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IMF Working Paper

Review of the Public Financial Management Reform Strategy for Pacific Island Countries, 2010-2020

by Richard Allen, Majdeline El Rayess, Laura Doherty, and Priya Goel

***IMF Working Papers* describe research in progress by the author(s) and are published to elicit comments and to encourage debate.** The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

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Fiscal Affairs Department

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Abstract

This paper reviews the Public Financial Management (PFM) reform stategy for 16 Pacific Island Countries (PICs) during the period 2010-2020. The strategy was endorsed by the finance and economic ministers of the region (FEMM) in 2010. The paper analyzes more than 30 PEFA assessments carried out across the region. The region shares the generally slow pace of PFM reform that is also a feature of most developing countries. Some PICs have improved their PFM performance significantly, while others have done less well. PFM reforms have suffered from the small size and low capacity of many PICs, poorly designed PFM roadmaps, variable political suppport for reform, and vulnerability to natural disasters. The paper recommends that in the next five years, there should be a more granular and targeted approch to PEFAs. PICs should focus on basic PFM reforms and (where capacities allow) more transparent public finances, as well as better management of climate change considerations, public infrastructure, gender inequalities, and state-owned enterprises. Perseverance by countries in implementing reforms and leadership by finance ministries are critical. PFTAC's advice is highly regarded across the region, and it could consider alternative modalities of CD delivery and stronger coordination with other development partners.

JEL Classification Numbers: E61, E65, H50, H61

Keywords: Pacific Islands Countries, public finance management (PFM) reform, PFTAC, PEFA

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I. INTRODUCTION[1]

The Pacific Financial Technical Assistance Center (PFTAC) was established in 1993 to provide support to 16 Pacific Island Countries (PICs)[2] on public financial management (PFM) among other topics. The PFM reform strategy for the region was set out in the *Public Financial Management Roadmap for Forum Island Countries*[3] which was published in 2010 and endorsed at the meeting of the Forum Economic Ministers Meeting (FEMM) in the same year. This *Roadmap* focused on three broad objectives: (i) PICs should undertake Public Expenditure and Financial Accountability (PEFA) assessments every three years; (ii) practical, shared action plans should be derived from these PEFA assessments and used as the basis for delivering capacity development (CD); and (iii) this work would receive support from dedicated regional PEFA resources and development partners, coordinated by PFTAC. The *Roadmap* also provided for an expansion of PFTAC's resources to support CD activities in PFM. The number of resident PFM advisors was increased from one to two in fiscal year (FY) 2013[4]. PFTAC also employs advisors in the closely connected areas of macro-fiscal analysis, statistics, revenue administration, and supervision of the financial sector.

In this report, we present the findings of a Review of PFTAC's PFM reform strategy by the IMF's Fiscal Affairs Department (FAD). The review[5]:

- Assesses whether, ten years after the *Roadmap* was published, the strategy and policies it sets out have achieved their basic objectives and have resulted in an improvement in the PICs' PFM performance.
- Considers whether the tools and modalities included in the *Roadmap* were adapted to the needs and capacities of the PICs and were sufficiently focused on their strategic reform priorities.
- Assesses the modalities and effectiveness of coordination between PFTAC and other development partners (DPs) working on PFM issues.
- Considers the progress made toward achievement of the PFM reform objectives outlined in documents relating to Phase III (FY2009-FY2011), Phase IV (FY2012-FY2016), and Phase V (FY2017-FY2022) of the PFTAC program.

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[1] The authors are most grateful to colleagues in PFTAC, notably David Kloeden, Richard Neves, and Celeste Kubasta, for their extremely helpful contributions to this report; and to Manal Fouad, Sailendra Pattanayak and other colleagues of the IMF's Fiscal Affairs Department, the Asia and Pacific Department, and the PEFA Secretariat for comments and suggestions. Qing Zhao provided excellent research assistance.

[2] Member countries are the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

[3] *A Public Financial Management Roadmap for Forum Island Countries*, July 2010. The paper was a joint product of the Pacific Islands Forum Secretariat and PFTAC.

[4] The IMF's fiscal year starts on May 1 and ends on April 30.

[5] This review does not attempt to evaluate the performance of PFTAC in delivering support on PFM issues to the region. Such an evaluation is being undertaken in a separate and parallel exercise under the supervision of the IMF's Institute for Capacity Development (ICD).

The review takes account of the evolution of PFM diagnostic tools over the past decade, as well as developing areas of fiscal work such as climate change, gender budgeting, and public sector balance sheets. It also reflects the enhancement of the Fund's CD modalities and the development of the Results-Based Management (RBM) framework; and the closer integration of the IMF's surveillance and CD activities, where PFM is a core issue. Finally, the review takes account of the Fund's guidance on its engagement with small states.[6]

Interest and support by DPs for strengthened PFM in the region is high. Despite the relatively modest size of PFTAC's resources for PFM work compared to those provided by other DPs notably Australia, New Zealand, the Asian Development Bank (ADB), the European Union (EU), and the World Bank (WB), PFTAC has played an important role in coordinating CD support efforts and knowledge dissemination among the DPs, especially in setting PFM reform priorities in the country roadmaps, which are discussed later in this report. PFM benchmarks are tangible measures of progress and are often used as triggers for the release of budget support by DPs.

The analysis presented in this report shows that the region is very heterogeneous in terms of its demographic and geographical characteristics, its economic challenges, its PFM systems and capacities, as well as its institutional structures and governance (Box 1). A few PICs have started implementing relatively advanced PFM practices, while others continue to struggle in implementing basic functions of PFM. This report recognizes that the needs in the region vary enormously across countries and that these differences should be reflected in national PFM reform strategies going forward. A critical success factor is whether countries have taken ownership of their PFM reform strategies and whether there is a conducive political environment for the application of reforms; the picture across countries varies widely.

The report is based on a close analysis of PFTAC program documents and annual reports, PEFA assessment reports, country roadmaps, and other documents and data. It draws on the findings of a mission made by the IMF's Fiscal Affairs Department in October-November 2019 which visited five PICs—Fiji, Samoa, Solomon Islands, Nauru and the Republic of the Marshall Islands (RMI). The review team also conducted a survey of the 16 PICs to assess the authorities' views on PFM reforms and the impact of PFTAC's CD activities (see Section IV.D). The report concludes with some recommendations for a revised PFM reform strategy covering the next phase of the PFTAC program (2022-2028), for consideration by the region's finance ministers. It also comments on how the needs for technical support may be affected by the COVID-19 crisis, and the demands that recovery from this crisis may impose on already weak PFM systems.

[6] See IMF, 2017, Staff Guidance Note on the Fund's Engagement with Small Developing States. This document contains a section on CD with some high-level messages that are relevant. See also IMF-IEO, 2020, IMF Engagement in Small States: Draft Issues Paper for an Evaluation by the IEO.

Box 1. Overview of the Pacific Islands

The Pacific Islands are very diverse in terms of location, size, population and economic profiles. They share common features such as remoteness and dispersion which affects their economic development. Eleven PICs are among the smallest countries in the world in terms of size and population (land area varying between 20 square km and around 900 square km). Some stylized facts are presented below which are important to understanding the challenges facing many of the PICs in building capacity for better PFM.

All the Islands are ranked as low-income (Kiribati, Federated States of Micronesia (FSM), Papua New Guinea (PNG), Solomon Islands, Timor-Leste, and Vanuatu) or middle-income countries (Fiji, Marshall Islands, Nauru, Palau, Tonga, and Tuvalu) except Cook Islands that is ranked as a high-income country. In addition, seven countries are considered fragile states (Kiribati, RMI, FSM, PNG, Solomon Islands, Timor-Leste, Tuvalu). Some of these countries are micro-states, with just a few thousand people – really just a small village (population varying between 11,000 and no more than 200, 000), trying to put in place the same basic traditional PFM architecture that much larger countries struggle to put in place over decades.

In 2019, GDP growth rates varied substantially across the region from the 1 percent of GDP in Nauru to 6 percent in Tuvalu. The PICs' economies are highly dependent on imports and external income (including remittances). Their economic diversification is limited with the economies depending mainly on agriculture, fishing (licensing) and services (tourism). Some countries depend on exports of goods such as fish and copra (Kiribati, Marshall Islands) while other are resource rich exporters (Timor-Leste and Solomon Islands).

Smallness, Remoteness, and Dispersion	• Pose significant constraints resulting in high transportation costs and a substantial dependence on the public sector. • Lowest connectivity: FSM, RMI, Kiribati and Solomon Islands highest dispersed in the world.
Vulnerability to Natural Disasters	• 9.4 percent of GDP is the PICs median related to damage and losses of most recent natural disasters. • 2020: Cyclone Tino (Tuvalu); 2019: Cyclone Rita (Vanuatu); 2018: Cyclone Gita (Tonga); 2017 Cyclone Donna (Vanuatu).
High Exposure to External Shocks	• Tourism, remittances, and Foreign Direct Intervention: 20-50 percent of GDP (Fiji, Palau, Samoa, Tonga and Vanuatu). • Terms of trade: PNG, Solomon Islands, and Timor-Leste. • Financial channel: Large trust funds (Kiribati, RMI, FSM, Palau and Tuvalu).
Narrow Production and Export Base	• Palau: Tourism is about 40 percent of GDP; Timor-Leste high dependency on oil (1 percent of GDP for non-resource exports manufacturing). • As a result of narrow production and export bases, economies experience more macroeconomic volatility than larger peers.
Infrastructure Gap, High Cost of Electricity	• Electricity costs in PICs are among the highest in the world. Lack of electrification and lack of infrastructure is widespread. • Electrification rate is less than 60 percent in Solomon Islands and Vanuatu.
Aid Dependency	• Aid represents about 40 percent of GDP in FSM and the Marshall Islands. The substantial U.S. grants for the RMI, FSM and Palau will terminate in 2023. • The RAMSI program in Solomon Islands terminated in 2013.

Source: PFTAC, Authors.

II. PFM Reform Roadmaps

A. Introduction

The 2010 FEMM proposed that a fundamental building block of the PFM reform strategy for PICs should be PFM reform roadmaps. These roadmaps comprised comprehensive action plans for PFM reform, prepared by the PICs and based largely on PEFA assessments to be carried out every three to five years. The FEMM acknowledged the need for a systematic way of preparing and publishing these shared action plans that took account of the political and institutional context of the countries. The roadmaps would provide the donors with a common palette of urgently required PFM reforms and could also assist in strengthening countries' capacity to deal with natural disasters and other development priorities through the creation of fiscal space.

Following the 2010 FEMM, progress in preparing and using roadmaps has been mixed. Eventually, 14 of the 16 PICs prepared roadmaps which were published, but with different periodicity and timetables (Table 1).[7]In most countries, the duration of the roadmaps varies from three to five years, in line with the recommended periodicity of PEFA assessments. Three of the PICs (Niue, Palau and Timor-Leste) have not prepared any comprehensive roadmap. Only three countries (FSM, Samoa, and Tonga) have prepared more than one roadmap. In several countries the period covered by the roadmap has expired and no updated version has been put in place. It is, therefore, debatable whether the roadmaps have played a sustained role in supporting PFM reforms.

Table 1. Periodicity of Roadmaps for the Period 2011-2021

Fiscal Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Vanuatu											
Tuvalu											
Tonga											
Tokelau											
Solomon Islands											
Samoa											
PNG											
Nauru											
RMI											
Kiribati											
FSM											
Fiji											
Cook Islands											

Source: PFTAC.

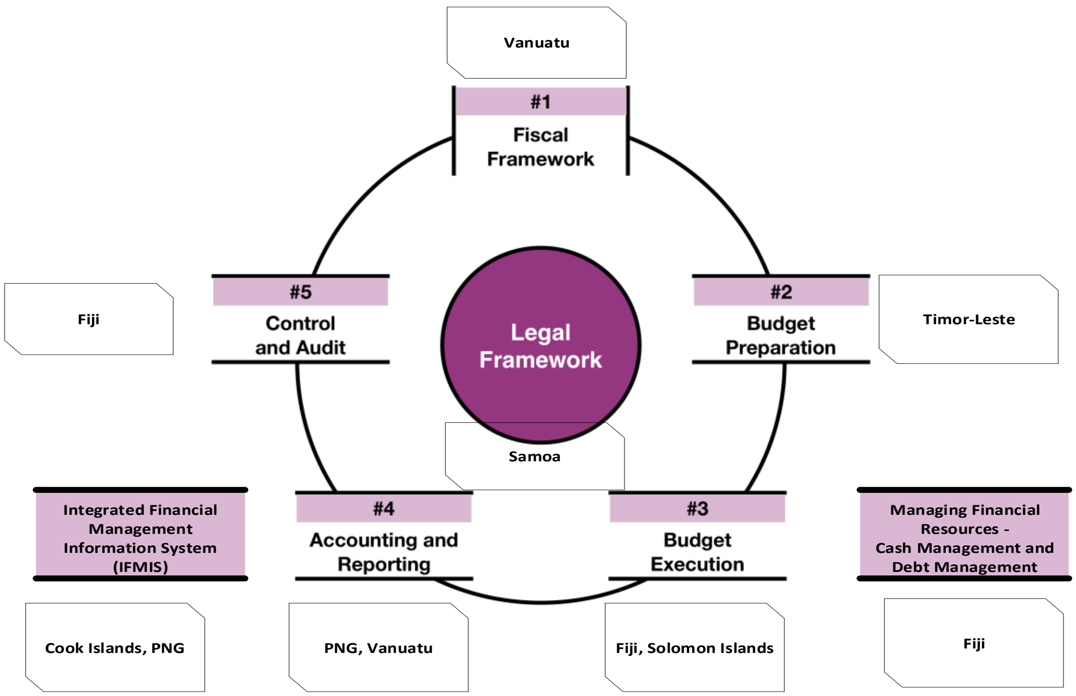
B. Assessment

Most of the roadmaps that have been prepared were based on the most recently available PEFA assessments. In many cases, the roadmaps focused on improvements in PFM processes

[7] Other roadmaps may have been prepared by countries but were not published or made available to the review team.

such as accounting and reporting, bank reconciliations, cash management, and the development of a financial management information system, FMIS (Figure 1).

Figure 1. Examples of Country Roadmaps and the Budget Cycle



Source: Country Roadmaps.

Although many roadmaps were conceived as a translation of the PEFA assessments into a prioritized action plan, some countries included elements not reflected in the PEFA framework in preparing their reform plans. A PFTAC regional paper on roadmaps (2010)[8] pointed out that buy-in to PEFA assessments among politicians and government officials is not uniform in all countries, and that the PEFA framework does not capture many aspects of PFM. Hence some countries have included non-PEFA dimensions in their PFM roadmaps and action plans. These elements include governance and anti-corruption issues (Cook Islands and Solomon Islands), gender inequality, public investment management, and climate change.

Some countries have attempted to establish a link between their PFM roadmaps, national development plans and the financing of development projects. Several PICs prepare Joint Policy Action Matrices (JPAMs) which are used by country authorities and DPs during the discussion of future budget support operations (Box 2).
These JPAMs include some PFM conditions, amongst others, for budget support, and are used in countries such as Kiribati, Samoa, Solomon Islands, Tonga, and Tuvalu. DPs providing both general and sectoral budget support include the ADB, Australia, the EU, New Zealand and the World Bank.

[8] https://www.pftac.org/content/dam/PFTAC/Documents/Useful%20Links/Regional%20Papers/PFTAC_Roadmap_FEMM.pdf

Box 2. PFM Roadmaps and Joint Policy Action Matrices (JPAMs)

PFM roadmaps have been utilized in preparing joint policy action matrices (JPAMs) in some countries in the region that benefit from budget support. The first JPAM, for the Solomon Islands was prepared in about 2010, followed shortly after by Tonga (called the JPRM). JPAMs are now used by five countries in the region: Kiribati, Samoa, Solomon Islands, Tonga, and Tuvalu. JPAMs represent a structured dialogue or a coordination mechanism between DPs that provide budget support in the region (principally the ADB, Australia, the EU, New Zealand, and the World Bank), ministries of finance and other arms of the national government. They also inform the policy dialogue between the countries and the IMF's Article IV missions.

The matrices include information on the economic and social priorities of the government (e.g., education, health, energy, and climate resilient infrastructure) to which disbursements of budget support will contribute, the indicative amounts of support that each DP will provide over a 2-3-year period, and the conditions that will be attached to that support. Conditionalities include PFM and fiscal issues such as revenue/tax policy and administration, wage bill management, procurement, and the management of PPP as well as other topics such as reforms of the business environment, SOEs, public service management (performance, job sizing, etc.), education and health, social protection, fisheries, tourism, and disaster/climate change.

JPAMs have proved an effective tool for negotiating budget support by consolidating the supported reforms in one place, for all partners, and in that process prioritizing a handful of reforms, having clarity on what needs to be done to get budget support, usually linking to TA/CD if needed to ensure that happens, and minimizing the transaction costs of government—relative to every partner having their own matrices, with potentially overlapping and inconsistent actions and conditionalities. The process of preparing JPAMs has proved useful in bringing DPs and government officials together to discuss and clarify issues, improving coordination, and avoiding overall and duplication in CD/TA support. JPAMs prepare the ground for the legal agreements on budget support that are signed by the governments and DPs concerned.

Source: Authors, PFTAC, and World Bank.

A critical success factor for the roadmaps lies in the extent of country ownership and conducive political environment for the application of reforms. Political will and institutional capacity played an important role in countries like Samoa, Fiji, Tonga and Cook Islands to successfully implement reforms and move forward to the next level of development. However, political support for PFM reform varies across the region. In some countries, PFM reform is not welcomed by politicians because it limits their freedom of action. Patronage systems and informal arrangements dominate decision making on the budget and fiscal policy, limiting the scope for measures to improve PFM performance and fiscal transparency and leading these countries to struggle with implementing the basic elements of PFM reform.

Capacity constraints remain an important challenge to successful implementation of reforms. Ministries of finance in many PICs have only a small pool of qualified professionals with a high level of turnover.[9] It is very important that these staff are used in areas where they can have the greatest impact and can achieve results. PFM reform efforts should therefore prioritize and target the weakest areas that hinder the achievement of reforms and constrain efforts to achieve broader development objectives. With advanced technologies in communication, governments can help address capacity constraints by actively seeking regional and global networking focusing on peer learning and peer review of reform plans. The Pacific has extensive experience with regional approaches which can be enhanced and used more frequently in hands-on types of exchanges. Based on the review team's discussions with officials, roadmaps produced for Solomon Islands and Nauru were less used due partially to capacity constraints.[10] In Nauru, for example, the focus on preparing PEFA assessments and (related) roadmaps, broadened substantially the country's requests for CD support and failed to concentrate resources on strengthening areas that were weakest and exacerbated by severe capacity constraints.

A practical challenge in some countries was that the roadmaps required several levels of approval within the government—at official level, ministerial level, and in some cases approval by the legislature. This complex process led to delays in the approval of the roadmaps and reduced their utility as a guide to PFM reform. A more rational and pragmatic approach would recognize that reforms fall into three broad categories: (i) reforms that can be implemented by simple modifications to internal operations and processes without the need for any changes in existing laws or regulations; (ii) reforms that require new financial regulations or a ministerial decree, and therefore require the approval of the finance minister; and, (iii) reforms that need high-level decisions by the government or primary legislation, and therefore require approval of the cabinet and/or parliament. A well-sequenced PFM reform plan should anticipate these various levels of approval and give priority to reforms for which approvals can be obtained relatively easily and quickly.

Sequencing the reforms depends on each country's circumstances and cannot be generalized.[11] However, some general guidelines could be helpful in designing this sequencing. PFM reform strategies should concentrate on only a few key reforms at any one time. Reform failures frequently arise because too many changes are being targeted simultaneously. And the targets of reform are not always related to the most important fiscal or budgetary problems or the greatest fiscal risks, such as eliminating expenditure arrears, or imposing effective caps on the annual budgets of line ministries. It is also useful to distinguish between basic and more advanced PFM reforms to determine which PFM functions should be given priority in a reform strategy. Reforms should be "problem-driven", not "solution-driven".

Despite the general poor design and lack of traction of roadmaps as a key tool of PFM reforms, there are some exceptions in the region. The roadmaps in Fiji and Samoa, for

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[9] In some of the smallest PICs, budget departments for example employ no more than three or four professional staff, compared to five or six times that number in the larger PICs, which is a comparable staff complement to other well-managed emerging markets and developing countries.

[10] The Accountants General of these two countries indicated to the review team that they had not been invited to discuss the roadmaps and had no knowledge of their contents.

[11] There is an extensive literature on the design, prioritization and sequencing of PFM reforms. See, for example, Matt Andrews, 2012. *The Limits of Institutional Reform in Development: Changing Rules for Realistic Solutions* (Cambridge, UK: Cambridge University Press).

example, were well used by their governments in moving forward with reforms. In the case of Samoa, critical actions from the roadmap have been integrated into the Ministry of Finance's *Finance Action Plan* and the *Finance Sector Plan*. This action plan was then monitored on an annual basis and benefited from continuous political support. Samoa started to focus with this roadmap first on basic elements of strengthening PFM institutions such as legal and regulatory framework. It has a dedicated unit that is adequately resourced within the MoF responsible for implementing and monitoring the roadmaps. The status of implementation was monitored yearly and disclosed to the public, and by 2019, 91 percent of the committed actions were completed. Table 2 compares three PICs (Kiribati, PNG and Samoa) which have implemented roadmaps with varying levels of success. Even in countries with strong finance ministries like Samoa, however, there are challenges in extending PFM reforms to line ministries. For example, ministries that lack the capacity to prepare a credible annual budget will find it challenging to move to the next stage and make forward estimates of their spending programs covering three or four years.

Table 2. Comparison of Implementation of Roadmaps Between Kiribati, PNG, and Samoa

	Kiribati		**PNG**		**Samoa**	
Based on PEFA as starting point	√		√		√	
Goes beyond PEFA by identifying additional priorities	x		x	Goes beyond PEFA to fiscal management	√	Goes beyond PEFA to fiscal management
Goes beyond sole objective of improving PEFA indicators	x		√	Accountability, managing fiscal risks and better fiscal accounts	√	Fiscal discipline
Clear sequencing	x	Very little sequencing	√	Identifies priorities for each sub-set of time span	√	Sequencing in stages with a precise time frame
Detailed action plan and milestones	x		√	Detailed action plan within a high-level milestone. Each milestone has a defined deadline	√	
Departmental Accountability clearly articulated	x		√		√	
Monitoring progress of milestones	x		x		√	
Progress report for each planned period	x		x		√	
Disclosing relevant documents to the public	x		x		√	

Source: Authors.
Note: √ *indicates achieved and x indicates not achieved.*

III. ANALYSIS OF PEFA REPORTS, 2009-2020

A. Introduction

A second core element in the strategy approved by FEMM in 2010 was the preparation and publication of PEFA assessment reports by PICs every three to five years which, in turn, were designed to feed into the roadmaps discussed in Section II. In this section we analyze the results of 31 PEFA assessments that were carried out between 2009 and 2019 for the 16 PICs. Eighteen of these assessments were led by DPs, of which 11 were led by PFTAC, and 13 were self-assessments[12]. Annex 1 provides further details.

The analysis of these assessments presented comparability challenges, because the PEFA diagnostic framework has undergone three revisions since it was established. The first PEFA framework was published in 2005, then updated in 2011, followed by a more substantial revision in 2016. Table 3 presents a breakdown of the 31 PEFA assessments following each methodology: eight assessments were based on the 2005 PEFA framework, 15 assessments on the 2011 framework, and eight assessments on the 2016 framework.

Table 3. Breakdown of the PEFA Assessments According to the Relevant Methodology for the Period 2009-2019

	2005 PEFA		2011 PEFA					2016 PEFA			
Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Vanuatu											
Tuvalu											
Tonga											
Tokelau											
Timor-Leste											
Solomon Islands											
Samoa											
PNG											
Palau											
Niue											
Nauru											
RMI											
Kiribati											
FSM											
Fiji											
Cook Islands											

Source: Authors, PFTAC.

[12] Self-assessments are intended to familiarize country officials with the PEFA rating and documentation criteria and to give them experience in using those criteria to evaluate their own systems. While the main objective is to prepare the authorities for a formal assessment, some countries requested a self-assessment in order to identify weaknesses to correct before undertaking a formal assessment. To assist with some of the self-assessments, PFTAC has provided experts to act as facilitators and has prepared self-assessment templates and workbooks.

The revisions to the PEFA framework in 2011 and 2016 resulted in many changes to the indicators and scoring methodology. The most intensive revision was introduced in 2016. Annex 2 presents an overview of the main differences between each framework.

The revisions to the framework in 2016 led to a more stringent scoring system. Table 4 compares the global scores achieved on PEFA assessments prepared under the 2011 framework and the 2016 framework. The average number of "A" scores declined from 14 percent under the 2011 framework to 10 percent under the 2016 framework, while the number of "D" scores increased from 31 percent to 39 percent. The proportion of scores in the middle range ("B" and "C") was broadly unchanged. This suggests that the methodology has tightened for the following reasons:

- The bar of success has been raised: notably, for some indicators the requirements in PEFA 2016 to get an "A" score is higher than in PEFA 2011.
- PEFA 2016 includes some new dimensions of PFM which are more demanding.[13]
- The quality assurance process introduced in January 2018 (the strengthening of requirements to receive a PEFA Check[14] from the PEFA Secretariat) is likely to have increased the rigor of scoring.

Table 4. Comparison of PEFA Scores under the 2011 and 2016 Frameworks (percent)

PEFA Framework	% of "A" Scores	% of "B" Scores	% of "C" Scores	% of "D" Scores
2011 Framework	14	22	27	31
2016 Framework	10	23	27	39

Source: PEFA Secretariat.

Note: Scores were taken from the latest 141 assessments undertaken using the 2011 Framework, and all 62 reports prepared using the 2016 Framework. Note that the scores in each line do not add up to 100 percent because, in some reports, information was unavailable or not recorded.

In addition to strengthening the PEFA methodology, the PEFA Secretariat also reviews draft assessment reports before they are finalized and published. This review process (called "PEFA check") certifies that a report has complied with PEFA guidelines on the assessment and reporting process. All PEFA reports published since 2016 have received a PEFA check, and the validation methodology was tightened in 2018. The PEFA check, however, focuses largely on processes with less emphasis on validating whether the scores made by the assessment team are justified and realistic.

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[13] For example, PI-5 Budget Documentation and PI-9 Public Access to Fiscal Information (one dimension) introduced the use of basic requirements and additional requirements. A minimum number of basic elements are needed to score at least C (PEFA 2011 did not make that distinction); PI-4 Classification of the Budget (one dimension) now specifies GFS details for all scores; and PI-23.1 Integration of Payroll and Personnel Records now requires the existence of budget controls to receive an A score.

[14] PEFA Check is a mechanism for confirming that the processes used in planning and implementing a PEFA assessment and preparing a PEFA report comply with the PEFA 2016 methodology and other guidance issued by the PEFA Secretariat. It verifies that good practices in planning and implementing an assessment have been followed; that the PEFA report fully complies with PEFA methodology; that the report includes sufficient evidence to support the assessment and findings; and that it accurately reflects the status of PFM systems as measured through the indicator scores and narrative assessment. PEFA Check, however, does not validate the scores themselves which are the responsibility of the assessment team. See the PEFA website (pefa.org) for further information.

Nine of the 13 self-assessments carried out by PICs since 2010 were also reviewed by the PEFA Secretariat. The PFTAC PFM advisors participated in some of these exercises so that some rigor was applied to ensure that the scores were realistic, and PFTAC encouraged the authorities to produce a report of their self-assessments, though in practice this was seldom done.

B. Methodology to Assess PEFA Scores

This paper analyzed the PEFA scores using the list of objectives in the IMF's RBM catalogue[15] as a base of comparison. Since the purpose of this review is to conduct a PFM analysis over a period of 10 years, all the PEFA assessments carried out during this period have been included. However, the comparability of the indicators was challenging due to the various revisions to the PEFA framework. Therefore, to avoid bias, each PEFA performance indicator was mapped into the relevant RBM objective.

The 2016 PEFA framework comprises seven pillars. These pillars are (i) budget reliability, (ii) the transparency of public finances, (iii) the management of assets and liabilities, (iv) policy based fiscal strategy and budgeting, (v) predictability and control in budget execution, (vi) accounting and reporting, and (vii) external scrutiny and audit. Each pillar comprises a group of indicators that capture the performance of the key systems, processes and institutions of government. The 2016 PEFA framework include 31 performance indicators which are broken down into 94 dimensions.

A comparison of the PEFA scores of the PICs (Table 5) with low-income developing countries (LIDCs) and emerging market economies (EMEs) shows mixed results. While they are on par with the LIDCs' PEFA scoring on budget reliability, transparency of public finances, and accounting and reporting, they score lower in all the other pillars. We also compared the PEFA scores for the Pacific Islands and the Caribbean region (which is also characterized by small, economically undiversified economies that are highly vulnerable to natural disasters) using the 2011 PEFA framework. The average PFM performance across the two regions is very similar[16].

Table 5. Comparison of PEFA scores Between PICs, LIDCs and EMEs, 2015-2019

	LIDCs	**EMEs**	**PICs**
Budget Reliability	2.05	2.59	2.15
Transparency of Public Finances	2.07	2.86	2.04

[15] The Result Based Management (RBM) is used by the IMF to monitor countries' capacity development (CD) outcomes. The objective of the RBM is to intensify the focus on outcomes as opposed to just the delivery of high-quality services. It is also designed to increase transparency and the accountability of authorities to achieve tangible results with the CD support provided by the IMF. The RBM uses a catalog that serves the dual purpose of defining the product structure of CD activities and how expected outcomes will be measured. The goal of the catalog is to imprint a degree of consistency on the work the IMF offers and make results comparable and aggregation feasible.

[16] The PEFA assessments covered the period 2006-2014, using the 2011 framework to allow for comparability (9 Caribbean countries, 10 PICs). The overall average PEFA score was 2.2 for the Caribbean countries and 2.3 for the PICs. The highest scoring PEFA pillar was budget credibility (average of 2.6 in the Caribbean region, 2.7 in the PICs) and the lowest scoring pillar was external audit and scrutiny (averages of 1.7 and 2.0 respectively). Countries with the lowest scores were Nauru and Haiti (average score 1.5) and countries with the highest rating were Cook Islands and Trinidad and Tobago (average score 2.6).

Management of Assets and Liabilities	1.94	2.37	1.68
Policy-Based Fiscal Strategy and Budgeting	2.35	2.74	1.81
Predictability and Control in Budget Execution	2.24	2.73	2.12
Accounting and Reporting	2.04	2.28	2.09
External Scrutiny and Audit	1.98	1.95	1.64

Source: PEFA reports.

The objectives which are used as the metric for measurement of the PEFA results are drawn from the RBM catalogue. These objectives are: (i) comprehensive, credible and policy-based budget preparation; (ii) improved coverage and quality of fiscal reporting; (iii) strengthened budget execution and controls; (iv) strengthened asset and liability management; and (v) improved management of fiscal risk. Every PEFA assessment whether done under the 2011 or 2016 methodology was mapped to the relevant RBM objective.

The scoring scheme used by the PEFA framework has been applied for this review. The PEFA scoring scheme uses an alphabetical code for scoring indicators with A being the highest and D being the lowest. For the purpose of this study, the PEFA scores accorded to each indicator have been converted into numerical scores (Figure 2), and then converted into average scores for each outcome. This method has been applied to all PEFA assessments undertaken during the period 2009-2019.

Figure 2. PEFA Scoring Methodology[17]

A	B	C	D
A = 4	**B = 3 B^+ = 3.5**	**C = 2 C^+= 2.5**	**D = 1 D^+= 1.5**

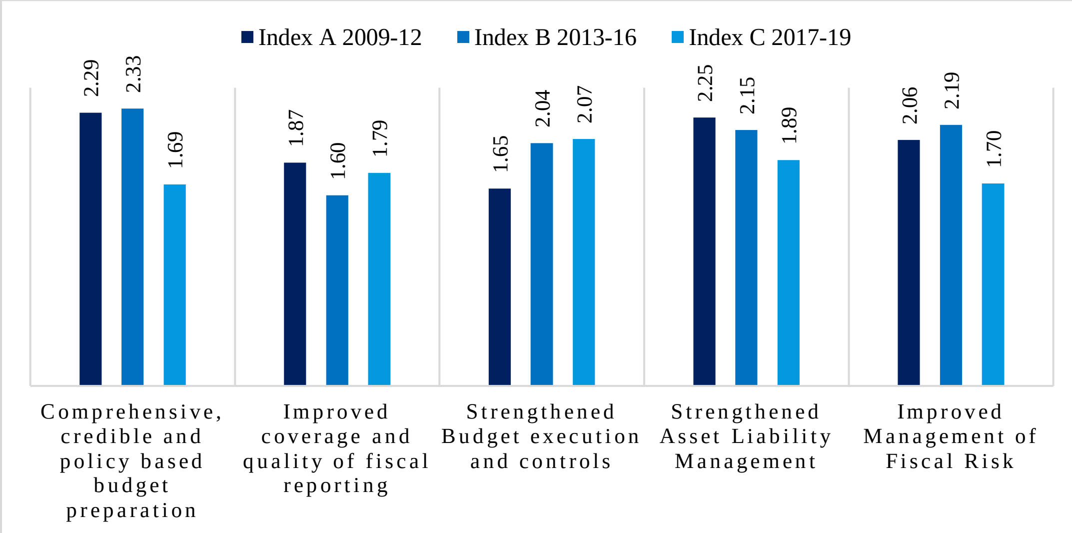
Source: PEFA Secretariat, Authors

C. Analysis of PEFA Results Across the Region

The data for each of the five PFM RBM objectives described above were analyzed for three time periods (Figure 3). These periods—2009-2012 (index A), 2013-2016 (index B), and 2017-2019 (index C)—correspond broadly to the three phases of funding of the PFTAC program.

Figure 3. Comparison of PEFA Scores for PFTAC Region, 2009-2019

[17] An indicator or dimension may be given a “no score” if it is not applicable or has not been used in the assessment.



Source: PEFA Reports, authors.

The analysis shows a mixed pattern of results. Consistent—though slight—progress has been made in improving the group of indicators under the budget execution and control outcome, but in other cases changes in performance have varied quite widely from period to period. The main findings are as follows:

- There is a tendency for PFM performance in the final period (Index C) to be weaker than in the first two periods. This result partly reflects the tightening in the PEFA methodology and review procedures that occurred after 2016, as discussed earlier (Table 4). The average score across all five objectives increased marginally from 2.02 to 2.06 between the first two periods but fell by 11.6 percent to 1.82 in the period 2017-19.

- Average scores for comprehensive, credible and policy-based budget preparation improved marginally between the first two periods before declining from 2.29 to 1.69. This fall probably reflects the tightening in PEFA methodology in 2016.[18]

- Average scores for the coverage and quality of fiscal reporting decreased from 1.87 to 1.6 between the first two periods before increasing to 1.79. The decrease in second period can be attributed to changes in the PEFA methodology in 2011, while improvements in the final period partly reflect substantial CD support to improve the quality and timeliness of in-year budget reports (examples: Fiji and Samoa).

- Average scores for budget execution and control increased from 1.65 to 2.07. The centralization of Treasury revenue collections has resulted in the timely transfer of revenue collected (examples: Fiji, Samoa and Timor-Leste). The predictability of in-year resource allocation with regular (monthly/weekly) reconciliation of cash balances has resulted in an improvement in cash monitoring and forecasting (examples: Fiji, Samoa and Timor-Leste). Internal audit has been strengthened with risk-based internal audit processes being adopted in some PICs (examples: Fiji and Samoa). Control of suspense

[18] For example, indicators PI-5 on budget documentation and PI-9 on public access to fiscal information introduced additional requirements that are needed to score at least C which were not present in the 2011 framework. And indicator PI-4 related to the classification of the budget introduced new elements related to compliance with the GFSM 2014.

and advance accounts has been initiated to strengthen financial data integrity (examples: Fiji, Samoa, Nauru, and Solomon Islands).

- Average scores for asset and liability management declined from 2.25 to 1.89. The set of indicators for the 2016 PEFA that are mapped to this objective are wider in scope than the indicators in the 2011 PEFA. The fall in outcome scores over the three periods is mainly due to the increased information and due diligence required on the management of public assets.[19] In some countries, insufficient information was available to rate these indicators under the 2016 framework (examples: Tonga and PNG). Where data were available, there were deficiencies in the processes for appraising and recording investments (examples: Fiji and Samoa), the recurrent costs of investments were not factored into the budget of future years, and economic analysis was weak or absent.

- Average scores for the management of fiscal risk declined from 2.06 to 1.70. The notion of fiscal risk was substantially broadened in the 2016 PEFA framework to include new elements related to managing the risks associated with SOEs, subnational governments, and the disclosure of these risks. This broadening of the definition of fiscal risks highlighted weaknesses in some countries on the disclosure of information. For example, Tonga has generally inadequate information on fiscal risks, Fiji a lack of transparency of transfers to sub-national governments and monitoring of SOEs, and Kiribati no monitoring or disclosure of its contingent liabilities.

- There was insufficient focus on the prioritization and sequencing of reform. Many basic areas of PFM have not demonstrated sustained improvements in performance and may even have regressed, partly because roadmaps have been insufficiently targeted on weaker areas of PFM performance. The PEFA indicator on comprehensive, credible and policy-based budget preparation is one example. Figure 4 shows a deterioration in PEFA scores for the period 2017-2019. This change might have resulted from changes in the PEFA methodology as well as a reduction in the volume of CD delivery. For 2017-2019, only 6 percent of total CD delivered by PFTAC covered this topic as compared to 20 percent for the period 2012-2016.

It is also interesting to compare the changes in PEFA scores for countries that have carried out more than one PEFA assessment over the past ten years. Figure 4 shows examples for PNG, Fiji, Samoa, and Timor-Leste. They confirm the conclusion noted above that while most countries demonstrated an overall improvement in earlier PEFAs (for example in areas such as internal control, accounting, and reporting), this improvement was not sustained in the latest assessment.

These results support the argument that the assessments carried out under the 2016 framework provide a more complete and realistic evaluation of the performance of the PFM systems. Unfortunately, the change of the PEFA methodology makes it hard to distinguish real progress in improving PFM performance from changes due to the revised methodology. While this working paper cannot identify trends based on an analysis of only two years of

[19] In PEFAs done under the 2011 methodology, the analysis was limited to cash and debt management and future expenditure commitments.

results, in the future the RBM framework adopted by the IMF in 2018 should allow an assessment of progress through the achievement of milestones.

Figure 4. PEFA Performance over Time for Fiji, PNG, Samoa and Timor-Leste[20]

Source: PEFA reports.

Three important caveats should be noted. The purpose of CD by PFTAC and other development partners is to focus on specific weaknesses in the PFM systems of countries benefitting from CD support, not specifically to achieve across-the-board improvements in PFM scores as measured by PEFA assessments. These CD activities, as discussed in Section IV, have been focused on specific areas of PFM where demand from the PIC governments have been high. Second, many studies[21] show that improvements in PFM performance tend to be slow and

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[20] The figures for PNG 2019 and Timor-Leste 2018 are based on a draft assessment and are provisional.

[21] For a summary of experience across LIDCs, see Matt Andrews, 2012, *The Limits of Institutional Reform in Development: Changing Rules for Realistic Solutions*. (Cambridge, UK: Cambridge University Press). Also, see Paolo de Renzio, 2013, "Assessing and Comparing the Quality of Public Financial Management Systems: Theory,

incremental, especially in LIDCs. In this context, a ten-year period is not long. The results presented in Figure 3 support this conclusion. Third, it should be noted that around 42 percent of the PEFA assessment were self-assessments that occurred during the first two periods. In some cases, the results of these assessments may be less reliable because they did not go through as rigorous a peer review and validation process as regular assessments.[22]

IV. Capacity Development to Support the Strategy

A. Introduction

PFTAC benefits from the close relationship that has been developed between the surveillance activities provided by the Fund's Asia and Pacific Department (APD) and CD activities. This relationship has grown in importance in the last ten years. CD activities carried out in the region by FAD[23] and PFTAC are closely coordinated and are related to program conditionalities in the few PICs that currently have programs or have had programs in recent years.[24] This close and symbiotic relationship between surveillance work and CD support in the IMF has helped to cement a strong working relationship between PFTAC and the authorities.

PFTAC's main objective continues to be supporting the growth of strong and sustainable institutions in PICs which can implement sound macroeconomic and fiscal policies. During the last 10 years, PFTAC has gone through three phases of funding. The focus of funding has shifted from providing CD in a few core PFM functions, to supporting the PEFA process and, most recently, to broaden the range of advice notably to strengthen the resilience of PICs' economies and create the fiscal space that will absorb some of the costs associated with natural disasters and promote inclusive growth (Figure 5). CD activities on topics such as gender budgeting, fiscal risk analysis, reform of state-owned enterprises, and public investment management have also grown in importance. In the immediate term, it will be important to reprioritize CD delivery to deal with PFM aspects of the COVID-19 crisis and protect vulnerable groups, and in the longer-term to restart economic growth through public investment and other means.

History and Evidence", Chapter 7 in Allen, R., R. Hemming, and B.H. Potter, *The International Handbook of Public Financial Management* (London: Palgrave Macmillan).

[22] While most of these self-assessments were conducted with the support of PFTAC, they may have been less strict in the rating of indicators.

[23] The IMF's Fiscal Affairs Department usually conducts one mission per fiscal year from headquarter to one of the PICs covering strategic topics such as review of the PFM reform roadmap or public investment management. These missions appear in the count of the PFTAC missions table since the PFM advisors participate in the missions and PFTAC finances them.

[24] Solomon Islands and Vanuatu.

Figure 5. Focus of PFTAC's CD Activities in the Three Phases of Funding

Phase III (FY09-11)	Phase IV (FY12-16)	Phase V (FY17-22)
• Medium-term fiscal framework • Cash vs. accrual accounting • Better coordination of expenditure and revenue activities	• Development and implementation of PFM roadmaps • Core PFM reforms, e.g., cash management, commitment controls, and medium-term budgeting • Support for the PEFA process including coordinating and participating in PEFA assessments and advising on their outputs	• Improve PFM institutions and legal framework • Strengthen budget preparation and create more comprehensive, credible and policy-oriented budget processes • Improve budget execution and control, coverage and quality of fiscal reporting and integration of asset and liability framework • Strengthen identification, monitoring and management of fiscal risks

Source: PEFA reports.

While the scope of PFTAC's CD activities has broadened, much of the support provided in the late 1990s and early 2000s showed similarities to the CD provided today (Box 3). This reflects the relatively slow pace of reform in many of these countries noted above. There remains a strong emphasis on supporting basic elements of PFM such as budget preparation, financial reporting, expenditure and payroll controls, and the development of an FMIS, while new elements such as gender budgeting, fiscal aspects of implementing the SDGs, and resilient infrastructure now assume greater prominence.

Box 3. PFM Reforms in the PFTAC Region in the Early 1990s

Examination of PFTAC's archive of documents from the early 1990's indicates many basic areas of PFM under discussion then are still being worked on today. Early PFTAC missions to countries such as Tonga, Kiribati and the Cook Islands focused mainly on basic elements of PFM, such as budgeting, financial reporting, fiscal and macro-economic policy advice, problems of expenditure and payroll controls, consolidation of recurrent and development expenditure in the budget, computerized vs. manual systems of accounting. An example is *PFTAC Memorandum for Files: PFM Project—Explanatory Visit to Tonga*, December 4-8, 1993.

In addition to the focus on basic reforms, the documents also indicate how strongly changes in the views of politicians and their advisors on PFM reform priorities can influence the reform agenda. In the early 1990's, for example, a strong emphasis on New Zealand/Australian-inspired reform measures emphasized: (i) devolving PFM functions to subnational governments; (ii) implementation of program and performance-related budgeting with a focus on outputs and outcomes rather than inputs; and (iii) adoption of accrual accounting and budgeting.

A 1995 report by Michael Moriarty, PFTAC Budget Advisor, emphasized the importance of capital budgeting, the linkages between capital and recurrent expenditure, and the steps needed to build program performance-based budgeting systems.

Another 1995 report by another IMF Advisor, Isaac Chow on *Accrual Accounting and Budgeting for the Government of Fiji*, sets out the rationale, benefits and implications of such an approach. These reforms were slow to bear fruit though, 25 year later, their influence can still be detected in some countries, e.g., Fiji, Samoa, and Tonga, where the challenges of implementing accrual accounting are still being faced.

Source: PFTAC, authors.

While PFTAC's workplans for PFM CD focused in the early phases on addressing weaknesses observed in PEFA assessments, a key objective for Phase V of PFTAC's program has been to align CD activities with the surveillance work of APD.[25] CD workplans have become increasingly focused on addressing the major policy challenges and policy responses identified through this surveillance work**.** This has also led PFTAC to take a more multi-disciplinary, integrated approach to designing its CD strategy, consistent with the recommendations of the PFTAC Phase IV external evaluation.[26] Also as recommended in the evaluation, PFTAC is implementing a strengthened RBM framework based on IMF requirements (see Section III.B).

B. Evolution of PFTAC's Support to PICs

Since 2010, the trend in PFM CD support provided by PFTAC to PICs has been increasing. Following the Phase III evaluation that indicated concerns with the sustainability of the PFM support provided to PICs[27], a second PFM adviser was recruited by PFTAC in FY 2013. Each advisor became the principal point of contract for about eight PICs on PFM-related issues and took primary responsibility for a sub-set of PFM topics.

Table 6 presents the evolution of CD activities carried out by PFTAC advisors during Phases III, IV and V of the program. To have a better understanding of these trends, the data have been analyzed in phases rather than individual years which might have provided mixed messages (for example, in years where there were gaps in providing CD support due to replacements of PFM advisors). The average annual number of activities increased between Phase IV and Phase V. This increase was made possible by PFTAC securing additional resources and adding a second PFM advisor in FY13. Phase V is still mid-way through (funding ends in FY22) but the level of support provided seems to have been similar to Phase IV.

Table 6. Evolution of PFTAC's CD Activities during FY09-19

	Phase III (FY09-11)		**Phase IV (FY12-16)**		**Phase V (FY17-until 19)**	
	Total	**Yearly Average**	**Total**	**Yearly Average**	**Total**	**Yearly Average**
Total Number of Activities	**77**	**26**	**160**	**32**	**104**	**35**
Capacity Development	69	23	149	30	95	32
Technical Assistance, *of which*	54	18	119	24	79	26
conducting PEFA or Roadmap Related	3	1	40	8	9	3
Training (In-country and regional)	15	5	30	6	16	5
Others (coordination meetings, conferences, etc.)	8	3	11	2	9	3

Source: PFTAC reports, authors.

[25] Executive summary of the Phase V Program Document of PFTAC, November 2016.

[26] https://www.pftac.org/content/dam/PFTAC/Documents/Capacity%20Development/Evaluation%20Reports/Final%20PFTAC%20Evaluation%20Report.pdf

[27] In the Phase III PFTAC Evaluation Report, the section discussing lessons for the future of technical assistance indicated that "Increased resources are needed to cope with the growing demand for fiscal assistance. A second PFM advisor is needed. One PFM Advisor could focus on providing rapid response services and the second on coordinating with other TA providers to support long term PFM reforms and capacity building activities."

C. Trends in CD activities

Analyzing PFTAC's support to PICs by topic illustrates the shift in the focus of CD support over the last ten years. Figure 6 analyzes the trend of PFM-related CD activities during the three funding phases. The focus of support during Phase III was on comprehensive, credible and policy-based budget preparation. Following the endorsement by the 2010 FEMM of the PFM reform strategy, however, the emphasis of CD switched in Phase IV to the application of diagnostic tools. 24 percent of the workplan was dedicated to supporting PICs in preparing roadmaps and undertaking PEFA assessments.

The results of the PEFA assessments have informed to a certain extent the formulation of the workplans of PFTAC, as well as other DPs who provide substantial CD support for PFM. For example, a correlation can be established between PEFA ratings and the volume of PFTAC support for the objective of improving the coverage and quality of fiscal reporting. As noted in Section III, Phase IV of the PFTAC program has shown the lowest average PEFA score of 1.60 among all the RBM objectives (Figure 6). Reflecting the resulting demand for CD from PICs to improve performance in this area, support by PFTAC was ramped up. Currently 30 percent of the workplan of Phase V is dedicated towards improving fiscal reporting.

Going forward, PFTAC's workplan should focus on PFM areas that are likely to have greater impact on the PICs:

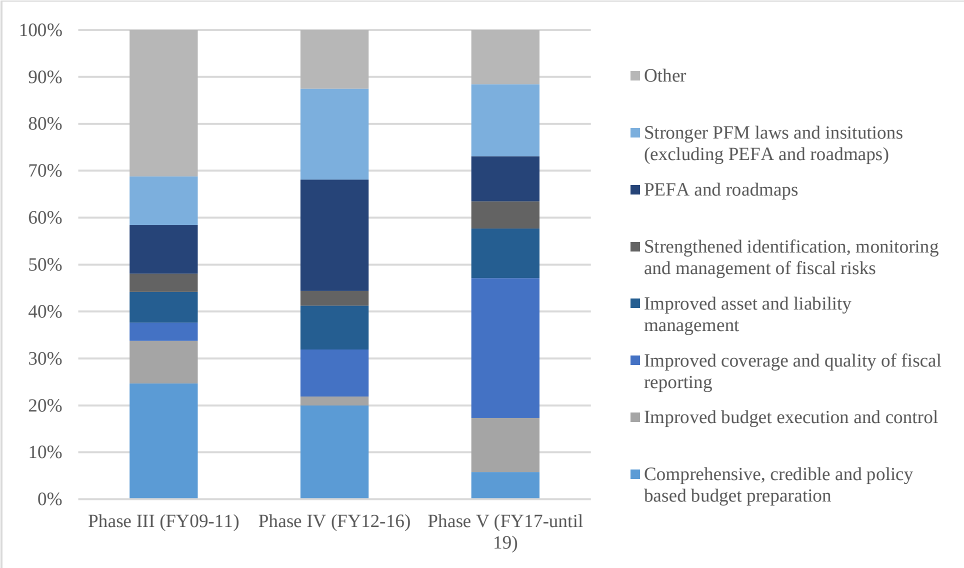
- Fiscal transparency is a critical element of effective fiscal management. It provides legislatures, markets, and citizens with the information they need to make efficient financial decisions and to hold governments accountable for their fiscal performance and the management and use of public resources. In 2018, The IMF adopted a framework on Enhanced Engagement on Governance, and in the wake of the COVID-19 pandemic, support to enhance transparency and address PFM governance vulnerabilities in PICs could be considered. For example, managing fiscal risks related to SOEs (which represent a substantial part of GDP in many PICs) and improving fiscal transparency have received relatively little support, perhaps reflecting lack of demand by the countries. Only 6 percent of the Phase V workplan has been dedicated to strengthening the identification, monitoring and management of fiscal risks.

- Building resilience to climate change is another important area. PICs are facing tremendous challenges related to the impacts of climate change (increased droughts, cyclones, erosion, coastal flooding, etc.). They would benefit from building resilience which would require, among others, strengthening PFM systems to allow proper mitigation and adaptation measures for addressing risks related to climate change. Tonga and the Federated States of Micronesia have undergone assessments using the IMF's Climate Change Policy Assessment (CCPA) Framework which identified *inter alia* the weaknesses and actions that need to be taken in the PFM area to strengthen resilience to climate change.

- PFTAC and other DPs are also stepping up their CD activities on gender budgeting.[28]

[28] In November 2019, for example, PFTAC piloted in Tonga a PEFA assessment module on gender responsive budgeting. The ADB has carried out a similar assessment in Fiji.

Figure 6. Delivered CD Activities by Fiscal Topic for the Three Funding Phases



Source: PFTAC reports, authors.

D. Authorities' Views on PFTAC's Support

The review team carried out a survey of the 16 PICs to ascertain the authorities' views of PFTAC support on PFM issues. Ten countries responded to the survey. The main results are summarized in Box 4 (see also Annex 3). In general, the authorities felt that the support provided by PFTAC was well aligned with their needs, was well integrated with the CD provided by other DPs, and matched the priorities set out in their country roadmaps and JPAMs.

Box 4. Survey of PICs - Summary of Results

The survey asked national authorities for their views about the PFM topics on which PFTAC provides support, and the modalities of this support. The main results were as follows:

- Countries greatly welcomed the support provided by PFTAC which was generally well integrated with the support of other DPs.
- Countries felt that PFTAC CD assistance supported the priorities set in the countries' PFM roadmaps.
- The CD areas which PICs had found most beneficial included cash and debt management, fiscal and financial reporting, and medium-term budgeting.
- The modalities of CD delivery that were found especially useful included longer-term CD engagement, e.g., an expert returning to the country periodically on a specific topic; one- or two-week missions focusing on a specific PFM topic; and regional or sub-regional workshops.
- Looking ahead, countries felt that PFTAC should continue to provide support on basic PFM issues such as macro-fiscal forecasting, budget preparation and execution, financial reporting, internal audit, and cash and debt management.
- Some countries would welcome more support on emerging topics such as mainstreaming climate change resilience, gender budgeting, management of state-owned enterprises, public investment management and PPPs, and fiscal risk analysis.
- Countries would welcome both national workshops and regional and sub-regional workshops on specific PFM topics, as well as standard one- or two-week PFTAC missions and longer-term CD engagement.

Source: Authors, based on a Survey of PICs (for details, see Annex 3).

E. Support by Other Development Partners

Annex 4 summarizes the available information on CD support provided by other DPs in the past two years. The data suggest that this support has generally complemented the CD provided by PFTAC. Good informal mechanisms have been developed for PFTAC advisors and their equivalents in the other DPs to discuss PFM reform priorities in the 16 PICs and how donor resources should best be deployed and coordinated to deliver effective results. This strong level of collaboration bodes well in a region that contains many small economies spread over a huge geographical area due to which visits by PFTAC advisors are relatively infrequent and coordination can be challenging. Such coordination could be further strengthened and formalized to ensure consistent messages to the authorities on PFM priorities and solutions.

It should be the client country that ascertains what is the best option or solution when advice is contestable due to an issue being viewed in different ways. In many PICs, PFTAC appears to have become a trusted stakeholder to whom ministers, and senior officials can turn for good quality advice, a contribution that is valuable if hard to quantify. In providing advice, the IMF takes advantage of a strong system of internal peer review and quality control that may not be seen in other organizations. The region benefits from this process and from the value that the IMF brings in ensuring that a consistent message is provided by the various DPs.

V. Conclusions and Recommendations

The following are the main conclusions of this review:

- **In retrospect it seems that the PFM reform strategy approved by FEMM in 2010 was over-ambitious.** By focusing on the preparation of PEFA assessments and roadmaps, it broadened substantially the scope of CD support and thinned resources on areas that were weakest. The breadth of the strategy may have contributed to the mixed performance in improving PFM across the region over the past decade. Indeed, there may be an upper bound to the scope and scale of reforms that can viably be undertaken by small island states given the constraints of sheer size and accompanying capacity limitations.

- **PFTAC has played an important and catalytic role in improving PFM across the region over the last ten years.** The Center has leveraged effectively its scarce CD resources in providing advice on key areas of PFM and has had a greater impact than its size suggests. PFTAC advisors have been especially successful in building effective partnerships with other DPs and the Pacific Island Forum Secretariat (PIFS)[29] as well as with finance ministries, promoting and managing PEFA assessments, and piloting new and innovative tools such as “agile” PEFAs and gender based PEFA assessments (the first one carried out in Tonga). PFTAC will also participate in piloting the new PEFA climate change module. PEFA assessments have been useful in establishing benchmarks against which the performance of budgeting in key areas of PFM systems can be assessed, and improvements measured and monitored.

- **For the most part, PFM Reform Roadmaps have not fully delivered on their promises, because they have been too broad and have not fully considered capacity limitations.** Some countries (e.g., Samoa) have developed good roadmaps linked closely to PEFA assessments, focused on a few key deliverables, and including an assessment of the costs of implementing the reforms and the areas where support from PFTAC or DPs has been pledged. The roadmaps of other countries have been less successful, many containing unrealistic “wish lists” of CD activities, which are rolled forward mechanically from one roadmap to the next and have been insufficiently linked to the JPAMs.

- **The last ten years have seen 31 PEFA assessments carried out across the region, with several PICs undertaking three or more assessments.** This extensive program of diagnostic work has broadly achieved what it set out to do, namely provide a good general assessment of PFM systems across the region. It has also imposed a significant burden not only on some of the region’s overstretched finance ministries but on PFTAC which has been responsible for coordinating many of the assessments. Diagnostic work should now become more granular and be targeted on specific areas identified by the PEFA assessments. Implementation should be given more emphasis than diagnosis. Periodic evaluations of PFM performance in PICs will continue to be needed. Self-

[29] The Pacific Islands Forum Secretariat, which provides technical and administrative support to the economic and finance ministers of the region.

assessments will not replace expert evaluations, supported by long-term engagement with the countries.

- **There have been welcome improvements in some elements of PFM across the region over the last ten years, but progress has been uneven across countries.** The areas of improvement include budget execution, accounting and fiscal reporting, but other basic areas of PFM including budget credibility, internal and external audit, and public procurement[30] show little change or a worsening of performance. In no country has the rate of improvement been greater than 20 percent. Leadership by the finance ministry is a critical ingredient of success. In some of the larger and more advanced PICs (e.g., Samoa), a PFM reform unit has been established to manage the reform process. This is a good model but may be hard to replicate in countries with very small finance ministries and weak capacity in line ministries.

- **In planning CD activities, more account could be taken of the widely differing capacity levels across the region.** A few countries (e.g., Samoa, Tonga) have relatively advanced PFM systems and are ready to introduce "second-generation" PFM reforms such as accrual accounting, whole of government reporting, and fiscal risk analysis. But this pattern is not typical of the region. Some PICs—examples are the Solomon Islands, Nauru, and the RMI—remain heavy users of capacity supplementation provided by DPs, notably officials and advisors from Australia and New Zealand, some of whom hold very senior line management positions in the government. Developing human capacity and skills in basic areas of PFM such as revenue forecasting, budget preparation and accounting remains a priority for reform in these very small island economies.

- **Political support for PFM reform varies across the region.** In a few countries (examples are the Solomon Islands and Nauru), patronage systems and widespread use of Constituency Development Funds (CDFs) and similar arrangements dominate decision making on the budget and fiscal policy, limiting the scope for measures to improve PFM performance and fiscal transparency, and providing plentiful opportunities for potential rent seeking. Organizational fragmentation in some PICs—examples include separate systems for capital and recurrent budgeting ("dual budgeting") and the separation of ministries of planning and finance—may also contribute to inefficiencies in PFM and possible governance vulnerabilities.

- **The Pacific region is particularly vulnerable to the impacts of climate change, through rising sea levels, stronger and more frequent cyclones and other weather-related incidents.** The countries face increased costs of adaptation and climate-resilient infrastructure investments. Various sources and channels of climate financing may be available to them. The conditions to access climate finance vary, including meeting certain fiduciary criteria and demonstrating relatively robust PFM systems, particularly when a country seeks to become an accredited National Implementing Entity (NIE). Efforts to strengthen PFM and access to climate financing is a laudable objective. However, the mixed and incremental improvements in PFM observed in the region over the past decade highlight the challenges that will likely be faced by many countries in meeting the conditions sought by climate financiers that are not necessarily

[30] Note that external audit and public procurement are not included in PFTAC's CD activities.

clearly defined. Diagnostic tools developed (or under development) by the IMF and other DPs can help address these issues.[31]

- **Finally, the COVID-19 crisis will clearly have a decisive impact on future requirements for PFM-related CD support in the region, both in the form of short-term crisis relief measures and, over the medium-term, efforts to kick start economic growth.** By bypassing and/or streamlining existing control systems to deliver emergency measures rapidly, the crisis may enhance risks of financial irregularities and the need for measures to mitigate such risks. Strong internal and external audit systems will have a key role to play in mitigating these risks. The crisis may also help accelerate improvements in fiscal transparency and the deployment of new digital solutions to manage public resources. A series of special notes by the IMF's Fiscal Affairs Department on the COVID-19 crisis highlights some of these issues and the useful tools that countries can apply in public investment management, cash management, cash transfers to vulnerable groups, management of fiscal risks, and opportunities for digitalization.[32]

Our main recommendations for the next five-year period are as follows:

- **Over the next five years, PICs should focus on developing less ambitious but more focused PFM reform roadmaps.** Reform measures should be limited in number and realistically sequenced. Governments may wish to assess whether new reforms may help the completion of ongoing reform processes or delay them. Linkages between roadmaps and the JPAMs, and with IMF surveillance and other DPs' budget support operations, should be improved. PFTAC, in coordination with other DPs, could develop some "good practice" templates for roadmaps and conduct training workshops with the PICs to implant concepts of good practice.

- **Areas of basic budgetary and PFM practices will require continued and sustained support from PFTAC and other DPs over the coming years.** Analysis of the results of the IMF's RBM framework should allow in the future to assess the progress of implementation of PFM reforms through the achievement of indicated milestones, and also would inform the areas that would need further attention and support. In the post-COVID period, opportunities should arise for increased use of digital technology in PFM processes, and to improve the delivery of services to vulnerable citizens.

- **During the period 2020-2025, no more than one PEFA assessment should be carried out in each country.** More emphasis should be given to self-assessments and the use of "agile" PEFAs that are being piloted by the PEFA Secretariat, or partial assessments focused on updating a selection of critical indicators. Diagnostics focused on the impacts of climate change and the PFM implications—for example, through the climate-related modules of PIMA and PEFA that are being developed—should also be prioritized.

[31] For example, the IMF's Climate Change Policy Assessment (CCPA) tool. A PEFA Climate module and a climate module for the IMF's Public Investment Management Assessment (PIMA) tool are both under development.

[32] See https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes

PFTAC, in coordination with other DPs, could develop some "good practice" templates for roadmaps and conduct training workshops with the PICs.[33]

- **Countries should pay attention to PFM areas in which they are especially weak**. Examples include better management of climate change and responding to natural disasters; public infrastructure maintenance and investment; measures to overcome gender inequalities; and oversight of state-owned enterprises. Those countries with stronger capacity will be better placed to make early progress in these areas.

- **Improving fiscal transparency should be a key area of reform.** There are some good performers across the region such as Samoa and the Cook Islands, but in many other countries, performance is weak in this area. External scrutiny by independent audit institutions, civil society and other stakeholders is lacking because much fiscal information is not available in a timely manner. There is a need to improve the effectiveness of oversight bodies and empower them to make and enforce policy recommendations and deal with any financial irregularities. The regional audit authority has been pressing for more transparency and accountability in governments' fiscal policies and operations.[34]

- **The COVID-19 crisis has shown that new technologies and ways of communication could benefit future modalities of CD delivery, making it more interactive and flexible.** The use of webinars, peer learning through remote exchange, or even remote CD missions could be good supplements to hands-on in person CD delivery. This would allow a closer engagement with authorities and in many cases permit larger groups to participate and more lively discussions.

[33] PEFA Secretariat Guidance Documents, *Volume IV—Using PEFA for PFM Improvement*, which was successfully piloted in Fiji and Tonga (remotely).

[34] As stated in the Strategic Plan 2014-2024 of the Pacific Association of Supreme Audit Institutions (PASAI), which is the regional branch of the International Organization of Supreme Audit Institutions (INTOSAI). This Plan gives priority to strengthening the independence of countries' SAIs, as a means of improving fiscal transparency and the accountability of national governments. PASAI's 2015 report on accountability and transparency showed that while some progress has been made in the control of corruption, community participation in the budget, and public availability of information, much work is still needed to strengthen the role of legislatures in scrutinizing the budget, corporate governance and media freedom and independence.

ANNEX 1. DETAILED LIST OF PEFA ASSESSMENTS SINCE 2010

Table A1. List of PEFA Assessments

Number	Country	Year	PEFA done by	Type of Assessment	Reviewed by PEFA Secretariat	Lead Agency
1	Cook Islands	2011	Government of Cook Islands	Self-Assessment	YES	IMF Leading Agency
2	Cook Islands	2013	Government of Cook Islands	Self-Assessment	NO	
3	Cook Islands	2015	PFTAC	Donor	YES	IMF leading Agency/PIF Contributing
4	Fiji	2013	PFTAC	Donor	YES	IMF Leading Agency
5	Fiji	2019	PFTAC	Donor	YES	Government with WB are leading the assessment
6	FSM	2013	Government of FSM	Self-Assessment	YES	IMF Leading/Contributing AusAID
7	FSM	2016	Government of FSM	Self-Assessment	NO	
8	Kiribati	2010	Government of Kiribati	Self-Assessment	YES	Leading Agency ADB
9	Kiribati	2017	PFTAC	Donor	NO	
10	Marshall Islands	2012	Government of Marshall Islands	Self-Assessment	YES	IMF leading Agency/PIF Contributing
11	Nauru	2010	Government of Nauru/ADB	Donor 5	YES	Leading Agency ADB
12	Niue	2011	Government of Niue	Self-Assessment	YES	IMF leading Agency/ EU, NZAID Contributing
13	Palau	2013	PFTAC	Donor	NO	
14	PNG	2008	Government of PNG	Self-Assessment		WB Leading/ADB, AusAID contributing
15	PNG	2015	IMF/PFTAC	Donor	YES	IMF leading Agency/ Contributing ADB, WB, AusAID
16	PNG	2019	IMF/PFTAC	Donor	YES	PFTAC/IMF leading Agency/ EU, WB, UNDP Contributing
17	Samoa	2010	Government of Samoa	Self-Assessment	YES	Government leading/EU Contributing
18	Samoa	2014	Government of Samoa and PFTAC	Self-Assessment	YES	IMF Leading/Contributing AusAID
19	Samoa	2019	IMF/PFTAC	Donor	YES	IMF/PFTAC Leading
20	Solomon Islands	2012	EU financed	Donor	YES	EU Leading/ Contributing IMF, AusAID, WB
21	Timor-Leste	2010	ADB	Donor	YES	IMF Leading
22	Timor-Leste	2013	EU	Donor	YES	EU Leading/ Contributing AusAID, WB, IMF
23	Timor-Leste	2018	PFTAC	Donor	YES	Leading Government and WB
24	Tonga	2010	Joint Government of Tonga and donors (AUSAID & ADB)	Donor	YES	Leading AusAID/Contributing ADB, WB
25	Tonga	2015	PFTAC	Donor	YES	Leading AusAID

26	Tonga	2019	PFTAC	Donor	YES	Leading IMF_PFTAC/ Contributing WB, ADAFT
27	Tuvalu	2011	ADB	Donor	YES	Leading ADB
28	Tokelau	2014	EU / (PFTAC support)	Donor	NO	
29	Tokelau	2017	Government of Tokelau	Self-Assessment	NO	
30	Vanuatu	2009	Government of Vanuatu	Self-Assessment	YES	Leading EU
31	Vanuatu	2013	Government of Vanuatu	Self-Assessment	YES	Leading Government /Contributing AusAID, EU

Source: PFTAC, PEFA Secretariat.

ANNEX 2. SUMMARY OF MAIN REVISIONS TO THE PEFA FRAMEWORK, 2005 TO 2016

Revision between 2005 and 2011 PEFA frameworks

The main change between the 2005 and 2011 PEFA frameworks was related to the expansion of the indicators PI-2, PI-3 and PI-19. The 2011 methodology added to the evidence required for scoring indicators and made the scoring more stringent:

- PI-2 – Aggregate expenditure outturn compared to original approved budget: the dimensions remained the same, but the score was made more stringent and included overseas development assistance.
- PI-3 – Revenue outturns: a more detailed explanation of factors causing deviation from the budget was required, and an assessment of the impact of PI-3 on other indicators.
- PI-19 – Public procurement—transparency, competition, and complaints mechanisms: the dimensions were enlarged.

Revision between 2011 and 2016 PEFA frameworks

The 2016 revision added four new indicators (i) PI-11: Public investment management, (ii) PI-12: Public asset management, (iii) PI-13: Debt management, and (iv) PI-14: Macro economic and fiscal forecasting. Three indicators from the 2011 framework related to donor practices were removed and merged them with other indicators. The other main changes can be summarized as follows:

- Making the baseline standards for good performance more stringent.
- Giving greater emphasis to internal financial control and institutions of accountability (especially, Supreme Audit Institutions and Public Accounts Committees).
- Introducing greater public access to financial information including budget documentation and in-year and end-year financial reports.
- Greater emphasis on the use of macro-fiscal forecasts, the adoption of a medium-term perspective in budgeting, and the alignment of strategic plans with budget allocations.
- Expanding revenue administration to include tax and nontax revenues.
- Incorporating the performance of government entities in delivering public services.
- Calibrating the scoring to take note of materiality and the size of the indicator set.
- A score of D due to insufficient information is distinguished from a D score due to low-level performance by the use of an asterisk—that is, D*. The aggregation of multidimensional indicators containing D* scores is no different from aggregation with other D scores. Aggregate indicator scores do not include an asterisk, and thus the insufficiency of information is only noted at the dimension level.
- Aligning PEFA's methodology and terminology with the IMF's Government Finance Statistics Manual 2014, with global standards and related tool.

Source: PEFA reports.

ANNEX 3. SURVEY FOR MEMBER COUNTRIES ON PFTAC PFM CD ACTIVITIES

1. PFTAC PFM CD Activities – Provided since 2010:

For this section, please think about the CD activities provided by PFTAC to your Department/Ministry in the past.

Across your Department/Ministry, which PFM areas have received the most beneficial CD support from PFTAC?
[Please select all that apply]

[ ] Strategic Budgeting and Planning
[ ] Fiscal Risk Analysis
[ ] Medium-term budgeting
[ ] Budget Preparation
[ ] Budget execution and internal control
[ ] Fiscal and financial reporting
[ ] Cash and debt management
[ ] Internal audit
[ ] Public investment management and/or PPPs
[ ] Management of state-owned enterprises
[ ] Climate change resilience
[ ] Other (please specify) ___________________________

Which modes of CD delivery were most effective for you and your staff?
[Please select all that apply]
[ ] Diagnostic missions, such as support for PEFA Assessments
[ ] One- or two-week missions by one or more PFM experts focusing on a specific topic
[ ] Longer-term CD engagement, e.g., an expert returning to the country every few months on a specific topic
[ ] National workshops and seminars
[ ] Regional workshops and seminars

In general, does PFTAC CD assistance support the priorities identified in your PFM Reform Roadmap? [Please select one option]
[ ] Directly supports our Roadmap priorities
[ ] Supports priorities that have changed since the Roadmap was developed
[ ] Does not support our Roadmap priorities
[ ] N/A – we do not have a PFM Reform Roadmap

Please provide any other comments on the assistance previously received from PFTAC:

2. PFTAC PFM CD Activities – Going Forward:

For this section, please think about the capacity development activities you would like to receive from PFTAC in the future (i.e., next 5-10 years).

In the coming years, which PFM areas should be priorities for PFTAC CD activities?
[Please select all that apply]
[ ] Strategic Budgeting and Planning
[ ] Fiscal Risk Analysis
[ ] Medium-term budgeting
[ ] Budget Preparation
[ ] Budget execution and internal control
[ ] Fiscal and financial reporting
[ ] Cash and debt management
[ ] Internal audit
[ ] Public investment management and/or PPPs
[ ] Management of state-owned enterprises
[ ] Climate change resilience
[ ] Other (please specify) _________________________

Should PFTAC continue to focus on providing support for PEFAs and other diagnostic assessments? *[Please select only one option]*
[ ] Maintain current level of support for diagnostic assessments
[ ] Support diagnostic assessments less frequently
[ ] Focus on specific PFM topics, with no support for diagnostic assessments

Comment *[optional]*: ____

How should PFTAC CD activities be delivered? [Please select all that apply]
[ ] One- or two-week missions by one or more PFM experts focusing on a specific topic
[ ] Longer-term CD engagement, e.g., an expert returning to the country every few months on a specific topic
[ ] National workshops and seminars
[ ] Regional workshops and seminars

Please provide any other comment on PFTAC PFM Capacity Development Activities going forward:
[optional]

ANNEX 4. CD SUPPORT FOR SELECTED PICS BY ALL DEVELOPMENT PARTNERS, FY 2018-20

PFM RBM Categories	Fiji	Kiribati	Marshall Islands	PNG	Samoa	Tuvalu
Improved laws and effective PFM Institutions	**PFTAC** – Development of a PFM Bill **AU** – Assessment of National Systems **ADB** – FMIS assessment	**NZ/ADB** – procurement legislation and processes **WB** – Climate change financing **PFTAC** – PEFA self-assessment **ADB** – cross government FMIS	**WB** – Review of national legal and regulatory framework for PFM	**EU/AU** – Implementation of PMMR and consistency with PFMA **PFTAC/EU** – PEFA assessment **AU** – Implementation of FMIS	**PFTAC** – PEFA assessment	**AU** – Capacity supplementation in MoF **AU** – PFM diagnostic **ADB** – Various CD activities since 2012
Comprehensive, credible, policy-based budget preparation	**ADB** – Budget process; PER of social sectors; costing of spending programs	**PFTAC/UNDP** – budget documentation workshop for several countries	**PFTAC** – Improved budget documentation	**ADB** – Fiscal strategy and budget documentation **PFTAC/UNDP** – Regional workshop on budget documentation **WB** – Inter-governmental transfer system	**PFTAC** – Improved budget documentation	**PFTAC/PRIF** – Presentation of capital projects in budget
Improved budget execution and control	**PFTAC** – risk based internal audit	**NZ** – Design and implementation of procurement framework **PFTAC** – PIMA diagnostic	**WB** – Public procurement reforms	**ADB** – Public procurement reforms **AU** – Expenditure management **JICA** – Investment appraisal and project selection	**AU** – Reforms of budget execution **PFTAC** – Strategic plan for internal audit	**ADB** – Public procurement reforms **PIFS** – Internal audit capacity **NZ** – Central contract management

Improved coverage and quality of fiscal reporting	**ADB/PFTAC** – Revised Chart of Accounts **ADB** – IPSAS-based reporting **AU** – Audit Office twinning	**PFTAC** – Regional workshop on IPSAS cash reporting	**WB** – formulation of new Chart of Accounts **PFTAC** - Regional workshop on IPSAS cash reporting	**PFTAC** – IPSAS cash accounting and reporting **UNDP** – Training for parliamentary committees	**PFTAC** – Asset accounting and reporting policy	
Improved framework for asset/liability management	**WB** – Regional workshop on debt management **PRIF** – Valuation framework for fixed assets	**NZ** – National asset management system		**AU** – Cash and debt management reforms	**PFTAC** – Revised warrant system	
Strengthened identification, monitoring and management of fiscal risks	**PFTAC** – SOE fiscal risks	**ADB/NZ** – Establishing an SOE monitoring unit		**ADB/NZ/AU** – SOE reforms	**PFTAC** – Risk indicators for SOEs	**ADB** – Financial reporting and oversight of SOEs

Source: PFTAC database, authors.

ADB: Asian Development Bank
AU: Australia
EU: European Union
JICA: Japan International Cooperation Agency
NZ: New Zealand
PFTAC: Pacific Technical Assistance Center (PFTAC)
PIFS: Pacific Islands Forum Secretariat
PRIF: Pacific Region Infrastructure Facility
UNDP: United Nations Development Program
WB: World Bank