



# TRENDS AND DEVELOPMENT 2007

An e-Newsletter of the Economic Growth Work Programme,  
Pacific Islands Forum Secretariat

...highlighting recent work, meetings and issues of interest to the region...

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# FORUM ECONOMIC MINISTERS' MEETING

## OUTCOMES OF THE 2007 FORUM ECONOMIC MINISTERS' MEETING (FEMM)

The eleventh Forum Economic Ministers' Meeting (FEMM) was held in Koror, Republic of Palau from 11-12 July 2007.

2. At the meeting, Forum Economic Ministers reaffirmed their responsibility to provide leadership on regional economic integration and agreed that FEMM must facilitate the implementation of the Pacific Plan in those areas pertaining to economic growth and good governance.

3. Ministers considered a number of key issues including FEMM Reform Commitments and Economic Growth; Regional Economic Integration and Labour Mobility, Regulation and Regional Economic Integration: Regional Options for Economic Regulation; An Accountable and Independent Macroeconomic and Microeconomic Technical Assistance; A Regional or Sub-Regional Customs Service, and Financial Sector Reform, Financial Sector Supervision and Regulation in Forum Island Countries (FICs). The following sections provide a summary of key points from each issue.

### **FEMM Reform Commitments and Economic Growth**

4. The economic performance of a majority of members has been mixed with average growth hovering around 3.5 percent per annum for the past ten years.

5. The characteristics of smallness, isolation from major world markets and vulnerability to natural disasters have been exacerbated by a number of man-made challenges including increasing globalization, limited market access, political instability, deteriorating security situations, poor governance, limited access to land and slow public sector reforms.

6. Country presentations by Nauru, Papua New Guinea, Samoa and Tonga regarding their economic reform efforts reinforced the key message that strong political leadership is necessary for reforms to succeed and enables a predictable policy environment that is conducive to private sector growth.

### **Regional Economic Integration and Labour Mobility**

7. Ministers were updated on labour mobility issues in the context of regional economic integration. They noted that the New Zealand

Recognised Seasonal Employer policy, and the World Bank facilitated pilot seasonal worker scheme, and the potential impact of skilled labour resulting from education initiatives such as the Australian Pacific Technical College, all provide evidence for shaping a policy and design framework for future schemes.

8. Ministers directed the Secretariat in collaboration with the World Bank and other donors, to closely examine the key lessons learnt from pilot schemes currently in place, and to provide further guidance to both sending and recipient countries on ways of continuing to improve benefits and better managing risks.

### **Regional Options for Economic Regulation**

9. The Ministers reiterated the need to improve regulation in the areas of foreign investment, competition, pricing and access, and consumer protection and fair trading and noted the potential for regional approaches to support this effort.

10. They also identified the need for a phased approach to the implementation of regional approaches through: *firstly*, a policy phase where the relevant policy objectives are identified and adopted; *secondly*, a development of legislation phase which considers the appropriate type of laws to implement; and *finally*, an implementation phase, where legislation is enacted and regulation enforced.

11. Ministers also considered several options for applying regional approaches in FICs as well as possible strategies for implementation. These included common regulatory rules and a Regional Regulatory Authority.

12. The Secretariat was directed to convene a workshop to facilitate the exchange of regulatory knowledge and experience in FICs and to agree on the scope and design of further regional regulatory initiatives. In this context, the Ministers noted the potential for the phased establishment of a regional or sub-regional *Competition, Fair Trading and Pricing and Access Regulatory Authority* and directed members to consider this at the proposed workshop.

### **Accountable and Independent Macroeconomic and Microeconomic Technical Assistance (TA)**

13. The potential for improvement in, and broadening the scope of, Technical Assistance (TA) delivery to meet the requirements of FICs, including in areas of microeconomic policy advice was highly acknowledged.

14. Ministers also noted the scope for adopting strengthened regional approaches through pooling of TA resources to help alleviate underlying problems and, importantly, that a range of development agencies are currently co-operating to support a successful regional TA modality through the Pacific Islands Financial Technical Assistance Centre (PFTAC).

15. Ministers in that regard agreed to take forward a pilot arrangement to expand PFTAC capacity by drawing in staff from other International Financial Institutions/ Forum Island Countries/ development partners, allowing expansion of economic advice to include additional priority areas of microeconomic TA such as State Owned Enterprise (SOEs), Infrastructure and Regulatory Policy.

#### **A Regional or Sub-Regional Customs Service**

16. Ministers recognised that human resource capacity in FICs to handle technical areas of Customs administration (such as interpretation and application of the Harmonized System of tariff classification, the application of proper valuation techniques, application of post clearance audit techniques and a risk based approach for cargo clearance) is of variable quality.

17. Weak institutional characteristics and inadequate resourcing remain critical constraints for all Customs administrations in the region.

18. There is potential for adopting phased regional approaches through pooling of resources to help alleviate these underlying structural problems. These could include, for example:

- In the short-term, building on existing regional structures and activities underway to deliver appropriate results. For example,

enhanced regional cooperation that expands on the current efforts of agencies such as the Oceania Customs Organisation (OCO), and;

- In the medium-to-long term, modalities for regional pooling and delivery of services, to assist audit of Customs revenue collection processes and systems and documentation held by importers and exporters.

19. Ministers directed the Secretariat to work closely with the OCO to implement practical options for further regional approaches including in the areas of training, model legislation, post-clearance audit and information technology.

20. The Secretariat was tasked to undertake, in consultation with the OCO and other stakeholders, a feasibility study to determine the viability of targeted customs services at sub-regional levels.

#### **Financial Sector Reform, Financial Sector Supervision and Regulation in FICs**

21. Ministers also noted that prudential regulation and supervision of the financial sector remains problematic in FICs, particularly in smaller island states.

22. Regional approaches to support financial sector supervision and regulation in FICs were also considered and the Secretariat was directed, in collaboration with PFTAC, to expand on current initiatives and closely examine the challenges and constraints in FIC supervisory frameworks as well as potential solutions including outsourcing, contracting and development of shared supervisory services.

23. Finally, Forum Economic Ministers endorsed the invitation from the Government of Vanuatu to host the next FEMM.

24. The 2007 FEMM papers and related documents can be downloaded from this FEMM link - click [HERE](#)

### **KEYNOTE STATEMENT BY RICK HOUNIPWELA, GOVERNOR, CENTRAL BANK OF SOLOMON ISLANDS (CBSI)**

The Governor of the Central Bank of Solomon Islands, Rick Hounipwela delivered the keynote address at the 2007 Forum Economic Ministers' Meeting (FEMM). In his statement, Governor Hounipwela reflected on the region's economic growth performance and highlighted some key lessons learned from this experience.

2. Governor Hounipwela based his address around the overarching theme of FEMM reform commitments and economic growth as well as covering regional growth performance, core aspects of the FEMM reform agenda, successful reform lessons and further opportunities to help lift regional growth. He stated that despite the opportunities that Forum Island Countries (FICs)

have had, most economies had, on average, underperformed over the last decade, whilst at the same time, population growth rates in the region have been too high. Governor Hounipwela stated that it was disappointing also that the outcome of efforts on good governance and enhancing private sector investment had not matched FICs' commitments.

3. He stated that if the region was to see living standards improve, there was no option but to allow the economy to grow at a sustainable rate, led by the private sector. The experience of Mauritius, Samoa and Cook islands have demonstrated that sound and well targeted policy actions can be used to alleviate the handicaps of smallness, isolation and vulnerability.

4. Governor Hounipwela added that in order for this to happen, it was imperative that FICs strengthened good governance, ensured policy consistency, developed and upgraded infrastructure, up-skilled human resources, improved efficiency in land tenure systems, and improved law and order. He stated that

development of comparative advantages in marine resources, tourism and agriculture was needed to provide opportunities for growth in the more remote areas, which would in turn, reduce geographic economic disparities and ensure the active participation of the majority of the region's people.



*Governor Rick Hounipwela at the 2007 FEMM*

5. The full text of Governor Hounipwela's statement at the 2007 FEMM can be downloaded from this FEMM link - click [HERE](#)

## SPREP ENVIRONMENT MINISTERS' STATEMENT ON THE ECONOMIC IMPACTS OF CLIMATE CHANGE

The Minister for Resources and Development for the Republic of Palau, Honourable Fritz Koshiba delivered a statement on behalf of the Secretariat to the Pacific Regional Environment Programme (SPREP) Environment Ministers on the threats posed by climate change to the region's economic growth.

2. The presentation also contained an update on the activities carried out by SPREP, as the agency mandated by Leaders to lead the coordination of climate change mitigation and adaptation activities in the region.

3. The Minister, in his statement, emphasized that climate change was already having a range of adverse effects on key economic sectors such as fisheries, forestry, tourism, infrastructure, water and energy.

4. The Minister added that the Pacific, because of its unique geophysical features and social, economic and environmental characteristics, is particularly vulnerable to the effects of global warming, including more frequent and intense natural phenomena, such as cyclones, floods and droughts - as has recently been experienced.

5. The Minister stated that appropriate measures are being developed through the Pacific Islands Framework for Action on Climate Change, which provides SPREP with the mandate to continue the development of adaptation and mitigation efforts. An Action Plan is also being developed to give details of priority activities that would translate the Framework into action on the ground.

6. The full text of the statement by the Honourable Fritz Koshiba can be obtained from the following FEMM link - click [HERE](#)

## 2007 REGIONAL ECONOMIC OUTLOOK

*\* The following excerpt is from an information paper tabled at the 2007 Forum Economic Ministers Meeting (FEMM). The paper discusses recent global, regional and national economic prospects and provides a short-term regional economic outlook, for the information of FEMM.*

Aggregate economic performance in the Forum island region has been consistent in recent years with positive but relatively subdued growth recorded in the last five years. This translated into only a very slow improvement in GDP per capita, given the rapid rates of growth of population in most FICs.

2. Domestic factors are important in explaining this performance - whilst the region faces natural constraints to growth, a number of significant domestic limitations could be removed or reduced by government. These constraints include political instability, inefficient public sectors, poorly performing public enterprises, inappropriately skilled labour, and poor infrastructure.

### Forum Island Region Economic Performance

3. Forum Island Country (FIC) economies are forecast to grow by 2.7 percent in 2006 on generally favorable conditions for exports, tourism and remittances. These economies grew by 3 percent in 2005

4. Some highlights of the region's economic performance in 2006 include:

- Improved macroeconomic stability in Papua New Guinea whereby public debt has fallen below 40 percent of GDP for the first time since 1982; fall in inflation and interest rates and an improvement in both domestic and international confidence. Growth were also underpinned by strong commodity prices and favorable supply responses from agriculture and mineral sectors, as well as sound fiscal and monetary policies;
- Solomon Islands overcame the impact of civil unrest in April 2006, to post higher economic growth helped by increased log output, fisheries and palm oil production. There were also marked improvement in employment generated by increasing business activities and greater investor confidence;
- Palau and Vanuatu experienced relatively higher growth underpinned by rapid expansion in tourism.

### Forum Island Region Economic Outlook

5. Slightly higher growth rates are expected

for most FICs in 2007. These forecasts are based on a continuation of favorable environment for international tourism, exports, financial markets and remittances. Average growth in the FICs is expected to be around 3 percent in 2007.

6. Some notable prospects based on favorable international conditions are:

- Prospects for a boost in remittance receipts from the newly introduced New Zealand seasonal worker scheme that took effect at the beginning of 2007. The scheme will allow some 5000 workers from Vanuatu, Tonga, Samoa, Tuvalu, and Kiribati to enter and work in New Zealand ;
- Aid receipts are also due to rise. A renewed Compact of Free Association between the Micronesian states of FSM, RMI, and Palau with the United States will increase the volume of aid and potentially its impact given the new institutional arrangements put in place to improve the effectiveness of these transfers;
- Samoa, Tonga, and Vanuatu now receiving more reliable airline service, in partnership with an Australian airline - this is seen as an impetus for tourism growth in these countries; and
- Tourist numbers to the Pacific have the potential to continue to grow due to favorable growth in Australia and New Zealand and an economic rebound in Japan which could potentially improve the inflow of tourists to the Pacific.

### Risks to FIC Growth Projections

7. Better performance in the region has been prevented by a variety of factors including internal political problems, poor macroeconomic management, corruption, and a lack of will to reform the civil service and public enterprises. The relatively weak performance of FICs has led in many cases to slow growth of GDP per capita, with rising poverty, and increasing unemployment.

8. Many of these factors which affect growth in FICs have been known for some time, and have been discussed at FEMM. However, the progress in addressing these impediments to growth has often been slow. The 2006 FEMM Biennial Stocktake also

noted the lag in the implementation of FEMM commitments.

9. Strengthened efforts are required to achieve higher medium-term growth. An acceleration of structural reforms is needed to improve public sector efficiency, create private sector employment opportunities, and alleviate poverty.

10. The rising oil prices have posed major external threats to FICs' growth in the past and the situation is expected to continue. For all FICs, the share of export earnings spent on fuel imports have increased sharply. Higher oil prices represent a substantial cost to individuals and firms as many of the region's most important industries (particularly transport and tourism) are

highly energy intensive. Increasing oil prices places significant pressure on price for both domestically produced goods and imports in FICs. This in turn reduces consumers' purchasing power.

#### Conclusion

11. The economic performance of FICs is highly sensitive to international events. Global growth was particularly strong in 2006, in major FIC trading partners. This generally strong performance aided FIC growth through high prices for primary commodities, growth of tourism and increased flows of remittances. FICs need to capitalize on this opportunity.

12. The information paper can be obtained from the following FEMM link - click [HERE](#)



*Forum Economic Ministers and Heads of Delegations at the 2007 FEMM in Koror, Palau*

## KEY REGIONAL POLICY INITIATIVES: EVENTS & UPDATES

### REGIONAL URBAN MANAGEMENT POLICY INITIATIVES

#### Pacific Regional Urban Management Workshop

The Pacific Islands Forum Secretariat in collaboration with the Pacific Operations Centre (UN-EPOC) of the United Nations Economic and Social Commission for Asia and the Pacific and the Commonwealth Local Government Pacific

Project (CLGF), organized the Second Pacific Regional Workshop on Urban Management, from 23 to 25 April 2007, in Nadi, Fiji.

2. Commenting on the critical urban issues facing the Pacific, Greg Urwin, Secretary

General of the Forum Secretariat, noted that urbanisation and urban management were increasingly becoming critical areas of focus for Pacific countries and Development Partners.

3. "Rapid urban migration provides an increasingly complex array of challenges and opportunities for us as policy makers," said Mr. Urwin, adding that the inclusion of such issues in the Pacific Plan provided the impetus needed to bring them to the forefront of the region's development agenda.

4. "Success is evidently dependent on the commitment and resolve of Pacific island countries, and this workshop is a practical example of effective coordination and strong commitment".

5. Key findings from the workshop, which was attended by Pacific Urban Management practitioners and experts, include:

- Ownership and tenure of land continues to affect urbanisation in most countries of the Pacific;

- Villages in urban areas are increasingly aware of the potential for development of their customary land;
- Country case study presentations highlighted that housing policies have yet to be implemented and land use plans updated. These result in, amongst other things, mushrooming squatter settlements that place heavy pressure on urban infrastructure;
- A significant proportion of economic activity is generated in urban areas, by both the formal and informal sectors. Yet there is still a need to understand how people make their livelihood in urban areas in order to be able to directly address their needs; and
- Increasing disparity in wealth is a concern in many countries.

6. The workshop resolved that urbanisation can be better managed through improved access to land, housing, water, sanitation, health and education.

7. The workshop outcomes, which contains details of a Pacific Urban Agenda, can be obtained from the following link - click [HERE](#)

## REGIONAL INFORMATION, COMMUNICATION & TECHNOLOGY (ICT) POLICY INITIATIVES

### Rural Internet Connectivity System (RICS) Project

The Satellite-based Rural Internet Connectivity Systems (RICS) project has been approved for funding by the Australian government.

2. The project funding covers the acquisition of a dedicated 'Pacific hub' and bandwidth for two years and an initial pilot covering sixteen sites in rural and remote areas in at least nine member countries. The project has been put to tender with the view to secure a private sector provider to acquire and manage the site as well as to cater for increasing number of installations during the first two years of the project.

3. The project was launched at the 2007 Forum leaders meeting and the hub is expected to be operational by December 2007. One hundred sites are needed to ensure the Pacific RICS is self-sustaining.

### South Pacific Islands Network (SPIN)

4. The South Pacific Islands network (SPIN) is a new undersea cable initiative that would link twelve Pacific Island Countries and Territories (PICTs) to a new submarine cable back-bone aimed at providing unlimited bandwidth them. The SPIN project has two components; a project going eastward from New Caledonia to French Polynesia linking to the planned French Polynesia - Honolulu cable, and in the process providing opportunity for links to Fiji, Wallis & Futuna, Samoa, Tonga, American Samoa, Niue and Cook Islands; and a westward project from New Caledonia, and linking with Vanuatu, Solomon Islands and Papua New Guinea and Cairns. Both networks also link with the Noumea - Sydney cable that will be operational later this year.

5. The next phase involves detailed financial, legal and technical assessments, which will later underpin the negotiations with each country and territory that wish to be part of the SPIN project. The Forum Secretariat and the Secretariat for the

Pacific Community (SPC) had jointly hosted three consultations involving the twelve countries and territories and the private sector provider of the submarine cable technology, API, a New Caledonia-based company representing SPIN. Detailed negotiations between countries and the SPIN project will take place in the next few months with the aim to secure agreement by January 2008 which could mean that the implementation of the SPIN projects might commence in the first quarter of 2008.

#### **'ONE LAPTOP PER CHILD' Initiative**

6. The region has recognised the potential to improve education with the new 'One Laptop Per Child (OLPC) XO initiative' which provides (a) Low cost and durable laptops for children to own; where (b) Children can teach themselves; and (c) help address the poverty of learning opportunities particularly in rural and remote areas; at (e) costs as low as US\$175 per laptop.

7. A pilot project using these computers is underway in Solomon Islands utilising a European Union funded distance learning education project. This project will need ongoing support from the various sector stakeholders to help channel content that are relevant for interactive learning to rural based children and communities. The Forum Secretariat and SPC will jointly co-ordinate the development of this initiative. A presentation on the Solomon Islands pilot project was made at the 2007 Forum Education Ministers Meeting (FEdMM).



## **REGIONAL AUDIT POLICY INITIATIVES**

### **Pacific Regional Audit Initiative (PRAI)**

Auditors-General from around the region convened for a three-day meeting on the Pacific Regional Audit Initiative (PRAI) on 30 April to 2 May 2007 at the Pacific Islands Forum Secretariat headquarters in Suva.

2. Opening the Regional Institutional Strengthening Committee (RISC) meeting on PRAI, Forum Secretary General, Greg Urwin, stressed the importance of strong public audit mechanisms in order to foster and maintain good governance. Mr Urwin added that strengthened regional approaches would certainly have a role to play in this to add value at the country level.

3. Mr Urwin stated that Forum island countries, in carrying this work forward, must strive to foster an enabling environment for comprehensive, sustainable approaches to developing public auditing. These include strengthened information sharing, capacity-building, and moving towards capacity supplementation through appropriate sub-regional approaches. These were important, given that many member countries found it very difficult to attract and retain staff with the necessary skills and experience to carry out the work needed to attain these important benefits.

4. Public auditors are well versed in regional cooperation, having one of the more long-standing and active regional bodies in the South Pacific Association of Supreme Audit Institutions (SPASAI).

5. The RISC meeting Chair, Fiji's Auditor-General, Eroni Vatuloka, echoed similar sentiments saying that the involvement of practitioners from regional Supreme Audit Institutions to shape the design of the required diagnostic studies can only bode well in terms of desirable outcomes for the Pacific Regional Audit Initiative.

6. The outcomes of the meeting provided strategic oversight and technical inputs into a roadmap for strengthening regional approaches to audit services, which will eventually be put forward to the Forum Economic Ministers Meeting.

7. The PRAI is being undertaken with the support of the Asian Development Bank (ADB) and AusAID in consultation with regional policy stakeholders, including the Supreme Audit Institutions.

8. A full text of the Secretary General's statement to the workshop can be downloaded from the following link - click [HERE](#)

## REGIONAL TRANSPORT SECTOR POLICY INITIATIVES

### Transport Sector Workshop on the Implementation of the Forum Principles on Regional Transport Services

Transport Workshop officials from the region participated in the Transport Workshop held in Nadi on the 14-15 May 2007. Observers to the workshop included the Association of South Pacific Airlines (ASPA), Pacific Aviation Safety Office (PASO), Secretariat of the Pacific Community (SPC), and the Pacific Islands Telecommunications Association (PITA).

2. Participants focused on integration and cooperation in the regional aviation and maritime sector in order to overcome the challenges faced in delivering aviation services. They highlighted the importance of implementing the Forum Principles on Regional Transport Services in order to ensure that countries and the industry could better take advantage of other key initiatives such as the Pacific Aviation Safety Office (PASO) and associated Pacific Islands Safety and Security Treaty (PICASST), and the Pacific Islands Air Services Agreement (PIASA).

### Maritime Sector

3. Participants also noted and supported the work being done on improving shipping in the region including maritime safety and security. Also work being done on improving shipping to Small Islands States with SPC/PIFS working closely on a feeder shipping study looking at options for this.

### PASO

4. The progress of work so far undertaken by PASO was welcomed by participants, noting that the Office should be in full operations by 2007. It was noted that the challenges and difficulties faced in establishing PASO highlights the need for FIC to work closely to ensure that safety oversight and security requirements of the FIC's meet ICAO and international standards. Especially in light of the ongoing ICAO audits which highlight serious deficiencies in all Pacific island countries.

### PIASA

5. Officials noted that the PIASA initiative was one option already endorsed by Leaders for creating a more flexible regional regulatory environment that would better position airlines to take advantage of the changes occurring in the region and global aviation markets. Participants also noted and acknowledged the continuing work on PIASA, in particular the efforts to ratify PIASA. PIASA needs one more country to ratify before it comes into force and members were urged to work towards achieving this in conjunction with PIFS.

6. Given the different stages in progressing toward developing their transport sector policy, regulation and governance, participants agreed that a regular sharing of experiences at a practical level would be of great value.

## REGIONAL CUSTOMS SERVICES INITIATIVES

The Pacific Islands Forum Secretary General, Mr Greg Urwin, while delivering the closing statement at the World Customs Organisation (WCO)/ Oceania Customs Organisation (OCO) Framework of Standards Workshop held on 24 August 2007 in Suva, Fiji, emphasized that Forum Island economies need to take a more serious approach towards building a more relevant and effective regional cooperation and integration mechanism. This, he stated, was important given the intensity of globalization and the move towards a comprehensive framework agreement among all members, that includes free trade in goods and

services, as well as a broader-based economic corporation.

2. Mr Urwin also touched on the proposal to establish a regional or sub-regional customs service, which was considered at the 2007 Forum Economic Ministers Meeting (FEMM) in Palau. The study highlighted, amongst other things, that a range of institutional characteristics and inadequate resourcing remain critical constraints for all customs administrations in the region. These circumstances results in under-valuation and under-invoicing, corruption and facilitation payments, incorrect tariff classification of the

necessary goods, transfer pricing, shortage in manpower and skilled personnel, lower than market rates of remuneration and lack of appropriate technology.

3. The statement also drew on the findings of a joint report by the Asian Development Bank and the Commonwealth Secretariat that found that a regional customs service, funded on a 'user pay basis' and covering revenue collection, and policy monitoring and enforcement, could provide FICs with a number of benefits for both FICs and donors alike. These would include: higher wage levels for customs employees leading to a reduction in corruption, and recruitment and retention of high quality professional staff; the introduction of modern technology for customs surveillance and collection; and increased government revenue through improved staff productivity.

4. The 2007 FEMM study also noted the potential for adopting phased regional approaches through pooling of resources to help alleviate these underlying structural problems and agreed that regional options should be explored. These options could include, for example, in the short-term, building on existing regional structures and activities already underway to assist members to improve their

delivery of the key Customs functions of revenue collection, trade facilitation and border security.

5. In the medium-to-long term, Mr Urwin continued, regional pooling and delivery of services might provide, for example, mobile post-clearance audit teams who can audit both Customs revenue collection processes and the documentation held by importers and exporters. These are processes that understandably require a high level of technical skill and, in the majority of cases, the introduction of modern technology.

6. The study noted the potential for adopting phased regional approaches through pooling of resources to help alleviate these underlying problems. Keeping these possibilities in mind, Economic Ministers directed the Secretariat to consult all members widely to develop practical options for further regional approaches including in the areas of training, model legislation, post-clearance audit and information technology.

7. A full text of the Secretary General's statement to the workshop can be downloaded from the following link - click [HERE](#)

## ENHANCED CO-OPERATION IN MACROECONOMIC AND MICROECONOMIC TECHNICAL ASSISTANCE (TA) DELIVERY

### Pacific Financial Technical Assistance Centre (PFTAC) Tripartite Review Committee (TRPC) Meeting

The Pacific Financial Technical Assistance Centre (PFTAC) Tripartite Review Committee (TPRC) Meeting was held on 13 September 2007 in Nadi, Fiji. The Secretary General, Mr Greg Urwin, delivered a statement on the subject of regional approaches to the delivery of macro and micro-economic Technical Assistance (TA).

2. In delivering his statement, Mr Urwin highlighted the abundance of TA provision in Forum Island Countries (FICs), as international financial agencies and bilateral donors has been providing considerable amounts of short and long term economic and statistical TA to the region over the past decades. The Secretary General stated that it was sometimes argued that the TA itself contributed to governance

failure because the key ingredient in effective policy, that is, genuine ownership of the TA and the policy underpinning its design, was missing.

3. He noted, however, the good work of the many agencies and bilateral donors in their efforts to improve FICs economic and financial management. The role of PFTAC, in particular, has been widely acknowledged by Forum members as being effective and beneficial to the economic governance of the region. Whilst PFTAC's role in the region was widely recognised, the potential for enhanced cooperation and collaboration between agencies like PFTAC and the International Financial Institutions (IFIs) such as the Asian Development Bank (ADB) to jointly work towards finding sustainable solutions for economic governance issues in the region was also explored in the Secretary General's statement.

4. A study by Professor Ron Duncan, of the University of the South Pacific (USP), on this subject was considered by Forum Economic Ministers at the 2007 Forum Economic Ministers Meeting (FEMM) in July. The study concluded that economic TA can often have significant transaction costs partly because advice provided may overlap or contradict other TA. Furthermore, in many instances, TA provided was seen as insufficiently grounded in an appreciation of local contexts and had limited country ownership.

5. In response to this, Forum Economic Ministers agreed to the idea of developing a pilot arrangement to expand PFTAC's capacity by drawing in staff from other IFIs, FICs and

development partners. This would, amongst other things, allow for the expansion of economic advice provided to FICs to include microeconomic TA, as well as deepening macroeconomic TA.

6. Following this mandate from FEMM, the meeting of PFTAC's Tripartite Steering Committee meeting, held in September this year, considered some options leading to the development of an enhanced co-operation model, allowing for staff of the World Bank to be placed in PFTAC's Suva office in early 2008.

7. A full text of the Secretary General's statement to the meeting can be downloaded from the following link - click [HERE](#)

## THE 2007 SMALL STATES FORUM, AND THE 2007 ANNUAL MEETINGS OF THE WORLD BANK AND INTERNATIONAL MONETARY FUND BOARDS OF GOVERNORS

### 2007 Small States Forum

The 2007 Small States Forum which brought together representatives from 46 developing countries and partner institutions, including the Commonwealth Secretariat, Pacific Islands Forum Secretariat, the European Union, the World Trade Organisation, International Monetary Fund and the World Bank, was held on 21 October 2007 at the World Bank headquarters in Washington, DC.

2. The 2007 Forum was chaired by the Honorable Willie Jimmy Tapangararua, the Vanuatu Minister for Finance and Economic Management.

3. A highlight of the meeting was the agreement to establish the Small States Network for Economic Development, as mandated at the 2006 Small States Forum, to provide the platform for small states to share best practices and reinforce their voice in the international arena. The Governance structure of the Network was endorsed, with its operation to commence in 2008.

4. The objectives of the Network are to:

- act as a clearing house to share expertise and technologies specific to small states;
- promote appropriate training opportunities utilising the considerable experience and expertise available in the small states;

- build an inventory of experts to enable experts from successful states to share their expertise in order to help other small states in their development projects, and to promote competitiveness and resilience building;
- reinforce the voice of small states, not only in the international arena generally but also within multilateral and bilateral organizations that support their development efforts; and
- discuss issues and seek solutions on matters of interest to small states, identifying, disseminating and utilising existing and fresh research.

5. The World Bank made a presentation on a proposed model for the Pacific Catastrophe Risk Pool Initiative (PCRPI), similar to the Caribbean Catastrophe Risk Insurance Facility, to help fund immediate post-disaster recovery needs through a pooling mechanism that would allow Forum Island Countries affordable access to finance. The Forum noted the work towards scoping out an appropriate model for the Pacific region.

6. The Pacific region passed on the role of chair to the Government of Namibia. The next meeting of the Forum will be held in 2008.

## Group Statement at the Joint Annual Discussion

7. The Governor of the Fund for Vanuatu delivered a group statement, on behalf of the Federated States of Micronesia, Kiribati, Marshall Islands, Samoa, Solomon Islands and Vanuatu, at the Joint Annual Discussion of the World Bank and the International Monetary Fund on 22 October 2007.

8. Key issues highlighted in the statement included:

- Support for innovative approaches like the co-location of the World Bank and IMF staff to the offices of PFTAC, as this will help bring Bank and Fund expertise closer to where it is really needed;
- Encouragement for the Bank and the Fund to support clean energy initiatives through projects that will use renewable resources as well as those raising greater energy efficiencies, in light of the threats posed by climate change;
- Need for assistance by exploring the relevance of the Caribbean Catastrophe Risk Insurance Facility to the Pacific region to mitigate against the devastating impact of natural calamities on our communities; and

- The need for scaled-up concessional resource replenishment through the International Development Association, and improvements in the access to these resources.

9. The statement also noted the Bank comparative advantage in its cross-country experience and in its knowledge products, citing successful cases in the International Finance Corporation's assistance to help Samoa in successfully restructuring its airline industry, advocacy role in facilitating labour mobility and also in the reduction of transaction costs of remittance transfers.

10. The statement recognised the Pacific Plan, the Pacific's own strategy for fostering growth and cooperation in the region, and sought the support of the Bank and the Fund in helping to progress the relevant initiatives of the Plan - including those initiatives agreed upon by recent meetings of the Pacific Islands Forum Economic Ministers', which include labour mobility, financial sector supervision and strengthening of economic regulation.

11. A full text of the statement can be downloaded from the following link - click [HERE](#)

## PACIFIC DEVELOPING MEMBER COUNTRIES (PDMCs) STATEMENT AT THE 40TH ANNUAL MEETING OF GOVERNORS OF ASIAN DEVELOPMENT BANK (ADB)

The Minister for Finance and National Planning, and Foreign Affairs and External Trade for the Republic of Nauru, the Honourable David Adeang, presented a joint statement on behalf of the Pacific Developing Member Countries (PDMCs) of the Asian Development Bank (ADB) at the 40th Annual Meeting of Governors of the ADB held in Kyoto, Japan on 6 - 7 May 2007.

2. The Minister, in delivering the statement, highlighted that the PDMCs want the Bank to explore means of enhancing its cooperation efforts to ensure more assistance is provided to its smallest members.

3. "The Pacific Plan, the Pacific's own strategy for fostering growth and cooperation in the region includes regional approaches as a central element. The PDMCs look forward to the support of the ADB in helping progress key elements of the Pacific Plan, in particular the economic integration initiatives prioritised at previous Pacific Islands Forum Economic Ministers meetings."

4. Minister Adeang added: "Labour mobility is one means by which larger members (of ADB) can enhance regional integration and offer the chance of improved incomes to developing member countries. New Zealand is to be congratulated on opening labour market access to more Pacific island countries over the next year." To this end, the Asian Development Bank was requested to channel more intellectual and financial support to assist with the facilitation of deeper and more pronounced movement of temporary labour for the benefit of PDMCs.

5. Other major issues highlighted by the Minister in the joint PDMCs address, include:

- the need to develop innovative non-lending instruments in areas of greatest concern to ADB's smallest members;
- the need to provide support to the PDMCs in effectively addressing significant threats facing small islands nations like climate

- change, the evolving world trading climate and high oil prices;
- the need to encourage the prospect of more Asian Development Fund assistance being made available in the form of grants; and
  - acknowledgement of the Bank's efforts to expand its representation in the region with the opening of the Sydney and Suva Offices, as well as consider the proposal that the ADB consider establishing a Vice President's position to support the Pacific.

6. The ADB's PDMCs include Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor Leste, Tonga, Tuvalu and Vanuatu

7. A full text of the statement can be downloaded from the following link - click [HERE](#)

## PACIFIC ECONOMIC GOVERNANCE AGENCIES' SEMINAR SERIES (PEGASeS)

The Pacific Economic Governance Agencies' Seminar Series (PEGASeS), organised jointly by the Forum Secretariat and the International Monetary Fund/Pacific Financial Technical Assistance Centre (IMF/PFTAC), was launched in March 2006, for the purpose of information exchange and better networking on development and macroeconomic issues with key regional (including CROP) and international agencies, academia, donors, government officials, and civil society representatives.

2. There have been a total of ten seminars since PEGASeS commenced. Previous presenters include:

- Dr Susan J. Adams, IMF-PFTAC Coordinator, on '*A Macroeconomic Portrait of the Pacific*';
- Dr. H K Pradhan, Regional Debt Management Advisor, Commonwealth Secretariat, on '*Domestic and External Debt Management: Perspectives from Pacific Islands Nations*';
- Professor TK Jayaraman, Associate Professor in Economics, University of the South Pacific, on '*Foreign Aid and Economic Growth in Pacific Island Countries*'.
- Governor Savenaca Narube, Reserve Bank of Fiji, on '*Following in the Wake of Asia's Progress - Are We Being Left Behind?*'; and
- Garry Wiseman, Coordinator, United Nations Development Programme - Pacific Centre, on '*Poverty, Conflict & MDGs in the Pacific Region*'.

3. The last seminar for the year was presented by Professor Ron Duncan, Executive Director, Pacific Institute of Applied Studies in Development and Governance, on '*Binding Constraints to Economic Growth in the Region*'. The presentation was based on the examination of binding constraints to economic growth in 6 small Pacific islands states namely Cook Islands, Fiji, Federated States of Micronesia, Kiribati, Samoa, and Vanuatu.

4. The presentation highlighted that the three major areas of binding constraints to growth in these countries were:

- *High cost of finance*, which relates to the difficulty in accessing finance both in terms of domestic finance and international savings;
- *Poor returns to investments*, exacerbated by infrastructural and labour markets constraints; and
- *Poor appropriability of returns to investment* caused by government and market failure.

5. Professor Duncan added that poor macro-economic management and political instability were the reasons why economic reforms have been not been successful in most of these countries.

6. Copies of PEGASeS presentations can be downloaded from the following link - click [HERE](#)

## "Q&A"

### Q&A WITH PROFESSOR RON DUNCAN, EXECUTIVE DIRECTOR, PACIFIC INSTITUTE OF ADVANCED STUDIES IN DEVELOPMENT AND GOVERNANCE (PIAS-DG)



*T&D caught up with Professor Ron Duncan for a "Q&A". The interview is based on a presentation he made at the Pacific Economic Governance Agencies' Seminar Series (PEGASes) titled "Binding Constraints to Economic Growth in the Region".*

*Professor Ron Duncan*

**T&D:** Professor Duncan, binding constraints for economic growth issues in the Pacific are often linked to poor macro-economic management and political instability. Please briefly describe, based on your analysis, what the major constraints to economic growth and development in the Forum Island Countries (FICs) are? In other words, what is stopping Forum Island economies from performing to their full potential?

The basic constraints may well differ from country to country and from sector to sector within countries. However, in looking at the recent improved performance of Cook Islands, Samoa, and Vanuatu, it appears that the strong growth in the tourist sector has been important and that relaxing the constraint of high-cost, monopoly airlines was an important factor in the better performance in this sector. Secure long-term land leases for the construction of resort hotels is important but if airline services are not competitive then it is of no use building resorts.

2. Fiji has a good basis for tourism, with secure long-term leases provided for resorts, equitable contracts between landowners and resort owners, good airport infrastructure, and reasonably competitive international and national airline services. For Fiji, the binding constraint to investment in other sectors appears to be the high degree of political instability. The impasse over the renewal of agricultural land leases has damaged investor confidence. But for agricultural activities other than sugar, the binding constraints appear to be the difficulties in the development of commercial activities in the indigenous village sector and the quarantine barriers faced by agricultural exports from Fiji.

3. In countries such as Federated States of Micronesia and Kiribati, the binding constraint appears to be the high level of dependence on government, in the form of the many state-owned enterprises, and the resulting antipathy

towards private business activity. The patron-client style of politics that seems so prevalent in these countries also appears to be a severe obstacle to growth, as it leads to unwillingness by politicians to provide secure property rights, impartial contract enforcement, and good governance in the public sector, as this would undermine their ability to provide favours to particular individuals and activities.

**T&D:** Do these constraints differ/ vary for different Forum Island economies?

4. Policy analysts have become much more aware that countries differ substantially in terms of the factors that inhibit investment and growth; and therefore we have to be very aware of country context in providing advice. There are a multitude of factors that we have to consider but they broadly fall under three heads: access to finance, returns to investment, and appropriability of the returns to investment (that is, if an enterprise is profitable, can the investor hold onto the profits).

5. Political instability may adversely affect how secure investors feel about whether contracts will be honored and whether they will be able to hold onto any profits they make. But this is not always the case. For example, Cook Islands has been politically unstable as measured in terms of changes in government. But domestic and foreign investors feel sufficiently confident to invest heavily in tourism. In Fiji, political instability appears to have a much more adverse impact on investors.

**T&D:** Professor Duncan, most Forum Island economies have in the past adopted comprehensive Economic Reform Programs. What, in your view, have been the major contributing factors towards the success, or otherwise, of these reform programs?

6. Cook Islands, Samoa, and Vanuatu adopted the most comprehensive economic reform programs following very severe fiscal crises. Regaining financial stability was obviously the most immediate short-term benefit of these programs.

7. In the case of Cook Islands, it appears that the privatization of the government-owned hotels was important in getting the tourist sector going. But it needed the introduction of more competitive international airline services to really get the tourism industry moving.

8. In Samoa's case, big investors in resort hotels did not become interested until airline services improved with the introduction of Pacific Blue.

9. Vanuatu went through several years of political instability and poor growth following the comprehensive reform program. It wasn't until the international airline services opened up that the tourist sector began to flourish.

10. Other countries in the Pacific have done little in implementing economic reforms. There has been much rhetoric but little implementation. As I said about Federated States of Micronesia and Kiribati, the widespread exercise of patron-client politics may have a lot to do with this reluctance to implement reforms.

**T&D:** Pacific Island economies are often described as being economically vulnerable given factors such as smallness, geographical dispersion, isolation from major world markets, vulnerability to natural disasters, etc, which are generally referred to as "endowed handicaps". Do you agree that these so-called 'handicaps' can be used as a convenient justification for the region's poor economic performance over the last decade? Do you also think that remedial policy action can bring about improved economic performance across the region?

11. While factors such as smallness, geographical dispersion, and isolation from major markets are economic handicaps, they are facts of life that have to be accepted. The main issue is how to make the most of the resources available.

12. Vulnerability to natural disasters is also an economic handicap. Such events can wipe off several percentage points of GDP. However, countries can reduce their vulnerability to such disasters by good planning and investment. Of

course, better economic growth improves their ability to make these investments in disaster mitigation.

13. The recent economic success of Samoa and Vanuatu shows that smallness, isolation, and even natural disasters should not be used as justification for poor economic performance. The spectacular success of individual enterprises such as Fiji Water and Pure Fiji also shows that innovation and entrepreneurship can triumph over difficult circumstances. The key lesson from these success stories is product differentiation; that is, creating a niche market that attracts consumers to pay a price that more than covers the cost disadvantages. It seems to me that tourism is the ultimate niche market, as every country can claim to be unique in some way.

**T&D:** Is aid contributing to economic growth in Forum Island economies or hindering it? A related question is, are existing types of development assistance provided really bringing about sustainable improvements in economic management?

14. The evidence about the contribution of aid to economic growth appears to be ambiguous. But this should not be surprising. There are many circumstances that can lead to varying results from aid. There are bound to be good aid projects and poor aid projects. Further, if the country circumstances are not favourable to the aid project, it is unlikely to be successful. As well, we have learnt that identifying the binding constraints to better economic performance is critical if we are to see better results from aid.

**T&D:** How in your view could Governments and donor partners improve the effectiveness, efficiency and sustainability of aid and technical assistance?

15. I believe that better analysis of the obstacles to investment is important for achieving better results from aid. As I noted previously, the obstacles, or binding constraints, to higher investment and better economic performance can take many different forms, including political, social, and cultural factors as well as economic factors. Therefore, in order for there to be better analysis of country circumstances there has to be in-depth understanding of individual country circumstances.

16. Developing this better understanding of country circumstances should help in developing

strong ownership of any institutional and policy reforms by governments and communities. Country ownership of policies and policy changes has to be based on good understanding of the impacts of the policy, which in turn means good research to develop this understanding.

**T&D: Where do you see the region heading, in terms of economic growth, over the next 5 years?**

17. There are some signs of better economic performance in the region. With much improved growth from Vanuatu and Cook Islands and Samoa doing well, there are some good role models for other countries. The lesson that inefficient, costly government business enterprises are adversely affecting growth of the private sector and government's capacity to fund public infrastructure development and improved public services appears to be getting through to

governments, as shown by the opening up of the airline and telecommunications sectors. But there are many other such state-owned enterprises to be tackled.

18. Lowering barriers to trade is also essential for better growth in many Pacific countries. But trade liberalization is always a difficult proposition as the costs are immediate and obvious but the benefits are not obvious and will be realized over a long period. It is best, therefore, for trade liberalization to be undertaken in conjunction with other reforms. The big upcoming opportunity for the Pacific countries is the negotiation of a PACER+ agreement. This will offer the opportunity for a package of reforms and development assistance that should be of great benefit to all Pacific communities.

## Q & A WITH NAVITALAI TUIVUNIWAI, YOUNG PROFESSIONAL (YP) - ECONOMIC POLICY

*It has been close to 12 months since the Forum Secretariat introduced the Young Professionals Programme (YPP) and in that period, the first crop of the region's young talent have had the opportunity to immerse themselves in the various work areas to which they were assigned. T&D caught up with Mr Navitalai Tuivuniwai, the Young Professional in the Economic Growth Work Programme (EGWP), to get his views "close to 12 months on":*

**T&D: Please tell us a bit about what your responsibilities are in the Economic Growth Work Programme (EGWP)?**

Generally, my role as a *Young Professional - Economic Policy*, involves providing support to the Work Programme and to the Economic Advisor in particular. I do this through providing research and technical inputs that help develop analysis and shape policy recommendations on a number of economic and development issues facing our members. Apart from these core activities, I am also involved in daily maintenance of the EGWP webpage of the Forum Secretariat website.

2. It's also important to be flexible when carrying out my duties. I may have a range of different tasks from day to day - sometimes I will be required to carry out research, other times I'll need to help draft letters and emails or provide inputs into a policy paper. And at other times, I may be called upon to help with logistical arrangements for a workshop or meeting. This requires good time management and

prioritization skills and also the ability to listen carefully and communicate well. That's the beauty of the YP role. You're learning a great deal on the job every day!

**T&D: What have been some of the major highlights during this period?**

3. The opportunity to lend a hand in the organisation of the 2007 Forum Economic Ministers Meeting was both exciting and satisfying. I had the chance to provide inputs into the various meeting papers, briefs and presentations provided by the Secretariat, which I found very rewarding. This great opportunity culminated in having the opportunity to sit and observe the regions Economic Ministers debate challenging, and often difficult, policy issues particularly those dealing with regional approaches.

**T&D: How have your experiences over the last 12 months and your exposure to the work of the programme benefited you?**

4. The desire to gain regional experience as well as be exposed to more diverse work were significant attractions for me and the reason I applied for the programme in the first place. I haven't been disappointed and I have learnt a great deal in the time I've been at the Secretariat, and with the Economic Growth Work Programme in particular. I also now have a better understanding of regional processes and definitely have more respect for the amount of work and commitment it takes to develop policy at the regional level.

T&D: What have been some major challenges?

5. The most challenging aspect for me has been developing an effective time management strategy and sticking to it. There is always a large amount of work that needs to be done and, often, in a limited amount of time. So, effective prioritisation is the key - and this requires good communication within the Programme.

T&D: Any final remarks?

6. I thank the Forum Secretariat for the opportunity to be part of the Scheme, which has for me, been a success on so many levels. I'd encourage other young economists to apply to be part of the Scheme - the experience is invaluable!

*Trends and Developments* is produced by the Forum Secretariat's Economic Growth Work Programme, drawing from its work and from a variety of sources. Every effort has been made to ensure factual accuracy at the time of publication.

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