



## PACIFIC ISLANDS FORUM SECRETARIAT

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### FORUM ECONOMIC OFFICIALS MEETING

6-7 July 2021

### FORUM ECONOMIC MINISTERS MEETING

13-14 July 2021

Virtual

## INFORMATION PAPER 3: PUBLIC FINANCE MANAGEMENT

### Purpose and Summary

#### Purpose

This paper provides an update on Public Financial Management (PFM) and Revenue Administration reforms in Pacific countries.

#### Summary of Issues

- i. During FY2021, the COVID-19 pandemic affected all countries' fiscal operations, as well as PFTAC's Capacity Development (CD) delivery, with all missions for the year being undertaken remotely. Despite these setbacks PFTAC has still been able to deliver a large part of its annual plan as a whole, amounting to 72 percent of the original pre-COVID planned TA days and missions, and 101 percent of the envisaged TA days as per the December 2020 revised plan or 95 percent of the revised number of missions.
- ii. During FY2021, PFTAC continued its support to undertake PEFA assessments with the (globally) first PEFA Climate Module assessment completed in Samoa and an Agile PEFA assessment undertaken for the Cook Islands, both completed remotely. This is part of ongoing assistance which will continue into future years. During the year, assistance was provided to Papua New Guinea and Tonga in developing their PFM roadmaps.
- iii. The Fiscal Affairs Department (FAD) *Review of PFM Reform Strategies in Pacific Island Countries 2010-2020*<sup>1</sup> has been completed and published as a Working Paper (WP) and lessons learned are being and will continue to be taken onboard in the formulation and revision of country PFM roadmaps, specifically providing better prioritisation and sequencing of activities. A feasible and realistically achievable roadmap will remain an imperative to underpin PFTAC and other development partner assistance. This is particularly pertinent as the WP reviews the mandate of the 2009 FEMM for PFTAC to take the lead in the Pacific on Public Expenditure and Financial Accountability (PEFA) assessments and development of the resulting PFM reform roadmaps.

<sup>1</sup> Allen, R., M. El Rayess, L. Doherty, and P. Goel. "Review of the Public Financial Management Reform Strategy for Pacific Island Countries, 2010-2020". *IMF Working Paper*, WP/20/183, September 2020.

<https://www.imf.org/en/publications/wp/issues/2020/09/04/review-of-the-public-financial-management-reform-strategy-for-pacific-island-countries-2010-49709>

- iv. Countries continue to make good progress on fiscal reporting (through the implementation of the cash-based International Public Sector Accounting Standards (IPSAS)) and internal audit through the implementation of modern risk-based audit standards and practices. Effective cash management has taken on greater importance during COVID times, however only Samoa sought assistance in this area during the year. Budget credibility is an area highlighted in the FAD WP as well as in PEFA assessments that has performed less well. Only the Marshall Islands hosted budget related missions in FY2021, however, this is expected to pick up in FY2022 and subsequent years.
- v. Workshop delivery is something which should ideally be delivered in-person. However, as this was not possible during FY2021, remote delivery was unavoidable, but only a limited number of workshops were possible. Despite the challenges, two remote workshops were convened, one on budget documentation undertaken in conjunction with the UNDP and one on the IMF's diagnostic Public Investment Management Assessment (PIMA) framework undertaken in conjunction with FAD. Both workshops were facilitated by the University of the South Pacific through their network of campuses.
- vi. PFTAC had a transition of resident PFM advisors during the year with the departure of Richard Neves and Celeste Kubasta for other IMF assignments, replaced by Iulai Lavea, former CEO of the Samoa Ministry of Finance, and Paul Seeds, previously PFM advisor at the IMF's East Africa TA Center. PFTAC experienced a smooth succession given extended overlap between the outgoing and incoming advisors and concerted efforts to maintain PFTAC's robust network of PFM officials and practitioners.
- vii. PFTAC supports member countries to strengthen their tax administration capacity, mobilise tax revenue, improve taxpayer compliance, and promote the role and contribution of citizens as taxpayers towards fiscal sustainability. The Revenue Administration Program focuses on two key objectives: (1) strengthened revenue administration management and governance arrangements; and (2) strong core tax administration functions that include an accurate taxpayer base, quality taxpayer services that support voluntary compliance, and improvements to filing, payment, audit, and taxpayer education; that are supported by fit-for-purpose legal frameworks. The program is delivered by a resident tax administration advisor and an extensive pool of international tax experts. Further resources are provided from the IMF's Legal Department to draft new or revised tax legislation to support the revenue program objectives, as well as expertise from Fiscal Affairs Department for tax policy reviews. The focus at the start of FY2021 shifted to dealing with the challenges presented by the COVID-19 pandemic. The pandemic had a severe impact on the economies of countries and revenue collection, especially in the tourism dependent countries, and had a big impact on CD delivery with assistance having to be delivered remotely.

## **A. Overview/Summary**

Strengthening fiscal management has taken on greater prominence in light of the COVID pandemic, as countries have to deal with revenue shortfalls and increased spending demands for COVID response and mitigation measures. Efficient and effective revenue mobilisation and resource management are fundamental to economic stability. Leveraging Fiscal Affairs Department (FAD)'s knowledge, expertise and tried and tested tools, PFTAC plays a leading role in assisting PICs

strengthen their fiscal management. In FY2021 PFTAC's fiscal related activities from the revenue administration and PFM accounted for 56 percent of all PFTAC missions and 67 percent of TA days.

2. The biggest issues faced by PICs during FY2021 were those related to responding to the COVID-19 pandemic, which have severely affected fiscal operations in all member countries. Similarly, the pandemic has impacted PFTAC in fielding missions, which during the year have all been delivered remotely. It is a credit to the IMF's Pacific member countries who have been able to host and accommodate these remote missions, despite the logistical challenges. Inevitably, the pandemic has resulted in reduced outturn compared to the original pre-COVID plan for the year but with concerted efforts all round, this has been contained and the Revenue and PFM Programs achieved implementation rates of 72 percent and 54 percent respectively (in terms of missions completed and resources used). However, against the workplans that were revised in December 2020 to reflect the ongoing suspension of travel and the realities of virtual CD delivery, the mission outturn of the updated Revenue and PFM programs was 95 percent and 83 percent respectively. PFTAC is currently expecting the remote modality of delivery to continue throughout the first half of FY2022.

3. The necessity to work remotely has provided opportunities to explore new modalities of delivery and engagement. A key lesson learned from the pandemic is that virtual engagement (via video conferencing channels) can continue after travel resumes enabling greater networking and collaboration with counterparts. However, it should be recognised that the new modalities will be supplemental to traditional modalities rather than replacing them.

4. The independent, external evaluation of the PFTAC Phase V Program was due to be completed by December 2020 but was delayed to a certain extent by the remote evaluation modality and the time taken to conclude certain findings. The findings and draft report have now been reviewed internally by the IMF and is due to be shared with stakeholders in May 2021.

## **B. Discussion – Public Financial Management**

5. PFTAC continues to play a leading coordination role with active engagement of the development partners and regional institutions involved in PFM reform activities. This has assisted in enhancing the effectiveness of CD within a busy arena.

6. PFTAC continues to support PIFS generally and more specifically on climate issues, including co-chairing the FEMM requested PFM and Climate Change Financing Technical Working Group (TWG). This has provided a useful forum for sharing experiences on the PFM management of climate issues and accessing climate funds. PFTAC has engaged closely with development partners on climate, including Australia (DFAT) and UK DFID, as well as sharing key findings from IMF studies into climate.

7. In FY2021 the PFM program delivered 19 missions or activities totaling 272 TA days, 68 percent of which had some relevance to COVID measures, with 20 percent having a predominant relevance. Two workshops were undertaken remotely – budget documentation and public investment management. The major users of PFM TA during the year were Samoa and Tonga (5 missions each). It should be noted that logistical constraints in some countries have made hosting remote missions more challenging.

8. PFTAC continues to support countries in diagnosing their PFM performance, using the PEFA assessment tool. During the year two PEFA assessments were undertaken, including the flagship PEFA Climate Module—piloted in Samoa—which was the first such assessment globally. An agile PEFA assessment was undertaken for the Cook Islands. This was PFTAC’s second PEFA using the agile approach, which is less onerous and resource intensive than the regular modality and better suiting remote delivery. PFTAC will continue its support of PEFA assessments in FY2022, with a second PEFA Climate being planned for Fiji, along with an Agile PEFA and Gender Module for Nauru and completing the Palau PEFA which was postponed due to the pandemic. The PEFA team comprised members from PFTAC, the PEFA Secretariat, the Pacific Regional Infrastructure Facility (PRIF), the Pacific Islands Forum Secretariat (PIFS), and the World Bank. PFTAC greatly appreciates the peer review undertaken by representatives from the ADB, Australia, the European Union, IMF’s Fiscal Affairs Department, the Japan International Cooperation Agency (JICA) the PEFA Secretariat, PIFS, the New Zealand Ministry of Foreign Affairs and Trade (MFAT), UNDP, and the World Bank. Building upon the findings of past PEFA, PFTAC assisted the development of PFM roadmaps for Papua New Guinea and Tonga.

9. *The Review of PFM Reforms Strategies in Pacific Island Countries 2010-2020* has now been completed and published. The review found that reform agendas can often be too broad and ambitious in the context of capacity constraints. Greater prioritisation and sequencing would lead to better coordinated and successful information of the reforms. The review made the following key recommendations:

- Reforms should be more realistic, prioritised, and sequenced.
- PFTAC and other partners should continue support to strengthening the basic PFM areas which underpin more advanced areas.
- PEFA diagnostics are important but are resource intensive - it is important to get the frequency right - key focus on implementing the reforms should not be overshadowed by diagnostics.
- Focus should be on addressing areas of identified weaknesses, e.g., climate, gender, PFM institutions, SOE oversight, etc.
- Improving transparency should be a key area in reforms.
- Lessons learned from COVID-19: use new modalities (remote and hybrid delivery) to strengthen continuous engagement.

10. Support was provided to Niue and Tonga to modernise their PFM legislative frameworks to align with and make them more supportive to the implementation of PFM reforms.

11. With PFTAC support and guidance, countries continue to make good progress on strengthening fiscal reporting, both in-year budget execution reporting and annual financial reporting, the latter reflected in improved audit opinions. Adoption of the cash based IPSAS has been instrumental in this. During FY2021, support on implementing cash IPSAS was provided to Nauru, Papua New Guinea, Samoa, Solomon Islands, and Tonga. Many countries are going beyond the basic mandatory disclosures of Part 1 IPSAS and have started to progressively make their financial statements more informative by incorporating (optional) encouraged disclosures in accordance with Part 2 IPSAS—specifically for several countries, this has included the disclosure of nonfinancial assets and liabilities. However, this is not without its challenges and the additional disclosures often

attract negative audit comments—although the disclosures are non-mandatory, if they are made the presented data must comply with the respective, relevant IPSAS. Nevertheless, countries should not be discouraged from making these additional disclosures, as the information is much richer in the financial statements by their inclusion. Furthermore, this provides a good platform for more advanced reporting reforms in the longer-term. Advice has been provided to countries on how to comply with the relevant IPSAS, and to provide greater clarification via policy statements in the notes to the statements, where data disclosures are a work in progress. Advice and guidance have been provided on improving data quality, comprehensiveness, and timeliness of the financial statements.

12. Support was provided to Fiji and Samoa to further earlier work on modernising internal audit practices through the implementation of the Institute of Internal Auditors' (IIA) risk-based auditing standards. This has had the benefit of providing a focus on the highest risk areas, rather than spreading limited resources more thinly across all areas and transactions. Addressing systemic issues in the highest risk areas is fundamental to strengthening the overall control environment. Risk assessments of governance and emergency responses in Fiji have particular relevance to the COVID-19 crisis.

13. The ongoing project on cash management in Samoa has assisted the authorities to initiate a quarterly warranting system which is fundamental to revising commitment ceilings in response to revenue shock, such as those experienced during COVID-19; strengthen cash flow forecasting practices; and utilise cash resources more effectively through consolidation of cash funds as part of initiating a treasury single account (TSA).

14. Budget credibility is an area where less TA has been requested in recent years, despite performance in this area having been generally poorer. Only the Marshall Islands hosted a remote mission related to budget credibility in FY2021. However, work on strengthening budget documentation, transparency, medium-term budgeting, and integrating capital and recurrent budgets is expected to pick up in FY2022 and subsequent years.

### **C. Discussion – Revenue Administration**

15. The FY2021 Revenue program is projected to have delivered 55 missions or activities (totalling 878 CD days) including four regional workshops, bringing the workplan overrun to greater than 100 percent of the Revenue program workplan revised in December 2020, and still a robust 75 percent of the pre-COVID workplan. This compares well with the FY2020 outturn of 57 missions/activities and 799 CD days. Given its large scale, most Revenue program CD is delivered by short-term experts (STX) and some HQ staff-led missions with the single resident advisor managing and overseeing the extensive program. With travel restrictions in place, assistance was delivered remotely, which created an opportunity to introduce new STX to work with experienced experts on assignments in a cost effective way.

16. The major beneficiaries of Revenue CD were Cook Islands, Samoa, Solomon Islands, Tuvalu and Kiribati. Key areas of focus and support included developing corporate strategic plans; facilitating improvements to tax administration organisational arrangements and introduction of function-based structures; developing and implementing risk-based compliance improvement strategies; elevating the importance and improving the effectiveness of taxpayer services; strengthening the compliance and management of the large taxpayer segment; facilitating improvements to the management of tax return filing and tax arrears; strengthening tax audit capabilities; providing advice on tax policy options; and modernising tax legislation such as income tax, VAT, and tax administration statutes.

17. Tax administrations in the region also benefitted from a series of five training events, which included a cross-regional workshop on reinvigorating tax collections and restoring compliance in the COVID-19 pandemic context. The webinar was delivered jointly by the Revenue Administration Division of the Fiscal Affairs Department, PFTAC, PITAA and the IMF's South Asia Regional Training and Technical Assistance Center (SARTTAC). The webinar was aimed at countries with large tourism sectors and participating countries developed revenue action plans for the post-COVID restoration of tax compliance and revenue collection. The other webinars covered the large taxpayer segment and compliance model, tax return filing and arrears management, and a sub-regional webinar for the five smaller countries in the region to develop tax auditor skills. PFTAC was also a co-host together with PITAA, the OECD, and Commonwealth Association of Tax Administrators (CATA) on a webinar covering the challenges facing tax administrations with Digitalisation of the Economy. In addition to the webinars, tailored and country specific tax audit skills development programs were delivered to Fiji, Tonga, and Kiribati. Technical training was also provided to the tax arrears collections staff in Samoa, the newly established Large Taxpayer Office staff in Solomon Islands, and to taxpayer service staff in Fiji, Cook Islands, and Samoa.

18. Extra funding from Australia enabled the extensive scaling-up of the revenue program to better respond to unmet demand for CD for the region. The scaling-up of the revenue program started in mid-FY2019 and continued throughout FY 2020 and FY2021. It extended PFTAC's provision of tax policy advice, tax legislation drafting, and extensive tax administration CD with a significant proportion of the expansion directed to countries that intend to be or are signatories to the PACER Plus trade agreement and who face likely losses of revenue from trade taxes under the trade agreement.

19. A review of Tax Reforms in Pacific Countries was undertaken early in 2021 to consider developments over the four years since the last review in 2017, including the scaling-up of the Revenue program and the significant impact of the COVID crisis in 2020. The findings of the 2021 review will be particularly timely for the development of priorities and resource requirements for Phase VI of PFTAC operations due to commence in 2022. The findings of the updated review will be presented for discussion at the annual PFTAC Steering Committee meeting scheduled for June 2021. The review focused on five case study countries, namely Fiji, Kiribati, Samoa, Solomon Islands, and Tonga, with a lighter review of the other eleven PFTAC member countries. This is consistent with the focus of the 2017 review.

#### **D. Next Steps**

20. Preparations to draft the Phase VI program document are underway. Given savings from COVID restrictions and additional donor contributions, Phase V of PFTAC operations is expected to be extended from April to October 2022. It is envisaged that the majority of ongoing projects will be continued into the next phase. A new three-year program with a new resident advisor was launched in March 2021 with financing from the government of Japan on public debt management.

21. Support to conduct PEFAs will continue, based on appropriate frequency. New PFM areas will start to take on greater prominence, including public investment management and fiscal risk oversight and management.

22. The Revenue program will continue to operate at scaled-up level as it has for two years given additional donor financing. To that end, a second resident Revenue advisor has been approved and will be recruited before October 2022 to complement the current advisor at least for the remainder of Phase V.

Pacific Financial Technical Assistance Centre (PFTAC)  
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