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Can financial regulation play a role to increase resources available and unlock private finance for sustainable infrastructure development? For instance, do you think central banks should try to incentivize domestic banks to lend to priority sectors through portfolio targets, or through voluntary measures? Is there a way to support the pooling of long-term risk capital that can be used to finance sustainable infrastructure projects? More broadly, how can countries attract more international funds for sustainable infrastructure development?

Thank you, Chair.

Let me start with the response to financial regulation and role of domestic financial institutions.

While all the FICs have some form of financial regulatory framework, only six (6) of them have central banks based on their basket peg or managed float currency regimes. The other Smaller Island States (SIS) are dollarized economies and tend to use either the Australian, New Zealand or US dollar as their legal tender. Hence, the degree of financial regulation and flows of finance within the region varies widely depending on the development and macro-prudential objective. For the countries, that have to defend their exchange rate arrangement, they tend to impose stricter foreign exchange control regulation than dollarized economies.

In terms of the market regulation and involving the financial institutions, some countries tend to have stronger working relationship (through regular meeting with Association of Banks/Association of Finance Companies) and tend to use moral suasion to support the countries development/investment priorities as along as does not cause any macro-financial imbalance or threatens BoP of sustainability. All the central banks in the region have a relatively liberalised financial sector, where they do not use directive lending options as in the 1980s and 1990s. I don't think that Central banks will go back to directive lending options.

Nonetheless, the Central Bank and Government can incentivise commercial banks to voluntary mobilise finance in priority by providing support and financial instruments to reduce the riskiness of the project. Noting that donor assistance provide a significant injections for infrastructure projects/programmes in the Pacific and they need to include the commercial banks to partner with government (and/or Multilateral financial institutions) in priority projects and provide supporting financial instruments.

Now, moving on to the second part of question, on pooling of long-term risk capital to finance sustainable infrastructure projects and attracting investment. This was discussed at the recent Economic & Finance Ministers meeting in the region, where the region is looking at regional options through a proposed regional finance facility. The idea here is combine the capital markets for government and private sector, together with a regional trust fund and use of innovative financial instruments to manage risks and optimise use of available finance.

A regional financial arrangement is seen as the best alternative for an insurmountable national option. It is the optimal policy option for improving development financing for regional and national public goods and services with spill-over regional benefits. The proposed Regional Finance Facility will amplify economic and political gains by transforming national markets into a combined regional market for financial assets. As such, countries will be able to fully benefit from the *"Integration Dividend"* by overcoming diseconomies of small national market size, limited financial market participants and investable/loanable funds, high domestic transactions costs, varying degrees of country risks, and limited competition for public and private financing needs.

The concept of the Facility proposes the mobilisation of around 10-20 percent of the regional long-term savings for long-term investment in the region. A preliminary survey of the Provident/Superannuation Funds, Trust Funds, and Sovereign Wealth Funds in the region, highlighted that Forum Island Countries in total own around US$7 billion in financial assets. There is a critical need for Forum Island Countries to consider a regional model for development financing, largely to overcome the non-existent or underdeveloped national financial markets and diseconomies of scale, and to stimulate and sustain economic growth and development in the region. This approach will ensure a minimisation of systematic risks and diversification of unsystematic risks (that is, geographical, country, market, credit, interest rate and political risks), and elevate the Pacific regions' credibility in managing its financial resources.

These regional funds can be used to leverage additional resources from the donors, multilateral development finance and international investors.