



PACIFIC ISLANDS FORUM SECRETARIAT

PIFS(23)FEMM.Info.2

FORUM ECONOMIC OFFICIALS MEETING

8 August 2023

FORUM ECONOMIC MINISTERS MEETING

9 - 10 August 2023

Suva, Fiji

INFORMATION PAPER 2: UPDATE AND ISSUES ON PUBLIC FINANCIAL MANAGEMENT AND REVENUE ADMINISTRATION REFORMS

Purpose and Summary

Purpose

This paper provides an update since the 2022 FEMM, on Public Financial Management (PFM) and Revenue Administration (RA) reforms in Pacific Island Countries (PIC) supported by Pacific Financial Technical Assistance Centre (PFTAC).

Summary of Issues

- i. FY2023, finally saw a return to in-person missions, albeit taking place towards the end of the first half of the year, after the reduced severity of the COVID-19 pandemic. Nevertheless, most countries continue to grapple with fiscal challenges emanating from the outfall of the pandemic. The return to in-person engagement, saw an increase in delivery under the PFM program, with 20 activities overall - 17 missions and 3 workshops, accounting for 403 technical assistance (TA) days. This is slightly under 90% of mission delivery and resource utilization against the mid-year revised plan.
- ii. PFTAC continues to take the lead in undertaking Public Expenditure and Financial Accountability (PEFA) assessments. An *Agile*PEFA¹ was undertaken in Palau, and a mission to help develop a PFM roadmap, using the PEFA findings and outcomes is scheduled for FY2024. Assistance was delivered to Nauru and Kiribati on formulating prioritized and sequenced roadmaps, which are fully achievable within country logistical and capacity constraints. A Public Investment Management Assessment (PIMA) and Climate PIMA (C-PIMA) were undertaken in the Cook Islands.

¹ The *Agile*PEFA is the preferred approach for member countries as it is less onerous on the recipient country and delivers more concise report and is easier to digest.

iii.	Three regional workshops were undertaken during the year: One in-person (the first since the COVID outbreak) on developing prioritized and sequenced PFM roadmaps; one virtual on Gender Budgeting; and one hybrid on public investment management.
iv.	FY2023 was the final year of the Program Phase V. During the year preparations were made for the new Program Phase VI. The PFM program continues to collaborate with the public debt management advisor and macro advisor, and during the year a new macro-fiscal advisor arrived in country, who will assist member countries strengthen the medium-term fiscal frameworks (MTFFs).
v.	In the area of revenue administration, PFTAC continues to support member countries to strengthen the capacities of tax administrations, mobilizing tax revenue, improving taxpayer compliance, and promoting citizens' ownership of their role as taxpayers. In FY2023, the Revenue program including Legal delivered 76 work activities (up from 49), totaling 1,264 TA days (up from 1,006).
vi.	To deliver this program RA adopted a hybrid approach to CD delivery, The hybrid approach includes: (a) undertaking assignments in-country where possible; (b) sending at least two STXs to one country at a time - with complementary assignments; (c) ensuring a gender balance in CD delivery; (d) aligning specific STX with specific countries to build relationships of trust and confidence between the administration and STX, and (e) making space to follow up on the assistance provided remotely.
vii.	The RA program held 15 events, 12 in collaboration with PITAA which included one with Oceania Customs Organization (OCO). A webinar series on Leadership, Governance, and Integrity concluded, while the first joint training with OCO focused on strengthening collaboration between tax and customs compliance teams in PICs. A new planning series for senior leaders was also introduced, covering strategic, operational, and business continuity planning for tax administrations.
viii.	In FY2024 the RA program will operate at a budget level in line with pre-covid trends – but lower than the last two years. The planned activity declined by 24 percent (from 76 to 58) while the number of TA days declined by 48 percent (from 1,264 to 655). To offset the budget challenges, the program will provide 30 missions on remote basis.

A. Overview/Summary

1. Strong fiscal management remains a priority, as countries emerge from the pandemic saddled with significantly increased levels of debt resulting from additional spending burdens from the pandemic (especially health and social protection related), and from revenue shortfalls, especially for countries heavily dependent on tourism. Work on the identification, management, and mitigation of fiscal risks has ramped up for some countries—this will be an area of growing demand during Phase VI, and PFTAC is poised to provide support accordingly.

2. Efficient and effective revenue mobilization and resource management are fundamental to economic stability. Leveraging Fiscal Affairs Department (FAD)’s knowledge, expertise and tried and tested tools, PFTAC plays a leading role in assisting PICs strengthen their fiscal management. In FY2023 PFTAC’s fiscal related activities from the revenue administration and PFM accounted for 60 percent of all PFTAC missions and 62 percent of TA days.

3. FY2023 saw a return to in-person missions, albeit in the second half of the fiscal year and not throughout the entire year as envisaged in the original baseline annual workplan. This was reflected in an upturn in mission delivery and resource utilization over FY2023. This trend is expected to continue into FY2024. The slower than envisaged return to in-person missions resulted in reduced delivery against the original workplan, although outturns for the Revenue and PFM Programs combined achieved implementation rates of 79 percent and 89 percent respectively (in terms of missions completed and resources used), against the mid-year revised workplan. Remote engagement between in-person missions will continue to be used for preparing pre-mission and for providing continued advice and guidance post-mission.

4. PFTAC operates based on funding cycles and at the end of April 2023 completed Phase V and commenced Phase VI on May 1st, 2023. Many Phase V projects are ongoing and will continue into Phase VI. Work on mainstreaming gender and climate considerations into TA/CD delivery will be ramped up. The PFTAC Phase VI Program Document provides for an increase in long-term experts, to include a climate PFM advisor to complement other additional advisors during the latter part of Phase V, including a second Revenue Advisor, Public Debt Management Advisor, and a Macroeconomic Frameworks Advisor.

B. Discussion – Public Financial Management

5. PFTAC continues to actively engage development partners and regional institutions involved in PFM reform activities. This has assisted in enhancing the effectiveness of CD within a busy arena, leveraging the strengths and synergies of respective partners.

6. In FY2023 the PFM program delivered 20 missions or activities totaling 398 TA days. PFTAC delivered three regional PFM workshops on the following topics:

- (i) Developing prioritized and sequenced PFM roadmaps (in-person).
- (ii) Gender Budgeting (virtual); and
- (iii) Public Investment Management (hybrid).

7. During the year PFTAC undertook an *Agile*PEFA in Palau to diagnose PFM performance and identify specific areas of weakness, which need to be addressed in the PFM Reform Roadmap, which will be prepared with PFTAC assistance in FY2024 using the findings of the *Agile*PEFA. The “*Agile*” approach remains the preferred methodology for PFTAC member countries, as it provides the full rigor of a traditional PEFA but proves less onerous for recipient countries. Building on the PEFA undertaken in FY2022, assistance was provided to Nauru to formulate a PFM roadmap. The Kiribati PFM Roadmap drew from findings from various reviews and assessments including the Australian Assessment of National Systems (ANS).

8. A Public Investment Management Assessment (PIMA) and Climate PIMA (C-PIMA) were undertaken in the Cook Islands. This assessed the institutions, processes and practices supporting

public investment throughout the phases of planning, allocation, and implementation. The assessment looked at both the design (laws, rules, and processes) as well as the actual practice (how they are actually implemented). Specifically, the C-PIMA highlighted how climate considerations are taken on board during the planning, allocation, and implementation of public investment. The PIMA/C-PIMA provided an action plan to strengthen Public Investment management (PIM), which is realistic and achievable in the country context.

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

10. Support was provided to Niue and Kiribati, to modernize their PFM legislative frameworks to align with and make them more supportive to the implementation of PFM reforms. Countries continue to make good progress on strengthening fiscal reporting, through the implementation of cash IPSAS. Several countries are progressively incorporating (optional) encouraged disclosures in accordance with Part 2 IPSAS into annual financial statements—specifically Tonga has been strengthening its asset management framework for disclosing information on nonfinancial assets. Ongoing work on modernizing internal audit practices has seen the implementation of risk-based auditing and the adoption International Internal Audit (IIA) standards, in Fiji and Samoa. Budgeting transparency has been enhanced in the Marshall Islands with the production of a budget book presenting the greater analysis by administrative classification—further enhancements are envisaged under this ongoing project. Top-down budget ceilings are being made more binding in Timor-Leste.

11. PFTAC continues to support work on the identification, management, and reporting of fiscal risks in Fiji and Samoa, who each expect to incorporate some fiscal risk narrative into their next Fiscal Strategy. This will form the basis for developing a more comprehensive Fiscal Risk Statement over the medium term. Support was given to Samoa and Tuvalu to strengthen cash management and cash flow forecasting practices.

C. Discussion – Revenue Administration

12. PFTAC aids member nations in enhancing their revenue administration abilities, boosting tax revenue, and fostering taxpayer compliance. This is accomplished through the revenue administration program, which collaborates with countries to enforce tax laws and pinpoint areas for revenue administration improvement, thereby augmenting taxpayer compliance and government revenue.

13. The Revenue Administration program focuses on two key objectives: (1) strengthened revenue administration management and governance arrangements; and (2) strong core tax administration functions. The first objective covers all core support functions needed by any large

complex organization to perform effectively. In addition, for revenue administrations, risk management, performance management and data management are key enablers to improve productivity and performance.

14. As borders reopen, PFTAC facilitates face-to-face engagements to establish relationships with several Pacific Island Countries (PICs), particularly critical due to new leadership in many revenue administrations and two advisors who started during COVID-related travel restrictions. Advisors take lead roles in eight countries each, fostering deeper understanding and trust through personal interaction, a process already initiated in Fiji, Papua New Guinea, Palau, Solomon Islands, Samoa, and Tokelau. The aim is to comprehend current operational realities within the PICs and provide better hands-on and tailored support.

15. Regional virtual seminars have enhanced staff participation, but engagement with some Pacific Island Countries (PICs) has been impacted by unforeseen factors like leadership changes in Revenue Administration, and natural disasters. Despite these challenges, most countries continue to participate in these online seminars.

16. In FY2023, the RA program delivered 76 missions or activities totaling 1,264 TA days. This accounted for 77 percent of planned missions/ activities (76 of 99) and 89 percent of planned TA days (1,264 of 1,416) with resident advisors providing 100 TA days and STXs delivering 1,164 TA days.

17. In FY2023, Revenue Administration (RA) focused on enhancing collaboration with donors, partners, and stakeholders such as the Asia Development Bank-funded advisors, Australian Taxation Office, Department of Foreign Affairs and Trade, Ministry of Foreign Affairs (NZ), PACER Plus, and others. These entities actively support member countries in achieving their objectives, particularly in the area of tax changes.

18. With RA support, Papua New Guinea, Palau, Solomon Islands, Tuvalu, and Niue have developed multi-year strategic or reform plans and annual operational plans to align their CD programs with country strategic plans and outcomes, as recommended by PFTAC.

19. Analysis and advice on Inclusive Framework (IF) for Base Erosion and Profit Shifting (BEPS) for Fiji & Kiribati. Significant training programs and coaching on international tax including transfer pricing and Advanced Pricing Agreements was provided to Fiji, leading to improved collections.

20. Revenue mobilization efforts continued with countries adopting/improving VAT/GST: Palau introduced PGST, Timor Leste decide to implement VAT, Fiji is progressing amendments to the VAT Bill, Vanuatu has undertaken action to improve VAT revenue performance, and Kiribati is increasing collection through compliance improvements.

21. More countries adopt functional organizational models. Niue, Tuvalu, Papua New Guinea, and Solomon Islands are at various stages of approval and implementation.

D. Next Steps

22. Work will continue for ongoing projects and new activities will be designed, based on country demand for both PFM and RA programs.

23. PFM plans to undertake an *Agile*PEFA and Climate PEFA in Tuvalu and Vanuatu respectively and will continue to support countries in developing and updating their PFM Reform Roadmaps. It is envisaged that the Climate PFM advisor will be recruited during FY2024. This will facilitate greater mainstreaming of climate considerations into CD delivery. FY2024 will see increased face-to-face engagement and relationship building with countries' technical counterparts. Mainstreaming gender and climate into PFM delivery will be ramped up progressively during FY2024.

24. The FY2024 RA program will focus on increasing collections, improving capability, and implementing (and compliance with) the law. RA will continue to provide support to member countries in meeting revenue mobilization needs, including those related to COVID-19 and other challenges such as climate change and natural disasters. The FY2024 workplan includes 58 activities, requiring an expected 655 TA field days (143 LTX and 512 STX). This includes 3 missions (25 STX days) to assist with tax legislation in three (3) countries. The workplan is based on a mix of in-person mission delivery complemented by remote engagement where practical.

Pacific Financial Technical Assistance Centre (PFTAC)

6 June 2023