



T&D TRENDS & DEVELOPMENTS E-NEWSLETTER

E-newsletter for the Pacific Island Forum Secretariat, Forum Economic Ministers' Meeting Work Programme

Secretary General's Opening remarks at FEMM 2011



In his introductory remarks at the 2011 Forum Economic Ministers' Meeting (FEMM) the Secretary General of the Pacific Islands Forum Secretariat Tuiloma Neroni Slade, said that Ministers were meeting at a time when the

global economy is continuing its recovery, although that recovery is not evenly balanced. He said that while many advanced economies are experiencing moderate gains, unemployment remains stubbornly high and challenges including inflationary risks are likely to remain. Mr. Slade said that while stronger growth in 2011 is expected for the resource endowed countries, for most of the Forum Island Countries, economic growth is expected to be low. However, the more positive global outlook is expected to boost regional tourist arrivals and remittance flows and assist with broad based recovery. [Continued on page 2](#)

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FEMM 2011 Outcomes

The fifteenth meeting of the Forum Economic Ministers (FEMM) was held in Apia, Samoa from 20 to 21 July 2011, where Forum Economic Ministers met to consider a range of issues that impact on economic development in the region.

Broadening the Economic Base

The overarching theme of the 2011 FEMM was 'Broadening the Economic Base' describing the measures put in place to expand the economic base and increase growth. The need to continue to maintain macroeconomic stability and necessary reforms was highlighted. Ministers recognised the importance of providing leadership, maintaining political stability and building a coalition for change through proactive consultations with the private sector and the community. Some of the actions agreed to in order to expand the economic base include:

- persevering with reform and implementation of policies, supported by strong leadership and political will;
- pursuing reforms to create an enabling environment for private sector development;



Economic Ministers at the 2011 FEMM held in Apia Samoa

- reforming the governance of State Owned Enterprises (SOEs) based on commercial principles, to improve service delivery, ensure effective regulation and monitoring, and release resources for other priorities; and
- strengthening sectors of comparative advantage such as agriculture, tourism, and fisheries.

Development Coordination

Economic Ministers reiterated the importance of the Forum Compact in encouraging more effective coordination of available development resources to achieve real progress against national development priorities and noted the progress made by FICs. [Continued on page 2](#)

Secretary General's Opening remarks - continued from page

With this year being the 40th anniversary of the Pacific Islands Forum, and 15th anniversary for FEMM Mr. Slade said it is appropriate to ask whether FEMM is performing as it ought to be, "At this milestone juncture, four decades on, it is appropriate that we take time to reflect on the history and journey of the Forum and its creations." Economic Ministers have a key role in shaping the drivers within the domestic economy through well designed and targeted fiscal policy. He said that ministers were managers of viable economies, with the national budget the most powerful tool not only for the efficient allocation of scarce resources, but also for mapping out actions for economic, financial and public sector reforms. "Leaders look to you for advice on actions to support national economic development strategies through improving regional and sub-regional cooperation" said Mr. Slade.

At previous FEMM's, Mr. Slade said, Ministers considered and agreed on ways to manage Pacific economies through policy responses such as safeguarding macroeconomic stability, pursuing reforms to create an enabling environment for private sector development and strengthening areas of comparative advantage such as agriculture, tourism and fisheries sectors. "Persevering with implementation of such policies is essential, in part because they provide the basis for guidance and cooperation for Pacific countries" said Mr. Slade. "It is appropriate in that respect that *Broadening the Economic Base* is the overarching theme for this year's meeting, one so crucial to enhancing economic prospects for the region" added Mr. Slade.

To access the full introductory remarks made by the Secretary General click [here](#).

FEMM 2011 Outcomes - continued from page 1

They also highlighted the ongoing need for Forum Island Countries and development partners to collectively and individually intensify attention and actions to further strengthen development coordination.

Climate Change

Ministers reiterated the importance of adequate sustainable and timely resources being made available to Forum Island Countries to address their needs to mitigate and adapt to climate change. Ministers noted that the varying circumstances of Forum Island Countries may necessitate different modalities for the effective delivery of climate change resources while recognising the importance of, country led approaches and the use of national systems and processes where possible.

Remittances

Economic Ministers noted the continuing work to reduce the cost of remittances. They highlighted the need to produce a road map providing specific actions that development partners can undertake to coordinate efforts to reduce remittance costs. The Ministers welcomed the news that the price of sending remittances from Australia to the Pacific has fallen to 13.6 per cent of the total amount remitted. The Ministers also welcomed the efforts of the pri-

vate sector to offer innovative low cost remittance products and support financial literacy and inclusion programs to maximise the development effects of these products.

Interest rates

Economic Ministers noted that lending rates and interest rate spreads in the region are generally in line with comparable countries and that profitability from interest operations does not appear to be out of line with international norms. When considering all sources of income, however, they noted overall profitability has been consistently higher than other comparable regions, largely as a result of substantial income from foreign exchange operations. Ministers noted that interest rate controls were unlikely to be effective and that longer term methods of increasing access to financial services need to be pursued such as creating deeper, more competitive financial markets, improving transparency and disclosure both at the market and individual customer level, and strengthening consumer protection and financial literacy.

G20 Update

Ministers welcomed an update from Australia on the recent actions of the G20, including:

- the G20 Leaders' endorsement of the Multi-Year Action Plan on Development;
- the implementation of quota and governance reforms to create an International Monetary Fund that better represents emerging markets and developing countries;
- an agreement on the Financial Inclusion Action Plan;
- and an investigation of the drivers of, and possible risk management options to address, commodity price volatility.

SME Financing

Ministers reiterated the urgency of improving access to finance in Forum Island Countries to develop the private sector and assist in economic recovery and noted the work in progress to explore the possibility of a regional facility to assist with Small and Medium Enterprise (SME) financing.

Fisheries Ministers Dialogue

The Ministers appreciated the opportunity to participate in a Joint Ministerial Forum with Ministers of Fisheries on work to maximize the sustainable returns from fisheries resources in the Pacific.

To access the full FEMM Outcomes report click [here](#).

Remittances Issues

Economic Ministers emphasised the importance of remittances as a source of national income and economic growth for many FICs. At the 2010 FEMM, they agreed that remittance fees and charges are generally too high. A report considered by the 2011 FEMM notes that a number of remittance cost reduction programmes are operating across the Pacific region. Given the number of activities being undertaken by various partners, the report recommended that a road map of specific actions that development partners can undertake to coordinate efforts to reduce remittance costs be developed. It will include research on the 2010 FEMM mandate by reviewing the remittance component of payment, remittance, securities and settlement systems in Australia and New Zealand, which will provide the sending side view to complement the work done by the World Bank Group in Tonga, Vanuatu, Samoa and Solomon Islands on the receiving side.

A presentation made at the meeting reported that the average remittance price from Australia has

fallen by three percentage points to 20.7 per cent since the 2010 FEMM. The presentation also reported that the average price for remitting through a money transfer operator is lower than the overall average cost of 20.7 per cent and has also fallen by three percentage points to 13.6 per cent. The presentation outlined a number of new initiatives by the private sector expected to be put into operation soon:

- A stored-value two card system in a number of Forum island countries will be introduced by ANZ. The cost could be as low as 6 percent of total remitted;
- A reduction in Westpac's Telegraphic Transfer fee for remittances to the Pacific of less than \$500 from \$30 to \$10; and
- A new partnership between MoneyGram and 7-Eleven to significantly extend their network by offering access to self-service money transfer kiosks in more than 400 stores. [To access the full FEMM report click here.](#)

Financial Inclusion

A report on recent work to progress the MoneyPacific goals provided to the FEMM noted significant progress with implementation of activities associated with each of the MoneyPacific goals.

Goal 1: All schoolchildren to receive financial education through core curricula. Good progress has been made against this goal. For example, in Samoa nine schools are now offering enterprise and financial education at secondary level, the Cook Islands and Fiji are working to develop its curriculum framework at primary and secondary levels, and Tonga has prepared implementation strategies and is awaiting funding.

Goal 2: All adults to have access to financial education. This goal is critical to achieving a more inclusive financial system in the Pacific. Actions in this area made in various countries include National financial competency surveys, the MoneyPacific calendar series, and Financial literacy training programs.

Goal 3: Simple and transparent consumer protection to be in place. While there has been some progress, particularly in improving transparency, consumer protection in the financial sector remains weak in the Pacific. However, initiatives as the [sendmoneypacific](#) website, provides more information to consumers.

Goal 4: To halve the number of households without access to basic financial services. Financial inclusion has become a significant priority for all of the Central Banks in the region, and various programmes have been adopted and developed.

The 2020 MoneyPacific Goals remain a valuable reference tool for policy makers and development partners. Progress on the Goals will continue to be a national responsibility, however regional coordination also remains important. Financial literacy and inclusion also remain important initiatives to support effective use of remittances. [To access the full FEMM Report click here.](#)

Regional Facility for Small & Medium Enterprise Financing

At the 2010 FEMM, Ministers noted the need to improve access to finance in Forum Island Countries to develop the private sector and assist in economic recovery. Ministers urged development partners to increase resources and improve accessibility to these resources, to support increased access to finance. Following reports on a proposed innovative financing facility to promote financial access in Papua New Guinea, Ministers invited the World Bank Group (WBG) to explore the possibility of a regional facility to assist with Small and Medium Enterprise financing, and report back to the 2011 FEMM.

In the last six months, the World Bank Group has initiated preliminary steps to explore the feasibility of a

regional SME financing facility. As a first step, the WBG is in the process of conducting a market assessment in two countries to scope SME market size and quantify demand for such an initiative, based on financing needs of the tourism and agriculture sectors.

The WBG study is expected to be completed by the last quarter of 2011 and is expected to provide key input in terms of market demand which would facilitate soliciting interest of potential financial institutions and Governments and quantifying the potential size of such a regional facility.

[To access the full FEMM report click here.](#)

Interest Rate Issues

The 2011 FEMM considered a report on regional interest rate issues with focus on the six Forum Island Countries (FICs) with Central Banks - Solomon Islands, Fiji, Tonga, Samoa, Vanuatu and Papua New Guinea. The Report finds that, on average, lending interest rates in the Pacific appear in line with comparator economies such as the Caribbean Region. Interest rate spreads follow a similar pattern.

Non-interest income for Banks operating in the Pacific is higher than in most other regions. As a proportion of total assets, it was found on average around five times more than in Australia in 2008 and well above most emerging market comparators. Foreign exchange operations are the largest source of non-interest income in FICs. They account for roughly two-thirds of non-interest income in many jurisdictions.

Overall bank profitability in FICs is very high, however profits from interest operations are broadly in line

with international norms. Foreign exchange activities contribute significantly to the income and profits of commercial banks, without them, return on assets would be more in line with international comparators. Profits from foreign exchange operations account for at least half of total profits. The Report notes that the degree of response to these interest rates and profitability trends depends on national policy objectives. There are a number of possible objectives that policy makers in FICs may have, including increased access to affordable credit for domestic businesses, moderating bank profitability, and enhancing consumer protection.

While the focus of policy responses must necessarily be at the national level, coordinated regional support, through information sharing and co-operation may assist. Based on the findings of the Report, economic Ministers took decisions outlined in the 2011 Forum Action Plan. [To access the full FEMM report click here.](#)

Climate Change Financing

There are many significant challenges PICs face in effectively accessing and managing resources for climate change. Some of these include difficult access to international financing, the need to improve development effectiveness and donor harmonisation, differing levels of policy and institutional enabling environments and capacity constraints. The Report on Climate Change Financing presented to the 2011 FEMM provides a suite of options that can be considered by policy makers.

Direct budgetary and sector support presents one of the most effective modalities at the national level to address climate change challenges in a sustainable way. Another option at the national level includes National Trust Funds, which offer another modality for climate change resources to accrue over time and facilitate drawdown rates that are commensurate with

the human, institutional, and absorptive capacity of FICs.

A regional or sub-regional fund can present benefits in well defined sectors such as infrastructure, health challenges, and energy. A regional technical facility would also provide better coordination of regional resources to identify funding opportunities and provide technical assistance. Such a facility does not necessarily entail the establishment of a standalone entity, but rather strengthened coordination amongst existing regional agencies and stakeholders.

These options, amongst others in the Report, were discussed at the 2011 FEMM leading to specific recommendations contained in the 2011 Forum Economic Action Plan.

[To see the full Report, please click here](#)

Pacific Economic Governance Agencies' Seminar Series (PEGASeS)

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

Some recent presentations have included:

- Mr. Yongzheng Yang, from the IMF Resident Representative Office in the Pacific. Mr. Yang made a presentation based on *Recent Global Economic De-*

velopments and Implications for Pacific Island Countries. To see Mr. Yang's presentation please click [here](#).

- Mr. David Smith, from the UN-ESCAP Pacific Office. Mr. Smith presented on the *UN-ESCAP Economic and Social Survey of Asia and the Pacific 2010: Performance and Challenges for Pacific Island Countries.* To see Mr. Smith's presentation please click [here](#).

- Mr. Tillman Bruett, from the Pacific Financial Inclusion Programme, UNDP. Mr. Tillman presented on *Financial Inclusion in Practice, and the Potential in the Pacific.* To see Mr. Tillman's presentation please click [here](#).

[To see other presentations please click here](#)

Economic Outlook

The global economy is forecast to grow by 4.3 percent in 2011, and 4.5 percent in 2012.

Global expansion remains uneven and fragile. Growth in advanced economies is still weak, while emerging and developing economies continue to expand strongly. The Australian economy is forecast to grow by 3 percent in 2011 compared to 2.7 percent in 2010, due to investment plans in the resources sector and stronger commodity exports. In New Zealand, the impact of recent earthquakes is expected to slow economic activity this year with growth projected at 1 percent compared to 1.5 percent in 2010. However, led by reconstruction, growth is expected to rise substantially in 2012.

The regional economies are forecast to grow by 1.7 percent in 2011.

Pacific economies have underperformed for much of the last two decades, compared to other similar regions. This economic growth performance has been affected by both domestic and external factors.

In 2011, regional economies are forecast to grow by 1.7 percent, from an estimated 0.8 percent in 2010. Regional economies remain on a path of recovery from the impacts of the global economic crisis. Despite measures undertaken by FICs to assist with recovery, economic growth for 2012 is expected to remain close to 2011 levels.

Economic growth in FICs is expected to be low for most in 2011, except Vanuatu with 4.2 percent, and resource rich countries particularly PNG with an expected growth rate of 8.5 percent; Solomon Islands with 7.5 percent; and Nauru with 4 percent (See Figure 1). The strong growth forecast for Papua New Guinea stems from construction associated with the LNG project, a rise in commodity prices for exports and a general rise in investor confidence. Commodity exports including logs, palm oil, copra and the resumption

Figure 1: GDP growth rates for Developed Countries.

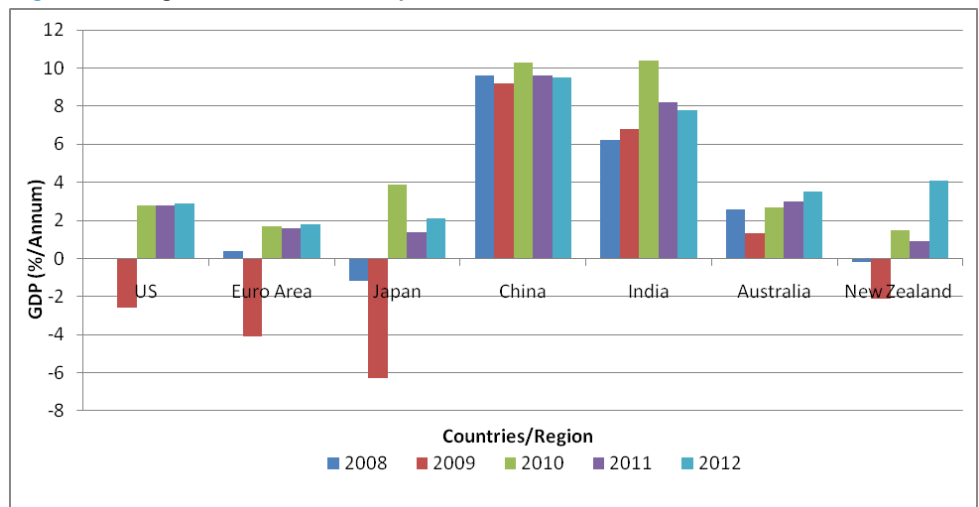
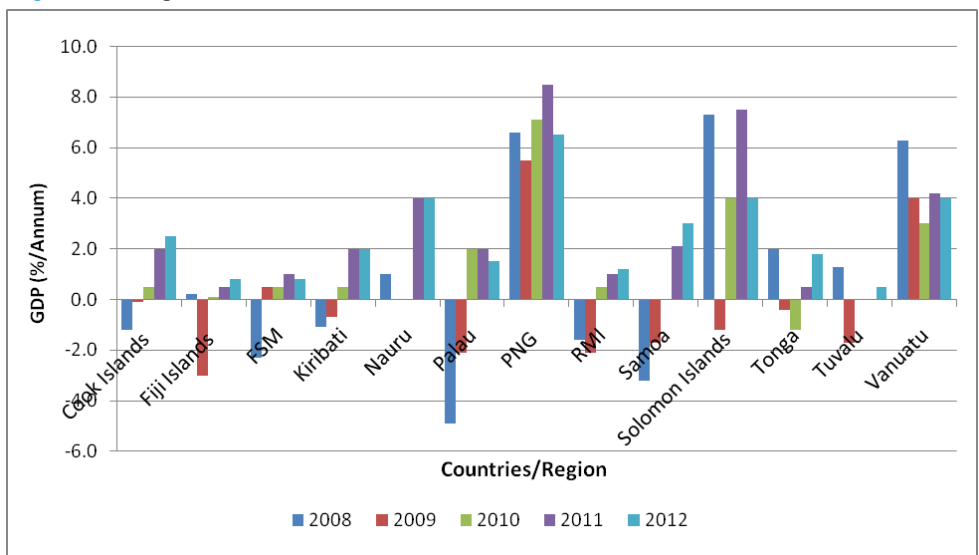


Figure 2: GDP growth rates for Forum Island Countries



of gold production in the Solomon Islands secures a better outlook for 2011.

Growth prospects for Nauru are better in 2011 on the back of improved global demand for its phosphate exports. The positive outlook for Vanuatu is driven by agriculture production and recovery in tourist arrivals with contribution from increased private sector activity through liberalised aviation and telecommunication markets, which support broader growth.

The economies of Cook Islands and Kiribati are expected to grow by 2 percent in 2011 primarily due to donor-financed infrastructure investments. Palau is expected to grow by 2 percent in 2011, on the back of strong visitor arrivals. Sa-

moa's economy is expected to grow by 2.1 percent in 2011 due to an increase in private investment and Government expenditure, specifically for the ongoing post-tsunami reconstruction. For the remaining FICs, economic growth of between 0 to 1 percent is forecast.

The main downside risk to the region's growth projections is increasing inflationary pressures, driven by high fuel and food prices. Inflation of 4 percent is expected across FICs in 2011. However, a positive outlook over the short term in major FIC trading partner economies will support an expected rise in tourist arrivals to the Pacific and some recovery in remittance flows.

To access the 2011 FEMM update [click here](#).

Global Fuel and Food Prices

The Food and Agriculture Organisation (FAO) Food Price Index increased by 68 per cent over the last year, rising above its 2008 peak in January 2011. The main reasons for the latest surge in international food prices include changes in market fundamentals such as weather-induced supply shortfalls, declining productivity, strong general food demand growth in emerging market economies and higher demand for meat and biofuels.

The international price for crude oil has also increased, and has risen toward the levels experienced during the last oil price shock in 2008. Recent international oil price increases have mainly been the result of strong demand, particularly from newly emerging economies engaged in rapid industrialisation; under-investment in exploration; production and refining; and uncertainty fuelled by tensions in the Middle East.

Food Prices

When assessing a country's vulnerability to increasing international food prices, it is important to consider its ability to pay for the food it imports and account for the fact that higher international food prices could potentially benefit FIC exporters of food. FAO identified the food insecurity of some FICs according to the ratio of food import to total exports plus remittances (See Table 1).

Table 1: Source - FAO

Food insecurity using 'food import capability' indicators		
Low	Moderate	High
PNG, Solomon Islands, Fiji	Vanuatu, Samoa, Tonga	Cook Islands, Kiribati, Niue, Tuvalu

Other assessments which have considered social and gender impacts, as well as size and isolation of economies, found that the smaller island states are most vulnerable FICs to increases in international food prices. These FICs import a substantial portion of locally consumed food and have a low export base that is unable to expand rapidly to take advantage of high global agricultural prices.

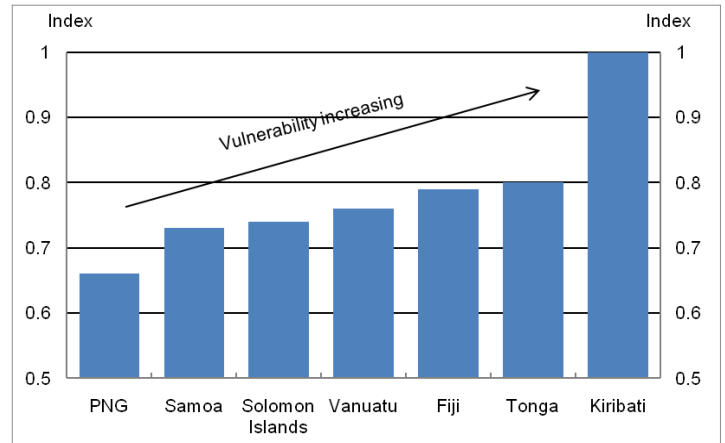
Fuel Prices

Petroleum is responsible for more than 80 per cent of energy generation in the Pacific, with countries such as Cook Islands, Kiribati, Nauru, Solomon Islands, and Tonga relying almost exclusively on oil for their commercial energy requirements.

The FICs most vulnerable to rising international export prices are those which rely on oil for energy gen-

eration, have a low export base and no domestic oil production. According to the Oil Price Vulnerability Index compiled by ADB which combines measures like economic growth, oil intensity and budget balance, Kiribati and Tonga are the most vulnerable among the seven FICs with sufficient data that were analysed (See Figure 1).

Figure 1: ADB Oil Price Vulnerability Index (2008)



Policy Responses

Rising food and fuel prices can adversely affect output and inflation, the fiscal balance and the balance of payments, and can contribute to increased poverty.

In the face of this second food and fuel price shock it is important for macroeconomic policies to address any inflation break-out and maintain fiscal sustainability and external balance. Policy makers need to generally avoid short-term measures such as subsidies, tax reductions and price controls that distort price signals or impede the incentive or ability of domestic producers to undertake investments and activity aimed at increasing local production, productivity, and efficiency.

Where high and rising international food and fuel price rises are judged to threaten longer-term growth and economic welfare in the FICs, governments might consider, where factor and resource endowments permit, broadening of their domestic economic base over time. This could involve non-distortionary resource allocation responses aimed at increasing efficiency, remaining competitive and moderating reliance on imported food and imported oil by increasing or diversifying domestic food production where economically viable, and considering alternative sources of energy where feasible. [To access the 2011 FEMM paper on Global Fuel and Food Prices click here.](#)

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PACIFIC ISLANDS FORUM
40th Anniversary 1971-2011

Staff Profile

Name: Deveraux Talagi
Position: Young Professional Economic Division
Home Country: Niue



Q. Why did you apply to work at the Pacific Islands Forum Secretariat?

A. The Secretariat is the principal institution for providing Economic Governance policy advice and support to the region, so I thought it would be one of the best places to gain practical background work experience for my field of interest, which is Economic Development.

Q. What are your areas of responsibility?

A. In general I provide support to the Economic Adviser wherever needed, particularly in regards to the FEMM work plan. However specific areas of responsibility include maintaining a database of economic reports and statistics on FICs, as well as the Trends & Developments Newsletter, and providing regular updates on various economic issues.

Q. Name a particular economic issue impacting the region that interests you, and why?

A. Currently I am following the global economic debt crisis and the policy responses from the major economic powers, and how it affects our region. I think this is important because in order for the region to be effective in its policies it needs to take into account the global economic conditions and the policies undertaken by the developed economies.

Q. How do you think exposure to regional issues, in your capacity as a Young Professional will benefit your career?

A. I think that in the economic development field its important to gain as much background understanding of the issues, because it will help give a practical understanding of how different elements interact to affect development. I believe this will benefit me in future studies as it will give me a practical platform on which to apply theoretical understanding, as well as relevant understanding of issues for any future work.

Q. Apart from work commitments, how do you plan to make the most of your time in Suva?

A. I plan on enrolling in USP for the Postgraduate Diploma in Climate Change. I think it is important to try and understand the issues behind Climate Change as it is becoming one of the most important factors shaping the development of our region.