



PACIFIC ISLANDS FORUM SECRETARIAT

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FORUM ECONOMIC OFFICIALS MEETING

FORUM ECONOMIC MINISTERS MEETING

10-12 August 2022
Port Vila, Vanuatu

AGENDA ITEM 4A: REGIONAL INITIATIVES TO SUPPORT ECONOMIC RECOVERY

Purpose and Recommendations

Purpose

This paper provides updates on initiatives carried out by the COVID-19 Economic Recovery Taskforce (CERT) as mandated by FEMM last year to support the economic recovery of Forum Members from the devastating impacts of the COVID-19 pandemic.

Summary

To address the increase in debt and fiscal risks, and to provide some relief to Pacific MSMEs, the CERT introduced four initiatives; i) development of a monitoring and reporting framework, ii) hosting of a Public Financial Management (PFM) Symposium; iii) convening of the Pacific Regional Debt Conference (PRDC); and rolling out a one-off Freight Assistance Package (FAP).

The monitoring and reporting framework was developed through the use of dashboards on economic and PFM indicators for members.

The PFM Symposium provided opportunities to look beyond the usual lenses of Ministers of Finance and explore opportunities with private sector as well as civil society organisations to identify options that could potentially be explored to ease some of the fiscal burdens faced by member governments.

The PRDC provided a forum for debtors and creditors to discuss and explore sustainable regional and national options and strategies to address the vulnerabilities of the Pacific Small Island Developing States (PSIDS) to debt distress that have been exacerbated by both the COVID-19 pandemic and climate change risks.

The FAP was developed to provide some relief to the MSMEs as the freight costs escalated in a short span of time.

The outcomes of these initiatives are attached as annexures to the paper.

A. Problem/Opportunity Identification

The devastating socioeconomic impacts of the COVID-19 pandemic on Pacific Island Forum (PIF) Members resulted in deep economic downturns. To cope and adapt to the impacts of COVID-19, national governments formulated fiscal stimulus packages to assist the most vulnerable households and businesses to support and drive economic activity within their respective economies.

These recovery support measures to deal with the developing and evolving nature of COVID-19 and its related shocks resulted in limited fiscal space and consequently led to significant increases in public debt levels and risks of debt distress.

2. Regional and global developments that affect the region are manifested in the numerous economic challenges that Forum Island Countries (FICs), must manage. These challenges have been gravely exacerbated by COVID-19 impacts which wreaked havoc and damaged economies that were already: saddled with volatile or low growth trends; narrowly- based; hindered by isolation; highly vulnerable to disaster and climate change risk and faced with inhibiting high infrastructure costs.

3. The evolving nature of COVID-19 has profoundly altered the economic landscape of our Member countries. Its consequences and the required strategies to recover from its impacts has added impetus to calls by Forum Leaders to strengthen our Pacific regionalism advanced through the 2050 Strategy for the Blue Pacific Continent (2050 Strategy) and the importance of economic prosperity and wellbeing to the security and resilience of Pacific countries as well as the need for urgent and immediate assistance with debt distress, strengthening public-private partnerships to leverage greater opportunities and engagement with partners. The endorsement of the 2050 Strategy by Leaders' and its ensuing economic implications to Members is intended to be captured and progress through the Blue Pacific Economic Strategy (BPES).

4. Whilst the support of development partners in COVID-19 economic recovery has been acknowledged across the region, the need to build economic resilience in facing future shocks and strengthened economic pathways for the achievement of the vision of the 2050 strategy will require strengthened collaboration between the regions' public sector, private sector, state owned enterprises, civil society organisation and development partners to establish meaningful solutions for a robust and responsive economic strategy that fosters economic prosperity that is equitable and sustainable.

5. In consideration of the shifting regional and global geopolitical landscape as well as the complexities with the region's socio-economic circumstances, the need to incentivise and engage with the private sector and development partners in economic recovery conversations is critical. Economic recovery conversations under the CERT have exposed some of these complexities and the challenges that continue to impede pathways for effective economic recovery.

B. Background (Context)

6. The work undertaken by the Secretariat and Members through the CERT has provided the channel for progressively monitoring the economic and social impacts of COVID-19. Subsequently, it has led to the development of specific initiatives that are aimed at primarily supporting and complementing Members' national efforts to contain the pandemic and maintain economic stability.¹ CERT has also considered regional initiatives that could help members undertake the necessary structural adjustments of their economies, to enable them to reset, re-orient and recover in the new normal, post-COVID environment in a sustainable manner.

7. The regional initiatives that have been progressed through CERT are as follows:

¹ FEMM 2020 endorsed the setting up of CERT to monitor COVID-19 impacts and consider options to help the recovery of members. It has met four (4) times since its establishment and a substantial part of the FEMM 2022 Agenda has been shaped by the deliberations of Taskforce which has led to the specific initiatives being recommended.

- i) 2022 Regional PFM Symposium;
- ii) Pacific Regional Debt Conference;
- iii) Economic, PFM and SEIA Dashboards;
- iv) Freight Assistance; and,
- v) Supply Chain Disruption Study

8. As the implementation of economic recovery strategies and economic implications of the 2050 Strategy progress, the urgency to access development finance and lobby support from development partners is critical. Whilst some of the CERT initiatives are time bound depending on the issue, the work progressed under CERT should be used, amongst other things, to inform the development of the BPES. This paper will discuss initiatives (i) – (iv) above.

C. Discussion

2022 Regional PFM Symposium (PFM Symposium)

9. The PFM Symposium was convened from 22nd-25th March 2022 and facilitated by PIFS with support from the European Union (EU) and implementing partners Pacific Financial Technical Assistance Centre (PFTAC), United Nations Development Programme and Pacific Association of Supreme Audit Institutions (PASAI) as well as member countries validated the detrimental impacts and economic damage caused by the COVID-19 crisis and its impact on limiting fiscal space and consequently increasing public debt levels significantly as governments had to cope and recover from the impacts of the crisis. Shared ideas and lessons learnt from participating Member countries continue to exhibit that whilst building robust PFM Systems is critical, the urgent need to access finance and build buffers is critical to sustainable economic recovery and that capacity constraints continue to be a challenge in strengthening PFM systems.

10. Whilst Member countries efforts in enhancing PFM Systems at national levels must be acknowledged and commended, there is still a lot more that needs to be undertaken considering the limited capacity issues facing our region. As leaders have also endorsed the 2050 strategy, the development of the BPES must be premised on pushing forward access to finance and strengthened collaboration with development partners to meet urgent capacity needs that would elevate strengthening PFM systems in the region.

11. As PIFS is politically situated to support members, a deeper understanding of the geo-political landscape of the region within the broader global context, coupled with the call by leaders to strengthen regionalism is critical in informing the way forward following rich discussions undertaken during the PFM Symposium. The PFM Symposium discussions also confirmed that whilst technical support is available and provided at Regional and National levels, the existing gaps in PFM demonstrates that a lot is still yet to be done. As strengthening PFM systems has been acknowledged and critical to cushioning fiscal risks, the need to accelerate access to development finance and support of development partners for favourable financing conditions and accelerating PFM reforms are even more crucial today. Reforms of PFM Systems are fundamental in mitigating the economic and social impacts of economic shocks and to build economic resilience. The final Outcomes of the PFM Symposium is attached (*refer Attachment A*).

Pacific Regional Debt Conference (PRDC)

12. The PRDC was convened by Fiji and Tuvalu from 5th-8th April 2022 and hosted by PIFS and UN ESCAP. The Conference was attended by 250 participants, comprising Ministers of Finance and Senior Officials from the Pacific as well as international participants.

13. The PRDC provided an opportunity to bring forward some of the recommendations of COP26 that are of critical importance to the PSIDS, particularly in the areas of adaptation financing and loss and damage. While there was strong agreement at COP26 on the need to scale up financing to meet the needs of the most vulnerable states to the adverse impacts of climate change, adaptation financing, which is critical for the PSIDS, remains inadequate. Furthermore, while COP26 endorsed the establishment of a dialogue mechanism with development partners for implementing approaches to address loss and damage, it is important for the PSIDS that there should be no trade-off between debt funding for immediate climate-induced development and essential development, before that dialogue is set in motion.

14. The Outcomes of the PRDC (*refer Attachment B*) acknowledge that stronger fiscal positions would help PICs in ensuring public debt sustainable and various policy options were highlighted, including (a) innovative policy initiatives such as debt-for climate swaps, (b) fiscal reforms to enhance tax administration, enhance spending efficiency and streamline operations of state-owned enterprises, (c) prudent and transparent public debt management, and (d) greater use of risk-sharing disaster financing mechanisms.

15. In addition, despite the ongoing bilateral support to PICs in managing debt distress vulnerability by creditors and multilateral development partners, participants noted the need to facilitate greater access to concessional finance, and easier and more coherent access to climate adaptation funds. To complement these, effective fiscal and public financial management systems remain an important enabler for implementing development priorities, particularly in post-disaster situations when tailored and urgent policy actions are needed, as well as, to build sustainable financial resilience and fiscal buffers. At the same time, investment in climate proofed infrastructure and human capital, amongst others, can reduce disaster damage and losses in the long run. In this regard, the importance of strengthening absorptive capacities in the areas of fiscal and public financial management, and for project planning and management, including design, implementation, monitoring and evaluation, in order to recover from the impacts of COVID-19 and build economic resilience to future shocks is critical.

Economic, PFM and SEIA Dashboards

16. The last few months have seen fluid COVID-19 economic responses as global, regional and national dynamics come into play in an unpredictable economic landscape. Economic forums such as the Pacific Regional Debt Conference and the Public Financial Management (PFM) symposium, as well as the ANU-USP Pacific Update have continued to provide a forum to discuss regional economic issues, complementing various country and economic releases from the IMF, central banks, national Governments and multi-lateral development partners. The CERT economic recovery monitoring and PFM dashboards have been updated based on available information and have been sent directly to Members for validation and verification and consolidation.

17. In 2021, Forum Economic Ministers endorsed the Socio-economic impact assessment of COVID-19 in the Pacific and following the establishment of the Socio-Economic Impact Assessment (SEIA) Taskforce work was progressed and monitoring and analysis from partner agencies captured

available information for assistance provided and countries continued to implement national COVID-19 Recovery plans and strategies in collaboration with key partners and agencies that respond to key recommendations highlighted in the report.

18. With continued monitoring and analysis from partner agencies, the dashboards have been streamlined to account for the fact that we are now 27 months into the crisis with borders re-opening, with a shift in orientation towards economic recovery. In addition, more provision has been made for simple, succinct Member questionnaires, which will be compiled into a survey response format, for ease of reporting.

Freight Assistance Package (FAP)

19. The Secretariat and the Pacific Trade and Invest (PTI) New Zealand pooled funds to implement the Freight Assistance Package. The Secretariat contributed FJD138,000 (NZD89,744) from its Primary Budget and PTI NZ contributed NZD16,000, pooling a total of NZD105,744 for this initiative.

20. The total value of freight costs for all the 55 applicants were valued at NZD5.4 million in 2021 while the total amount they applied for was approximately NZD690,000. At the close of the FSP, a total of NZD105,000 was disbursed to the 45 successful applicants representing 1.9% of the total freight value in 2021 alone. Successful applicants were from Cook Islands, Fiji, New Caledonia, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu. A detailed report on the Freight Assistance Package is attached (*Refer Attachment C*)

21. Majority of the FAP recipients were from the agriculture sector with 19 successful applicants exporting kava, noni juice, cacao and assorted root crops. Market destinations for these products included New Zealand, Australia, Asia, North America, Europe, Middle East and some Pacific Island countries. Other recipients were from the manufacturing, fisheries, creative industries and health and beauty sectors.

22. The outcome of the Supply Chain Disruption Study highlighted increased freight cost as a major impact of the COVID-19 pandemic. The study reported that without the FAP, some of the applicants would have had to cease trading.

Pacific Islands Forum Secretariat
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