Blue Pacific Economic Strategy (BPES) Revised Draft Concept Note

A. Background

- 1. The Blue Pacific Economic Strategy (BPES) will outline the economic strategies to help deliver the 2050 Pacific strategy, which is being tabled for Leaders' consideration in July 2022, and is proposed to be tabled to the Forum Economic Ministers Meeting (FEMM) in August 2022.
- 2. In light of the extreme risks posed by the COVID-19 pandemic on Pacific economies, the original premise for BPES is being reviewed and re-framed to contextualise the impact of the pandemic on the economic strategies for recovery, as this will shape the economic pathway trajectory for the blue pacific economic strategies to achieve the 2050 vision.
- **3.** This revised BPES concept note adheres to the FEMM 2021 decision to be presented once the 2050 Strategy is endorsed. Once approved, the implementation plan for 2050 strategy will be developed. In tandem, once the BPES concept note is approved, the formulation of BPES will commence alongside the 2050 strategy implementation plan, to ensure alignment of the economic envelope to fund the implementation of the 2050 strategy, underpinned by the sustainable growth and transformation of Pacific economies.

B. Posterity Context for Pacific BPES

- 4. BPES is cast in an increasingly globalized world and in a century where the center of global economic power is expected to shift, in which the Pacific is expected to feature as a strong collective of large ocean states as geo-political interests shift. BPES seeks to re-imagine our economic destiny and go beyond our physicality and smallness to tap our blue pacific and knowledge economy as our sources of economic differentiation over the next three decades. Whereas traditionally, our smallness has been an achilles heel, history has shown that the Pacific's geographical positioning has been our greatest asset when there is global uncertainty.
- **5.** BPES is also being developed in an era of climate consciousness where there has never been a point in human history where so much funds have become available and accessible to the Pacific as small-island states for climate adaptation. While riddled with complexity on the dynamics of developed and developing countries and the multi-lateral system, and complicated access mechanisms, the organization, assertiveness and savviness of the region to access this window of climate finance sources without attracting it as debt and accessing as much of it while its available, is a critical playbook. The opportunity cost is the rate at which it takes to get things done and the lack of strong co-ordination to drive this coherently across the region. This is an opportunity that is ours to lose.
- **6.** A crisis is an opportunity. COVID-19 has had mixed blessings, while the Pacific would not have been able to survive 27 months of border closure without development partners help, and while abundant funds (debt and grant alike) have been made available to defend against COVID-19 and support economies, this tap will run-off as the world recovers. Global austerity is shifting development financing towards policy-based lending and possibly condition-tagged grants, which means that collective regional commitment towards reforms for economic transformation will be critical to continue to access our traditional sources of financing. In the spirit of these reforms, we will have to consider leaving no stone unturned in our quest to leave no one behind, to ensure we strengthen our fiscal foundations and fiscal austerity, not only so that we can access funds from donors, but also for our own dignity and posterity to protect our people, our children, our islands, our nations and our region, as we prepare for an uncertain thirty years ahead.

C. Objective

- 7. The objective of this concept note is to:
 - a. Outline the high-level linkage between the 2050 Strategy and the strategic approach to the Blue Pacific Economic Strategy (BPES)
 - b. Outline the critical considerations to develop a robust and responsive economic and financial strategy for the sustainable economic prosperity Pacific

D. Blue Pacific Economic Strategy linkage to 2050 Strategy

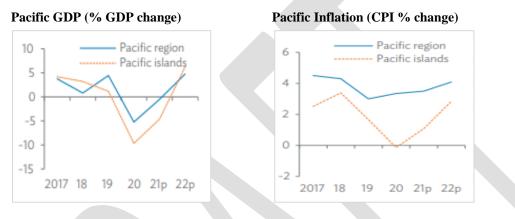
- **8.** The 2050 Strategy has seven pillars. The Resource and Economic Development pillar is the key linkage to BPES, and underpins the key linkage between the sustainable management of the region's natural and human resources and the optimization of economic wealth from these resources. BPES is also intricately linked to all the other six 2050 Strategy thematic areas of political leadership and regionalism, peoplecentered development, peace and security, climate change, ocean and environment and technology and connectivity, as the key economic road map to achieve these aspirations.
 - **9.** The design of the BPES aims to reach beyond the traditional limits of physicality and smallness, to focus on critical areas of comparative advantage to: (1) fully leverage our large Pacific oceans through the blue economy strategic work that feeds into BPES; and (2) connect Pacific human knowledge and skill, enabled by technology, to transform knowledge to develop industries of the future in key sectors where the Pacific has a global niche. **The four (4) core BPES economic goals are:**
 - a. Grow and Diversify the Economic Pie
 - b. Strengthen Economic Defenses from Shocks
 - c. Optimize Blue Economy Revenue Potential
 - d. Future Proof Pacific Economies
 - **10.** The Blue Economy Strategy, a key component of BPES, aims to develop an integrated, coherent and coordinated regional approach to a sustainable ocean economy, and is linked to both the Ocean and Environment, Climate Change and the Resource and Economic Development theme in the 2050 Strategy. The Blue Economy concept note has been developed with support from the UNDP. The blue economy work has been progressed and will be sequenced with BPES once the BPES concept note is approved, as the blue economy strategy is part of the broader Blue Pacific Economic Strategy.
 - **11.** At the core of BPES, are the inter-linkages on Core Blue Pacific economic sectors consisting of blue economy (fisheries, non-fish ocean resources), tourism, blue trade corridors (shipping, ports), blue sky (airlines) that need to be strengthened. The rest of the economic sectors will be inter-linked and enabled under the same BPES overarching strategic considerations in this concept note.



- **12.** As BPES will be formulated in tandem with the 2050 strategy implementation plan, the economic envelope needed to fund the 2050 strategies will be determined once the 2050 implementation plan is developed. Once the initiatives have been identified, they will need to be costed, prioritized, and resourcing identified from members, development partners, and other sources.
- **13.** The BPES economic strategies and key economic indicators would underpin the economic growth levels that Pacific countries will need to sustain in order to generate the financial resources to sustainably fund national and regional goals in the 2050.

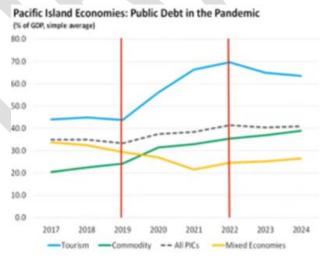
E. Impact of COVID-19 on Pacific Economic Recovery and BPES

14. The baseline for the BPES will be based on the COVID-19 impact period, and the economic effort to get from the COVID-19 through to the pre COVID-19 peak will be a critical focus for BPES strategies, and will shape the economic pathway in the medium to long-term.



Source: ADB Pacific Economic Outlook – December 2021

15. The double deficit impact of COVID-19 on Pacific economies trade deficit and fiscal balance deficit positions was highlighted extensively in both the Pacific Regional Debt Conference (PRDC) and the Public Financial Management Symposium (PFMS). This has led to debt distress vulnerability with elevated debt to GDP levels in tourism dependent Member countries in particular, with a divergent impact across the region with commodity and mixed economies absorbing the shock in better form as shown below.



Source: IMF Presentation, PRDC, April 2022

16. The key priority areas identified from these forums will also be prioritized in the short to medium term economic strategies in BPES. The PRDC **Regional Economic Recovery Enablers** priority areas are (1) strengthen access to global financing, (2) accelerate climate finance access and disaster preparedness, (3) accelerate establishment of regional and national counter-cyclical buffers, (4) strengthen regional economic formation and guidelines, (5) strengthen regional strategic financial/economic dialogue and (6) conduct financial feasibilities (for pacific development bank, debt swaps and ocean monetisation) and (7) strengthen financial competency training program. The **Members Economic Recovery** priority areas are

(1) manage Pacific debt distress sustainability, (2) expand access to interim recovery financing, (3) drive revenue re-acceleration and diversification, (4) rationalize expenditure, (5) tighten social safety net effectiveness monitoring, (6) improve project management effectiveness, (7) reduce access to market costs to grow trade, (8) strengthen fiscal policy responsiveness and forward planning, and (9) align fiscal and monetary policy co-ordination.

F. Risk-based Approach to BPES Key Economic Goals

- 17. The BPES economic goals are shaped by the key economic risks that the region faces. This risk-based approach to fiscal and development planning is crucial for the prioritization of scarce resources to achieve the most urgent development goals. The key economic risks in the Pacific emanate from a mixture of sources. These can be broadly classified as systematic risks (such as climate, disaster, nature-induced risks, geographical positioning and size) that can be addressed by shifting mind-sets, and driving proactive, innovative, long-term solutions; and controllable risks (such as legacy risks, systemic and structural risks, decisioning risks), which can be reduced through stronger economic transformation management. Undoubtedly, COVID-19 induced risks have compounded and exacerbated all pre-existing economic risks.
- **18.** BPES will need to address the key economic risks facing the Pacific which are broadly clustered below as well as the implementation of the 2050 Strategy. These are overall revenue and ocean revenue risk, funding and debt distress risk, reform agility risk, expenditure/efficiency risk, economic structure and intervention design risk, stakeholder engagement and co-ordination risk, economic competitiveness risk, cultural, capacity and governance risk.

| CORE PACIFIC ECONOMIC GOALS TO GUIDE BPES | | | | |
|---|--|---|---|--|
| Grow and Diversify the | Strengthen Economic | Optimize Blue Economy | Future Proof our | |
| Economic Pie | Defenses from Shocks | Revenue Potential | Economies | |
| | | | | |
| Grow the Regional GDP Sustainably | Strengthen Regional Economic Formation | Develop regional blue economy framework and | Drive Industries of the Future with a Pacific | |
| Diversify and Deepen | Strengthen Regional | cascading national blue | Niche | |
| Revenues based on | Counter-Cyclical Fiscal | economy frameworks | Make Our Industries | |
| Strengthened Sectoral | Defenses for Better | Valuation of ecosystem | Globally Competitive | |
| Focus | Shock Resilience | goods and services | Remove and Unclog | |
| Optimise Revenues from | Support Governments to | Investments in ocean | Legacy Bottlenecks | |
| Blue Economy and | Lift Efficiency and | health and integrity | Build up SOEs to be | |
| Natural Resources | Citizen Services | Develop nature-based | Regional Champions | |
| Increase Global and | Provide Job | solutions to support | Strengthen Intra-Pacific | |
| Regional Trade in Goods, | Opportunities for | economic recovery (blue | Trade | |
| Services and Labour | Growing Population | bonds, climate and | Invest Outside the | |
| Make Regional Logistics | Ensure Harmonious | resilience bonds, ocean | Region | |
| Efficient and Reduce | Reforms are Completed | carbon credits) | Strengthen Governance | |
| Access to Market Costs | and Result in Material | | and Accountability | |
| Debt and Funding | Uplift | | Mechanisms | |
| Accessibility, | Ensure Development | | Strengthen Economic | |
| Diversification and | Spend Effectiveness | | Managerial Skills | |
| Sustainability | Improve Ease of Doing | | | |
| Strengthen SOE and | Business with Citizens, | | | |
| private sector growth | Investors and | | | |
| | Development Partners | | | |

| RISK-BASED APPROACH BPES | | | |
|--|-----------------------------------|---------------------------------|---------------------|
| Overarching Systematic Risks - Climate and Disaster Risk, Geographical Positioning, Size | | | |
| Revenue and Ocean Revenue Risk | Funding and Debt Distress Risk | Expenditure /Efficiency Risk | Reform Agility Risk |

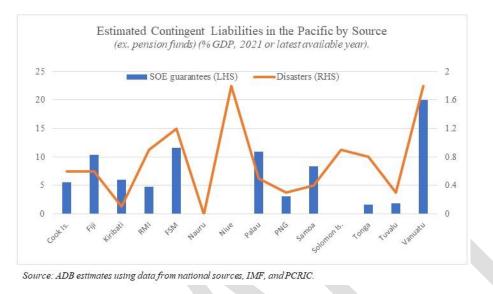
| Revenue Size and Lack of Diversification Lack of Economic Resource Maximisation Sectoral Performance Ocean Asset Mapping & Stock-take Ocean Financing | Sustainable Funding Debt Sustainability Lack of Counter-Cyclical Fiscal Buffers Climate and Disaster Funding | Development Funding and Effectiveness Expenditure Consolidation and Rationalization Government Execution and Efficiency | Sector Reform SOE Reforms PFM Reform All Reforms Scenario Modelling and Planning |
|---|---|---|--|
| Economic Structure and Intervention Design Risk and Co-ordination R | | Trade and Economic Competitiveness Risk | Cultural, Capacity and Governance Risk |
| Regional Structure Misalignment Enablement and Execution Alignment Poor Economic Policy Intervention Design | Government – Stakeholder Relations Poor Regional Co- Ordination | Trade Growth Access to Market and Logistics Sectoral and Industry Competitiveness Ease of Doing Business | Poor Monitoring of KPIs Poor Accountability Mechanism Performance Culture Deep Human Capacity |

19. For Members to be more resilient to shocks, especially climatic and disaster shocks which are now business as usual risks (that are here to stay) as a permanent feature of our planning horizon, BPES must consider economic/financing strategies to de-risk such as insurance at multiple levels, Government, private sector, household; the need for liquidity sources to cushion the immediate shock impact as well as fund rehabilitation; and the need to build forward stronger, so that continuous reconstruction costs can be contained. A key PRDC outcome was also to have catastrophe clauses embedded into all concessional debt agreements to provide a safety net to countries. Strengthening financing toolkits for policy makers, and accelerating action on preparedness to access various external sources of financing will be key enablers in BPES.

G. BPES Regional Comparative Advantages and Sectoral Growth Strategies

- **20.** A bedrock pillar for BPES will be aligning regional and national sectoral strategies to drive the Pacific's comparative advantages to grow domestic sectors and grow export of goods, services, labor and import more capital to narrow both the current and capital account deficit sustainably. Strengthening traditional sectors will need to be balanced with building industries of the future for the Pacific, to diversify Pacific economies. The knowledge economy is the most vital to reach beyond the traditional limits of Pacific physicality and smallness. In addition, given the sectoral impact of COVID-19, deep sectoral focus will be important to identify BPES key sectoral risks and thematic strategies. These will be mapped to existing regional sectoral bodies initiatives, member sectoral strategies and development partner sectoral areas of work.
- **21.** BPES must also align to the Pacific Aid for Trade Strategy (PATS) 2020-2025, which is focused on four thematic areas: the services sector, electronic commerce, comprehensive connectivity, and deepening Forum markets, based on four guiding principles, strategic regional impact, prioritization, leveraging existing policies and mechanisms, ownership. The impact of this strategy on lifting Members Ease of Doing Business rankings will shape the trade pathway for BPES.
- **22.** A branch of the PATS is the regional e-commerce strategy roadmap, which outlines efforts to leverage ecommerce to lift tourism, and commodity and service-based export industries, fisheries, kava, pharma, agriculture and agro-processed products; Pasifika's creative industries, cultural handicrafts, and textiles; pearl farming; call centres and other business process outsourcing services; online education and health. The export of labor is another key industry, that will also lead to the growth of remittances and can diversify sources of GDP growth.
- **23.** Strengthening tri-partite regional and national relations between Government, private sector /regional sector bodies and domestic and international financial institutions will be crucial to correct end to end sectoral design, implementation and incentive misalignments in order to unlock blockages inhibiting growth in key sectors, while building new industries.

24. The critical nexus between State-Owned Entities (SOE) as mostly monopoly service providers of public and quasi-public goods, and the Private Sector, as risk investors is critical to enable industry transformation. Pacific countries are at different stages of SOE commercialization. Pacific Governments, through State-Owned Entities, play a vital role to enable private sector growth, however the public-private risk-sharing has yet to mature as evidenced by mixed SOE reforms in the last three decades. The Pacific operates on a big Government model, therefore, in order for Governments to enable private sector transformation, Governments and SOEs will need to transform faster to respond to a rapidly changing business landscape, de-risk Government, operate credible Government businesses and reduce contingent liability pressure, which as shown below is mostly driven by SOEs and disasters.



H. Integrated Regional Financing and Development Planning Approach to BPES

- **25.** BPES will need to ensure an integrated and innovative development financing approach to strengthen financing inter-linkages between Government and development partner financing at three levels:
 - a. Regional development and financial planning inter-linkage between 2050 strategy and BPES
 - b. National development plan and financing/fiscal strategy inter-linkage
 - c. Sectoral financing strategies aligned at regional and national level
- **26.** A forward-looking regional medium to long-term fiscal framework is crucial with the heightened debt and vulnerability profile for the region, and strengthened capacity in economic and fiscal modelling between central banks and ministries of finance and national planning, with the support of development partners is key. A phased multi-year BPES will also support scenario planning and stress testing to strengthen financial contingency planning for BPES as economic outcomes are path dependent.
- **27.** BPES must be underpinned by fiscal prudence and good public financial management governance principles for the Pacific to *save for a rainy day and re-invest into our futures*. Rule-based approaches will be critical to build up shock buffers or re-invest economic resources. For example, putting aside a percentage of revenue for fisheries re-investment as a strategic revenue generation investment, or appropriating funds annually for disaster or sovereign fund build-up to improve shock absorption capacity. We will also need to enable more sustainable ways to fund education, health and basic utilities. As the Pacific moves towards sustainable development policy-based lending and condition-tagged grants with high debt distress, fiscal governance reforms will be critical for BPES to be successfully executed.
- **28.** Mapping a whole-of-region economic envelope will need to include the various existing and new sources of finance, as well as financial support flowing outside the Government system from development partners. This will enable the return on investment on both the Government and partner development dollar, to be broadly assessed. BPES must be linked to not only economic output/financial indicators but also development effectiveness uplift, and mapped to Sustainable Development Goals.

I. Regional Economic Formation to Implement BPES

- **29.** At a fundamental level, the Pacific will need to get the basics right first to execute BPES well. The backbone for BPES implementation is supported by two key proposed initiatives that will strengthen the regional economic architecture and structural formation to deliver BPES, while also overseeing the implementation of consolidated actions from various dialogue outcomes. These are:
 - a. The continuity of CERT to the **Pacific Economic Committee** (**PEC**), consisting of Secretaries of Finance to drive the implementation of the economic reform agenda and decisions by FEMM. One of the key goals for the PEC will be to develop, implement and monitor the BPES strategy for FEMM.
 - b. The continuity of regional economic dialogue beyond COVID-19, through a **Pacific Economic Summit**, as a bi-annual pre-FEMM dialogue forum to shape and track concerted regional and national economic recovery and fiscal reform efforts. This Summit will also be the collaboration and consultation forum with development partners on BPES.
- **30.** The above complements existing regional sectoral and economic co-ordination platforms, that will provide a central funnel upwards to FEMM in terms of a consolidated and holistic view of key economic issues that the region needs to address cohesively.
- **31.** This member-led centralised regional economic formation can also contribute to strengthening the regional architecture, which will also be reviewed concurrently with the development of the 2050 implementation plan and the formulation of BPES.

J. Stable Regional Policy Environment for BPES

- **32.** A key principle for BPES is that economic policy enablement in the Pacific will need to be set against a stable, consultative, responsive, agile, forward-looking and predictable policy environment in order for BPES to lead to growth, increased capital deployment. improved ease of doing business, and strengthened implementation capability for economic generation projects.
- **33.** Regional and national economic policy enablement and alignment efforts must be informed by evidencebased economic policy design improvement, review of the effectiveness of economic policy implementation and policy impact assessment. The transmission mechanism of policy interventions needs to be improved as well as it flows through the various spokes of inter-dependent actors to reach communities and citizens.

K. BPES Milestones and Monitoring and Evaluation

- **34.** BPES will need to have clear high-level regional economic milestones and well-defined and measurable key performance indicators. In principle, these will be based on collective economic actions that are mutually agreed, measurable and achievable.
- **35.** Given the diverse nature of members economic structures and the current efforts to improve data quality and reporting at national and regional level, well defined and tailored economic dashboards will be critical to consolidate, monitor, evaluate and report BPES initiatives to PEC and FEMM periodically. The monitoring and evaluation (M&E) of BPES will also be strengthened with the proposed enhancements to the regional economic formation and economic dashboards.

L. Phased Approach to BPES to align to 2050

36. BPES will be phased to align to the 2050 Plan. The envisaged phases for BPES are below, with broad potential indicative milestones (*not exhaustive*) in key phases. The BPES thematic implementation phases need to be mapped to predictable budget and planning cycles, and can be 5-yearly targets with decade themes to set achievable thematic economic goals. This starts with the short-term recovery pathway, setting the trajectory for the medium to long-term goals, keeping in mind that various countries have different development plan pathways in train as can be seen in the National Development Plans (**Appendix 1**).

| | Short-term | Medium-term | Long-term | |
|--|--|--|--|--|
| | 2023-2025 | 2026-2030 | 2031-2040 | 2041-2050 |
| COVID-19 Recovery | Border re-opens fully | | | |
| Revenue | Revenue dip remains subdued Slower than expected revenue pick up Revenue admin. reform | levelsStrengthen Revenue admin all countries | Revenue diversification efforts start to show | Tourism 40% of regional GDP |
| Economic growth | Slow recovery | Pre-covid growth levels | Stable growth | Stable growth |
| Blue Economy | Strengthen regional fisheries revenue initiatives | Blue ocean revenue picks up | Fisheries revenue x% regional GDP | Fisheries revenue 40% regional GDP |
| Debt | Still builds upDebt servicing accounts set up in all countries | Stabilises and reduces | Stabilises as % GDP | Stabilises as % GDP |
| Climate Finance & Disaster Resilience | Climate finance access more organised All countries prepared PRF pledge completed | Target \$200m to be accessed PRF \$100m funded projects | Target \$500m to be accessed PRF funds \$500m of projects | Target \$1B to be accessedPRF funds \$800m of project |
| Regional Formation | Set up PEC to support FEMM implementation CROP Regional architecture review implementation | Start Pacific Development Bank | PDB issues first instrument on Pacific credit rating | PDB and PRF co- finance with multi- |
| | Fiscal buffer depletionGround work for SWFsStrengthen fund governance | Re-accumulate buffersAll countries have formal buffer funds | Consolidated buffers 50% of regional GDP | Consolidated buffers 100% of regional GDP |
| Racenne | Regional Key Performance In formulated, reviewed every 5-y | | | 2023 once BPES is |

M. BPES Formulation Consultation Approach

- **37.** The Secretariat will provide high level strategic direction, economic policy insights and thought leadership for BPES as well as facilitate the development of BPES. BPES consultation will take place with Members, CROP agencies, bi-lateral development partners, multi-lateral development partners, donors, implementing partners, other financing partners, regional sectoral bodies, private sector players, civil society.
- **38.** The high-level sequencing in the BPES formulation process is as follows:
 - a. Secure funding to resource the exercise and the PEC implementation and oversight mechanism.
 - b. Develop detailed milestones for BPES delivery
 - c. Engage the resource to develop the BPES
 - d. Conduct consultations per above
 - e. Draft BPES Structure
 - f. Collate and analyse data, including but not limited to regional sectoral development plans, national development plans, donor/development partner country plans with resourcing plans
 - g. Draft the BPES skeleton
 - h. Co-ordinate development of BPES streams with SMEs
 - i. Align BPES to 2050 implementation plan
 - j. Peer review, socialise draft BPES with member and stakeholders
 - k. Consolidation of various BPES components
 - 1. Develop BPES high-level economic envelope, regional fiscal framework, key economic indicators
 - m. Develop high-level implementation and M&E plan
 - n. Table to CERT periodically for review and endorsement of BPES components.
 - o. CERT to endorse for presentation to FEMM in 2023.

Pacific Islands Forum Secretariat 30 May 2022

ANNEX:

| APPENDIX 1: PACIFIC COUNTRIES - NATIONAL STRATEGIC PLANS TIMELINES | | | | |
|--|---|---------------------------|----------------------------|-----------|
| Pacific Country | Strategic Development Plan Name | 2022-2030 | 2031-2040 | 2041-2050 |
| Fiji | 5-Year & 20-Year National Development Plan Transforming Fiji | | 2017 - 2021 2017 - 2036 | |
| Solomon Islands | National Development Strategy | 2016 - | 2016 - 2035 | |
| Cook Islands | Te Kaveinga Nui National Sustainable Development Plan | 2016 - 2020 | | I |
| Vanuatu | National Sustainable Development Plan (Vanuatu 2030 The People's Plan) | 2016 - 2030 | | |
| Kiribati | Kiribati Development Plan A Wealthy, Healthy and Peaceful Nation | 2020 - 2023 | | |
| Republic of the Marshall Islands | National Strategic Plan | 2020 - 2030 | | |
| Nauru | National Sustainable Dev. Strategy | 2005 - 2025 | | |
| Niue | Niue National Strategic Plan | 2016 - 2026 | | |
| Samoa | Pathway for the Development of Samoa | 2021/2022 to 2025/2026 | | |
| Tokelau | National Strategic Plan | 2010 - 2015 | | |
| Tonga | Tonga Strategic Development Framework | 2015 - 2025 | | |
| Tuvalu | Te-Kete Tuvalu National Strategy for Sustainable Development | 2021 - 2030 | | |