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ANNEX V

of the Commission Implementing Decision on the financing of the multiannual action plan in favour of the Asia region for 2021-2022

Action Document for Strengthening Public Finance Management (PFM), Oversight and Accountability in the Pacific Region

ANNUAL PLAN

This document constitutes an annual work programme in the sense of Article 110(2) of the Financial Regulation, and an action plan in the sense of Article 23(2) of the NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title CRIS/OPSYS business reference Basic Act	Strengthening Public Finance Management (PFM), Oversight and Accountability in the Pacific Region CRIS number: NDICI ASIA/2021/043-298 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	This action will contribute to the TEI “Green-Blue Alliance for the Pacific”.
3. Zone benefiting from the action	The action shall be carried out in the Pacific Region at the following locations: (i) Cook Islands, (ii) Federated States of Micronesia, (iii) Fiji, (iv) Kiribati, (v) Nauru, (vi) Niue, (vii) Papua New Guinea, (viii) Palau, (ix) Samoa, (x) Solomon Islands, (xi) Republic of the Marshall Islands, (xii) Timor Leste, (xiii) Tonga, (xiv) Tuvalu and (xv) Vanuatu.
4. Programming document	Regional Multi-annual Indicative Programme for Asia and the Pacific 2021-2027
5. Link with relevant MIP objectives / expected result	2.1.4.: Pacific Sector 2 – Inclusive and Sustainable Economic Development Specific Objective 2: Improve regional economic governance, including through digitalisation, in support of green and blue growth. Expected Result 2: Improved regional alignment on budget transparency and accountability, fiscal policies and PFM reforms, conducive to, amongst others, achieve regional climate objectives and enhanced digitalisation.
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area	Priority Area 1. Regional integration and cooperation
7. Sustainable Development Goals (SDGs)	Main SDG: 6. Decent work and economic growth Other significant SDGs: 5. Gender equality; 8. Inclusive economic growth; 10. Reduce inequality within and among countries; 13. Climate action;

	16. Peace, justice, and strong institutions; 17. Partnerships for the Goals.			
8 a) DAC code	15111 – Public finances management			
8 b) Main Delivery Channel	IMF – 43000 UNDP – 41114			
9. Targets¹	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance ²			
10. Markers³ (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women’s and girl’s empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	11. Internal markers⁴ and Tags⁵:	Policy objectives	Not targeted	Significant objective
Digitalisation Tags: digital connectivity digital governance		<input type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

¹ Actual contribution to targets will be confirmed ex-post based on a standardised methodology.

² Thematic target for geographic programmes (at least 15%) in delegated act.

³ For guidance, see <https://www.oecd.org/development/financing-sustainable-development/development-finance-standards/> (go to “Data collection and resources for reporters”, select Addendum 2, annexes 18 (policy) and 19 (Rio) of the reporting directive). If an action is marked in the DAC form as contributing to one of the general policy objectives or to RIO principles as a principal objective or a significant objective, then this should be reflected in the log-frame matrix (in the results chain and/or indicators).

⁴ The internal markers have been created to report on the implementation of the Commission’s own policy priorities in areas where no DAC reporting tool is available. For the sake of consistency and comparability, the methodology is equivalent to the DAC markers, with three possible positions (main target, significant target, not targeted).

⁵ Methodology for additional tagging providing granularity on internal markers is under development.

	digital entrepreneurship job creation digital skills/literacy digital services		<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Connectivity Tags: transport people2people energy digital connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Migration (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities (methodology for marker and tagging under development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	<p>Budget line: BGUE-B2021-14.020132-C1-INTPA</p> <p>Total estimated cost: approximately EUR 39 million</p> <p>Total amount of EU budget contribution: EUR 11 million</p> <p>The part of this action implemented by the International Monetary Fund (IMF)/Pacific Financial Technical Assistance Center (PFTAC) of the IMF is jointly co-financed by New Zealand, Australia, Korea, United States, Canada, Asian Development Bank (ADB) and Pacific member states for a projected amount (excluding EU) of EUR 28 million.</p> <p>The part of this action implemented by the United Nations Development Programme (UNDP) may be co-financed by the UNDP.</p>			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing⁶	<p>Indirect management with:</p> <ul style="list-style-type: none"> - The IMF; - The UNDP. 			

1.2. Summary of the action

The project focuses on the national systems and frameworks of Public Finance Management (PFM) and the accountability of the executive institutions that are responsible for the National Budget, fiscal and other macro-economic policies, PFM reforms including anti-fraud and anti-corruption measures in the Pacific Island Countries (PICs). The specific objectives are to strengthen national PFM-systems and frameworks and to enhance public finance oversight and accountability roles of Parliaments and related domestic oversight institutions, with the engagement of civil society organisations (CSOs). At the regional level, the project will provide technical support to the political, technical and civil society forums and networks relevant to public finance strengthening and accountability.

Public Expenditure and Financial Accountability (PEFA) reports and Performance Management Frameworks (PMFs) in the PICs have demonstrated the need to focus on capacity building, continuous investment in national PFM frameworks (policy and legal, including Domestic Revenue Mobilisation) and systems, and to improve oversight and accountability by domestic oversight institutions. *The PEFA- and PMF-scores and World Bank indicators indicate that the participating Pacific Island Countries score relatively low in comparison with other countries worldwide. In*

⁶ Art. 27 NDICI.

addition, donor funding channelled through government systems often require a reasonable level of internationally comparable PFM processes and systems. PFM encompasses the broad range from the preparation, execution and reporting of the public Budget and other key public finance documents (fiscal policies, mid-term reports, audit reports, State owned enterprises reports), to the Parliaments, other oversight institutions and the broader public.

This project aims at supplementing ongoing efforts at country level to strengthen PFM systems, oversight and accountability in the Pacific region. It will support the Budget Support programmes that the EU and other development partners in the region (Australia, New Zealand, World Bank and Asian Development Bank) are having with most of the PICs. Environmental protection and climate change objectives will be mainstreamed into the action and gender responsive and human rights responsive budgeting will be promoted. This concerns all areas of Public Finance Management reforms in a broad sense (budgeting, procurement, internal audit, external audit, debt management) and also the work with civil society and oversight institutions.

The action is a follow-up action on the European Development Fund (EDF)¹¹ programme *Strengthening Public Finance Management and Governance in the Pacific* and it again contributes to the People and Peace priorities of the *New European Consensus on Development "Our World, Our Dignity, Our Future"*, and also to the Human Development priorities (especially in relation to enhancing education, knowledge and skills).

2. RATIONALE

2.1. Context

Pacific Island Countries (PICs) are characterised by high levels of debt, lack of diversification and dependency on imports. These challenges lead to limited resilience, flexibility, and ability to respond to natural disasters and other shocks to their economies. They also prevent equal and fair access to economic opportunities and public services fuelling distrust, resentment, and threatening cohesion.

Stronger PFM systems can lead to improved delivery of public services and effective levels of public investment. A well-functioning PFM system is even more critical for most Pacific countries due to the dominance of the public sector in their economies. Most Pacific Forum Island Countries rely heavily on fiscal policy as the major macroeconomic policy tool.

Recent PEFA and PFM assessments demonstrate the fundamental challenges to build sustainable and functional PFM systems in the PICs. Ongoing institutional capacity constraints and the lack of adequate and/or basic technical skills impede stronger levels of financial management, effective public service delivery, prudent investment in public sector assets and infrastructure.

Limited scrutiny of service delivery, investments, and financial management systems by oversight institutions exacerbate the general weakness in PFM systems, and hamper transparency, public participation and accountability. Institutions such as the Parliamentary public accounts committees (PACs) and other oversight institutions have limited mandates or capacity for technical scrutiny (further reduced in contexts of emergencies such as the one experienced during the COVID-19 pandemic). The engagement of Parliaments to pass the annual budget law has been improving over the past years – with PEFA indicators and self-assessments showing an increase in the scope of debates (moving from a focus on expenditures towards a more comprehensive review of fiscal policy and policy alignment) supported notably by UNDP regional parliamentary budget analysis activities. Transparency and public participation, review of audit reports and oversight of budget execution in general are, however, much less developed and often ad-hoc. The lack of data on PFM, transparency/accountability and corruption adds to the complexity with PFM related affairs in the region. Fiji and Papua New Guinea are the only countries included in the Open Budget Survey, while some countries such as Kiribati have never experienced independent election observation missions and in a number of countries, important pockets of funding escape independent oversight completely (e.g. Constituency Development Funds). Efforts through projects/activities in this field would be a valuable contribution in addressing such issues.

Despite most countries having middle-income status, PFM standards and hence PEFA scores in the Pacific remain low as follows from *Review of the Public Financial Management Review Strategy for Pacific Island Countries 2010-2020* (IMF, 2020)⁷ and the overview of PEFA- and PMF-scores in the Pacific countries, see Annex I.

PICs are among the territories most threatened by climate change. They can also be among the most willing to implement low-cost development and circular economy scenarios. They already host many pilot actions, in technical, sectoral and governance areas, for both adaptation and mitigation objectives. These strategies directly contribute to developing future types of intervention for climate action.

Scale remains a critical concern. Institutions such as Ministries of Finance/Economy and Supreme Audit Institutions remain relatively small with a lack of depth to competently cover their numerous responsibilities. Where Parliamentary oversight does occur, it does so with little involvement of civil society. Ultimately, external scrutiny of PFM systems remains inadequate due predominantly to the lack of sufficiently skilled human and technical capacities; and clarity on institutional responsibilities and accountabilities.

2.2. Problem Analysis

The project is designed with the following broad aims in mind, which are interlinked to strengthen PFM systems in Pacific ACP countries:

- Strengthening capacity of key PFM stakeholders – both in terms of enabling frameworks and systems as well as leadership and technical competencies of individuals in the Public Finance ecosystem (increasing the technical ability of staff to effectively carry out the functions of a good PFM system);
- Improving public finance oversight – and notably the roles and impact of Parliaments and oversight institutions - improving PACs or equivalent in the Parliamentary system and reducing the constraints to effective engagement in the budget process including Non-Governmental Organisations (NGOs), especially to improve green, gender and human rights responsive budgeting;
- Enhancing linkages and reporting capacity on how public finance contributes to sustainable development goals, human rights, regional policies, and national development plans notably through policy dialogues and south-south cooperation in the areas of PFM, with special attention to climate change and gender.

The project will use a systemic approach, tailored to the specific needs of the beneficiaries. This approach would contribute to evidence-based budgets and policies, efficient public expenditure, improved performance, and stronger accountability. This PFM result area of the project complements the other two result areas on external audit and parliamentary oversight since budgets and public finance reports play an integral role in effective auditing and Parliamentary oversight.

This project will complement existing work across the Pacific (including work performed by IMF/PFTAC and UNDP) to develop the capacity of national institutions. Based on the policy review of the PEFAs and PMFs in the Pacific, the focus of this action is expected to be on core functions of Ministries of Finance, oversight institutions (including Parliaments and Supreme Audit Institutions) and transparency and accountability through the participation of civil society and concentrate on:

- Improving PFM institutions and legal frameworks, strengthening budget preparation towards more comprehensive, evidence-based, participatory, credible and policy oriented budgets;
- Improving budget execution and control, coverage and quality of fiscal reporting, and integration of asset and liability management framework;
- Improving fiscal and budget transparency, accountability and oversight; and
- Strengthening the identification, monitoring and management of fiscal risks.

A key element of the project will be to contribute towards improving macroeconomic resilience by strengthening fiscal frameworks and providing countries with the capacity to formulate and implement coherent medium-term fiscal policies, together with appropriate monitoring and accountability for budget execution. Effective medium-term

⁷ <https://www.imf.org/en/Publications/WP/Issues/2020/09/04/Review-of-the-Public-Financial-Management-Reform-Strategy-for-Pacific-Island-Countries-2010-49709>

frameworks are essential to addressing medium and long-term risks to macroeconomic stability and development in the region including, especially, growth and budgetary effects of natural disasters and other shocks, non-communicable diseases and inequalities (gender and other social and economic inequalities). Capacity building in this area (including raising budget analysis/ planning competencies / engagement of civil society and use of evidence-based approaches) will require an integrated cross-sectoral approach. To this end, IMF/PFTAC supports the countries in the following areas:

1. Public Financial Management — moving towards a well-functioning basic PFM system.
2. Revenue policy and administration — improving revenue performance and structure.
3. Economic statistics — more timely and reliable macroeconomic datasets based on enhanced source data.
4. Financial sector supervision — increased ability to enforce appropriate prudential frameworks.
5. Macroeconomic management — improving forecasting and policy tools.

Pacific Island Countries are highly vulnerable to climate change not only due to the physical exposure of their population to extreme weather events and the effects of rising sea levels, but also to their small and often fragile economies that are sometimes dependent on natural resources. Low carbon development also offers significant opportunities to reduce reliance on imports of fossil fuels. Increasingly, international finance is available for climate change adaptation and mitigation, but access to such finance and sound management requires a sound PFM system and the necessary national capacities to enhance access to and management of such funds. This action will cover 15 Pacific countries and each country is a sovereign state with its own national development strategy, geared towards SDG targets. Institution building and better public service delivery require solid public finance systems. This action contributes to the strengthening of the latter.

Pacific communities will benefit from the project in the form of improved public sector service delivery as government spending becomes more effective and efficient. Enhanced oversight of the public budget and accountability of public finance matters will reduce the opportunity for fraud and corruption to occur.

This will also benefit the countries in the longer term, for example as regards their efforts in the implementation of Economic Partnership Agreements and related Trade and Sustainable Development chapter in trade agreements between the EU and Pacific States.

The main target groups for the project include: Ministries of Finance/Economy, Revenues or equivalent, Planning, Treasury, Supreme Audit Institutions (SAIs), Ombudsman, National Parliaments and civil society. Other stakeholders are the National Statistical Offices, Central Banks, Leadership Commissions, Public Service Commissions, Anti-Corruption Agencies, Ministries of Public Enterprise, line Ministries and possibly sub-national levels of government, gender machineries and National Human Rights Institutions.

In order to ensure greater empowerment of women in PFM in the target countries, the participation of the gender machinery and female officials in the above key government ministries, line agencies, as well as key bodies such as the national parliament and other oversight institutions to benefit from the activities delivered by the proposed project will be ensured.

The first outcome will cover fifteen countries in the Pacific region: (i) Cook Islands, (ii) Federated States of Micronesia, (iii) Fiji, (iv) Kiribati, (v) Nauru, (vi) Niue, (vii) Palau, (viii) Papua New Guinea, (ix) Samoa, (x) Solomon Islands, (xi) Republic of Marshall Islands, (xii) Timor Leste, (xiii) Tonga, (xiv) Tuvalu and (xv) Vanuatu. The second outcome will be implemented in focus countries and engage micro-states (defined as PICS with populations under 30,000 inhabitants). Increased geographical coverage of the project will be considered by the UNDP Project Board if such opportunities arise.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to strengthen the governance mechanisms enabling Pacific Island Countries (PICs) to achieve fiscal sustainability, diversify Pacific economies and support their ability to recover from the global pandemic and local natural disasters in a fair and responsible manner.

The project will strengthen PFM systems and governance of key domestic institutions at the national level, increasing transparency, public participation, and accountability. To achieve this purpose, the action focuses on two interlinked areas.

The Specific Objectives (Outcomes) of this action are

- *SO1* – to support the strengthening of national PFM systems in the PICs contributing to outputs *O1.1 and O1.2*. (IMF/PFTAC focus);
- *SO2* – to help to achieve greater public finance oversight, participation and accountability roles of Parliaments and other oversight institutions with engagement of civil society organisations in the PICs, contributing to results/outputs *O2.1. and O2.2*. (UNDP focus).

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

- *O1.1*. Strengthened laws and effective PFM institutions, including (agile) PEFA diagnostic assessments (such as the climate and gender modules) and the formulation of PFM reform roadmaps (*SO1*);
- *O1.2*. Strengthened budgeting practices, including coverage and quality of fiscal reporting, budget execution, management of fiscal risks, gender-sensitivity and greening of budgeting systems, including the promotion of the polluter pays principle where applicable and fostering best practices in this realm (*SO1*);
- *O2.1*. Consolidated oversight institutional frameworks (*SO2*);
- *O2.2*. Delivered national and subnational public finance initiatives that are evidence-based, promote citizens' engagement and participation, and reinforce green, gender and human rights responsive budgeting (*SO2*).

3.2. Indicative Activities

Activities related to Outputs *O1.1 and O1.2*. (IMF/PFTAC focus):

- Specialised TA to PFM institutions on the effective use and implementation of laws, regulations, guidelines and templates for improving national PFM systems; TA on PFM Roadmaps, Public Investment Management, PEFA, in particular the Climate and Gender modules, and national budgets with a focus on environment and climate finance, including the application of the polluter pays principle and sharing the best practices and experiences from this field;
- Training and capacity building of government officials (e.g. accountants, budget analysts and auditors) in treasury management, accounting, coverage and quality of financial reporting and climate finance (both for adaptation and mitigation), and/or budget officers and planners in procedures and techniques for preparing budgets, greening of budgeting processes (the 'do no harm' principle must be adhered to), and subsequently monitoring and reporting on fiscal outcomes, the greening thereof, and fiscal risks.

Activities related to Outputs *O2.1. and O2.2*. (UNDP focus):

- Learning by doing capacity strengthening scheme with a mainstream-focus on climate and gender: technical assistance to public finance oversight, core government institutions and regional organisations on public finance oversight (PIFS and other CROP agencies), including but not limited to Supreme Audit Institutions, Ombudsman, Leadership Commissions and Parliaments;
- Oversight report implementation: work with government institutions to implement the recommendations of oversight institutions (auditor-generals, Parliaments, Ombudsman, anti-corruption commissions) reports;

- Development of feedback mechanisms and simplified processes: building on UNDP PFM work on citizen engagement, ICT and innovation notably with PIANGO, the project will work with Pacific civil society to continue encouraging transparency and accountability processes in the public finance sector notably at the sub-national level. Initiatives and partnerships will incorporate a focus on climate-responsive and gender-sensitive, human rights activities;
- Leadership, network and innovation support: schemes and initiatives to promote individual and coalition's capacity to develop, implement and document innovative and tailored solutions for green, transparent, accountable and sustainable public finances.

The commitment of the EU's contribution to the Team Europe Initiatives foreseen under this action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework.

3.3. Mainstreaming

Environmental Protection & Climate Change

Outcomes of the Strategic Environmental Assessment (SEA) screening (relevant for budget support and strategic-level interventions)

The SEA screening concluded that no further action was required.

Outcomes of the Environmental Impact Assessment (EIA) screening

The EIA screening classified the action Category C (no need for further assessment).

Outcome of the Climate Risk Assessment (CRA) screening

The CRA screening concluded that this action is not at risk or at a low risk (no need for further assessment).

Gender equality and empowerment of women and girls

As per the Organisation for Economic Cooperation and Development's (OECD) Gender Development Assistance committee (DAC) codes identified in section 1.1, this action is labelled as G1. This implies that gender equality and the empowerment of women and girls will be addressed in the activities with the fifteen countries, by the implementing partners in cooperation with the respective fifteen governments, parliaments, the gender machinery, CSOs and other stakeholders.

Human Rights

The Human Rights Based Approach and its five working principles (a) applying all human rights for all; b) meaningful and inclusive participation and access to decision making; c) non-discrimination and equality; d) accountability and rule of law for all; and e) transparency and access to information supported where possible by disaggregated data) will be promoted throughout the project's activities.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. This does not imply that disabled people or organisation will be excluded, on the contrary, the work with Civil Society Organisations will include people with disabilities, as will other activities (such as the organised workshops and the work on allocations in the Budget). The endeavour is to be inclusive.

Democracy

Democratic values will be promoted and protected throughout the project's activities.

Conflict sensitivity, peace and resilience

FSM, Kiribati, PNG, RMI, Solomon Islands, Timor-Leste and Tuvalu are fragile countries. Also in other Pacific countries conflicts may arise and resilience may need to be (re-)built.

Disaster Risk Reduction

The fifteen countries covered by this action are each prone, to different degrees, to natural disasters. There is a natural focus on building-back-better and other initiatives related to reducing the possibility of future disasters and the implementing partners are fully aware of this.

Other considerations if relevant

The fight against corruption and fraud will also be mainstreamed.

3.4. Risks and Lessons Learnt

Category	Risks	Likelihood (High/Medium/Low)	Impact (High/Medium/Low)	Mitigating measures
Political	Limited political will or short-term political engagement to implement reforms to strengthen financial management, audit and oversight and improve the budget process.	M	H	High-level dialogue with senior national counterparts to better understand issues and build ownership and political will. Support must be demand driven, recognizing opportunities to nurture demand including through south-south experience sharing and ensuring ownership is secured in the resultant engagement. Activities are also flexible to allow for focus on certain countries while political difficulties are resolved. Work with both supply/demand side (government/oversight institutions/civil society) allows to focus on relevant levers (political economy). Greening and gender equality will be promoted throughout.
Organisational	Channelling public funds not according to the legislation and regulations for personal benefit.	M	M	The action promotes transparency and accountability and open discussions on matters that concern public funds that should first and foremost be used for public services (health, education or climate change actions)
Environmental	Natural or man-made disasters/events (e.g. flooding or cyclones)	M	M	The activities will focus on a number of countries within a regional dimension which allows for flexible approach to programme implementation over the timeframe of the project. Also, IT-systems and communication have already improved slightly during the COVID-19 pandemic, which is helpful.
Organisational	High turnover of senior staff in Ministries will hamper capacity building efforts and provide limited	H	H	Careful selection of participants and provision of specific on-the-job training, for the institutions (permanent personnel of the Ministries of Finance/Economy, Parliament and other oversight institutions). Training of teams (rather than individuals), focus on

	effectiveness in the medium- to long-term, unless repeated at regular intervals.			recording and documenting processes, on boarding mechanisms.
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Lessons Learnt:

The European Union has a long-standing experience with Budget Support in most of the Pacific Island Countries (PICs) and consequently has gained deep insights into the national Pacific PFM systems and frameworks, budgetary oversight and accountability. For the policy dialogues with the national governments related to its Budget Support operations in the PICs, IMF/PFTAC and UNDP have always been able to provide relevant contributions with great value-added. Of the four eligibility criteria that the EU practises for paying Budget Support tranches, the work of IMF/PFTAC and UNDP is directly associated with three of them (i.e. eligibility criterion ii) on progress in PFM reforms, eligibility criterion; iii) on macro-economic stability and eligibility criterion iv) on budgetary transparency and oversight). Therefore, without the inputs and activities of IMF/PFTAC and UNDP, the EU would not have been able to disburse Budget Support tranches in the Pacific.

Other partners in the region in the PFM and oversight space, such as the University of the South Pacific (USP) or the Pacific Association of Supreme Audit Institutions (PASAI) are also relevant to the EU Budget Support operations. However, these have a far lower absorption capacity. This has become evident under the European Development Fund 11 (EDF11), where the EU had an umbrella-project Strengthening PFM and governance in the Pacific project (CRIS decision no 40176) with the Pacific Islands Forum Secretariat (PIFS) in a coordinating role, and four implementing partners: IMF/PFTAC, UNDP, USP and PASAI. The mentioned institutions' low absorption capacity hampered the communication, even in such a way, that expected results have not been achieved (and probably will not be achieved). A logical explanation is that they are not (yet) used to working with project approaches, next to their core business. Other donors that support the institutions financially, contribute to the core activities.

This action proposes to support IMF/PFTAC and UNDP financially and continue cooperating with all other relevant partners in the region in a constructive manner. UNDP has already been doing so under the EDF11 project mentioned above, notably by managing the implementation agreement of PASAI and balancing the delivery challenges by scaling-up UNDP's directly implemented activities and partnerships with national counterparts in the last year of implementation. IMF/PFTAC and UNDP have also worked well jointly, in providing onsite and online workshops during COVID19, amongst others on Budget documentation. The EU and the implementing partners will always remain engaged in exchanges of information during scheduled or ad-hoc meetings, in case this benefits the PICs.

One relevant common area of work is on the quality and comprehensiveness of Financial Government Statements (FSGs). This project will give priority to countries with a significant backlog⁸ or emerging backlog of Financial Government Statements (FSG-reports and Parliamentary oversight) and continuously building the capacity of SAIs and Parliaments on FSG-audit and oversight quality and effectiveness.

A good example of a relevant Working Group at PIFS, on Climate Finance (WG CF), has shown during the last years that development partners collaborate well together for the sake of good purposes for the PICs, in this case to provide them with sufficiently robust PFM systems and capacity that enhances their access to additional funding for climate adaptation and mitigation and to find a way toward climate-responsive and responsible budgeting. The results of WG CF feed into the Forum Economic Ministers' Meeting (FEMM), the regular high-level meeting of Ministers of Economy/Finance of the region.

⁸ Currently this is only Nauru, Papua New Guinea, Solomon Islands and Vanuatu.

3.5. The Intervention Logic

The underlying intervention logic for this action is that this support will strengthen the international partnerships with the Pacific Island Countries and accelerate reforms as defined in the EU Budget Support programmes in those countries. To gear public spending toward investment and social priorities, in line with the SDGs and human rights commitments, and enhance fiscal transparency, public finance management activities will also focus on integrating treasury and debt management, developing strategies to mitigate fiscal risks; strengthening medium-term fiscal frameworks; climate and gender budgeting; public investment management; and implementing international accounting standards. IMF/PFTAC will support Ministries of Finance/Economy and UNDP will support Parliaments, other relevant oversight institutions and involve Civil Society Organisations (CSOs), the private sector, the media and the general public. Both implementing partners' close collaboration with regional fora and organisations will also contribute to regional-level coordination and policy discussions.

If the activities as mentioned above are undertaken and the assumption hold true, then the outputs will be produced. Given that PICs remain committed and there are no political crises or other shocks that interrupt the activities of specialised TA to PFM institutions, training and capacity building of government officials and learning-by-doing capacity strengthening with a focus on climate and gender, the implementation of recommendations of oversight institutions and the development of feedback mechanisms building on citizen engagement and leadership development will lead to strengthened PFM areas and consolidated oversight institutional frameworks.

Given that there is continued participation of development partners on TA and that political and institutional conditions remain conducive and outputs are produced indeed, the outcomes will be realised i.e. PFM systems will be strengthened and greater public finance oversight and accountability of relevant institutions in the Pacific countries will be achieved. In this case, the action will contribute to the desired impact of fiscal sustainability, diversified economies and ability to recover from global pandemic and other shocks in a fair and responsible manner.

3.6. Logical Framework Matrix

Results	Results chain (@): Main expected results	Indicators (@):	Baselines (2021)	Targets (2025)	Sources of data	Assumptions
Impact	OO. To achieve fiscal sustainability, diversify Pacific economies and support ability to recover from global pandemic and local natural disasters in a fair and responsible manner.	1. Public debt (% GDP) ⁹ 2. Average annual economic growth rate ¹⁰	1. 30.1% 2. 0.0%	1 <30% 2 >2%	1. World Bank 2. IMF Articles IV	<i>Not applicable</i>
Outcome 1 (<i>IMF/PFTAC focus</i>)	SO1. Strengthened national PFM systems in the Pacific Island Countries.	1.1 Number of A- and B-PEFA-scores ¹¹	1.1 28	1.1 50	1. PEFA results – see Annex I	Continued participation of TA partners including provision of capacity supplementation and support to new strengthened FMIS.
Outcome 2 (<i>UNDP focus</i>)	SO2. Achieved greater public finance oversight, participation and accountability roles of parliaments, other oversight institutions with engagement of civil society organisations in the Pacific Island Countries.	2.1 Number of A-, B- and C on PEFA-indicators 22 up to and including 27 ¹² 2.2 Number of Open Business Survey (OBS) documents that are publicly available.	2.1 36 2.2 TBD	2.1 45 2.2 TBD	2.1 PEFA reports 2.2 OBS reports (every two year in PNG and Fiji only); by proxy self-assessment facilitated by project annually.	Political and institutional conditions remain conducive of work with oversight institutions including political institutions such as Parliaments.
Output 1 related to Outcome 1	O1.1 Strengthened laws and effective PFM institutions, including PEFA diagnostic assessments and the formulation of PFM reform roadmaps.	1.1.1 Number of PFM roadmaps updated. 1.1.2 Green IMF Results Based Management (RBM) outcome ratings. ¹³	1.1.1 8 1.1.2 3	1.1.1 12 1.1.2 13	1.1.1 PEFA scores 1.1.2 Country PFM roadmaps and PFTAC annual reports	PICs remain committed to the program of periodic PEFA assessments.
Output 2 related to Outcome 1	O1.2 Strengthened budgeting practices, including coverage and quality of fiscal reporting, budget execution and management of fiscal risks, gender-sensitivity and greening of budgeting systems.	1.2.1 Number of PEFA climate and gender responsive PFM assessments 1.2.2 Green RBM ratings. ¹⁴	1.2.1 2 ¹⁵ 1.2.2 2	1.2.1 8 1.2.2 12	1.2.1 PEFA scores 1.2.2 IMF PFTAC annual reports	Strong coordination to synergize PFM support from all development partners.
Output 3 related to Outcome 2	O2.1 Consolidated oversight institutional frameworks.	2.1.1 Number of selected oversight institutions in (focus countries + at least two micro-states) countries documenting increased effectiveness thanks to received technical assistance.	2.1.1 0	2.1.1 TBD	2.1.1 Parliaments -, SAIs- and/or independent reports (PEFA, OBS, other international publications)	No major political crisis or natural disasters in focus countries resulting in suspension or severe difficulties or risks for oversight institutions over more than one year.
Output 4 related to Outcome 2	O2.2 Delivered national and subnational public finance initiatives that are evidence-based, promote citizens' engagement and participation, and reinforce green, gender and human rights responsive budgeting.	2.2.1 Number of mechanisms and initiatives developed to enhance accountability, greenness and gender inclusiveness in public finance management processes (central and sub-national level)	2.2.1 0	2.2.1 TBD	2.2.1 Parliaments-, SAIs and/or independent reports (PEFA, other international publications)	No severe reduction of civil society and public debate space in the Pacific.

⁹ Simple averages over three years over all countries. The baseline applies to the years 2018-2020 (see the calculations in annex 1a).

¹⁰ Similar methodology as mentioned in previous footnote.

¹¹ Find the PEFA-scores per country and the calculation in Annex 1b.

¹² Similar to previous footnote, find the calculations in Annex 1b.

¹³ Find the calculations in annex 1a.

¹⁴ Similar methodology as mentioned in previous footnote.

¹⁵ In 2020, PFTAC performed the first PEFA climate assessment in the Pacific region, with Samoa, and in 2019 it performed the first PEFA gender assessment in the Pacific, with Tonga.

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is not envisaged to conclude a financing agreement.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of adoption by the Commission of this Financing Decision.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures and pillar assessed procedures for international organisations are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.¹⁶

4.3.1. Indirect Management with two international organisations

A part of this action may be implemented in indirect management with the IMF/PFTAC. It is related to the implementation of IMF/PFTAC's Phase VI that will indicatively cover the period November 2022-April 2028.¹⁷ The operations of IMF/PFTAC comprise TA and training in the areas of PFM, revenue policy and administration, macroeconomic analyses and forecasting, and macroeconomic statistics. This EU-grant of EUR 5.0 million will contribute to the IMF/PFTAC subaccount which the IMF manages in accordance with its financial regulations, and other applicable IMF practices and procedures.

The envisaged entity has been selected using the following criteria. The EU has a long-standing relationship with IMF/PFTAC, ever since its establishment in 1993. IMF/PFTAC promotes macro-financial stability in the Pacific Island countries (PICs) through a focused program of technical assistance and training. IMF/PFTAC was the first of the International Monetary Fund (IMF) regional technical assistance centres, representing a collaborative venture between the IMF, the member countries, and bilateral donor partners. The goal of IMF/PFTAC is to strengthen the institutional capacity of Pacific countries to design and implement sound macroeconomic and financial policies. Macroeconomic and financial stability, in turn, are essential underpinnings for sustainable economic growth and the achievement of Sustainable Development Goals. The entrusted entities will carry out all the budget-implementation tasks under the delegated sections of this action, including carrying out procurement and grant-awarding procedures, rewarding, signing and executing the resulting contracts, notably accepting deliverables, carrying out payments, and recovering moneys due.

If negotiations with the above-mentioned entity fail, part of the activities of the proposed implementing partner may be implemented in indirect management with the Asian Development Bank (ADB). The implementation by this alternative entity would be justified because of the following criteria. The ADB has experience with technical assistance in the Pacific Islands Countries, it also works with specialised advisors in several of the PFM areas in more than one country and it is also participating in the policy dialogues on Budget Support with the recipient countries and thus ADB's technical assistance could be well-aligned with the EU Budget Support to the Pacific countries.

¹⁶ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

¹⁷ The EU contributed EUR 6.0 million to the IMF/PFTAC Phase V, disbursed in 2018 and 2019. Due to COVID-19, Phase V has been extended until November 2022 and may be extended further until May 2023. See also section 4.8 below.

A part of this action may be implemented in indirect management with the UNDP. It is related to the provision of technical assistance on public finance oversight, work with Pacific civil society to continue encouraging transparency and accountability processes in the public finance sector and the implementation of recommendation from oversight institutions.

The envisaged entity has been selected using the following criteria. UNDP has a well-established presence in many of the Islands States in the Pacific, with a regional office in Fiji with over 150 long-term experts and support staff. UNDP has a unique mandate to support governance issues and extensive experience with support to Parliaments, anti-corruption, climate change financing, gender and civil society work. UNDP is managing contributions by the EU and a variety of other donors. UNDP is also well positioned to ensure effective coordination in the sector at sub-national, national and regional levels and provide cross-fertilization with the outputs of other related programmes. The indirect management with UNDP is the best option to ensure connection of this intervention with respective Parliaments in the form of multiple south-south cooperations, and ensure EU access to the relevant policy processes. Moreover, this mode of implementation will ensure a single conduit for implementation of UNDP support, EU support and other potential donor support, improved and coordinated dialogue around PFM and oversight issues, with a focus on climate change. The entrusted entities will carry out all the budget-implementation tasks under the delegated sections of this action, including carrying out procurement and grant-awarding procedures, awarding, signing and executing the resulting contracts, notably accepting deliverables, carrying out payments, and recovering moneys due.

In case the envisaged entity for both actions, and the replacement entity mentioned above for action 1, would need to be replaced, the Commission's services may select another replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

4.3.2. Changes from indirect to direct management mode due to exceptional circumstances (one alternative second option)

In exceptional circumstances, the implementation modality may change to direct management for both parts of the Action due to circumstances outside of the Commission's control. In direct management, specialised technical assistance can be employed, for specific PFM areas, and for groups of countries, or to work with established organisations with oversight institutions and CSOs (such as the Pacific Association for Supreme Audit Institutions and Transparency International).

4.4. Indicative Budget

Indicative Budget components	EU contribution, in million EUR	Third-party contribution, in million EUR
<i>Objective 1 To strengthen national PFM systems and enhance DRM in the Pacific Island Countries</i>		
Indirect management with international organisation - cf. section 4.3.1	5.0	Approximately 28
<i>Objective. 2 To achieve greater public finance oversight and accountability roles of Parliament and other relevant government institutions, with engagement of CSOs</i>		
Indirect management with international organisation - cf. section 4.3.1	6.0	To be confirmed
Totals	11.0	Around 28

4.5. Organisational Set-up and Responsibilities

IMF/PFTAC is administered through a multi-donor trust fund, established under the IMF's policies and procedures as approved by the IMF Board. The Centre is governed by an IMF/PFTAC Steering Committee (SC), comprising the donors (among which the EU), the member countries, and the IMF. The SC meets yearly to review the implementation

of the Centre's annual work program, and to provide strategic direction. The Centre is managed by a Centre Coordinator, an IMF staff member whose costs are covered by the IMF.

UNDP projects follow UNDP rules and procedures as established centrally. The project document will establish a project board including UNDP, project donors (EU and any other contributing parties) and major project stakeholder representatives (as Board Members and/or observers depending on the context; in the first phase of the project PIFS was a board member and PASAI and PIANGO were invited as observers). This UNDP Project Board delegates day-to-day administration of the project to a project manager under the supervision of the relevant Team Leader(s) and the overall leadership of UNDP Resident Representative(s) in implementation countries. The project manager will be responsible for establishing a strong collaboration with UNDP focal points implementing PFM oversight and accountability activities in Timor-Leste (EU funded PALOP project) and Papua New Guinea (Effective Governance team and EU funded Anti-Corruption project). The project will be managed from the UNDP Pacific Office in Suva, benefit from established operational capacity in human resources, procurement, finance, monitoring and evaluation and adhere to UNDP transparency and reporting standards. The [2020 Aid Transparency Index](#), produced by the campaign for aid transparency Publish What You Fund (PWYF), rated UNDP with a score of 96.6 out of 100. Increasing its rating by 1.2 points since the index was last published in 2018, UNDP continues to be a leader in transparency – topped only by the Asian Development Bank (98) and the World Bank (97.1).

IMF/PFTAC, UNDP and the EU Delegation in Fiji will meet regularly. IMF/PFTAC and UNDP will also continue their cooperation in specialised domains in which they both have expertise, such as Budget documentation and processes, climate finance.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

4.6. Pre-conditions

There is almost surely no risk that the implementing partners will not start and implement their activities. However, the starting date of the IMF/PFTAC Phase VI has been delayed from May 2022 to November 2022 and it may be further delayed to May 2023 (at the latest) because of the travel restrictions in the region in view of COVID-19 and hence cost savings under Phase V. All preparations for Phase VI are ongoing, and Phase VI will start immediately after the end of Phase V. Hence, the completion of Phase V is a pre-condition for the start of implementation of activities while the contribution agreement can be signed in anticipation of the completion of Phase V.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partners' responsibilities. To this aim, the implementing partners shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the log-frame matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

All monitoring and reporting shall assess how the action is taking into account the environment and climate approach, as well as the human rights-based approach working principles and gender aspects.

The indicators (i) *Number of Open Business Survey (OBS) documents that are publicly available*; (ii) *Number of selected oversight institutions in (focus countries + at least two micro-states) countries documenting increased effectiveness thanks to received technical assistance*; and (iii) *Number of mechanisms and initiatives developed to enhance accountability, greenness and gender inclusiveness in public finance management processes (at the central and sub-national level)* in the log-frame matrix require a specific survey that will be done in 2022, at the inception, by UNDP for the baseline year 2021. Regarding these three indicators, UNDP will also conduct an end-line study in 2026. This survey will rely on independent, published or publicly available reports.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

In line with article 12.6 of the EU-IMF FFPA, “where an action is co-financed by other contributors, progress and final reports shall be understood to mean those prepared as part of the Organisation’s regular reporting to the action’s IMF/PFTAC Steering Committee”.

The financing of monitoring by consultants shall be covered by another measure constituting a financial decision.

5.2. Evaluation

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants or via the implementing partners.

It will be carried out for accountability reasons as well as learning purposes for follow-up projects and in relation to the bilateral EU Budget Support programmes in the Pacific region.

The Commission shall inform the implementing partner at least one month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

Evaluations shall assess to what extent the action is taking into account the environment and climate aspects, as the human rights-based approach working principles (i.e. applying all human rights for all; meaningful and inclusive participation and access to decision-making; non-discrimination and equality; accountability and rule of law for all; and transparency and access to information supported by disaggregated data) as well as how it contributes to gender equality and women’s empowerment. In this regard, expertise on human rights and gender equality will be ensured in the evaluation teams.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a Financing Decision.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

The financing of audit and verification shall be covered by another measure constituting a financial decision.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

APPENDIX 1 REPORTING IN OPSYS

An Intervention (also generally called project/programme) is the operational entity associated to a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Interventions are the most effective (hence optimal) entities for the operational follow-up by the Commission of its external development operations. As such, Interventions constitute the base unit for managing operational implementations, assessing performance, monitoring, evaluation, internal and external communication, reporting and aggregation.

Primary Interventions are those contracts or groups of contracts bearing reportable results and respecting the following business rule: 'a given contract can only contribute to one primary intervention and not more than one'. An individual contract that does not produce direct reportable results and cannot be logically grouped with other result reportable contracts is considered a 'support entities'. The addition of all primary interventions and support entities is equivalent to the full development portfolio of the Institution.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).

The level of the Primary Intervention is defined in the related Action Document, and it is revisable; it can be a(n) (group of) action(s) or a (group of) contract(s).

Tick in the left side column one of the three possible options for the level of definition of the Primary Intervention(s) identified in this action.

In the case of 'Group of actions' level, add references to the present action and other action concerning the same Primary Intervention.

In the case of 'Contract level', add the reference to the corresponding budgetary items in point 4.4, Indicative Budget.

Option 1: Action level		
<input type="checkbox"/>	Single action	Present action: all contracts in the present action
Option 2: Group of actions level		
<input type="checkbox"/>	Group of actions	Actions reference (CRIS#/043-298)
Option 3: Contract level		
<input checked="" type="checkbox"/>	Single Contract 1	Contribution agreement with IMF/PFTAC
<input checked="" type="checkbox"/>	Single Contract 2	Contribution agreement with UNDP – Fiji office