



PACIFIC ISLANDS FORUM SECRETARIAT

PIFS(22)FEMM.Info.2

FORUM ECONOMIC OFFICIALS MEETING

FORUM ECONOMIC MINISTERS MEETING

10-12 August 2022

Port Vila, Vanuatu

INFORMATION PAPER 2: PUBLIC FINANCIAL MANAGEMENT

Purpose and Summary

Purpose

This paper provides an update since the 2021 FEMM, on Public Financial Management (PFM) and Revenue Administration reforms in Pacific countries.

Summary of Issues

- i. As during FY2021, the COVID-19 pandemic continued to affect all countries' fiscal operations. Similarly, Pacific Financial Technical Assistance Centre (PFTAC's) Capacity Development (CD) delivery was also impacted with all missions for the second consecutive year being undertaken remotely. Engagement with member countries declined as countries turned their attention to responding to the pandemic as their top priority. Whereas in FY2021 most countries had been cocooned from the pandemic with strict border controls, FY2022 saw the advent of significant outbreaks in several countries—the ultimate impact of which was reduced by the vaccination uptake (albeit at variable levels) in many Pacific Island Countries (PICs). Added to this, Tonga experienced a major volcanic eruption followed by a tsunami resulting in a severe physical and economic shock. The continued nature of the pandemic coupled with fatigue in accommodating remote missions resulted in a reduction in overall delivery for PFTAC, with 70 percent of missions per the mid-year updated workplan delivered, with 79 percent utilisation of planned resources. This reflected optimistic expectations that in-person travel would resume at some stage late FY2022—it is also noted that missions are taking longer with remote delivery.
- ii. As in previous years, during FY2022 PFTAC took the lead in delivering Public Expenditure and Financial Accountability (PEFA) assessments. However, given the challenge of undertaking these resource intensive assessments remotely, only one PEFA assessment was undertaken during the year for Nauru. Building on the Cook Island PEFA assessment in FY2021, the PFM Roadmap was developed, and similarly the Nauru roadmap will be developed in FY2023. These roadmaps and other PFTAC activities take on board the findings and recommendations of the Working Paper (WP) *Review of PFM Reform Strategies in Pacific Island Countries 2010-2020*¹ published by the IMF's Fiscal Affairs

¹ Allen, R., M. El Rayess, L. Doherty, and P. Goel. "Review of the Public Financial Management Reform Strategy for Pacific Island

Department (FAD). Specifically, prioritisation and sequencing of reform actions has been key, ensuring to get the basics right first. PFTAC has also made greater use of the Agile PEFA methodology, which instils the same level of assessment rigour but is less onerous for the recipient country. This is critical where administrations are small and capacity is limited, and this will be the preferred methodology going forward.

- iii. Whilst no substitute for in-person events, two regional workshops were undertaken remotely, one virtual workshop on the fiscal risks emanating from the State-Owned Enterprise (SOE) sector; and one supporting the Pacific Island Forum Secretariat (PIFS) PFM Symposium. During FY2023 PFTAC plans to time the workshops to facilitate their delivery in person where possible.
- iv. During FY2022 the resident PFM advisors had the opportunity to engage with all countries, albeit only remotely. During FY2023 the advisors plan to build on this further with in-person engagement as soon as borders reopen and in-country missions resume. FY2022 saw the arrival in-country of the new resident advisor on public debt management.
- v. With underspending due to cessation of mission travel and in-person workshops, Phase V has been extended for a full-year to 30 April 2023, to facilitate utilisation of the unspent funds. The new Phase VI Program Document has been released and activities will continue with existing/ongoing projects, and work ramped up in several new areas, including identification, quantification, and management of fiscal risk.
- vi. The Revenue Administration Program's focus on strengthening revenue administration management and governance arrangements; and enabling strong core tax administration functions continued in FY2022 despite the aforementioned challenges. In FY2022, the Revenue program (including Legal) delivered 51 missions or activities, totalling 1,030 Technical Assistance days comprising 44 missions to member countries, 6 regional workshops, and contribution to one regional conference. All were delivered remotely.
- vii. The pool of short term experts (STX) has been expanded during FY2022, improving gender and diversity by introducing several new highly experienced and qualified women. The first female Fijian national has been added to the Fiscal Affairs Department (FAD) expert roster, and the number of female STX regularly used by the PFTAC Revenue Administration program has risen to a total of seven compared to just one female STX three years ago.
- viii. FY2022 delivery took place in an environment where national tax administrations adapted quickly to support their government's response to COVID. In particular, many tax administrations took responsibility in full or in part for the delivery of COVID-19 stimulus packages and policy changes; and almost all adjusted tax filing and payment settings to support their businesses and the community. The Revenue program for FY2023 will support speedy mobilisation of revenue in response to the effect on revenue collection of COVID-19 and recent shocks.
- ix. Given its large scale, the appointment of a second Revenue resident advisor in October 2021 now allows for the management of the program to be shared. There will be a modest

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>

shift in the balance between STX and Long Term Expert (LTX) delivery as the resident advisors are now able to participate in more direct CD delivery. It also allows for an expanded program of CD in FY2023 with increased post CD monitoring and assistance.

A. Overview/Summary

Strengthening fiscal management continues to take on greater prominence in light of the COVID-19 pandemic and the Tonga volcanic eruption, as countries have to deal with revenue shortfalls and increased spending demands for response and mitigation measures. In addition to strengthening practices on revenue collection and expenditure management, there has become a growing need for strengthening skills in the identification, management, and mitigation of fiscal risks.

2. 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 FY2022, PFTAC's fiscal related activities from the revenue administration and PFM accounted for 57 percent of all PFTAC missions and 64 percent of technical assistance (TA) days.

3. For the second consecutive year, FY2022 saw countries faced with the challenges of COVID-19, which has also impacted the ability of PICs to fully accommodate all PFTAC planned missions. It is a credit to the IMF's Pacific member countries who have been able to host and facilitate the remote missions they have accommodated during the year. Remote missions present specific logistical challenges, and as the pandemic has become drawn out, some countries have suffered from remote mission fatigue. Inevitably, the pandemic led to reduced outturn against plans which were formulated on the optimistic basis of returning to mission travel during the second half of the year. The Revenue and PFM Programs achieved implementation rates of 68 percent and 54 percent respectively (in terms of missions completed), against the mid-year revised workplan.

4. Whilst remote engagement has proven surprisingly more successful than would have been previously envisaged, it is fully understood that remote engagement will only supplement rather than replace in-person engagement. Remote engagement between in-person missions will continue to be used for making preparations pre-mission and for providing continued advice and guidance post-mission. As soon as borders open for mission travel, the advisors will seek to meet their country counterparts face-to-face to reestablish and rebuild strong relationships.

5. The independent, external evaluation of the PFTAC Phase V Program, (delayed from December 2020 largely due to the remote evaluation modality and the time taken to finalise certain findings) was concluded and shared with stakeholders in May 2021. A report was eventually finalised and presented by the evaluators at the June 2021 PFTAC Steering Committee (SC) meeting, followed by tabling of a proposed action plan prepared by the IMF at the December 2021 mid year SC meeting in response to the evaluation recommendations. The plan covers a range of actions to improve PFTAC operational effectiveness, as well as proposals to strengthen SC governance that were discussed at the July and December 2021 SC meetings and were further considered at the May 2022 SC meeting for implementation of those measures that were endorsed by consensus. Examples of measures being

considered include simple documented guidelines for SC governance, a defined tenure for the chair and clear process of succession, creation of a vice-chair, and consideration of a quorum as well as constituencies.

6. PFTAC operates on the basis of funding cycles, and the current Phase V has been extended through to end April 2023 to allow use of un-utilised funds accumulated due to the cessation of mission travel during the COVID-19 pandemic. The new Phase VI will commence on May 1, 2023, irrespective of the status of un-utilised funds. The Program Document for Phase VI was finalised and released in April 2022. PFTAC will moderately scale up its CD activities, especially to fragile states, and will cover expanded areas, including a government finance statistics (GFS)/public sector debt statistics (PSDS) program, a new third Public Financial Management (PFM) long-term expert (LTX) focused on climate change issues, and a new program and LTX for Macroeconomic Frameworks backstopped by the IMF's Institute for Capacity Development (ICD). Phase VI will assist governments to address the implications of COVID-19, promote inclusive economic and social development, including through improved opportunities for women, and support the implementation of climate policies. The strategy calls for an increase in resources from 7 long-term experts at the end of Phase V to 10 long-term experts.

B. Discussion – Public Financial Management

7. 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, leveraging the strengths and synergies of respective partners.

8. PFTAC continues to co-chair PIFS meetings, both generally on PFM and more specifically on climate issues, including working with the 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 's Foreign, Commonwealth & Development Office (FCDO), as well as sharing key findings from IMF studies into climate change. Most noticeably on the latter, FAD made two presentations to Pacific countries of its departmental paper *Unlocking Access to Climate Finance for Pacific Island Countries*. The paper recognised that disbursement of climate funds globally has been low, and effective PFM systems are an important prerequisite, even though not enough in their own right to *guarantee* access. IMF work and tools on climate related activities was stressed throughout TWG meetings, highlighting the pilot Climate Change Policy Assessments (CCPA), the new Public Investment Management Assessment (PIMA) climate change module, Public Expenditure and Financial Accountability (new Climate Change Module), Green Budgeting (climate tagging) and the peer-to-peer & regional workshops.

9. In FY2022 the PFM program delivered 14 missions or activities totaling 238 TA days. PFTAC delivered one remote workshop on the strengthening of oversight and management of fiscal risks of State-Owned Enterprises (SOEs). PFTAC also assisted PIFS in the delivery of the regional PFM Symposium, most notably delivering the opening session on the PFM successes over the past decade and moderating the final session on the last day that focused on strengthening fiscal transparency, accountability, and effectiveness.

10. During the year, PFTAC undertook an agile PEFA & Gender Responsive assessment in Nauru to diagnose their PFM performance. The Gender Responsive component measures the extent to which gender is mainstreamed in Nauru’s public financial management system and it demonstrates the recognition of gender issues in PFTAC’s work program. The “Agile” methodology, whilst retaining the full rigour of a traditional PEFA, has proven less onerous for recipient countries and will be the chosen methodology in most instances moving forward. Even with the agile methodology, undertaking a PEFA remotely is extremely challenging. PFTAC undertook just one PEFA in FY2022, but has planned two agile PEFAs and one PEFA Climate Module for FY2023 (Palau, Tuvalu, and Vanuatu, respectively) all to be undertaken in person. Building on the PEFA undertaken in FY2021, assistance was provided to the Cook Islands to formulate a PFM roadmap. Assistance is planned in FY2023 for Nauru’s roadmap which will be based on the findings of the Agile PEFA. The roadmaps take note of the findings and recommendations in the IMF working paper *The Review of PFM Reforms Strategies in Pacific Island Countries 2010-2020*. This paper highlighted the importance of appropriate prioritisation and sequencing, cognizant of capacity and other constraints, avoiding overly ambitious reform agendas, and getting the basics right first before moving onto more advanced and complex reforms.

11. Building on the approach above, PFTAC continues its primary focus on reform rather than diagnostics (albeit that periodic and right-timed diagnostics are important). PFTAC missions are designed around the IMF’s Results Based Management (RBM) framework, covering 7 core strategic PFM objectives of: (1) improved laws and effective PFM institutions; (2) comprehensive, credible, and policy-based budget preparation; (3) improved budget execution and control; (4) improved coverage and quality of fiscal reporting; (5) improved asset and liability management; (6) strengthened identification, monitoring, and management of fiscal risks; and (7) improved Public Investment Management. Climate and gender considerations remain important in CD delivery and are mainstreamed within the PFM strategic objectives of the RBM framework. CD delivery also draws upon the principles and good practice of the diagnostic methodologies of the PEFA, PIMA, Fiscal Transparency Evaluation (FTE), and Open Budget Survey (OBS) frameworks, even whilst those diagnostics are not undertaken formally.

12. Support was provided to Niue, Tonga, and Kiribati to modernise their PFM legislative frameworks to align with and make them more supportive to the implementation of PFM reforms. Countries continue to make good progress on strengthening fiscal reporting, through the implementation of cash International Public Accounts Standards (IPSAS), with PFTAC missions delivered to Niue, Tonga, and Tuvalu during the year. Whilst strengthening reporting foundations on the cash basis with the mandatory disclosures under Part 1 cash IPSAS, several countries are progressively incorporating (optional) encouraged disclosures in accordance with Part 2 IPSAS—in this regard support was provided to Tonga on asset registration and accounting for extending disclosures in the annual financial statements. Advice and guidance have been provided on improving data quality, comprehensiveness, and timeliness of the financial statements. Support was also provided and will continue in FY2023 on enhancing in-year budget execution reporting.

13. Assistance to the Marshall Islands and Tokelau is facilitating enhanced transparency in budget documentation and better alignment of the budget with available resources. With increasing uptake of remote missions by Tuvalu, guidance was provided on strengthening budgetary controls, including requirements for strengthening system controls in the new FMIS. Work continued on implementing Internal Audit standards in Fiji, and further work is planned for Fiji and Samoa in FY2023.

14. A relatively new but growing area of PFTAC’s PFM support is in respect to fiscal risk—this will be expanded further in FY2023. During the year, a mission to Samoa facilitated improved oversight of State-owned Enterprise (SOE) and contingent liability fiscal risks and a regional workshop on SOE fiscal risk shared experiences in managing and overseeing this important sector.

C. Discussion – Revenue Administration

15. The major beneficiaries of Revenue CD during FY2022, delivered remotely, were Cook Islands, Vanuatu, Fiji and Tuvalu as well as a notable shift in CD towards Palau, Timor Leste, and Niue who in previous years had received limited support. The engagement and the provision of PFTAC assistance to some previous high users of CD was impacted by a variety of factors in FY2022, including natural disasters, leadership instability more than normally experienced,² and involvement in other government priority areas. Key areas of CD focus and support included implementation of tax reforms, international tax preparedness, developing standard operating procedures, developing and implementing risk-based compliance improvement strategies; improving the effectiveness of taxpayer services; improving the management of tax return filing and tax arrears; facilitating ICT support; providing advice on tax policy options; modernising tax legislation and the emergence of targeted revenue activation plans post COVID-19.

16. In adjusting to a post-COVID world, five themes are emerging as critical areas of focus for revenue administrations in the PFTAC region for FY2023: (1) strengthening foundations; (2) preparing for the unexpected; (3) collecting more revenue; (4) planning for the future; and (5) working together. The FY2023 PFTAC program therefore will support countries to strengthen the core foundations of tax administration of registration, taxpayer service, collection, and audit; improve revenue collection to address areas adversely impacted by COVID-19; align the CD program for each country with their strategic priorities and outcomes; and re-establish the relationship between PFTAC and PICs with a return to face-to-face engagement.

17. There is a significant increase in regional training workshops planned for FY2023. The number of workshops will double in FY2023 to at least 10, signalling a shift in modality towards shared learning. The COVID-19 pandemic highlighted the similarities (rather than differences) between PICs often trying to understand and manage similar problems. This recognition presents an opportunity to use the collective knowledge and experience across countries and facilitate a shift towards ‘**networks**’ between PICs. It is intended to evolve the concept of ‘**networks**’ into our practice during FY2023 working in partnership with the Pacific Island Tax Administrators Association (PITAA).

18. During FY2023, the following regional workshops are planned: (1) Strategic and operational management; (2) Operational leadership; (3) Data and analytics; (4) Business continuity responses and planning; (5) Legal interpretation and powers; (6) Policy and revenue forecasting; (7) Tax Information Systems for small countries; (8) Performance management; (9) ISORA; and (10) Strategic Planning.

19. The forecast demand for assistance from PICs for FY2023 equates to 116 individual CD missions compared to 51 for FY2022. This assistance includes support to implement and embed the significant CD provided remotely during FY2021 and FY2022; optimising organisation performance,

² During FY2022, there have been 6 of the 13 countries with a new or acting Commissioner or Chief Executive Officer

assessing the need for reform, fit for purpose organisational design and change management, practical compliance initiatives tailored for the country that will generate additional revenue quickly and sustainably, and revisiting the capability needed for effective enforcement.

20. The resumption of in-country missions as borders reopen in FY2023 provides the opportunity to review the impact of recently delivered CD. Some countries that received significant remote CD have not been able to follow through with implementation during FY2022 because of other priorities. The FY2023 work program includes several face-to-face reviews by the resident PFTAC advisors with PIC authorities to discuss progress; to get a first-hand account of the challenges the revenue administrations have experienced; and to refresh and build strong working relationships for the future. The value-add of PFTAC does not just come from the high-quality experts it provides who understand revenue administration at all levels, but from the relationships of trust developed and maintained with the PICs that ensure a current in-depth knowledge of the administrations supported. In-person relationships are a cornerstone to the way of work in Pacific and for PFTAC.

D. Next Steps

21. Work will continue for ongoing projects and new activities will be designed, based on country demand. FY2023 will be a year of rebuilding relationships and ramping up in-person engagement. Assisting countries identify their problem areas via PEFA diagnostics will continue, as will assistance in sequencing and prioritising reform agendas. Efforts will continue to be coordinated with other active development partners, to ensure effectiveness in delivery.

22. It is envisaged that the Climate PFM advisor will be recruited during FY2023. This will facilitate greater mainstreaming of climate considerations into CD delivery.

Pacific Financial Technical Assistance Centre (PFTAC)
14 June 2022