

TRENDS & DEVELOPMENTS

a publication of the Pacific Islands Forum Secretariat



FORUM EDUCATION MINISTERS MEETING (FE_dMM)

Ministers of Education of the Pacific Islands Forum met in Suva on 11 and 12 December 2002, to consider issues related to implementation and enhancement of the Forum Basic Education Action Plan 2001.

2. The meeting was chaired by the Honourable Ro Teimumu Kepa, Minister of Education for Fiji. Ministers from Cook Islands, Nauru, New Zealand, Niue, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu attended the meeting, with Australia, Federated States of Micronesia, Kiribati and Palau also represented. Observers from New Caledonia, the Commonwealth of Learning, UN ESCAP-EPOC, UNESCO, UNFPA, UNICEF, the World Bank, South Pacific Board for Educational Assessment, Secretariat of the Pacific Community and the USP were present.

3. Ministers welcomed this opportunity to review implementation of the Forum Basic Education Plan, and to consider the conclusions of a number of papers prepared in the process of its implementation.

Review of Implementation of the Forum Basic Education Action Plan

4. Ministers reviewed the Forum Basic Education Action Plan and noted the steps taken for its implementation and the importance in this respect of the proposed programme for funding under the European Union's 9th EDF Pacific Regional Indicative Programme.

5. In respect of the Human Resource Development Programme for funding under the 9th EDF Ministers agreed that:

- (a) further work to revise and finalise the proposed programme, including optimisation of benefits to, and control by, member countries, be undertaken by the CROP Human Resource Development Working Group, including within this process:
 - (i) an opportunity for member country education officials to comment on the programme design, by the end of January 2003;
 - (ii) the CROP HRD Working Group to revise the programme design, taking into account country comments, for submission by the end of February 2003 to education Ministers and officials for their clearance;

CONTENTS	
Forum Education Ministers Meeting.....	1
What can the Pacific learn from NEPAD: A year later?.....	3
Western and Central Pacific Tuna Convention PrepCon 3.....	6
Gender and Trade Workshop.....	7
Forum Secretariat March Workshop Series.....	7
The Importance of a Stable Financial System.....	8
High Level Forum on Donor Harmonisation.....	12
NSAs' Engagement Framework.....	12
Japan Regional Cooperation in the Pacific.....	14
PITA and PTC Annual Conferences	15
Taiwan/ROC - PIFS Scholarships.....	16
Forthcoming High Level Meetings – 2003.....	17

- (iii) the programme design to be finalised for submission to the European Union by the end of March 2003;
- (b) that a sub-committee comprising the Ministers of Education of Fiji (Chair), Samoa, Kiribati and Papua New Guinea review country priorities and then the revised programme design prior to its submission to member countries in February 2003; and
- (c) that UNESCO, UNICEF and PATVET should be more fully involved in the design and implementation of the Programme given their experience and expertise.

Education for All

6. Ministers welcomed the report by UNESCO on progress in implementing Education for All in the Pacific, noting that all Forum island countries had completed their EFA Plans at the end of 2001, and requesting that development partners give greater emphasis to supporting implementation.

Basic Education Finance in Pacific Forum Island Countries

7. Ministers recalled from their first meeting the importance placed on addressing issues concerning the financing of education. They welcomed the paper on this topic and noted the strategies presented for their consideration, especially in the context of external economic pressures on countries

and the rationalising of the size of the public sector and political instability, which have reduced some national education budgets.

8. Ministers agreed that they direct their officials to use the paper's funding framework and guidelines to review finance issues for purposes of annual budgeting and medium term and long term education sector planning. In addition they agreed that:

- (a) development partners be requested to support regional workshops and training to assist with financial reviews
- (b) the Forum Secretariat be directed to use national reviews for further regional assessments and upgrade of the regional review paper on financing education.

Early Childhood Care and Education in Forum Island Countries

9. Ministers recognised that high quality ECCE programmes can benefit countries by promoting intelligence of young children, increasing the efficiency of primary and secondary education, contributing to future productivity and income, reducing costs of health and other public services, reducing gender inequities and increasing female participation in the labour force.

10. Acknowledging that integrated ECCE programmes may be the single most effective intervention for helping children, families, communities, and nations break the cycle of poverty, Ministers agreed that they will undertake country reviews of national policies on early childhood care and education using the guidelines set out in Annex 1.

Basic Education for Children and Youth with Disabilities

11. Ministers recognised that the education of children and youth with disabilities remains one of the most serious challenges facing Governments in the Pacific region. Noting that education is a basic human right and that all children, including children with disabilities, have a right to education, and that the Asian and Pacific Decade of Disabled Persons has been extended for another decade (2003-2012), Ministers:

- (a) agreed to address the issue of access to education for children with disabilities, with a view to increasing the number of such children attending school and, within the context of

each countries' situation and capacity and finance available, aim for a target of 75% of children with disabilities able to complete a full course of primary school by 2010;

- (b) to assist in, and as part of, addressing this, agreed that national legislation, strategies, policies and plans for education should include specific targeting of those with disabilities, in the ways suggested in the issues paper (paragraph 44);
- (c) directed the Forum Secretariat, in collaboration with other regional organisations through the Council of Regional Organisations of the Pacific, to initiate and review regional training and curriculum development for the training of Special Needs teachers with the view to making recommendations on strengthening regional teacher training opportunities;
- (d) directed the Forum Secretariat in collaboration with other regional organisations, Asian Development Bank, World Bank, Japan and other donors, to explore the possibility of a regional programme to develop capacity that will provide inclusive education for children with disabilities in Pacific countries, the sharing of regional expertise, and provide examples of good practice.

Pacific Association of Technical and Vocational Training (PATVET)

12. Ministers welcomed the formation of a regional association of service suppliers for technical and vocational training, and agreed:

- (a) to recognise the Pacific Association of Technical and Vocational Education and Training (PATVET) as having a key contribution to make in reducing poverty in our countries;
- (b) to the establishment of a working committee to set up policy and procedures leading toward regional acceptance of qualifications and academic awards throughout the Pacific region, including Australia and New Zealand; and
- (c) that PATVET be invited to participate in the CROP Human Resources Development Working Group.

Next Meeting

13. Ministers recommend to Forum that it agree that Education Ministers convene their third meeting in May 2004.

Annex I

Guidelines for Early Childhood Care and Education (ECCE)

- (a) Clarifying government roles and responsibilities for ECCE programmes
- (b) Undertaking a leading role in the coordination of development partnership assistance in order to create sustainable support and ensure follow-through of development plans.
- (c) Developing national plans of action on ECCE that identify the priorities and specific areas of development to include the following:
 - Appointing a national ECCE Coordinator and Area Advisors to provide advisory services, monitor development of ECCE programmes, and liaise between communities, PSAs, and governments
 - Prioritise curriculum development and implementation in their national education development plans
 - Undertake an analysis of teacher remuneration costs in order to inform governments' future discussions for the financial assistance of teachers' salaries
 - Prioritise the clarification of roles and responsibilities of providing teacher education and training in ECCE policy guidelines
 - Conduct an analysis of trained and untrained teacher needs in order to inform teacher education plans
 - Develop a consistent, ongoing programme of professional education utilising national and/or regional tertiary institutions
 - Initiate the collection of data in order to monitor ECCE programme operations and inform future plans for upgrading of ECCE services.
 - Develop policies on facilities, toilets, safe drinking water and educational material and resources for licensing and monitoring purposes

12 December 2002



WHAT CAN THE PACIFIC LEARN FROM NEPAD: A YEAR LATER?

In October 2001 17 African nations came together to endorse the *New Partnership for Africa's Development* (NEPAD). The text is available from www.nepad.org.

What is NEPAD?

2. The Partnership pledged African leaders to eradicate poverty, to place their countries on a path of sustainable growth and development, and at the same time to participate actively in the world economy and body politic. NEPAD centred around African ownership and management.

3. The long-term objectives of NEPAD were eradication of poverty, sustainable growth and development and promoting the role of women in all activities.

4. NEPAD called for the mobilisation of existing resources and their proper use. The agenda was based on national and regional priorities and development plans prepared through participatory processes involving the people.

5. The plan was endorsed and backed by the G-8 nations (seven richest countries and Russia) and the European Union in recognition that the bulk of the needed resources will have to be obtained from outside the continent. NEPAD focuses on debt reduction and ODA as complementary external resources required in the short to medium term, and addresses private capital flows as a longer-term concern.

6. In return for assistance from Initiatives promoting Capital Flows and Market Access African nations will be expected to participate in the Economic and Political Governance Initiatives.

7. African leaders committed to joint responsibility for:

- Strengthening mechanisms for conflict prevention, management and resolution;
- Promoting and protecting democracy and human rights;
- Restoring and maintaining macroeconomic stability;
- Instituting transparent legal and regulatory frameworks;
- Revitalising and extend the provision of education, technical training and health services;

- Promoting the role of women in social and economic development;
- Building the capacity of the states in Africa to set and enforce the legal framework, as well as maintaining law and order;
- Promoting the development of infrastructure, agriculture and its diversification into agro-industries and manufacturing.

8. Specific goals were set, including the achievement of the agreed International Development Goals (IDGs) – precursor of the Millennium Development Goals.

9. Importantly priority actions were outlined, both for Africa and internationally in support of the goals.

10. The strategy had the following expected outcomes:

- economic growth and development and increased employment;
- reduction in poverty and inequality;
- diversification of productive activities, enhanced international competitiveness and increased exports; and
- increased African integration.

Comparison with Pacific priorities

11. There is a clear similarity in the priorities set by NEPAD with those which have been set regionally in the Pacific through Forum Leaders meetings.

12. The Pacific too has placed priority upon:

- Governance;
- Security;
- Macroeconomic stability;
- Public sector reform;
- Infrastructure development;
- Social infrastructure development; and
- Capacity building;

13. However, in the Pacific, this priority setting has been over a considerable period of time, has occurred without the priorities appearing in one strategic document, and with far less cohesive and united support from donors.

14. The Pacific additionally has placed greater emphasis on integration with the world in recognition of their own small size and geographic dispersion.

What has NEPAD progress been?

15. It is over a year since African Leaders agreed on NEPAD and a good point at which to evaluate progress.

16. The most immediate success of NEPAD can be seen in the high profile given to African concerns in United Nations fora, such as Financing for Development and the World Summit on Sustainable Development. The special concerns of African nations now sit alongside those of “small island developing states” and “least developed countries”.

17. This is matched by the G-8 countries’ consideration of NEPAD and African issues during their June 2002 summit.

18. The other area of progress has been in terms of decisions as to how to adequately monitor implementation to ensure ongoing donor support. By November 2002 12 African states had agreed to be subject to monitoring of performance and democracy.

19. Some of the real impact of NEPAD should be recognisable through alterations in patterns of ODA and scale of capital flows to Africa. However, as yet, this information is not available.

What problems have been encountered?

20. As could have been predicted, the implementation of as far-reaching a document as NEPAD, has not been smooth running.

21. One of the first barriers has been the lack of willingness to allow monitoring of implementation. In particular gaining agreement to monitoring of governance issues is proving problematic. Just under half of NEPAD signatories remain to agree to a monitoring plan. This is vital if donor support is to be maintained.

22. NEPAD was developed at a political level and there have been calls from civil society that NSAs should have been involved in initial discussions, rather than being brought in at the implementation phase. Thus true ownership of NEPAD is of concern.

23. These two problems may create some concern amongst donors and also private investors in providing financial support for the Partnership.

What are the lessons for the Pacific?

24. The issues being tackled in Africa – are also of concern to the Pacific, albeit not necessarily at such a pressing stage. However, it is clearly not in the Pacific’s interest to wait until the same level of problems Africa is experiencing becomes apparent before concerns are addressed.

25. The Pacific, through its own regional mechanisms, has been tackling many of the same issues over varying periods of time. The Pacific has also reacted regionally to many of these issues, albeit not within one cohesive document.

26. Particular points of interest to Forum island nations in the NEPAD process include the high level of donor support; the setting of specific targets; the use of monitoring mechanisms; and cohesive approach to tackling issues.

27. **Donor involvement:** Regional policy direction setting in the Pacific has traditionally been undertaken without the direct involvement of donors. For example at key meetings, such as the annual Forum Leaders meeting, donors are not involved. In the case of Forum, a series of Post Forum Dialogues with partners have worked to inform partners of Forum decisions.

28. In the longer run there are interesting lessons which may be learnt from NEPAD about how to achieve a successful balance between national ownership of reform, regional agreement to reform, and international interests in reform.

29. **Targets:** Targets have not been widely used at the regional level in the Pacific, the argument frequently being that wide regional variations made these difficult to select and meet.

30. The development of the UN’s Millenium Development Goals have, however, placed a greater emphasis in the Pacific on the use of targets and indicators. While this was initially donor driven, the example of NEPAD provides lessons for the Pacific in terms of taking ownership of such targets and making them useful at the national and sub-national level for policy development and monitoring.

31. **Monitoring:** Until recently the monitoring of reforms in the Pacific was done nationally, if at all. This was supported by *ad hoc* assessments by donors, frequently for their own purposes.

32. However, for the Forum Economic Ministers meeting 2002 and the Forum Communications

Ministers Meeting 2002 'stocktakes' were undertaken to assess the level of implementation at both a national and regional level of Ministerial decisions.

33. These stocktakes provide a foundation for ongoing measures of performance. The Secretariat is working to further develop the efficacy of these measures.

34. The fact that monitoring is being developed through the processes of the Forum is a positive sign of the willingness of the region to examine its own performance and share this information.

35. *Cohesiveness*: The presentation of one comprehensive plan for tackling Africa's problems does help ensure cohesiveness amongst sectoral

strategies. It also acts to raise the profile of the issues highlighted within the plan.

36. A single plan does have a downside. Failure on the part of the plan to achieve change can result in the dumping of the whole plan rather than addressing problematic elements.

37. In terms of cohesiveness of planning the lesson for the Pacific seems to be that while integration of planning is essential, the choice remains how this can best be achieved.

38. Overall, the Pacific could do well to monitor the progress of NEPAD, and particularly learn from it the ways in which increased donor support can be garnered for regionally developed priorities.



WESTERN AND CENTRAL PACIFIC TUNA CONVENTION PREPCON

3

The third Preparatory Conference (PrepCon) for the Western and Central Pacific Tuna Convention was held in Manila, the Philippines, 18-22 November 2002.

2. The PrepCon was attended by delegations of sixteen FFC member countries (with Tokelau attending as part of the New Zealand delegation), Canada, China, EC (non-voting), France, Indonesia, Japan, Korea, New Caledonia (non-voting), Philippines, and USA. Chinese Taipei participated as a fishing entity. Observers comprised FFA, SPREP, Inter-American Tropical Tuna Commission, SPC, USP, ADB, FAO, PIFS, and the Russian Federation. There were over 200 participants present, with the largest delegations being from Japan, Korea and the Philippines.

3. Following opening speeches outlining the key issues and work program facing the PrepCon, a series of plenary and working group meetings were held with outcomes as outlined below.

Working Group I (Organizational issues)

4. WGI supported the use of consultants by the Commission in its formative years for specific tasks. It also supported the use of cost recovery for specific Commission services and requested further work be undertaken on this issue. WGI recognised further work was needed in developing the structure of the Commission.

5. The Working Group debated, but did not come to any conclusions on, the issues of remuneration scales, the size of a special fund for the participation of developing states (or its voluntary versus compulsory nature), and provision of external services. These issues will be further considered in PrepCon 4.

Working Group II (Scientific Structure and Advice)

6. This group met for the first time with Japan becoming its Chair.

7. It recommended improvements to the data available for stock assessment. The WG also requested that a paper be developed examining the special needs of developing states in regards to data requirements and technical capacity needs. Delegates reinforced the need to make the most use of existing regional organisations if scientific services are contracted out.

8. Detailed technical work on data requirements will be handled at the next meeting of the Scientific Coordinating Group (Mooloolaba, Australia, 17-19 July 2003).

Working Group III (Monitoring, Control and Surveillance)

9. WGIII adopted the principal elements of both a Boarding and inspection program and an Observer program, with these to be further elaborated by the Secretariat in advance of the next PrepCon. Issues including the use of force, rights of vessels and liability and compensation were debated.

Plenary

10. In its final session plenary noted the Chairman's statement which highlighted the main outcomes of plenary sessions including:

- selection of the Federated States of Micronesia as the recommended location for the Commission headquarters;
- admission of the Permanent Commission for the South Pacific (a South American based fishing group) as an observer;
- third reading of the draft rules of procedure and

the tabling of further positions and proposals for consideration at PrepCon 4;

- voluntary contributions to the PrepCon Organizational Fund by Australia, Korea, PNG, Taiwan, and USA.
- the Plenary's adoption of a resolution put forward by Japan on IUU and limits on fishing capacity.

11. Japan noted its intention to continue to participate in future PrepCons. This was welcomed, as Japan, a major Distant Water Fishing nation, had not participated in PrepCons 1 and 2.

Next PrepCon

12. There will be two PrepCons in 2003, 5-9 May (Fiji) and September/October (Cook Islands).



GENDER AND TRADE WORKSHOP

The Pacific Islands Forum Secretariat and the Commonwealth Secretariat, along with other trade and gender experts and officials from the Commonwealth and Pacific Island Forum Countries, will participate in the Symposium on the Gender Dimensions of Multilateral Trade to be held at the Pacific Island Forum Secretariat Conference Centre in Suva, Fiji from 12-14 February 2003.

2. This Symposium is a direct response to the 2002 Commonwealth Heads of Government Coolom Communiqué that emphasised "the crucial importance, especially for developing countries, of trade liberalisation and access to markets in overcoming poverty". It also responds to the "serious concerns" expressed by Commonwealth

Ministers Responsible for Women's Affairs at their meeting in 2000, "over some of the negative effects of globalisation and trade liberalisation, particularly on weak and vulnerable economies and especially women and children".

3. It is hoped that this Symposium will be the first of a number of regional symposia designed to maximise opportunities and minimise the negative impacts of multilateral trade on women.

4. Other components of the Commonwealth programme on gender and multilateral trade include the production of related resource materials for governments and capacity building for Commonwealth missions in Geneva.



FORUM SECRETARIAT MARCH WORKSHOP SERIES

A series of workshops will be hosted by the Secretariat in collaboration with the Asian Development Bank, SPC, SPREP, and the United Nations Development Programme, and from 17 to 27 March 2003 in Nadi, Fiji.

2. The intended programme is comprised of four parts, although these are interrelated.

- 17 – 21 March
Workshops on Millennium Development Goals

3. These workshops will build on the outcomes of *The Pacific Approach to the Global Social Development Agenda Workshop*, which was organised by ILO, UNDP, ESCAP-POC and PIFS in Suva in February 2002.

4. Participants (including government officials and NGOs) should develop an understanding of the processes and rationale in the development of MDGs, and their importance and uses at the national level.

5. The workshops will be practical, with participants learning poverty analysis and policy response skills. Importantly, the processes and tools to collect and utilise MDGs, including assistance available, will be explained.

- 22 March
ADB Pacific Regional Environmental Strategy

6. On this day the Asian Development Bank will discuss the draft ADB Pacific Region Environment Strategy with FICs. Government officials from Ministries of Finance and Environment will be involved.

- 24 – 25 March
WSSD Stakeholder Consultations

7. The workshop will update participants on the outcomes of the World Summit on Sustainable Development and other related important international agreements and targets. Feedback will also be given on the preparatory process for the Barbados Plan of Action+10 meeting in 2004.

8. The workshop will engage countries on the development of the Pacific Umbrella Initiatives, and

proposed process for their coordination, management and monitoring.

9. Countries will be encouraged to share information on national developments since the WSSD

10. Participants are expected to comprise the National WSSD Focal Points, Officials from Planning Ministries and national NGO representatives.

- 26 – 27 March
Sustainable Development and Economic Policy and Planning

11. This workshop is being held as a lead-in event to FEMM 2003, where this topic will be a key area of Ministerial focus.

12. The workshop aims to promote the effective setting and implementation of economic development strategies that are coherent with human resource development and environment priorities, though:

- improved understanding of the importance of integration of economic planning with human resource development and environment priorities;
- development of “best practice” tools relevant to island country settings; and
- improved policy advice to government.

13. Officials from Ministries of the Environment and Planning or Finance are expected to attend as well as NGO representatives.

14. CROP agencies, United Nations and observer organisations have also been invited to attend all the workshops, sharing their specialist expertise with participants.



THE IMPORTANCE OF A STABLE FINANCIAL SYSTEM

Introduction

The development of a strong and well-regulated financial sector is critical to the economic growth of a nation. The past years have been characterised by bouts of financial instability. Some examples include the turmoil in Asia, the Russian debt moratorium and Brazil's financial crisis. These financial crises, which originated within countries, triggered similar crises in neighbouring countries –

often facilitated by the presence of the same underlying causal factors. The increasing integration of world financial systems is one reason for the contagion effect of such crises. As such, financial systems need to undertake reforms to prevent crises from occurring, and to align with the liberalised world financial system.

Why is it critical to have a stable financial sector?

2. Financial crises are expensive for developed and developing countries alike. The production capacity of a country is reliant on a well functioning financial system, which ensures effective payment systems and intermediation between savers and investors. Its failure can result in reduction in growth and development. Estimates from 86 separate banking crises indicate that it takes an average of three years for economies to recover, with an average GDP loss of 10 percent.

3. An unstable financial system also has social costs. In Asia, there have been massive human costs from the deep recessions experienced in 1998. In Indonesia, a UNDP study estimated that an additional 40 million people fell below the poverty line whilst in Korea and Thailand, an additional 12 percent of the population were estimated to have fallen below the poverty line due to the crisis. It was discovered however that countries with strong prudential supervisory systems recovered from the shock more rapidly and with far less damage than the countries with weak financial sectors.

4. To cushion the effect of volatility in the international financial system, some developed and developing countries have in place capital controls. There is wide opposition against capital controls, with nations under pressure to liberalise their economies, and open markets to international trade and investment flows. Whilst such liberalisation helps in affirming availability of technology and capital for economic development, it opens the domestic financial sectors to global financial shocks. It is for this reason that we find some Forum Island countries (FICs) still maintaining elements of capital controls until they feel that their financial system, through development, can withstand the pressures of the globalised financial system.

5. A sound domestic financial sector is also crucial for attracting foreign capital flows to developing countries that is needed for economic development. Development finance from official sources have noticed a decline in the past years, meaning that the only source of foreign capital inflows would be from private capital markets. A stable financial system is needed to attract funds for development from these private capital markets. A sound financial sector helps facilitate the mobilisation and intermediation of funds between savers and borrowers, channelling funds where they are most needed, and contributing to economic development and growth in the process.

Indicators of Financial Fragility

6. Closer integration of international capital

markets mean that, external shocks are exposing weaknesses in domestic financial systems. Financial innovations give rise to sophisticated financial products, such as derivatives, and the specialised investments such as hedge funds, combine to increase the vulnerability of the international financial system to substantial volatility. Increases in financial products available in the market is exerting pressure on financial regulators and institutions responsible for monitoring and maintaining stability of the financial system.

7. Experiences with past financial crises suggest that there are a wealth of indicators of financial fragility that could be monitored by regulators such as central banks. Some of these indicators, which are present in different sectors of the economy, are discussed below.

Households, businesses and the real economy

8. Build-up of debt by households or businesses can contribute to financial fragility. In times of strong growth, there can be booms in private consumption or investment (relative to GDP) and sustained high real growth rates. The boom is amplified by easy credit conditions resulting in increases in the ratio of household debt-to-income or in the ratio of debt-to-equity of businesses (balance sheet expansions). Excessive indebtedness leaves the economy vulnerable to negative shocks. Rapid balance sheet expansion is often associated with speculation in asset markets. As such, borrowers and lenders alike are exposed to possibility of sharp downturns in asset prices – especially property prices, since property is an important source of collateral. A downturn is more likely if asset prices have been rising very rapidly, then lose the support of favourable fundamentals. Shocks are unpredictable and sometimes there is a lag before households and businesses feel the full impact.

9. A downturn therefore in the level of real GDP or a slowdown in the growth rate of real GDP might immediately precede a financial crisis.

Financial institutions

10. The balance sheets of financial institutions while containing wealth of information can provide early indications of financial fragility.

11. Rapid rises in the ratio of credit to nominal GDP could suggest that financial institutions are lending more than they should.

12. There are a range of prudential indicators

which provide more detailed information on the general health of the financial system – increasing loan concentration to particular sectors or individuals reduces diversification and increases exposure of financial institutions, an increase in non-performing loans (net of provisions), a fall in capital ratios and declining profitability may signal financial problems.

13. However, the consequences of bad lending can take some time to be realised. Prudential data are not always available on a timely basis, and problematic interpreting them – during economic booms, bank lending expands and bank profitability rises, while non-performing loan falls suggesting that all is well.

Government sector

14. Inappropriate fiscal and monetary policies can increase the fragility of the financial system. A common problem with some FICs is managing fiscal deficits. Large fiscal deficits encourage an unsustainable boom in the real economy and raise a country's indebtedness, risking the possibility of higher interest rates in future.

15. An expansionary monetary policy, as evidenced by the growth of monetary aggregates and low real interest rates can lead to high inflation and easy credit conditions. Such a climate encourages excessive borrowings and rapid inflation of asset prices, leaving the financial system vulnerable to negative shocks such as a reversal of monetary policy to address inflation concerns.

External sector

16. Domestic consumption or investment can either be financed locally, or through foreign capital inflows. Short-term inflows through the domestic banking system can exit the country rapidly, causing the country to be vulnerable to minor swings in sentiment. The ratio of net foreign debt to GDP, and the currency composition and maturity structure of foreign debt, may be important indicators of financial stability. A financial or business sector with a large proportion of foreign-currency-denominated debt can be extremely sensitive to investor confidence and exchange rate depreciation.

17. Liberalisation of the financial system, involving new entry and greater competition, may put pressure on interest rate margins and encourage institutions to try and maintain market share through an aggressive expansion of lending,

disregarding stringent lending criteria in the process.

18. The sectoral indicators outlined above tend to be reinforcing. As such, the vulnerability of a financial system is likely to be greater when a combination of these factors is present.

Financial sector reforms

19. Forum island countries are increasingly confronted with financial sector issues of various forms and urgency. A long standing concern has been how to make financial sectors more conducive to economic development. Basic to understanding of the importance of the financial sector is recognition of its role in the economic development of FICs. Elements of financial sector reform contributing to the promotion of sustainable economic growth and development include mobilising and transforming savings; increasing efficiency of resource allocation; promoting private sector development; strengthening investor confidence; and integrating the informal sector and improving access to financial services for the disadvantage. The achievement, and maintenance, of sound financial institutions and a stable financial sector is basic to the financial sector contributing to growth and development and is a key objective of financial sector reform. Financial stability can be assisted through:

- appropriate and effective regulation and supervision of financial institutions;
- monitoring of the performance of implemented reforms;
- promoting accountability, transparency and flow of information;
- increasing fiscal and monetary discipline;
- improving the ability of the economy to productively respond to shocks;
- ensuring compatibility with international financial system; and
- maintaining low inflation levels and competitive exchange rates.

20. Barriers to financial sector reforms in FICs have been identified as:

- Failure and unwillingness to empower, and to implement according to an agreed timetable;
- Supporting reforms are either not identified, or not clear, or not implemented; failure to solicit in an effective dialogue, and to take into account, the views of industry participants and other affected parties; and
- Lack of political will to implement a reform process that may result in a reduction of discretion and power.

21. Successful reform depends on striking an appropriate balance between liberalisation and control, in an effort to improve the functioning and efficiency of the financial sector, while minimising the risk of instability. However, the small size and limited resources of FICs require that reform efforts give particular attention to prioritisation and sequencing on the basis of sound analytical arguments and a solid assessment of capacity constraints. A safe liberalisation of financial institutions and markets also requires a suitable legal and regulatory framework and the availability of appropriate skills and sufficient implementation capacity.

What are some key considerations for successful financial sector reform?

22. Representatives of FICs at a Financial Sector Reform Workshop in 2000 developed a number of principles, based on their experiences, as a guide for FICs to successful financial sector reform:

- The objectives of financial sector reform should be clearly identified and include the achievement of financial stability and the promotion of sustainable economic growth and development.
- Financial sector reform should support the development of open, efficient and competitive markets.
- A holistic policy approach is needed to ensure both consistency with other government policies and that supporting reforms are clearly identified and implemented.
- The views of industry participants and other affected parties should be solicited in an effective dialogue and taken into account.
- The regulatory and supervisory structures should be appropriate to the size and scale of Forum island countries.
- A commitment should be made to a rigorous, transparent and effective governance framework encompassing all institutions in the financial sector (including regulatory Ministries and agencies).
- Encourage adoption of, and compliance with, international best practices.
- Build and maintain strong, effective and independent central banks and supervisory authorities.

- Government and private owned institutions undertaking similar financial business should be subject to the same governance and supervisory regimes.

- An efficient framework for consumer protection is needed.

- There needs to be clear political will and commitment to empower and implement the financial sector reform process according to an agreed timetable.

- A system of indicators, with which to monitor the impact of the reforms, should be developed and these should be related to the policy objectives of the reform.

- A recommitment should be made to the implementation of reforms that honour regional agreements towards combating illegal financial activities.

23. The FICs are committed to financial sector soundness and stability and recognise that, given the limited human and financial resources, close co-operation between supervisory bodies in the region is essential for the financial stability and international reputation of the region.

Current developments

24. The safety and soundness of today's dynamic and complex financial system can be attained only by the combination of effective bank-level management, market discipline, and supervision. There is ongoing work internationally towards maintaining safe and sound financial systems. One such development is Basel II - the New Basel Capital Accord.

25. In January 2001 the Basel Committee on Banking Supervision issued a proposal for a New Basel Capital Accord that, once finalised, will replace the current 1988 Capital Accord. The Basel Committee consists of senior supervisory representatives from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden, Switzerland, United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located. The Committee provide broad policy guidelines that each country's supervisors can use to determine the supervisory policies they apply. Some papers, such as the Capital Accord and the Core Principles, are drafted

in the expectation that they will be followed more closely by supervisors world-wide.

26. The 1988 Capital Accord focussed on the total amount of bank capital, which is vital in reducing the risk of bank insolvency and the potential cost of a bank's failure for depositors. The Committee expects that the New Accord will enhance the soundness of the financial system by aligning regulatory capital requirement to the underlying risks in the banking business and by encouraging better risk management by banks and enhanced market discipline. The proposal is based on three mutually reinforcing pillars that allow banks and supervisors to evaluate properly the various risks that banks face. The New Basel Capital Accord focuses on:

- **minimum capital requirements**, which seek to refine the measurement framework set out in the 1988 Accord
- **supervisory review** of an institution's capital adequacy and internal assessment process

- **market discipline** through effective disclosure to encourage safe and sound banking practices.

27. The Committee expects the final version of the New Accord to be implemented in 2004, which will establish the basic capital frameworks for Committee member countries. There has already been extended consultation with supervisors around the world and this will continue in the coming months. In addition, the International Monetary Fund (IMF) and World Bank use the Basel Committee's standard as a benchmark in conducting their missions such as the IMF Article IV.

28. Most FICs are members of the IMF and World Bank hence the Basel II New Capital Accord requirements, when in force, will also be applicable in the financial sector of these Forum Island countries.



HIGH LEVEL FORUM ON DONOR HARMONISATION

In Rome from 24 to 25 February 2003, the World Bank, Asian Development Bank, African Development Bank, the OECD DAC with the Government of Italy will be hosting a High Level Forum that will provide a general endorsement of the technical work of the OECD Development Assistance Committee's Taskforce on Donor Practices.

2. The objectives of the High Level Forum (HLF) are to gain political commitment as well as agree on next steps toward the implementation of the good practices on donor harmonization at country level. Furthermore, the HLF is part of the follow-up to calls made at the Monterrey Financing for Development (FFD) Conference, the World Bank's Development Committee, and the High level meeting of the OECD-DAC for action, by both donor and partner governments, to improve the effectiveness of development assistance by harmonizing and simplifying donor policies, procedures and practices.

3. The specific purpose of the HLF is to secure broad donor and country support for shifting harmonization efforts from institutional analysis and

diagnosis to voluntary in-country prioritisation, adaptation, implementation, and monitoring, building on frameworks and tools developed by the OECD DAC taskforce and the multilateral development banks.

4. The work of the taskforce has been fruitful to date, as there is a general understanding of the required changes for effective aid delivery. Donor headquarters need to make substantial changes in the ways they deliver ODA. There are necessary changes to donor internal procedures and policies, and field office practices. Simplification of procedures on the side of the donors is imperative. However, there are also changes required by the developing world, these include being abreast of issues relating to harmonization and driving donor harmonization at the national level.

5. Anticipated participants to this HLF are heads of bilateral agencies; heads of the multilateral development banks; senior representatives of the IMF, UNDG, ECA and NEPAD; regional international financial institutions; and the 16 partner countries in the OECD DAC taskforce; and other developing countries that have full PRSPs (or equivalent documents). Invitations have been sent

by the Government of Italy and World Bank to anticipated participants.

(represented by PIFS); Kenya, Mali, Morocco, Mozambique, Uganda, Kyrgyz Republic, Romania, Senegal, Tanzania, Uganda, Vietnam

¹ Partner Countries for OECD DAC Taskforce: Bangladesh, Bolivia, Cambodia, Guatemala, Pacific Islands



NON-STATE ACTORS' ENGAGEMENT FRAMEWORK

The Secretariat has agreed on a consultative mechanism with regional Non State Actors (NSAs) that is aimed at keeping both the regional NSAs and the Secretariat informed of the key developmental issues affecting the people with whom they work. The goal of engagement by the PIFS with NSAs is to further the Secretariat's *vision* of:

a sustainably prosperous and secure Pacific

through pursuit of its *mission*:

to provide policy options to the Pacific Islands Forum, and to promote Forum decisions, and regional and international cooperation.

2. In direct support of the elements of this mission statement, the objectives of the PIFS *Framework for Engagement with NSAs* are:

- to enhance the understanding of the PIFS of issues and concerns in the Pacific region in order to improve the advice tendered to high level Forum and supporting meetings;
- to promote, and improve the understanding of, Forum decisions amongst NSAs;
- to identify and take advantage of opportunities to work together in advocating the region's interests in the regional global community; and
- to provide member countries with a guiding framework for national consultations.

3. The rationale behind the "Framework for Engagement with Pacific Regional Non-State Actors" is that with the intensification of global and regional integration, the Secretariat recognises the need for wider community input in its own work towards providing policy advice to its Members. It recognises the significance of the roles that NSAs play in the region in delivering services and managing development programmes. In particular, it has been noted that NSAs can:

- (a) contribute to open and transparent government;
- (b) be fundamental to democratic development;

- (c) have special access to communities, issues and concerns in a way that government does not;
- (d) provide informed debate on regional policy initiatives; and
- (e) provide alternative perspectives and options to those expressed by the government of the day.

4. This framework was on the understanding that if the Secretariat is to provide ongoing and effective advice to governments on social, economic, trade, political and related issues, then it must have effective mechanisms to ensure that it is able to disseminate and gather information from a range of sources. The Secretariat recognises that NSAs, through engagement with segments of civil society with specific common interests and the services they provide, make important contributions to society which can be characterised as:

- (a) NSAs act as advocates for the interests of their constituencies, particularly providing a conduit for the concerns of citizens to governments.
- (b) in response to common expressed needs, NSAs can provide services to their member constituencies; and
- (c) because of their relationships with different segments of society, governments may contract NSAs to deliver programs and services.

5. A range of mechanisms were agreed to with the Regional NSAs which include:

- (a) specific consultations with NSAs (biennial);
- (b) PIFS attendance by invitation at meetings called by NSAs;
- (c) NSA attendance by invitation at meetings convened by the PIFS;
- (d) NSA observership at meetings of Forum constituencies and High Level regional meetings;
- (e) participation at:

- (i) focal groups to develop background papers for formulating policy;
 - (ii) CROP Working Group (*ad hoc* or permanent) meetings;
- (f) contacts with Secretariat staff as mandated by their job descriptions;
 - (g) provision of information on the PIFS website and through email;
 - (h) contracts for research and programme implementation; and
 - (i) outside the above regional framework, undertaking briefings for national NSAs during the annual Country Consultation Visits.
6. The framework sets out a broad criteria which is to be applied to assist in identifying NSAs that the Secretariat will engage with. These are:
- (a) are legally constituted non-profit (not-for-profit) organisations;
 - (b) are governed by democratically chosen bodies;
 - (c) have transparent policy formulation and management processes;
 - (d) have a focus on formulating, advocating or implementing policies related to some or all aspects of sustainable development;
 - (e) objectives, policies and activities that are respectful of human rights, cultures and gender equality;
 - (f) having a Pacific regional focus and membership drawn from Forum island countries and who are legally constituted in one or more FICs;
 - (g) Pacific regional arms of international NSAs formally recognised by the United Nations

system, the EU and the ACP Group, and the Commonwealth Secretariat.

7. However, as the Secretariat is a regional IGO focusing on regional perspectives in formulating policy and on initiatives that commonly encompass a significant proportion of member countries, effective engagement with NSAs also requires a regional focus, thus engaging with NSAs that have the same perspective particularly:

- (a) Pacific regional umbrella (or peak) NSAs representing formal national bodies from Forum island countries in each of the sub-regions of Melanesia, Micronesia and Polynesia;
- (b) having a Pacific regional focus, with membership drawn from Forum island countries in each of the sub-regions of Melanesia, Micronesia and Polynesia and constituted in one or more Forum island countries;
- (c) a focus of interests and activities that are reflected in the work and priorities of the PIFS and / or other CROP organisations;
- (d) actively engaged with Forum island countries in each of the sub-regions of Melanesia, Micronesia and Polynesia, or their development partners, through provision of advice and implementation of regional programmes aimed at assisting in the sustainable development of member countries.

8. The Framework was developed with regional NSAs at a meeting held on 21 November 2003 at the Secretariat. The regional NSAs present at the meeting were PIBA, PIMA, PIANGO, FSPI, COPE, DPI Oceania and PACFAW.



JAPAN REGIONAL COOPERATION IN THE PACIFIC

Pacific Islands Development Cooperation Fund

The Government of Japan and the Forum Secretariat, through an exchange of letters in 2001, approved the establishment of a Fund of USD10 million known as the Pacific Islands Development Cooperation Fund.

2. The fund has been set up to promote cooperation for the development of Pacific Island

Countries. The Fund is managed by a Management Committee comprising Japan and Forum representatives.

3. The principal of the Fund is kept intact and may be used by the Management Committee if they so decide. The interest derived from the Fund each year is used to finance projects in such fields as the environment, energy and tourism. Since its

establishment, interests derived from the fund amounted to over USD331,000.

4. In 2002 a total of USD200,000 was committed to fund seven new projects:

- Regional Training in Climate Change Impacts, Adaptation and Vulnerability;
- Tourism & Trade Promotion & Investment Partnership Forum;
- Enhanced Asset Management & Planning Tools for Selected FICs;
- Sustainable Use of Renewable Energy;
- Copra Oil for Power Generation and for Transportation;
- Mai Kana: Building Capacity – Use of Natural Resources Tourism Industry; and
- Mobile Hut-Demonstration Renewable Energy System.

Japan/Forum Partnership Programme

5. The Japan/Forum Partnership Programme has been established to strengthen the relationship between Japan and the members of the Pacific Islands Forum.

6. The Government of Japan has contributed USD1,000,000 to finance projects considered under the programme. Funding assistance through this programme are given to projects that:

- promote intellectual and cultural exchanges between Japan and Forum Island Countries;

- promote dialogue between Japan and the Secretariat on issues pertaining to regional co-operation and organisations; and

- promote exchange at all levels, including grassroots levels between Japan and Forum Island Countries.

7. In 2002 nine projects, totalling USD742,750, were committed for funding:

- Forum Relations;
- CROP WSSD Cultural Event;
- Administration and Servicing of the Partnership Programme;
- Pacific Regional Framework for Indigenous Intellectual Property Rights Protection;
- Foreign Services Diplomatic Training;
- Trade, Invest and Tourism Promo Meetings;
- Mutual Understanding: Cultural Co-operation;
- Enhancement of Tourism Training and Education in the South Pacific; and
- Strengthening Partnerships: Improved Access/Exchange of Ocean Data.

8. The balance of funds under the programme will be used for follow up activities.

9. All members of the Pacific Islands Forum and Members of the Council of Regional Organisations in the Pacific (CROP) are eligible to submit project proposals through the Pacific Islands Secretariat for consideration under both programmes when called. Members and CROP will be informed accordingly.



PITA AND PTC ANNUAL CONFERENCES

The Pacific Islands Telecommunications Association (PITA) and Pacific Telecommunications Council (PTC) annual conferences were held from 18-22 January in Honolulu, Hawaii. The overall theme for the conferences was “*Global Broadband/Global Challenges*.” The topics discussed included: ICT in education, tariff and competition regulation, capital finance, Internet governance, the satellite and submarine cable industries, Pacific issues, and public policies for sector development. The meetings were particularly

useful to PIFS in progressing work arising from the Forum Communication Action Plan (CAP), the document resulting from the Forum Communications Ministers’ Meeting in April 2002.

2. The PTC conference is an annual meeting of more than 1000 officials from the telecommunications and information technology industries, governments, regulatory bodies, and international organisations. It was originally established with a focus on the Pacific islands

region, and that focus has remained an important aspect of the annual programme.

3. The PITA annual conference consisted of agency updates and presentation of technical reports, a Pacific roundtable on development issues, and a session on broadband for development during the PTC conference proper. About 80 people from governments, regulatory bodies, academia, and the private sector attended the PITA conference, including representatives from 13 Forum member countries (from both governments and telecommunication carriers) and most of the major regional and international agencies. Various representatives made presentations on programme and project developments in their respective organisations.

4. The PIFS presented two reports – (i) Preparations for and Outcomes of the World Summit on the Information Society (WSIS) Asia Pacific Regional Conference and Pacific consultation, which had taken place the week before in Tokyo, and (ii) “Pacific Islands and the Economic Viability Challenge” which was presented during the Pacific ICT Capacity and Prospects session of the PITA conference.

5. As a result of requests made by member governments at the WSIS meeting, and based on the objectives of further regional preparations, a Pacific islands regional consultation for the WSIS will be held on 9 - 11 April 2003, in conjunction with the PITA annual general meeting, 7– 8 April 2003, in Suva, Fiji.

6. The Pacific ICT Capacity report, on the results of the Pacific ICT Survey, fulfilled a directive of Forum Communication Ministers to collect and disseminate comprehensive and up to date information for planning and evaluation purposes. This work was undertaken jointly by PIFS and PITA. The paper reported quantitative and qualitative indicators of sector development in four areas: telecommunications markets and infrastructure, human and institutional capacity, the

networked economy, and policy and regulatory frameworks. Feedback on this presentation was very positive, and resulted in additional refinements and extensions to the survey report.

7 Participation at PITA and PTC is of particular value in monitoring implementation of the Communication Action Plan. The meetings also presented opportunities to network with almost all regional carriers and regulators in one week through both formal and informal sessions. It also allowed for regional and international agencies to further develop collaborative initiatives such as the Pacific Governance Project on regulation and e-Pasifika project on strategies, emerging proposals for telecentres and tele-health, and joint preparations for WSIS.

8 Some observations made by participants throughout the conference with relevance to implementation of the CAP included:

- There is rapidly growing demand for all forms of communications in user constituencies in education, health, resource-related extension, and community services that is driving the need for universal access.
- Policies for universal access are under-enforced, but new analysis and finance tools are emerging.
- Education is being transformed at all levels through access to ICT, and should be among the first sector to benefit from universal access.
- Ongoing reform of the international Internet governance system offers new opportunities for Pacific island countries to pursue their interests in management of country-code top level domains.
- There is a great need for disaggregated data for the Pacific islands region, in terms of urban/rural and sectoral disparities. Gender related issues in ICT development are also gaining increasing attention; and
- Growing interest in Pacific issues as examples of innovation and test cases for liberalisation.



TAIWAN/ROC-PIF SCHOLARSHIPS

The Scholarship Scheme was initiated in 1999 and has been operational since 2001. It is responsive to the HRD needs of Forum island countries by providing avenues for formal training (long term awards) and practical oriented skills

(short term awards) in priority fields that are identified by the Forum countries themselves. The Scheme's long term awards are open to citizens of all Forum countries and short term awards to CROP (Council of Regional Organisations in the Pacific).

2. Twenty four scholarships and three short term training for regional organisations have been offered for 2003. This brings the total number of awards offered since 2001 to 77 for formal training and 10 short courses, fully utilising USD2 million that has been granted by Taiwan/ROC for the years 2000-2003.

3. The long term scholarships cover institution fees and allowances for books, accommodation, living, as well as one return economy air fare. The short term awards provide for airfares, per diem and any attachment charges.

4. Among the current fields of study are: Education, Health, Management (Public and Financial), Resources Management (Marine, Land), Agriculture, Engineering, Information Technology, and Tourism. Countries are given the opportunity to update these fields annually.

5. The majority of students are enrolled in the Suva based University of the South Pacific and other institutions in Fiji. Other accredited

institutions in the region (excluding Australia and New Zealand) are included, and in the North Pacific, Universities of Hawaii and Guam and Community Colleges.

6. In December 2002, the first five to graduate under the Scheme were: Ms Emele Kafoa (Postgraduate Diploma in Education Administration), Ms Loraini Sivo (Postgraduate Diploma in Tropical Fisheries), Ms Shalini Kanta (Postgraduate Diploma in Education-Special Needs), Mr Sailesh Ram (Postgraduate Diploma in Management and Public Administration), Dr Roman Chute, (Postgraduate Diploma in Surgery). The first graduates were all at postgraduate level, however, the majority of students, around 74% are undertaking undergraduate studies.

7. The Scholarships are advertised around September for the following year. For further information check the Forum Secretariat web site www.forumsec.org.fj or contact Programme Implementation Officer on telephone (679) 3220 333, fax (679) 3305 880 or email: toakaser@forumsec.org.fj

FORTHCOMING HIGH LEVEL MEETINGS – 2003

FEBRUARY

12-14	Gender and Trade Workshop, Nadi, Fiji
14-16	ACP-EU Second Ministerial Negotiating Session, St Lucia
24-25	Forum on Donor Practices Harmonisation, Rome, Italy

MARCH

16-23	3 rd World Water Forum, Kyoto, Japan
17-21	Workshops on Millennium Development Goals, Nadi, Fiji
22	ADB Pacific Regional Environmental Strategy, Nadi, Fiji
24-25	WSSD Outcomes Stakeholder Consultations, Nadi, Fiji
26-27	Sustainable Development and Economic Policy and Planning Workshop, Nadi, Fiji

APRIL

7-8	PITA Annual General Meeting, Suva, Fiji
9-11	Pacific Islands Regional Consultation for the WSIS, Suva, Fiji.

MAY

- 5-9 4th Western and Central Pacific Tuna Convention PrepCon, Fiji
 15-18 PALM 2003, Okinawa, Japan
 30-31 Heads of CROP Meeting, Honiara, Solomon Islands

JUNE

- 2-6 Forum Trade Ministers Meeting (TBC)
 9 NSA Pre-FEMM Roundtable (TBC)
 10 FEMM Ministerial Workshop, "Economic and Social Development and the Environment",
 Majuro, Republic of Marshall Islands
 FEMM Officials Meeting, Majuro, Republic of Marshall Islands
 11-12 Forum Economic Ministers Meeting, Majuro, Republic of Marshall Islands
 13 Pacific Island Countries/Development Partners Meeting, Majuro, Republic of Marshall Islands

Trends and Developments is produced by the Forum Secretariat's Development and Economic Policy Division. The information in the bulletin is drawn from a variety of sources and every effort has been made to ensure factual accuracy at the time of publication. Please direct any comments or enquiries to:

Editor: Economic Policy Analyst
 Address: South Pacific Forum Secretariat, Private Mail Bag, Suva, Fiji
 Tel: (679) 331 2600
 Fax: (679) 330 0192

E-mail address: filimonew@forumsec.org.fj

(Just send an email with 'Trends and Developments' in the subject line to be added to our electronic mailing list)

Visit our Web Site at: <http://www.forumsec.org.fj>