



PAPUA NEW GUINEA

2024 -

June

Component: Revenue and Spending

Modules: RM II – Revenue Administration

SM II – Managing Public Finances

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PROJECT SUMMARY	
COUNTRY:	Papua New Guinea
LEAD DEPARTMENT:	FAD
REGION:	APD
PROGRAM ID:	[To be filled out by Secretariat]
PLANNED DATES:	FY25 – FY27
FUNDING PROGRAM TITLE:	[to be added by Secretariat]
PROJECT MANAGERS:	
RM II – REVENUE ADMINISTRATION:	Akol, Doris – FADR1
SM II - MANAGING PUBLIC FINANCES:	Welham, Bryn – FADM2 (Lead)
ESTIMATED BUDGET	\$430,402
BUDGET FOR ENDORSEMENT:	\$300,873

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ACRONYMS

ADB	Asian Development Bank
CD	Capacity development
DP	Development partner
ECF	Extended credit facility/extended fund facility
EFF	Extended credit facility/extended fund facility
FAD	IMF's Fiscal Affairs Department
IRC	Internal Revenue Commission
LTX	Long-term expert
MTRS	Medium-term revenue strategy
PFM	Public financial management
PFTAC	IMF's Pacific Financial Technical Assistance Center
PIM	Public investment management
PNG	Papua New Guinea
RSF	Resilience and Stability Facility
STX	Short-term expert
TADAT	Tax Administration Diagnostic Assessment Tool

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I. PROJECT PURPOSE

This project seeks to support the Papua New Guinea (PNG) authorities in delivering positive public financial management (PFM) outcomes in the areas of (1) budget execution and cash management; and (2) climate-aware infrastructure management. Regarding budget execution and cash management, the project seeks to support implementation of the long-term vision set out in an HQ diagnostic report on this topic delivered in March 2024 (*Papua New Guinea – Strengthening Expenditure Control and Cash Management* G. Huang). For climate-aware infrastructure planning, a *diagnostic mission* is currently planned to be delivered around July 2024 to support the request for an IMF-financed facility under the Resilience and Sustainability Trust (RST) later in the year. This diagnostic will set out a long-term reform trajectory for the authorities that this project seeks to provide implementation support.

The project will also support the authorities with revenue administration improvements. At the request of authorities, FAD will conduct a Tax Administration Diagnostic Assessment Tool (TADAT) reassessment of the Internal Revenue Commission (IRC) of PNG. Findings from the repeat TADAT will be useful to create new baselines for the country's Medium-Term Revenue Strategy II (MTRSII) for the period 2023–27 and focus the next IRC strategic plan (along with MTRS II).

The TADAT carried out in 2019 is reported to have been useful in designing the initial MTRS (2018 – 2023). This influenced the development of the PNG IRC's organizational strategy over 2019–23. The authorities have now requested to reassess the IRC, using TADAT, and measure progress in implementing the MTRS I and demonstrate the change since the beginning of the MTRS I.

The estimated budget for this three-year project is \$430,402, but endorsement is requested for \$300,873 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

PNG is a fragile state, by far the largest in the Pacific region, and has only recently re-engaged with PFM CD. The HQ-led mission on expenditure control delivered in March 2024 represented a 're-start' of PFM CD support to PNG after a break of several years, prompted by the demands of the ECF/EFF program. This support is necessary as PNG is regionally significant: it is by far the largest country within the Pacific region and of strategic interest to neighboring larger economies, notably Australia and Indonesia.

In recent years, PNG has been hit by multiple economic shocks, which have led to the country adopting an ECF/EFF program. The past decade has seen the country experience low prices for its key commodity exports over 2014–20, a severe drought in 2015–16, a major earthquake in 2018, and the COVID-19 pandemic of 2020–21. These shocks softened growth, led to an aggravation of foreign exchange shortages, and a build-up of public debt. Alongside these more immediate macro-fiscal challenges, PNG faces long-term and substantial development needs with much of the population living in poverty — often in hard-to-reach rural areas — and lacking access to basic infrastructure and services.

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While macro-fiscal challenge are evident in the immediate-term, the medium-term outlook is positive, and PNG's ECF/EFF program is designed to maximize this. Looking ahead, there are solid prospects of new investments in the resource sector. This would boost growth, exports, and the overall fiscal balance—and support the structural reforms that would boost inclusive growth over the long-term. The country program aims to help PNG manage the short-term pressures from its current domestic and external shocks so as to support the implementation of more growth-focused policies over the medium-term.

The latest program review (December 2023) noted strong commitment from the authorities and progress being made in delivering the program, suggesting a good environment for reform. All quantitative performance conditions had been met, fiscal consolidation was reported to be on track, and the structural reform agenda had progressed well. PNG's current reform environment is a challenging one, but progress in the program suggests it is a positive context for absorbing further PFM CD.

Strengthening revenue collection remains key to a successful fiscal consolidation in PNG.

Revenue reform is viewed as an integral part of the economic development agenda. A strong revenue base is viewed as essential to achieve fiscal consolidation as PNG prepares for the next phase of their medium-term revenue reforms. The overarching reform objective is to achieve a sustained increase in revenue while switching the composition from income taxes toward consumption taxes, in addition to strengthening the capacity of the IRC to effectively administer revenue collection laws.

To guide the revenue reform agenda, the government is working on a new MTRS for 2023–27. The scope of the MTRS is broad, to encompass all main revenue collecting agencies and cover all main taxes collected from the resource and non-resource economy. The MTRSII which is expected to, among other objectives, halt the declining revenue to GDP trend and increase revenues (excluding grants) to reach 17.2 percent of GDP by 2027, will build on the reform progress that was achieved during the first MTRS (2018–23).

Country engagement and alignment to reform priorities

The proposed PFM CD intervention directly relates to: (i) the authorities' current 'budget repair' strategy to support the ECF/EFF program, and (ii) climate-aware infrastructure management under a potential RSF arrangement. The authorities have committed to substantially reducing their deficit over the medium-term and running a surplus from 2027. The expenditure element of this consolidation requires improvements in the efficiency of spending — particularly around payroll — and strict enforcement of spending limits. Crucially, this restraint needs to be delivered without the build-up of arrears that had been a growing feature of previous years' budgets. This proposed CD workstream therefore fully supports the authorities' goals on the expenditure side of the fiscal equation in support of overall program goals. On the climate side, the authorities have communicated their desire for climate-aware infrastructure management CD, in the context of a prospective RSF request. To support this, the authorities will receive a climate infrastructure diagnostic in July 2024 (through other funding means), which will result in a series of reform recommendations. This proposed CD workstream will provide support to implement these reforms over subsequent years.

In the Revenue Administration workstream, PNG has benefited from FAD CD delivered through the IMF's Pacific Financial Technical Assistance Center (PFTAC). Recent PFTAC support focused on preparing an implementation plan for the new organization structure, organizational change (structure, people, performance measurement and HR related areas), and broad capability development in change impact and management, ready for implementing the next MTRS and IRC Strategic Plan 2023–27.

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Support for these initiatives, plus support to the process of procurement of a new revenue management system will remain the focus of PFTAC in FY25.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to PNG in the areas of revenue administration and PFM. FAD CD will support improvements within the strategic objectives presented in Table 1 below:

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM II / Revenue Administration	Strengthened revenue administration management and governance arrangements (SDG 17.1)
Spending	SM II / Managing Public Finances	Strengthened budget management Frameworks to Build Sustainable Fiscal Institutions and Frameworks

A. RM II – Revenue Administration

Scope

The focus of the proposed CD intervention is to support a TADAT reassessment preceded by a pre-assessment interactive learning session and a post-TADAT follow-up mission.

Authorities confirmed the IRC’s request for a TADAT reassessment at the April 2024 IMF-World Bank Spring Meetings. The proposed project will encompass activities relating to the planning and execution of a TADAT proposed to be conducted in August 2024. Results of the reassessment will be used to help develop the revenue administration reform program and priorities, to create new baselines for the MTRS-II, a critical feature of PNG’s medium-term revenue reform. Further, the TADAT reassessment will focus the next IRC strategic plan. Mainstreaming of findings from the TADAT reassessment through the proposed integrated tax administration system, will also support the digitalization of the IRC.

Program Objectives

The objective of the project is to strengthen revenue administration management and governance arrangements to improve tax administration. Through the TADAT assessment, the authorities will establish a new baseline of the health of the tax system for the country’s Medium-Term Revenue Strategy II (MTRSII) for the period 2023–27 and help focus the next IRC strategic plan (along with MTRS II). The main components of the project include:

- Conducting a pre-TADAT training to refresh and/or build capacity in the Tax Administration diagnostic tool methodology.
- Conducting a TADAT diagnostic so that authorities understand the current state of the government’s revenue administration, management, and governance arrangements and core revenue administration operations. This will help evaluate progress made (if any) by the IRC in the POAs since the previous TADAT done in 2017 and provide a baseline for anticipated further support on revenue administration reforms.

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- Conducting a follow up Post TADAT field mission to decide on reform priorities and design a medium-term reform plan. This will ensure that PFTAC support will be directed to more effective delivery of strategy and reforms including improved digitalization of systems and processes.

Expected Results (outcomes)

Financing the project will strengthen the IRC's capacity to improve compliance outcomes in core tax processes such as registration filing and payment in line with international good practice. The formulation of a medium-term CD plan, as part of the MTRSII and in response to TADAT findings is an added expected result.

Because of the ongoing engagement with PFTAC, the envisaged medium-term CD plan will be integrated into the PFTAC work plan, which will be reprioritized to accommodate CD activities necessitated by the TADAT reassessment. Additional support will be requested for any future work that is currently not foreseen.

B. SM II – Managing Public Finances

Scope

The focus of the CD intervention is: (1) expenditure control and cash management; and (2) climate-aware infrastructure management.

- Regarding expenditure control and cash management: the authorities have accepted the conclusions of the March 2024 HQ-led diagnostic report on this topic. The authorities have committed to beginning a program of reform in this area; but will benefit from implementation support check-ins to help troubleshoot problems, identify the right areas of emphasis for the coming year, and potentially review implementation timetables and priorities. These implementation support missions can also share best-practice and country experience from within the Pacific region to support the authorities in their implementation.
- Regarding climate-aware infrastructure management: the scope of the work will be on supporting implementation of the forthcoming diagnostic mission over the coming years. The authorities have made a firm request for support in this area and hope to expand their lending program to access funds under an RSF. The precise reform priorities are not yet identified, as the diagnostic is due for completion in the next 3-4 months.

Program Objectives

Regarding expenditure control and cash management, reform objectives will cover many topics but the initial focus is likely to be on strengthening arrears management. The recommendations from the March 2024 HQ report contained a number of recommendations for preventing the build-up of new arrears and managing the resolution of existing arrears. Indeed, during the Spring Meetings, the treasury minister highlighted in particular the need to understand, control, and manage down the relatively large stock of outstanding arrears. CD interventions financed by the GPFP can therefore usefully review progress in this area and propose revised and/or more finely-grained recommendations to build on the initial actions set out in the March 2024 HQ report. Key issues identified in the March 2024 HQ report where this CD intervention might review progress and set out more detailed options for implementation include:

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- The development and publishing of an arrears management strategy
- The implementation of a standard arrears reporting template
- The activation of commitment control procedures in the IFMIS
- The inclusion of these reforms in the formal Financial Management Manual and revised PFM Reform Roadmap.

Regarding climate-aware infrastructure management, the precise reform agenda will be determined by the forthcoming diagnostic mission. It will set out the precise agenda for reform across the five pillars of the assessment, which cover climate-aware planning; coordination between entities; project appraisal and selection; budgeting and portfolio management; and risk management.

Expected Results (outcomes)

Financing CD support on advancing budget execution and cash management through this program will deliver a number of positive outcomes. The ultimate aim of this work is to deliver a credible budget that aligns with the conditions of the ECF/EFF program while delivering the government's spending priorities. To support this objective, the GPFP program would ensure that the authorities receive:

- Regular review of progress against all the recommendations of the March 2024 HQ report over consecutive years.
- Specific review of progress against the priority arrears management reforms connected to the ECF/EFF program and advice for their acceleration where required.
- Suggestions for (re-)prioritization and (re-)planning of reform delivery where necessary actions are either taking longer than planned, and/or are experiencing difficulty in implementation.
- Sharing of experience and provision of examples from other countries where these reforms have been successfully implemented.

CD support for climate-aware public investment management will deliver a similar range of inputs. Although the baseline diagnostic is not yet complete, the overall ambition is for PNG to operate its public investment systems in a manner that supports broader climate adaptation and mitigation goals, in line with RMs agreed as part of the RSF. This will mean that the GPFP finances:

- Periodic reviews of delivery of reform recommendations, building on the expected July 2024 diagnostic report and reform timetable.
- Specific support to delivery of RM conditions that are agreed as a result of the diagnostic review and reform trajectory.
- Sharing of experience and provision of examples from other countries where these reforms have been successfully implemented.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

This CD intervention represents a chance to further strengthen a newly-emerging PFM reform relationship with country authorities. FAD support on *revenue* issues has been longstanding and intensive over recent years. However, prior to the agreement for a country program and the delivery of the March 2024 HQ diagnostic report on budget execution and cash management, PNG had received no PFM CD interventions since 2021—and even before this point, support was limited to predominantly desk-based remote STX inputs. This program of work is therefore a chance to progressively strengthen the CD relationship, building on the positive experience of the March 2024 HQ report and expanding it to include climate-aware infrastructure. Both these priorities align with the IMF lending program and have been specifically requested by the authorities.

B. Delivery Modalities

For PFM CD, inputs will comprise of a mix of remote and in-person activities. Virtual delivery will be used to facilitate and support in-person support, including pre-engagement meetings and post-follow-up meetings. In-country work from an STX, supported by the relevant PFTAC long-term expert (LTX), will comprise the in-person activity.

For Revenue Administration workstream, CD delivery will use blended delivery options. The diagnostic TADAT and strategy development follow up will be in-person due to time differences and the authorities' preference for hands-on approach. The training component including pre-engagement meetings, preparatory workshops, and follow-up meetings will be delivered virtually.

The CD activities will be delivered using a combination of the following modalities:

- Headquarters-led (HQ) missions and staff visits to provide strategic recommendations, conduct regular follow-ups, assess progress, inspect STX work, coordinate with other TA providers, and adjust reform implementation plans.
- Short-term expert (STX) visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration.
- Desk review or support. Duty station-based work on preparation and delivery of CD support primarily through a combination of diagnostic and technical advice, at the staff/expert's duty station.
- Interactive Learning and Workshops. Preparation and delivery of synchronous learning activities and/or technical advice delivered in-person or remotely, including structured content learning activities and workshops to impart training and assist in the development of timelines and a harmonized action plan to implement the reforms.

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C. Coordination / Cooperation

Coordination			
SM II. Managing Public Finance			
Partner	Type of coordination	Area of coordination	Frequency
PFTAC	Co-deliverer of the proposed GPFP-financed interventions.	The two priority areas of: budget execution and cash management; and climate-aware infrastructure development. The relevant PFTAC LTX will be the operational lead for delivery of large parts of this CD intervention. They will lead regular (likely annual) LTX/STX missions to PNG to provide implementation support in these two areas.	Annual implementation support missions.
IMF's Asia and Pacific department (APD) Country Team	IMF partners for delivery of the PNG ECF/EFF (and proposed forthcoming RSF) program.	Expenditure control and arrears management, within the context of the ECF/EFF program, meaning the design of its conditionalities relating to fiscal restraint and expenditure control. Setting of climate-aware infrastructure RMs under the RSF, and their regular monitoring as part of program reviews.	Six monthly program reviews
Cooperation			
Partner	Type of coordination	Area of coordination	Frequency
Asian Development Bank (ADB)	Development partner active in similar or aligned fields, at both national and Pacific/regional level.	Budget execution and cash management: ensuring alignment between IMF CD inputs and existing ADB projects on fiscal governance, debt management, and broader public sector reform. Climate-aware infrastructure: ensuring that RMs and associated reform trajectories are aligned with existing regional/Pacific ABD programs that seek to share experience across the Pacific region. The precise nature of CD coordination will need to be determined through the forthcoming July 2024 diagnostic report.	There are several ADB projects active in adjacent areas with ongoing delivery timelines.
RM II. Revenue Administration			
Partner	Type of coordination	Area of coordination	Frequency
PFTAC	FAD will lead the TADAT assessment process and include the IMF's Pacific Financial and Technical Assistance Center (PFTAC) resident advisor (LTX).	The standard TADAT assessment process, set by the TADAT secretariat, provides for interested development partners (DPs) to join the TADAT assessment team.	One TADAT Assessment and one TADAT Follow Up activity.

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Partner	Type of coordination	Area of coordination	Frequency
Asian Development Bank	The Asian Development Bank (ADB) is already engaged in revenue administration work in PNG and is interested in joining the assessment team.	Following the assessment, discussions on potential follow-up CD will present further opportunities for coordination and collaboration with PFTAC, ADB, and interested development partners.	

V. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Assessment	Mitigation Measures
External climate/conditions			
RM II	Risk that external events could create a challenging environment to conduct a TADAT assessment.	Medium	Ensure sufficient flexibility and allow for ability to adjust in activity timing and delivery modality in the case of adverse events.
Political Support			
RM II	Lack of political support for the TADAT reassessment may inhibit allocation of staff resources and access of assessors to field offices.	Medium	APD colleagues could be leveraged to enhance traction at higher political levels.
SM II	Risk that authorities are not prepared to make tough decisions to implement reforms in the area of public investment management (PIM) and budget execution.	High	1) Link reforms to IMF lending program so there is a clear incentive to deliver changes. 2) Engage closely with authorities during missions to find areas where there is appetite for reform. 3) Emphasize benefit of reform in the long term. 4) Share best practice from other countries that have undertaken these reforms to demonstrate what success can look like.

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General or Module	Description	Risk Assessment	Mitigation Measures
Management and Technical Staff Support and Commitment			
RM II	IRC Commissioner General's push for the TADAT assessment may not be reflected in commitment of other IRC Executive leadership team	Medium	1) Engage with senior management and technical staff pro-actively and explain the importance of the reassessment in strengthening IRC's capacity to deliver the MTRS-II. 2) Conduct a preparatory workshop to ensure IRC staff readiness for the assessment.
SM II	There are coordination challenges between separate ministries of finance and treasury. This could make reform more difficult as staff struggle to deliver their new processes and coordinate across institutions.	High	1) Carefully tailor reform advice to the capacity level of the relevant staff. 2) Ensure buy-in to reform at political level so that technical staff face the right incentives for delivery 3) Prioritize implementation support follow up missions in resource allocation rounds to ensure that technical staff receive frequent support interventions.
Resource Adequacy			
RM II	Inadequate technical capacity, organizational structures, and human resources to effectively provide data and information for TADAT assessment.	Medium	Strong preparatory workshops to ensure IRC readiness for the assessment, especially data collection and the assessment process.
RM II	Insufficient technical capacity and human resources necessary to implement reforms.	Medium	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited.
SM II	CD inputs for the two topics (PIM, budget execution) are inevitably limited. Plan is for two follow-up implementation support missions each in consecutive years to support HQ-led diagnostic missions in these two areas. This may not be enough to support reform; particularly given the low-capacity environment of PNG.	Medium	1) Prioritize follow-up implementation support in the annual planning rounds to ensure that these resources are made available. 2) Explore the possibilities for informal support that has no direct program cost (e.g. desk-based review; informal virtual discussions; informal virtual check ins) 3) Advocate for resources for this program in GPFP and PFTAC resource allocation decisions, using examples of 'quick wins' and successes delivered.

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General or Module	Description	Risk Assessment	Mitigation Measures
Other Risks			
RM II	Multiple development partners may be involved in the IRC's reform program leading to possible CD overlaps.	Medium	1) Take an active role in engaging with other donors to ensure the assessment and preparatory activities are well coordinated. 2) In keeping with TADAT process, other interested DPs will be included in the TADAT team.

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	FY28	FY29	Grand Total
RM II – Revenue Administration						
HQ led CD mission	2	-	-	-	-	2
Virtual Desk Review and TADAT Training mission	1	-	-	-	-	1
Total	3	-	-	-	-	3
SM II – Managing Public Finance						
STX visits	1	2	1	-	-	4
Total	1	2	1	-	-	4

Note:

- In-person delivery was chosen in most instances because the sensitivity of the CD messages being conveyed and the preference of the country authorities for in-person delivery
- Remote delivery was chosen in one instance because of the short duration of the activity.
- Collectively the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, remote, and hybrid activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM II – Revenue Administration		
Q1/FY25	Duty Station work and Virtual Preparatory workshop	Desk Review, check in with authorities and Pre-TADAT Training
Q3/FY25	Field-based work (In-person TADAT mission)	TADAT Reassessment
Q4/FY25	Field Based work (post-TADAT follow up)	TADAT Follow-up

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Timing	CD Modality	Proposed Topics of CD
SM II – Managing Public Finance		
Q4/FY25	Field-based work	STX Mission Budget Execution Follow-up

VII. PROGRAM FINANCIALS

	FY25	FY26	FY27	FY28	FY29	Total
RM II – Revenue Administration	\$239,461	-	-	-	-	\$239,461
SM II – Managing Public Finances	\$41,729	\$79,202	\$41,853	-	-	\$162,784
Subtotal	\$281,190	\$79,202	\$41,853	-	-	\$402,245
Trust fund management fee (7%)	\$19,683	\$5,544	\$2,930	-	-	\$28,157
Total	\$300,873	\$84,746	\$44,783	-	-	\$430,402

The estimated budget for this three-year project is \$430,402 but endorsement is requested for \$300,873 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

VIII. TARGETED LOGICAL FRAMEWORK**A. RM II – Revenue Administration**

Objective	
Strengthened revenue administration management and governance arrangements	
Outcome(s)	Indicator(s)
Authorities have a baseline understanding of the current state of the government's revenue administration, management, and governance arrangements, and core revenue administration operations	Procedures for internal and/or external review of revenue administration management, governance, and operations are established to produce baselines and identify opportunities for improvement
Capacity for reform is increased due to clear reform strategy and strategic Management framework adopted and institutionalized.	Strategic and operational plans prepared and adopted

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B. SM II – Managing Public Finance

Objective	
Strengthened Budget Management - PBM	
Outcome(s)	Indicator(s)
Strengthen budget execution and control processes	Strengthened effectiveness of management of expenditure arrears
	Improved predictability of in-year resource allocation processes including for capital spending and priority areas
Objective	
Frameworks to Build Sustainable Fiscal Institutions and Frameworks - FIF	
Outcome(s)	Indicator(s)
Strengthened capacity to plan, implement and sustain priority area reforms including climate, gender, and Sustainable Development Goals	Completed diagnostic of climate-related infrastructure governance framework (C-PIMA)
Strengthened capacity to plan, implement and sustain infrastructure governance	Completed diagnostic of infrastructure governance framework (PIMA)
	Developed strategic and/or operational infrastructure governance action plans