

PFM in the Pacific

The Pacific Financial Technical Assistance Center (PFTAC) was established in Fiji in 1993 to provide technical advice and capacity building to 15 Pacific Island Countries (PICs) of Fiji, Cook Islands, Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu. The Center is operated by the IMF, in consultation with the governments of the PICs and the donors¹ supporting it.

PFTAC's mission is to enhance the institutional and human capacities in of member countries and regional bodies in the Pacific region to achieve their financial and economic policy objectives. It is a center of quality advice and capacity building on the technical aspects of financial and economic policy formulation and management to member countries and regional bodies. The four key areas of technical advice it provides are financial sector supervision, economic statistics, revenue administration and public finance management (PFM).

Four advisors, and one coordinator, effectively deliver technical assistance in these four primary areas of expertise of PFTAC. This advice is delivered by a combination of direct technical assistance, short term consultants, training programs and attachments, primarily through: a) an average of over 50 TA missions per year to 15 member countries, b) at least one capacity-building exercise imbedded into every TA intervention; c) organizing regional fora to share experiences and best practices; d) short-term attachments between PICs and relevant agencies; and e) quick ad hoc response to PICs on specific issues.

The work of the four advisors is back-stopped by the relevant IMF Departments in Washington to ensure that quality technical assistance is provided. PFTAC's strengths lie in the quality of it's focused technical assistance and it's quick response time to member country requests for assistance. PFTAC is able to respond to member requests normally within 30-45 days. These strengths of PFTAC have been appreciated by member countries and recently, at the request of donors and members, PFTAC staff has been augmented by two World Bank experts in the areas of PEFA assessments and State Owned Enterprises.

In consideration of the diverse levels of development amongst it's member countries in the PFM area, such assistance has been targeted to suit individual country needs. To some of the more developed countries in the region assistance has been provided in more advanced PFM areas, while more basic level assistance has been provided to others.

¹ The donors are IMF, AUSAID, NZAID, Japan, Korea and the ADB.

The countries which have received more advanced assistance are :

- Fiji- where performance budgeting has been the main focus of work in the recent past (mid-2006 onwards). Debt management training has also been conducted. However, the Fiji budget is under stress due to the coup in 2006 with little resources available for infrastructure. The situation has been addressed by lowering the threshold level at which Finance approval is required before expenditures are incurred. The primary challenge remains the reallocation of resources, without adequate analysis.
- Samoa- where development of Forward Estimates methodology has been completed (in mid-2008). The budget was under stress last year and this was addressed by applying across the board cuts. However, the primary challenge is not financial but an human resource one with frequent turnover of budget officers.
- Cook Islands- where work on medium term budgeting has been initiated in July 2008. Cook Islands works on a accrual basis and the challenge is primarily a human resource one with frequent turnover of budget officers, both at the line ministry level and at the Ministry of Finance and Economic Planning. Monitoring budget expenditures is another area where work is now being undertaken.
- Vanuatu- where development of a medium term macro fiscal framework has been completed and training on PFM provided. The country has a good integrated computer based financial management system. The budget is not under stress, although it is a challenge to get correct budget estimates from line ministry staff who are ill-equipped for the task. This does reduce the value of the output from the computerized system and PFTAC is designing training programs to address this need.

In the other countries under PFTAC's remit work has been undertaken in the last two years in the following areas:

- Marshall Islands: support has been provided on cash management and revenue estimation. The country's budget is under severe stress and cash shortages are endemic. The country also receives aid from USA under the Compact Grants and while this portion of the budget is adequately monitored the national budget is not. The challenge is the need for better cash management, commitment control, budgeting and monitoring by the Ministry of Finance.
- Nauru: also cash management. The country's budget is under severe stress and cash shortages are endemic after the collapse of the phosphate industry and the closure of the Australian processing center. The challenge is the need for better cash management, commitment control, budgeting and monitoring by the Ministry of Finance.

- Palau: work has been done on revenue estimation, development of Financial Instructions (FIs) and training on the FIs. While the budget situation is normal this is another country which receives aid from USA under the Compact Grants. The challenges are the need for better cash management, commitment control, macro fiscal forecasting and budgeting and to adequately use the existing computer monitoring system by the Ministry of Finance.
- Solomon Islands: development of Financial Instructions. The country has faced a civil war till recently and is now being administered with the help of the Regional Technical Assistance Mission (RAMSI). The challenge is to modernize the existing systems, train staff in financial systems and implement budget norms.
- Tonga- revenue estimation and devolution of financial powers. The challenges primarily relate to budget monitoring and human capacity constraints to undertake these tasks.
- Kiribati: needs identification in the areas of cash management, commitment control and budgeting. Cash flow problems compounded with capacity issues.
- Tuvalu: budgeting is weak, primarily suffering from capacity constraints.
- Kiribati (US\$570 million- 745% of 2007 GDP²), Federated States of Micronesia (US\$84 million- 35% of 2007 GDP) , Palau (US\$161 million- 95% of 2007 GDP), Marshall Islands (US\$974 million- 65% of 2007 GDP) and Tuvalu (US\$87 million- 325% of 2007 GDP) all have Trust Funds which were used to partly offset budget inflows. However, the recent global financial crisis may lead to a significant fall, between 20-30%, in the value of most trust funds since they are weighted towards stocks.. This may aggravate budgetary problems in these countries.

PFTAC also operates as the secretariat for the Pacific Financial Managers Association (PIFMA) , a regional association of public sector financial managers around the Pacific. This association organizes regular seminars and workshops in areas of interest to the member countries. Workshops have been conducted on MTEF, Cash Management, Commitment Control, Debt Management, Internal Audit and Integrated Financial Management Systems (IFMIS) and manuals and handbooks, for use by members developed and disseminated. Additionally, a few countries like the Cook Islands, Micronesia, Vanuatu, Papua New Guinea and the Marshall Islands have also been provided training through attachments to the PFTAC PFM Advisor.

A recent study trip to the US organized by PFTAC focused on payment execution and cash and debt management. It saw participation at Finance Secretary level from

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Fiji, Marshall Islands and Cook Islands, and at the Finance Minister level from Palau. PNG also participated with a large team.

While continuing work in all these areas, PFTAC is now focusing on two new areas in the current year. These areas are IFMIS and Internal Audit.

In IFMIS: The region has a number of diverse and small IT systems operating, many developed with donor assistance. Some countries are in the process of upgrading their systems and others, like PNG, are in the process of integrating diverse systems. PFTAC's role is that of an advisor on the sustainability of various systems, the identification of potential problems, development of modernization strategies, and concrete support for system development, especially with regard to linkage with the PFM system and user-requirements.. This work is being initiated through a study of the systems in the region, an assessment of the work to be undertaken in this area and by identifying ways of delivering advice on IFMIS.

In internal audit: The region has very weak internal audit systems and, in some countries, IA units have atrophied in the recent past. There is a felt need to identify the various systems in the region, given that the North and South Pacific have different systems in place. There is also a need to identify an appropriate organizational structure for Internal Audit given the very limited capacity in the Pacific for this work.

As a first step, a detailed study on the systems in three countries around the region has been conducted. Based on the outcome of this study the possibility of setting up a larger internal audit program, possibly with ADB funding, is now being explored.

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