

REGIONAL INITIATIVE TEMPLATE

Please complete each section below.

1. Contact Details

Please provide the following contact details:

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2. Name of Initiative

Towards a Pacific Islands Regional Investment Bank

3. Background and Rationale

You may consider: What is the issue being addressed by this initiative? What are the causes of this issue? Are there relevant studies that have been carried out to support the issue? Are there links to national, regional or international goals/policies?

Please limit your response to no more than 750 words.

Sustained economic development and regional integration among Pacific Island economies has for decades being hampered by limited or no access to key financing capital and financial investment services (e.g., banking and fund management, financial intermediation and related financial services) for physical infrastructure development. This funding or financing facility for infrastructure investment can be argued as one of the most regionally overlooked policy strategy that has been crowded out by other populist regional policies and thus over the yeas side steeped the decades of pledges and cries of the pacific people for key infrastructural public goods and services. It is clearly evident that as long as Pacific Island countries continue to depend on foreign owned commercial and development banks for investment, the fundamental interest of the pacific people on infrastructure investment will never be considered as top priority.

The argument here is swayed towards an ex-post proposition rather than an ex-ante argument often supported by non-pacific regional based organisations with commercial interests. The latter argument is that the Pacific region lacks a fully matured and functioning financial market to act as a platform to support a regional investment bank or that Pacific countries must opt for some form of common monetary or customs union first to ensure a conducive state for readiness for a regional bank (backed up by a regional central bank setup) to be effective across countries. Recent discussions in support of the recent proposal for China to establish an

Asian Infrastructure and Investment Bank (see <http://www.lowyinstitute.org/issues/g20>) also take the view that that China's growing and dynamic domestic banking sector and its state of readiness facilitates such a proposal for a bank. However, whilst there are views that Pacific islands economies have a small but growing domestic banking sector, in practice such arguments aimed at discouraging a regional investment bank are futile in the ex-post argument. This is clearly proven otherwise by the Papua New Guinea based Bank of the South Pacific (BSP) where its regional growth and placing is a clear example of a banking model that has shifted from a national to a regional commercial bank and has defied all odds, and continues to make its presence felt in the region with its recent takeover of the Westpac Bank in the Solomon Islands. Such an extended banking model provides hope that it is feasible for a regional bank, ex-post, sooner than later. Establishing an investment bank is likely to encourage financial activity, financial investment and financial infrastructure at the same time and in going-forward as seen in the expansion of BSP in the region. Such a proposal would be a game-changing initiative for the Pacific region.

There are limited empirical studies in the region about a proposition for a regional investment bank for infrastructure development. However, there are sector reports and studies on the importance of infrastructure, challenges and coordination of financing and technical assistance in the region. This proposition extends from these important works. A number of these reports can be obtained from important work and initiatives of the Pacific Islands Infrastructure Facility (<http://theprif.org>) and the work of the Secretariat of the Pacific Community (<http://www.spc.int/edd/en/section-01/energy-overview/energy?type=atom&start=86>) including development partners such as the World Bank (<http://documents.worldbank.org/curated/en/2006/01/6763307/pacific-infrastructure-challenge-review-obstacles-opportunities-improving-performance-pacific-islands>). Other country initiatives include the proposal for a Sovereign Wealth Fund in PNG that also aims to support infrastructure developments and the recent MSG initiative on the Emergency and Stabilisation Fund proposed for roll out in 2017 that also aims to cushion out the effects of shocks that may have a drastic impact on infrastructure. Moreover, recent discussions in the Asian region among the ASEAN countries (<http://www.asean.org>) and ESCAP (www.unescap.org) member countries (includes the membership of many Pacific countries) have been centred on financing for infrastructure including moves to include such initiatives in the coming 2015 UN sustainable development goals.

Whilst Pacific Island countries are yet to act together and solicit support for a regional investment bank for infrastructure, countries in Asia (ASEAN) have realised the need for such initiative and China has for the first time proposed such initiative as seen in the recent G20 meeting in Brisbane 2015.

4. Description

Please provide a brief overview of this initiative. Try to address the following: Does this initiative contribute to a positive change to the region? What makes this initiative of importance to the Pacific region as a whole? Who would implement this initiative? Who are the main beneficiaries? Are regulatory or legislative changes required at the national level to implement this initiative? How would the initiative be funded? Has this initiative been carried out previously? What are the key risks in implementing this initiative? Are there any complementary projects and programmes currently active? What is the proposed timeframe for this initiative? How would the initiative be sustained over the proposed timeframe?

Please limit your response to no more than 750 words.

As we all know, Pacific Island economies are relatively small in size (physical, population and GDP), apart from Papua New Guinea (PNG), and are vulnerable to external (and internal) shocks. Given the geography of the region, countries are faced with limited regional and international market access, and are highly dependent on trade and aid mainly from Australia and New Zealand. During different phases of regional development, economic (GDP) growth has been subdued due mainly to the effects of the internal and external shocks especially natural disasters (e.g., the recent 2015 cyclone Pam impact in Vanuatu) that have caused major devastations to physical infrastructure and depleting of government fiscal resources. Even with PNG now growing at 15 percent and lifting the entire regional growth, many smaller Pacific countries continue to struggle to grow and as a consequence people in these countries continue to struggle.

Pacific people have not only demanded a region with better access to public utilities (water, energy etc) and better roads and sea-air transport services, but in the next 10-20 years, obviously children of the Pacific will envision a more cost effective, environmentally

friendly and energy saving and innovative infrastructural public goods and services such as a rail or train system, selective motor ways or free-ways (the first mentioned in Port Moresby), and even having access to faster internet, communication facilities (e.g., the proposed underwater sea cable project in the Solomon Islands) and big data (e.g., the proposed call for regional data and statistical infrastructure in the Pacific in the next UN sustainable development goals), and perhaps robotic or drone technologies (seen to be tested at USP) that would leap-frog the current economic livelihoods of many, especially the 85% of our people in the rural areas especially in areas such as health and agriculture. And whilst the sea is our mother food source and livelihood, we remain ignorant of the potential to facilitate innovate infrastructure for under-sea mining of riches that just lay on the surface of our deepest sea beds. The only key obstacle, holding all other factors constant, to accessing these infrastructure public goods and services is money and accessing money easily.

In simple terms, lots of money and easily access to money for infrastructural good and services leads to economic growth that in turn supports positive social development programs and impacts on household incomes including reducing poverty. Over time, people become better off and if the cycle continues and is sustained, the region matures, develops and benefits in all areas of economic, social and cultural life. However, in practise, many people find it hard to contemplate such a region because currently the region is lacking in financial capital and lacks the means to obtain capital including access to key financial services to arrest the need for 'meaningful' infrastructure investment in the region.

A regional investment bank for infrastructure will improve and strengthen regional economic integration and regional growth. The provision of regular finance for infrastructure services under joint public and private sector collaboration, and among country intra shipping, airline and communication arrangement etc will have a direct impact on productivity which will in turn lead to employment and investment. Tourism is a key sector in the region, and the sector's infrastructure needs will benefit enormously from such initiative. Access to banking and financial services will unlock the potential to fund and deliver key projects leading to improved regional employment and regional economic growth within guided and coordinated regional macroeconomic and infrastructure policies. Pacific people cannot continue to beg for finances in the next decades to come for key infrastructure needs. Hence, the region must now decide to come up with its own investment bank to facilitate investments in regional infrastructure.

The design and implementation of a proposed investment bank can be rolled out following similar design and roll-out phases of the Bank of South Pacific (BSP) model, the International Finance Corporation (IFC) model of the World Bank and/or other similar investment banking setup through an approved regional board and governance structure that may be independent but an affiliate agency of the Pacific Islands Forum. Such a Bank should be set up in Port Moresby or Samoa given their rising economic status and political stability, and the current growth potential of these nations in enabling the creation of a regional or sub-regional financial hub that can act to support the provision of financial linkages and intermediation for and to other Pacific Island countries.

The main beneficiaries would be the Pacific Islands people and their governments. The people of the region can invest and own equity in the bank and benefit from dividends, investment returns and varying financial and intermediation services. There is likely to be some regulatory changes in monetary and banking policies of each country to implement this initiative. A similar regulatory model of the Bank of South Pacific in the region or the IFC in the Pacific Islands context can also be considered. Every Pacific Island country should agree on a criterion for funding considering the heterogeneity in economic characteristics of each country such as the state of economic growth, population size, geography etc. Regional partners and commercial banks (including BSP) under some set criteria can also support in financing this initiative.

The initiative for the Pacific Regional Investment Bank is believed to be a first of its kind for the Pacific region although related financing proposals (but not restricted to a bank) have also been initiative previously. The key risks include minority shareholding by Pacific people and Pacific based agencies. There is likely scope for domination by foreign shareholding in this proposal. It is also evident that there are very limited banking management expertise and skills among Pacific islanders so foreign expertise may be accessed. This may bring along foreign competing interests. It is also evident that the Pacific region is a high risk investment zone given the frequency and the nature of natural disasters, political instability, and the high cost of logistics and access to markets including vulnerability to shocks. These and other factors mentioned earlier will threaten financial investment in the region. Moreover, the region lacks adequate banking infrastructural facilities, advanced banking technology and global networks and this can be seen as a hindrance to efficiency and expansion to other global financial markets. And the lack of a strong and sustained regional economic growth and stability in the region may create less opportunity to generate banking activity and banking returns.

There are numerous uncoordinated domestic country led infrastructure policies and strategies, including infrastructure financing projects that can be linked towards supporting and collaborating with this initiative for an investment bank. This proposal can embark on a design and feasibility phase, modelling and setup in 2-3 years (up to 2018). And begin a roll-out phase for start-up immediately thereafter.

It is expected that the Bank will be self-sustaining following the model of BSP, IFC and/or other suitable regional investment banks, and it is expected to venture like any commercial or investment banking operation in making investments in the global market, and providing financial services with a focus on infrastructure. The Bank is also expected to raise revenue from its service and investments domestically and globally. Additional funding support should also come from PICs and partners in sustaining its operations.

5. Alignment to Regional Vision, Values and Objectives

Briefly describe how your initiative supports the vision, values and objectives set out in the Framework for Pacific Regionalism. These can be found in the Framework for Pacific Regionalism document or in the submissions guideline document.

Please limit your response to no more than 500 words

The initiative for a Pacific Regional Investment Bank will contribute to the regional vision in term of bringing about prosperity and leading to productive livelihoods of pacific people. This project will embed the good governance and democratic values, including rule of law and involve gender equality in its design and setup, and roll-out phases.

This proposition falls under the regional objective of economic growth that is inclusive and equitable, and will also impact on the objective of sustainable development. Improved access to a regional investment bank and financial services will unlock the potential to fund and deliver key regional infrastructural projects leading to improved regional employment and regional economic growth within a regionally sound and guided macroeconomic policies and strategies.

6. Additional Information

Please provide or attach additional information in support of this initiative.

Please limit your response to no more than 5 pages.

This proposition coincides with similar initiatives and recent discussions promoted by ASEAN and ESCAP member countries on financing for infrastructure including moves for consideration in the coming 2015 UN sustainable development goals.