



PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTER (PFTAC)





**PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE
(PFTAC)**

**PROGRAM DOCUMENT FOR
THE FOURTH FINANCING CYCLE
(February 2011)**

Executive Summary

PFTAC will continue to be a key resource for Pacific Island Countries as they respond to the macroeconomic challenges facing the region. The global economic crisis and the preceding food and fuel price crisis demonstrated once again the vulnerability of the small open economies of the Pacific. It also emphasized the importance of strengthening macroeconomic management. Macroeconomic challenges are likely to continue in the coming years, in particular as countries continue to make fiscal adjustments in the face of trade liberalization and declining aid.

PFTAC will continue to respond rapidly and flexibly to country requests for assistance in improving their capacity in macroeconomic management. In doing so, PFTAC will draw on the IMF's surveillance and technical expertise and work closely with other development partners. The centre's strong relationship with existing regional frameworks will ensure relevance. In particular, the annual meetings of finance minister and central bank governors, who are also represented on PFTAC's steering committee, will continue to be instrumental in setting PFTAC's priorities.

In line with the recommendations of the 2009 evaluation, PFTAC aims to expand its scope in this funding cycle. Specifically, resident advisors on macroeconomic frameworks, PEFA assessments and a second statistics advisor will be added to the existing complement.

The advisors will be supplemented by a limited budget for short-term experts and training and enhanced support from IMF HQ. Geographic coverage will also expand slightly through the inclusion of Timor-Leste in the group of recipient countries.

This would require a total budget of US\$30 million for the 5 year cycle and could be challenging given resource availability of existing donors to PFTAC. If the target is not reached, it will not be possible to achieve the expansion endorsed by the steering committee in 2009. Maintaining the scope of the current cycle (4 resident advisors) would require a budget of around US\$22 million.

PFTAC's operations will maintain and build on the elements of its

Table 1: PFTAC Summary Budget: FY12-FY16 (US\$ millions)

	FY09-11 (Proj)	FY12-16 Baseline	FY12-16 Reduced resources
PFTAC Resident Advisors	3.4	12.1	6.9
<i>years</i>	<i>12.5</i>	<i>35</i>	<i>20</i>
Travel	0.9	3.0	1.5
Short-Term Experts	2.3	3.2	4.4
<i>months</i>	<i>74</i>	<i>76</i>	<i>106</i>
Seminars and training	1.1	2.6	1.9
Backstopping/project management	...	2.5	1.7
Diagnostic missions	...	1.2	0.2
Office Costs 1/	1.5	3.2	3.2
Governance costs 2/	0.2	0.5	0.5
Total direct costs	9.4	28.2	20.5
Trust Fund Management	1.1	1.8	1.3
Total expenditure	10.5	30.0	21.9
Financing			
IMF	1.4	2.7	2.7
Recipient countries	0	0.0	0.0
External	9.1	27.3	19.2
1/ Coordinator, office staff and running costs			
2/ Evaluation and steering committee meetings			

success. In particular, close relationships between PFTAC’s advisors and country authorities will ensure recommendations relevant to local conditions; rapid response and flexibility in planning will be emphasized, and capacity building and training will be central to PFTAC’s work.

Sustainability will be addressed through further emphasis on regional approaches.

PFTAC recognizes that there are limits to what can be achieved at country level to ensure sustainability of the benefits of technical assistance. In order to enhance country-level sustainability, PFTAC will therefore place even greater emphasis on locating TA operations within regional initiatives; this will enhance the likelihood of advice being taken up and of further development partner support being made available. In this context particular attention will be paid to identifying and helping countries implement common approaches to common problems, increasing the opportunities for PICs to assist each other. Regional associations will continue to support this agenda. While activities will continue to be demand-driven, PFTAC will structure the delivery of its TA so that individual sectors support each other to achieve sustainable results.

There will be an enhanced focus on results. Verifiable results indicators are proposed for each sector, these will guide the allocation of PFTAC resources and reporting to the steering committee. The indicators are linked to the extent possible to regional objectives and those of other donors to facilitate coordination (for instance, PFM is linked to the PEFA framework). Monitoring and management will be undertaken through the IMF’s Technical Assistance Information Management System (TAIMS). PFTAC and the IMF recognize that identifying good indicators is a dynamic and iterative process. Objectives and indicators will be refined as the program is implemented. Proposed refinements will be discussed with the steering committee.

Risks stem from limits to absorptive capacity, political instability and development partner coordination. PFTAC’s TA will remain limited to strategic advice and assistance in implementation in narrow technical areas. The success of both will rely on resources and expertise from the recipient governments and other development partners. If the levels of these decline then results are less likely to be achieved. Risks also stem from rapid turnover of key counterparts, which will remain a key risk in the Pacific due to the small size of the administrations and outward migration. The enhanced focus on regional approaches and continued collaboration with other development partners will be the main risk mitigation measures. Reform programs will also remain vulnerable to changes at the political level, which are frequent in some PICs.

Sectoral assistance will focus on building countries’ ability to manage vulnerability and enhance growth. TA needs in the region are widely varied with some countries needing continued building of basic capacity and others increasingly looking to TA from PFTAC and others to fill specific capacity and skill gaps. Key priorities in specific subject areas are:

- *Public Financial Management—moving towards a well-functioning basic PFM system.* Activities in PFM will be focused around the regional PFM Roadmap approved by Forum Leaders in August 2010. They will be focused in 2 areas: supporting the regional PEFA assessment process and development of realistic reform priorities, and; continued hands on technical support and training in specific reform areas. Priorities are expected to be legal frameworks, budgeting cycles, cash management, commitment control and accounting.
- *Revenue policy and administration—improving revenue performance and structure.* PFTAC's activities will be guided by its analysis of regional priorities and lessons learned (FEMM 2010 paper) and by benchmarking national tax administrations against the requirements of the model tax office developed through the regional tax administrators association (PITAA). Priorities are expected to be VAT implementation, compliance strategies and IT strategies. Given fiscal adjustment pressures facing many PICs, tax policy assistance is also expected to have high priority in the early part of the funding cycle.
- *Economic Statistics—more timely and reliable macroeconomic datasets based on enhanced source data.* PFTAC's support to PICs statistics will take place in the context of the regional statistical benchmarking study and its implementation plan. National accounts statistics will be the main focus of the first resident advisor with the second advisor initially focusing on external statistics. The emphasis of the second advisor will change during the cycle, depending on regional priorities. Advice will coordinate closely with SPC who will have a large program of support, focused on producing source data vital for improvement of macroeconomic statistics.
- *Financial sector supervision—increased ability to enforce appropriate prudential frameworks.* PFTAC will continue to assist in the development of appropriate regulations and statistical returns and the regular production of financial soundness indicators. The focus of support is expected to move towards building capacity for on-site examination, in particular analysis of asset quality and the implications for the adequacy of bank's capital and earning performance.
- *Macroeconomic management—improving forecasting and policy tools.* The advisor will focus on improving macroeconomic forecasting; strengthening the framework for inter-agency coordination; building in-country capacity for debt sustainability analysis; increasing use of financial programming techniques and development of more effective monetary and exchange rate frameworks. The advisor's work will be closely coordinated with IMF surveillance, in particular through the IMF's new regional representative, and other development partners such as the ADB involved in regional monitoring and analysis.

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List of Acronyms

ABS	:	Australian Bureau of Statistics
ADB	:	Asian Development Bank
AFSPC	:	Association of Financial Supervisors of Pacific Countries
AML/CFT:		Anti Money Laundering/Combating Financing of Terrorism
APRA	:	Australia Prudential Regulation Authority
BPM5	:	Balance of Payments Methodology
CAMEL:		Capital adequacy Asset quality Management and Earnings performance Liquidity and sensitivity to the market
CBSI	:	Central Bank of Solomon Islands
DQAF	:	Data Quality Assurance Framework
FAD	:	Fiscal Affairs Department
FEMM	:	Forum Economic Ministers Meeting
FIRCA	:	Fiji Islands Revenue & Customs Authority
FIs	:	Financial Instructions
FSI	:	Financial Soundness Indicators
GDDS	:	General Data Dissemination System
GDP	:	Gross Domestic Product
HIES	:	Household Income and Expenditure Survey
IEO	:	Independent Evaluation Office
IFMIS	:	Integrated Financial Managers Information System
IMF	:	International Monetary Fund
IRC	:	Internal Revenue Commission
ISP	:	Institutions Strengthening Program
ITSP	:	Information Technology Strategic Plan
MDG	:	Millennium Development Goals
MTB	:	Medium Term Budgeting
NAS	:	National Accounts Statistics
OTM	:	Office of Technical Management – IMF
PAYE	:	Pay As You Earn
PIC	:	Pacific Island Countries
PIFMA	:	Pacific Islands Financial Managers Association
PEFA	:	Public Expenditure Framework
PEM	:	Pacific Economic Management
PFM	:	Public Financial Management
PFTAC	:	Pacific Financial Technical Assistance Centre
PINACLE:		Pacific Islands National Accounts Compilers & Local Experts
PITAA	:	Pacific Islands Tax Administrators Association
RAP	:	Resource Allocation Plan
RTAC	:	Regional Technical Assistance Centers
SC	:	Steering Committee
SFA	:	Selected Fund Activities
SDDS	:	Special Data Dissemination System
SDP	:	Statistics Development Program
SPC	:	Secretariat of the Pacific Community
TA	:	Technical Assistance
TAIMS:		Technical Assistance Information Management System
VAT	:	Value Added Tax

PFTAC'S ACHIEVEMENTS SO FAR

A. What does PFTAC Do?

1. **PFTAC is one of the International Monetary Fund's (IMF's) seven regional TA centers (RTACs), a model of TA delivery first launched by the IMF in 1993 through PFTAC.** The RTACs are a collaborative venture between the IMF, the recipient countries, and bilateral and multilateral donors. The Centers' strategic goal is to strengthen, in the IMF's core areas of competence, the institutional capacity of RTAC recipient countries to design and implement sound macroeconomic and financial policies and make progress in their poverty-reduction strategies and toward achieving the Millennium Development Goals (MDGs). Through PFTAC, the IMF has been able to substantially increase its TA to the beneficiary countries.

2. **With PFTAC, the IMF combines strategic advice from its Headquarters (HQ) with local expertise and on-the-ground capacity building.** PFTAC is guided by a Steering Committee (SC) that consists of representatives from recipient countries, donors and the IMF, facilitating a coordinated design, implementation, and monitoring of TA programs.¹ Broad TA needs are identified and work plans are prepared in conjunction with the SC, alongside the area and TA Departments at IMF HQ, complemented by a bottom up exercise to establish detailed work plans involving the center's advisors, country authorities, APD country teams and the respective TA departments at IMF HQ. All TA is integrated into the core lending and surveillance operations of the IMF, as well as coordinated with that of other providers. Backstopped and supported by the experts and services of IMF HQ, the RTACs are becoming an increasingly important way of delivering effective, efficient and responsive IMF TA.

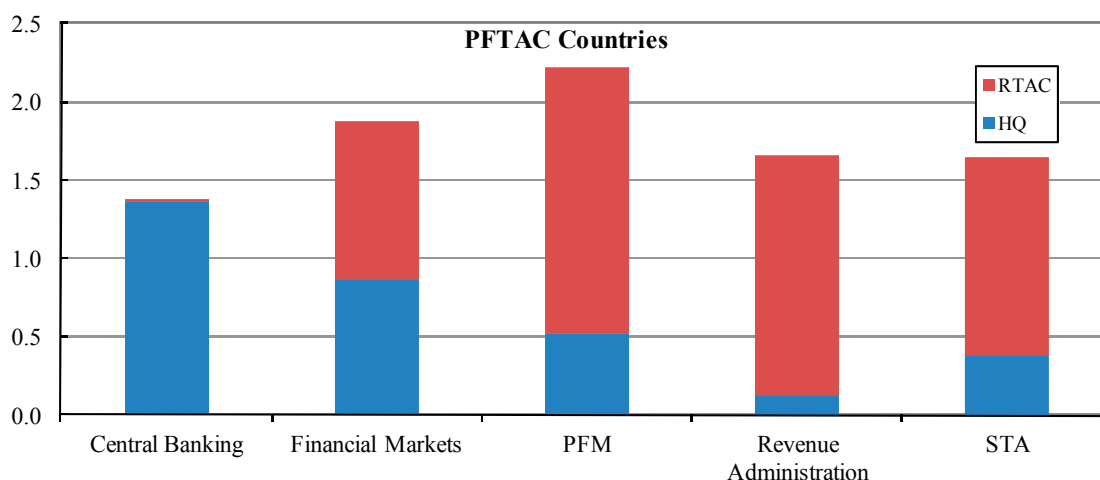
3. **PFTAC delivers capacity-building TA in its areas of expertise to 15 countries in the Pacific region: Cook Islands, Fiji, Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu.** In the next funding cycle, Timor-Leste will join the group of recipient countries. The financing of PFTAC's TA activities has come from the Asian Development Bank, Australia, Japan, Korea and New Zealand. The host country Fiji provides affordable office space and some logistical support. The IMF contribution has financed the coordinator and the running costs of the office, including local support staff.

4. **PFTAC is managed by a Center Coordinator and TA is provided by resident advisors with substantial expertise in their respective sectors.** Resident advisors work,

¹ Representatives of the Pacific Islands Forum Secretariat and the World Bank also take part in the SC.

one each in PFM, revenue administration, banking supervision, and statistics; a new advisor in macroeconomics has recently been added. The resident advisors are based in Fiji; they travel extensively throughout the region, which allows them to develop rapport with country authorities and familiarity with national and regional contexts and needs. The skill mix of the advisors reflects the priority needs of the beneficiary countries. In addition, PFTAC deploys short-term experts to deliver targeted TA in areas of specific expertise not covered by the resident advisors or to complement the volume of TA. PFTAC also provides seminars and workshops, both at the national level and regionally, collaborating where possible with regional institutions.

IMF TA delivery to PFTAC Countries, FY2007-FY2010
(in person years (equal to about 260 working days); 4 year average)



B. PFTAC's Results in Recipient Countries

5. **Results-based reporting for capacity building activities is inherently difficult.** Achievements in these areas take time to materialize and are not easy to attribute, particularly given the large range of influences and factors that influence progress. This, and the lack of specific results-based targets, makes it difficult to form a robust judgment on the contribution on PFTAC's work to improved outcomes in the Pacific.
6. **Notwithstanding these broad difficulties, the IMF and its regional TA centers are strengthening the focus on results.** The management of TA is anchored in a planning, implementation and monitoring cycle that identifies the main objectives for each area of work, the expected (and achieved) inputs and activities, main outputs, results and next steps.
7. **Despite the absence of formal result-based assessment, there are clear indications that PFTAC's assistance has contributed to improved outcomes.** The examples outlined below, illustrate the positive impact the different types of PFTAC outputs

have had on results during the current funding cycle in member countries. Appendix A reports against the log frame developed for phase III and provides greater details on results in each country.

- **Medium-term budgeting in Samoa and the Cook Islands.** Through a combination of sustained technical advice and training in both central and line ministries PFTAC supported the introduction of medium-term budgeting in Samoa. The work was integrated with a broader PFM reform initiative supported by AusAID. As a result, the authorities have been able to present two successive budgets with forward estimates for each spending ministry. In the Cook Islands, a similar approach is being followed, working in close collaboration with the ADB. Medium term projections are now being made by line ministries and are being incorporated into the 2010 budget. PFTAC assistance is slowly being tapered off as the authorities assume full control of the process and is expected to be undertaken independently for FY 2011.
- **Improved fiscal reporting in Tonga.** The Tongan component of a PFTAC regional program of assessment and assistance on Integrated Financial Management Information Systems (IFMIS) led to an identification of sub-optimal utilization of the Tongan IFMIS. PFTAC facilitated further interaction between the Tongan Ministry of Finance and Planning and the software provider which resulted in the design and production of new management reports. As a result, Finance Ministry staff will be better able to monitor emerging fiscal pressures, which was a key issue in the recent downturn emerging from the recent global economic crisis.
- **Improved revenue information technology in Papua New Guinea.** PFTAC has been instrumental to the development and funding of a new IT strategy for the Internal Revenue Commission (IRC) - Papua New Guinea. Since 2006, PFTAC has provided technical assistance to objectively assess the existing IT systems, develop an outward looking information technology strategic plan (ITSP) and prepare a business case for the IRC to seek government funding to implement the plan, which the PNG Government has now granted. A contractor has been engaged for phase 1.
- **VAT implementation in Niue and Tuvalu.** Previous PFTAC technical advice with implementation support from PFTAC and other development partners has resulted in reforms taking place in Niue and Tuvalu. In 2003 -2004, PFTAC made recommendations to Niue and Tuvalu to reform the revenue base and administration. Based on those recommendations the New Zealand Inland Revenue Department assisted Niue to implement the reforms, including a VAT effective from April 2009. A similar development has taken place in Tuvalu when based on the earlier PFTAC recommendations the ADB have project managed the implementation of the reforms including a VAT becoming effective July 2009. PFTAC has provided technical assistance on demand by way of overview and advice to the countries and donors throughout the implementation of the reforms.

- **Off-site financial sector supervision in the Solomon Islands.** PFTAC technical advice and training has enabled the Central Bank of the Solomon Islands to thoroughly update and implemented its prudential standards and reporting requirements. This should contribute both to macroeconomic stability, by ensuring banks are adequately capitalized and liquid with appropriate governance and risk management. It will also help improve macroeconomic management by improving financial sector statistics to be in line with the IMF's Monetary and Financial Statistics Manual. PFTAC has also provided IT support to ensure that banks' prudential returns are processed and analyzed efficiently.
- **Enhanced on-site examination capacity in Palau and Marshall Islands.** With assistance from PFTAC, the Financial Institutions Commission of Palau is now independently conducting full-scope on-site CAMELS-based examinations of commercial banks. Assistance from PFTAC has also allowed the Banking Commissioner in Marshall Islands to conduct its first full-scope CAMELS examination of the dominant bank in the Marshall Islands. CAMELS-based examinations include a comprehensive assessment of each of the six components common to all banking institutions how each interacts and affects others in order to determine a more accurate overall risk profile of a bank. They allow for better identification of a bank's risk areas thereby allowing supervisory authorities to concentration/focus their limited resources on follow-up and monitoring higher-than-normal risk areas for corrective action.
- **Rebased and more comprehensive national accounts in Vanuatu.** Working closely with AusAID-funded TA, PFTAC assisted the Vanuatu Statistics Office to update the base year of its national accounts to 2006, making them a more accurate reflection of current conditions, and to produce estimates of GDP on both a production and expenditure basis, enhancing their usefulness for economic policy making. Use of source data has also been improved and the national accounts are consistent with SNA1993 standards.
- **More accurate and timely external statistics in Fiji.** As part of a broader program of assistance that also encompassed assistance in national accounts and price indices, PFTAC assisted the Fiji Bureau of Statistics produce full quarterly balance of payment statistics, in line with international standards (BPM5) and with a significant reduction in the errors and omissions. Quarterly international investment position statistics were also produced. These statistics provided a much greater depth of information to economic policy makers.

8. **PFTAC's contributions to regional dialogue and analysis also assisted policy making.** PFTAC advisors, often working in concert with other donors, continued to assist countries and development partners make progress towards closer cooperation and understanding of issues in PFTAC's four program areas. Key outcomes include:

- Development of regional professional associations (Box 1).
- At the request of the regional Finance Ministers, PFTAC, in collaboration with the Forum Secretariat, drafted a public financial management roadmap that sets out realistic reform milestones and good practice for reform management and donor coordination.
- In collaboration with other donors convened a conference on financial literacy that achieved broad regional recognition of the Coombs Declaration.
- In combination with IMF HQ, a report was produced that analyzed the revenue challenges faced by Pacific Island Countries arising from the liberalization of trade. This also led to a regional report on the implications for revenue reform for the 2010 regional finance ministers meeting (FEMM).
- Six handbooks that showed how international good practice can be applied in the Pacific region were published. An evaluation of Internal Audit in Pacific countries was undertaken that will feed into broader support to this area by the ADB.
- PFTAC has worked closely with the regional central bank Governors, including on convening special meetings on the global economic crisis and to consider PFTAC's analysis of interest rate levels and bank profitability.

C. External Evaluation of PFTAC

9. **The recent evaluation found that PFTAC had continued its success in the FY06-08 cycle and beyond.**² The evaluation noted that PFTAC was considered to be the most effective regional technical assistance organization in the Pacific. PFTAC's success was found to be primarily due to its regional links and high-quality expertise. Responsiveness, longevity and personal relationships also contributed. Operations and assistance received consistently high marks with sustainability as the main area of concern—although this was noted to be to a large part due to factors outside the centre's control.

10. **The evaluation proposed the development of a vision for PFTAC over the next 5 years.** This program document puts sets out the mechanisms and funding required to allow PFTAC to achieve that vision, taking particular account of the sustainability issue. It takes into account the specific recommendations that the evaluation made for the components of the vision and the steering committee's subsequent discussion of the report. Box 2 sets out

² The evaluation of the PFTAC FY2006-08 funding cycle is available at : <http://www.imf.org/external/np/pp/eng/2009/060109.pdf>.

the main recommendations, the steering committee's views and how this program document deals with them. Chapter III sets out the key components of the vision.

Box 1: Regional Professional Associations

PFTAC has assisted in the development of 4 professional associations in the Pacific.

These associations provide a forum for strengthening reform through identification of common issues in the region and the development of generic solutions and best regional practice. They have also helped PFTAC and other development partners identify thematic priorities and have been used to organize and deliver training programs.

There are currently four associations. The Association of Financial Supervisors of Pacific Countries (AFSPC), the Pacific Islands Tax Administrators Association, the Pacific Islands Financial Managers Association and PINACLE, a recently established association for the compilers of national accounts statistics.

The associations are generally managed around annual heads' meetings. Annual governance meetings allow high-level discussion of regional issues and set the agenda for regional work. They also provide a forum for interaction with other development partners. The chairmanship generally rotates amongst member countries with the PFTAC advisor acting as secretariat. Funding comes from a mixture of member country and PFTAC funds. High-level seminars and training are occasionally attached to the heads' meetings.

Separate training events deliver capacity building. The associations have been used to organize training on topical sectoral issues. The training events often lead to clusters of country-level TA; for instance the ADB/PFTAC program of assistance on internal audit that followed PIFMA training. PFTAC has fully funded training events, including some study tours.

Box 2: Evaluation recommendations, Steering Committee responses and current plans

By the end of calendar year 2010 the SC and IMF should develop a strategic plan that sets out a vision for where PFTAC should be in five years time. This recommendation was endorsed by the steering committee (SC). This program document sets out the details of the vision—which is for PFTAC to remain a leading technical resource for Pacific Island countries on improving their macroeconomic management.

By the end of FY2010 consensus should be reached at the SC on the priorities for additional Resident Advisors. The SC agreed that a controlled increase in advisors was appropriate and endorsed the evaluation's recommendations: additional advisors in macroeconomics, statistics and PFM. This document accommodates these recommendations.

PFTAC should make greater use of short term experts, particularly in the financial sector supervision and statistics areas. The SC agreed with this, but noted that this should be done in a controlled manner. The SC emphasized the importance of continuity of provision through the resident advisors rather than through regularly changing short-term experts. PFTAC has already scaled up the use of experts in the financial sector; further expansion will be contingent on resource availability.

Develop a strategy for increasing the probability that the benefits of PFTAC will be sustainable. The steering committee agreed that this was an important issue but were cautious about the resource costs of developing separate strategies in the middle of the funding cycle. PFTAC will continue to target sustainability by focusing its activities on building systems rather than individuals, by ensuring that training is included in technical missions and by helping countries support each other through establishing professional associations. In this funding cycle improvements in sustainability will be addressed through increasing the use of regional approaches (see section III.C).

Make a more concerted effort to develop and use Pacific expertise. The SC agreed with this recommendation, although did note the challenges involved and the importance of not pulling from the scarce pool of talent available to many PICs. PFTAC aims to increase the use of Pacific experts in the next funding cycle and to promote country to country cooperation.

Develop a strategy to intensify and increase the use of regional approaches. The SC agreed with this recommendation. This forms the core of PFTAC's strategy to improve sustainability.

Define medium term objectives to be achieved in each functional area in each country and verifiable indicators against which to monitor progress. This document outlines regional target results and likely priority countries that will be used as a basis for results-based management.

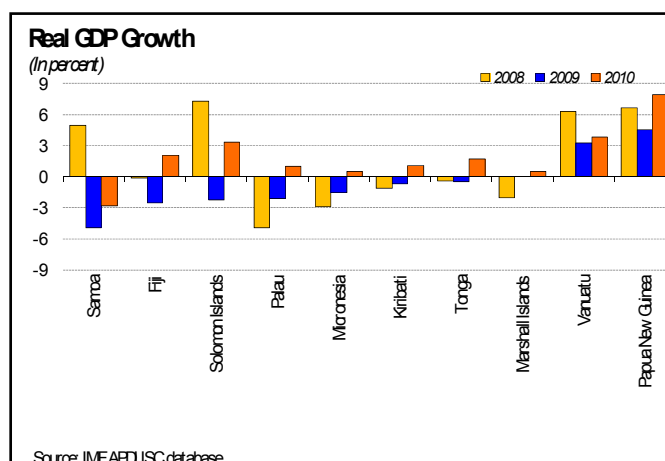
Develop formal action plans and report to SC. This program document is that action plan and report.

HOW PFTAC WOULD HELP THE REGION ADDRESS ITS MACROECONOMIC AND FINANCIAL CHALLENGES

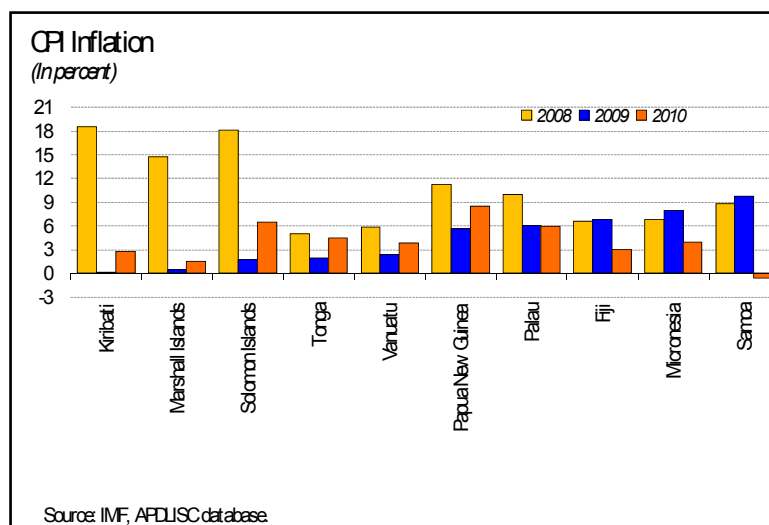
D. Where Does the Region Stand Now?

Recent Economic Performance

11. **Growth fell strongly in 2009 in almost all of the PICs as the full impact of the global economic crisis hit the Pacific.** The deterioration in growth was driven by a fall in tourist arrivals, loss of key export markets, and a fall off in remittances from workers in Australia, New Zealand and the United States. Fiji's growth also suffered from structural problems that have driven sugar exports to historical lows and Samoa was negatively affected by the tsunami that damaged its tourism sector. Palau faced a contraction in FDI as foreign firms lost access to financing and investment may have been negatively affected by protracted Compact negotiations with the United States. The Solomon Islands was affected by a reduction in timber exports, in part related to over logging. In contrast, growth held up in PNG due to an insulated financial sector, still strong terms of trade, and an increase in public spending; and in Vanuatu on account of tourism and construction.



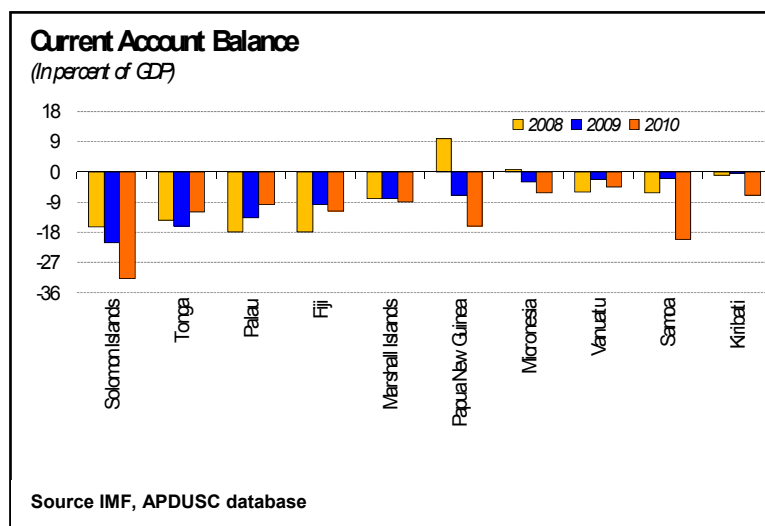
12. **Inflation eased substantially during 2009 in many PICs from the high rates associated with the pass-through of international food and fuel prices in 2008.** The decline in inflation was driven partly by the reversal in the prices of international commodities on which the PICs are heavily dependent. Other key factors were the sharp contraction in domestic credit growth that resulted from the cautious behavior of international banks from



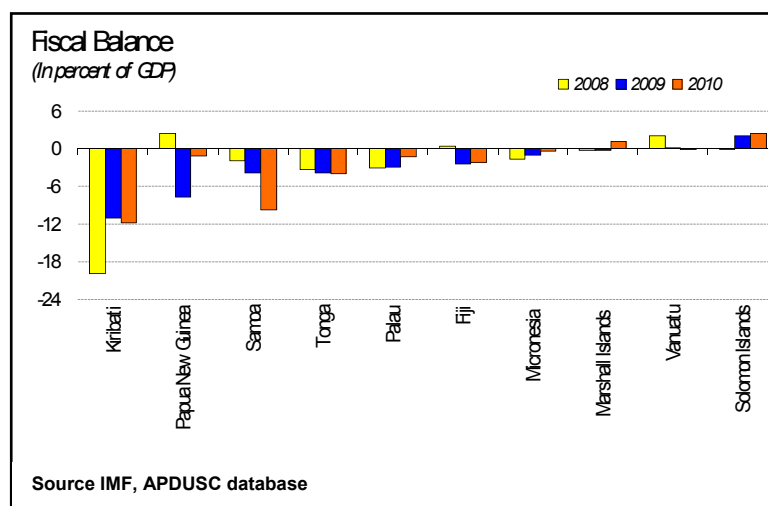
Australia and the United States that dominate the financial sectors of the PICs, and the general slump in economic activity (although in Vanuatu credit growth remained strong). In Kiribati, the fall in inflation to zero at end 2009 also reflected the strong appreciation of the Australian dollar (Kiribati's currency) in the second half of the year. In Fiji, domestic liquidity was further reduced in the first half of 2009 as Fiji's international reserves dwindled to less than two months of import cover. Reserves and liquidity in Fiji recovered following the 20 percent devaluation of the Fiji dollar in April 2009 and the devaluation pushed inflation higher, though credit growth did not rebound. In Tonga, a rise in NPLs also constrained bank lending.

13. **Current account deficits improved in most PICs in 2009 due to sharp shifts in the trade balance as commodity prices fell and the demand for imports eased.** This was the case in Fiji even though sugar exports fell substantially. However, the current account deteriorated in several

countries. In the case of the Solomon Islands this was due to declining log exports and greater repatriation of profits by foreign companies. Papua New Guinea continued to import given strong domestic demand while lower commodity prices reduced nominal exports and shifted the current account into deficit. Tonga faced reduced investment income and a substantial decline in remittances.



14. **Fiscal sectors were hit hard in most PICs during 2009.** In some countries with large trust funds (Tuvalu and the Compact countries of the North Pacific), the funds' value lost 10 – 20 percent due to poor investment performance; this constrained these countries' ability to support their economies through fiscal stimulus. In Kiribati, after declining by 12 percent in 2008, the value of the trust fund increased marginally in 2009. All PICs



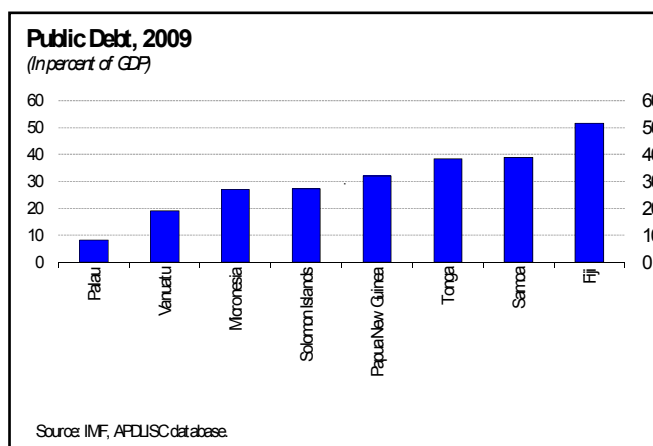
faced substantial declines in tax revenue as imports, consumption and profits fell, though for some this was partially offset by increased donor support, or by an increase in non-tax revenues, as in the case of Kiribati. In the Solomon Islands, spending constraints were insufficient to cover revenue shortfalls, putting further pressure on an already fragile cash situation. Poor revenue performance in Fiji constrained needed spending following severe floods early in the year and forced the government to freeze civil service wages. In Fiji and the Marshall Islands, high public debt limited governments' options to support domestic demand during the economic crisis. In contrast, accumulated windfall mineral revenue allowed for significant fiscal stimulus in Papua New Guinea.

15. **Growth in the Pacific is projected to rebound marginally during 2010-11 due to the stronger growth in Asia, Australia and New Zealand.** However, the recovery is likely to be uneven across the PICs. Australian tourist departures to the Cook Islands, Fiji, and Vanuatu picked up by 23 percent, 9 ½ percent and 15 percent, respectively, for the 12 months through January 2010 (compared to the previous 12 months). Growth of tourist departures to other PICs from Australia and New Zealand, was, however, still marginally negative. PIC exports are projected to pick up due to the recovery in destination markets, although Samoa's exports will remain suppressed as it gradually rebuilds its tourism sector following the tsunami and the Solomon Islands' logging exports are expected to continue to fall. Unemployment is projected to remain high for 2010 in some major destination countries (New Zealand and the United States) for PIC labor and this is likely to weigh on remittances to, and growth in, the PICs. In Papua New Guinea, the construction phase of liquefied natural gas projects and recovery in export incomes will stimulate domestic demand and generate robust growth. With international commodity prices projected to rise, inflationary pressure is also likely to build in the PICs over the coming months.

E. Macroeconomic Policy and Institutional Agenda

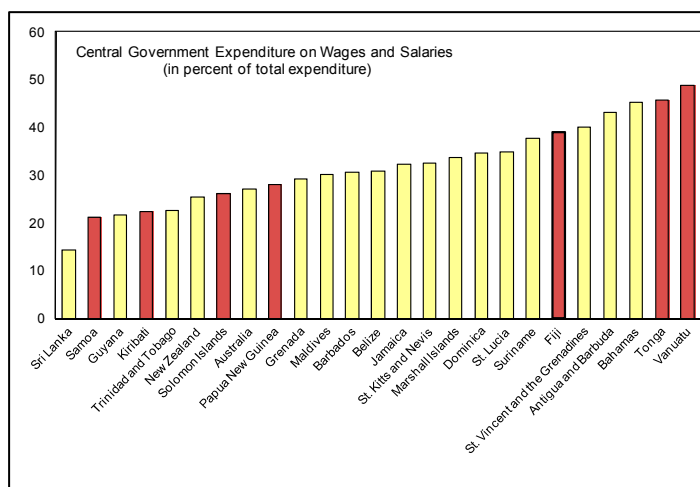
16. **Improvements in macroeconomic policy and institutions are required to build PICs' resilience to future shocks.** As small, highly open economies the PICs are naturally vulnerable to exogenous shocks. Improved economic policy and institutions can, however, help to ameliorate the impact of economic and natural shocks. Key areas of policy focus are :

- **Fiscal adjustment:** Most PICs face the need for fiscal adjustment over the coming decade. Pressures arise from a number of sources, including trade liberalization (studies have estimated that some PICs face revenue costs of around

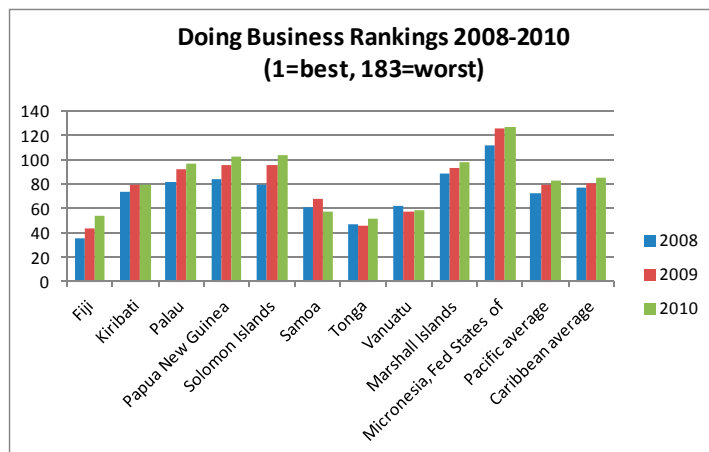


20 percent of revenue); expiring compact grants; declining trust funds and high debt levels. The adjustment will have to come from a mixture of revenue and expenditure measures.

- Improving revenue structures and effectiveness.** Many governments rely excessively on trade taxes and antiquated sales taxes. Trade liberalization means that most will have to change their tax structure, moving towards more modern consumption taxes and income taxes while improving collection efficiency.
- Streamlining and reorienting public sectors.** Although small in absolute terms, public sectors in the Pacific are large relative to the size of the economy. They tend to be the dominant employer and the salary bill occupies much of the current budget with most capital spending financed by donors. State-owned enterprises are generally inefficient, due in part to price regulation and community service obligations.
- Promoting private sector development.** Private sector development has been constrained by large public sectors and high degrees of regulation. Pacific islands generally rate in the mid-range on indicators of the cost of doing business but rankings have been deteriorating. There is a need to reverse the downward trend in these indicators, particularly through deregulation.



- Deepening financial sectors and improving transmission mechanisms.** Financial sectors are dominated by a small number of foreign banks and large public sector pension funds. Deepening financial markets through greater competition, improved transparency in the cost of financial transactions, improved market infrastructure (such as legal frameworks and monetary policy



instruments) and greater financial inclusion will enhance the environment for private sector development and improve the effectiveness of monetary and exchange rate policies (in those countries that have them).

17. Addressing macroeconomic and institutional challenges is required to accelerate progress towards the Millennium Development Goals. The 2010 regional MDG tracking report found that the Polynesian countries have been performing relatively well, the Micronesian countries have been struggling to maintain earlier gains in some areas, and in some of the Melanesian countries, notably where there has been conflict or civil/political tension, a reversal of earlier achievements is being witnessed. The result is that approximately nine PICs are either off-track or slightly off-track to achieve at least half of the MDGs. Strengthening the environment for economic growth and private sector investment was identified as a key area required to accelerate progress, alongside environmental sustainability.

18. Pacific leaders have recognized the importance of these challenges in a number of contexts. The Pacific Plan, endorsed by Pacific Islands Forum Leaders in 2005, sets out an ambitious agenda to improve economic and social management with a particular focus on improving institutional capacity. The Cairns Compact, adopted in response to the shock of the global economic crisis, emphasizes the importance of effective coordination between development partners and government in achieving these aims and proposes a number of mechanisms to improve national planning mechanisms and donor support to them. The following paragraphs lay out key priorities in PFTAC's areas of responsibility.

19. Improved macroeconomic policy analysis and policy making frameworks would enhance PICs' ability to cope with shocks. The recent global economic crisis highlighted the need for PICs to improve their ability to understand and react to external shocks. This requires richer analytical frameworks and more effective policy tools. A number of countries in the Pacific have already begun to embark on comprehensive adjustment processes with coordinated donor support (Solomon Islands, Fiji); others are embarking down that path. Policy changes include modernization of revenue policy, expenditure composition, more market-based monetary policies and more flexible exchange rates. Investigating and implementing new policies in these areas places a greater burden on the central agencies to be able to work effectively together through sound policy making frameworks and to understand the interactions between different policy initiatives.

20. Improvements in public financial management will be needed to achieve development goals. The regional PFM roadmap developed under the Cairns Compact emphasizes the importance of accelerated progress in this area to allow more efficient use of public resources for achieving development gains and to facilitate the use of government systems by development partners. The roadmap shows that while progress has been made by many countries in improving their PFM systems, much remains to be done (see Box 3).

21. **Improving revenue performance remains of critical importance.** This will require improvement in administration in all countries and policy adjustments in many countries in the region. Many of the legislative frameworks in the Pacific are outdated and require updating to allow a move towards more efficient and effective means of ensuring tax compliance. Given the burden placed on the small tax administrations by the current focus on detailed enforcement, the work on legislative frameworks should maintain the momentum towards self-assessment and should allow enforcement resources to be concentrated on the riskiest cases.

Box 3: A Brief Overview of Pacific PFM systems

Most countries in the Region, where a PEFA assessment has been undertaken in the recent past, show strengths in the areas of:

1. Aggregate revenue and expenditure outturns compared to original approved budgets
2. Comprehensiveness of information in budget documents, for example documents often include a budget circular and economic survey indicating the macro-fiscal outlook, all underpinned by a comprehensive budget law and detailed Financial Instructions
3. Orderliness and participation in the annual budget process – with budget calendars clearly laid out and normally adhered to with clear and comprehensive budget ceilings approved by the Legislature.

This may primarily be a reflection of the legislative imperatives of the annual budget process.

However, significant weaknesses are observed in the areas of:

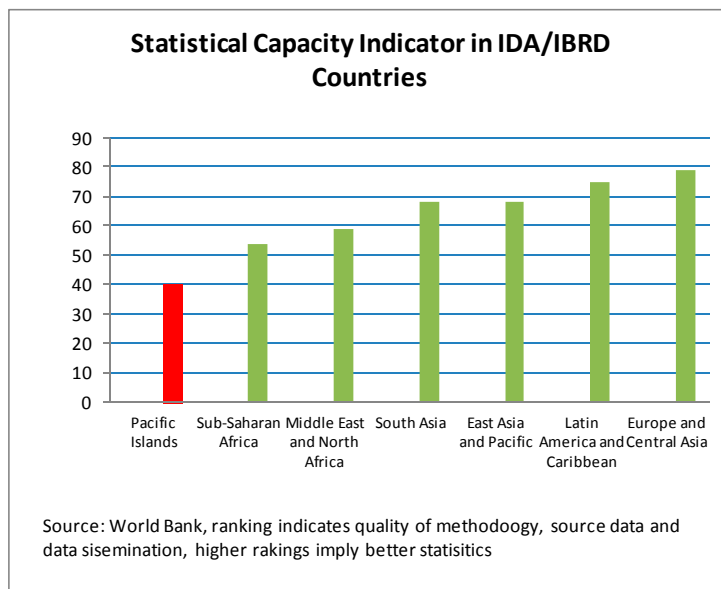
1. **Weak legislative inputs** at the budget formulation stage resulting from inadequate legislative scrutiny.
2. **Inadequate resourcing of the budget-** with weak effectiveness in collection of taxes.
3. **Budget formulation-** with little multi-year budgeting.
4. **Accounting and control** – for instance in the monitoring and control of arrears, in the lack of payroll controls, internal controls, predictability of funding, quality annual financial statements and the lack of timely reconciliation of accounts.
5. **Lack of transparency** of fiscal relations and management of fiscal risk, including in relation to off-budget expenditures and the operations of State Owned Enterprises.
6. **Weak procurement** procedures, stemming from weak capacity and thin private sectors.
7. **Weak Audit** mechanisms - both external and internal audit.

Donor practices, where they have been assessed, generally perform poorly against measures of predictability and usage of government systems.

22. Better economic statistics are essential to allow improved policy making.

Enhanced economic statistics are critical to enable policy makers to make reliable and timely decisions and to understand the impact they have on the economy. Economic statistics in the Pacific, however, remain underdeveloped—only four countries (Fiji, Kiribati, Tonga and Vanuatu) have subscribed to the IMF’s GDDS and none currently are close to SDDS standard. Some countries struggle to produce basic macroeconomic datasets such as production-based national accounts and balance of payments on a timely and reliable basis.

This reflects, in part, the limited resources made available to statistics institutions in the Pacific and also the high cost of collecting robust data in small geographically dispersed countries. These issues have received substantial regional attention recently with finance ministers and SPC’s governing council agreeing to a revised approach that includes new governance mechanisms, contracting out and stepped up technical assistance, in addition to heightened levels of national resources (see section IV.E).



23. The financial sector survived the global financial crisis relatively unscathed, despite weakness in supervisory institutions. Australian banks, which dominate the financial sector in many South Pacific countries, were some of the least affected developed country financial institutions. This, combined with the lack of exposure to global financial markets, enabled the Pacific to pass through the global financial crisis without any bank failures. Nevertheless, the economic slowdown and weaknesses in underlying asset quality did result in increases in non-performing loans and required some banks to be recapitalized. Supervision has strengthened in recent years with the introduction of new regulations and off-site reporting systems. However, supervisory agencies’ capacity to monitor and enforce compliance still requires much deepening and broadening—many supervisory agencies do not fully meet minimum “Essential Criteria” for compliance with Basel Core Principles and have very thin capacity, particularly in terms of on-site supervision.

24. Capacity remains a compelling problem across the Pacific. This is despite many years of substantial development partner attention to capacity building. The traditional problems in building and sustaining capacity are magnified in the Pacific by the very small

size of most public administrations, meaning that systems often rely on just one or two key individuals. Recent research in the Pacific has shown that in the tax area administrations have struggled to implement TA recommendations quickly, particularly those that are considered by the recipient to be large or that have political implications.³ This research suggests that capacity building and policy reform needs to take a conservative approach to avoid overburdening resource constrained organizations.

F. How will PFTAC Assist the Region Tackle the Challenges?

25. **PFTAC aims to be a leading technical resource for PICs as they manage vulnerability and enhance growth.** The guiding objective is improved economic management leading to sustainable economic growth across the Pacific Islands. Using the IMF's surveillance and technical expertise, PFTAC will respond rapidly and flexibly to country demand for high-quality technical assistance in improving their macroeconomic management. The centre's strong location within existing regional frameworks will ensure relevance. In particular, the annual finance ministers (FEMM) and central bank governors meetings, who are also represented on PFTAC's steering committee, will continue to be instrumental in setting PFTAC's priorities.

26. **An expansion in the scope of PFTAC operations is envisaged to enable it to meet priority country demands.** The evaluation noted that the scale of PFTAC's resources were inconsistent with the demands put upon the centre. It identified additional advisors in PFM, macroeconomics and statistics as key priorities for the next funding cycle. The steering committee endorsed these recommendations in mid-2009 and agreed that a macroeconomic advisor should be hired as a matter of priority in the current funding cycle. The strategy for the FY11-FY16 funding cycle builds on this by proposing a new PFM advisor, primarily focusing on the PEFA process in the region and a new statistics advisor. These two new advisors will assist countries accelerate progress towards budget support from development partners, in particular the EU. Because it looks unlikely that more than \$30 million can be raised for PFTAC, the expansion in use of short-term experts envisaged in the evaluation will not be possible.

27. **Coordination with other development partners in the region is essential for PFTAC's success.** PFTAC enjoys good relations with development partners at both country and regional level and its success and standing in the region has fueled increasing demand for its services. PFTAC will, however, remain a relatively small provider of technical assistance in targeted areas of member country reform programs, in addition to maintaining its capacity to respond at short notice to requests for assistance or advice on new or emerging problems.

³ Cotton (2009) Achieving revenue reform in the Pacific: Taking revenue policy and administration advice from intent to reality.

It aims to be a catalyst for high-quality substantive support from other development partners aimed at building on and implementing PFTAC's advice. In many circumstances, PFTAC will continue to play a strategic role in the larger scale assistance of key development partners through participation in progress reviews or small-scale focused technical inputs.

28. **Close relationships between PFTAC's advisors and country authorities will ensure recommendations relevant to local conditions.** These close relationships have formed the bedrock of PFTAC's success; resident advisors will therefore continue to form the core of PFTAC's TA provision. Short-term experts will be used as resources allow to enable the centre meet urgent country demands simultaneously and to enable more focused advice in specialist areas.

29. **Rapid response will also remain central to PFTAC's operations.** In addition to substantive country visits, resident advisors will continue to provide rapid ad hoc advice to country officials, using e mail, phone and information technology. Work programs of advisors and short-term experts will continue to be regularly amended to enable urgent country requests to be responded to quickly.

30. **Capacity building and training will continue to be integral to PFTAC's work.** PFTAC recognizes that high-quality technical advice is not sufficient to achieve results. The advice has to be tailored to country circumstances and be accompanied by ongoing support to assist implementation. PFTAC will continue to address this through prioritizing its TA to countries/institutions that are committed to reform, by integrating on-the job and more formal training into technical missions to countries, by partnering with other donors to ensure ongoing support to countries between PFTAC missions and by delivering broader capacity-building training through the regional professional associations.

31. **Commitment to reform will be the main guide for prioritizing activities.** With resources likely to continue to be less than demand for PFTAC's services, careful prioritization of activities will be required. Prioritization will be guided by the objective of achieving tangible results in all sectors and countries within the membership. The key criterion will be the commitment of the authorities to reform, which is critical for achieving results.

32. **PFTAC aims to intensify the linkages between its sectors to improve results.** While activities will continue to be demand-driven, PFTAC will structure the delivery of its TA so that individual sectors support each other to achieve sustainable results. For example, revisions of the national accounts data will wherever possible draw on improved administrative data resulting from reforms in the public financial management system and, development of macroeconomic forecasting frameworks will be closely linked to tax policy development.

33. **Sustainability will be addressed through further emphasis on regional approaches.** PFTAC recognizes that there are limits to what can be achieved at country level

to ensure sustainability of the benefits of technical assistance. In order to enhance country-level sustainability, PFTAC will therefore place even greater emphasis on locating TA operations within regional initiatives; this will enhance the likelihood of advice being taken up and of further development partner support being made available. In this context particular attention will be paid to identifying and helping countries implement common approaches to common problems, increasing the opportunities for PICs to assist each other. Regional associations will continue to support this agenda. (section III.B addresses sustainability in more detail).

34. Risks stem from limits to absorptive capacity, political instability and development partner coordination. PFTAC's TA will remain limited to strategic advice and assistance in implementation in narrow technical areas. The success of both will rely on resources and expertise from the recipient governments and other development partners. If the levels of these decline then the results are less likely to be achieved. Risks also stem from rapid turnover of key counterparts, which will remain a key risk in the Pacific due to the small size of the administrations and outward migration. The increased emphasis on regional approaches and coordination with other donors will be the main strategies to mitigate these risks. Reform programs will also remain vulnerable to changes at the political level, which are frequent in some PICs.

35. Sectoral assistance will focus on building countries' ability to manage vulnerability and enhance growth. TA needs in the region are widely varied with some countries needing continued building of basic capacity and others increasingly looking to TA from PFTAC and others to fill specific capacity and skill gaps. Activities and priorities in specific subject areas are summarized below and outlined in more detail in section IV.

- *Public Financial Management—moving towards a well-functioning basic PFM system.* Activities in PFM will be focused around the regional PFM Roadmap approved by Forum Leaders and Finance Ministers in 2010. They will be focused in 2 areas: supporting the PEFA assessment process and development of realistic reform priorities, and; continued hands on technical support and training in specific reform areas. Priorities are expected to be legal frameworks, budgeting cycles, cash management, commitment control and accounting.
- *Revenue policy and administration—improving revenue performance and structure.* PFTAC's activities will be guided by its previous analysis of regional priorities and lessons learned (FEMM 2010 paper) and by benchmarking national tax administrations against the requirements of a model tax office developed through the regional tax administrators association (PITAA). Priorities are expected to be VAT implementation, compliance strategies and IT strategies. PFTAC will continue to support OCO in the customs area, focusing mainly on enhancing information technology and updating legislation. Given fiscal adjustment pressures facing many

PICs, tax policy assistance is also expected to have high priority in the early part of the funding cycle.

- *Economic Statistics—more timely and reliable macroeconomic datasets based on enhanced source data.* PFTAC’s support to PICs statistics will take place in the context of the regional statistical benchmarking study and its implementation plan. National accounts statistics will be the main focus of the first resident advisor with the second advisor initially focusing on external statistics. The emphasis of the second advisor will change during the cycle, depending on regional priorities. Advice will coordinate closely with SPC who will have a large program of support, focused on producing source data vital for improvement of macroeconomic statistics.
- *Financial sector supervision—increased ability to enforce appropriate prudential frameworks.* PFTAC will continue to assist in the development of appropriate regulations and statistical returns and the regular production of financial soundness indicators. The focus of support is expected to move towards building capacity for on-site examination, in particular analysis of asset quality and the implications for the adequacy of bank’s capital and earning performance.
- *Macroeconomic management—improving forecasting and policy tools.* The advisor will focus on improving macroeconomic forecasting; strengthening the framework for inter-agency coordination; building in-country capacity for debt sustainability analysis; increasing use of financial programming techniques (particularly in countries facing a substantial short-term adjustment need) and development of more effective monetary and exchange rate frameworks. The advisor’s work will be closely coordinated with IMF surveillance, in particular through the IMF’s new regional representative, and other development partners such as the ADB involved in regional monitoring and analysis.

PFTAC’S NEXT FIVE YEARS (“PHASE IV”)

36. **PFTAC’s objectives over the next five years are being developed jointly with recipient countries, donors and other TA providers.** PFTAC’s work will be integrated into IMF HQ TA and IMF program and surveillance work in PFTAC countries to ensure that its TA remains highly relevant and focuses on IMF core expertise (Appendix C provides details). The starting point for this draft program document is recipient countries’ sector-specific reform strategies. Regional strategies and agreements, mainly developed through the Pacific Islands Forum, also play a critical role in determining priorities. Under the overarching umbrella of the Pacific Plan, key influences include: the Cairns Compact, the regional PFM roadmap, the regional statistical benchmarking study and its implementation plan.

G. Resource Needs and Budget

37. **The next PFTAC funding cycle will reflect the new arrangements for external financing of IMF TA.** The Fund's new financing instrument – the Framework Administered Account for Selected Fund Activities – differs from the arrangements seen under Phase III.

In response to demands of the IMF's members to provide more technical assistance, and approved by the IMF's Executive Board,⁴ the new financing instrument was designed to enable the Fund to charge for the full direct costs of the delivering of TA, not only that of the Resident Advisors, short-term experts, seminars, and administrative costs. The notable changes on PFTAC's budget for Phase IV is an increase in the costs of its TA, as it now includes the costs of project management and backstopping of PFTAC experts. Additionally, the subaccount now envisages diagnostic missions led by headquarters that are critical in devising PFTAC's overall TA

Table 1: PFTAC Summary Budget: FY12-FY16 (US\$ millions)

	FY09-11 (Proj)	FY12-16 Baseline	FY12-16 Reduced resources
PFTAC Resident Advisors	3.4	12.1	6.9
years	12.5	35	20
Travel	0.9	3.0	1.5
Short-Term Experts	2.3	3.2	4.4
months	74	76	106
Seminars and training	1.1	2.6	1.9
Backstopping/project management	...	2.5	1.7
Diagnostic missions	...	1.2	0.2
Office Costs 1/	1.5	3.2	3.2
Governance costs 2/	0.2	0.5	0.5
Total direct costs	9.4	28.2	20.5
Trust Fund Management	1.1	1.8	1.3
Total expenditure	10.5	30.0	21.9
Financing			
IMF	1.4	2.7	2.7
Recipient countries	0	0.0	0.0
External	9.1	27.3	19.2
1/ Coordinator, office staff and running costs			
2/ Evaluation and steering committee meetings			

strategy and as well as informing the workplan and operations of the center. In Phase III, all of these costs had to be absorbed by the IMF. The change in the TA costing model allows the Fund to respond to demands from recipient countries all over the world to expand existing RTACs and create new RTACs as well as expand other modalities of Fund TA without crowding out other activities. Without the new model and in light of the Fund's restructuring, the Fund would have had to reduce its TA activities and decline requests from regions to open new RTACs which would have amounted to unfair treatment of its members. Already four of the currently seven Fund RTACs operate on this new model with all other centers

⁴ See <http://www.imf.org/external/np/pp/eng/2009/030409.pdf>.

expected to follow. Appendix D describes in greater detail the activities defined by Project Management, Backstopping, Trust Fund Management and Diagnostic Mission.

38. **A US\$30 million budget is targeted over FY12-FY16 (see Appendix E for details).** This would require donor resources of US\$27 million. Any additional resources from donors, that would be secured with the new membership of Timor-Leste, would complement these resources. The IMF will continue to make a financial contribution to cover the costs of the coordinator (salary, benefits and travel) and local office staff (US\$2½ million). External financing will cover all other costs of operations and running costs of the centre. In keeping with the practice in other IMF RTAC's, PFTAC recipient countries will also be requested to make a small financial contribution totaling up to 5 percent of total centre costs (US\$1½ million).

Fiji as host country will continue to provide logistical support and subsidized rent for the centre.

39. **This would allow an expansion in PFTAC's activities but not to the extent envisaged in the evaluation.** In particular, it would allow a continuation of

	FY09-11 (Proj)	FY12-16 Baseline	FY12-16 Reduced resources
PFM/PEFA	2.3	7.3	4.4
Revenue Policy and Administration	1.8	4.9	4.3
Financial Sector Supervision	1.5	3.8	3.7
Economic Statistics	1.8	5.4	4.4
Macroeconomics	0.4	2.8	0.0
Other	1.7	4.0	3.7
Total direct costs	9.4	28.2	20.5

the macroeconomic advisor; the recruitment of an advisor to support the PEFA process in the region, a second statistics advisor and also provide financing for enhanced TA input from IMF HQ to the Pacific, which would support the quality of PFTAC operations (see below). It would allow for the use of short-term experts but at a reduced level in contrast to the expansion envisaged in the evaluation.

40. **If the resource envelope is smaller, activities would be scaled back.** PFTAC will continue to place strong emphasis on efficiency and prioritization whatever the resource envelope. However, if resources dip significantly below US\$30 million, expansion into the PEFA and macroeconomic areas would be impossible or would have to be financed by withdrawing TA from other sectors. For example, maintaining the current scope of operations would require US\$22 million. This would allow the maintenance of 4 resident advisors, and some short-term experts and training, but would enable only very limited TA from IMF HQ.

41. **Besides its financial contribution, the IMF provides and finances internally institutional support to ensure focus and targeting, quality and consistency in the delivery of assistance.** The combined responsibilities of the Committee on Capacity Building, the APD and the TA Departments constitute an institutional support framework for

TA project delivery in the field. All projects, whether internally or externally financed, whether delivered by HQ or by the RTACs, are supported equally by this framework.

- The IMF's **Committee on Capacity Building** is responsible for organizing and strategically managing capacity building efforts. This top level committee consists of Fund management as well as senior staff from area and functional departments. It meets regularly to: (1) discuss broad strategy for reports on standards and codes (ROSCs), TA and external training programs in advance of the preparation of these programs; (2) approve the proposed programs following approval of the IMF's overall budget; (3) review the programs mid-way through the budget year; and (4) discuss relevant policy issues as needed (e.g. on evaluation, systems, approaches to delivery, etc.).
- **APD** has a major role in institutional support with a prime responsibility for determining and prioritizing TA in a dialogue with country authorities. This role is exercised through preparing the RSN; monitoring and peer review; engaging in following up on TA recommendations.
- **The TA Departments, including OTM**, are responsible for many activities that support the eventual delivery of TA projects in the field, and serve to ensure TA is at the desired level of quality. These activities include the following:
 - developing policy- each TA Department develops policies. For instance, departments are involved in the development of international norms and standards or, as a department specific example, the Fiscal Affairs Department (FAD) has developed policies related to tax and tariff structure, tax and customs administration, and public financial management;
 - preparing technical notes- each TA Department prepares technical notes, field manuals, and other guidance for its staff and experts. These technical notes and materials are used by PFTAC's resident advisors to ensure that their advice and guidance to member countries is consistent with the established IMF positions on important aspects of public financial management and revenue policy and administration;⁵
 - conducting research - all TA Departments carry out research, often resulting in the publication of IMF papers or other documents which are generally available on the IMF web site;

⁵ See the technical notes and manuals at: <http://www.imf.org/external/np/exr/key/fiscal.htm>

- evaluating TA – staff regularly review Fund TA.⁶ In July 2002 the Executive Board established the TA Evaluation Program, in which three to four evaluations a year are presented to the Board,⁷ and TA departments explain how they apply lessons learned from these evaluations. In 2005 the Independent Evaluation Office (IEO) also evaluated TA, paying special attention to its relevance and effectiveness and how to enhance ownership.⁸ TA departments generally self-assess completed externally financed projects, and there are also independent evaluations of TA delivery through assessment visits to countries, particularly intense TA users, to distill policy lessons.⁹

H. PFTAC's Sustainability

42. **Continued strong commitment of beneficiary countries will be critical for PFTAC's success.** Without this, no lasting results will be achieved. It is therefore expected that beneficiary countries continue to take full ownership of PFTAC's assistance and drive project implementation by, *inter alia*, appointing senior-level government officials as SC members, providing travel and *per diem* expenses for these officials to attend SC functions and to make a voluntary contribution to the financing of centre operations. PFTAC beneficiary countries also will continue to assist with administrative and logistical support for in-country training activities and other PFTAC events.

43. **An enhanced regional focus will be the main vehicle for ensuring the sustainability of the benefits of PFTAC's TA.** Given the long-term nature of building human and institution capacity, it is expected that PFTAC's funding will be extended beyond this cycle. PFTAC will continue to place strong emphasis on working on a regional basis and building up regional expertise so that reforms can increasingly be supported by others in the region. This would lay the groundwork for an eventual exit strategy. The IMF will expand its roster of regional experts. The issue of sustainability of PFTAC's operations would form part of the TOR of a mid-cycle external evaluation.

⁶ The last review was conducted in 2004, "Review of Technical Assistance" (<http://www.imf.org/external/np/ta/2004/eng/021704.htm>).

⁷ See <http://www.imf.org/external/np/pp/eng/2008/040408.pdf> on the most recent evaluations.

⁸ IEO Report (http://ieo-imf.org/eval/complete/eval_01312005.html).

⁹ Examples of past evaluations and studies include a review of TA on Large Taxpayer Units (2002), an evaluation of public expenditure management TA to Anglophone African countries (2004) (reported in <http://www.imf.org/external/np/ta/2004/eng/030104.htm>), and a study of the integration of tax and social security contributions (2004).

44. **TA operations will as much as possible be located within regional initiatives.** By ensuring that TA is responding to articulated demands of PICs and framing interventions in the context of regional mechanisms, the likelihood of advice being taken up increases. It also makes it more likely that other partners can carry on support in a similar vein. Sectoral strategies in Statistics and PFM (see Chapter IV below) are directly connected to specific strategies endorsed by Forum Economic Ministers. Regional mechanisms are less fully formed at present in other sectors but PFTAC is working with the Forum Secretariat and other regional bodies, including its professional associations to ensure coordination.

45. **Professional associations will move towards a self sustaining basis.** The professional associations established by PFTAC have proved to be a valuable means of sharing experiences and developing regional strategies to address common problems (see Box 1). At present, however, most associations rely on PFTAC funding for both operations—their annual strategic meetings, and capacity building. PFTAC considers this funding to have been an effective investment in increasing the ability of PICs to assist each other. Over the next funding cycle, PFTAC aims to convince associations to be able to fully self-fund their basic operating costs and to direct all its funding to the associations to direct capacity building. PFTAC advisors would continue to act as the main technical advisors to the associations. It is hoped that other development partners would increase their use of these associations as venues for discussing policy issues and for delivering training and focused TA (this has already occurred in the PFM area with ADB).

46. **PFTAC will aim to help countries adopt a common approach to common problems.** The Pacific is a diverse region and it would be foolhardy to assume that an approach developed in one country is automatically applicable in all others. Nevertheless, many countries in the region are facing similar problems; a common approach to solving them can yield economies of scale in terms of analysis and technical assistance. If a number of countries adopt the same approach it can also increase the chances of sustainability as countries can support each other over time. PFTAC has already begun this approach in the tax area (model tax office) and in the financial sector (building common prudential returns).

47. **PFTAC will also attempt to make greater use of Pacific expertise.** The regional associations and intensified pursuit of common approaches across groups of countries will provide opportunities to increase the use of country officials to assist other PICs. PFTAC has used this model sparingly thus far, with occasional use of attachments. These either take the form of PIC officials spending time in another regional country that has undertaken similar reforms or using the experience on a TA mission to a country about to embark on a similar reform. However, PFTAC will remain conscious that the capacity to do this is limited in the small public administrations of the Pacific. The front line of technical assistance will continue to be based around experts on the IMF's roster to ensure that PICs receive the best possible international expertise.

I. Integration and Synergies with Other TA Providers

48. PFTAC provides a robust platform for implementing the March 2005 Paris Declaration which calls for efforts to harmonize, align and manage aid for results.

PFTAC's TA activities are integrated with recipient countries' poverty reduction and development strategies. Moreover, through the SC as well as the relationships and regional expertise of PFTAC staff, TA activities are directly coordinated with those of donors and other TA providers. Because IMF TA is mainly upstream—building economic policy and legislative frameworks—such coordination is all the more important: First, other TA providers often build and expand on this work, often to include downstream implementation. Second, donors often rely on it to help ensure the effectiveness of their financial assistance. For example, a functioning public financial management system is a precondition for donors' moving from project to budget support.

49. PFTAC's coordination with the many other TA providers active in PFTAC countries is key to its success and sustainability. TA in PFTAC's area of competence is being provided to the region by a range of multilateral and bilateral institutions, in particular the Asian Development Bank, AusAID, the New Zealand Aid Programme, APRA and the World Bank. As noted elsewhere, the support of these institutions is often critical to the success of PFTAC's technical assistance.

50. To help ensure complementarities and synergies with other TA providers, the PFTAC Coordinator is the focal point for this liaison with bilateral and multilateral agencies in the field. In particular, the Coordinator will

- Disseminate the APD RSNs,¹⁰ including the IMF's Resource Allocation Plan (RAP), which details all TA missions and assignments planned in an IMF financial year, including those planned for PFTAC.
- Circulate reports prepared by RTAC experts to the SC and, upon request, other relevant stakeholders if the TA recipient consents (consent by the TA recipient would be given on a no-objection basis). He/she will also circulate to the SC reports prepared by IMF HQ. This will provide PFTAC recipient countries, donors, and other TA providers with the information they need to better coordinate with IMF and PFTAC TA.

¹⁰ According to the IMF's new dissemination policy, which was adopted in FY2010 (<http://www.imf.org/external/np/pp/eng/2009/040609.pdf>).

- Information on PFTAC missions are posted on PFTAC's website, which include contacts with other donors. If possible, PFTAC missions will provide donor briefings in the field.
- PFTAC will continue to participate in relevant formal and informal donor coordination groups, mainly at regional level but also, where needed, in individual countries.¹¹
- PFTAC will beginning with this funding cycle publish annual reports at the end of each of its fiscal years (May-April).

51. **The enhanced collaboration pilot with the World Bank will be reconsidered in the next funding cycle and will take account of the role of the ADB Pacific Economic Management (PEM) TA.** The pilot did have some success, particularly in improving the interest in the PEFA process in the region and laying the groundwork for elements of the regional PFM roadmap. However, there were problems integrating the PFTAC delivery model with World Bank operations in the Pacific resulting in the two posts in PFTAC remaining vacant following the first year of the two experts. World Bank management is considering how to integrate the pilot into its scaled up regional and country operations. If the pilot is continued, the responsibilities of the World Bank expert(s) will be revised to take account of changes in the PFTAC strategy—notably the inclusion of PEFA activities—and other donor activities, most notably the ADB's (PEM) TA project. PFTAC and PEM TA staff have worked closely together in the first phase of the PEM project. As the project moves towards its second phase, ADB is considering strengthening the linkages with PFTAC by drawing formal links with the PFTAC SC in guiding its activities. The TA focus of this second phase will need to be developed alongside priorities for PFTAC and the possible World Bank posts to ensure complementarity.

EXPECTED RESULTS FOR FUNDING CYCLE

J. Measuring How PFTAC Achieves Its Objectives

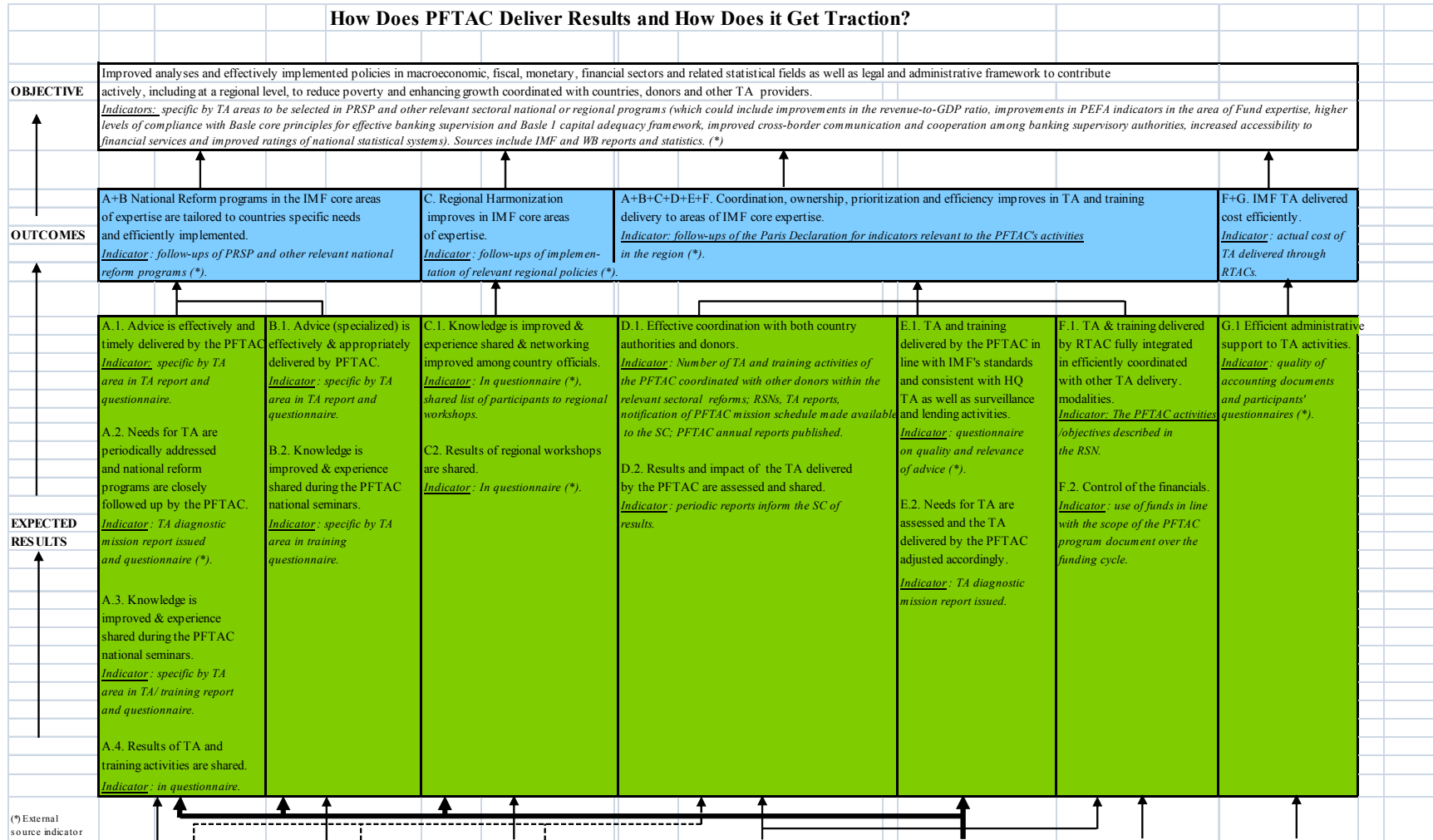
52. **Results-focused management is the main tool used to assess the achievements of PFTAC.** A robust framework of the PFTAC results, presented in a clear and logical manner at the beginning of the program period, improves the measurement of the objectives and results. A proposed framework is presented at Appendix B. The framework sets out high level outcomes to which PFTAC's technical assistance will contribute and the immediate outcomes that TA is expected to help countries achieve. The results framework does not yet

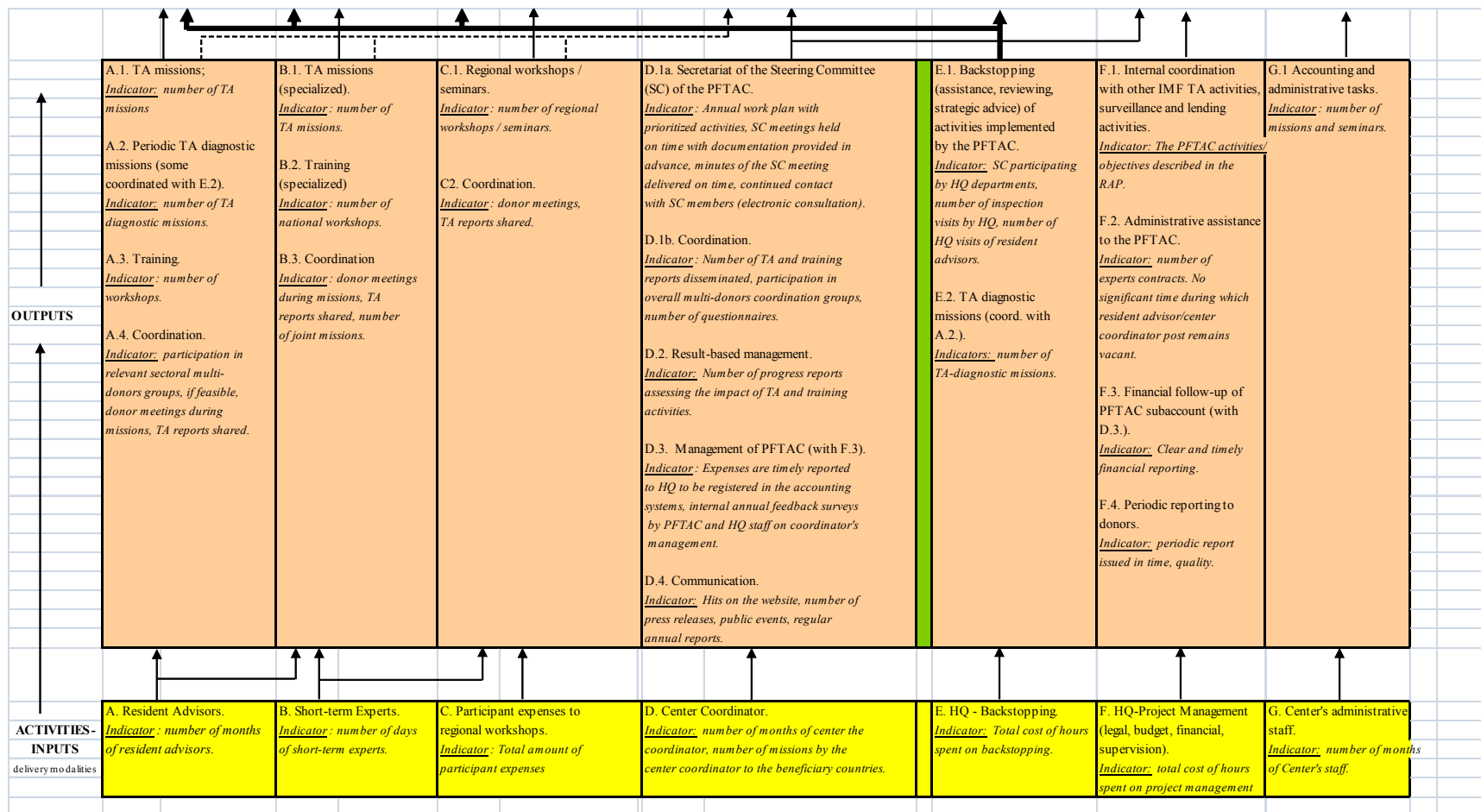
¹¹ PFTAC currently chairs the informal working group on economic TA, established under the auspices of the Forum Secretariat.

take account of the inclusion of Timor-Leste in the group of recipient countries—this will be developed at the beginning of the funding cycle once TA needs and PFTAC’s role with respect to other development partners have been investigated further. PFTAC and the IMF recognize that identifying good indicators is a dynamic and iterative process, and that the objectives and indicators may be refined as the program is implemented. In particular, to ensure that results remain aligned with country priorities, PFTAC will work with recipient countries to agree high-level country strategies that will guide TA over the funding cycle. Results indicators will be updated following these consultations. The results framework will be monitored through the Technical Assistance Information Management System (TAIMS) and coordinated with other TA providers. Indicators will be linked to the extent possible to those of other providers to facilitate coordination (for instance, PFM is linked to the PEFA framework).

53. To complement the results-focused framework, at the completion of each project, PFTAC will use short questionnaires to assess the success and relevance of the TA provided. The questionnaire will be designed to gauge whether the TA has been effective in facilitating outcomes and to understand potential obstacles to the implementation of the TA advice. Responses will also provide information as to whether the TA directly responded to the needs of the authorities. This process will assist in ensuring that PFTAC remains demand driven, and assist in the decisions requiring the prioritizing the TA. The questionnaire will be kept short to avoid it becoming an administrative burden. Consolidated responses will be presented to the SC.

How Does PFTAC Deliver Results and How Does it Get Traction?





K. Agenda—Revenue Policy and Administration

Coordination with Development Partners

54. **PFTAC has worked closely with a number of development partners to implement the key elements of their revenue policy and administration reforms.** PFTAC has generally provided advice on the essential components, sequencing and timing of the reform program together with focused assistance in key areas, such as IT strategies and risk-based compliance. As PFTAC does not have the resources to support countries in day-to-day implementation, it has worked closely with a number of development partners to finance implementation of its advice, for example, FSM where a resident AusAID advisor works closely with PFTAC and Tuvalu where an ADB project assisted in the implementation of a VAT guided by PFTAC advice. This collaboration helps avoid duplication of effort and enables the widest possible reach of technical assistance efforts. PFTAC will continue to work closely with development partners on expected revenue automation enhancements (Palau, RMI, FSM) and policy reforms (FSM, Niue, RMI, Kiribati, Vanuatu) in the next project cycle. PFTAC also works closely with the Oceania Customs Organization, who takes the lead in customs development in the Pacific allowing PFTAC to focus on tax administration.

Phase IV—Country and Regional Objectives

55. **Recent assistance has primarily focused on reforming consumption taxes and improving the efficiency of collections.** Advice has focused on revenue policy reforms encouraging modern comprehensive tax policy frameworks, with a number of countries introducing VATs and enhancing their profit taxes; compliance improvement strategies, aimed at prioritizing PFTAC's TA to the areas of highest risk; automation; and improving data monitoring and compliance.

56. **Revenue administration will continue to be the main focus of assistance.** PFTAC will continue to work closely with revenue administrations to identify improvements that can be managed within the resources of the organization at a pace appropriate for their capacity and the businesses they deal with. To enhance sustainability, where other donors are not supporting implementation PFTAC assistance will emphasize regular repeat short term missions. The main areas of focus will be:

- Enhanced core processes particularly: registration (use of TIN), data processing (automation & self assessment, data integrity), debt and return collection (e-file and payments, risk based collection), audit (risk based case selection), taxpayer services (low cost channels for high volume transactions, website & e-channels)
- Compliance improvement strategies: matching administration resources to risk and using data to monitor compliance improvement and performance standards.
- Customs support will be focused on IT strategies to replace or support PC Trade and in conjunction with the OCO, modernization and updating of the Customs legislation and upgrades to HS 2007.

- In the latter part of the funding cycle it is expected TA will focus on capacity development of more sophisticated revenue risks, particularly cross-border risks. There may also be a need to expand assistance to non-core areas such as corporate management, particularly human resources, training need analysis, and organizational strategy.

57. **Assistance on tax policy will be emphasized in the early part of the funding cycle.** A number of countries are considering implementation of policy changes (often based on PFTAC advice). There is however considerable difficulty in implementing what are often seen as politically unpopular tax reforms. PFTAC will continue to engage with decision makers to promote acceptance and understanding of the rationale behind the reforms. The demand for this type of advice is expected to increase in the near future as PICs make adjustments to revenue policy in the face of trade liberalization and other pressures for fiscal adjustment. PFTAC financing may be used to draw on the expertise of the IMF's Legal Department to provide legislative drafting support where required.

58. **Regional strategy will be guided by the Pacific Islands Tax Administrators' Association (PITAA).** A PFTAC sponsored regional study "Regional Solutions to Generic Regional Issues" in 2008 set the basis for the PITAA tactical plan adopted in 2009. PITAA has now requested PFTAC use the tactical plan to inform regional revenue technical assistance needs. In support of their request, PITAA members have agreed, where possible, to self fund PITAA, and requested PFTAC use its funds to provide the regional technical assistance identified in the tactical plan. Specifically, this will involve development of four key regional initiatives. Longer term, it is anticipated the combination of these four key initiatives will lead to development and use of regional expertise:

- a model tax office framework including model legislation;
- a regional training program;
- development of a regional IT support strategy the implementation of which, it is hoped, will be supported by development partners; and
- development of a PITAA website with secure information sharing and communication functionality to encourage cross-regional collaboration.

59. **PFTAC will also undertake a simple regional baseline assessment in six core areas of revenue administration;** (legislation framework, core processes, governance, operating model, automation, and revenue administration concepts) to identify medium term objectives for each member country and regional priorities. This baseline assessment will help inform country needs and regional opportunities going forward and will provide the basis for monitoring progress against the verifiable indicators in Box 4.

60. **Assistance will mainly be delivered by one resident advisor supported by short-term experts.** The resident advisor will take the lead in providing advice on tax administration reforms and assisting in their implementation, and in coordination of the work program. Short-term experts will be

used to support implementation and in areas of specific expertise, such as tax policy and IT development.

61. **A small number of headquarters-led missions will be undertaken.** These may be to individual countries (for example, for advice on strategic tax policy reforms), or to several countries in the one mission. The latter would include cross-regional assessments of experiences in dealing with common systemic problems and issues,¹ and brief follow up missions to several countries at a time to assess progress in implementation of their reform programs and the effectiveness of PFTAC's advice, and to bring IMF experience into the assessment of consistency of the reforms with international developments and IMF standards

Box 4. Revenue policy and administration: possible verifiable indicators of success.

- Modernized comprehensive revenue legislation framework adopted in 4 additional countries (RMI, FSM, Kiribati, Vanuatu) (encompassing one or more of VAT, Net Profit Tax, Personal income tax, Presumptive tax, Revenue Administration Act):
- Revenue administration processes automated in 4 additional countries: (Solomon Islands, FSM, Marshall Islands, Palau, Kiribati)
- Self assessment principles adopted for customs and Tax in 4 additional countries: (Fiji, RMI, FSM, Kiribati).
- Revenue administrations organized in taxpayer-focused structure (functional or segmented) used in 4 countries: (Samoa, FSM, RMI, Palau)
- Risk management and compliance improvement strategies adopted in 4 additional countries

Regional Objectives

- Model tax office framework and legislation developed and agreed by PITAA.
- Regional support office established for countries with common IT systems. (PC Trade, RMS, CMS)

¹ The most recent example is the 2008 tax policy mission which reviewed the impacts of trade liberalization and the introduction of domestic taxes in 5 countries, and drew conclusions about the appropriateness of consumption taxes in very small economies which are of application across the region.

L. Agenda—Public Financial Management

Coordination with Development Partners

62. **The PFM area requires particular attention to development partner coordination.** This reflects a number of factors: the importance of PFM to poverty reduction; the increasing reliance of development partners on countries' PFM systems for delivering their assistance and the resource intensity of PFM reform, which encompasses agencies across the whole of government. As a result, development partners in the region have been increasing their technical and financial support to the area enhancing the need for effective coordination. The regional PFM roadmap, which regional Finance Ministers requested PFTAC assistance in drafting, acknowledges this need and proposes a number of mechanisms to enhance donor coordination in support of countries' PFM reform.

63. **PFTAC coordination with development partners has taken a number of different forms:**

- Developing strategic frameworks for regional technical assistance: a PFTAC regional study on internal auditing laid the foundation for a large regional ADB TA project to enhance internal audit in a number of PICs, with PFTAC continuing to lend strategic and country specific advice.
- Implementing strategic advice: development partner projects have been designed around the implementation of PFTAC diagnostic advice (e.g. ADB support to medium-term budgeting in Palau and Cook Islands, and PFM reform in Kiribati, New Zealand support to macro fiscal reporting in Vanuatu, Australia support on the development of financial instructions in Solomon Islands).
- Joint scoping work: for instance the recent joint mission on implementing medium-term budgeting in Tonga
- Specific contributions to work led by other donors: for instance leading the PFM element in the World Bank led PER in the Solomon Islands, PFM training in Tonga and Vanuatu.

64. **In the next funding cycle, coordination will continue to be crucial.** In addition to existing collaborations it is expected that PFTAC will work with the Australian Ministry of Finance and Deregulation in the area of capacity development and implementation, on the development of Accounting Centre of Excellence with the ADB and PEFA collaboration with donor partners and member countries.

Phase IV—Country and Regional Objectives

65. **PFTAC's assistance in recent years has been focused on medium-term budgeting and budget execution areas.** This has included regional work in the areas of Internal Audit and IFMIS, as well as country specific work on overall needs assessment, cash management and commitment control, development of Financial Instructions, and development of forward estimates. Training has been focused on general PFM capacity development, exposure for top level officials to advanced

country systems and in specific areas including medium term budgeting, development of IFMIS systems and Internal Audit.

66. **For the next phase, assistance will be focused around the regional roadmap while continuing to respond to specific country demand.** The aim will be to ensure that countries make steady progress across all areas of their PFM system. The main areas of priority for assistance will be:

- **Technical support to PFM reforms:** the main areas of focus for technical advice are expected to be: cash management, commitment control, accounting- including development of accounting guidelines and assisting in the improvement of statistics, medium-term budgeting and legal frameworks. Assistance in other areas could also be delivered if resources allow.
- **Support to the PEFA process:** as recommended by the 2010 FEMM the regional PEFA resource recommended by the regional PFM roadmap will be established in PFTAC. That resource will coordinate and participate in PEFA assessments, advise on their outputs and provide assistance to countries in developing a well defined way forward after the PEFA assessments have been undertaken (Box 5 provides more details).

67. **Country priorities will be developed as far as possible as part of the reform plans derived from PEFA assessments.** PFTAC will remain committed to being able to respond rapidly to urgent demands from PICs in its areas of core expertise. Likely areas of focus in member countries are outlined in Appendix B. The most significant commitments of funds in the PFM area in the early part of the funding cycle are expected to be MTB in Tonga and Palau and budget execution in the Solomon Islands.

68. **PIFMA will continue to be the main focus of regional activities.** The Association has already moved some way in reducing costs and it is now proposed to move it towards a self-funding model in due course. This is likely to take the form of greater member country participation in the management and operation of its affairs and providing a strategic direction to PIFMA by establishing a feed-back loop from PIFMA members to PFTAC on their strategic requirements and its fulfillment. The strong link to the FEMM meeting will be maintained by attempting as far as possible to schedule the annual heads meeting next to the FEMM.

69. **PFTAC aims to continue developing regional guidance and lessons learned from its country-level work.** Immediate priorities include the development of model financial instructions, cash management guidelines, accounting standards and lessons learnt document from the recent IFMIS studies undertaken by PFTAC. Further priorities will be developed in conjunction with PIFMA.

70. **Training and attachments will also be utilized to help countries achieve sustainable reform.** PIFMA will be the main vehicle for regional training which is expected to concentrate on basic PFM issues and specific targeted areas like Cash Management, commitment control, accounting guidelines and implementing model FIs.

Box 5: The new regional PEFA resource.

In response to the regional PFM roadmap, the 2010 FEMM agreed a central point for supporting the Public Expenditure and Financial Accountability (PEFA) assessment process in the Pacific should be established in PFTAC and called upon development partners to assist by providing the financial resources needed to deliver the proposed services to be offered by PFTAC, and to coordinate their own efforts with this central point.

As a result, Phase IV of PFTAC includes new activities to establish the regional PEFA resource, in line with Ministers' recommendations that the resource should build and disseminate good practice in Pacific PEFA assessments; coordinate and help execute assessments, including through participation, review and assistance; and assist in developing PFM reform strategies (roadmaps) based on the PEFA assessments.

The resource will form part of the overall PFM operations of PFTAC. It will provide:

- **A resident PEFA advisor**-who will be the core of the resource. The advisor would be a technical resource for countries and donors; monitor and coordinate the progress of PEFAs in the region, and be available to be the lead consultant in PEFAs. The advisor would also, along with the other PFTAC PFM advisor, assist countries in developing realistic reform plans based on the results of the PEFA assessments.
- **Short-term experts** – a limited budget for funding supporting experts to the lead consultant on a PEFA assessment. The experts are expected to come mainly from the region and will hopefully regularly be drawn from relevant Ministries of Finance.
- **Seminars and workshops** – to provide training and lessons learned on the PEFA process.

The unit will aim to:

- Prepare Pacific-specific guidance material on effective PEFA assessments and associated reform strategies.
- Support each PFTAC country conducting at least one PEFA assessment during the 5 year funding cycle, and that follow-up assessments are undertaken every 4-5 years.
- Support translating assessments into clear country PFM reform strategies.
- Conduct at least 2 regional/sub-regional workshops on PEFA-related issues over the next 5 years.

The overall cost of the PEFA resource is expected to be around US\$3 million. This would fully finance the regional support mechanism and make a significant contribution to the costs of executing PEFA assessments in the region.

Box 6: Public Financial Management: possible verifiable indicators of success.
Overall objective

- Balanced reform progress achieved by PICs, as identified by improvements in PEFA markings:
 - I. At least 3 indicators in the comprehensiveness and transparency area in 5 countries
 - II. At least 1 indicator in the budget cycle area in 5 countries
 - III. At least 4 indicators in the budget execution, accounting and reporting areas in 5 countries

Country Objectives

- At least 1 PEFA assessment conducted in each PFTAC country during the funding cycle.
- Reform road maps developed following each PEFA assessment.
- Modern Financial Instructions implemented in Nauru, Kiribati, Samoa and 2 more countries
- Updated accounting standards implemented in 3 countries- Fiji, Samoa and Solomon Islands
- Medium-term budgeting at line agency level adopted in 4 further countries.
- Aggregated quarterly cash plan based on line agency forecasts regularly produced in 8 countries.

71. **Assistance will be led by two resident advisors and supplemented by short-term experts.** One advisor will coordinate detailed technical support to countries and the other will take the lead in PEFA issues, including the development of action plans. In the low-cost scenario, PEFA issues would only be able to be addressed in the context of other TA—other development partners would need to provide coordination and capacity building support. Short-term experts will be used in topic-specific areas and to support implementation where there are gaps in other development partner support.

M. Agenda—Banking Supervision

Coordination with Development Partners

72. **Financial sector technical assistance activities will continue to be coordinated with regional development partners.** Active regional development partners include the ADB, AMLAT and APRA. Over the past three years, PFTAC has worked closely with ABD on Tuvalu, providing desk reviews and participating in a joint mission, to review and assess the adequacy of legislation proposed by Tuvalu to strengthen the licensing and on-going supervision and regulation of banking institutions. APRA provides financial sector supervision assistance mainly on-site examinations of banks, insurers and provident funds in the South Pacific. PFTAC has focused mainly on off-site bank supervision in the South Pacific and both on and off site issues in the North. Coordination however remains important as PFTAC also provides capacity-building support in insurance and on-site supervision. Increasing requests for assistance in the areas of insurance and provident fund supervision and regulation will require closer coordination with APRA. PFTAC assistance in AML/CFT is limited to response to urgent institution-specific concerns and has been very limited recently. Nevertheless, PFTAC coordinates with AMLAT and IMF HQ to ensure no overlap of assistance activities/efforts.

Phase IV – Country and Regional Objectives

73. **Prior TA has been instrumental in establishing compliance-based programs of on- and off-site supervision,** which assess and determine compliance with laws and regulations and a bank's own internal operating policies and procedures. This has seen PFTAC assist countries develop revised prudential standards and regulations and enhance their data collection and analysis capacities. This type of supervision program, however, does not provide for the independent verification of risk or an assessment of the acceptability of risk in relation to a bank's resources (earnings and capital support). Increasingly, PFTAC is providing assistance in moving supervisory agencies from compliance-based on-site examinations to include the independent assessment of banking risks and the overall safety and soundness of a bank.

74. **In the next funding cycle, PFTAC will continue to focus on improving bank supervision practices and tools consistent with international best practices.** Individual country priorities/TA focus are outlined in Appendix B. The main objectives will be to:

- move from compliance-based supervision framework to one more risk-based with emphasis on identification and assessment of banking risks relative to CAMELS,²
- assure continuous supervision of banking institutions by strengthening off-site monitoring to include improved and regular analytical reviews of data obtained from prudential returns,
- formulate standardized written on-site examination reports to allow for a comprehensive and organized presentation of examination findings while ensuring that all banks are subject to a minimum level of risk review/analysis,
- enhance the institutional capacity of supervisory authorities to conduct routine on-site examinations of non-problem banks through development of written procedures for examining functional banking activities/areas, and
- continue to enhance banking laws and regulations (policy guidelines/statements) consistent with international standards.

75. **Capacity building will be focused on improving staff's skills in identification and assessment of risk going unnoticed or improperly assessed.** To enhance risk-identification and assessment, it is envisaged that TA will focus on providing guidance and training in credit risk, especially loans based financial statement analysis of a borrower's future/on-going repayment capacity, and collection/recovery of assets other than loans (i.e. non-listed investments and securities). The review and analysis of data from prudential returns will continue to be a key area of support.

76. **Assistance in non-bank supervision will continue to be provided, contingent on available resources and support available from other institutions.** APRA is expected to continue to take the lead in this area, requests to PFTAC for assistance in non-bank supervision, particularly insurance firms and provident funds will be met as much as possible, on a needs available basis. It is expected that micro-finance institutions will be dealt with by other TA providers.

77. **Training will be increasingly focused on common practical issues faced by sub-groups of countries.** While PFTAC has previously sponsored a number of training attachments, feedback from

² CAMELS is an acronym for the six components common to the evaluation of all financial institutions and includes: Capital adequacy, Asset quality, Management and administration, Earnings performance, Liquidity, and Sensitivity to market risk. CAMELS is a supervisory tool for evaluating the soundness of banking institutions on a uniform basis and for identifying those institutions which require additional supervisory attention.

participants has indicated that such training attachments are generally too short to provide a meaningful learning experience and capacity building. Rather, to promote capacity building, PFTAC will conduct sub-regional training by having supervision staff participate in the on-site examinations of other jurisdictions on a rotational basis. This expanded participation will allow for not only increased leverage of PFTAC resources but the exchange of new/different supervision techniques and experiences among jurisdictions. PFTAC will, however, continue to consider requests for training secondments and conduct broader training programs where there is a compelling need.

78. The AFSPC remains an active and effective regional body for enhancing supervision capacity. With PFTAC support, the Association generally conducts two training/workshop seminars each year in addition to an annual meeting of the heads of supervision to discuss current supervision concerns. Increasingly members are funding their own travel expenses to attend Association activities. Continued effort will be made to further reduce costs and move the Association toward a true self-funded and governing organization. In this regard, PFTAC will continue to encourage members to fund their own travel expenses where possible and the Association membership will be encouraged to take over the responsibilities of the Secretariat which PFTAC has currently been appointed.

79. Assistance will be delivered by a resident banking supervision advisor with limited support from short-term experts. Experts will be primarily used to support non-bank supervision areas, particularly insurance and provident funds.

Box 7. Financial Sector Supervision: Possible verifiable indicators of success

1. Risk-based supervision framework adopted by supervisory institutions as evidenced by:
 - (i) improved bank reporting requirements allowing supervisory authorities to regularly calculate “core” and “encouraged” Financial Soundness Indicators prescribed by the IMF (Solomon Islands, Vanuatu, Fiji, Tonga, Cook Islands, Palau, FSM, RMI)
 - (ii) Prudential returns data regularly used to assess the CAELS components of banks in 6 countries based on a standard regional process/manual
 - (iii) improved manuals for completing quarterly off-site monitoring reports; and
2. Improved on-site examination of banks through:
 - (i) regular full-scope CAMELS examinations implemented in 5 countries;
 - (ii) use of standardized on-site examination reports to assure all banks are subject to a minimum level of review and analysis in 5 countries;
 - (iii) completion of written procedures for examining functional banking activities/areas of operation.
3. Financial statement analysis regularly used in 10 countries to enhance evaluation of credit risk and verify the adequacy of bank grading and provisioning (Vanuatu, Fiji, PNG, Solomon Islands, Tonga, Samoa).

N. Agenda—Statistics

Coordination with Development Partners

80. **PFTAC statistics TA is coordinated with the TA provided by a number of multilateral and bilateral development partners.** The Statistics and Demography Program (SDP) of the Secretariat of the Pacific Community (SPC) assists countries with source data for macroeconomic statistics. SPC also assists PICs on price indexes and to some extent on national accounts, as well as in dissemination. PFTAC has also worked alongside and in combination with a number of other TA providers. The Asian Development Bank (AsDB) is providing TA in improving Government finance data and has assisted with BOP and NAS compilation in the past. AusAID has funded a number of institutional strengthening programs at the country level and regional projects to strengthen statistics planning and project management, with the Australian Bureau of Statistics or other TA providers delivering the TA. Similarly, The New Zealand Aid Programme and Statistics New Zealand have been active in TA delivery in the region, especially for Cook Islands, Niue and Tokelau. PFTAC works with both ABS and Statistics New Zealand in the delivery of training and attachments. FSM and RMI rely on consultants paid through US compact grant financing to compile NAS and BOP statistics (albeit with no capacity building component). In addition to coordinating this TA through regional meetings (e.g. Heads of Planning and Statistics meetings), TA providers keep each other informed to ensure there is no duplication of effort.

81. **Coordination in the next funding cycle will be guided by the implementation of the regional benchmarking study.** On direction of Forum Economic ministers, the Forum Secretariat and Secretariat of the South Pacific (SPC) commissioned a regional statistical benchmarking report to assess the quality of statistical capacity and recommend regional measures to enhance capacity. The report recommended enhancing regional governance of the statistical system, selective use of contracting out and stepped up technical assistance, in particular from SPC and PFTAC. Ministers approved the recommendations in 2009 and an implementation plan was drawn up under ADB-funding. The plan was endorsed by regional heads of statistics and planning in 2010 and a standing coordination committee of government statisticians established to oversee implementation. SPC, supported by PFTAC in areas of economic statistics, will act as secretariat to this committee.

Phase IV—Country and Regional Objectives

82. **PFTAC Statistics TA has focused on promoting the regular and timely compilation, analysis and dissemination of economic and financial statistics.** This is consistent with the broader objective of IMF statistics TA: for statistical agencies to have sufficient capacity to produce and disseminate the range of macroeconomic statistics covered by the IMF and that these statistics are of

high quality and consistent with international statistical standards³. In recent years the main focus has been on national accounts and balance of payments statistics with some attention also given the government finance statistics. IMF HQ has taken the lead in direct TA on monetary and financial statistics and price indices. PFTAC has provided price assistance on an occasional basis. PICs continue to rely on the SPC and TA financed by multilateral and bilateral development partners to assist with improving administrative data sources, as well as conducting economic and household censuses and surveys. SPC also provides support on price indices.

83. **The General Data Dissemination System (GDDS)⁴ and the Data Quality Assurance Framework (DQAF)⁵ of the IMF will continue to be used as frameworks for statistical development**, as appropriate, recognizing the budget and staff capacity constraints in PICs. PFTAC will continue to provide technical advice to strengthen the statistics prerequisites needed to produce macroeconomic statistics such as organizational, strategic and legislative issues; this will be provided during advisory and expert missions, as appropriate.

84. **Statistics advice will focus on national accounts (NA).** The main objective will be to move countries towards broader and more frequent measures of GDP. The ongoing cycle of household income and expenditure surveys (HIES) in the region provides an opportunity to rebase and recalibrate national account statistics in PICs. It is anticipated that there will be a resident advisor focusing on national accounts throughout the funding cycle. Their focus will be to:

- a. Improve the quality of GDP (P) estimates, by, among other things, better integration of administrative and other data, greater use of volume data in constant price estimates, and methodology improvements,
- b. Develop and compile at least two independent measure of GDP (expenditure, income or production) and expand the range of NA statistics compiled, e.g., GNI, saving and net lending/borrowing,

³ The international standards applying to statistics covered by the IMF are provided in the *Balance of Payments Manual*, sixth edition; the *External Debt Statistics: Guide for Compilers and Users*, 2003; the *System of National Accounts 2008*; the *Consumer Price Index Manual*, 2004; the *Producer Price Index Manual*, 2004; the *Export and Import Price Indices Manual*; the *Monetary and Financial Statistics Manual*, 2000; the *Government Finance Statistics Manual*, 2001; and the *Compilation Guide on Financial Soundness Indicators*.

⁴ The GDDS includes a core set of macroeconomic and socio-demographic indicators, as well as encouraged extensions. Recommendations in relation to frequency and timeliness of dissemination for each indicator are also included. Full implementation of the GDDS enables participating countries to more easily adopt the Special Data Dissemination Standards (SDDS) of the IMF.

⁵ The DQAF provides detailed guidelines and standards to assess the quality and consistency with international standards of particular macroeconomic indicators.

- c. Regular rebasing of constant price estimates following the cycle of HIES and CPI rebasing,
- d. Developing quarterly NA estimates in countries with the necessary capacity and data.
- e. With additional resources in the statistics areas being used to fund a second resident advisor (see below) it is not expected that short-term experts will be available to support this program. Support from other areas, including SPC and HQ-work funded by other donors, will be required for success.

85. **The second advisor will focus initially on external statistics.** Support in other areas of macroeconomics—price, fiscal, monetary and external statistics—will be provided through the second resident advisor and non-PFTAC financed TA from IMF HQ. The advisor would focus on one sector at any given time, with the focus expected to shift during the funding cycle, in consultation with the steering committee and the standing committee of government statisticians. The initial focus will be external statistics, building on the focus in the final year of the current cycle. Following that prices and GFS are expected to receive focused attention with monetary and financial statistics continuing to be serviced from IMF HQ. Priorities in each area will be:

- Improving external sector statistics to be consistent with Balance of Payments Manual 6 (BPM6). Improving the quality and expanding the range of external sector statistics is important for macroeconomic management and to produce GDP(E), GNDI, GDI and other national accounts aggregates.
- Broadening the coverage of indices. TA will look to develop producer price and trade price indexes in countries with sufficient capacity, in order to develop other measures of inflation and to improve price deflation for constant price GDP estimates. The cycle of HIESs also provides an opportunity to update consumer price indices. PFTAC will work with SPC to rebase and update as many CPIs as possible in the region in line with the *Consumer Price Index Manual, 2004 (CPIM)* standards over the next funding cycle.
- Improving the coverage, quality and timeliness of GFS in the region. Substantial work is underway to improve Government financial management information systems in several countries which will improve source data for compiling GFS consistent with the Government Finance Statistics Manual, 2001 (GFSM 2001) standards.

86. **Regional activities will be centered on annual training events.** PFTAC will continue to conduct an annual seminar/workshop with the primary objective of promoting regional best practice. These seminars/workshops also provide an opportunity for participants to share experiences and develop contacts. All areas of macroeconomic statistics are expected to be covered in the next funding cycle. These will be supplemented by attachments to other statistical agencies, such as Statistics New Zealand and ABS and training provided by advisory missions.

87. **PFTAC will further develop the national accounts compiler association (PINACLE).** The main objectives will be to develop compilation notes and to make greater use of the PFTAC Website to encourage technical discussion and networks. Later in the funding cycle, if funds become available and the emphasis of TA shifts to other areas, further technical associations may be considered.

Box 8. Economic and Financial Statistics: possible verifiable indicators of success.

National Accounts:

- 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.
- Constant price GDP(P) and GDP(E) estimates rebased for Fiji, FSM, Marshall Islands, Palau, Samoa and Tonga.
- Compilation of regular annual GNI, GNDI, saving and net lending/borrowing aggregates by at least 8 member countries.
- Improve consistency of NAS with *2008 SNA* standards (all member countries).
- Development or improvement of Quarterly National Accounts for Fiji, Samoa and Vanuatu.

External Sector Statistics

- Regular compilation of annual BOP estimates for countries with irregular compilation (Nauru, Niue, and Tuvalu).
- Improvement in the coverage, quality and timeliness of Current Account estimates for all member countries.
- Improvements in the coverage and quality of investment income and external grants data and financial and IIP estimates for 8 countries.
- Improved consistency of BOP and IIP estimates for at least 9 member countries with *BPM6* standards.

Prices Statistics

- Rebase of the CPI for at least 7 member countries.
- Compilation of PPI and trade price indexes by 4 member countries.

O. Agenda— Macroeconomic Analysis and Frameworks

Coordination with Development Partners

88. **Coordination in the macroeconomic policy frameworks area is primarily with the IFIs.** PFTAC has only recently begun providing TA in macroeconomic analysis and frameworks. The main area of coordination has been with the ADB's PEM TA project, where close coordination between the lead consultant based in Suva and the PFTAC coordinator has been effective in ensuring complementarity and ensuring overlaps do not occur.⁶ Joint analytical pieces on monetary policy frameworks and the macroeconomic impact of energy prices have also been prepared. Coordination with IMF surveillance teams is also important in this area and will be enhanced in the next funding cycle through the new IMF regional resident representative. If, as proposed, the PEM TA project moves to be a more permanent institution then close attention to the appropriate division of duties between the PFTAC advisor and PEM TA staff will be required. Fruitful initial discussions have already taken place and are expected to continue in the coming months.

Phase IV—Country and Regional Objectives

89. **Country TA will focus on improving forecasting and inter-agency coordination.** Coordinating closely with IMF surveillance and program teams the advisor will assist Ministries of Finance and Central Banks generate coherent and robust macroeconomic frameworks, with the aim of assisting policy deliberations within government. Key priorities will be: (i) utilizing improved national accounts and balance of payments statistics to develop realistic growth forecasts that take account of production and expenditure side developments, (ii) ensuring policy makers are aware of and contingency plans for the risks the forecasts are most subject to, (iii) translating annual forecasts into financial programs that can inform monetary and exchange rate policy, and (iv) improving macroeconomic analysis and making it more available to the public. Particular focus will be given to countries that are undertaking substantial adjustment programs or new revenue policies.

90. **Technical advice in specific macroeconomic policy areas will also be provided.** This is expected to encompass enhanced monetary policy frameworks and reforms to exchange rate management systems. It will also include assisting countries in analyzing debt sustainability.

91. **Regional work will focus on training on key macroeconomic management techniques.** Early in the funding cycle, training courses at regional and sub-regional level will be held on financial programming and forecasting techniques. These will be organized in conjunction with the IMF Institute. PFTAC will also continue to work with the Bank of England's Centre for Central Banking Studies to organize courses on key central banking issues once every one to two years. Collaboration with RBA and RBNZ will be maintained to ensure that courses remain tailored to the needs of the

⁶ The PFTAC coordinator is also a member of the steering committee for the TA project.

region. The advisor will also contribute to regional analysis for central bank governors, finance ministers and other fora.

Box 9. Macroeconomic analysis and frameworks: possible verifiable indicators of success.

- Improved accuracy of growth forecasts in member countries.
- Establishment of inter-agency macro policy units / mechanisms in 4 countries.
- Increase in analytical papers produced and disseminated by central banks and ministries of finance.
- Regular production of tailored debt sustainability analyses in 4 countries (Fiji, Tonga, Solomon Islands and Samoa).
- Regularly updated financial programs underpinning macro policy making in 6 countries (Solomon Islands, Fiji, Vanuatu, Samoa)

RTAC GOVERNANCE, OPERATIONS, VISIBILITY AND FINANCIAL MANAGEMENT

P. Governance

92. **PFTAC is guided by the SC that consists of representatives from recipient countries, donors and the IMF. The SC provides strategic guidance to the Center and assists in setting its priorities.** It also provides input on the topics to be covered by the team of resident advisors and short-term experts, and endorses the Center's work plans. The IMF informs the SC on the selection and hiring of resident Advisors.

93. **The SC holds meetings at eighteen-month intervals.** Additional meetings may be convened as necessary. The SC is chaired by the principal representative of the host country (e.g. the governor of the central bank). Observers to the SC can be permitted, from neighboring countries, regional organizations or other relevant TA providers.

Q. RTAC Operations

Work Plan

94. **PFTAC's annual work plan is developed in consultation with member countries and within the context of the IMF's TA prioritization processes, managed through the RSN for APD and the RAP.** This process takes into account each beneficiary country's macroeconomic reform strategy. The IMF's continuous dialogue with PFTAC member countries provides a basis for the identification of key capacity-building needs in each country concerned. Drawing on this, TA priorities are determined and detailed country TA programs formulated jointly by the PFTAC and

IMF HQ. This ensures that the activities of both are fully integrated with each other, as well as with country reform agendas. The development of the annual work plan is also coordinated with the IMF's budget cycle and resource allocation processes to ensure timely and predictable delivery of the planned TA.

95. **Given the limited resources available to the Center, a main prioritization criterion in determining the work plan is each beneficiary country's record in making effective use of TA previously received.** Peer review among the country representatives on the SC should, therefore, reinforce cooperation, accountability, and the effective use of resources.

96. **PFTAC's work plan consists of the individual country TA programs, which may form part of broader regional projects.** The PFTAC Coordinator seeks strategic guidance from SC members on the work plan, prior to seeking their formal endorsement. At each SC meeting, the PFTAC Coordinator delivers a monitoring report on the progress of the activities outlined in the workplan.

Center Coordinator

97. **PFTAC is headed and managed by a Coordinator.** The Coordinator is responsible for the day-to-day management of PFTAC and its operations, under the strategic guidance from the SC and general oversight from the IMF. In consultation with the SC, APD, TA Departments and OTM, the Coordinator formulates PFTAC's work plan and monitors its implementation. The Coordinator also serves as secretary to the SC. The Coordinator is appointed and supervised by the IMF with OTM having an oversight role over the RTACs.

Staff

98. **PFTAC's staff comprises a number of resident Advisors in each of the relevant TA areas, office support personnel, and a pool of short-term experts for specific assignments.** The IMF's TA departments are responsible for selecting and hiring PFTAC resident advisors, usually through international advertisements, and providing them with the substantive support and backstopping required to ensure quality and consistency in their advice and activities. Short-term experts for peripatetic assignments are recruited through IMF HQ, based on the latter's roster of qualified experts, and are backstopped (see also section on quality Control) by the IMF.

99. **While the IMF will continue to select PFTAC staff, the transparency of the recruitment process will be enhanced through regular reporting to the SC.** All forthcoming resident advisor vacancies at PFTAC will be reported to the SC. The IMF will also report to the SC regarding short-listed candidates and the person selected for the advertised position. In all recruitment of experts, due consideration will continue to be given to suitably-qualified candidates from the region. Support staff positions will be filled locally, unless such staff are seconded from the host country.

Accountability

100. **PFTAC is designed and operated to ensure that IMF TA is delivered in a manner that is responsive and accountable to the recipient countries.** PFTAC must also meet and maintain the high-quality standards that are expected of IMF TA. The IMF's recently revised dissemination policy⁷ on TA reports will further improve accountability and facilitate coordination. Under the new policy, TA reports may be shared with SC members with consent of the TA recipient on a no-objection basis, and on the understanding that such information shall be kept confidential. Sharing of TA reports with non-PFTAC donors will be determined on a case-by-case basis based on whether the donor in question has a legitimate interest in the TA report in question, perhaps due to its engagement in related activities in the recipient country. To enhance coordination, the SC members will also receive information which flags the need for any complementary TA.

101. **It is a core objective of PFTAC that the activities of the Center reflect the ownership and commitment of its members.** This helps to ensure the continued effectiveness and sustainability of the TA delivered.

102. **As outlined throughout this document, the inputs of beneficiary countries are sought at various stages of the work planning and operations of PFTAC:** during surveillance ("Article IV Consultations") and diagnostic missions that inform the TA planning process by APD and TA Departments in their preparation of TA strategies, and through the input and oversight of PFTAC's SC.

103. **PFTAC utilizes a results-focused management system to track the implementation of its TA projects and activities in each country.** This monitoring of TA project implementation against pre-determined objectives and indicators ensures the delivery of timely and effective TA. The results-focused management serves to provide consistency, coherence, and predictability in the planning and execution of PFTAC TA. Monitoring reports further increases the accountability of TA to country authorities, donors, and other TA providers.

104. **The PFTAC's SC provides an additional forum for accountability.** Member countries can provide immediate feedback and recommendations on TA delivery and value. All SC members receive the information that allows them to guide PFTAC's work.

Quality Control

105. **Maintaining the quality of the TA advice and activities delivered by PFTAC is the responsibility of the staff at IMF HQ and at PFTAC itself.** This process begins when the TA

⁷See <http://www.imf.org/external/np/pp/eng/2009/040609.pdf>.

Departments screen and appoint PFTAC's resident advisors from a pool of vetted experts. IMF HQ support PFTAC by backstopping its staff and operations. Combining the recommendations of previous surveillance and TA missions with the needs of the country, the TA departments discuss with the resident advisors the objectives and outcomes of the mission. An important part of the backstopping at this early stage is the strategizing and sequencing of TA, to ensure that TA missions and outcomes build the capacity of the recipient country in a cumulative and logical manner. Throughout the mission of short-term experts and the stay of the resident Advisors, the TA departments provide supervision and support. This is a dynamic and fluid process that can take a number of forms.

106. TA departments review and authorize the TA reports produced by the resident advisors. Further, APD and TA departments work with country authorities to ensure follow-up on the recommendations of TA missions. Country authorities also provide feedback on the value and efficacy of the TA received. At all stages of each TA mission, the backstopping ensures the consistency and quality *across* countries.

107. The RTAC Coordinator provides an additional layer of quality control of the TA in their management of the day-to-day operations of the RTAC, and given their close relationship with the country authorities. As Coordinators are also present in country for longer periods, they can monitor the progress of beneficiary countries in implementing reforms that are supported by the RTAC.

Evaluation

108. It is proposed that, after no fewer than three years of operation, an independent external evaluation of the work of PFTAC be carried out by a team of independent experts. The evaluation will assess PFTAC's effectiveness and sustainability and of its TA, bearing in mind the long-term nature of capacity building. The evaluation will formulate recommendations for improvement. The findings of the evaluation will inform discussions on PFTAC's future operations.

R. Visibility for PFTAC and Donors

PFTAC Publications and Website

109. PFTAC will publish an annual report. The report will detail the work undertaken by the Center, and report on the progress toward the planned objectives and outcomes.

110. PFTAC will maintain its own website, providing regular updates on its operations. The website will serve as part of the public face of the Center. In particular, it will serve to foster coordination with other TA providers, including by providing contact information on specific issues and countries. It will include a regularly updated activity plan for the centre and six-monthly updates on results and country strategies.

Visibility for Donors

111. **The names or logos of all of the donors supporting PFTAC are displayed on reports and information produced by the Center as well as the letter head of official correspondence of the Center.**

112. **Where relevant and necessary, press releases may be issued to inform the public at large on PFTAC's work and accomplishments** (e.g., at the end of selected seminars). Donors and beneficiary countries will be invited to participate.

S. Financial Management

113. **Contributions from donors and recipient countries will be made into a multi-donor PFTAC Subaccount to be established under the IMF's Framework Administered Account for Selected Fund Activities (SFA).**⁸ This Subaccount will be used to receive and disburse financial contributions for the Center's activities; all resources contributed to the Subaccount will be for the sole use of PFTAC.

114. **The basis for the financial arrangements between donors and the IMF will be a letter of understanding establishing the purposes of the contributions related to this program document and subject to the terms of and conditions of the subaccount, as well as the SFA framework instrument.** The IMF undertakes the trust fund management for all contributions in accordance with its financial regulations and other applicable IMF practices and procedures.

115. **The IMF will provide donors with reports on the Subaccount's expenditures and commitments through a secure external gateway.** Separate reporting on the execution of PFTAC's budget will be provided at each SC meeting. Costs will be on an actual basis.⁹ The operations and transactions conducted through the Subaccount during the financial year of the IMF will be audited as part of the IMF's Framework Administered Account and the report of the External Audit Firm is posted on the IMF's external website as part of the IMF's Annual Report. PFTAC is audited by the IMF's internal audit office.

116. PFTAC is an IMF office. It complies with IMF procurement practices.

⁸ See <http://www.imf.org/external/np/pp/eng/2009/030409.pdf>.

⁹ See <http://www.imf.org/external/np/pp/eng/2008/040308a.pdf>. Staff cost will be charged at the midpoint of the standard cost of the grade of staff members plus the relevant benefit factor, contractuels and long-term experts will be charged at the actual salary plus the relevant benefit factor; all other costs, including short-term experts, travel and seminars will be charged at actual cost.

Appendix A: Results in FY09-11 Funding Cycle
Technical Assistance Framework (from program document)

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions/Risks
Goal			
To build skills and institutional capacity in Pacific Island Countries (PICs) in the diagnosis, prioritization and implementation of appropriate policies, procedures and systems which underpin good practice public sector economic and fiscal management and regulation--within the scope of PFTAC's four Program Areas: 1. public financial management; 2. tax and customs revenue policy and administration; 3. financial sector supervision and regulation; and 4. economic and financial statistics.	Demonstrated improvements in PICs' policies and procedures consistent with international good practice, standards and codes, taking into account regional/national circumstances. Demonstrated improvements in the institutional capacity of PICs to implement agreed reform programs.	Reports/Stocktakes of: 1. PIC governments 2. PFTAC 3. IMF, WB, ADB 4. Donors 5. Pacific Islands Forum Secretariat	Political commitment to, and community support for, good governance and financial management reforms. Development of agreed strategies to ensure that donor TA in the Pacific is provided in the context of strategic, coordinated and appropriately resourced assistance plans.
Performance: <i>Although progress has been made in procedures and policies in many PICs, strengthening macroeconomic management remains a key priority in the Pacific. The food and fuel price crisis and the subsequent global economic crisis provided stern tests of economic management capabilities in the Pacific. Countries largely were able to navigate through these crises while maintaining macroeconomic stability but a number required additional financial support to cover fiscal unsustainable positions.</i> <i>ADB's CPA ratings provide a useful benchmark for the quality of public sector management in PICs, however results are not available for the current funding cycle. From 2007 to 2009 results indicate that while economic management generally deteriorated across PICs, small gains were made in structural policies and public sector management institutions.</i>			

Outputs/Outcomes			
At a national level, strengthened institutional capacity of PIC authorities to define and implement improved policies, systems and practices, within PFTAC's four Program Areas, in cooperation with development partners. Longer term, improved economic stability and sustainability of economic growth.	Demonstrated progress by PIC authorities in implementing improved policy and procedures in line with the recommendations of related PFTAC reports and formal capacity development activities. Longer term, achievement of poverty-reduction goals, and elimination of macroeconomic imbalances.	1. PFTAC mission reports and progress assessments. 2. User satisfaction surveys from PIC authorities on the mission. 3. PFTAC 6 monthly reports to funding agencies and subsequent feedback. 4. PFTAC reports to Tripartite Review Committee Meetings and subsequent discussions. 5. Reports of, and feedback from, development partners with related in-country TA activities. Longer term, improvements in measured economic welfare.	PIC authorities are committed to developing and implementing reform agendas, including the associated capacity building and skills enhancement requirements. That regional development partners are committed to cooperation and information sharing on related in-country TA activities. Longer term, that causal links of TA provision can be drawn directly to PFTAC and other specific donors.
Performance: <i>Substantial improvements in economic management systems have been implemented in PICs with PFTAC assistance. Specific results by country are at Annex A .</i> <i>The user satisfaction survey of PFTAC, undertaken as part of the recent evaluation, indicates that PICs continue to value PFTAC's technical assistance. This was endorsed by the Steering Committee.</i> <i>Progress against the longer-term aim of enhanced poverty reduction has been less positive. Despite some improvements in policies and procedures in many PICs, progress against poverty-reduction goals has been mixed in the Pacific. This reflects, in part, the impact of the global food/fuel price crisis and the global economic crisis which caused setbacks in some countries. It also reflects slower than anticipated progress in some countries.</i> <i>Improving the environment for economic growth and private sector investment has been identified as key to accelerating progress, which emphasizes the need for continued capacity building in macroeconomic management</i>			

At a regional level , closer cooperation and increased understanding by PICs and development partners of regional policy and technical issues associated with PFTAC's four Program Areas, including those arising from regional integration and harmonization commitments.	The number, nature and effectiveness of PFTAC contributions to regional fora, including the extent to which PFTAC-promoted initiatives are pursued at a national level by PIC authorities and the level of cooperation with related development partners.	PFTAC papers, reports and contributions to regional fora. Feedback from PIC and donor participants.	That the commitment and momentum of PICs and development partners toward regional integration as articulated in the Pacific Plan is maintained.
Performance <i>PFTAC's contributions to regional dialogue and analysis assisted policy making. PFTAC advisors, often working in concert with other donors, continued to assist countries and development partners make progress towards closer cooperation and understanding of issues in PFTAC's four program areas. Key outcomes include:</i> • <i>Further development of regional professional association (see Box 1 of main program document).</i> • <i>At the request of the regional Finance Ministers, PFTAC, in collaboration with the Forum Secretariat, drafted a public financial management roadmap that sets out realistic reform milestones and good practice for reform management and donor coordination.</i> • <i>In collaboration with other donors convened a conference on financial literacy that achieved broad regional recognition of the Coombs Declaration and led to the regional adoption of MoneyPacific goals.</i> • <i>In combination with IMF HQ, a report was produced that analyzed the revenue challenges faced by Pacific Island Countries arising from the liberalization of trade. This also led to a regional report on the implications for revenue reform for the 2010 regional finance ministers meeting (FEMM).</i> • <i>Six handbooks that showed how international good practice can be applied in the Pacific region were published. An evaluation of Internal Audit in Pacific countries was undertaken that will feed into broader support to this area by the ADB.</i> • <i>PFTAC has worked closely with the regional central bank Governors, including on convening special meetings on the global economic crisis and to consider PFTAC's analysis of interest rate levels and bank profitability.</i> • <i>PFTAC, supported SPC and PIFS in the development of a strategy to improve regional statistical development.</i> • <i>Chaired the PIFS informal working group on economic TA (shared with EU).</i>			

Inputs			
High quality and timely technical advice encompassing an assessment of existing practice and procedures in PIC authorities and recommendations/ action plans for strengthening in line with international good practice and these on-the-job and informal capacity development of national staff- -focused on promoting: (i) efficient, effective, transparent and sustainable budget formulation and presentation, budget execution and control, reporting, and audit; (ii) simple and efficient revenue policies and effective tax administrations capable of increasing tax compliance; and modernized customs procedures to secure revenue and facilitate trade; (iii) prudential supervision regulation techniques; (iv) regular and timely compilation, analysis and dissemination of economic and financial statistics.	The number of PICs' requests for missions, and the timeliness, quality and effectiveness of PFTAC advice and capacity development activities, including the extent to which it can be seen to contribute to enhancements in the four specified areas.	1. PFTAC back to office mission reports and reports to donors, including comments from IMF HQ. 2. PFTAC Handbooks. 3. Feedback from PIC authorities, including selective use of formal satisfaction surveys. 4. PFTAC 6-monthly reports to funding agencies and subsequent feedback. 5. PFTAC reports to Tripartite Review Committee Meetings and subsequent discussions. 6. Reports of, and feedback from, development partners with related in-country programs.	Assumes a willingness by PICs to work with PFTAC and other agencies to design and implement new policies and procedures, and to develop their own institutional capacity to carry forward such reforms. Assumes a willingness by PIC authorities to implement capacity building programs, including appropriate pay and benefits policies in order to limit staff turnover, and to retain essential and committed professional staff.
Performance: <i>As at September 2009 PFTAC had conducted 132 missions at the request of its members across all subject areas and countries (see Annex B for details). Many missions formed part of a substantive reform project, often in cooperation with other donors. Others were responded to shorter-term ad hoc country demands.</i> <i>TA was generally well received (see evaluation and user survey) and contributed to the results identified in annex A.</i> <i>Most country requests were able to be met, some however, were not able to be dealt with either due to lack of available expertise in sufficient time or requests for areas outside of PFTAC's expertise or resource (Fiji tax and banking). Where possible PFTAC worked with other development partners to fill these gaps.</i>			

Activities			
a. Undertake a program of technical assistance missions, as requested by individual PICs and in liaison with relevant development partners.	1. Draft reports discussed with authorities prior to end of mission. 2. Secure general endorsement by the authorities of the report findings and recommendations.	1. IMF HQ assessment of PFTAC expert's report. 2. Correspondence from PICs authorities on report. 3. Selective use of user satisfaction surveys 4. Follow-up to PFTAC missions/reports.	Active engagement by PICs and other donors to coordinate and optimize the use of PFTAC resources.
Performance: <i>Missions have routinely discussed aide-memoire with the authorities which identify actions to be taken forward. These are monitored, where relevant, in follow up missions</i> <i>Joint missions with relevant development partners are regularly undertaken have been conducted with other development partners in: RMI (ADB), Palau (ADB), Tonga (ADB, Australia), Kiribati (ADB), Tuvalu (ADB), Solomon Islands (World Bank) and Niue (New Zealand).</i>			
b. As part of the mission, work with local counterparts to build capacity to understand issues and create ownership of recommendations.	Participation of appropriate local counterparts in the assessment process and assignment of local responsibility for oversight/implementation of the recommendations.	1. Subsequent managerial action by the local authorities to establish required follow-up action. 2. Implementation of PFTAC mission recommendations.	Staff capacity exists and turnover is sufficiently slow to allow returns to capacity building.
Performance: <i>Most missions include some formal capacity building in addition to on the job training and technical advice. The results identified in annex A represent implementation of PFTAC advice. However, in many jurisdictions even when recommendations have been accepted implementation has been slower than anticipated. This reflects political and capacity constraints and implies a need for greater conservatism when recommending timetables for reform.</i>			
c. Formal capacity development of PICs personnel involved in PFTAC's four Program Areas. Organize regional for a and conduct targeted formal workshops	Number, type and effectiveness of formal capacity development sessions organized by PFTAC experts.	1. Reports by sponsoring agencies/ experts providing courses on training provided and participant performance. 2. Feedback from participants, including qualitative comments and suggestions.	As above.
Performance <i>PFTAC conducted 21 training courses and seminars in the FY09-11 funding cycle (see Annex C for details). Feedback for all courses were positive with 85% of the participants agreed that training was well planned and structured; 60% were of the view that there was not enough time for discussions and 78% agreed that they were able to network effectively with other participants in the PICs</i>			

d. Organize short-term attachments, between PICs and to relevant organizations, of PIC officials.	Number, type and effectiveness of attachments organized.	1. Reports by sponsoring agencies/receiving agencies on training provided and participant performance. 2. Feedback from participants, including qualitative comments and suggestions.	As above.
Performance <i>PFTAC organized attachments for 19 PIC officials. These included:</i> ➤ 4 attachments to Stats New Zealand\\ ➤ 9 finance secretary level study tours to US/Australia ➤ Attachment of Tuvalu revenue officer to FIRCA ➤ Participation of Cook Islands and Vanuatu staff in PFTAC missions			
e. Quick response (ad hoc) technical advice to PICs on specific issues	1. Volume and nature of direct enquiries and/or requests for short notice TA missions received from PICs. 2. Number of enquires/requests PFTAC was able to respond to and timeliness.	PFTAC records of ad hoc enquiries, including origin and nature of inquiry and advice provided.	Assumes that PICs continue to demand a quick response on specific issues to complement other more long-term advice provided by other donors.
Performance <i>Ad hoc technical advice remains is a staple part of PFTAC advisor's interactions with counterparts in PICs. Most advice is provided on an informal basis and is not recorded. Some short-term missions are required for urgent issues.</i>			
Resourcing of Activities			
1 Project Coordinator, 4 full time resident advisors, 2.5 support staff, and associated infrastructure. Short-term and peripatetic experts and regional consultants to complement activities. Office space to host attachments.	Resident advisors and experts technically competent with high interpersonal skills and motivation.	1. IMF HQ oversight of recruitment of staff. 2. IMF HQ oversight of PFTAC activities. 3. Feedback from PICs and donors.	Continuation, and possible expansion, of current level of financial support from key donors.
Performance <i>See budget table at Annex D.</i>			

Annex A: PFTAC-supported results in member countries

This annex outlines the main results that have been achieved by PFTAC member countries during the current funding cycle in areas where PFTAC has provided technical advice, support and mentoring (often in cooperation with other development partners).

The annex does not reflect all PFTAC activities in each country, only those that have resulted in some progress. In some countries this reflects full implementation of a reform, in others reforms remain a work in progress, reflecting the often substantial time frames between technical assistance and results.

Cook Islands

Adoption of medium-term budgeting. PFTAC, in coordination with ADB, provided sustained assistance in this area to enable better planning and utilization of resources. Starting from guidance in the implementation of the system, the Cook Islands has now moved towards a country-owned and implemented MT Budgeting which would enable it to plan and direct its resources better.

Framework for internal audit established. Based in part on regional work conducted by PFTAC, ADB has provided support to the establishment of internal audit in the Cook Islands.

Stronger regulatory framework for the banking sector supported by more effective supervision. PFTAC TA led to revised capital requirements for banks to incorporate a capital charge for operational risk; revised monthly prudential returns requiring banks to provide more detailed data to allow for in-depth monitoring of liquidity and market sensitivity risk of banking institutions, and enhanced capacity to calculate and monitor financial soundness indicators. FSC staff now undertakes financial statement analysis during on-site bank examinations and make independent assessment/verification of credit risk grades assigned by banks and the adequacy of loan loss provision requirements.

Modernized insurance legislation. As a result of peripatetic assistance provided to the FIC, new insurance legislation covering domestic and offshore sectors was adopted in 2009. In 2010, additional assistance was provided to strengthen the capacity of the FSC to implement the new insurance legislation and provide training to staff in insurance supervision. A program of off-site monitoring and on-site examinations of insurance licensees has been implemented.

Broader, more reliable national accounts. Substantial improvements were made to the national accounts compilation system so that it is consistent with SNA93 standards. PFTAC TA helped the authorities incorporate new data, rebase constant price GDP to 2006 prices, increase range of industry value added.

Enhanced fiscal statistics. Fiscal statistics are now compiled to *GFSM2001* though a standard, updated compilation system. Statistics NZ assisted with rebase of CPI.

Fiji

A revised corporate strategy for the revenue administration. PFTAC and the IMF have undertaken a number of missions to the Fiji Island Revenue and Customs Agency (FIRCA) in the last funding cycle. In early 2008 a wide ranging organizational review mission focusing on Customs, Revenue and Corporate services was completed. As a result, FIRCA has, with PFTAC TA, developed implementation plans for each business unit, the corporate strategy and plan has been reviewed to align more closely with the organization's strategic direction, and business processes have been mapped to identify opportunities for process improvements.

Enhancements to tax policy and legislation. Based in part on IMF/PFTAC recommendations the VAT threshold was increased in 2009 to ease administration and compliance. A Revenue Administration Act has also been drafted and is expected to be implemented in 2010. IMF recommendations on streamlining tax incentives are currently under consideration and the rewrite of the income tax act has commenced.

Improvements in budget performance measurement. A performance budgeting system was set up with PFTAC support. Its implementation has assisted line ministries measure performance against targets and so improve service delivery to citizens.

Enhanced framework for internal audit. A revised internal audit manual is about to be implemented based on PFTAC assistance to give management advice in improving systems and improve operational efficiency through modern Internal Audit. This would help improve systems to direct resources more effectively.

Significant improvements in all areas of economic statistics, including quality, timeliness and range and transition to current standards.

- i. External sector statistics now on BPM5 and expect to move to BPM6 during 2011.
- ii. NA coverage and quality improved, along with consistency with *SN493*, rebased constant prices to 2005 base year.
- iii. CPI has been rebased, a producer prices survey is being conducted and a PPI is being developed. An import prices survey has been implemented and import price indexes are being compiled.

Federated States of Micronesia

Detailed development of a wide-ranging tax reform. FSM has been the largest recipient of PFTAC/IMF revenue sector assistance in the last funding cycle with assistance across a wide range of areas including: detailed reform implementation planning, development of an information technology strategy, legislation drafting and advice. A myriad of constitutional issues have impeded timely passage of the tax reform legislation, the singular upside being the widespread communication and

consultation on the reforms at state and national levels supported by long term AusAid funded technical advisors.

Development of enhanced bank reporting framework. As a result of assistance activities, recommendations have been provided to the Banking Board to revise monthly and quarterly bank reporting requirements to allow for more detailed off-site monitoring, and to strengthen and clarify the amount a bank can lend to a single borrower. The recommendations, however, remain under consideration by the Banking Board—staff have been trained and are ready to implement the changes. Assistance and training activities were also instrumental in the Banking Boards approval of new foreign bank branch applications.

Adoption of new regulations for captive insurers. The new regulations cover application requirements, prudential reporting requirements, solvency and minimum capital/reserve requirements, and other matters.

Modernized system for producing balance of payment statistics. Based on PFATC advice BPM6 standards are now used to produce balance of payments statistics. Recommendations have also been made for improvements to NA methodology, including options for extending GDP statistics to include production and expenditure measures to complement the existing income measure. However, these have not been adopted. Capacity remains very weak: NA, BOP and GFS compiled annually by consultants funded by the United States Department of Interior.

Kiribati

Improved risk management in customs. In the context of broader support from Australia customs, PFTAC advice led to the adoption of improved procedures for revenue collection (post clearance audit) that focus on the highest risk and highest reward transactions and training.

Enhanced income tax legislation. On the basis of PFTAC advice, Kiribati has enacted legislation to make PAYE a final tax which will free administration resources to focus on higher risk areas and reduce compliance costs for salary and wage earners.

Strategic framework for PFM reform. A PFTAC diagnostic mission provided the framework for a substantive ADB project to support PFM reform in Kiribati. PFTAC also provided analysis of the IFMIS system

Broader, more up to date measures of national income. With PFTAC support, the national accounts was rebased NA to 2006 prices, with improved data sources, methodology and consistency with *SN493*. Measures of GNI and GNDI were also developed. Significant quality improvements to the external sector statistics have also been made with new estimates on *BPM6* basis.

Marshall Islands, Republic of

Cabinet approval of a detailed revenue reform. PFTAC provided advice to a Tax Reform and Revenue Modernization Commission that was established to review the tax policy framework. Cabinet has endorsed the comprehensive revenue reform recommendations, which are broadly in line with PFTAC recommendations, and detailed policy design is underway. PFTAC has also assisted the Division of Customs, Tax, Treasury and Revenue identify institutional strengthening reforms necessary for the success of the policy reform.

Improved analysis of banks financial soundness. Off-site supervision has been enhanced by the development of standardized output reports which provide key ratios and numbers and allow for level and trend analysis. An updated manual for conduction off-site surveillance has also been provided to the Banking Commission.

Strengthened on-site supervision of banks. With PFTAC assistance, the Banking Board conducted its first full-scope CAMELS examination in 2009 and issued a comprehensive written report documenting weaknesses and concerns requiring corrective action by the bank.

Improved methodologies for economic assistance. Key datasets (NA, BOP and GFS) are compiled annually by consultants funded by the United States Department of the Interior, which has limited PFTAC's ability to build local capacity. PFATC has however helped RMI make improvements made to data sources and methodologies which have been adopted by the external consultants..

Nauru

Proposals developed for a modernized tax policy framework. A single stage consumption tax and presumptive tax policy framework has been developed with PFTAC assistance and is awaiting Government decision. AusAid and the ADB have also been involved in economic reform in Nauru.

Improved cash management procedures. PFTAC assisted the authorities develop a manual on cash management and provided training to optimize resource use which should ultimately lead to better service delivery. However, broader macroeconomic and structural conditions have limited the gains made from the improved procedures.

Stronger regulations for PFM to enhance efficiency and accountability. PFTAC assisted the authorities draft new financial instructions (FIs) to guide a more modern PFM system which allows resources to be used more effectively and efficiently and ensure better service delivery.

More reliable national accounts. PFTAC assistance, in collaboration with SPC, enabled Nauru to improved use of source data and methodology for NA, including a new business survey. With this, Nauru has produced updated nominal GDP estimates and compiled experimental constant price NA estimates. Development has also begun of external sector statistics.

Niue

Successful reforms to the tax system. A VAT was introduced in April 2009 with support from PFTAC and long term funding and technical assistance from the New Zealand Aid Programme and New Zealand Inland Revenue Department. The VAT has proved to be a productive revenue source for Niue. Full compliance with VAT on-time filing and paying obligations has encouraged Government to agree to reduce the VAT threshold in 2011. A follow up PFTAC policy mission has recommended further complementary revenue reforms to increase revenues, and minimize compliance costs.

Consideration of modernized budget preparation procedures. PFTAC provided advice, with support from a staff member of the Cook Islands finance ministry, on the scope for introducing medium term budgeting. The government is currently considering how to take the proposals forward.

Palau

Improved revenue compliance. A compliance improvement strategy was prepared for Palau in 2008 which identified data integrity, automation, and arrears and non-filers as significant issues. An amnesty was held in 2009 since which time significant operational process improvements have been made in recording and monitoring arrears and outstanding returns. An IT strategy has been developed to address automation needs in both the Customs and tax divisions.

Adoption of a PFM reform program. A PFTAC scoping study for introduction of MT Budget framework and cash management provided the basis for a substantive PFM reform program that will be implemented with the support of an ADB project.

Enhanced regulatory authority of the bank supervisor. Amendments to the Financial Institutions Act (banking law) previously recommended by IMF HQ were adopted in February 2008. The amendments greatly enhance the authority of the Financial Institutions Commission (FIC) to initiate enforcement measures against banks to address problem and non-compliance situations, conduct on-site safety and soundness examinations, and authorizes the FIC to issue regulations to enforce and give meaning to the FIA. Comprehensive bank regulations to implement and enforce the amended FIA were drafted with assistance from PFTAC came into effect in October 2008. A written regulatory response policy, prepared with assistance from PFTAC, outlining the types and uses of enforcement actions/measures against banks and the roles and duties of the Executive Commissioner and the FIC Board was adopted in January 2009.

Improved bank reporting. Expanded prudential reporting requirements were developed with assistance from PFTAC and implemented in December 2009. As a result of the revised prudential

reporting, in 2010 the FIC has implemented a regular program of off-site monitoring and analysis of the operation condition and performance of banks.

Introduction of independent on-site bank examinations. Training and assistance provided by PFTAC has also been instrumental in allowing the FIC to undertake independent on-site examinations of local banks with the primary focus of assessing solvency and liquidity.

Broader measure of national income developed. NA methodology improvements led to expanded GDP measures to include expenditure, GNI, GNDI and saving/net lending/borrowing, and improved consistency with *SNA93*. In addition, improved methodology for BOP and improved consistency of BOP with *BPM6* was achieved. However, the sustainability of results is under question as staff have subsequently left and government is yet to publish the revised estimates of national income.

Papua New Guinea

Improved revenue information technology. PFTAC has been instrumental to the development and funding of a new IT strategy for the Internal Revenue Commission (IRC) - Papua New Guinea. Since 2006, PFTAC has provided technical assistance to objectively assess the existing IT systems, develop an outward looking information technology strategic plan (ITSP) and prepare a business case for the IRC to seek government funding to implement the plan, which the PNG Government has now granted. A software provider has been engaged for the first phase of the implementation.

Improved external sector statistics. BPNG has improved the balance of payments through PFTAC-recommended improvements to existing source data, developing new source data (two surveys). A transition to *BPM6* has begun.

Samoa

Development of modernized income tax legislation. PFTAC, in cooperation with IMF's Legal Department, drafted simplified and modernized income tax and revenue administration legislation which is expected to be enacted as part of the Inland Revenue institutional strengthening program (ISP). The comprehensive ISP reflects AusAID and PFTAC advice. Funding will be provided from the Government of Samoa Public Sector Investment Facility funded from key country donors.

Introduction of medium-term budgeting. Since 2007 starting from guidance in the implementation of the system, Samoa has since the last 2 budget cycles moved towards a country owned and implemented MT Budget. This has enabled Samoa to plan and direct its resources optimally

Improved national accounts produced on a quarterly basis. Samoa is the only country in the Pacific that produces quarterly national accounts, reflecting the authorities' strong commitment to statistical development and technical advice from PFTAC and other development partners. Recent PFTAC advice has assisted the authorities improve the coverage and quality of quarterly NA and

improve consistency with *SN493*. Improvements have also been made on MFS (with IMF HQ support) and GFS.

Solomon Islands

Revised and updated prudential guidelines (regulations) for banks implemented by the Central Bank of Solomon Islands with assistance provided by PFTAC. New or revised prudential guidelines cover minimum capital, minimum asset classification and loss reserve requirements, foreign currency risk, liquidity requirements, and large borrowers. Extensive training in the meaning and intent of new prudential guidelines has been provided to the CBSI to ensure uniform interpretation and implementation.

Improved prudential reporting by banks. With PFTAC assistance, the CBSI has implemented a new prudential reporting format for banks. This new prudential reporting format serves as the basis for ongoing efforts to standardize, as much as possible, prudential reporting requirements for banks across the region. It has also assisted CBSI implement a comprehensive program of off-site monitoring of banks based on the new prudential reporting requirements. Fundamental to the off-site monitoring program is the implementation of standardized output reports which provide key ratio, numbers and levels of trends for each individual bank as well as the overall banking industry.

More timely and reliable national accounts. Use of source data and methodology for NA has been improved significantly, as has consistency with *SN493*. NA was rebased to 2004 with availability of major new data sources.

Improvements in external trade and price statistics. An imports prices survey has begun and training in import price indexes provided by PFATC. Improvements have also been made to external sector statistics, consistent with *BPM6*.

Tonga

Significant improvements in revenue policy and administration. Tonga is now seen as a progressive revenue administration. Driven mainly by the authorities, Tonga has modernized, simplified and extended its income tax legislation and modernized its Customs legislation – both of which operate using self-assessment principles. A large taxpayer division has been added to the operating model, the revenue management system has been upgraded and a new customs management system installed. VAT issues have been rectified following a PFTAC led post implementation review. AusAid and The New Zealand Aid Programme have provided funding and long term assistance for these changes.

Implementation of a revenue forecasting model. A PFTAC advisor provided and trained Ministry of Finance staff on a spreadsheet-based revenue forecasting model designed to improve budget estimates and resource allocation. The model did not fully achieve its intended results, due in part to institutional issues.

Development of a PFM reform roadmap. Working closely with the Ministry of Finance and the ADB, a PFTAC scoping study on the prerequisites for medium term budgeting contributed to a reform roadmap that will be supported by ADB, PFTAC and other donors.

Improved fiscal reporting. The Tongan component of a PFTAC regional program of assessment and assistance on Integrated Financial Management Information Systems (IFMIS) led to an identification of sub-optimal utilization of the Tongan IFMIS. PFTAC facilitated further interaction between the Tongan Ministry of Finance and Planning and the software provider which resulted in the design and production of new management reports.

Improvements to off-site bank supervision. Recent assistance provided to the National Reserve Bank of Tonga has been provided by training staff on analyzing and assessing bank profitability, especially interest rate spreads. As a result of the assistance, revisions were made to the NRBTs program of off-site monitoring to better identify and assess the current operating condition and performance of banks and to allow for the comparison of one bank's performance against other banks. Assistance has also assisted the authorities revise prudential reporting requirements to allow for more detailed analysis of the quality and condition of loans and more detailed income and expense data to better evaluate earning performance and provide advance warning of any future downturns in bank performance.. IMF HQ has provided support to on-site supervision,

Measures of national income have been broadened and made more reliable. Use of source data and methodology for NA has improved significantly, as has consistency with *SN493*. With PFTAC assistance the range of NA statistics has expanded to include expenditure measure of GDP, GNI, GNDI, saving and net lending/borrowing.

Broader, more reliable external statistics. Imports prices survey has begun and import price indexes are being compiled. The use of source data and methodology for external sector statistics has been improved significantly, as well as improved consistency with *BPM6*.

Tuvalu

Revenue policy modernized through VAT implementation. PFTAC recommended a comprehensive tax reform for Tuvalu in 2004. The reforms implemented by mid 2009 included a VAT, simplified progressive personal income tax, a net profit tax and a presumptive tax, and changes to Customs and Excise duties. ADB provided long term technical assistance and funding for the reform implementation. PFTAC undertook a post implementation review in 2010.

Improved fiscal data. With PFTAC assistance, the authorities developed an ACCESS database for budget tracking and refined it so that budgeting in Tuvalu can be made more efficient and effective.

Development of draft legislation to provide a framework for a viable financial sector. A joint mission with ADB was undertaken to Tuvalu in 2008 to assess in general terms the overall operating

condition and performance of the National Bank of Tuvalu and to identify potential impediments to possible outside investor interest in the bank. The mission also followed-up on the status of legislation to implement a legal framework for the licensing and on-going supervision and regulation of banks. In this regard, significant assistance has been provided to the authorities in revising the draft legislation to ensure compliance with Basel Core Principles for the supervision of banks. A draft banking act is expected to be presented to the Tuvalu Parliament in 2010.

National accounts and balance of payments produced in line with international standards.

PFTAC assistance played a large part in enabling the small national statistics office produce NA and BOP statistics using improved source data and methodology for NA and BOP consistent with *SN493* and *BPM5*.

Vanuatu

Strengthened revenue administration based on self-assessment and risk assessment. Vanuatu has adopted a compliance improvement strategy with focus on data integrity, automation upgrade, proactive actions for arrears and non-filers. Phase one of the revenue management system upgrade has taken place, the operating model in the VAT office has changed to a functional model allowing more proactive action to be taken to improve voluntary compliance. Self assessment principles are used extensively in the VAT and Customs office.

Improved fiscal forecasting techniques. PFTAC advice assisted the Ministry of Finance improve its revenue and fiscal forecasting techniques providing a framework for improved resource allocation and improve service delivery.

Improved regulations drafted for commercial banks. Revised and updated prudential guidelines (regulations) for banks covering minimum capital, minimum asset classification and loss reserve requirements, foreign currency risk, liquidity requirements, and large borrowers have are under consideration by the Reserve Bank of Vanuatu.

Strengthened on-site examination of commercial banks. Training and assistance also been provided to the RBV in the proper conduct of on-site examinations, including independent verification and assessment of asset values necessary to determining the adequacy of bank capital and loss reserves. As a result, with PFTAC assistance, the RBV has recently conducted its first full-scope CAMELS examination.

Updating and broadening of national accounts. PFTAC and AusAID assistance has enabled the authorities to substantially improve NA estimate, making better use of source data including administrative data and improving methodology. The constant price series was rebased to 2006 and an independent measure of expenditure on GDP was developed.

Annex B: Number of PFTAC Advisory Missions FY09-FY11

	Tax Administration & Policy		PFM		Financial Sector Supervision		Statistics		Macro		Total Resident Advisor	Total Short Term Experts
	Resident Advisor	Short Term Experts	Resident Advisor	Short Term Experts	Resident Advisor	Short Term Experts	Resident Advisor	Short Term Experts	Resident Advisor	Short Term Experts		
Cook Islands			7	6	1	1	1	1			9	8
Fiji	0	2	1	4	0		1	2	2		2	10
FSM	3	2			2		1	1			6	3
Kiribati			0	1			1	4			1	5
Marshall Islands	4	2	2	1	3		1				10	3
Nauru	1		2	2			1	1			4	3
Niue	0	2	1	1							1	3
Palau	1	1	5		4		2				12	1
PNG							0				0	0
Samoa	1		2				2	3			5	3
Solomon Islands			2		5	1	1	3			8	4
Tonga	1		0	2	3		2	1	1		6	4
Tuvalu	0		0	1	1		1	1			2	2
Vanuatu	5	2	3	1	3		3				14	3
Total	16	11	25	19	22	2	17	17		2	80	52

Annex C: PFTAC: Regional Training Seminars (FY09-FY11)

Sector	Title	Venue	Dates	Number of Participants
A. Completed events				
Revenue Administration	Pacific Islands Tax Administrators - Positioning Ourselves to the Future	Tonga	Sep-09	34
Revenue Administration	Pacific Islands Tax Administrators Meeting - - Improving Compliance & Administration	Vanuatu	Sep-08	32
PFM	PFM Study Tour to Australian Treasury	Australia	Feb-10	4
PFM	Pacific Islands Financial Managers Association Meeting	Cook Islands	Oct-09	26
PFM	PFM Training	India	Sep-09	14
PFM	Pacific Islands Financial Managers Association Workshop on FMIS and Internal Audit	Fiji	Oct-08	13
PFM	US Study Tour Trip	USA	Aug-08	9
Financial Sector Supervision	AFSPC Working Group on Harmonizing Prudential Returns	Solomon Islands	Jun-09	14
Financial Sector Supervision	AFSPC Annual Meeting & Seminar on Liquidity Risk in Banking Organizations	Fiji	Oct-09	22
Financial Sector Supervision	AFSPC Annual Meeting & Seminar on Risk Based Supervision	Tonga	Oct-08	22
Financial Sector Supervision	New Supervisor Workshop	Cook Islands	Jun-08	17
Financial Sector Supervision	Stress Testing	Fiji	Mar-09	4
Statistics / Financial Sector Supervision	Financial Soundness Indicators	Fiji	Sep-08	18
Statistics	National Accounts compilation	Fiji	Jul-09	14
Macro	CCBS Training on Exchange Rates, Foreign Reserves Management and Financial Stability	Tonga	Aug-10	22
Macro	CCBS Training on Key Central bank Modeling and Forecasting - Issues affecting PICs	PNG	Mar-09	15
B. Forthcoming events				
Revenue Administration	PITAA Sub regional training on Principals, Concepts and Practices of Modern Tax Administration	Guam	Oct-10	
Revenue Administration	PITAA Sub regional training on Principals, Concepts and Practices of Modern Tax Administration (tentative)	tbd	Feb-11	
Revenue Administration	PITAA Heads Meeting - Setting Regional Priorities	RMI	Oct-11	
PFM	PIFMA Annual heads meeting	Vanuatu	Oct-10	
PFM	PFM Training (in collaboration with Australia's Ministry of Finance and Deregulation)	tbd	Nov-10	
Financial Sector Supervision	AFSPC Heads Meeting	Fiji	Oct-10	
Statistics	Balance of Payments compilation	Fiji	Nov-10	
Macro	Financial Programming Training (tentative)	Fiji	Mar-11	

Annex D: Revised PFTAC FY09-11 Project Budget (US dollars)

	FY09			FY10			FY11				Total Project	
	Original Budget	Drawdowns	m/m	Original Budget	Drawdowns	m/m	Original Budget	Revised Budget	m/m	Drawdowns	Original Budget	Revised Budget
Externally Funded												
Resident Advisors	1,116,000	1,057,100		1,116,000	1,090,248		1,116,000	1,269,108		374,864	3,348,000	3,416,456
Public Financial Management	279,000	279,000	12	279,000	279,000	12	279,000	279,000	12	93,000	837,000	837,000
Revenue Administration	279,000	238,700	12	279,000	266,751	12	279,000	285,804	12	95,268	837,000	791,255
Financial Sector Supervision	279,000	279,000	12	279,000	279,000	12	279,000	279,000	12	93,000	837,000	837,000
Economic and Financial Statistics	279,000	260,400	12	279,000	265,497	12	279,000	285,804	12	93,596	837,000	811,701
Macroeconomics		0	0		-	-		139,500	6	-	-	139,500
Regional Travel	373,500	205,988		392,154	313,487		386,643	400,000		40,643	1,152,297	919,475
Public Financial Management	134,500	68,027		111,700	69,121		109,200	90,000		19,408	355,400	227,148
Revenue Administration	77,000	17,377		101,954	84,183		99,279	95,000		12,248	278,233	196,560
Financial Sector Supervision	86,000	77,184		90,300	41,641		94,815	95,000		8,284	271,115	213,825
Economic and Financial Statistics	76,000	43,400		88,200	118,542		83,349	85,000		703	247,549	246,942
Macroeconomics	-	-		-	-		-	35,000		-	-	35,000
Short-term Experts	519,453	492,446		346,302	676,863		188,892	1,275,021		299,079	1,054,647	2,444,330
Public Financial Management	283,338	209,319	7	125,928	220,374	7.0	78,705	425,007	13.5	110,187	487,971	854,700
Revenue Administration	157,410	132,504	4	125,928	157,410	6.5	110,187	377,784	12.0	125,928	393,525	667,698
Financial Sector Supervision	-	25,850	1	-	47,223	2	-	125,928	4	-	-	199,001
Economic and Financial Statistics	78,705	124,773	4	94,446	220,374	6	-	220,374	7	62,964	173,151	565,521
Macroeconomics	...	-		-	31,482	2	-	125,928	4	15,741	-	157,410
Local Consultants	45,500	5,260		40,475	0		48,940	40,000		0	134,915	45,260
Public Financial Management	1,500	-		-	-		1,500	10,000		-	3,000	10,000
Revenue Administration	16,500	5,260		15,000	-		17,942	10,000		-	49,442	15,260
Financial Sector Supervision	21,000	-		20,475	-		22,998	10,000		-	64,473	10,000
Economic and Financial Statistics	6,500	-		5,000	-		6,500	10,000		-	18,000	10,000
Contractual Services	74,024	25,904		74,024	22,007		74,024	30,000		5,230	222,072	77,911
Attachments	165,000	50,447		118,000	22,077		126,650	60,000		0	409,650	132,524
Public Financial Management	18,000	29,615		20,000	5,181		22,000	25,000		-	60,000	59,796
Revenue Administration	4,500	3,159		10,000	0		11,000	5,000		-	25,500	8,159
Financial Sector Supervision	18,000	17,673		20,000	0		22,000	0		-	60,000	17,673
Economic and Financial Statistics	124,500	-		68,000	16,896		71,650	30,000		-	264,150	46,896
Seminars	317,000	205,159		306,000	249,003		312,450	345,000		2,333	935,450	799,162
Public Financial Management	152,000	65,471		161,000	110,265		167,200	90,000		214	480,200	265,736
Revenue Administration	45,000	54,482		40,000	48,464		35,000	65,000		-	120,000	167,946
Financial Sector Supervision	120,000	60,206		105,000	38,043		110,250	50,000		-	335,250	148,249
Economic and Financial Statistics	0	-		-	52,231		-	65,000		2,119	-	117,231
Macroeconomics	0	25,000		-	-		-	75,000		-	-	100,000
Programming reserve 3/								185,000				185,000
Total TA Delivery	2,610,477	2,042,304		2,392,955	2,373,685		2,253,599	3,604,129		722,149	7,257,031	8,020,118
Other	65,500	58,153		65,500	111,431		215,500	88,352		0	346,500	257,935
Steering committee meeting	50,000	0		50,000	45,808		50,000	77,000		-	150,000	122,808
Evaluation		48,907		0	61,049		150,000	0		-	150,000	109,957
Equipment and website	5,500	232		5,500	225		5,500	5,500		-	16,500	5,957
Miscellaneous	10,000	9,014		10,000	4,349		10,000	5,852		-	30,000	19,214
Total direct expenditure	2,675,977	2,100,457		2,458,455	2,485,116		2,469,099	3,692,481		722,149	7,603,531	8,278,053
Administrative Fee (13 percent)	347,877	273,059		319,599	323,065		320,983	480,022		93,879	988,459	1,076,147
Total externally financed expenditure	3,023,854	2,373,516		2,778,054	2,808,181		2,790,082	4,172,503		816,029	8,591,990	9,354,200
Total External Financing											8,528,164	9,354,200
NZ											2,906,887	2,675,000
Australia											2,200,000	2,200,000
Japan											1,727,488	1,971,911
ADB											1,000,000	1,000,000
Korea											196,800	1,010,300
Carry over from FY06-08											496,989	496,989
IMF Financed												
Project coordinator	388,312	333,208		388,312	233,500		388,312	245,000			1,164,937	811,708
Office Costs	262,726	189,277		262,726	164,270		262,726	198,283			788,177	551,830
Adm. support personnel and cont	198,793	112,500		198,793	98,572		198,793	120,000			596,380	331,072
Office Rent	25,522	25,522		25,522	38,283		25,522	38,283			76,566	102,088
Communications	38,410	51,255		38,410	27,415		38,410	40,000			115,231	118,670
IMF Finance Total	651,038	522,485		651,038	397,770		651,038	443,283			1,953,114	1,363,538

Appendix B: Results framework: FY12 -FY16

The results framework for the FY12-FY16 funding cycle is presented in two sections.

- **An overall results framework** that specifies the high-level outcomes that PFTAC's technical assistance contributes towards.
- **Results for each sector.** Frameworks are presented to for each sector that detail the immediate outcomes that PFTAC's technical assistance and training will seek to help countries achieve. These immediate outcomes cannot be achieved solely through PFTAC's activities—they require country commitment and action—but are more closely related to PFTAC's outputs than the high level outcomes. The frameworks also detail:
 - **Current Status** – a summary of the status going into the funding cycle.
 - **Target countries** – the countries most likely to receive PFTAC assistance given current reform plans and priorities. These will change over the funding cycle according to country demand and reform progress.
 - **Risks and strategic partnership issues** –identifies key risks to achieving the identified result and/or partnerships that will be crucial to achieving the goal.
 - **Outputs** – what PFTAC will produce to assist countries achieve the immediate outcomes.
 - **Inputs** – the anticipated cost of the outputs.

The results frameworks for each sector will guide the allocation of PFTAC resources. They will also underpin reporting and accountability. The frameworks will be used for reporting to the steering committee throughout the project cycle, including as an organizing framework for the workplan. Steering committee members will be able to track how PFTAC countries are progressing towards the targeted results and how PFTAC allocates its activities and resources to specific results or groups of results.

Frameworks will be updated as required. The results framework will be refined over the coming months, in particular through firming up the baseline. Economic circumstances and changing reform priorities in PFTAC countries could also mean that new results are inserted during the funding cycle or that less emphasis is placed on a specific result than envisaged in this program document. If substantive changes to the results frameworks are proposed, steering committee members will be consulted.

PFTAC Overall Results Framework FY12-FY16

Goal	Performance indicators	Monitoring mechanisms	Assumptions/Risks
Improved economic management and economic growth in the Pacific Islands.	- Improved economic growth - Improved CPIA/CPA scores - Positive independent assessments of progress.	National/IMF statistics WB/ADB annual scores WB/ADB/AusAID country reports.	External (economic/environmental) and domestic (political) shocks could frustrate growth even with better economic management.
Outcomes:			
➤ Improved public financial management.	- Balanced reform progress achieved by PICs, as identified by improvements in PEFA markings: - At least 3 indicators in the comprehensiveness and transparency area in 5 countries - At least 1 indicator in the budget cycle area in 5 countries - At least 4 indicators in the budget execution, accounting and reporting areas in 5 countries - Improvements in PFM systems noted in other assessments and stock takes	PEFA reports PERs Cairns Compact Peer Reviews. FEMM proceedings.	Requires political commitment to implementing PFM reform roadmaps. Sustained progress is dependent on broader reforms to public sector, including recruitment, retention and remuneration. Coordinated development partner financial and technical support required for implementation of PFM reforms.

➤ Broader-based and more efficient revenue systems.	1. Increase in tax to GDP ratios. 2. VAT productivity increases. 3. Improved ratio of tax collected to administration expenses. 4. Improved rankings on benchmarking of regional tax administrations.	National statistics, IMF/PFTAC National admin statistics PITAA reports	Political commitment to tax reform and adequate resourcing of tax administrations are essential for improved revenue collections.
➤ Increased resolution and minimization of risk factors identified in the financial system.	• Timely assessment of the condition and performance of individual banks and the overall banking system by supervisory authorities. • Increased frequency of on-site examinations of financial institutions. • Greater compliance with Basel Core Principles across the Pacific.	Financial Soundness Indicators. Administrative records IMF reports	Adequate financial and staff resources needed in supervisory institutions.
➤ More timely and reliable economic statistics.	• Improvement in PIC statistical capacity indicator scores • Improved GDSS participation and compliance.	World Bank. IMF reports	Requires political commitment and sufficient resourcing of NSOs and other statistical agencies. Increased and better coordinated development partner assistance required for continued progress.
➤ Improved macroeconomic analysis.	• Increased and better quality official publications on macroeconomic issues (e.g. budget documentation, central bank quarterly economic reviews).	Independent reviews (ADB, World Bank, IMF)	- Requires political commitment to transparency of economic information. Staffing and resourcing of economic units required. Dependant on data availability and quality.

See sectoral frameworks for results, outputs and inputs for each outcome area.

Revenue Policy and Administration: Results, Outputs and Inputs

Code	Result	Current Status	Target countries	Risks and strategic/partnership issues
2.1	Modernized comprehensive revenue legislation framework adopted in 4 additional countries encompassing a VAT, Net Profit Tax, Personal income tax, , Revenue Administration Act and possibly a Presumptive Tax	Tonga, Niue (partial), Tuvalu	Comprehensive policy framework RMI, FSM, Kiribati, Vanuatu, Modernized legislation Fiji, Samoa	Requires strong political commitment.
2.2	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	Requires funding commitments from countries and, in many cases, donors. PFTAC focus will be on aligning IT strategy with overall the business strategy
2.3	Self assessment principles adopted for 6 additional countries:	Currently used in Tonga and Vanuatu.	Fiji, RMI, FSM, Samoa, Niue Kiribati.	Requires legislative underpinning and change management program in the tax administration. Substantial TA needed for success.
2.4	Revenue administrations organized in taxpayer-focused operating model (functional or segmented) used in 4 countries:	Currently in Tonga,	Samoa, FSM, RMI, Palau, Fiji, Kiribati	

Code	Result	Current Status	Target countries	Risks and strategic/partnership issues
2.5	Risk management and compliance improvement strategies adopted in 4 additional countries	Strategies in use in Palau and Vanuatu.	Fiji, Samoa, FSM, RMI, Kiribati	Substantial TA needed for success
2.6	Model tax office framework and legislation developed and agreed by PITAA	Draft prepared for discussions	Regional	Model, if approved will represent a strong commitment to regional solutions on behalf of tax administrators. Will require subsequent political commitment and TA, from PFTAC and others, for delivery.
2.7	Regional support office established for countries with common IT systems. (e.g. PC Trade, RMS, CMS)	Draft proposal prepared by PFTAC.	Regional	Modeled on the ASYCUDA regional support office. Will require funding (from countries and/or donors)

The main means of verification will be: Country legislation, PFTAC reports, PITAA benchmarking, discussions and resolutions

Revenue Outputs:

1. Technical advice and capacity building delivered through advisory missions – around 15 per year.
2. On-demand remote advice (phone/e mail)
3. Regional and sub-regional training courses and seminars – 1-2 per year, organized through PITAA.
4. Attachments to: PFTAC or other administrations (including PFTAC members)
5. Manuals and guidance notes on key areas of tax policy and administration.

Output Performance indicators:

Quality: feedback from periodic questionnaires (biennial) and evaluations.

Rapid response: time between request and fielding of mission

Coordination: number of collaborations with other development partners.

Revenue Inputs	Person months	Cost (US\$ millions)
1 Resident Advisor and travel	60	2.1
Backstopping and project management	n/a	0.4
Short-term expert missions	31	1.3
HQ-led diagnostic missions	6.5	0.6
Funding for seminars, training and attachments	n/a	0.5

Public Financial Management: Results, Outputs and Inputs

Code	Result	Current Status	Target countries	Risks and strategic/partnership issues
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: Nauru, Tonga, Solomon Islands	Approval of PFM roadmap required by FEMM. Continued commitment to process by development partners (with funding in some countries).
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. (Nauru, Tonga, Solomon Islands)	In many countries will require TA support, from PFTAC or other donors.
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)	Requires political and administrative commitment. Financial instructions need to be placed in appropriate overarching legal framework. Will be linked to regional work by ADB and Australia (MoFD)

Code	Result	Current Status	Target countries	Risks and strategic/partnership issues
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.	Regional model under development and ready to spread to other countries with interest. Sufficient capacity to implement required. ADB and Australia (MoFD) are likely TA partners.
1.5	Medium-term budgeting at line agency level adopted in 4 further countries	Samoa and Cook Islands have fully fledged system implemented. Tonga and RMI have partial systems, but limited efficacy.	Tonga, Kiribati, Solomon Islands	Requires basics of reliable annual budgeting and execution to be in place first. TA to line agencies (in context of sector programs) vital for success. ADB and World Bank will be key TA partners.
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, Kiribati and advise Solomon's.	Requires political and administrative commitment. Capacity development in line ministries. Australia and World Bank would be key partners in Solomon Islands.

Means of verification will be: PEFA secretariat information, PEFA assessments, outputs from country reform processes, PFTAC and other development partner country reports and Cairns Compact Peer Reviews.

PFM Outputs:

1. Technical advice and capacity building delivered through advisory missions – around 20 per year.
2. Coordination of PEFA process in the Pacific.
3. Participation in and review of PEFAs.
4. On-demand remote advice (phone, email)
5. Regional and sub-regional training courses and seminars – 1-2 per year, organized through PIFMA and in coordination with partners including Australian Ministry of Finance and deregulation.
6. Attachments to: PFTAC or other administrations (including PFTAC members)
7. Manuals and guidance notes on good practice in PFM.

Output Performance indicators:

Quality: feedback from periodic questionnaires (biennial) and evaluations.

Rapid response: time between request and fielding of mission

Coordination: number of collaborations with other development partners.

PFM Inputs	Person months	Cost
2 Resident Advisors and travel	120	4.3
Backstopping and project management	n/a	0.6
Short-term expert missions	30	1.3
HQ-led diagnostic mission	5.5	0.5
Funding for seminars, training and attachments	n/a	0.6

Financial Sector Supervision: Results, Outputs and Inputs

Code	Result	Current Status	Target countries	Risks and strategic/partnership issues
Risk-based supervision				
3.1	Improved bank reporting requirements allowing supervisory authorities to regularly calculate “core” Financial Soundness Indicators and improve the capacity to calculate “encouraged” FSIs prescribed by the IMF and perform enhanced monitoring and assessment of financial condition and performance of banks.	Core FSIs are not regularly published in PFTAC countries. Some countries calculate the 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	Based on standard bank return being developed by AFSPC with assistance from PFTAC. Will lay the foundation for possible adoption of a common IT system for analyzing data to monitor and assess the condition and performance of banks and the overall system—this may require donor financial assistance.
3.2	Prudential returns data regularly used to assess CAELS components of banks in 6 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	Requires management commitment to strict implementation of off-site monitoring policies and capacity to adequately process data.

Code	Result	Current Status	Target countries	Risks and strategic/partnership issues
3.3	Improved manuals for completing quarterly off-site monitoring report	Manuals developed and adopted in: Palau, Solomon Islands.	FSM, RMI, Vanuatu, Tonga	Continuity of supervision staff is a key risk. While PFTAC provides training in calculation and meaning of key analytical ratios and use of level and trend analysis, experience is needed to fully understand the interrelationship of CAELS components.
On site supervision				
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	Continuity of supervision staff is a key risk. PFTAC will provide training in credit risk analysis and grading and other asset verification techniques to assist in validating compliance with lending and investment policies and the accurate disclosure of capital, earnings and loss reserves.
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 analysis in 5 countries	Progress made in Vanuatu, RMI, Palau,	FSM, Palau, RMI, Solomon Islands, Tonga, Vanuatu	Continuity of supervision staff is the key risk. PFTAC will provide assistance to authorities in design of standardized CAMELS examination report to ensure every bank is subjected to a minimum level of review and analysis.

Code	Result	Current Status	Target countries	Risks and strategic/partnership issues
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	Continuity of supervision staff is the key risk. PFTAC can provide assistance in tailoring procedures to individual jurisdictions and training in completion of procedures but continuity of staff is necessary to enhance capacity to properly assess unique and different issues which arise.
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	Continuity of staff is the key risk. While PFTAC can provide training and support in financial statement and credit risk assessment, this pro-active approach requires enhanced analytical skills which are generally gained with experience.
Legal and Regulatory Frameworks				
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	Considerable progress has been made in improving regulations in recent years. PFTAC's focus will now be on implementation. Nevertheless, some work on legal and regulatory framework is needed in some countries

Financial Sector Outputs:

- Technical advice and capacity building delivered through advisory missions – around 12 per year.
- On-demand remote advice (phone, email)
- Regional and sub-regional training courses and seminars – 1-2 per year, organized through AFSPC.
- Attachments to: PFTAC or other administrations (including PFTAC members)
- Manuals and guidance notes.

Output Performance indicators:

Quality: feedback from periodic questionnaires (biennial) and evaluations.

Rapid response: time between request and fielding of mission

Coordination: number of collaborations with other development partners.

Financial Sector Inputs	Person months	Cost (US\$ millions)
1 Resident Advisor and travel	60	2.1
Backstopping and project management	n/a	0.4
Short-term expert missions	18	0.6
HQ-led diagnostic mission	1.5	0.1
Funding for seminars, training and attachments	n/a	0.5

Economic Statistics: Results, Outputs and Inputs

Code	Result	Current Status	Target countries	Risks and strategic/partnership issues
National Accounts				
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	Fiji, FSM, Kiribati, Marshall Islands, Nauru, Vanuatu	Requires better use of administrative data (tax, NPF, etc.)
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	Requires timely completion of HIESs and CPI rebases (TA mostly provided by SPC)
4.3	Compilation of regular annual GNI, GNDI, saving and net lending/borrowing aggregates by at least 8 member countries	Currently 6 countries: Fiji, Palau, PNG, Samoa, Tonga, Vanuatu	FSM, Kiribati, RMI, Solomon Islands	Requires NA and BOP
4.4	Quarterly National Accounts being produced in 4 member countries	Samoa produces quarterly GDP, Fiji has begun developing.	Cook Islands, Fiji, Vanuatu	Requires better use of administrative data (tax, NPF, etc.)
External sector statistics				
4.5	Regular compilation of annual BOP estimates for countries with irregular compilation	Irregular compilation by consultants.	Nauru, Niue, and Tuvalu	Access to customs and other data
4.6	Improvement in the coverage, quality and timeliness of Current Account estimates	Good estimates in Fiji, Samoa, Tonga, Vanuatu	Cook Islands, FSM, Kiribati, Palau, RMI, Solomon Islands	Improvements to customs data and donors' data, additional surveys in some countries

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	Cook Islands, FSM, Kiribati, Palau, RMI, Solomon Islands, Tonga, Vanuatu	Improvements to donors' data, additional surveys in some countries
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	Requires improvement of data sources and methodology
Prices Statistics				
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	SPC to support completion?
4.10	Rebase of the CPI for at least 7 member countries			Timing to quickly follow HIES completion. SPC to take the lead in CPI rebases, with PFTAC lending support as relevant

Means of verification will be: Published statistics, GDDS metadata, PFTAC and SPC reports, PINNACLES papers and meeting minutes.

Statistics Outputs:

- Technical advice and capacity building delivered through advisory missions – around 18 per year.
- On-demand remote advice (phone, email)
- Regional and sub-regional training courses and seminars – 1 per year.
- Attachments to: PFTAC or other administrations (including PFTAC members)
- Manuals and guidance notes on key areas of economic statistics.

Output Performance indicators:

Quality: feedback from periodic questionnaires (biennial) and evaluations.

Rapid response: time between request and fielding of mission

Coordination: number of collaborations with other development partners

Statistics Inputs	Person months	Cost
2 Resident Advisor and travel	120	4.3
Backstopping and project management	n/a	0.6
Short-term expert missions	0	0
HQ-led diagnostic missions	0	0
Funding for seminars, training and attachments	n/a	0.5

Macroeconomic Analysis and Frameworks: Results, Outputs and Inputs

Code	Result	Current Status	Target countries	Risks and strategic/partnership issues
M1	Improved accuracy of growth forecasts in member countries	Formal models used in Tonga and Samoa.	Fiji, Kiribati, Solomon Islands, PNG, Samoa.	Relies on continued improvement in data sources and staff resources. Work will need to be coordinated with ADB PEM TA who also work in this area.
M2	Establishment of inter-agency macro policy units / mechanisms in [4] countries and improved macroeconomic policy formulation.	Committees exist in Fiji, [Vanuatu and Solomon Islands]	Fiji, Solomon Islands, Tonga, PNG	Requires high-level commitment to inter agency coordination. Work will need to be coordinated with ADB PEM TA who also work in this area.
M3	Increase in analytical papers produced and disseminated by central banks and ministries of finance	RBF and RBV produce quarterly economic updates.	Fiji, Solomon Islands	Requires adequate staff resources within central banks and Ministries of Finance.
M4	Regular production of tailored debt sustainability analyses in [4] countries (Fiji, Tonga, Solomon Islands and Samoa)	Countries currently rely on IMF/World Bank analyses.	Tonga, Fiji, Samoa, Cook Islands, RMI	Data availability could be a constraint.
M5	Regularly updated financial programs underpinning macro policy making in [6] countries (Solomon Islands, Fiji, Vanuatu, Samoa)	Solomon Islands and Fiji (in context of IMF-supported program negotiations)	Solomon Islands, Fiji, PNG	Relies on effective coordination between central bank and Ministry of Finance. Particularly important where IMF-supported programs are in place.

Means of verification: IMF staff reports, country websites, PFTAC and ADB country reports.

Macroeconomic Outputs:

- Technical advice and capacity building delivered through advisory missions – around 9 per year.
- On-demand remote advice (phone, email)
- Regional and sub-regional training courses and seminars – 1-2 per year.
- Attachments to: PFTAC or other administrations (including PFTAC members)
- Manuals, guidance notes and regional analysis.

Output Performance indicators:

Quality: feedback from periodic questionnaires (biennial) and evaluations.

Rapid response: time between request and fielding of mission

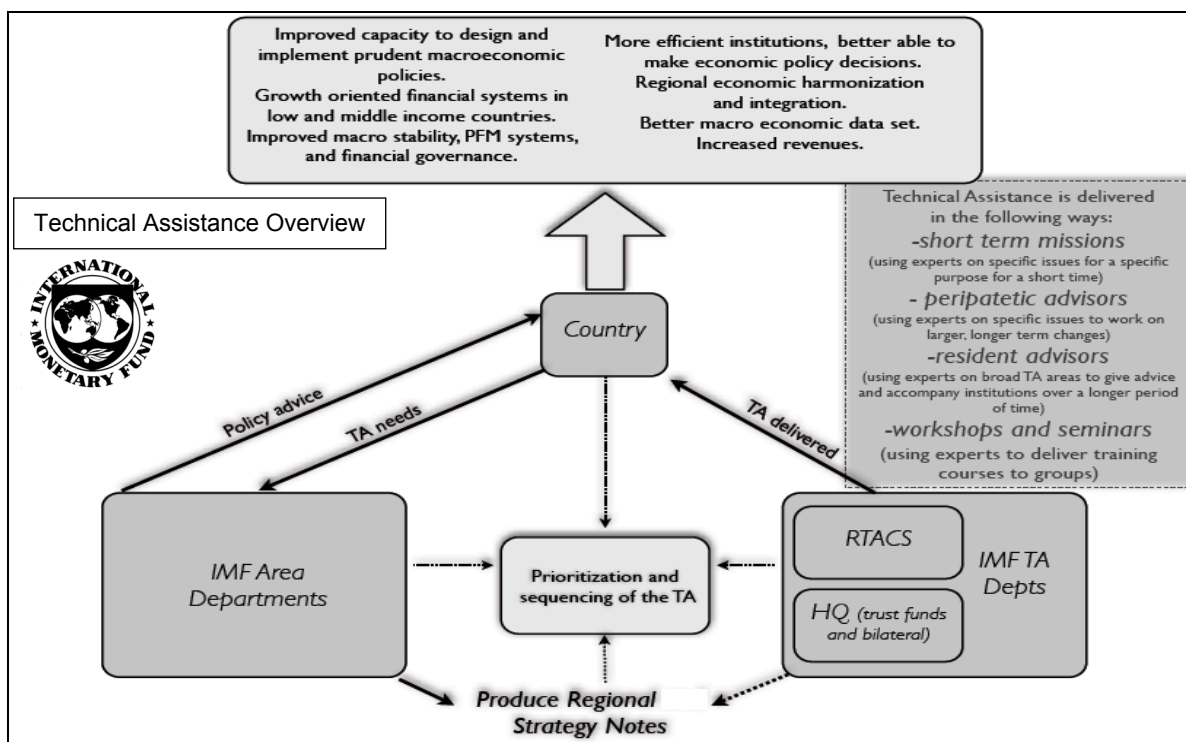
Coordination: number of collaborations with other development partners

Macroeconomics Inputs	Person months	Cost (US\$ millions)
1 Resident Advisor and travel	60	2.1
Backstopping and project management	n/a	0.3
Short-term expert missions	0	0
HQ-led diagnostic mission	0	0
Funding for seminars, training and attachments	n/a	0.5

Appendix C: PFTAC and other IMF TA

All IMF TA, regardless of financing source and delivery mode, is integrated with each other and with the IMF's broader lending and surveillance activities. In consultation with country authorities, the IMF's Asia Pacific Department integrates PFTAC countries' reform agendas with the IMF's program and surveillance perspectives, drawing on the technical expertise of TA departments. APD, in consultation with PFTAC, identifies TA needs and priorities across TA sectors, balancing short- and medium-term considerations. It relies on the IMF's TA departments' expertise and country knowledge for prioritization, sequencing, and selecting the delivery modality. This internal prioritization process ensures that IMF TA remains highly relevant and focuses on the IMF core expertise, while taking into account regional developments. The resulting APD Regional Strategy Note (RSN), which is shared with recipient countries and donors, sets out a joint medium-term TA agenda for the region, providing the basis for coordination of all IMF TA activities as well as their integration into the IMF's surveillance and lending operations.

The IMF's ability to provide continued capacity building in the medium term increasingly depends on external finance. IMF-financed TA is prioritized to building the capacity needed to successfully implement macroeconomic policies, including under IMF programs. In this respect, the IMF undertakes diagnostic assessments of weaknesses and formulates plans to address them. High and rising demand for IMF TA has recently been reinforced by the impact of the global crisis, increasing the need for external financing to supplement the IMF's own resources. Such assistance leverages the IMF's expertise and experience for medium-term capacity building. Depending on donors' priorities, external financing is channeled into a topical or a regional trust fund. Complementing the proven model of the RTACs, topical trust funds provide global geographical coverage and specialized topical scope, drawing on a centralized pool of experts at IMF HQ or from the IMF's international expert roster. The topical trust funds create synergies with the work of the RTACs, which focus on hands-on implementation of such advice. The RSN ensures that all TA activities are integrated and coordinated, providing a continuum of coverage throughout the process from diagnostics to day-to-day implementation on the ground. Open lines of communication, including via TA departments' backstopping of RTACs and external experts, ensure consistency, cross-fertilization, and operational relevance.



To best meet countries' needs, specific delivery modes are chosen depending on the complexity of the task and countries' implementation capacity. Diagnostic HQ-led missions often are the starting point for TA delivery; they generate multi-year blueprints for reform projects with implementation devolved to the modality (such as the RTACs) that best meets the needs of the country. HQ missions draw on expertise required for the specific subject, cross-country knowledge and international best practice and usually include the RTAC's resident advisors. RTACs activities have a deep knowledge of the region and countries, including cross-cutting and regional integration issues, and are closer to their clients. Frequent contact and missions of RTAC resident advisors in the region provide step-by-step assistance in implementing reforms, including putting together the nuts and bolts. Missions from both HQ and RTACs draw on a vetted roster of external short-term experts to complement the skill set if and as needed. For follow-up on specialist issues or where RTACs are not available, peripatetic advisors provide regular follow-up missions over a longer period of time. In countries where capacity is particularly weak, long-term resident advisors—backstopped by HQ—are stationed to provide guidance on a day-to-day basis and—if needed and wanted—temporarily supplement the authorities' capacity.

Appendix D: *Definitions of Project Management, Backstopping, Trust Fund Management and Diagnostic Missions*

Backstopping

Why is backstopping important?

Backstopping is the core work carried out by IMF staff economists in their direct support of the expert in the field. It is this distinctive feature to the IMF TA delivery approach that stands it apart from other TA providers who typically do not have an institutional framework to provide the systematic backstopping undertaken by the IMF. It is through backstopping that the comparative advantage of the IMF is realized allowing country recipients and donors to leverage the institutional support framework and maximize the TA outcomes. Backstopping ensures that the quality of the TA advice provided by the experts is consistent with international best practice and Fund standards and policies.

What is backstopping?

Backstopping entails:

- i. Guidance to the expert in the initial contact with authorities regarding the timing and objectives of the mission;
 - ii. Discussions with the area departments with respect to their TA priorities and specific needs which are then transmitted to the expert;
 - iii. Substantive/analytical input on briefings and mission report drafted by experts to ensure adherence to best technical standards and Fund policies; and
 - iv. Drafting and/or review of an official letter proposing the mission, briefing paper, back to office report, and transmittal letter with the mission report to the authorities.
- The backstopper, in consultation with the mission chief and functional division, is required to evaluate the expert after each mission (or series of missions, in the case of peripatetic assignments). In addition, TA is evaluated through yearly inspection visits, and discussions with the authorities. The modality of ongoing supervision of the expert's TA depends on the type of the output.²¹ For example, when an expert provides conceptual work, he/she generally seeks ex-ante clearance from the backstopper (to ensure that these are

²¹ This is an important point as there is a risk that the TA delivered by experts is seen exclusively or primarily through their reports. Expert reports are just one product, and sometimes not the most important. Many experts spend their assignments working closely with their counterparts in assisting in the implementation of prior Fund advice. This can come in many forms, from workshops, to brainstorming, to facilitating activities, to performing jointly with the authorities specific tasks.

consistent with best practice). In the case of day-to-day operational advice, backstoppers review the expert's periodic reports to HQ to assess the work done. The approach also varies depending on whether the TA is provided through a long-term or a short-term expert:

- Draft reports of short-term (or peripatetic) experts are subject to the same review/assessment process as mission reports. Specifically, their draft reports are reviewed internally (first by the concerned backstopper and then the division chief), and, in some circumstances, by the area department before issuance to the authorities.²²
- In case of *long-term experts* (RTAC advisors, regional advisors and resident advisors), the quality control process is ongoing, supplemented by a well-established ex-post evaluation process (e.g., through inspection missions as well as follow-up missions). Furthermore, for short-term experts hired for the RTACs, backstopping is cascaded: the RTAC advisors provide direct backstopping of the short-term experts, while Fund HQ backstoppers oversee the work of the short-term experts through their backstopping of the resident RTAC advisor.

How is backstopping integrated with the Fund's overall relationship with country authorities through other TA work and surveillance/lending operations?

Backstoppers are supervised by Fund senior staff who provide another layer of quality assurance in the review of mission reports prepared by experts. In addition, some departments maintain a regional approach to provide strategic regional and country perspectives to its TA program. In such cases, mission reports are further reviewed by Regional Managers to ensure adherence to standards and guidelines.

- At each stage of the quality control process, the level of intervention is decided depending upon the issues involved. While specific technical issues are generally resolved through the backstopper (through his/her ongoing interaction with the expert), the backstopper consults the division chief where significant policy issues arise or where topics addressed are likely to be sensitive. Although routine technical issues are generally resolved by the backstopper, the division chief is copied on his/her responses/advice to the expert, and is sometimes consulted, or intervenes when needed. Conflicts or potential conflicts are brought to the attention of the relevant senior advisor or deputy department director for resolution.

²² There are also frequent informal communications between the expert and the backstopper. Most likely an issue or concern about quality will become evident well before a formal report eventuates.

- The backstopper acts as a bridge between the expert and the area department as well as other major TA providers with a view to informing the expert of area departments' priorities and/or complimentary activities carried out by other TA providers. In case of an RTAC advisor, the backstopper also coordinates with the Center Coordinator and ensures that tasks performed by the advisor are within the overall framework of the Center's strategy and work plan.
- Ensuring effective integration of the expert's work with the overall TA program for a country (which typically includes a combination of HQ missions, long-term and short-term experts) requires periodic adjustments/updates to the expert's work program. The backstopper plays a critical role in this area in consultation with the division chief (and/or area departments), and with the authorities, including during Annual and Spring Meetings.
- The backstopper also monitors the responsiveness demonstrated by the expert in dealing with his/her counterparts. Where there are disagreements with the authorities, the backstopper plays the key role in resolving the issue (sometimes based on a wider consultation within the department and/or division chief's advice).

Project Management by TA Department

- **Why is HQ project management important?**

Project management facilitates the work of the experts so that they can focus on their technical work. Project management is about activities concerned primarily with administrative support, contract administration, security clearances and visas, etc.

What is project management?

- Key activities are:
- **Administrative support.** Providing the expert with clear guidelines, including a model mission report (available upon request), to conform to structured report formats that focus reporting on methodological developments, an action plan with target dates for implementing the main recommendations; and the ways to present the mission findings to the authorities. This includes finalizing notification letters and other documents; processing various pre- and post- mission documents; review of project related documents and materials (for completeness, etc.); and coordinating information for other TA departments.
- **Human resource support (resource management units).** This includes drafting a recruitment memorandum and as applicable, communication/arrangement with

organizations for the release of their staff to conduct the mission as a Fund expert, managing and administering the recruitment and expert contracting process; liaising with HRD; preparing (and entering) necessary HR information (e.g. TIMS, PeopleSoft); reviewing experts' salaries and establishing rates, etc.; processing experts' claims for certification of duty days; and handling all logistical coordination with experts and respond to administrative requests.

- **Managing expense of reports of HQ-based missions.** This includes processing travel expense reports; reviewing and discussing with divisions as appropriate; carrying out accuracy checks, entering data into system; preparing all documents for approval.
- **Travel and resource planning of HQ-based missions.** This includes arranging travel for experts, including visas and itinerary; arranging for security clearances; collecting information on plans for forthcoming travel; organizing information related to mission/expert planning and travel.
- **TAIMS-related tasks to improve results-based management at HQ.** This includes entering various information (e.g. project budgets, team rosters, backstopper assignments); reviewing project documents, including maintenance of and support for TAIMS reports; providing information on TAIMS-related issues; and determining and attaching correct budget to the project in TAIMS.
- **Maintaining a high quality expert roster.** This is mainly through providing an evaluation of the expert following the mission which is reviewed at the dedicated departmental meetings. Such reviews ensure that the Fund's expert roster contains only experts of the highest quality with a successful track record in the field.

Trust Fund Management—Services by LEG, FIN, and OTM

- Services rendered for trust fund management are undertaken by lawyers, accountants and auditors, and the staff involved in fundraising and relations with donors as well as overall monitoring of Fund TA activities.²³ Main services relate to:

²³ In the present TA model, the Fund continues to donate the cost of the services provided by support departments, including for information systems (TGS), budget and planning (OBP), human resources (HRD), and external relations (EXR).

Donor partnerships. Donor visits, outreach activities, fundraising, annual consultations with specific donors, Steering Committee participation on the scope and objectives of the TA subaccount as well as responding to daily requests for information.

Legal drafting. Negotiating and drafting the necessary legal agreement and internal documents (such as Board Papers) for the establishment of a subaccount with donors and recipient countries as well as review, advice, and guidance in the prompt resolution of issues related to immunities, customs, and other matters pertaining to the free mobility of RTAC related staff and experts. Also, ensuring consistency of Fund policies on transparency, confidentiality and applicable Fund rules and procedures and preparing confidentiality agreements and other legal instruments for subaccount reviews. Also, ensuring consistency of trust fund activities with the purposes of the Fund and legal limitations in the SFA.

Budget work. Setting-up budget and disbursement schedules for subaccounts as well as reviewing and processing monthly accounting entries, ensuring that the budget stays within agreed ceilings, following up on annual disbursements and reconciliation of accounts and consistency checks.

Reporting. Assembling, drafting and reviewing subaccount reporting, including financial reports and recording TA subaccount and trust fund information (letters of understandings, reports and donor information) in the relevant systems. Publishing electronically and in hard copies financial reports, TA reports, and evaluation reports.

Audits. Coordination and support of internal and external audits of the SFA trust, including donor request for checks/verifications of subaccount financing.

Payment and payroll systems. Effecting payments around the world and arranging collection of funds, and safekeeping of financial resources.

HQ-led diagnostic missions

The IMF undertakes diagnostic missions as a critical part of its technical assistance (TA) delivery model. Their purpose is to:

- (i) Provide an in-depth assessment of policy and institutional weaknesses affecting the ability of the member country to attain its policy and reform objectives; and
- (ii) Develop a well-sequenced strategy and multi-year reform program that address the authorities' key short- and medium-term priorities while taking into account the IMF's cross-country experience, international best practice, and area department priorities.

At the end of a diagnostic mission, the mission team submits a complete draft of its report covering both the assessment and the reform program. A final report is submitted no later

than six weeks thereafter following review at HQ and comments from the authorities. A diagnostic mission usually comprises four members, including the mission chief who is a staff member based at HQ, and is typically two weeks long.

When prepared for a country or sub-region covered by a regional TA center (RTAC), the multi-year reform program will provide the basis for the RTAC's assistance at the implementation level, and sometimes also the work of other TA providers. Diagnostic missions therefore help avoid RTAC assistance being driven by ad hoc requests, which can get in the way of a focused approach to addressing fundamental structural problems. To facilitate effective RTAC follow-up to diagnostic missions, the regional advisor(s) participates as a full member of the mission team. After the mission, the regional advisor will develop a program of TA, which following discussions with the country authorities, is integrated into the work plan of the RTAC.

Diagnostic missions are a type of TA mission. However, they are broader in scope than other TA missions, which address a more narrowly defined set of policy issues or provide assistance more focused on implementation (e.g., when joint with RTAC experts). They are an important input to defining the focus of backstoppers of RTAC experts, who when possible are also mission members, and help ensure that TA delivery is focused on the critical issues and of the highest quality.

Appendix E: Detailed program budget

Appendix E: Summary Budget Table for the PFTAC Phase IV (SFA)

Activity ID	Activity Description	Res Type	Dept	Project Document		FY2012	FY2013	FY2014	FY2015	FY2016
				w/m	US\$	Budget US\$	Budget US\$	Budget US\$	Budget US\$	Budget US\$
	Long-term advisors				12,132,563	2,240,000	2,329,600	2,422,784	2,519,695	2,620,483
1101	Public Expenditure Management Advisor I	LTX	FAD		1,733,223	320,000	332,800	346,112	359,956	374,355
1102	PEFA Advisor	LTX	FAD		1,733,223	320,000	332,800	346,112	359,956	374,355
1103	Revenue Policy and Administration Advisor	LTX	FAD		1,733,223	320,000	332,800	346,112	359,956	374,355
1104	Banking Supervision Advisor	LTX	MCM		1,733,223	320,000	332,800	346,112	359,956	374,355
1105	Statistics Advisor I	LTX	STA		1,733,223	320,000	332,800	346,112	359,956	374,355
1106	Statistics Advisor II	LTX	STA		1,733,223	320,000	332,800	346,112	359,956	374,355
1107	Macroeconomic Advisor	LTX	APD		1,733,223	320,000	332,800	346,112	359,956	374,355
	Short-term experts				3,155,018	654,500	680,680	582,982	606,302	630,554
1151	Fiscal STX	STX	FAD		2,529,433	539,000	560,560	458,058	476,380	495,435
1152	Monetary STX	STX	MCM		625,585	115,500	120,120	124,925	129,922	135,119
1153	Statistics STX	STX	STA		0	-	-	-	-	-
	Regional travel (Center Coordinator/Advisors)				2,978,977	550,000	572,000	594,880	618,675	643,422
1501	Regional travel Advisors				2,843,569	525,000	546,000	567,840	590,554	614,176
1502	Regional travel Center Coordinator				135,408	25,000	26,000	27,040	28,122	29,246
	Seminars				2,580,945	450,000	561,600	536,720	506,189	526,436
3301	TA Seminars				2,580,945	450,000	561,600	536,720	506,189	526,436
3302	INS Training				0	-	-	-	-	-
	Other				455,000	75,000	200,000	85,000	-	95,000
5101	Evaluation				200,000	-	200,000	-	-	-
5102	SC Mtng				255,000	75,000	-	85,000	-	95,000
	Diagnostic Interventions				1,220,578	187,367	329,359	201,427	284,562	217,863
5111	FAD TA delivery		FAD		1,146,891	173,763	315,210	186,712	269,259	201,948
5112	MCM TA delivery		MCM		73,687	13,605	14,149	14,715	15,303	15,915
5113	STA TA delivery		STA		0	-	-	-	-	-
	Staff travel				402,481	97,245	50,190	92,524	53,501	109,020
1601	FAD TA delivery		FAD		106,605	24,966	16,797	17,469	18,167	29,206
1602	MCM		MCM		111,982	25,139	14,528	27,191	15,714	29,410
1603	STA		STA		123,893	27,139	18,865	27,865	19,620	30,404
1604	OTM		OTM		30,000	10,000	-	10,000	-	10,000
1605	APD		APD		30,000	10,000	-	10,000	-	10,000
	Total TA Delivery					4,254,112	4,723,429	4,516,318	4,588,924	4,842,779
	Backstopping				1,465,511	273,137	284,102	293,111	301,746	313,416
1101B	Public Expenditure Management Advisor I		FAD		203,869	37,640	39,145	40,711	42,340	44,033
1102B	PEFA Advisor		FAD		203,869	37,640	39,145	40,711	42,340	44,033
1103B	Revenue Policy and Administration Advisor		FAD		150,790	27,840	28,954	30,112	31,316	32,569
1104B	Banking Supervision Advisor		MCM		214,536	40,030	41,672	42,890	44,286	45,657
1105B	Statistics Advisor I		STA		212,037	38,930	40,488	42,484	44,184	45,951
1106B	Statistics Advisor II		STA		212,037	38,930	40,488	42,484	44,184	45,951
1107B	Macroeconomic Advisor		FAD		103,993	19,200	19,968	20,767	21,597	22,461
1151B	FAD STX		FAD		126,467	25,927	26,964	25,380	23,626	24,571
1152B	MCM STX		MCM		37,914	7,000	7,280	7,571	7,874	8,189
1153B	STA STX		STA		0	-	-	-	-	-
	Project management				618,899	115,850	123,940	117,775	131,394	129,939
5341	OTM pj-mgmt		OTM		150,000	24,000	35,000	26,000	37,000	28,000
5342	FIN pj-mgmt		FIN		60,000	10,000	11,000	12,000	13,000	14,000
5344	FAD pj-mgmt		FAD		232,931	46,159	42,805	44,518	46,298	53,150
5345	MCM pj-mgmt		MCM		69,217	12,830	13,000	13,877	14,500	15,010
5346	STA pj-mgmt		STA		81,751	17,861	17,135	16,380	15,596	14,779
5347	APD Project Management		APD		25,000	5,000	5,000	5,000	5,000	5,000
	Total Backstopping & Project Management				2,084,410	388,987	408,043	410,886	433,140	443,355
	Office Costs				3,203,919	595,134	617,259	640,270	664,201	687,056
	Rent				210,000	42,000	42,000	42,000	42,000	42,000
	Office Staff				649,959	120,000	124,800	129,792	134,984	140,383
	Other				431,273	80,000	83,200	86,528	89,989	91,556
	Coordinator				1,912,688	353,134	367,259	381,950	397,228	413,117
	Total				28,213,891	5,238,233	5,748,732	5,567,473	5,686,264	5,973,190
	IMF contribution				2,698,054	498,134	518,059	538,782	560,333	582,746
	TTF Management Fee (7%)				1,786,109	331,807	366,147	352,008	358,815	377,331
	Total				30,000,000	5,570,040	6,114,879	5,919,481	6,045,079	6,350,521

Source: Office of Technical Assistance Management