which Tokelau is a non self-governing territory. However, Tokelau has begun to take on more responsibility for its own administration including budget management which is supported by a Trust Fund and aid. Tokelau is also attempting to build local revenue generation, mainly through non-tax fees and charges.

Tokelau rarely accesses PFTAC TA. This reflects the leading role that New Zealand takes in TA provision by virtue of the close ties between the two countries and the travel challenges inherent in Tokelau's geography. PFTAC has however provided some assistance in statistics via the representative office in Apia and Tokelau officials participate in some regional training.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for the current PFTAC funding cycle.¹

PFTAC TA to Tokelau is expected to remain rare and ad hoc. Given Tokelau's limited absorptive capacity and the dominant role of New Zealand in TA provision, overall levels of TA are expected to remain very small. Although there are no immediate plans for PFTAC support, the most likely areas of TA will be in **public financial management**, perhaps through support to PEFA assessments and PFM roadmaps (1.1, 1.2) and in **statistics** (4.1, 4.5).

¹ The specific result in the framework that activities target is identified in italics in the section, for example cash management is referred to as *(1.6)*, where 1.6 is the code in the result framework in the program document.

Tonga: PFTAC Country Strategy 2012-2014

Background

Tonga has faced a difficult macroeconomic environment in recent times. Following the global economic crisis growth stagnated, remittances fell and fiscal revenues declined sharply. The financial sector also came under pressure as a result of high levels of non-performing loans in the banking sector. High debt levels constrained fiscal space and the authorities approached development partners to provide budget support to enable key services to continue. Recent donor conferences have endorsed the authorities' prudent fiscal strategy and development partners are currently working on a joint policy matrix to underpin budget support—TA will be critical for successful implementation.

PFTAC has provided TA to Tonga in all sectors in recent years, collaborating closely with other development partners. This has been particularly so in the PFM area where PFTAC has been working with the ADB to assist the authorities design and implement a realistic reform roadmap. Regular TA has also been provided in the compilation of National Accounts and Balance of Payment statistics. Support has also been provided to the NRBT in offsite and onsite banking supervision (IMF HQ has also provided TA for on-site supervision) and in exchange rate management.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note (link) and is planned within the results framework for current PFTAC funding cycle (Appendix).¹ This strategy was discussed with the authorities in June 2011.

PFTAC TA aims to support the authorities sustain progress on fiscal consolidation and to improve the macroeconomic environment. PFTAC will continue to work closely with the broader development partner group to ensure coherence and will aim to support implementation of actions in the development partners' budget support reform matrix. Inputs are expected in all sectors, primarily at the strategic level in the fiscal and statistics sectors with detailed training and capacity building in bank supervision and macroeconomics.

In the **Public Financial Management** area, the focus will primarily be, together with ADB, on refining the PFM roadmap developed on the basis of the 2010 PEFA assessment (*1.2*). PFTAC will contribute specific technical areas to support the ADB project that aims to develop an effective medium-term budget framework (*1.5*). These are likely to be in more accurate macroeconomic analysis (*5.1*) and more rigorous cash/debt management (*1.6*). In the medium-term, PFTAC would look to assist the authorities implement a follow-up PEFA assessment, probably in 2014 (*1.1*).

¹ The specific result in the framework that activities target is identified in italics in the section, for example cash management is referred to as (*1.6*), where 1.6 is the code in the result framework in the program document.

In the **revenue** area, the main focus will be assisting the authorities implement the recommendations of the PFTAC strategic revenue review. The review and PFTAC's regional benchmarking exercise showed that Tonga is one of the regional leaders in terms of implementing modern administrative practices; Tonga is also expected to continue to have access to resident TA through AusAID. PFTAC inputs will be determined by ongoing discussions with Ministry of Finance and the revenue administration and are likely to be reliant on resident advisors. PFTAC's specific inputs are likely to be focused on policy enhancements, including natural resource taxation (2.1), IT development (2.3), and risk management and compliance strategies (2.5).

In **statistics**, Tonga is relatively well advanced against the overall results framework; based on PFTAC advice, it produces National Accounts on 2 independent measures (4.1) with production of a range of income indicators (4.3). Balance of payments statistics are now being developed according to BPM6 standards (4.8). However, the quality of statistics and source data need to be strengthened which is being assisted by an AusAID funded resident advisor. As a result, direct PFTAC assistance is expected to reduce. PFTAC will, however, continue to coordinate with and be a resource for the resident advisor and be available to provide focused technical inputs in particular areas. This may include assistance with rebasing of the National Accounts (4.2) using new HIES data. Balance of payments support will be provided by IMF HQ.

In **financial sector supervision**, IMF/PFTAC has assisted the NRBT establish enhanced off-site analysis (3.1 and 3.2) and has provided support to on-site bank supervision. Intensive support will be provided in 2012/13 to build on-site supervision techniques through training in standard procedures, reports and analytical techniques (3.5-3.7). PFTAC will also provide follow-up support on to ensure that NRBT can regularly prepare off-site analysis and monitoring reports (3.1-3.3) using base prudential returns developed by AFSPC. IN 2013 this is likely to encompass implementation of the RBNZ FSIS system.

In the **macroeconomic** area, the PFTAC macroeconomic advisor will continue to develop measures of pass through to inflation to assist NRBT enhance its macroeconomic policy making (5.1). PFTAC will coordinate with macroeconomic input under the ADB PFM TA project to ensure GDP and fiscal forecasting becomes more robust (5.3). The advisor may also support the development of debt sustainability analysis (5.4).

Tuvalu: PFTAC Country Strategy 2012-2014

Background

Tuvalu has faced a difficult macroeconomic environment in recent times which has resulted in pressures on fiscal sustainability. Following the global economic crisis growth stagnated and the resources available for budget financing from the Tuvalu Trust Fund (TTF) declined due to its fall in value. With domestic revenues under performing and weakened expenditure control fiscal pressures became overbearing. This was exacerbated by drought conditions in 2011. Development partner budget support has enabled operations to continue while the authorities work with partners to develop a joint policy matrix to underpin future budget support. Tuvalu became an IMF and World Bank member in 2009.

PFTAC TA has been moderate and concentrated in the revenue and statistics sectors. Recent PFTAC TA has been focused on assisting the authorities achieve the gains planned from revenue reforms through on-the-job assistance in revenue administration following the completion of an ADB project that supported the PFTAC-designed reforms. There has also been significant assistance in developing national accounts and balance of payments statistics, in part to allow Tuvalu to meet the requirements of IMF membership.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for the current PFTAC funding cycle.¹

PFTAC TA aims to support the authorities sustain progress on improving fiscal sustainability. PFTAC will continue to work closely with the broader development partner group to ensure coherence and will aim to support implementation of actions in the authorities' shared policy matrix. Development of a PFM Roadmap and enhancement of national accounts statistics are expected to be the main focus.

In the **Public Financial Management** area, PFTAC will be ready to provide support to the development of a PFM roadmap based on the 2011 PEFA (1.2). Support to implementation of specific elements will also be available, in coordination with other development partners and in particular the AusAID-supported budget and treasury advisors. PFTAC would look to assist the authorities implement a follow-up PEFA assessment, probably in 2015 (1.1).

In the **revenue** area, the main focus will be on providing support to the proposed AusAID-financed resident advisor to the revenue administration. Maintenance of appropriate IT solutions will be a critical element of this advisor's work (2.3) and PFTAC will look to support this by integrating Tuvalu officials in regional and sub-regional support groups being

¹ The specific result in the framework that activities target

developed under PITAA. In 2013 and beyond, PFTAC will provide assistance to enable the administration to adopt risk management and compliance improvement strategies and to enhance corporate planning (2.5 and 2.3).

In **statistics**, PFTAC will continue to provide regular assistance on national accounts compilation (4.1) and training to increase capacity in the statistics office so that ultimately broader measures of national income and saving (4.3) can be regularly produced. IMF HQ will provide resources to produce better current and capital accounts of the balance of payments (4.6-4.8), however, PFTAC will continue its program of support to BoP compilation with a mission in mid-2012.

In **financial sector supervision**, PFTAC will be available to provide strategic support should the authorities begin implementing the financial institutions act passed in 2010. Given the lack of in-country capacity, establishing a basic on and off site supervision program (3.1 and 3.4) will require TA resources well in excess of PFTAC's availability. As in other sectors though, PFTAC would be able to provide strategic oversight to the process if other partners were able to provide resources for on the job support.

No direct **macroeconomic** support is currently envisaged, with the TTFAC and ADB's PEM TA currently taking the lead in these areas. Planned regional training in longer-term budget planning and financial programming will provide skills transfer though and PFTAC could provide follow-up TA if requested.

Vanuatu: PFTAC Country Strategy 2012-2014

Background

Vanuatu weathered the global economic crisis well reflecting sound fundamentals.

However, recent domestic political instability, increased competition in tourism have contributed to [slowing growth] and expanding fiscal deficits. In order for Vanuatu to maintain its strong macroeconomic position, further progress on reducing underlying deficits will be required, including action on the revenue and expenditure fronts. Continued attention to financial sector stability is also required, particularly with regard to the offshore financial sector.

Vanuatu has been a relatively heavy user of PFTAC TA. Input has been heaviest in the revenue area, aimed at strengthening administrative systems, including through intensive on the job training. PFTAC has also helped the authorities investigate tax policy options to increase Vanuatu's relatively low tax to GDP ratio. In cooperation with AusAID, PFTAC also supported the rebasing and development of Vanuatu's economic statistics. Ongoing support has also been delivered in financial sector supervision.

Strategy 2012-2014

PFTAC's TA strategy is guided by the APD regional strategy note and is planned within the results framework for current PFTAC funding cycle.²³

PFTAC TA aims to support the authorities accelerate progress on fiscal consolidation and maintaining a sound financial sector. In the fiscal area the focus will be on supporting the authorities to increase revenue through policy changes and in enhancing their ability to analyse macroeconomic policy options, including through enhanced statistics. Enhanced on and off site bank supervision will also be supported.

In the **Public Financial Management** area, Vanuatu receives support from a number of development partners, including AusAID and ADB. No direct inputs are anticipated in the short-term, PFTAC will provide resources to support a further PEFA assessment, which is not likely to be required until [2015?] (*1.1*).

In the **revenue** area, direct support to administration reform is expected to decline with the appointment of an AusAID-supported resident advisor who will help the administration implement reforms recommended by previous PFTAC TA. Following elections in [2012], if the authorities decide to pursue policy reforms, including implementing an income tax, to increase revenue collections PFTAC will provide support on policy and administration and

²³ The specific result in the framework that activities target is identified in italics in the section, for example cash management is referred to as (*1.6*), where 1.6 is the code in the result framework in the program document.

stands ready to respond for specialized inputs on administration issues in coordination with the AusAID advisor.

In **statistics**, PFTAC will provide detailed support to the rebasing of the national accounts (4.2) in 2012 and moving towards the production of quarterly accounts (4.4) in 2013. IMF HQ will provide support in strengthening the BoP and GFS statistics.

Support in the **macroeconomics** area will build on the enhanced economic statistics by using them to assist the Ministry of Finance strengthen its financial programming framework and to deliver training and capacity building to Finance and Central Bank staff (5.2).

In **financial sector supervision**, PFTAC will assist RBV adapt the base set of prudential returns developed by AFSPC to the Vanuatu context in advance of the regional implementation of RBNZ's information system (FSIS) (3.1, 3.2). Support to the on-site supervision process will continue with the aim of adapting techniques applied in the offshore banking sector to the domestic banks (3.4, 3.5).

Appendix D: Indicative Workplan By Country to end FY13

Sector	Expert Type	Topic	Month	Main Result
Cook Islands				
PFM	STX	MTB Follow Up	Apr-12	1.5
REV	STX	Natural Resources issues and legislation drafting	Apr-12	2.1
STA	LTX	Quarterly National Accounts	Jun-12	4.2
STA	LTX	Balance of Payments Statistics	Aug-12	4.6
STA	LTX	Government Finance Statistics	Feb-13	n/a
Fiji				
Macro	LTX	Revenue forecasting	Mar-12	5.1, 5.2, 5.3
PFM	LTX	PEFA Self Assessment	Mar-12	1.1
STA	STX	Balance of Payments Statistics	Mar-12	4.6, 4.8
PFM	STX	IPSAS follow up	Apr-12	1.4
STA	LTX	National Accounts	Apr-12	4.4
STA	STX	Prices Statistics	Apr-12	4.10
Macro	LTX	Macroeconomic analysis and modelling	Jun-12	5.2
PFM	LTX	PEFA Assessment	Jul-12	1.1
REV	STX	PAYE final	Jul-12	2.1
PFM	STX	PEFA Assessment	Jul-12	1.1
Macro	LTX	Macroeconomic analysis and modelling	Aug-12	5.2
Macro	LTX	Macroeconomic analysis and modelling	Sep-12	5.2
STA	LTX	National Accounts (rebase and QNA)	Oct-12	4.2, 4.4
Macro	LTX	Macroeconomic analysis and modelling	Nov-12	5.2
Macro	LTX	Macroeconomic analysis and modelling	Jan-13	5.2
STA	LTX	National Accounts (rebase and QNA)	Feb-13	4.2, 4.4
Federated States of Micronesia				
PFM	LTX	PFM Roadmap Development	Apr-12	1.2
PFM	STX	MTB Development	Apr-12	1.5
PFM	STX	MTB Development Continuation	May-12	1.5
PFM	LTX	PFM Roadmap Development Continuation	Jul-12	1.2
Financial Sector	LTX	On and Off-site supervision	Sep-12	3.1 -3.7
REV	LTX	Strategic guidance to new long term advisor	Feb-13	2.1, 2.5
REV	STX	IT Strategy followup	Jul-12	

Kiribati

REV	LTX	Recruitment of PACTAM Advisors	Mar-12	2.1, 2.4
PFM	HQ	Government Liability Management	Apr-12	1.6
PFM	LTX	Inception mission for ADB TA program	Apr-12	1.5, 1.3.1.4
Financial Sector	STX	Implementation of Banking Law	May-12	
PFM	STX	Follow up on cash management	Jun-12	1.4
STA	LTX	National Accounts - methodology review	Jul-12	4.1
Macro	LTX	Creating a macro-fiscal framework	Aug-12	5.2, 5.3, 5.4
REV	STX	VAT options	Dec-12	2.1
REV	STX	legislation rewrite	Jan-13	2.1
STA	LTX	National Accounts - methodology follow up	Jan-13	4.1
Macro	LTX	Creating a macro-fiscal framework	Feb-13	5.2, 5.3, 5.4

Nauru

REV	STX	VAT options	Mar-12	2.1
STA	LTX	National Accounts – compilation	Jun-12	4.3
REV	STX	legislation rewrite	Feb-13	2.1

Niue

PFM	LTX	PFM roadmap development	Jun-12	1.2
STA	LTX	Balance of Payments Statistics	Sep-12	4.5

Palau

PFM	LTX	PFM Scoping	Jun-12	Multiple
Financial Sector	LTX	On and Off-site supervision	Aug-12	3.1 - 3.7
REV	LTX	Briefing new government - VAT development	Dec-12	2.3, 2.4, 2.6
PFM	LTX	PEFA Self Assessment	Mar-13	1.1
STA	LTX	National Accounts - GDP (E)	Mar-13	4.1
REV	LTX	IT Scoping and VAT development	Apr-13	2.3, 2.1, 2.2
PFM	LTX	PEFA Assessment	Apr-13	1.1
PFM	STX	PEFA Assessment	Apr-13	1.1
REV	STX	Customs diagnostic review	May-13	n/a

Papua New Guinea

Macro	LTX	Macroeconomic modeling course; management of natural resources	May-12	5.2, 5.5
Macro	LTX	Financial programming workshop	Oct-12	5.1, 5.2, 5.3
Macro	LTX	Macroeconomic modeling course; management of natural resources	Jan-13	5.2, 5.5

Regional

STA	LTX	HQ visit	Mar-12	
Financial Sector	LTX	Prudential Reporting/FSIS Implementation Preparation	Apr-12	3.1 & 3.3
STA	LTX	Pacific Statistics Steering Committee meeting	Apr-12	Multiple
REV	LTX	Benchmarking quantitative indicators	Jun-12	2.1, 2.5, 2.6, 2.2
Macro	LTX	Regional central banking workshop with BoE	Jul-12	5.2
Financial Sector	LTX	North Pacific workshop on new prudential returns	Jul-12	3.1
Macro	LTX	Fiscal policy and budgeting workshop	Aug-12	5.1, 5.2, 5.3, 5.4
PFM	LTX	Fiscal policy and budgeting workshop	Aug-12	1.5, 5.1, 5.2, 5.3, 5.4
REV	STX	PITAA training 2011 - IT workshop	Aug-12	2.3
PFM	LTX	PIFMA Annual Meeting	Aug-12	1.5, 1.1, 1.2
REV	LTX	IT for Revenue Administrations Workshop	Sep-12	2.3
REV	LTX	PITAA Heads Meeting	Sep-12	Multiple
STA	LTX	Pacific Statistics Steering Committee meeting	Oct-12	
PFM	LTX	PEFA Training	Oct-12	1.1
Financial Sector	LTX	AFSPC Annual Meeting	Oct-12	3.7
Macro	LTX	Financial programming workshop with IMF Institute	Dec-12	5.1, 5.2, 5.3
Financial Sector	LTX	Governors Meeting	Dec-12	
PFM	LTX	Leadership Devel. Program/Coordination with Australia AID & DoFD	Feb-13	Multiple

Marshall Islands

REV	STX	In-country training	Mar-12	2.3
PFM	STX	Cash Flow Forecasting	Apr-12	1.6
PFM	LTX	PFM Roadmap Development	Apr-12	1.2
PFM	STX	MTB Development	Apr-12	1.5
REV	LTX	Strategic guidance to new long term advisor	May-12	2.3, 2.2
PFM	STX	MTB Development Continuation	May-12	1.5
PFM	LTX	PFM Roadmap Development Continuation	Jul-12	1.2
REV	STX	IT Strategy	Jul-12	2.3
PFM	STX	Legal Framework/FI Revision	Jul-12	1.5
REV	STX	Revenue Estimates	Aug-12	2.2
REV	LTX	Strategic guidance to new long term advisor	Mar-13	2.1, 2.4

Samoa

REV	LTX	guided study visit	Mar-11	2.3, 2.4
REV	LTX	PFTAC steering committee	Mar-11	2.3, 2.4
REV	STX	Customs issues for Revenue Review	Oct-11	n/a
Macro	LTX	Revenue forecasting	Mar-12	5.1, 5.2, 5.3
Macro	LTX	Revenue forecasting	Jun-12	5.1, 5.2, 5.3
PFM	STX	MTEF follow up	Jun-12	1.5
REV	STX	Policy issues Revenue Review	Oct-12	2.1
Macro	LTX	Revenue forecasting	Nov-12	5.1, 5.2, 5.3
Macro	LTX	Debt sustainability workshop follow-up	Nov-12	5.4
REV	LTX	Revenue Review	Nov-12	Multiple
Financial Sector	LTX	Implementation/Preparation of Prudential Returns (FSIS)	Nov-12	3.1
Macro	LTX	Revenue forecasting	Mar-13	5.1, 5.2, 5.3

Solomon Islands

PFM	HQ	Fiscal responsibility legislation	Apr-12	1.3
PFM	LTX	Fiscal responsibility legislation	Apr-12	1.3
PFM	STX	IPSAS follow up	Apr-12	1.4
Macro	LTX	Financial Programming Workshop (jointly with A4 team)	May-12	5.1, 5.2, 5.3
STA	LTX	National Accounts - compilation	May-12	4.3
Financial Sector	LTX	Prudential Reporting/Off-site monitoring	Jun-12	3.1 - 3.3
Macro	LTX	Inflation forecasting	Oct-12	5.3
PFM	LTX	PEFA Self Assessment	Oct-12	1.1
PFM	LTX	PEFA Assessment	Nov-12	1.1
PFM	STX	PEFA Assessment	Nov-12	1.1
Macro	LTX	Inflation forecasting	Feb-13	5.3

Timor-Leste

Macro	LTX	Strengthening macroeconomic framework (with FAD)	Feb-12	new
STA	LTX	National Accounts - methodology review	Jul-12	4.3

Tonga

PFM	LTX	PFM Roadmap follow-up	Mar-12	1.2, 1.5
Financial Sector	STX	Bank Supervision and Regulation	Apr-12	3.4 - 3.7
Macro	LTX	Exchange rate pass through and inflation forecast	Apr-12	5.1
STA	STX	Balance of Payments Statistics	Apr-12	4.6
REV	LTX	Revenue review followup	May-12	2.1, 2.5, 2.6, 2.2
PFM	STX	IFMIS Development	Jun-12	n/a
Financial Sector	STX	Bank Supervision and Regulation	Jun-12	3.4 - 3.7
REV	LTX	Compliance improvement strategy	Jul-12	2.1, 2.5, 2.6, 2.2
Financial Sector	STX	Bank Supervision and Regulation	Sep-12	3.4 - 3.7
REV	STX	Natural Resources	Oct-12	2.1
Macro	LTX	Exchange rate pass through and inflation forecast (implementation of workplan)	Dec-12	5.2, 5.3
Financial Sector	STX	Bank Supervision and Regulation	Dec-12	3.4 - 3.7
REV	STX	Natural resources Legislation	Mar-13	2.1
Macro	LTX	Exchange rate pass through and inflation forecast (implementation of workplan)	Apr-13	5.2, 5.3

Tuvalu

PFM	STX	PFM Roadmap Development	May-12	1.2
STA	LTX	Balance of Payments Statistics	May-12	4.5
REV	LTX	Strategic guidance to new long term advisor	Oct-12	Multiple
STA	LTX	National Accounts	May-12	4.2
STA	LTX	National Accounts	Dec-12	4.1

Vanuatu

Macro	LTX	Scoping visit	Mar-12	
Financial Sector	LTX	Training on new prudential bank reporting requirements	May-12	3.1
STA	LTX	National Accounts (rebase and QNA)	Aug-12	4.2
Macro	LTX	Financial programming workshop	Sep-12	5.1, 5.2, 5.3
STA	LTX	National Accounts (rebase and QNA)	Nov-12	4.2, 4.4
STA	LTX	National Accounts (rebase and QNA)	Feb-13	4.2
Macro	LTX	Financial programming workshop	Apr-13	5.1, 5.2, 5.3