

PACIFIC DEVELOPING MEMBER COUNTRIES

ELBUCHEL SADANG, Governor for Palau

(on behalf of Cook Islands, Federated States of Micronesia, Fiji Islands, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu)

It is a great privilege to address the 2008 Annual General Meeting of the Asian Development Bank (ADB), on behalf of the Pacific Developing Member Countries (Pacific DMCs), composed of the Cook Islands, Federated States of Micronesia, Fiji Islands, Kiribati, Marshall Islands, Nauru, Papua New Guinea, Samoa, Solomon Islands, Timor Leste, Tonga, Tuvalu, Vanuatu and my own country, Palau.

Let me join fellow Governors in thanking the Government and people of Spain, and the municipality of Madrid, for the warm hospitality and the excellent arrangements that they have made for this meeting.

Regional Economy

Over the last decade, economic growth in our region has been highly volatile, reflecting the impacts of our vulnerabilities, such as our smallness and isolation, narrow economic bases, dependence on a few export commodities to markets in which we are price-takers, rising oil and commodity prices, and our proneness to natural disasters. In addition, factors such as poor infrastructure, restricted market access and limited institutional capacity have handicapped our abilities to manage globalization effectively to our benefit. We are already experiencing the effects of climate change in our region, and cannot stress how much it is a real and tangible threat to our security and existence.

It has long been recognized that key drivers for change need to be anchored in improving our macroeconomic management, and in facilitating the development of a more robust private sector. The pursuit of these objectives has driven substantial reform efforts by our members, at a pace that capacities of our local institutions can support.

The Pacific Economic Survey 2008, released earlier this month by the Commonwealth of Australia, estimates that the region's combined GDP is projected to grow by 4.5% in 2008, up from an average of 2.8% between 2005 and 2007. While our growth prospects are encouraging, our region needs to sustain growth at much higher levels.

We acknowledge the ongoing assistance provided by our development partners, including ADB. However, we recognize that much more can be achieved through strengthened partnerships with ADB if the region is to be in a position to achieve its growth potential. We therefore wish to

collectively highlight a number of priority areas requiring ADB's attention, and also offer some suggestions on the form of assistance required.

Representation and Presence

We acknowledge the presence of ADB through its offices in Manila, Sydney, and Suva, and express our appreciation of ongoing efforts by ADB to further improve access to services these offices offer to Pacific DMCs.

Innovative approaches like the proposed co-location of World Bank and International Monetary Fund (IMF) staff through the offices of the Pacific Financial Technical Assistance Centre (PFTAC), and establishing joint offices with other international financial institutions in member countries are encouraged. Such arrangements will further streamline our access to ADB's resources and expertise. In this regard, ADB is strongly encouraged to draw on able local expertise to reinforce its understanding of the diverse cultures and special needs of the Pacific region.

A recent Operations Evaluation Report found that the ADB's technical assistance (TA) had been only "partially successful" overall and that "considerable improvement" was required. We feel that by using local or regional expertise, levels of ownership in TA and policy advice provided by ADB will be enhanced further. Perhaps this point may be underscored by the fact that currently the ADB Pacific Department (PARD) and its subregional offices have less than 5% of their professional staff from Pacific developing member countries (DMCs). ADB needs to offer equitable terms and conditions of employment to all potential candidates, including those from Pacific DMCs, for professional positions within PARD and its subregional offices.

Climate Change

Our region is directly affected by climate change. We cannot overemphasize the need for ADB to immediately deliver a package of initiatives that would facilitate adaptation to climate change. Whilst our region may not be the only one affected, the impact, relative to our smallness and isolation, is significant. Our concern and urgency for action is underscored by the already felt impacts of cyclones, flooding, drought, and rising sea levels. It is therefore crucial for Pacific DMCs that ADB concentrate not only on combating climate change through mitigation strategies, but also focus on the means by which members can adapt to climate change.

We reiterate our request made last year, for assistance to explore the relevance of the Caribbean Catastrophe Risk Insurance Facility, and to facilitate its implementation in our region.

Additionally, we encourage consultations with ADB regarding its climate change adaptation and mitigation strategies and their relevance and practical applications to Pacific DMCs. In particular, the conditions and requirements for access, and where necessary, accelerated processes to support access to resources for Pacific DMCs.

Finally, we strongly endorse the establishment of a Special Fund as a safety net, to be made available for the needs of the Pacific people who have lost their livelihoods, are displaced, and have to be relocated as a result of the effects of climate change.

Energy and Commodity Prices

We are faced with the serious challenge of dealing with the effects of the protracted rising oil prices on our vulnerable fiscal balances and balance of payments. Oil price hikes have had an almost immediate impact on our economies through effects on consumer prices for retail fuel, and indirectly through other channels including rising production costs, which all lead to higher inflation. The combined inflationary impact of higher oil prices and the rise in basic commodity prices will only exacerbate the difficult conditions affecting the livelihood of our Pacific peoples, especially the poor.

In that context, we strongly support ADB's renewed emphasis on clean energy, support for energy efficiency, and renewable energy projects. Furthermore, we urge ADB to lend its expertise and resources to the development of regional or subregional solutions such as bulk procurement of petroleum products that are currently being explored by the Pacific Islands Forum Secretariat, which I understand will be considered by Forum leaders at their meeting in August this year. This initiative, if swiftly implemented, could provide some assistance to Pacific DMCs over the medium to long term.

Donor Harmonization

A number of our members are party to the Paris Declaration on Aid Effectiveness and more have indicated endorsement of the declaration. Pacific DMCs rely heavily on external funding assistance to support infrastructure development projects. However, from our perspective, we have priorities in specific areas which may not be aligned to the development frameworks, policies or agendas of our development partners. In this regard, we encourage ADB and other donors to consider moving toward the implementation of the principles of aid effectiveness in the Paris Declaration as well as the Pacific principles.

An important option to consider would be for donors to provide direct budget support to Pacific DMCs, subject to principles of good governance and transparency mechanisms. This would result in access to a larger pool of resources dedicated to national priorities with an emphasis on commitment efforts, and therefore greater ownership by Pacific DMCs. We are aware that the corollary to this would be capacity building and a review of financial management systems to ensure that we are ready for such a shift in the means of delivering aid. The proportion of funding assistance under this arrangement would then be subject to bilateral assistance discussions.

Although there are only a few key development partners in the region, donor harmonization is critical, as it would relieve many of the fledgling aid coordination mechanisms of the Pacific DMCs of administrative pressures as well as provide guided direction to any new donors to the region.

We would encourage ADB and other development partners to pool resources, including TA, participate in joint missions and share analytical studies so as to avoid overlap and duplication and ensure aid effectiveness.

To wrap up on this particular topic, we encourage ADB to continue its support to promote donor harmonization and encourage the alignment of systems, processes and procedures, especially to those of countries where there is demonstrated capacity to do so.

Asian Development Fund (ADF) X Replenishment

Let me stress that access to concessional and grant resources is a key measure in assisting Pacific DMCs. We would like to congratulate ADB and the donor community for the successful conclusion of the ADF X negotiations, which has resulted in a substantial increase by as much as 60% compared with ADF IX. In this regard we would request an increase in the reserve ceiling for Pacific DMCs, given our special circumstances and vulnerabilities.

The need to strike an equitable and proportional balance in the allocation of ADF X remains in our view an obligatory and fiduciary responsibility of ADB and its donors, especially given our resource needs for implementing programs and activities to meet the Millennium Development Goal targets set for 2015.

On the criteria for ADF grant allocation and the matter of country classification under ADB's graduation policy, the explicit focus on debt sustainability as the key criteria may prove to be too narrow an indicator, given that it fails to recognize special needs of Pacific DMCs, with regard to environmental vulnerability and limited essential infrastructure. As a result, some Pacific DMCs classified as category C borrowers stand to lose significantly on concessional lending and will now only be able to access loans at the more costly ordinary capital resources (OCR) rates. As a matter of priority we request ADB to revisit the matter of classification given the adverse implications for the Pacific DMCs, especially with current world trends making it more difficult to source funds to develop much needed infrastructure essential to protect Pacific DMCs from climate change.

Cost-effective Financing

In addition to ADB's efforts to enhance development effectiveness, streamlining business processes and reducing cost of doing business, we call for more cost-effective ways of structuring loans to Pacific DMCs. In this regard, packaging of several loans within each country into a consolidated product is encouraged to promote greater efficiency in resource allocation and utilization as well as to improve debt servicing. This will particularly assist those Pacific DMCs who have limited capacity, thus significantly reducing the transaction costs of managing loans.

Furthermore, ADB is requested to explore innovative financial products that allow for the re-financing of commercial debt relating to essential infrastructure developments for Pacific DMCs, at more concessional rates.

Regional Cooperation

The Pacific Plan complements, and to some extent supplements, national efforts in pursuit of economic growth for the Pacific region. I therefore urge ADB to consider relevant initiatives of the plan, particularly those targeting economic integration which were agreed upon at recent meetings of the Pacific Forum Leaders and Forum Economic Ministers Meeting (FEMM), in the areas of customs, labor mobility, statistics, and economic regulation. In this regard, knowledge products and resources provided by ADB to develop the regional audit initiative is commendable.

The regional TA currently undertaken by ADB, aimed at enhancing economic cooperation within the framework of the Pacific Plan, is expected to reinforce regional and subregional priorities

and initiatives identified by Forum Leaders and FEMM. We hope this will result in further development partner support and timely resource provision from ADB in particular.

The Pacific DMCs reiterate the 2007 FEMM resolution for the active engagement of ADB with the Pacific Islands Forum Secretariat to further progress the relevant initiatives of the Pacific Plan, and to coordinate the preparations and groundwork for PDMC Governors Meetings in the future.

Conclusion

Let me express our appreciation to the Management and staff of ADB for their ongoing commitment and support of our regional and national development priorities.

As a final note, Mr. President, let me take this opportunity to encourage you to visit the Pacific developing member countries, whereby you will experience first-hand the diversity and of course, the unrivaled warmth of the Pacific peoples.