



DEVELOPMENT EFFECTIVENESS BRIEF

Pacific Subregion

SUBREGIONAL DEVELOPMENT SETTING

1. The Pacific subregion considered in this development effectiveness brief comprises 12 developing member countries (DMCs)—Cook Islands, Fiji Islands, Kiribati, Federated States of Micronesia (FSM), Marshall Islands, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Papua New Guinea and Timor-Leste are the subject of separate briefs. The Asian Development Bank (ADB) has provided both country level and regional level assistance in support of development in the Pacific subregion.
2. **Poverty and Human Development.** Rapid population growth, limited new formal sector employment opportunities, urban drift, and changes in traditional support mechanisms have led to a growing proportion of people in the Pacific recognized to be living in poverty. These people lack access to social services, face unemployment, and struggle for housing and other basic needs. Per capita gross national product (GNP) figures vary significantly across the Pacific; available 2006 data indicate a range from \$680 in Solomon Islands to \$7,990 in Palau. However, these figures do not reflect actual consumption and welfare levels as they do not account for the high cost of living in small island states and the extent of subsistence lifestyles.
3. **Economic Growth.** Gross domestic product (GDP) growth in the Pacific averaged only 1.5% annually over the last decade, causing the subregion to fall further behind other developing regions of the world. This low level of economic growth means that the subregion is unable to provide the financial resources necessary to keep pace with the aspirations of its growing population. While external factors played a role in this, internal constraints also hampered the generation and management of economic growth. In particular, key areas of macroeconomic and financial management need to be strengthened across the subregion.
4. **Challenges and Constraints.** The very nature of the small island states in the Pacific—isolated, with limited resources, reduced land area, and small populations—is already a significant development constraint. In addition, political instability, civil unrest, weak governance, and corruption also contribute to poverty and low rates of economic growth. The inefficient delivery of services and the absence of a competitive private sector further add to the high cost of living and limit economic diversification. Small islands also remain particularly vulnerable to natural disasters and the effects of climate change. It is therefore not surprising that many of the weakly performing countries among ADB's DMCs are in the Pacific. Indeed, all Pacific DMCs exhibit characteristics of fragile, vulnerable economies.

ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

Volume and Performance of ADB Operations

5. Between 1995 and 2006, 39 Asian Development Fund (ADF) loans and grants were approved and \$242.8 million was disbursed in the Pacific subregion, covering all sectors of ADB assistance (figures 1 and 2). Over this same period, countries in the subregion also benefited from \$60.4 million in technical assistance (TA), aside from assistance at the regional level. Project completion reports were prepared for 35 projects in nine countries. Of these, 1 was rated highly successful, 16 were rated satisfactory, 15 were rated generally or partially satisfactory, and 3 were rated unsuccessful (figure 3).

Highlights of ADB Results

6. **Overall Impact of ADB Assistance to the Pacific Subregion.** ADB's traditional role in the Pacific as a project bank in key sectors such as infrastructure is effectively complemented by its activities as a knowledge bank. Through its TA projects, ADB supports extensive economic, sector, and thematic work, including the widely read Pacific Studies Series. ADB also plays an important role as a partner in supporting key reform efforts (e.g. private sector development) and in policy dialogue and donor harmonization efforts. ADB's activities in the Pacific, both at the national and regional levels are guided by the Pacific Strategy 2005–2009: Responding to the Priorities of the Poor. Key benefits arising from completed and ongoing ADB assistance towards the three objectives of the strategy are illustrated below.

7. **Promote a Conducive Environment for the Private Sector.** Creating an environment in which micro, small, and medium-sized enterprises—formal and informal, domestic and foreign—can develop is critical for the economic and social well being of the Pacific subregion. To ensure a sound basis for ADB interventions, in-depth private sector assessments were conducted for five countries, as well as for the subregion as a whole. These assessments commonly identified difficulties faced by small businesses in accessing finance.
8. Technical assistance to Solomon Islands and a loan to FSM have supported the implementation of legal, regulatory, and technical secured transactions frameworks that allow for the effective pledging of movable assets and recovery in the event of loan default. The result has been an increased number of secured loans (in the first 3 months of operation in FSM, 770 secured loans were filed with the online registry) and a broader range of borrowers. This approach is being replicated in the Marshall Islands and Vanuatu.
9. In Samoa, the Small Business Development Project, as of December 2006, has supported a total of 546 loans under its small business loans guarantee scheme, and a further 53 loans under its microfinance facilities. In addition, business training is being provided through its small business enterprise center.

Figure 1

Asian Development Fund Disbursements
1995–2006 (\$ million)

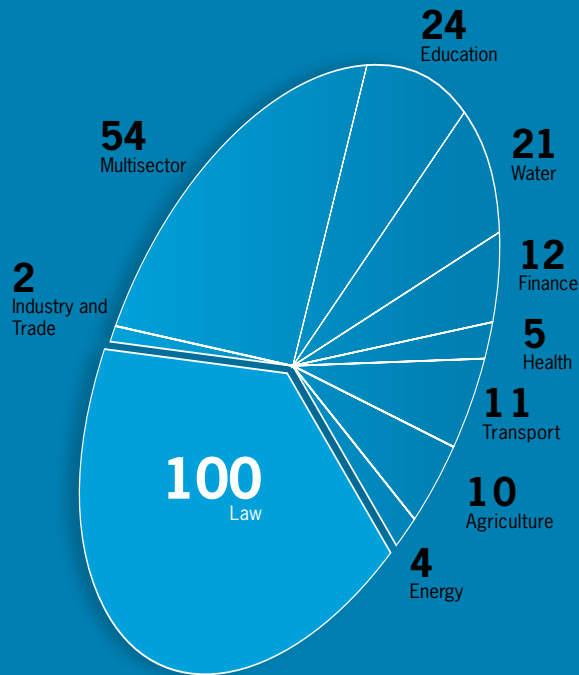


Figure 2

Asian Development Fund Loans and Grants
Approved, 1995–2006 (number of projects)

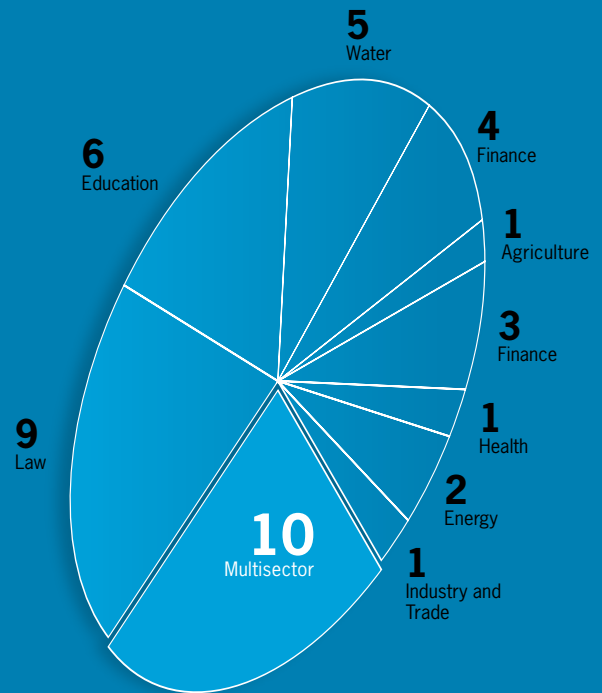
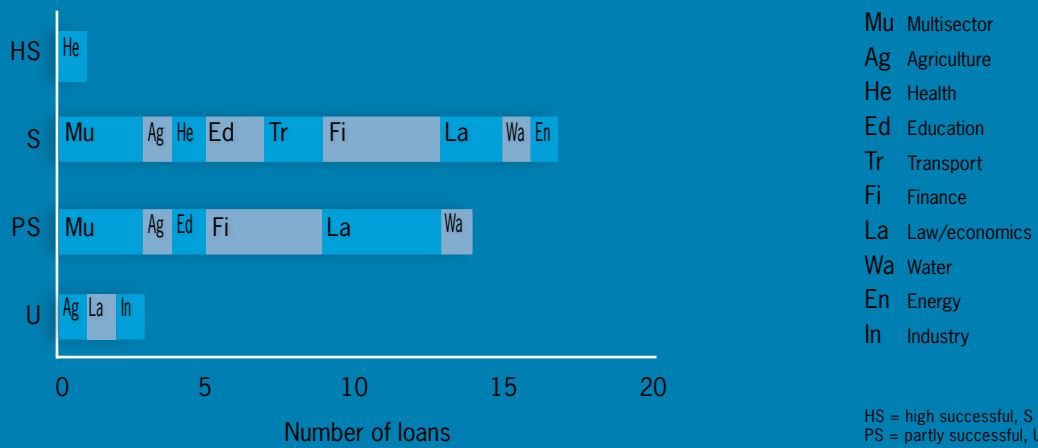


Figure 3

Project Completion Report Ratings, 1995–2006



Aviation Safety and Security

The Pacific DMCs consist of thousands of islands spread across 30 million square kilometers of ocean. Modern air transport is essential for tourism and trade, which enable economic growth and reduce poverty. The establishment of the Pacific Aviation Safety Office (PASO) by 10 countries makes it possible to provide the necessary regulation and oversight to ensure that regional aviation operations meet international standards through harmonization of regulations, training, and inspections.

The direct beneficiaries of PASO include the governments of member countries that will be able to rationalize their civil aviation administrations and lower public sector costs, 43 air transport operators with a total of 266 aircraft employing nearly 4,000 licensed personnel who will experience lower regulatory compliance costs and more responsive services, and all users of air transport who will benefit from higher safety and security standards.

PASO's mechanism of intergovernmental finance, its establishment through a treaty, and its governance by a council of directors, form a model which could overcome political hurdles and make other regional projects feasible in the future. PASO also presents a new mechanism for ADB support to regional cooperative solutions that address the well-known problems of scale and capacity in the Pacific region.

10. In such a geographically spread area, transport is crucial to development, particularly in allowing the growth of trade in goods and services. ADB has played a key role in financing essential transport infrastructure, enhancing capacities to manage transport facilities, and creating a policy environment conducive to transport development in the subregion (see box).
11. In the Solomon Islands, three transport infrastructure projects are helping restore social and economic activities following a period of civil conflict and a recent

natural disaster. The Post-Conflict Emergency Rehabilitation Project (PCERP), Road Improvement Project, and Emergency Assistance Project all focus on improving the capacity of the transport network to support rural development, spur economic growth, and reduce poverty. More reliable transport services will increase the ability of rural people—who make up nearly 80% of the population—to market their produce, derive additional income from natural resources, and access health and educational services. Already, the PCERP has provided 95 kilometers (km) of sealed roads and 50 km of unsealed roads, and has rehabilitated and repaired 50 bridges. These facilities have provided reliable and safe access to about 300,000 Solomon Islanders. The other two projects have a similar scale of civil works for roads and bridges.

12. **Enhance the Supply and Demand for Quality Basic Social Services.** Access to clean water, energy, transport services, health services, and education are vital to development and poverty alleviation. ADB's assistance to facilitate the provision of such services in the Pacific subregion—including, for example, for HIV/AIDS prevention (see box on next page)—has been changing people's lives.
13. In Kiribati, the Sanitation, Public Health, and Environment Improvement Project is contributing to improvements in the well-being of people through, among other activities, supporting the efficient management and use of scarce water resources. The project has resulted in the implementation of a new flat rate water tariff, testing of constant flow devices in over 300 households, and a leak detection program. It also initiated the development of new water resources in Abatoa and Tabiteuea.

14. The ADB-supported Samoa SchoolNet and Community Access Pilot Project is piloting the use of information and communications technology (ICT) in education by adopting e-learning materials and providing e-training, ICT equipment, and Internet connections to five local schools and two community access facilities. This approach has generated enthusiasm among teachers, students, and communities. A comprehensive Samoa education web portal provides access to electronic educational materials, and teachers have been trained in the use of this system. Building on the success of and lessons learned from the pilot, Samoa has requested ADB to provide a grant to expand SchoolNet to all 42 government and missionary schools and their respective communities. This will provide about 15,000 secondary students access to e-learning, and train 800 teachers. It will be an integral and key element of the ongoing broader Education Sector Project II supported by ADB, the Australian Agency for International Development (AusAID), and the New Zealand Agency for International Development using a sector-wide approach.

15. **Promote Effective Development Processes.** Effective development processes are inclusive, participatory (involving the public and private sector and civil society), transparent, and accountable. They are supported by the availability and dissemination of quality data and information.

16. ADB is assisting the Pacific DMCs in the development of their national level plans and strategies, which will help improve their ability to manage for development results. These activities have also strongly focused on ensuring community participation in the development process. A TA designed to support Nauru's National

HIV/AIDS Prevention and Capacity Development in the Pacific

This ADF grant-funded project aims to improve the management and delivery of HIV/AIDS prevention services in 10 countries by (i) strengthening surveillance, (ii) supporting prevention activities at the community level, and (iii) targeting vulnerable groups. The project forms a core part of ADB's regional strategy on HIV/AIDS prevention.

The Pacific subregion is home to an estimated 4,000 seafarers and over 40,000 fishermen serving on various types of ships and fishing vessels. Seafarers, their families, fishermen, and those associated with these industries are among the most vulnerable groups to HIV infection. In addition, seafaring and fishing ports have been clearly identified as risk areas in many countries within the region.

The grant has supported the establishment of seafarer drop-in centers in Tuvalu (Funafuti), Kiribati (Betio), Marshall Islands (Majuro), Solomon Islands (Noro), and Vanuatu (Santo). These drop-in centers provide a supportive environment where seafarers and their families can receive assistance, guidance, and information on HIV and other sexually transmitted infections. The centers also provide a place for national and international seafarers to relax when their ships are in port, and are particularly appreciated as a diversion from high risk activities.

Sustainable Development Strategy 2005–2025, which emphasized stakeholder engagement in planning as well as the development of capacity for participation, is considered to have been a contributor to the decision by the Constitutional Review Committee to utilize an open and inclusive review process. ADB also provided assistance in the development of Tonga's Strategic Development Plan 8 and Tuvalu's Te Kakeega II, which included a range of public meetings and forums to discuss national development priorities.

17. Importantly, ADB is facilitating improvements in the availability and dissemination of quality data and information on development issues in the subregion. Regional TA is being provided to support demographic and health survey work in the Marshall Islands, Nauru, Solomon Islands, and Tuvalu. The information, once released, will provide interested stakeholders with up-to-date health and demographic measures, which form an important input into sound decision making. The TA will also develop regional and country specific manuals, and train staff to carry out future surveys.
18. In the Marshall Islands, an ADB TA supported the establishment of a Public Policy Institute at the College of the Marshall Islands in 2007. It aims to build country capacity to generate statistics and formulate policy and, at the same time, to continue to strengthen country demand for an independent monitoring of, and management for, development results. The TA is also supporting a series of public policy presentations to Parliament, Cabinet, and the public.

ADB'S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

Current ADB Portfolio and Assistance Pipeline

19. Consistent with the priorities outlined in the Pacific Strategy 2005–2009, ADF assistance for 2005–2008 will be focused on five sectors (figures 4 and 5). At the end of 2006, 19 loans and 69 TAs were active in the Pacific subregion. Total contracts awarded amounted to \$18.45 million and disbursements were \$19.76 million. All, except for one, active projects are rated satisfactory or partly satisfactory (figure 6). A highlight of 2006 was the approval of the Private Sector Development Initiative, supported by a US\$8.7 million TA grant cofinanced by ADB and the Government of Australia. The project is focusing on reforming state-owned enterprises, promoting public–private partnerships, strengthening the financial sector, and improving legal and regulatory business environments. Specifically, the TA will conduct diagnostic studies; provide technical expertise on priority reform areas; strengthen capacities in relevant government agencies and organizations; support regional initiatives; and communicate good practices, reform opportunities, and results.
20. Pipeline activities for 2007 and 2008 include the Samoa Power Sector Expansion Project (\$26.6 million) and the Outer Islands Growth Center—Kiritimati Island (\$10.0 million). The forward pipeline contemplates ADF lending of \$26.6 million for 2007 and \$75.6 million for 2008–2010.

Figure 4

Asian Development Fund Projected Assistance
2005–2008 (\$ million)

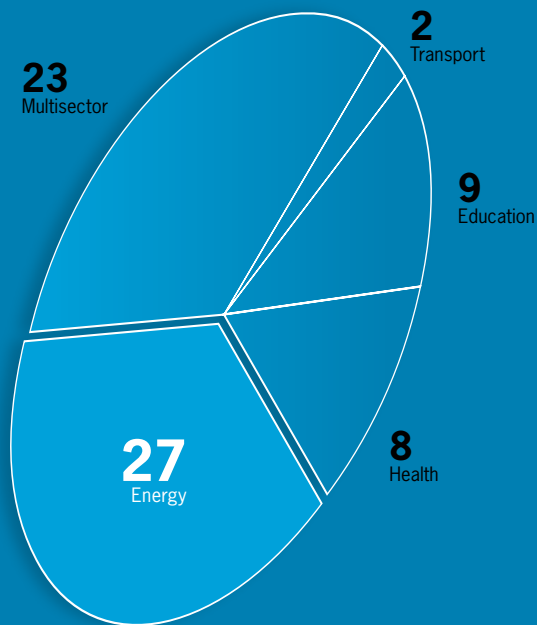


Figure 4

Asian Development Fund Projected Assistance
2005–2008 (number of projects)

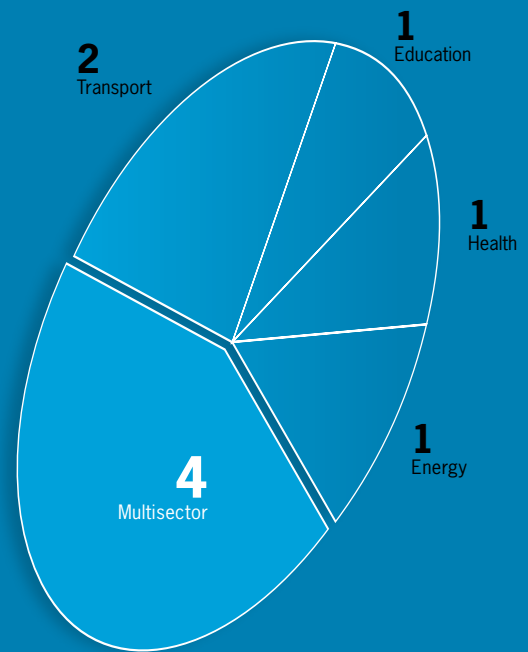
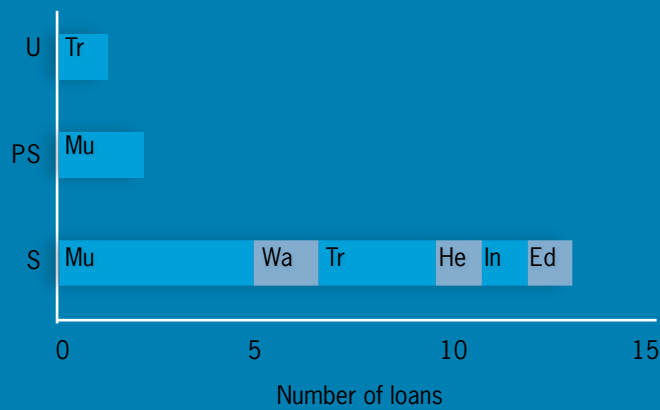


Figure 6

Projects Performance Report Ratings (current)



Mu Multisector
Wa Water
Tr Transport
He Health
In Industry and Trade
Ed Education

U = unsatisfactory, PS = partially satisfactory, S = satisfactory.

Ownership, Alignment, and Managing for Results in ADB Operations

21. The ongoing midterm review of ADB's Pacific Strategy will help to further articulate ADB's role in the Pacific. ADB envisages a stronger focus on infrastructure, private sector development and governance, together with an emphasis on managing for development results, in relation to key result areas of the strategy. Improved selectivity in country strategies and projects, based on ADB's comparative advantages and the strengths and activities of other donors, is part of ADB's new results-based approach in the subregion.
22. The Pacific subregion has received high per capita levels of aid over many decades. However, this has not always translated into significant improvements in development indicators. Key to achieving development results in the Pacific subregion is the use of approaches suitable to weakly performing countries. ADB is providing increased access to grant financing, which is important for many Pacific DMCs who are debt distressed, yet are in need of major investments in essential physical and social infrastructure and to improve governance systems. ADB is making greater use of longer term TAs with a focus on capacity development and support for government-led reform efforts. Improved political economy analysis and increased focus on participation, including engaging with civil society in planning and implementation, are also beneficial to successful outcomes. The streamlining of existing systems and processes and the introduction of new funding modalities and approaches, such as program approaches and cluster TAs, are also expected to benefit weakly performing countries.
23. ADB emphasizes the alignment of its country partnership strategies (CPS) with national development strategies, including the use of partner government measures and performance indicators to assess progress. A CPS for Tonga is scheduled for approval in 2007, CPSs for a further eight countries are programmed for 2008, and two more will be completed in 2009. These will provide an in-depth analysis of binding constraints to development in Pacific DMCs, which will enable the effective focusing of ADB assistance towards issues of weak performance, and a more rigorous monitoring of the outcomes of ADB assistance through results-based frameworks.
24. Continued changes in aid management processes at the national level are needed to promote ownership and alignment of development partners' commitments with national priorities. Further effort is needed to strengthen country systems in order to allow eventual development partner harmonization with, and use of, country systems. ADB will continue to support such national efforts across the subregion.

ADB's Role in Donor Coordination and Harmonization Efforts

25. ADB prioritizes collaboration with other development partners through joint analytical work, joint strategy formulation (e.g. in Tuvalu), joint programming missions, or cofinancing of activities. At the institutional level, ADB, AusAID, and the World Bank have developed a cooperation agenda for Papua New Guinea and the Pacific to advance donor harmonization and alignment. This allows partners to monitor progress against action items and report on these annually.
26. With new donors emerging in the Pacific and traditional donors such as Australia scaling up assistance, there is a need for further coordination and harmonization efforts to avoid duplication and to not overstretch country capacities. The Tonga Joint Declaration with Development Partners is one example of a commitment to improved donor coordination in partnership with the government. The use of partner government systems and processes, and effective capacity building to allow a transition into government systems, needs to be further explored in partnership with other development partners. ADB is particularly looking at ways to improve partnerships with emerging donors in the Pacific, such as the People's Republic of China and India.

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