

**ASIAN DEVELOPMENT BANK**  
Office of Pacific Operations

**A PACIFIC STRATEGY  
FOR THE  
NEW MILLENNIUM**

**September 2000**

## ABBREVIATIONS

ADB	-	Asian Development Bank
EU		European Union
FSM	-	Federated State of Micronesia
GDP	-	gross domestic product
HDI	-	human development index
HPI	-	human poverty index
IT		information technology
NGO	-	nongovernment organization
PDMC	-	Pacific developing member country
PNG	-	Papua New Guinea
RM		resident mission
RMI	-	Republic of Marshall Islands
TA	-	technical assistance
UNDP	-	United Nations Development Programme

## NOTE

In this report, "\$" refers to US dollars.

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Appendixes

## EXECUTIVE SUMMARY

The Pacific strategy for the new millennium<sup>1</sup> responds to five key development challenges facing the Pacific developing members countries (PDMCs) over the medium term: (i) disappointing macroeconomic and growth performance over the last decade; (ii) increasing poverty, particularly in Papua New Guinea (PNG), Solomon Islands, and Vanuatu; (iii) continuing reliance on large government investments due to inadequate private sector response; (iv) increasing environmental degradation; and (v) little progress in strengthening the role of women in political, economic, and social spheres.

To address these challenges, the strategy examines key variables: (i) vulnerability of the Pacific island economies, because of their remote locations, narrow resource base, susceptibility to natural disasters, and the influence of the global markets; (ii) political instability and good governance; (iii) limited availability of skilled human resources; (iv) the wide range of socio-cultural factors influencing politics and productivity; (v) rising population growth rates; and (vi) inadequacy of physical, technological and financial sector infrastructure necessary to underpin sustainable growth.

In addressing these challenges, the PDMCs continue to obtain strong and coordinated support from Asian Development Bank (ADB) and various other sources of external assistance, particularly Australia, Japan, the United States, New Zealand, the United Kingdom, the European Union, and the multilaterals.

Implementation of the 1996 strategy provided a variety of lessons. The most significant are the need (i) for the PDMCs to have stronger ownership of policy reform and investment programs, (ii) to design development interventions taking into account the local culture and local capacities, (iii) to pace and sequence governance and economic reforms to ensure effective institutionalization, and (iv) to use external consultants judiciously without creating dependencies.

The new Pacific strategy focuses on five broad strategic objectives: (i) continuing support for economic management, governance, and public sector reform; (ii) promoting private sector development in the region; (iii) promoting a more active role for women in social, economic, and political spheres; (iv) supporting sustainable environmental management; and (v) supporting poverty reduction as a unifying theme.

Supporting objectives include (i) strengthening capacity for governance, economic management, and public services; (ii) improving physical and information technology infrastructure development; (iii) strengthening financial sector management; and (iv) supporting the role of civil society.

A subregional approach will be used to address these objectives underscoring the need to take due account of the differences between various PDMCs. The PDMCs are separated into three categories based on their resource profiles and growth prospects.

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<sup>1</sup> This strategy supercedes the previous strategy, which was approved in 1995. The new strategy was shared and discussed with various stakeholders in draft format: the Pacific DMC governments, NGOs, and development partners.

- (i) The Melanesian PDMCs (PNG, Solomon Islands, and Vanuatu) are resource rich, but relatively poor with high population growth rates. The strategy will support a focus on governance, public sector reform, and poverty reduction through investments in the social and infrastructure sectors. The role of women will be particularly supported.
- (ii) The more economically advanced PDMCs (Cook Islands, Federated States of Micronesia, Fiji Islands, Samoa, and Tonga) have a high skill base, moderate resource potential, and relatively low poverty. The strategy will focus on promoting private sector growth through policy reform, and physical and financial sector strengthening.
- (iii) The island atoll PDMCs (Kiribati, Marshall Islands, Nauru, and Tuvalu) are severely disadvantaged by their smallness, isolation, and weak resource base. The strategy will support (a) establishing and expanding trust funds to support the sustainable financing of basic services, and (b) supporting exploitation of niche markets for tourism and sustainable use of marine resources.

The strategy reiterates the importance of regional cooperation to collectively reap the benefits of economies of scale. The Asian Development Bank is currently supporting regional cooperation in fisheries; air transport; regional financial sector restructuring, including addressing money laundering; public sector management; and governance.

The strategy calls for (i) the continued use of program and sector loans to support reform programs in the PDMCs, (ii) project investments on a sector level, and (iii) technical assistance financing, particularly for capacity building and regional cooperation. Performance-based lending will be introduced to make the level of assistance dependent on economic, governance, and portfolio performance. In line with ADB's objective of enhancing the impact of its assistance and its responsiveness to client needs, ADB will review the role of resident missions in the Pacific Region.

## I. INTRODUCTION

1. The Asian Development Bank (ADB) operates in 12 Pacific developing member countries (PDMCs).<sup>1</sup> Given the relative homogeneity of the socioeconomic characteristics of these countries, ADB has traditionally adopted a common strategic approach in its Pacific operations. The 1996-1999 Strategy for the Pacific was finalized in September 1995. Since then, there have been significant changes in the global economic environment, development thinking, PDMC policy and governance environments, and ADB's objectives and policies (most notably the 1999 adoption of poverty reduction as the overarching development objective). Therefore, ADB's review of its strategic focus in the region and development of a new strategy to guide its Pacific operations in the new century is appropriate.<sup>2</sup>

2. This paper, in an earlier condensed form, was shared with member governments, nongovernment organization (NGO) representatives, and development partners. At ADB's Annual Meeting in Chiang Mai in May 2000, delegates from the PDMCs discussed the draft strategy paper. Comments received were incorporated. This paper reflects ADB's strategy for its Pacific operations<sup>3</sup> from 2000 to 2004.

## II. DEVELOPMENT CHALLENGES

### A. Economic Growth

3. **The economic performance of the PDMCs in the 1980s and early 1990s was disappointing despite a high investment ratio.** Average growth during the 1980s was around 2 percent, and during the 1990s around 3.5 percent. The five-year period leading up to 1999 was the most volatile, witnessing serious macroeconomic instability and fluctuation in real gross domestic product (GDP) due to the effects of the East Asian crisis and the vagaries of nature. Per capita GDP declined over these 5 years. However, starting in 1995, many countries in the region undertook major reforms that supported a gradual recovery beginning in 1998. In 1999, the year of recovery for the Pacific, the highest growth rate since 1994 was recorded (Table 1).

**Table 1. GDP Growth Rate for the Pacific Developing Member Countries**

	1994	1995	1996	1997	1998	1999
Pacific DMCs	3.0	0.3	3.0	(3.2)	1.2	4.0

4. While external shocks and weak economic management made 1999 a difficult year for Papua New Guinea (PNG), its economic growth rate surpassed expectations to reach 3.8 percent. After two years of recession, the Fiji Islands economy rebounded

<sup>1</sup> In this paper, the term PDMCs refers to the Cook Islands, Fiji Islands, Kiribati, Federated States of Micronesia, Republic of the Marshall Islands, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tuvalu, Tonga, and Vanuatu.

<sup>2</sup> Country-specific strategies will be formulated within the context of the new Pacific strategy.

<sup>3</sup> Although the Office of Pacific Operations administers ADB's assistance to East Timor, the ADB strategy for East Timor is not included in this document.

strongly in 1999. Real GDP for the remaining 10 PDMCs increased by a weighted average of almost 1 percent in 1999; growth rate decelerated in Kiribati, Tuvalu, and Vanuatu and accelerated in the other economies. Overall, the total real GDP of the PDMCs increased by a weighted average of 4 percent in 1999 compared with 1.2 percent in 1998 and minus 3.2 percent in 1997. The growth in the region reflected a recovery from the prolonged effects of drought, improved commodity prices, reforms in many of the PDMCs, and growth in world output and trade.

5. **While the PDMCs share several common features, the countries vary widely in size, population, and output.** In 1999, PNG contributed 53.2 percent and the Fiji Islands 26.1 percent to the total real GDP of the PDMCs (Table 2). The third largest contribution of 4.5 percent of the total real GDP of the PDMCs came from the Solomon Islands. The rest of the nine PDMCs individually contributed about 3.0 percent or less to the total real GDP of the PDMCs. At the bottom of the list was Tuvalu, contributing only 0.2 percent. Together, the last nine PDMCs account for only about 15 percent of the total real GDP of the PDMCs. Thus the growth performance of the region as a whole largely depends on the performance of PNG and the Fiji Islands. It is notable that PNG has, on average, recorded almost zero growth over the five years ending in 1999; per capita GDP has significantly declined.

**Table 2. Country Contribution to Regional GDP of Pacific Developing Member Countries, 1999**

<b>PDMC</b>	<b>Percentage</b>
Cook Islands	1.14
Fiji Islands	26.15
Kiribati	0.71
Marshall Islands	1.42
Federated States of Micronesia	3.39
Papua New Guinea	53.25
Samoa	3.57
Solomon Islands	4.76
Tonga	2.24
Tuvalu	0.20
Vanuatu	3.16

Note: Excluding Nauru, for which figures are not available.

Source: Staff estimates.

6. **Political instability now threatens sustained recovery.** With solid economic performance in 1999 and a strong growth expectation in world output and trade, the outlook for the Pacific remained good in early 2000. However, political instability in the Fiji Islands and Solomon Islands in June 2000 drastically changed the outlook for the two countries. Because of their collective weight of about 30 percent of the total output of the PDMCs, growth prospects for the region have also changed substantially. The two crisis economies of the Fiji Islands and Solomon Islands face severe contraction of output, unemployment, loss of business confidence, and strain on government finances. While the balance of payments account is under threat in the Fiji Islands, it is in serious difficulty in the Solomon Islands. Thus, both the Fiji Islands and the Solomon Islands, which enjoyed reasonable prospects of growth in 2000, are now set to fall into deep

recession. As a result, the growth projection of the PDMCs has dropped from above 4.0 percent to about minus 2.0 percent in 2000.

7. **Inflation remained high during 1995-1999.** However, in 1997, inflation eased when the world economy experienced deflationary pressures. Although the inflation rate fell in more than half of the PDMCs in 1999, the Pacific islands group recorded an average inflation rate of 10.4 percent in 1999, compared with 9.9 percent in 1998, largely because of an increase in PNG's inflation rate after substantial currency devaluation. In 1999, 7 of 12 PDMCs recorded inflation rates below 4.0 percent, while Nauru, PNG, Solomon Islands, and Tuvalu experienced significantly higher levels of inflation. Except for PNG, the overall balance-of-payments position improved for most of the countries in the first half of 1999. After witnessing strain on the external reserves after the mid-1990s, Fiji Islands, Kiribati, Samoa, Solomon Islands, and Tonga improved the level of external reserves in 1999 compared with 1998.

8. **Fiscal management has improved due to reforms undertaken since the mid-1990s.** However, the PNG budget remained in deficit leading to serious deterioration of the balance of payments position in the first half of 1999. The current PNG Government has committed itself to restoring macroeconomic stability and to economic, public sector, and governance reforms. In the case of the Solomon Islands, the financial position of the Government was in serious difficulty in 1996 and 1997, but gradually improved to more manageable levels by 1999. However, the Government is once again in serious deficit following the ethnic crisis in 2000. Kiribati, Samoa, and Tuvalu managed government finances well, recording budget surpluses in succession until 1999. The Government's financial position in Tonga and Vanuatu has remained within manageable limits. The Cook Islands, Marshall Islands (RMI), and Federated States of Micronesia (FSM) have shown signs of fiscal improvement after initial deterioration in 1990s. By the beginning of 2000, the fiscal and monetary policy settings were generally consistent with maintenance of macroeconomic stability in the Pacific, although the position has reversed in the Fiji Islands and Solomon Islands following the political crises around mid-2000.

9. **The PDMCs are still heavily dependent on external grants.** To reduce this heavy reliance on external transfers and aid, the PDMCs need to promote more domestic savings and more efficient financial systems. External grants vary considerably; the Fiji Islands is the least dependent and Kiribati the most, with grants averaging almost 40 percent of GDP during 1994-1999. Samoa, Solomon Islands, and Tonga are also heavily dependent on grants for their budgets; these averaged 12 percent of GDP over the same period. These external grants have allowed the countries to maintain high levels of consumption, while allowing for low domestic savings.

10. **Trade deficits are a regular feature of PDMC balance of payments.** The exception is PNG, which has large mineral exports. Because of their narrow production base, the PDMCs are all dependent on imported goods, mainly but not exclusively from Australia and New Zealand. Private transfers and remittances from nationals living overseas have made a major contribution to offsetting trade deficits, particularly in Kiribati, Samoa, and Tonga. Official transfers in all PDMCs have been necessary to offset the high trade deficits. Appendix 1 provides the economic statistics of the Pacific region.

## B. Poverty

11. **Poverty is beginning to increase in the Pacific.** Until recently, poverty was not regarded as a significant problem among the PDMCs, which have high per capita incomes by developing country standards and relatively productive subsistence sectors. Cases of need that did exist were thought to be taken care of by the redistributive mechanisms of the kinship networks. However, poverty is a significant and growing problem in the PDMCs due to two decades of weak economic performance, fairly rapid population growth and urban drift, and growing inequalities. Traditional support mechanisms are under strain, and in some instances, are breaking down.

12. **The Melanesian countries<sup>4</sup> suffer the most widespread poverty.** The PDMCs other than PNG, Solomon Islands, and Vanuatu exhibit, to varying degrees, higher levels of human development and lower levels of human poverty: Cook Islands, Samoa, Tonga, and Tuvalu rank higher in socioeconomic measures and exhibit little poverty. The FSM, Kiribati, Nauru, and RMI, rank in the middle range of both socioeconomic development and poverty. But in all cases, poverty profiling is needed to establish the real nature and extent of poverty.

13. **The systematic documentation of poverty is ongoing.** The Fiji Islands and PNG are the only two PDMCs for which the extent and severity of poverty has been documented (although in the Fiji Islands case, data are relatively old, based on household surveys conducted in 1990/91). In both cases, significant percentages of the population are worse off than average income levels might suggest. Two other lower middle-income Melanesian countries where this is likely to be true are the Solomon Islands and Vanuatu. Like PNG, they rank in the low human development category (Figure 1).<sup>5</sup> They also score poorly on the United Nations Development Programme's (UNDP) gender-related development index, and rank high on the human poverty index compared with 72 other developing countries (Figure 2). Populations in these two countries have poor access to safe water and health services, and high percentages of underweight children under five years old. Based on the UNDP definition, the human poverty index is a composite of the percentage of (i) people not expected to survive to age 40, (ii) adults who are illiterate, (iii) underweight children, and (iv) people without access to safe water and health services.<sup>6</sup>

14. **There is a close link between poverty and vulnerability.** Vulnerability threatens the sustainability of livelihoods. A composite vulnerability index was calculated

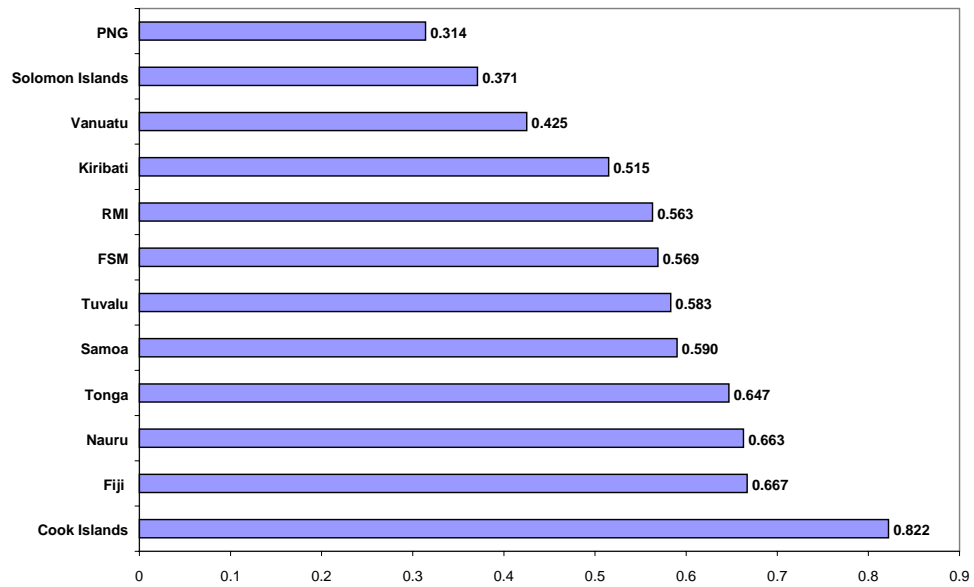
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<sup>4</sup> The Melanesian countries are the Fiji Islands, Papua New Guinea, Solomon Islands, and Vanuatu.

<sup>5</sup> UNDP, *Human Development Report 1998*, ranks Solomon Islands, Vanuatu, and PNG as 123rd, 124th, and 129th, respectively in a list of 174 developed and developing countries.

<sup>6</sup> Using this index, PNG (52.2), Solomon Islands (49.1), and Vanuatu (46.4) can be grouped with such countries as Bangladesh, Ivory Coast, Mali, and Mozambique.

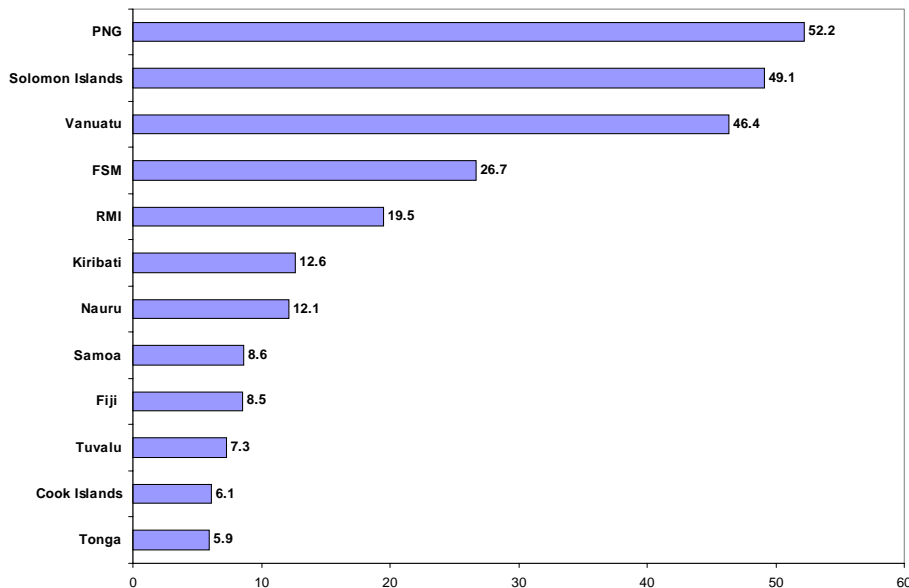
**Figure 1. Human Development Index of the Pacific Developing Member Countries**



FSM = Federated States of Micronesia, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands.

Source: UNDP. 1999. *Pacific Human Development Report 1999*. Suva, Fiji, p. 18. The human development index numbers in this report are not comparable with those in UNDP's *Human Development Report 1998* because the latter used gross domestic product (GDP) per capita expressed in US dollars at market exchange rates, rather than GDP per capita in purchasing power parity items.

**Figure 2. Human Poverty Index of the Pacific Developing Member Countries**



FSM = Federated States of Micronesia, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands.

Source: UNDP. 1999. *Human Development Report 1999: Creating Opportunities*, p. 16.

and is a weighted aggregate of openness as measured by export dependence, economic diversification as measured by the diversification index of the United Nations Conference on Trade and Development, and susceptibility to natural disasters as measured by the proportion of population affected by disasters during 1970-1996. Among 111 developing countries, the PDMCs that were included ranked as follows: Vanuatu 1st (and most vulnerable), Tonga 3rd, Fiji 8th, Solomon Islands 11th, Samoa 20th, PNG 30th, and Kiribati 59th.<sup>7</sup> The country coverage of vulnerability indices must be updated and extended, prior to analyzing the implications of vulnerability for the development of poverty reduction strategies. Such analysis would have to consider the probability of disasters occurring, and the associated expected economic losses. Appendix 2 provides details on the poverty profile of individual PDMCs.

### C. Private Sector Development

15. **Private investment remains low and continues to lag public investment.** While investment rates in the PDMCs were generally about 25-35 percent during the 1990s, this was substantially public investment. The virtuous circle of economic growth, private savings, and private investment has yet to occur in the PDMCs, as reflected by the low growth rates and little deepening of the financial sectors. Despite the multitude of reforms undertaken in macroeconomic management and private sector development since the mid-1990s, the PDMCs remain heavily dependent on official foreign aid to finance their economic development. For the most part, the flow of private sector investments in the Pacific has been modest and limited to a narrow range of industries and countries. Domestic savings mobilization is low because there are few incentives to save. Also, large segments of the population remain outside the monetized economy. Liquidity in the financial systems is high because of the few profitable projects and lack of alternative investments. Commercial banks finance at the low-risk end of the market, and microfinance institutions have yet to mature. Development finance institutions are generally ineffective; capital markets are virtually absent in the region.

16. **The financial systems generally reflect the dichotomized economies in which they operate.** On the one hand urban areas are characterized by fairly sophisticated private and financial sectors that reflect traditional banking system architecture; but the markets are too small to allow for competition among the branches of large foreign banks. On the other hand, the subsistence, nonmonetized rural areas and the outer islands where the large majority of the population live have little or no financial services. As a result, a substantial part of scarce savings in the form of commodities cannot effectively be allocated to investment opportunities. These dichotomized economies are no longer appropriate for most of the PDMCs because of population pressures and insufficient land to provide subsistence. There is an urgent need to develop the cash economy in rural areas as well.

17. **If the governments are to reach sustainable growth at rates sufficient to improve the life of people on a noticeable level, private sector investment will need to be facilitated.** Domestic sources of such investments remain and will likely remain quite limited for sometime, due to the relatively modest levels of incomes and low saving rates. The only remaining option is to facilitate foreign investment.

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<sup>7</sup> Joint Commonwealth Secretariat/World Bank Task Force. Conference on the Small States, St. Lucia, West Indies, February 17-19, 1999, *Small States: A Composite Vulnerability Index*.

#### D. Environmental Degradation

18. **Environmental problems are increasing.** Several factors such as high population growth, poverty, urbanization, economic growth and the use of imported inappropriate technologies are creating environmental problems. Partly as a result of these pressures, traditional ways of managing the environment are now disappearing. Some pressing concerns include rapid deforestation, unsustainable and destructive exploitation of marine and mineral resources, poor waste management, inadequate sanitation, and urban pollution. In addition, the PDMCs include many small-island countries with vast geographic, ecological, and sociocultural diversity. The smaller the islands, the more immediate and severe are the consequences of inadequate environmental management and the greater the risks of cumulative collapse or catastrophic damage from climatic events. The most crucial environmental issues are in the areas of (i) natural resource conservation, (ii) waste disposal/management and pollution prevention, and (iii) climate change and sea level rise.

19. **Natural resource conservation must become a priority.** Pacific island people rely on natural resources to meet their traditional needs and increasingly to generate cash income, e.g., tourism. Rising material expectations and, in many cases, high population growth are placing considerable pressure on the limited land and coastal marine ecosystems and the biodiversity they contain. The PDMCs have high levels of species diversity and endemism that is among the most threatened in the world. Poor natural resource management, and poorly planned and implemented development projects and programs, (including fishing, logging, and mining activities) are depleting and compromising the natural resource base.

20. **Waste management and pollution prevention are becoming increasingly important priorities.** Many PDMCs share the problems of waste disposal and urban pollution. High population growth, particularly in urban areas, combined with limited land area and specific programs to stimulate economic growth are exacerbating these problems. Disposal of solid waste is a particular problem in very small islands where there is no space or infrastructure for safe disposal. Even in the larger islands recycling is rare, and most disposal is done through landfill. Wastewater pollution is also increasing with negative impacts on freshwater systems, enclosed coastal waters, aquifers, and groundwater lenses. Human sewage disposal is also a major problem and poses serious risks to human health and inshore fisheries. Management of toxic substances such as pesticides, waste oil, and heavy metals, including their transboundary movement, and pollution from ships is a serious concern for the region.

21. **Climate change and sea level rise remain major potential problems.** The majority of the Pacific peoples live in low-lying coastal areas that are particularly vulnerable to climate change, climate variability, and sea-level rise. The increased frequency and intensity of storms and cyclones, combined with even minor increases in sea level may cause major disruption to economic and social life, and even threaten the very existence of these countries, particularly the atoll nations. One very serious effect of a rising sea level would be its impact on freshwater lenses underlying atolls. The risk of saltwater intrusion will rise as the sea level rises, lateral leakage will increase, the groundwater lenses will become thinner, and saltwater will move within reach of pump intakes. Limited freshwater resources will be lost or at grave risk. In addition, as the sea level rises, saltwater will reach the roots of pit-grown taro, coconut palms, and other tree crops with clear negative effects on their production.

## E. Gender

22. **The socioeconomic status of women remains a concern.** This is even the case in PDMCs where women have traditionally been favored, such as in Tonga. Some of the PDMCs rank very low on the United Nations human development index (Figure 1), particularly with regard to education, functional literacy, and health and nutritional standards. In each of these categories, women are shown as being significantly disadvantaged compared with men. In many cultural groups, for example, it is customary that men are given priority access to the most nutritious high-protein foods, as well as limited food supplies.

23. **Women's tenurial and inheritance rights are slowly being eroded.** The Pacific islands have both patrilineal and matrilineal cultures that define parameters of descent and inheritance. However, as a result of land tenure conversion and registration, women's tenurial rights and women's ability to make decisions on inheritance are being undermined. The new management structures are dominated by male interests. The power to own and control economic resources is vested in men at different levels, and women have considerably fewer opportunities than men, given their limited access to resources, power, and decision making. The traditional roles of women vary between countries, and even from one locality to another. In general, however, women have little influence or substantive power outside of their traditional responsibilities as mothers and food producers. Cultural attitudes regarding gender status and roles continue to create barriers for female students, and have a considerable effect on the level of parental support and encouragement for girls' participation in other areas of development. When women undertake formal employment they work significantly longer hours as they fulfill workplace obligations in addition to domestic obligations at home. As a result of high dependence ratios due to high population growth rates, women often suffer from mental and physical stress.

24. **Gender relations are undergoing considerable transformation.** With the advent of formal education, employment, and the monetary economy, women are assuming greater economic responsibility. In most instances, this is a matter of necessity to supplement household incomes, but does not necessarily result in an increase in status of women. Male dominance continues to be entrenched. This situation is more pronounced in urban areas, which are not part of the subsistence economy and where there is less reliance on the extended family. As a result, there is a greater need for governments to recognize the diversity of roles filled by women, and the fact that women make significant unpaid contributions to the economy. Also, high population growth rates in several of the PDMCs remain a major concern. Of course, increasing population growth rates can be best addressed by educating women. This will result in smaller families, and better participation of women in national development.

### III. KEY VARIABLES INFLUENCING DEVELOPMENT

25. A discussion of the key variables influencing the five major development challenges follows. These variables must be carefully identified as they will, in effect, become the primary focus of ADB's strategy under the assumption that addressing them will enable the PDMCs to address their major development challenges more easily.

## A. Vulnerability

26. **Vulnerability is a severe constraint to sustainable development.** Some of the key factors determining development outcomes are immutable. Location (relative isolation) and small size of the market and resources fall into this category, and continue to constrain development opportunities. Improvements in telecommunications and information technology (IT) can overcome some consequences of remoteness. Environmental and economic vulnerability are also givens. However, governments can influence the degree of preparedness for and response to natural disasters, and control the macroeconomic response to external instability. The following Box provides a more detailed discussion of vulnerability.

## B. Political Stability and Good Governance

27. **Political stability is perhaps the most significant factor currently influencing development prospects.** A variety of recent events have underscored the importance of political stability. Recent political changes in the Cook Islands and Vanuatu indicate the need for reform governments to be far more inclusive and participatory in their reform initiatives, thus ensuring that the momentum of reform continues despite changes in government. Political upheavals in the Fiji Islands and the Solomon Islands point to the need for governments to be more sensitive and responsive to growing inequities between various segments of society. In fact, over the last 12 months, 7 of the 12 PDMCs have had changes in government. The volatility of political changes in the Pacific appears endemic and must be taken account of when working with governments to plan and implement reform and development strategies.

28. **Good governance also significantly influences the achievement of development goals and objectives in the Pacific.** A good example of early benefits of good governance policies is the recent case of PNG. With the adoption of a strong governance reform agenda by the new Government in late 1999, and supported by multilateral and bilateral development institutions, PNG has quickly managed to substantially reverse its fast-declining economic performance, and substantially improve its access to international finance. An example of the consequences of ignoring good governance is the impact of the expanding global movement to ostracize and penalize countries that encourage money laundering (these include some Pacific countries). Such governments are now having grave difficulty participating in global financial markets, with related ill effects on their economies. This is a clear signal to Pacific governments to become more transparent and disciplined in the management of their financial sectors.

29. **A core good governance agenda of economic policy, public sector, and governance reform has already been agreed to broadly.** The Pacific countries have agreed in principle to this agenda through the Pacific Islands Forum. ADB has appropriately fostered and supported this agenda, which forms the basis of most of the reform programs currently being financed by ADB in 10 of the 12 PDMCs. However, in most PDMCs, there is either a large unfinished reform agenda or the need to begin systematic efforts to implement the reform program. The focus of the reform programs currently ongoing include (i) increasing government accountability and transparency; (ii) strengthening the role and function of good governance institutions, such as the ombudsman, attorney general, auditor general, and public service commission;

### Box 1. What Makes Small States Different?

Developing small states share characteristics that pose special development challenges. They are especially vulnerable to external events, including natural disasters, that cause high volatility in national incomes; many of them are currently facing an uncertain and difficult economic transition in a changing world trade regime; and they suffer from limited capacity in the public and private sectors. More specifically, the following characteristics define the special development challenges and vulnerabilities that many small states face.

- **Remoteness and isolation.** Of the developing small states, three out of four are islands and in some cases widely dispersed multi-island states; others are landlocked, and some of them located far from major markets. For many small states, like those in the Pacific, high transport costs make it harder for them to turn to world markets to compensate for the drawbacks of the small size of their domestic markets. And small domestic markets combine with large distances from other markets to reduce competition and its spur to efficiency and innovation.
- **Openness.** A high degree of openness to the rest of the world brings benefits. But it also means that small economies are heavily exposed to events in global markets, and developments in the global trade regime, over which they have little if any influence. They also tend to rely more heavily on taxing imports as a source of revenue, leading to difficulties as tariffs are reduced.
- **Susceptibility to natural disasters and environmental change.** Most small states are in regions susceptible to natural disasters such as hurricanes, cyclones, droughts, and volcanic eruptions, which typically affect the entire population and economy. Some are threatened by global environmental developments. Since most of such adverse events affect the entire population, risk pooling at the national level is not feasible.
- **Limited diversification.** Because of their small domestic markets, many small states are necessarily relatively undiversified in their production and exports. Where one dominant activity has declined, it has tended to be replaced with another. This adds to vulnerability to changes in the external environment.
- **Poverty.** There is some evidence that poverty levels tend to be higher and income distribution more uneven in smaller states. Where this is so, income volatility can create additional hardship as the poor are less able to weather negative shocks to their incomes.
- **Limited capacity.** While weaknesses in both public and private sector capacity are a key problem for most developing countries, smallness of size adds a further dimension to the challenge. This is compounded in states, like the Pacific islands, where the internal distances are large and the population is scattered. In the public sector, small states face diseconomies of small size in providing public services and in carrying out the business of government, and tend to have relatively larger public sectors than other developing countries. In the context of globalization, small states also find they do not have sufficient institutional capacity to participate fully in international finance and trade negotiations—the outcomes of which can profoundly affect their economies. In the private sector, lack of diversification and domestic competition can hold back successful development.

Many of these factors combine to make small states' economies especially vulnerable; in particular they affect incomes and access to capital.

- **Income volatility.** Overall, the range of per capita income and rate of growth is not significantly different in small and large developing countries. However, the residents of small states experience higher volatility of their incomes—the standard deviation of annual real per capita growth in small states is about 25 percent higher than in large states. This reflects several of the factors listed above—their high levels of exports and imports and low diversification in production and trade, which leaves them exposed to fluctuations in world markets, as well as their susceptibility to natural disasters.
- **Access to external capital.** Access to global capital markets is important for small states, and is one way to compensate for adverse shocks and income volatility. But the evidence is that private markets tend to see small states as more risky than larger states; hence spreads are higher and market access more difficult.

Excerpt from the report, *Small States: Meeting Challenges in the Global Economy*. 2000. Commonwealth Secretariat/World Bank Joint Task Force on Small States, Washington, DC: World Bank.

(iii) promoting predictability in policy formulation and implementation; (iv) strengthening fiscal accountability; (v) improving the quality of public administration; and (vi) promoting measures to eliminate corruption.

### C. Capacity and Skills

30. **The shortage of managerial and technical skills is a major development constraint.** The human resources and institutional capacity in the PDMCs remain extremely weak, which is in large measure caused by the small labor market and limited local education opportunities. Weak human and institutional capacities are perhaps the most significant stumbling block to achieving efficient social and economic systems. Weaknesses range from the weak capacities of parliaments to debate policy issues and to effectively oversee government administration, to the limited professionalism of the civil service, the weak capacity of sectoral agencies to regulate and manage critical public services, and the ability of the private sector to engage the necessary business and technical skills. The shortage of skills in the smallest and remotest PDMCs is to be expected, and there is no easy solution. However, while much effort has been expended in building skills in the larger PDMCs such as the Fiji Islands and the Melanesian countries (footnote 4), durable capacity is still lacking. The important lesson from capacity building efforts in the Pacific so far is that it is a long-term task requiring sustained attention and investments. There are serious risks in being overly ambitious, given the weak base in most countries.

31. **To some extent, providers of external assistance have contributed to the problem of low capacity.** Multilateral and bilateral donors design complex projects and programs, and then field a battery of consultants to implement these because local capacity cannot cope. Capacity building programs are often resourced by long-term consultants who often are technical rather than capacity building specialists, and who end up doing the work themselves rather than transferring skills. Governments compound the problem by not adhering to a policy that allows trained incumbents to stay in place over an adequate period of time to have an impact on institutional operations. Finally, while bilateral programs have devoted much investment to overseas education and training, these programs are plagued by the consequent emigration of trainees, seeking more attractive overseas employment.

### D. Sociocultural Context

32. **Many Pacific cultures are substantially tribal based, adhering to a value system that elevates tribal and family allegiances above all else.** While this value system has served the Pacific people well over time, it also influences these countries' economies in particular ways as they modernize and adopt global trends. The tribal system influences the stability of governments (particularly when governments are formed not on the basis of policy mandates but on tribal allegiances), the openness of governments to external investments, the ability of external investors to access land for commercial operations, the capacity of indigenous entrepreneurs to initiate and manage successful businesses while coping with extended family demands, and the ability of staff to reliably give time to employment rather than family matters.

33. **Access to land, so critical to private investment, is substantially influenced by local custom.** Most land remains under complex traditional ownership structures that do not provide formal ownership but provide access to land for family and community

members. This prevents the use of land as collateral for credit. However, with rural populations growing there is not enough available land for subsistence living. Rural people need to move into the cash economy and to bring customary lands into the cash economy. In addition to constraining land structures, cultural and religious obligations in the PDMCs affect the viability of businesses or the ability to handle cash economy-type transactions.

34. **The influence of cultural traditions must be considered seriously when designing development strategies.** It is not suggested here that there should be a concerted effort to change these sociocultural traditions. Many traditions are extremely valuable even from an economic point of view, particularly to protect natural resources and provide social security safety nets. Their influence in addressing the major development challenges are real and significant. This needs to be recognized in the development of strategic approaches to enhance development in the Pacific.

#### E. Population Growth Rates

35. **The rate of population growth continues to be worrisome.** In most PDMCs, improved health conditions have added to longevity. Populations in Melanesia and parts of Micronesia<sup>8</sup> continue to grow rapidly because of high fertility. For instance, the growth rate of the RMI is 3.6 percent and that of the Solomon Islands is 3.3 percent. In most of Polynesia,<sup>9</sup> population growth remains largely stable reflecting substantial migration to New Zealand, Australia, and the United States.

36. **The single biggest challenge is to generate wage- and income-earning opportunities for rapidly growing labor forces.** Given no expansion in public sector employment, and the inability of the private sector to absorb new labor force entrants, current population growth rates will result in ever-increasing levels of unemployment. This in turn will have adverse impacts on poverty levels as is already happening in the RMI and the Solomon Islands, and is beginning to occur in PNG.

37. **At the root of the population problem is the inability of education services to reach out to the people, particularly the women.** This is particularly the case in Melanesia and Micronesia. Admittedly, providing the necessary education services, particularly to females in the rural areas, is not easy. Government budgets continue to be strained. The capacity of education agencies is weak. The topography of many PDMCs makes the task doubly difficult. NGOs do play an important role, but their number and resources in the PDMCs remain seriously limited. Government commitment to this problem and innovative methods and approaches are urgently needed if population growth is to be addressed.

#### F. Physical, Technological, and Financial Infrastructure

38. **Undeveloped infrastructure severely constrains economic development.** Combined with remoteness and high transportation costs, undeveloped infrastructure ranging from roads, ports, wharves, navigation aids, power generation and distribution, and telecommunications, remains a significant constraint to both external and internal investments in most PDMCs. Often productivity is low, and in many cases the rich

<sup>8</sup> The Micronesian countries are FSM, Kiribati, Nauru, and RMI.

<sup>9</sup> The Polynesian countries are Cook Islands, Samoa, Tonga, and Tuvalu.

natural resources of the PDMCs cannot be exploited due to the lack of efficient access. And where infrastructure has been built, often this infrastructure is not maintained because skills or public finance is lacking. Thus, future efforts to improve infrastructure must take account of skill and financial capacity to maintain the same.

39. **There are opportunities for PDMCs to harness IT to overcome some of the economic constraints and vulnerability related to their isolation and smallness.** An important development worldwide is the availability of new and powerful IT. While there is the threat that PDMCs may be largely excluded from the economic gains enjoyed by participants in the new information-knowledge society, IT has the potential to increase the size of markets, reduce the costs of distance, enable access to sources of learning and advice, and bring jobs to skilled people even in remote locations. Of particular relevance to small states is the fact that the IT industry generally does not require much land and has low environmental impact. To enable PDMCs to bridge the so-called digital divide and avail of IT in a socially inclusive way, they will need, at a minimum, to improve and expand their infrastructure for IT, set-up appropriate regulatory regimes, and enhance computer literacy. There is also the potential to generate income for small states from the global market for internet domain names; some countries, such as Tonga and Tuvalu, have already started to explore and develop this opportunity.

40. **Undeveloped financial sector infrastructure remains a major disincentive to financial investment in the PDMCs.** The financial sectors of the PDMCs are dominated by a few foreign-owned banks that concentrate their operations in the urban areas, are extremely risk averse, and have no interest in servicing the rural areas where the bulk of the population resides. A local capital market does not exist for all practical purposes. While two stock exchanges operate in the region (Suva and Port Moresby), they are small and service only the Fiji Islands and PNG. The lack of enforcement of commercial codes and accounting standards, and the lack of incentives for companies to undertake audits, make it difficult for potential investors to assess the true state of financial institutions or business enterprises.

#### IV. EXTERNAL ASSISTANCE

##### A. General

41. **Bilateral development assistance has been an important resource.** Of the total net disbursement of official development assistance to the PDMCs, bilateral sources account for over 80 percent. Multilateral sources have been the minor players. The net disbursement of aid to the PDMCs was about \$730 million in 1992 and about \$700 million in 1998, with moderate variations during the intervening period. Per capita aid extended to the PDMCs was significantly higher than the global average. In 1998, the per capita net disbursement of aid to the PDMCs from all sources was about \$110, i.e., less than 7 million people receive more than \$700 million of aid annually. There are significant variations across PDMCs in the per capita aid level, primarily on account of population size. In 1998, the per capita net disbursement of aid ranged from \$825 in the RMI and \$700 in the FSM, to \$82 in PNG and \$48 in the Fiji Islands. Another feature of aid to the Pacific is the high proportion of technical assistance (TA) in the aid portfolio.

42. **Among the providers of bilateral assistance, the most prominent is Australia.** Australia will provide about \$190 million to PNG alone in 2000/01, focusing on

governance, education, health, infrastructure, renewable resource management, and the peace process in Bougainville. For the 11 other PDMCs, Australia will provide about \$88 million to help them deliver essential services. The goal of Australian assistance to the PDMCs is to promote self-reliance through better governance, stronger growth, greater capacity, better service delivery, and environmental integrity. Of the 11 PDMCs, Australian aid focuses on the Fiji Islands, Kiribati, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. In addition, Australia will provide about \$20 million to support the network of regional organizations and institutions that assist the PDMCs.

43. **Japan, the United States, New Zealand and United Kingdom are the other prominent providers of bilateral assistance.** Japanese funding focuses on agriculture, forestry, fisheries, and basic infrastructure, including hospitals, schools, and water supply facilities. In 1998, the net disbursement of Japanese official development assistance to the PDMCs was about \$130.0 million. The United States' official flows to the PDMCs are almost completely focused on the FSM and RMI, primarily through Compact Funds. In 1998, the net disbursement of United States official development assistance to the PDMCs was about \$100.0 million, with 98.0 percent of the same flowing to the FSM and RMI. New Zealand's assistance focuses on health, education, environment, human resource development, and private sector growth. Total assistance from New Zealand to the Pacific is about \$40 million per annum. The United Kingdom contributes about \$6.0 million per annum to the Pacific region, focusing on education and good governance.

44. **The European Union (EU) and the World Bank are significant other multilateral contributors to the Pacific.** While the EU's level of commitment has fluctuated considerably, it has primarily supported transport, communication, industry, construction, mining, and energy. The World Bank's lending, about \$50 million annually, has focused on infrastructure, transport, agriculture, education, health, delivery of public services, macroeconomic environment, capital markets, trade and investment regime, and governance. World Bank loans to the Pacific have been confined to 6 PDMCs: the Fiji Islands, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu. Three of the 12 PDMCs (Cook Islands, Nauru, and Tuvalu) are not members of the World Bank.

45. **UNDP coordinates the activities of various UN agencies.** These agencies are concerned with a wide range of fields including the social sectors, employment, sustainable livelihood, gender issues, disadvantaged groups, environment, and governance. In addition to the regular Article IV consultations and surveillance, the International Monetary Fund has established, jointly with other funders (including ADB), the Pacific Financial Technical Assistance Centre in Suva to extend technical advice and build the institutional capacity of the PDMCs for sound economic and financial management.

## **B. ADB Assistance**

46. **ADB is a major multilateral donor in the Pacific region.** Annually, ADB approves between \$100-\$150 million in loans and \$15 million in TA grants for the region. A substantial part of these loans is from ADB's ADF window. By country, Papua New Guinea (56 percent), Fiji Islands (12 percent), Samoa (8 percent), and Solomon Islands (5 percent) together account for about 80 percent of the total lending. By the end-August 2000, the active portfolio of ADB loans to PDMCs included 35 loans for a total loan amount of \$418.6 million. Some of the lessons learned from past experience of ADB

operations in the PDMCs are given in Part V. The ADB's lending and technical assistance pipeline for 2001-2003 is given in Appendix 3.

### C. Aid-coordination

47. **Coordination of aid programs is improving.** During the past decade, the aid programs in the Pacific were largely sponsor-driven, often uncoordinated, and placed pressure on the absorptive capacities of the PDMCs. This led to a culture of aid-dependence for financing of the capital budget and associated downstream problems, particularly inadequate recurrent budgeting for operation and maintenance. Recently, aid coordination has improved considerably. A major contributing factor has been aid coordination and communication at operational levels in the countries concerned and the recognition of the value of aid coordination by the PDMCs themselves. ADB has played a lead coordination role in a number of PDMCs, particularly for Pacific reform programs. ADB has also been facilitating aid cooperation through the consultative group process to consolidate and enhance complementarity of efforts of the various external funding agencies. Over the last five years, 11 consultative group or development partner meetings were convened — 4 for the FSM, 3 for the RMI, 2 for the Cook Islands, and 1 each for Kiribati, Solomon Islands, and Vanuatu. In the medium term, ADB will continue to play a catalytic role in coordinating policy advice and investments to the PDMCs facing fiscal and economic crises by convening these meetings and mobilizing financial assistance.

48. **The challenge for PDMC governments is to take a more proactive role in aid coordination.** This should appropriately be done by formulating public investment programs that are meaningfully integrated with annual budgets, and that provide effective guidance to external funding agencies on how each can fit into the national game plan. The challenge for funding agencies is to communicate effectively, share knowledge and plans, and thus turn the rhetoric of external agency coordination into reality. In this regard, ADB is strengthening its ties with its development partners—particularly with UNDP, World Bank, EU, Australia, Japan, New Zealand, United States, and United Kingdom—in the areas of overall aid coordination and cofinancing activities.

## V. REVIEW OF ADB ASSISTANCE AND STRATEGY

### A. 1996-1999 Pacific Strategy

49. **The 1996-1999 ADB Pacific strategy made a case for special approaches to assistance to the Pacific.** The 1996 Pacific strategy was based on the premise that the PDMCs—while exhibiting considerable physical, linguistic, cultural, social, economic, and political diversity—differ from the ADB's other developing member countries “in nearly every physical and economic respect, and [that] this requires development strategies adapted to their special circumstances.”<sup>10</sup> These circumstances include smallness, remoteness from major markets, geographic fragmentation, economic vulnerability (because of reliance on a narrow range of primary product exports, aid, and/or remittances), and environmental vulnerability.

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<sup>10</sup> ADB. 1996. *The 1996-1999 Pacific Strategy*. Manila, p. ii.

50. **Despite high gross investment ratios, economic growth in the 1980s and early 1990s was disappointing.** Smallness and remoteness were recognized as “formidable obstacles to private sector development” (footnote 10), but there were other factors identified as causes of this generally disappointing economic performance. Public investment had been dominant and was concentrated in the low return areas of physical and social infrastructure. Large and inefficient public sectors had crowded out private sector investment and failed to deliver good policy environments. Public expenditure was skewed toward the wage bill and away from productive investments.

51. **Aid was judged to have been unsuccessful in facilitating growth.** Aid had supported large public sectors and involved TA that financed line positions without leading to durable capacity building. Additionally, inadequate aid coordination had contributed to weak or nonexistent linkages between aid programs and sound policy environments.

52. **The PDMCs' capacities to maintain and improve their high living standards differed.** The Fiji Islands, PNG, Solomon Islands, and Vanuatu had growth potential because of relatively large natural resource endowments, although PNG, the Solomon Islands and Vanuatu had a human resource constraint. The Cook Islands, Samoa, and Tonga had reasonable growth prospects because of modest natural resources and well-educated populations, although Samoa and Tonga continue to rely on private remittances. Kiribati and Tuvalu had very limited growth prospects and continue to rely heavily on their trust funds. The FSM and the RMI had aid-distorted economies in need of major restructuring (footnote 10, p. 23).

53. **Consistent economic policies and good governance were generally seen as prerequisites for sustainable development.** External funding agencies lacked the necessary focus to assist the PDMCs develop better policies. Against this background assessment, the 1996 Pacific strategy affirmed that

The overall objective of ADB assistance for the region...will continue to be the improvement of living standards through sustainable economic development and the first concern is to get economic growth under way...

and that

A specific aim of ADB assistance to the region is to make its assistance more effective in helping create an environment that will lead to improved productivity, increased private sector investment, and sustained economic growth. This implies a focus on ensuring that better policies are put in place at both the macro and sector levels. It will require ADB to take a more proactive role in reaching agreements with governments and other aid agencies about how to establish and implement improved policies. (footnote 10, p. 23)

54. Under the strategy, ADB interventions were to involve significant reform or capacity building, and address key factors contributing to economic growth.

55. A consequence of the 1996 strategic focus was the expectation that the TA function would become relatively more important than resource transfer. The influence of the 1996 strategy on the operations of the Office of Pacific Operations is reflected in the

fact that during 1996-1998, program lending in support of economic, public sector, and governance reforms assumed a significant proportion of ADB lending in the Pacific.

## **B. Assessment of Past Strategy and Lessons Learned**

56. **During the last five years, ADB has actively supported economic and governance reform.** ADB's development role may be defined in terms of three facets: areas of concern, areas of influence, and areas of operations. Generally, ADB's areas of concern span a wide context, encompassing broad social and economic indicators and major influencing variables. Its areas of influence, for practical reasons, are often narrower, and its areas of operations even narrower. In the Pacific, these three facets fortunately overlap substantially. The 1996 strategy encouraged ADB to undertake a broad role in supporting reform and investment in the region for economic and social development. By 1999, 10 of the 12 PDMCs were working actively with ADB on some kind of reform agenda and program.

57. **The success of these reform programs must be judged over the longer term.** Sustainable change must be evolutionary in nature, allowing time for internalization and institutionalization of new modes of behavior and operation. The programs must also be a continuous learning process, adjusting to and coping with local, regional, and global changes. Major changes are indeed taking place in many of the PDMCs, and this is partly evidenced by greater fiscal discipline, more openness to external investment, greater professionalism in public service, and governments withdrawing from areas that are better left to the private sector. The concrete outcomes of enhanced economic growth, more equitable distribution of its benefits, and the consequent reduction of poverty are longer term goals that will require consistent adherence to the reform regimes now adopted by many of the PDMCs.

58. **The 1996 strategy remains broadly relevant today.** The development outcomes that ADB is helping governments to achieve, and the key factors identified as determinants of the outcomes reflect the 1996 strategy. However, some adjustments and increase in emphasis on specific factors are needed, based on the lessons learned from experience. The desired development outcome shared by all PDMCs remains unchanged:

The common economic target of the island states is a sustained rate of real income growth significantly in excess of the rate of population increase, so as to make possible a raising of incomes and welfare throughout the community.

59. **An explicit poverty dimension to targeted development outcomes must be developed.** The experience of PNG and the Solomon Islands demonstrates that it is not enough to generate growth in average income as measured by conventional national accounts. As Hughes explains,

Sustainability of growth requires conservation and replenishment of capital, both natural and financial; maintenance of produced and purchased assets; competent strategic planning, and managerial adaptability. It also requires equitable distribution of the costs and

benefits of growth, in proportions generally regarded as fair in the community.<sup>11</sup>

60. Raising living standards in a sustainable manner involves not only increased income equitably distributed by region, person, and gender, but also requires access to health and education services, which are of value in their own right (as well as being crucial inputs in the growth process).

61. **The distinctive element of the 1996 strategy was support for policy and institutional reforms.** In mid-1999, ADB's Board of Directors was presented with an evaluation of ADB's assistance for economic and public sector reform programs in the Pacific. The report was prepared by an interdepartmental task force that examined (i) the context and triggers for the reform programs; (ii) the process of design, including the extent of ownership, participation, and coordination of external assistance; (iii) the scope and content of the programs and their appropriateness to country circumstances and capacity; and (iv) implementation progress and results. From this examination, lessons were drawn. The findings were published as *Reforms in the Pacific*<sup>12</sup> in August 1999.

62. **The evaluation of ADB assistance to the PDMCs' reform programs provides important lessons.** The review concludes that reform programs are long-term processes that cannot be expected to have dramatic impacts on the quality of life over two to three years, and that ADB's assistance is but one factor within these processes, albeit often a very significant factor. The underlying theme is that sustained reform efforts will ultimately be rewarded, and that the ADB should provide essential assistance during potentially painful adjustment periods. A discussion of the key lessons follows.

### 1. Ensure Political Commitment

63. Political commitment to and ownership of the reform program are essential. However, reform is a destabilizing process and no government undertakes such a process without some risk of becoming so unpopular that it loses its mandate to rule. Thus, much courage, patience, and commitment on the part of government are needed. The importance of political stability and firm commitment to reform from top political leaders have been underlined by events in Vanuatu and the Solomon Islands in 1999 and 2000.

### 2. Involve Key Stakeholders

64. It is critical for reformist governments to involve key stakeholders in the design of reform programs, and to maintain their commitment by keeping them continually informed of the process and envisaged impacts. This serves the dual purpose of involving the public, and by doing so, more deeply committing the incumbent government to the path of reform. Presenting convincing arguments and evidence on the merits of reform remains a challenge in the PDMCs, especially because of the relative importance of the public sector as an employer and uncertainties in some cases about the opportunities for private sector development.

<sup>11</sup> A.V. Hughes. 1998. A Report of RETA 5657: Economic Analysis in Pacific Developing Member Countries. In *A Different Kind of Voyage*. Manila: Asian Development Bank, 91-92.

<sup>12</sup> ADB. 1999. *Reforms in the Pacific*. Manila.

### **3. Account for Local Culture**

65. Reform programs must take careful account of the local culture. Some cultural factors may be used to advance the reform process; others may need to be managed so that they do not hinder the process; and some may display features that both help and hinder the reform process. One example of a social institution that may constrain the reform process is the Melanesian wantok system, which can make demands of politicians and public officials that conflict with the requirements of their formal, national roles. On the other hand, that same system may be a source of useful social support for those retrenched under a reform program. Another example is the varied customary land tenure systems, which are often seen as a constraint to optimal land use and a deterrent to foreign investment, but which are valued in their own right by Pacific islanders. Reformers need to recognize and understand such cultural factors, address them overtly in a participatory manner, and manage them sensitively. Participatory approaches to the introduction of reform measures, particularly those that are culturally sensitive, are essential to ensure sustainable solutions.

### **4. Focus on Outcomes and Impacts**

66. It is essential to maintain a continuous focus on outcomes and impacts. A reform program often, and necessarily, includes various levels of reform actions, influencing and building on each other. However, in the final analysis, the governments must be able to demonstrate to their citizens that the impacts of these actions (some of which may initially be painful) are actually beneficial through better service provision, or lower prices, or improved employment and other income-earning opportunities. Thus, the government must establish and manage an information system that tracks reform implementation, and permits the analysis and publication of the resulting impacts as and when they occur. Analysis of impacts needs to extend to an assessment of who benefits and who loses, so that government may address any inequities. This area has received inadequate attention. Information is one of most critical inputs in the reform process, and the one most commonly inadequate in the Pacific.

### **5. Design Within Local Capacity**

67. Simple scope ensures that the reform program content is clear, realistic, and within local capacity. Some programs have been too complex and too ambitious in terms of time targets. Reform program design must pay careful attention to pace and sequencing of policy actions, and to resolving conflicting objectives. For example, in terms of realistic sequencing, it is of little value to attempt introducing performance-based budgeting if basic costing and accounting systems do not provide timely feedback, or for that matter, if basic accounting skills are not available to the government. In regard to trade-offs between objectives, public service downsizing has been undertaken urgently in response to fiscal pressures, without adequate attention to allocation priorities (particularly education and health) or technical efficiency. The result is the loss of valuable staff skills in areas of economic priority and the elimination of useful, constructive activities, both of which may be difficult to reestablish in the future.

### **6. Keep it Simple**

68. Some key design principles learned through experience over the last few years are (i) keep it simple, (ii) tackle a few though significant and relevant reforms at a time,

(iii) think through the sequencing with the implementers, and (iv) allow for testing and adjustments. It is important to lay out a sequence of reform actions that leads to tangible and specified outcomes and impacts, taking account of cause-effect linkages, and then to focus on achieving success within the initial phase. Follow-on stages should come only when the initial phase has proven successful. Care is needed to distinguish between input targets, process milestones, outputs, and impacts.

## **7. Use Consultants Carefully**

69. The use of consultants and external advisers must be more carefully designed. First, given the constrained human resource capacity in the Pacific, the need for consultants is often inevitable. However, there are options for how they can be used: as long-term advisers in line positions; or as providing short-term, periodic inputs. These options must be carefully evaluated, keeping in mind that the reform program must remain locally owned and managed. A key indicator of consultant effectiveness should be the extent of local ownership he or she is able to engender. Second, it is important to clarify whether the consultant is fulfilling a line function or whether the mandate is to build capacity. If it is the latter, technical expertise is not a sufficient qualification for the job. Proven success in transferring skills and supporting participative capacity building are essential requirements. Third, ADB must assure the government that the consultants it offers have the right breadth of experience and demonstrated exposure to a variety of reform approaches. Otherwise, there is the substantial risk that reform approaches adopted by the country are dictated not by disciplined analysis of needs and assessment of options, but by the narrow experience of the long-term adviser. The larger issue is the need for ADB to strengthen its policies and systems for the engagement and management of consultants. Consulting contracts should be drafted not only in terms of expected inputs and tasks, but also in terms of precise and tangible outputs and expected outcomes. Consultants' performance must be more closely monitored by government and ADB staff, on the basis of the outputs delivered. And sanctions for inadequate performance should be specified in contracts, and enforced. Staff must have adequate time to supervise consultants and should be held accountable for TA outputs and outcomes.

## **8. Maintain Continuing ADB Support**

70. ADB must maintain effective engagement in the reform process beyond the two- to three-year program loan time frame. First, communication channels of ADB staff with the highest levels in government must be cultivated and nurtured, and through them, a relationship of trust and partnership developed. Second, and consequent to the first lesson, ADB must seek to ensure high quality staff inputs and greater staff continuity in operational assignments. Third, the package of assistance must combine a mix of loan and TA, as well as follow-up project loans and TAs, that help the government address spillover and sequential needs. Fourth, coordinated inputs from external agencies in a long-term framework that supports continuity of the reform process is invaluable for ensuring continuing government commitment to reform.

71. The new 2000 Pacific strategy takes account of the experience and lessons acquired over the last five years of operation.

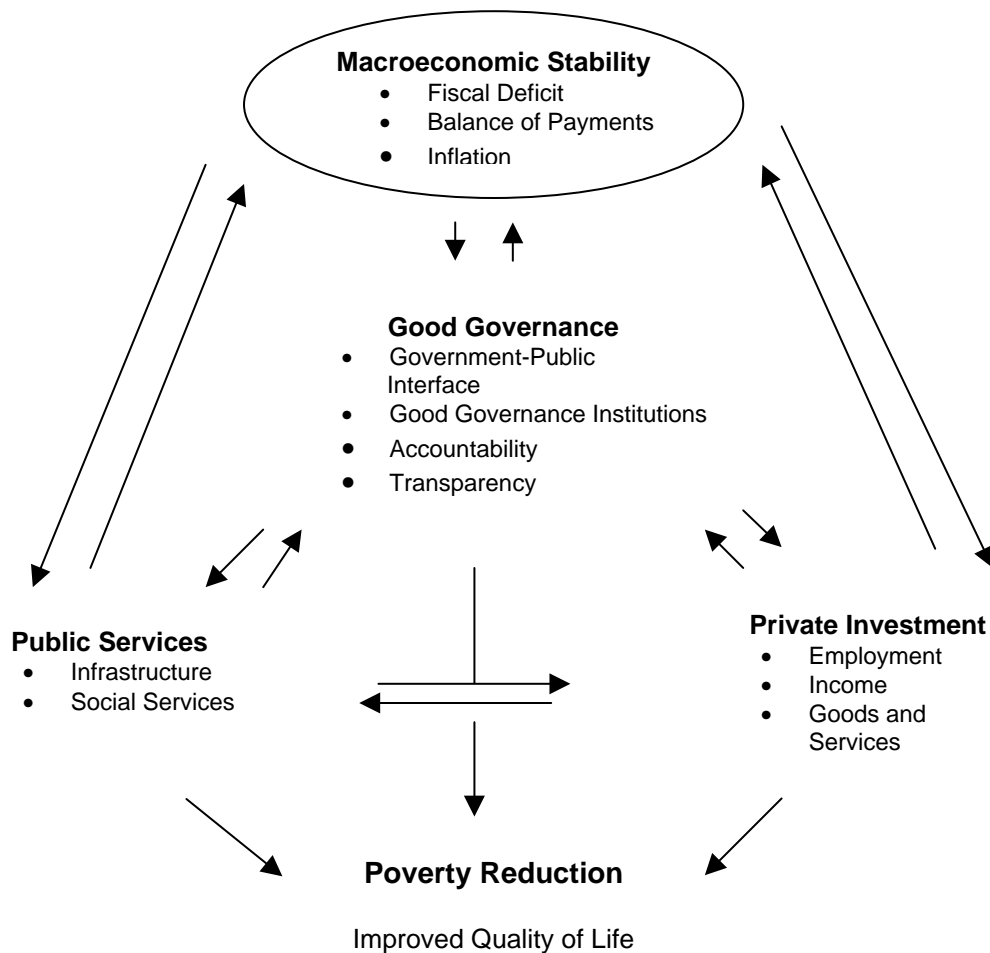
## VI. THE NEW PACIFIC STRATEGY

### A. Broad Strategic Objectives of ADB

#### 1. Economic Management, Governance, and Public Sector Reform

72. The initial phase of the reform programs supported by ADB since 1995 have focused on good governance and macroeconomic stability. The triggers for reform in most PDMCs have been intrinsically related to fiscal crises, unmanageable government debts, public dissatisfaction with government performance, and election of reform-oriented governments. The areas of emphasis have been (i) supporting legislative reform of the role of parliament and the public sector; (ii) strengthening good governance institutions; (iii) introducing fiscal discipline and output focused budgeting; (iv) downsizing the civil service and strengthening its professionalism; (v) promoting more open and growth-orientated economic policies; and (vi) encouraging privatization and a larger role for the private sector. While some success has been achieved in these areas, much still needs to be done. By nature, these are endemic issues that need long-term and consistent attention before sustained change takes root. Hence, ADB's emphasis in this area will continue over the longer term (Figure 3).

Figure 3. Medium-Term Goals



73. **The new Pacific strategy will support deepening of government and public commitment to the reform process.** ADB assistance will focus on building public awareness and support for reforms through continued dialogue with government, and promoting stronger government linkages with the private sector, NGOs, and community organizations that have vested interests in the reforms. In this connection, ADB continues to support the organization of annual national summits to bring together key stakeholders to review government progress on reforms. In line with ADB's governance policy,<sup>13</sup> the demand-driven nature of ADB assistance should become more pronounced, particularly in the case of politically sensitive governance reforms, where the guiding principle must be to act on the basis of PDMC requests and ownership rather than simply using loan conditionalities. ADB will give priority to awareness raising, coalition building, and public information activities, where local support for governance reforms is weak. Thus, local ownership of the reform process is a key aspect of the strategy.

74. **The strategy will support the maintenance of stable macroeconomic environments.** The content of macroeconomic policy will depend on country circumstances. However, in general, emphasis will continue on implementing fiscal discipline, strengthening revenue management, promoting an export orientation, and encouraging private investment. Subject to domestic capacity constraints, ADB will support governments in preparing a rolling medium-term budget framework that reflects the country's medium-term development strategy and integrates both the recurrent and capital budgets.

75. **The strategy will emphasize enhancing efficiency and effectiveness of the public service.** While major achievements have been made in downsizing the public service, the same cannot be said of the quality of public services. These remain poor, inadequate, and well below acceptable standards in most PDMCs. Of particular concern is the ability of governments to reach out to the rural areas and the poor who are usually most in need of these services. Since the strategy will also emphasize poverty reduction and improvement of quality of life for the people of the Pacific, the improvement of efficiency and effectiveness of the public sector will be a key focus. A related feature will be continuous impact monitoring by identifying and monitoring verifiable performance targets for each government agency. In this regard, and given the large need for capacity building, TA will continue to have greater importance than resource transfers in ADB's assistance mix.

## 2. Private Sector Development

76. **The private sector should replace the public sector as the engine of growth.** Reduction in size and scope of the public sector over the last five years of reforms was not associated with a corresponding growth of the private sector; this left a gap in output and employment. Furthermore, the expected efficiency advantages through private operations also did not accrue to the PDMC economies. The limited growth of the private sector is explained by both the immutable constraints on economies, as well as the inadequacy of various factors required for growth of a dynamic and healthy private sector. The strategy will support a second phase of the reform process by addressing these various factors, as well as continuing to support the shifting the role of government from producer to facilitator of economic output.

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<sup>13</sup> ADB. 2000. Governance Policy (online). Available: <http://www.adb.org/Governance/default.asp>.

77. **ADB's Private Sector Development Strategy<sup>14</sup> will guide the Pacific strategy in its focus on the private sector.** ADB will seek to (i) promote enabling environments for private sector development, (ii) identify and support business opportunities, and (iii) facilitate private investments in the PDMCs. To deepen the dynamics of the private sector, ADB will promote privatization of state-owned enterprises, private sector participation in infrastructure development, liberalization of investment and trade regimes, and greater competition. However, private sector growth will essentially depend on business perceptions of risks and rewards associated with investments. To reduce risks, ADB will facilitate the maintenance of stable macroeconomic environments, and the development of appropriate legal and regulatory frameworks. ADB will help improve the prospects of private investment through tax reforms, easier access to land, and skills development in the labor market. ADB already does and will continue to promote a sound policy of transport infrastructure development and maintenance, with related investments in physical, telecommunications, and IT infrastructure. Financial sectors will be supported to become more vibrant, transparent, and responsive to all segments of the economy. Some of these issues will be addressed as a part of continuing economic, governance, and public sector reform processes.

78. **Special effort will focus on the areas of comparative advantage.** Emphasis will be placed on resource and skill advantages of the PDMCs, such as tourism, fisheries, and agricultural products, and the development of niche markets in each of these areas. The development of small- and medium-size enterprises will be the focus, given the small factor and product markets. Diversification and value addition of the predominant primary products and exports of these countries will be supported. To improve financial viability of private operations, ADB will promote innovative public-private partnerships, including management contracting of public enterprises, and projects based on build-operate-transfer and build-own-operate or similar concepts. In smaller PDMCs, where development of an organized private sector is less feasible, marketable skills will be developed to enable the islanders to compete for employment opportunities outside of their respective countries.

79. **Technical advice and investment support will be provided to the private sector.** Given the small size of potential investments and high cost of project development, ADB, with the International Finance Corporation, will collaborate to support technical and feasibility advice services through the South Pacific Project Facility. ADB will also cooperate with the Foreign Investment Advisory Services (also supported by the International Finance Corporation) to promote foreign direct investment in the region. ADB will explore the possibility of establishing an investment facility to be run jointly by the Private Sector Group and the Office of Pacific Operations to finance smaller investments in the PDMCs, with simplified processing requirements.

### 3. Gender

80. **Gender issues will be mainstreamed.** While gender issues remain significant and important on the social front, such as in relation to health, hygiene, education, and population control, a breakthrough is necessary in recognizing the potential role of women in politics and the economy. ADB has an important role to play, given its influence in promoting economic and governance reform. Barriers to women's

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<sup>14</sup> ADB. 2000. *Private Development Sector Strategy*. Manila.

participation as equals in the political and economic sphere need to be gradually eliminated. Education and access to finance for investment are perhaps the most powerful tools in this regard. ADB will focus its skills development and microfinance projects on women. In addition, ADB can do much to ensure the involvement of women in the (i) ADB-supported national summits on economic and governance reform, (ii) development of economic and poverty reduction strategies for each PDMC, and (iii) legislative and social reform to ensure equal opportunity rights for women.

**81. ADB will continue to promote the role of women in the control of population growth, broadening the reach of education, and improving health indicators.** These remain critical issues in the Pacific, and the most effective strategy to address them remains through women, and strengthening women's social and economic role in society. Gender analysis will be an essential component of the preparation of all TA and loan projects. In the annual country programming exercises, country-specific approaches to mainstream gender and development policies and programs will be identified. Although historically, ADB has not been substantially involved in population policy and programs in the Pacific, this sector has become a key area for its assistance, particularly due to ADB's new poverty reduction policy. Ways of directly influencing population growth rates through population policy, family planning, and improved access of women to health and education opportunities will be explored and supported with governments and other providers of external assistance.

#### **4. Environmental Protection**

**82. Fragile environments will be actively protected through policy support and investments.** Given the narrow resource base of the Pacific islands, and the limited economic opportunities for investment, the pristine environment of many of the PDMCs remains their most important comparative advantage. ADB will make strenuous efforts to underscore this issue in the economic and governance reforms it promotes, provide assistance for improving regulatory and management frameworks to ensure the protection and sustainable management of these environments, and support community-awareness and education projects where broad-based action and public support are required. The PDMCs hold some of the world's richest sites in terms of biodiversity, and there are opportunities for attracting cofinancing, e.g., from the Global Environmental Facility, for conservation and protection projects. ADB assistance in this area is well justified, but will depend on commensurate interest and capacity on the part of the government agencies concerned.

#### **5. Poverty Reduction as a Unifying Theme**

**83. The poverty reduction impact of all ADB operations in the Pacific will be maximized.** At the country level, the three pillars of ADB's poverty reduction strategy (pro-poor sustainable economic growth, social development, and good governance) will underpin the design of project interventions and capacity building measures. In particular, the Pacific strategy recognizes that enhancing the quality of governance is critical to poverty reduction, which explains the continuing focus on public sector and governance reforms. ADB will also pay careful attention to the social and institutional policy framework within which ADB's poverty reduction interventions occur.

**84. ADB will work closely with governments on country-specific poverty reduction strategies.** The first step will be to help PDMCs undertake comprehensive

poverty analyses, to better identify the nature, magnitude, location, and determinants of poverty. ADB will work in partnership with the PDMCs and its development partners<sup>15</sup> to conduct poverty assessments in a consultative manner. The results of poverty studies will be reviewed and discussed with the government and civil society, prior to their incorporation, as appropriate, in ADB's country-specific strategies and assistance programs. Upon request, ADB will consider providing TAs to enable the PDMCs to prepare country-specific poverty reduction strategies. Special consideration will be given to the needs of the poor and vulnerable populations living on remote islands. ADB's poverty strategy explicitly notes that with "Pacific island members, ADB will take the lead in capacity building for poverty analysis," closely integrating its efforts with those of governments and other development agencies.<sup>16</sup>

**85. ADB's project investments will emphasize poverty reduction.** At the sectoral level, ADB will give priority to (i) interventions that create direct employment and income-earning opportunities for the poor in both formal and informal sectors, including microfinance; (ii) investments in the social sector, i.e., education, health, population, social protection, and water supply and sanitation; and (iii) development of physical infrastructure with an emphasis on enhancing accessibility of the poor to essential services. In addition, measures to protect and conserve the fragile environment will be supported to protect the resource base of the poor. Sociocultural aspects of identifying and designing project intervention will be emphasized. The distributive impact of ADB operations in the Pacific will be enhanced by systematically adopting consultation processes and participatory planning methodologies at all stages of TA and loan project cycles.

## **B. Supporting Strategic Objectives**

### **1. Capacity Building**

**86. Gradual but systematic and long-term capacity building will be emphasized.** In terms of capacity building, there is a need to work with the PDMCs and target clients to formulate long-term plans for building the required skills by combining training, exposure to other systems, consultancy, learning-by-doing, and institutional twinning arrangements. Such plans should identify the milestones for each stage of skill development, emphasizing small but successful steps at the start and moving progressively to larger ones. Such plans can guide the activities of various external funding agencies over time, and ensure better aid coordination and planning. At the project level, consultants' terms of reference should routinely include skill transfer as part of the expected output, with clear indicators for accomplishment of this result. Accordingly, consultants will need to be selected not only for their technical qualifications, but also for their ability to guide, coach, and mentor local counterparts. Domestic consultants should be used more often, for example, as long-term understudies of international consultants.

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<sup>15</sup> To this end, a regional TA will begin in mid-2000 (TA No. 5907-REG: *Poverty Assessment in Pacific Developing Member Countries*, for \$400,000, approved on 28 March 2000). This TA will be supplemented in year 2000 with advisory TA for a number of individual countries (the RMI, Tonga, East Timor). Further work on poverty assessment in 2001 is planned for Kiribati, PNG, and Samoa.

<sup>16</sup> UNDP continues to undertake substantial work on poverty and sustainable livelihoods.

## 2. Infrastructure Development

87. **Infrastructure development and efficient maintenance will remain a basic priority.** Better infrastructure improves access of the poor to private markets and public services, weakens monopolistic exploitation, and facilitates the flow of information and awareness. Infrastructure development is critically linked to private sector development and economic growth as it helps reduce market imperfections and stimulates the free play of the market. Based on lessons learned from past experience, special attention will be paid to maintenance of infrastructure, as it brings significantly higher returns on investments compared with investments in new infrastructure. Given the small size of markets and geographic difficulties, the public sector will have a continuing role in infrastructure development and operations. However, to obtain higher operational efficiencies, ADB will support public-private partnerships in infrastructure development where feasible. Private sector participation in infrastructure development will be promoted by unbundling infrastructure operations, wherever possible, improving availability of required long-term financing, and developing appropriate policy and regulatory environments. In terms of reform of public sector agencies involved in infrastructure, emphasis will be on increasing managerial and financial autonomy and accountability.

88. **ADB support for infrastructure development will focus on transport, telecommunications, IT, and water supply and sanitation.** While ADB has been already substantially involved in supporting transport and water supply development, telecommunications and IT will be relatively new areas. In view of the dispersion and remoteness of the PDMCs, the development of telecommunications and IT will help improve access and business communication, and reduce costs. The PDMCs should also be harnessing the power of telecommunications and IT for health and extension of services, distance education, investments, and monitoring of public activities. In all the infrastructure areas, assistance will be provided for investments as well as policy and regulatory development.

89. **ADB will work with the PDMCs to take advantage of IT to overcome constraints associated with smallness and isolation, and to realize potential gains offered by links to a global market.** Such assistance could initially take the form of country and regional studies to assess IT readiness. Following such studies, ADB could assist PDMC governments in (i) developing national policy and strategy for IT; (ii) increasing IT awareness and computer literacy; (iii) improving IT infrastructure in the public and private sectors; and (iv) using IT to enhance governance, social inclusion, and service delivery, particularly for basic social services such as health and education. Given the need to conduct field trials of new technologies, ADB-financed investment projects in particular sectors could include small pilot projects to test innovative IT-based approaches. If the pilot projects succeed, further funding can be provided by ADB to replicate the projects on a wider scale.

## 3. Financial Sector Development

90. **ADB will provide efficient financial intermediation for private sector development and optimal allocation of resources.** Following the Asian financial crisis, a strong financial system and its effective supervision have emerged as crucial factors for reducing vulnerabilities, which is all the more important for the small open economies of the PDMCs. Inadequate private sector development and continued

macroeconomic instability in the PDMCs highlight the need for urgent development of the financial sector. ADB will pay special attention to the basic constraints of the PDMCs, including the small size of financial markets; large population outside the formal monetized economy; problems with land use as collateral because of the customary land ownership structure; and sociocultural practices related to production, consumption, and saving in the region.

91. **ADB will support financial sector expansion, supervision, and competition.** In this connection, ADB support for nonbank financial institutions, such as venture capital funds and microfinance organizations, will be helpful. Work is already ongoing in PNG, Samoa, and Vanuatu. Financial sector supervision must be strengthened to give greater confidence to external investors. ADB will support the adoption and enforcement of internationally accepted accounting practices and other standards for financial institutions, and support widening the supervisory role of the central banks. In view of the small skill base and resource limitations of the PDMCs, ADB will support regional cooperation in regulatory and supervisory matters, along with harmonizing legal, regulatory, and institutional issues. In this connection, ADB has begun and will continue to work with the PDMCs to more effectively monitor and eliminate money laundering operations in the region. ADB will also continue to advocate reform of the government-owned development finance institutions, including improving their corporate governance and increasing private sector participation on their boards, strengthening their operational policies and procedures provide independence from governments, and promoting their eventual privatization. Given the small size of the PDMCs, ADB will support efforts to develop regional capital markets to channel domestic and foreign flows into productive investment. Efforts will be made to connect the existing stock exchanges in the region through the Internet. The possibility of establishing a new venture capital fund on a regional basis will also be explored to make finance available to local private sector investors in the PDMCs.

#### 4. Supporting the Role of Civil Society

92. **ADB will work to strengthen the interface and collaboration between PDMC governments and NGOs and civil society groups.** Economic development must be participatory and inclusive. This is particularly so if the benefits of economic development are to be shared more equitably than in the past in the Pacific. Thus, wider NGO involvement and consequent stronger ownership of the government's development strategies and reform agenda has become a priority. NGOs have demonstrated the critical role they can play in facilitating grassroots feedback and advice, improving transparency, generating community awareness, and harnessing people's power effectively. NGOs and civil society groups have widely established their capability to mobilize communities, generate community participation and develop community movements, particularly for addressing poverty. It is therefore essential that governments come to view NGOs and civil society groups as partners in development, and make strenuous effort to improve information sharing, education, communication, and participation in government-led development activities and reform programs. ADB, on its part, will seek to consult more widely with NGOs and civil society groups in the development initiatives it supports in each PDMC. It will also encourage governments to work more actively with NGOs in the delivery of essential services particularly to rural communities, where NGOs generally have a better comparative advantage than governments in service delivery. ADB will also support the strengthening of NGOs and

civil society groups to enable them play more active and effective roles in the development and implementation of development policies and strategies in the Pacific.

### C. Subregional Focus of the Strategy

93. **Differentiated Approaches.** The varied resource endowments, capacities, opportunities, and developmental constraints of PDMCs will require the use of a variety of approaches. Conceptually, there are three main PDMC categories. The distinguishing features and priorities of the categories, and implications for the new strategy are summarized in Table 3.

94. **Category 1: PNG, Solomon Islands, and Vanuatu.** These countries have low population densities and relatively abundant natural resource endowments, but at the same time, relatively high poverty, poor social indicators, high population growth, and low labor mobility. The economies are characterized by weak public sector capacity, particularly to deliver essential social services. In line with ADB's adoption of the poverty reduction objective, a major share of ADB resources and assistance will be directed to these countries where both poverty and population in the Pacific are concentrated.<sup>17</sup> The thrust of ADB's assistance will be on expanding access in rural areas (and particularly by women) to pro-poor services, such as basic health and education, nonformal education, and microfinance. ADB assistance will include support for transport infrastructure (to improve access to disadvantaged regions) and for capacity building of local governments. ADB assistance will also seek to reduce high population growth rates.

95. **Category 2: Cook Islands, Fiji Islands, FSM, Samoa, and Tonga.** These countries generally have a higher skill base, good long-term growth prospects, moderate resource potential, strong tourism potential, high international labor mobility, generally good social development indicators, and low poverty. ADB will focus on physical infrastructure (including support for tourism-related infrastructure) and private sector development to promote economic growth. In terms of policy reform, particular emphasis will be given to removing bottlenecks or impediments to private sector investment and growth. In selected countries, outer island development based on the concept of a sustainable trust fund, and capacity building of local governments will be pursued.

96. **Category 3: Kiribati, RMI, Nauru, and Tuvalu.** These countries are severely disadvantaged by their smallness, isolation, and weak resource base. Their economies are characterized by high reliance on external assistance and trust funds, high population density, and high vulnerability to sea level rise. Although considered to have relatively low poverty, these countries have little, if any, potential for self-sustained economic growth. These countries comprise small, isolated, and vulnerable atoll economies. A special concern is the sustainability of financing of essential services. Accordingly, ADB will seek to establish and expand trust funds, in collaboration with its development partners, to finance public expenditures, particularly for projects and services in disadvantaged outer island communities. Given the limited scope for growth in these economies, two of which are classified by the United Nations as least developed

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<sup>17</sup> PNG, Solomon Islands, and Vanuatu have the lowest human development index scores and the highest human poverty index scores in the Pacific (Figures 1 and 2). East Timor is recognized as one of the poorest areas in the Asian and Pacific region. The Solomon Islands and Vanuatu are classified as least developed countries by the United Nations.

**Table 2. Three Main Categories of PDMCs and Country-Specific Issues and Areas of Emphasis**

PNG, VAN, SOL, [East Timor]	FIJ, SAM, FSM, TON, COO	RMI, NAU, TUV, KIR
<p><b>Distinguishing Features</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Good growth prospects based on natural resources</li> <li><input type="checkbox"/> High poverty</li> <li><input type="checkbox"/> High population growth</li> <li><input type="checkbox"/> Low population density</li> <li><input type="checkbox"/> Poor social development indicators</li> <li><input type="checkbox"/> Low international labor mobility</li> <li><input type="checkbox"/> Weak social services</li> <li><input type="checkbox"/> Poor access of women to social services</li> </ul>	<p><b>Distinguishing Features</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Modest growth prospects</li> <li><input type="checkbox"/> Relatively low poverty</li> <li><input type="checkbox"/> Moderately good natural resource endowment</li> <li><input type="checkbox"/> Generally good social development indicators</li> <li><input type="checkbox"/> High international labor mobility</li> <li><input type="checkbox"/> Strong tourism potential</li> </ul>	<p><b>Distinguishing Features</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Relatively low poverty</li> <li><input type="checkbox"/> Small, isolated, little if any potential for self-sustaining economic growth</li> <li><input type="checkbox"/> High population density</li> <li><input type="checkbox"/> High vulnerability to sea rise</li> <li><input type="checkbox"/> Reliance on trust funds, aid</li> </ul>
<p><b>Priorities</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Focus poverty reduction on expanding access in rural areas (particularly by women) to basic health and education, nonformal education, and microfinance.</li> <li><input type="checkbox"/> Reduce high population growth rate.</li> <li><input type="checkbox"/> Build local government capacity.</li> </ul>	<p><b>Priorities</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Remove impediments to private sector growth.</li> <li><input type="checkbox"/> Where appropriate policies and adequate capacities exist, finance physical infrastructure to promote economic growth, tourism development, and sound environmental management.</li> </ul>	<p><b>Priorities</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Support establishment and expansion of trust funds to provide sustainable financing of needed services.</li> <li><input type="checkbox"/> Examine potential for sustainable exploitation of fisheries/marine resources.</li> <li><input type="checkbox"/> Explore potential for labor exports and niche-market tourism development.</li> </ul>
<p><b>Implications for Programming</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Most of TA program (and, where justified, program loans) to support policy reform, and improvements in public sector management/service delivery</li> <li><input type="checkbox"/> Major part of project lending focused on programs to address poverty (health, education, microfinance)</li> </ul>	<p><b>Implications for Programming</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Most of TA program (and, where justified, program loans) to support policy reform, and improvements in public sector and environmental management/service delivery</li> <li><input type="checkbox"/> If sound policies are in place, provide project lending focused on infrastructure for economic growth</li> <li><input type="checkbox"/> Establish trust fund for outer island development</li> </ul>	<p><b>Implications for Programming</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Most of TA program (and, where justified, program loans) to support policy reform, and improvements in public sector management/service delivery</li> <li><input type="checkbox"/> Loan funds to provide seed money for, or to augment, existing trust funds, particularly for outer island development</li> <li><input type="checkbox"/> Skills development to promote labor export where appropriate</li> </ul>

COO = Cook Islands, FIJ = Fiji Islands, FSM = Federated States of Micronesia, KIR = Kiribati, NAU = Nauru, PDMCs = Pacific developing member countries, PNG = Papua New Guinea, RMI = Republic of Marshall Islands, TA = technical assistance, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu.

(Kiribati and Tuvalu), ADB will explore opportunities for sustainable marine resource development, niche-market tourism support, and skills development for labor export.

#### **D. Regional Cooperation**

97. **Regional Cooperation.** In close partnership with regional organizations and other development partners, concerns shared by most Pacific DMCs will be addressed. The PDMCs stand to gain substantially by cooperating on a regional basis to collectively reap the benefits of economies of scale in both private and public activities. ADB has been promoting subregional cooperation mostly through its regional TA activities. Areas identified as high priority for cooperation by the PDMCs that will be the focus of ADB efforts over the next three years, include the following.

98. **Fisheries.** Fish are one of the most important natural renewable resource of the Pacific countries. Therefore the PDMCs must cooperate in establishing a common management framework for the sustainable management of this resource. In addition, regional cooperation can help them strengthen each other's capacities to better exploit this still underutilized resource. ADB is already engaged in such assistance and will continue over the next few years.

99. **Airline and Airspace Management.** Given the remoteness of some PDMCs, airline links become vital from an economic point of view. While private investment in such air links is sometimes nonviable, public investment can be a potential drain on the public purse. Hence there is need for the PDMCs to work together on collaborative arrangements that allow economic viability, mutual benefit, and efficiency. ADB is currently encouraging negotiation between some PDMCs in this area.

100. **Regional Stock Exchanges.** The economies of a number of the PDMCs are so small that they are inadequate to support an indigenous capital market. Only PNG and the Fiji Islands have their own stock exchanges, and these remain relatively small. Yet, promoting capital investment in the region is critical to the growth of these economies. ADB is investigating the possibility of linking the stock exchanges in PNG and the Fiji Islands, and expanding this linkage through the Internet to smaller PDMCs.

101. **Public Sector Management.** ADB is already working with the ADB Institute on a Public Sector Executive Management Program wherein senior public servants get the opportunity to work together and share experiences with public sector reform in their countries. ADB also supports the Pacific Technical Assistance Center in association with the International Monetary Fund, with the objective of providing ongoing TA to the PDMCs in the areas of fiscal management and public sector reform. Further opportunities in this area of exchange will be explored.

102. **Governance and Money Laundering.** ADB continues to support efforts in judicial training in the Pacific. Phase 1 of this program is ongoing and will be followed up with a phase 2. The intention is to provide judges in the region with an opportunity to upgrade their knowledge and access to judicial information. In addition to this initiative, ADB is also providing assistance to address money laundering in the region. This has now become a major international issue. Some PDMCs have been involved in suspect practices with respect to protecting such money laundering. However, they have all now disavowed such support. The TA will assist them to work with international agencies to

restructure their financial regulations to eliminate provisions that protect money laundering.

103. In addition to these regional cooperation initiatives, regional studies are being undertaken to assess poverty in the Pacific region and analyze financial sector issues and strategies.

#### **E. Operational Modalities**

104. **Program Loans.** Program loans, including sector development programs loans, will continue to have a prominent place in the assistance mix to provide ample support for reform-related efforts. Although several PDMCs have already launched major reform programs with ADB assistance, the adjustment process is expected to continue in many of these countries, although the objective may shift from crisis management and macroeconomic stabilization to the rationalization and improvement of public services. In certain countries, program lending will also help to provide seed funding for the establishment of trust funds to help sustain development activity, especially for geographically and economically disadvantaged populations.

105. **Project Lending.** This lending will continue to finance social and physical infrastructure, address poverty, and help provide enabling environments for private enterprise. In this regard, and particularly where government capacity is weak, project lending may also be applied to outsource vital services using innovative channels such as NGOs, churches, and the private sector.

106. **Loans for Emergency Rehabilitation.** These are provided after natural disasters or civil strife, which have become more common in the Pacific in recent years. This source of financing for reconstruction, based on an abbreviated processing schedule, has been an important mechanism for addressing the vulnerability associated with small island states. The availability of this lending facility represents a form of insurance that countries can tap when an unanticipated crisis occurs.

107. **Technical Assistance Grants.** In view of the importance of TA to address long-term policy reform and capacity building efforts, the availability of grant financing for TA is crucial, given the weak debt servicing capacities of most PDMCs and their reluctance to borrow for TA. TA grants will also be required to finance project preparation and feasibility analysis; in some circumstances, project preparation activities may involve pilot testing of an innovative approach, and using such experiences to build local capacity and design the supportive policy framework.

108. **Regional TA.** This TA will support addressing issues and concerns that cut across national boundaries or that are likely to require collaboration by several countries. This channel is also used to provide financial support to indigenous regional institutions or centers that are able to address priority issues in a systematic and efficient manner. Regional TA funds finance seminars, workshops, and training programs across the Pacific and make major contributions, not only to promoting PDMC dialogue, but also to developing a pool of local human resource talent that is becoming increasingly available within the region itself.

109. **Performance-Based Lending.** Because of the limited availability of funds for concessionary lending from the Asian Development Fund and to enhance aid

effectiveness, ADB will adopt a mechanism for allocating scarce Asian Development Fund resources that will be responsive to country needs, provide an incentive for performance (particularly, impact on poverty reduction), and be tempered by absorptive capacity considerations. This means that, other things being equal, the PDMCs will be eligible for continued Asian Development Fund funding contingent on (i) a country having a low per capita income and large population, (ii) tangible progress in terms of policy and institutional reform and related implementation, and (iii) progress on management capacity and local financial (counterpart fund and recurrent cost) resources to facilitate absorption of external assistance.

110. **Resident Missions.** In line with ADB's objective of enhancing the impact of its assistance and its responsiveness to client needs, ADB is reviewing the role of resident missions (RMs) in the Pacific region. Clearly, the RMs' most important contribution will be to facilitate ADB operations in the individual PDMCs, to generate optimum development impact through strong local ownership, and to increase responsiveness by ADB. Although ADB is currently conducting an evaluation of various options, the future configuration of the RMs in the Pacific will include a separate resident mission in PNG (requiring the upgrading of the existing PNG extended mission), given the size of ADB operations in PNG. Two options for additional missions are currently being evaluated: (i) two or three subregional missions (e.g., one for the North Pacific, one for South Pacific, and maintaining the existing one in Vanuatu); or (ii) a single mission in a central location to cover most of the PDMCs. In weighing these options, several points are being considered: (i) while ADB provides broad-based assistance to the individual PDMCs (including for economic reform and structural adjustment), ADB's loan portfolio per country is very small; (ii) while several of the PDMCs are geographically closely located, transportation facilities between them are quite limited; and (iii) there are likely to be significant budgetary and staffing (and skills mix) implications. As such, the proposal for additional RMs in the Pacific will need to weigh the option of having a large office with broader staff skills mix and range of functions in a central location, against the option of smaller offices with a more limited range of staff skills and operations.

## **F. Resource Requirements**

111. The current pipeline of ADB's lending and TA program for the Pacific for 2000-2003 is given in Appendix 3. The 2000-2003 program for the 12 PDMCs is broadly consistent with the new strategy. It will be refined and improved, as necessary. The annual work program for 2000-2003 consists of processing of about 13-14 loans and 42-49 TAs processed per year; 40-50 loans and 62-88 TAs administered; and country programming, policy, and economic work for the 12 countries. A major challenge for the Office of Pacific Operations is to improve its own efficiency and effectiveness. A continuing task will be to balance the resource availability and the annual assistance program based on the role of ADB as defined in the regional strategy, and the development needs and performance of the PDMCs.

## ECONOMIC STATISTICS OF THE PACIFIC

**Table A1.1. Growth Rate of GDP**  
(percent per year)

Economy	1994	1995	1996	1997	1998	1999
Pacific DMCs	3.0	0.3	3.0	(3.2)	1.2	4.0
Cook Islands	3.9	(4.4)	(0.2)	(2.8)	(3.8)	2.8
Fiji Islands	5.1	2.6	3.3	(1.8)	(1.3)	6.6
Kiribati	7.7	3.4	6.3	2.3	8.3	1.7
Marshall Islands	2.8	2.7	(15.2)	(5.3)	(5.0)	0.5
Micronesia, Federated States of	1.8	1.6	0.7	(4.2)	(0.8)	0.3
Nauru	—	—	—	—	—	—
Papua New Guinea	2.2	(1.6)	3.5	(4.6)	2.5	3.8
Samoa	(7.8)	6.8	6.1	1.6	2.6	5.3
Solomon Islands	5.1	6.8	0.6	(0.5)	(2.2)	0.5
Tonga	10.0	6.3	(3.7)	(1.4)	0.1	4.6
Tuvalu	10.3	(5.0)	10.3	3.5	14.9	3.0
Vanuatu	2.6	3.2	3.5	0.6	0.2	(2.4)

— = not available, DMC = developing member country, GDP = gross domestic product.  
Source: ADB 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.2. Growth Rate of Per Capita GDP**  
(percent per year)

Economy	1994	1995	1996	1997	1998	1999	2000	Per Capita GNP (US\$) 1998
Pacific DMCs	1.4	(1.6)	1.3	(4.6)	(1.0)	—	—	—
Cook Islands	3.4	(5.8)	(1.7)	6.2	1.1	14.4	—	—
Fiji Islands	4.1	1.4	2.5	(2.4)	(4.7)	1.9	6.6	2,110
Kiribati	6.2	1.9	6.3	1.5	1.5	—	—	1,180
Marshall Islands	(0.4)	(0.9)	(18.0)	(8.1)	(8.1)	—	—	1,540
Micronesia, Federated States of	(3.1)	0.3	(0.6)	(5.5)	(4.8)	—	—	1,800
Nauru	—	—	—	—	—	—	—	—
Papua New Guinea	0.2	(3.6)	1.5	(6.4)	0.6	2.9	3.6	890
Samoa	—	4.9	5.5	1.0	—	—	—	1,020
Solomon Islands	2.4	2.8	(3.1)	—	—	—	—	750
Tonga	10.7	6.0	(4.0)	(1.8)	(0.2)	1.8	—	1,690
Tuvalu	8.9	(6.2)	8.9	2.2	13.6	1.8	—	—
Vanuatu	(0.2)	0.6	0.8	—	—	—	—	1,270

— =Not available, DMC = developing member country, GDP = gross domestic product, GNP = gross national product  
Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.3. Growth Rate of Value-Added in Agriculture**  
(percent per year)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs						
Cook Islands	5.4	(2.5)	4.3	12.2	(4.6)	—
Fiji Islands	11.0	(3.2)	1.9	(12.5)	(10.4)	—
Kiribati	7.0	(11.9)	4.7	—	—	—
Marshall Islands	24.2	(3.9)	(20.9)	1.2	—	—
Micronesia, Federated States of	—	—	—	—	—	—
Nauru	—	—	—	—	—	—
Papua New Guinea	9.8	(7.7)	2.2	(1.2)	(8.8)	—
Samoa	(22.6)	15.8	(0.3)	(5.9)	7.0	—
Solomon Islands	6.2	7.7	(4.3)	—	—	—
Tonga	13.3	12.1	(9.2)	(3.0)	(2.1)	(0.9)
Tuvalu	0.6	0.6	(16.2)	5.8	0.7	—
Vanuatu	2.2	6.4	—	—	6.9	(9.3)

— =Not available, DMC = developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.4. Growth Rate of Value-Added in Industry**  
(percent per year)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs						
Cook Islands	5.4	(15.9)	(5.0)	6.4	(6.2)	—
Fiji Islands	3.9	1.8	6.1	(0.9)	(4.3)	—
Kiribati	14.3	0.6	(4.1)	—	—	—
Marshall Islands	14.7	18.7	(32.6)	(6.1)	—	—
Micronesia, Federated States of	—	—	—	—	—	—
Nauru	—	—	—	—	—	—
Papua New Guinea	(3.6)	4.1	4.1	(14.8)	18.6	—
Samoa	(3.2)	0.3	3.8	(1.0)	(9.4)	—
Solomon Islands	10.2	34.1	32.0	—	—	—
Tonga	12.6	3.6	4.3	(8.1)	(5.7)	9.3
Tuvalu	4.8	(13.1)	85.6	4.0	21.5	—
Vanuatu	7.3	6.4	—	—	(7.0)	7.6

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.5. Growth Rate of Value-Added in Services**  
(percent per year)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs						
Cook Islands	3.8	(3.6)	(0.8)	(7.4)	(3.4)	—
Fiji Islands	3.5	5.2	2.4	1.8	(1.8)	—
Kiribati	11.3	0.7	8.7	—	—	—
Marshall Islands	-1.0	2.6	(10.7)	(7.4)	—	—
Micronesia, Federated States of	—	—	—	—	—	—
Nauru	—	—	—	—	—	—
Papua New Guinea	1.4	(3.7)	2.7	5.5	(6.1)	—
Samoa	11.0	6.9	11.4	5.7	7.1	—
Solomon Islands	2.9	(0.2)	(2.2)	—	—	—
Tonga	6.9	2.5	(1.1)	1.8	3.2	2.7
Tuvalu	14.7	(4.8)	2.6	2.7	16.0	—
Vanuatu	1.7	1.4	—	—	(0.7)	-1.2

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.6. Changes in Consumer Prices**  
(percent per year)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs	2.9	11.6	8.6	3.9	9.9	10.4
Cook Islands	2.7	0.9	(0.6)	(0.4)	0.8	1.4
Fiji Islands	0.6	2.2	3.1	3.4	5.7	1.7
Kiribati	5.3	3.6	(1.5)	2.2	4.7	2.0
Marshall Islands	5.7	8.3	9.8	4.7	4.0	1.0
Micronesia, Federated States of	4.0	4.0	4.0	3.0	3.0	—
Nauru	—	1.7	4.0	6.1	4.0	6.7
Papua New Guinea	2.9	17.3	11.6	3.9	13.6	16.0
Samoa	12.1	(2.9)	5.4	6.8	2.2	0.3
Solomon Islands	13.3	9.6	11.8	8.1	12.3	8.0
Tonga	1.1	1.4	3.0	2.3	3.3	4.4
Tuvalu	1.4	5.0	0.0	1.4	0.8	7.0
Vanuatu	2.3	2.2	0.9	2.8	3.9	2.5

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.7. Growth Rate of Merchandise Exports**  
(percent per year)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs	7.9	1.9	(1.6)	(14.3)	(19.9)	0.7
Cook Islands	6.8	10.4	(31.0)	(10.3)	14.0	—
Fiji Islands	31.8	6.1	23.3	(18.9)	(26.6)	26.5
Kiribati	50.9	43.0	(26.0)	17.3	(5.5)	—
Marshall Islands	129.6	23.1	(12.2)	28.4	(16.3)	—
Micronesia, Federated States of	135.9	(26.0)	(34.7)	3.1	(3.0)	—
Nauru	—	—	—	—	—	—
Papua New Guinea	2.5	0.4	(5.6)	(15.1)	(20.1)	10.1
Samoa	(45.3)	149.1	15.1	44.3	39.5	—
Solomon Islands	11.3	17.1	(3.5)	(3.1)	(9.3)	—
Tonga	34.7	6.4	(25.7)	(18.6)	(17.2)	4.0
Tuvalu	10.5	4.3	9.8	(2.0)	(84.8)	—
Vanuatu	10.1	13.2	6.4	17.0	(4.4)	—

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.8. Growth Rate of Merchandise Imports**  
(percent per year)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs	11.4	0.4	10.4	(1.5)	(24.0)	(16.1)
Cook Islands	(14.0)	(0.4)	(10.7)	10.5	(20.8)	—
Fiji Islands	10.2	5.8	10.3	(2.5)	(25.3)	13.9
Kiribati	(8.3)	33.4	0.9	2.6	(14.4)	—
Marshall Islands	11.1	8.5	(0.9)	(15.8)	(9.3)	—
Micronesia, Federated States of	16.6	(22.2)	(26.8)	(6.7)	(2.4)	—
Nauru	—	—	—	—	—	—
Papua New Guinea	17.2	(4.5)	19.3	(2.0)	(30.2)	10.4
Samoa	(22.0)	15.2	7.3	0.6	3.1	—
Solomon Islands	3.9	8.6	(1.9)	22.6	(13.4)	(13.0)
Tonga	10.3	35.4	(9.9)	(18.7)	(8.3)	(13.1)
Tuvalu	11.9	6.4	9.8	28.8	18.6	—
Vanuatu	13.4	6.4	2.5	(2.6)	(3.5)	—

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.9. Balance of Trade**  
(\$ million)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs	737	793	451	(14)	111	492
Cook Islands	(45)	(44)	(40)	(45)	(35)	—
Fiji Islands	(223)	(235)	(191)	(292)	(225)	(207)
Kiribati	(21)	(28)	(30)	(33)	(27)	—
Marshall Islands	(50)	(51)	(53)	(36)	(34)	—
Micronesia, Federated States of	(94)	(76)	(59)	(52)	(51)	—
Nauru	—	—	—	—	—	—
Papua New Guinea	1,339	1,410	1,015	663	679	743
Samoa	(77)	(83)	(89)	(85)	(76)	—
Solomon Islands	2	14	11	(28)	(18)	—
Tonga	(38)	(57)	(54)	(56)	(53)	44)
Tuvalu	(7)	(7)	(8)	(6)	(7)	—
Vanuatu	(50)	(51)	(51)	(44)	(42)	—

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.10. Balance of Payments on Current Account**  
(\$ million)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs	517	687	441	(32)	179	—
Cook Islands	—	0	5	1	2	—
Fiji Islands	(63)	(19)	61	6	27	10
Kiribati	1	(6)	(7)	—	—	—
Marshall Islands	5	2	4	16	21	—
Micronesia, Federated States of	13	46	62	64	67	—
Nauru	—	—	—	—	—	—
Papua New Guinea	573	673	312	(116)	69	(23)
Samoa	5	8	11	17	10	—
Solomon Islands	(2)	9	5	(24)	—	—
Tonga	(8)	(22)	(11)	(2)	(19)	(2)
Tuvalu	1	1	—	—	—	—
Vanuatu	(8)	(5)	(1)	6	—	—

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.11. Balance of Payments on Current Account**  
(percentage of GDP)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs	6.2	7.9	4.4	(0.9)	1.8	—
Cook Islands	—	—	—	—	—	3.1
Fiji Islands	(3.5)	(0.9)	2.9	0.3	1.7	2.7
Kiribati	2.9	(13.2)	(13.6)	(17.9)	(3.3)	29.7
Marshall Islands	5.1	1.5	3.6	16.9	22.2	—
Micronesia, Federated States of	6.5	22.3	28.6	30.0	31.4	—
Nauru	—	—	—	—	—	—
Papua New Guinea	10.6	13.6	5.9	(2.4)	1.9	1.4
Samoa	2.6	4.3	5.2	7.3	—	(8.1)
Solomon Islands	(0.8)	3.0	1.4	—	—	12.3
Tonga	(5.1)	(12.9)	(5.9)	(0.8)	(10.4)	(15.8)
Tuvalu	10.0	4.7	2.7	—	—	—
Vanuatu	(3.5)	(2.1)	(0.6)	2.2	—	(11.6)

— =Not available, DMC - developing member country, GDP - gross domestic product.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.12. Foreign Direct Investment**  
(\$ million)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs	206	160	561	180	136	170
Cook Islands	—	—	—	—	—	—
Fiji Islands	91	68	70	27	34	91
Kiribati	—	—	—	—	1	—
Marshall Islands	—	—	—	—	—	—
Micronesia, Federated States of	—	—	—	—	—	—
Nauru	—	—	—	—	—	—
Papua New Guinea	62	57	455	111	29	30
Samoa	2	3	3	1	20	10
Solomon Islands	23	2	2	6	21	10
Tonga	2	—	—	2	1	1
Tuvalu	—	—	—	—	—	—
Vanuatu	26	30	31	33	30	28

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.13. External Debt Outstanding**  
(\$ million)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs						
Cook Islands	—	—	—	—	—	—
Fiji Islands	284	250	218	219	193	—
Kiribati	—	—	—	—	—	—
Marshall Islands	158	149	133	125	117	—
Micronesia, Federated States of	129	119	110	111	113	—
Nauru	—	—	—	—	—	—
Papua New Guinea	2,792	2,513	2,507	2,589	2,692	—
Samoa	154	162	167	156	180	—
Solomon Islands	155	157	145	135	152	—
Tonga	64	70	70	61	65	—
Tuvalu	—	—	—	—	—	—
Vanuatu	47	48	47	48	63	—

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.14. Debt-Service Ratio**  
(Percentage of Exports of Goods and Services)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs						
Cook Islands	—	—	—	—	—	—
Fiji Islands	8.6	6.0	3.6	2.8	3.6	—
Kiribati	—	—	—	—	1	—
Marshall Islands	38.6	37.9	40.1	36.9	41.1	—
Micronesia, Federated States of	18.8	21.4	25.3	25.8	26.8	25.0
Nauru	—	—	—	—	—	—
Papua New Guinea	30.8	20.8	16.4	20.5	8.6	—
Samoa	—	—	3.0	2.9	3.0	—
Solomon Islands	6.2	2.8	3.9	2.5	3.3	—
Tonga	4.7	5.2	5.0	7.0	—	—
Tuvalu	—	—	—	—	—	—
Vanuatu	1.6	1.5	1.4	1.0	0.9	—

— =Not available, DMC - developing member country.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.15. Central Government Expenditure**  
(percentage of GDP)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs						
Cook Islands	46.9	40.6	34.5	30.3	—	—
Fiji Islands	27.4	26.1	30.0	33.0	34.6	—
Kiribati	108.7	141.4	103.4	105.3	—	—
Marshall Islands	88.1	90.1	62.0	62.9	62.3	—
Micronesia, Federated States of	85.8	82.2	75.9	72.4	70.0	—
Nauru	—	—	—	—	—	—
Papua New Guinea	29.7	27.9	27.0	32.2	30.9	—
Samoa	46.1	53.1	47.0	39.4	36.5	—
Solomon Islands	57.0	48.1	46.4	41.0	44.0	—
Tonga	25.6	47.4	35.3	41.6	42.7	—
Tuvalu	52.3	50.0	56.1	—	—	—
Vanuatu	26.5	29.4	25.3	23.7	25.5	—

— =Not available, DMC - developing member country, GDP - gross domestic product.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.16. Central Government Revenue**  
(percentage of GDP)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs						
Cook Islands	40.9	39.0	33.0	31.3	—	—
Fiji Islands	26.1	25.7	25.1	26.5	31.2	—
Kiribati	125.7	145.4	97.6	114.8	—	—
Marshall Islands	75.0	76.0	82.4	66.8	66.5	—
Micronesia, Federated States of	85.3	83.8	82.7	73.8	75.7	—
Nauru	—	—	—	—	—	—
Papua New Guinea	26.8	27.3	27.4	32.3	31.3	25.4
Western Samoa	38.0	45.8	48.5	39.7	38.2	42.0
Solomon Islands	31.0	30.4	26.0	24.5	29.4	—
Tonga	30.4	43.8	36.1	40.4	38.4	24.9
Tuvalu	56.2	54.6	55.0	—	—	—
Vanuatu	23.8	23.7	21.8	21.0	16.7	—

— =Not available, DMC - developing member country, GDP - gross domestic product.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

**Table A1.17. Overall Budget Surplus/Deficit of Central Government**  
(percentage of GDP)

<b>Economy</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Pacific DMCs						
Cook Islands	(6.0)	1.6	(1.5)	1.1	—	(3.1)
Fiji Islands	(1.3)	(0.5)	(4.9)	(6.5)	(3.4)	(0.7)
Kiribati	17.0	4.1	(5.9)	6.3	24.0	51.4
Marshall Islands	(13.1)	(14.1)	20.4	3.9	4.2	(9.0)
Micronesia, Federated States of	(0.6)	1.7	6.9	1.5	0.3	—
Nauru	—	—	—	—	—	(14.1)
Papua New Guinea	(5.9)	(4.3)	(1.9)	(4.4)	(5.6)	(2.4)
Samoa	(8.1)	(7.3)	1.5	0.3	1.7	0.3
Solomon Islands	(6.0)	(5.7)	(4.7)	(5.1)	(0.1)	(1.1)
Tonga	4.8	(3.6)	0.8	(1.2)	(4.3)	1.1
Tuvalu	3.9	4.7	(1.1)	—	—	8.3
Vanuatu	(2.7)	(5.6)	(3.5)	(2.7)	(10.3)	(1.4)

— =Not available, DMC - developing member country, GDP - gross domestic product.

Source: ADB. 2000. *Asian Development Bank Outlook 2000*, Manila.

## POVERTY IN THE PACIFIC

1. The United Nations Development Programme (UNDP) analyzes and reports on the human development status of the 12 Pacific developing member countries (PDMCs). Table A2 summarizes the updated calculations of the human poverty index (HPI) and the human development index (HDI).

**Table A2. PDMCs' Human Development and Human Poverty Indices**

Country	Human Development Index	Human Poverty Index
Cook Islands	0.822	6.1
Fiji Islands	0.667	8.5
Nauru	0.663	12.1
Tonga	0.647	5.9
Samoa	0.590	8.6
Tuvalu	0.583	7.3
Fed. States of Micronesia	0.569	26.7
Marshall Islands	0.563	19.5
Kiribati	0.515	12.6
Vanuatu	0.425	46.4
Solomon Islands	0.371	49.1
Papua New Guinea	0.314	52.2

Source: UNDP.1999. *Pacific Human Development Report 1999: Creating Opportunities*. Suva, Fiji, pp. 16 and 18.

2. **East Timor.** Saddled with severe problems of illiteracy, malnutrition, malaria, and tuberculosis, East Timor is considered one of the poorest areas in Southeast Asia. Gross domestic product (GDP) per capita in 1997 was estimated at only \$246.<sup>1</sup> The unrest in 1999 has largely stalled most economic activity, including banking and public services. The key consequence of the violence and its aftermath has been a substantial increase in poverty—more than half the population is now estimated to be living in absolute poverty. Inequality has also been reported to rise from a Gini coefficient of 0.4 in 1996 to 0.6 in mid-2000.<sup>2</sup> This is not surprising given that the activities of most economic importance to low-income households—rice growing and fruit and vegetable farming—have been the hardest hit by the recent events. The key characteristics of the poor in East Timor are

- (i) lack of education and low levels of literacy (75 percent of the heads of the poorest households are reported to have no schooling),
- (ii) high dependency ratios, and
- (iii) dependence on agriculture (for the poorest half of society, agriculture is the primary occupation of 85 percent of household heads).<sup>3</sup>

<sup>1</sup> ADB 2000. *East Timor, Rapid Assessment of Economic and Social Conditions*. Manila.

<sup>2</sup> Official 1996 data is from World Bank's Poverty and Social Conditions in East Timor: Summary (1999); while the latest *Gini* coefficient was calculated from the household survey conducted for ADB's Rapid Assessment Report (2000).

<sup>3</sup> Pedersen, J. and M. Arnberg (eds.) 1999. *Social and Economic Conditions in East Timor*. International Conflict Resolution Program. Manila.

3. **Papua New Guinea (PNG).** Notwithstanding moderate economic and social progress over the last two decades, a significant proportion of the population remains very poor. In fact they are both socially and economically excluded from opportunities to improve themselves. From 1978 to 1998, per capita income registered an average growth rate of about 1.1 percent. Life expectancy also showed some improvement, rising from 48 years (1970-75) to 58 years (1995-2000).

4. A World Bank report on PNG, based on a 1996 household survey, concluded that
- (i) approximately 37 percent of the population lived below a poverty line of \$350 per year (1996 prices);
  - (ii) 93 percent of the poor lived in rural areas;
  - (iii) the Gini coefficient of household expenditure (0.46) was high compared with countries of similar income levels;
  - (iv) approximately 17 percent of the population cannot meet the basic requirement of 2,200 calories per day per adult equivalent, even if they spend all their income on food;<sup>4</sup> and
  - (v) while overall literacy is assessed at 52 percent, 31 and 49 percent of males and females respectively have never completed primary school.

5. In the Pacific, PNG's HDI is the lowest, and poverty incidence, as measured by the HDI, the highest. Poverty and low levels of human development have an important gender dimension. Although improving over time, the gender-related development index is lower than the overall HDI at the national level and for all provinces. This illustrates that women's life expectancy, income, and educational achievements are universally lower than men's. In fact, PNG has the distinct feature of having women's life expectancy lower than men's. The incidence of poverty is also linked to the inability to earn cash incomes.

6. **Solomon Islands.** The Solomon Islands is one of the poorest PDMCs. The low average income level combines with a life expectancy of 65 years, an adult literacy rate of only 30 percent, and an average 2.8 years of schooling per person. Low average income also conceals considerable inequality of distribution: urban household incomes are almost four times as high as rural household incomes; and the richest 10 percent of Solomon Islander households in urban Honiara receive 52 percent of total income. In terms of health, about 36 percent of the population reportedly have no access to safe water, 20 percent are without access to health services, and 21 percent of children under five years of age are underweight. Among the PDMCs, the Solomon Island's HPI score is surpassed only by PNG. When differentiated by gender, the HPI reveals that women are significantly worse off than men, primarily because of poor access to education.<sup>5</sup> Recent political events will further deteriorate limited social and economic opportunities for the poor.

7. **Vanuatu.** A strong customary tradition of social relationships has provided a cultural safety net, serving to cushion most of this largely subsistence society from absolute poverty. However, as people become increasingly dependent on the cash economy, traditional social networks are breaking down. A household income and expenditure survey was conducted in 1998, but the data generated have not been analyzed. The 1996 joint United Nations-

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<sup>4</sup> World Bank. 1999. *Papua New Guinea: Poverty and Access to Public Services*, Report No. 19584-PNG. Washington, D.C.

<sup>5</sup> In 1997, the Ministry of Finance published a report, *Village Resource Survey 1995/1996*, consolidating the information generated by the household surveys held in the early 1990s. No poverty line was established in the report.

Government of Vanuatu report on *Sustainable Human Development in Vanuatu* (p.19) suggested the existence of an incipient, primarily rural poverty problem of the sort that has emerged in the Fiji Islands and PNG:

Many families are experiencing great difficulty fulfilling their customary expectations today and low-income families in urban areas...have very little to spare...for reasons of choice and necessity, some families are starting to minimize their contributions to kinsfolk, and others are already opting out of the family system altogether. It is clear that subsistence support systems which have customarily linked the urban and rural families are under threat and some are being undermined.

8. The vast majority of the population (especially those living in the outer islands) is either in the subsistence or informal sector. Given the concentration of the population on the main islands of Efate and Santo, the continuing migration of outer islanders to these areas in search of jobs and cash income is creating a new group of urban poor.

9. **Federated States of Micronesia (FSM).** In the FSM, serious concerns for the future include the implications of population growth exceeding economic growth, and rising inequality in standards of living among states. Recently, an initial attempt was made to establish a poverty line based on the monetary equivalent of a minimum daily calorie consumption of 2,223 calories implicitly deriving prices from the 1994 Household Income and Expenditure Survey (HIES) to estimate the monetary equivalent of calorie requirements. Using this method, a majority of households were classified as poor. Further analysis is required to confirm this finding. The loss of United States Compact support, much of which has been spent on consumption rather than investment, has accentuated the issues of poverty and inequality in the FSM.

10. In terms of poverty, FSM ranks 9th among the 12 PDMCs with an HPI score of 26.7. This reflects a composite measure of people not expected to survive to age 40 (11 percent), adults who are illiterate (29 percent), underweight children under 5 (15 percent), and people without access to safe water (56 percent) or health services (25 percent). An HDI of 0.569 ranks FSM 6th in terms of human development. This was calculated from a composite measure of life expectancy at birth of 66 years, adult literacy rate of 71 percent, combined gross enrolment ratio of 71 percent, and adjusted real GDP per capita of \$2,070. The middle-ranking status of the FSM in the Pacific largely reflects the difficulty of providing services across its widely scattered islands.

11. **Republic of the Marshall Islands (RMI).** Pervasive poverty has never been a major problem in the RMI, due to extended family ties. Its HPI score of 19.5 places the RMI in the mid-range of poverty levels in the PDMCs. The factors contributing to the high HPI include an adult illiteracy rate of 25.6 percent, a proportion of 23.5 percent of the population without access to safe water, and 17 percent of children under 5 who are underweight. The prevalence of adult (ages 18-50) obesity—reported at 56.5 percent in a 1996-1997 survey conducted by the John Hopkins University—is becoming a major public health problem in the RMI.

12. A considerable inequality exists between those living in the urban centers of Majuro and Ebeye and those who live in the outer islands, despite the latter's access to subsistence farming. With the recent downsizing of the Government under the Public Sector Reform Program, an increase in the number of poor households may be observed in the short run. This, in turn, could lead to a decline of remittances to the outer islands. In the RMI, as in many other Pacific nations, there are two types of disadvantaged groups: (i) those suffering from poor

nutrition, poor education, or poor access to essential health and other social services; and (ii) those suffering from a poverty of opportunity, or lack of domestic opportunities for gainful employment.

13. **Samoa.** With GDP per capita in excess of \$1,200, substantial private remittance flows from Samoans living abroad, and a strong and supportive extended family system, poverty is not regarded as a problem by Samoans. However, Samoa is especially vulnerable to external economic shocks and natural disasters. Samoa's HPI score of 8.6 is the fifth lowest among the PDMCs after Tonga, the Cook Islands, Tuvalu, and the Fiji Islands. This reflects the relatively low percentage of people not expected to survive to the age of 40 (10.3 percent), a low adult illiteracy rate (4.3 percent), the low percentage of people without access to safe water (10 percent), no people lacking access to health services, and a relatively high percentage of children under 5 years of age who are underweight (17 percent).

14. In terms of human development, Samoa ranks fifth among the PDMCs with an HDI score of 0.590. The ranking is the result of the high adult literacy rate (95.7 percent), high combined gross enrolment rate (85.7 percent), life expectancy of 66.6 years, and relatively high GDP per capita (\$1,060). However, as is the case for other PDMCs, there is a problem of lifestyle diseases arising from high fat diets, high cigarette and alcohol consumption, and reduced physical activity. While economic growth continues to outpace population growth, the poverty challenges for Samoa are ones of income redistribution.

15. **The Fiji Islands.** The 1996 *Fiji Poverty Report* established a country-specific poverty line of \$28.2 per week for an average household (1991 prices), and reached the following conclusions:

- (i) The proportion of households in poverty rose from 15 percent in 1977 to 25 percent in 1990—with an especially marked rise in urban poverty.
- (ii) About 6 percent of households were estimated to be facing absolute poverty, with weekly household incomes of \$19.1 or less.
- (iii) A further 20 percent of households were in constant danger of becoming poor as a result of accident or misfortune.
- (iv) The poorest 20 percent of households accounted for just over 5 percent of income, while the richest 20 percent accounted for 50 percent of income (compared with India's figures of 8.5 percent and 42.6 percent, respectively).
- (v) The Gini coefficient for household income was 0.461 (compared with 0.34 for India, 0.42 for the People's Republic of China, and 0.63 for Brazil), and ranged from 0.378 in rural areas to 0.507 in urban areas, indicating greater income inequality in the latter.
- (vi) An estimated 23 percent of the population does not have access to safe water.

16. Another indication of growing poverty in the Fiji Islands is the relatively rapid increase in recipients of family assistance grants between 1987 and 1997. During this period, population increased by about 9 percent, while the number of assistance recipients doubled, from 5,166 to 10,339. Employment growth in the formal sector has also been reported to be sluggish. Although the current GDP per capita is around \$1,315 per annum, there is continuing concern about the rising level of poverty. Recent political upheaval will exacerbate these concerns.

17. **Other PDMCs.** In general, as measured by income and human development indicators, the smaller PDMCs have relatively high living standards. But these standards are threatened by emerging pockets of poverty, worsening environmental problems, and escalating population

growth rates. Moreover, the continued reliance on external aid and remittances makes these PDMCs vulnerable to any reduction in aid and to changes in the pattern of remittances over time. The smaller PDMCs are also especially vulnerable to external economic shocks and natural disasters. Given their high dependence on trade flows, these smaller PDMCs are also faced with the prospect of gradual erosion of advantages enjoyed under preferential trade agreements. It should also be acknowledged that Kiribati and Tuvalu, both poor atoll nations, have their economics underpinned by trust funds. A summary of their respective poverty situations follows.

18. **Kiribati.** With its relatively small land area, narrow-based economy, and rapid urban growth, Kiribati shows signs of emerging urban poverty as can be observed by the proliferation of squatter areas and the overall deterioration in the quality of life in Tarawa to add to existing outer island poverty. It has a relatively high infant mortality rate, a significant portion of the population does not have access to safe water and sanitation, and while the adult literacy rate is high at 92 percent, the mean years of schooling is still low at only 6.1. According to the UNDP *Pacific Human Development Report 1999*, Kiribati reports the lowest per capita GDP among the PDMCs (US\$702), and the fourth lowest HDI (0.515) after PNG, Solomon Islands, and Vanuatu.

19. **Nauru.** There is no evidence of absolute poverty in Nauru, which has a relatively low HPI score of 12.1. However, the considerable downsizing of the Government and Nauru Phosphate Corporation (covering 95 percent of all employment) is likely to result in a significant drop in household incomes and an escalation of unemployment.

20. **Tuvalu.** According to the UNDP *Pacific Human Development Report 1999*, Tuvalu reports the lowest HDI (0.583) among the Polynesian countries. Country-wise, 50 percent of the population had less than \$1 cash income per capita per day. Income distribution in Tuvalu is also uneven, especially between the main island of Funafuti and the outer islands. A prudently managed trust fund has given Tuvalu some protection from future shocks.

21. **Cook Islands.** The second lowest HPI score among the PDMCs reflects the country's relatively low percentage of people not expected to survive to the age of 40 (6.4 percent), low adult illiteracy rate (6.8 percent), low percentage of people without access to safe water (5 percent); no one lacking access to health services, and relatively low percentage of children under 5 years who are underweight (10 percent). Compared with the main island of Rarotonga where the population has relatively high living standards and where an estimated 10 percent have relatively low standards of living, the outer islands have considerably less socioeconomic opportunities for development. As in Samoa and Tonga, growing obesity rates are a serious public health concern.

22. **Tonga.** The HPI for Tonga is the lowest among the PDMCs. This reflects the relatively low percentage of people not expected to survive to the age of 40 (8.4 percent), low adult illiteracy rate (1 percent), low percentage of people without access to safe water (5 percent); no one lacking access to health services, and relatively low percentage of children under five who are underweight (2 percent). There is, however, growing concern over rising unemployment and inequality of income between the main island of Tongatapu and the outer islands.

23. Both poverty and vulnerability aspects of the PDMCs substantially emanate from the fact that these countries share a common and important feature of being small states.

## ADB's LENDING AND TECHNICAL ASSISTANCE PIPELINE

**Table A3.1. Asian Development Fund and  
Ordinary Capital Resources Lending Pipeline, 2001-2003**

Type	2001		2002		2003		2001-2003	
	No.	Amount (\$)	No.	Amount (\$)	No.	Amount (\$)	No.	Amount (\$)
OCR + ADF	13	160.8	12	108.5	9	117.5	34 <sup>a</sup>	386.8
OCR	6	115.3	5	72.0	5	94.0	16	281.3
ADF	8	45.5	7	36.5	4	23.5	19	105.5

<sup>a</sup>Includes 2 blend loans for Nauru in 2001, counted as 1 project.

ADF - Asian Development Fund  
OCR - ordinary capital resources

**Table A3.2. Poverty Typology  
Lending Program and Pipeline, 2001-2003**

Poverty Typology	2001-2003			
	Number	%	Amount	%
Poverty Intervention (PI)	13	38	155.3	40
<i>of which Core Poverty Intervention</i>	2	6	19.0	5
Other Development Intervention (ODI)	21	62	231.5	60
<b>Total (PI + ODI)</b>	<b>34</b>	<b>100</b>	<b>386.8</b>	<b>100</b>

**Table A3.3. Sector Classification  
Lending Pipeline, 2001-2003**

Sector Classification	Total			
	Number	%	Amount	%
Agriculture and Natural Resources	7	21	63.0	16
Energy	1	3	5.0	1
Finance	3	9	23.0	6
Social Infrastructure	14	41	170.3	44
Transport and Communications	4	12	68.5	18
Multisector/Others	5	15	57.0	15
<b>Total</b>	<b>34</b>	<b>100</b>	<b>386.8</b>	<b>100</b>

**Table A3.4. Crosscutting Operational Priorities  
Lending Pipeline, 2001-2003**

Crosscutting Operational Priorities	Total			
	Number	%	Amount	%
Good Governance	4	12	43.0	11
Gender and Development	4	12	75.0	19
Human Development	12	35	114.8	30
Environment	1	3	10.0	3
Private Sector Development	13	38	144.0	37
Regional Cooperation	0	0	0.0	0
<b>Total</b>	<b>34</b>	<b>100</b>	<b>386.8</b>	<b>100</b>

**Table A3.5. PPTA and ADTA  
Technical Assistance Pipeline,<sup>a</sup> 2001-2003**

TA Type	2001		2002		2003	
	Number	Amount (\$)	Number	Amount (\$)	Number	Amount (\$)
PPTA	9	3,100.0	11	4,800.0	7	3,450.0
ADTA	32	9,600.0	22	6,650.0	16	5,650.0

ADTA = advisory technical assistance, PPTA = project preparatory technical assistance

<sup>a</sup>The TA pipeline consists of projects identified at the time of the country assistance plan preparation.

**Table A3.6. Lending Pipeline, 2001**  
(\$ million)

Country	Sector	Project Title	Total	OCR	ADF	Bank Total	Govt
<b>Pacific Operations Division (POHQ)</b>							
FIJ	Social Infrastructure	Suva Nausori Water Supply & Sewerage	55.2	42.3		42.3	12.9
RMI	Transport & Comm.	Outer Islands Transport Infrastructure	6.0		6.0	6.0	
RMI	Finance	Financial Sector Program Loan	10.0	10.0		10.0	
FSM	Others	Private Sector Development	12.0		12.0	12.0	
NAU	Social Infrastructure	Health and Water Supply Loan	5.0	3.0	2.0	5.0	
PNG	Agri. & Natl Resources	Smallholder Agro-Industry	35.0	15.0		15.0	20.0
PNG	Transport & Comm.	Remote Water Transport Improvement	55.0	25.0		25.0	30.0
PNG	Social Infrastructure	Population/Health Promotion and Protection	45.0	20.0		20.0	25.0
SAM	Energy	Afulilo Augmentation	5.0		5.0	5.0	
SOL	Social Infrastructure	Non-Formal Vocational Education and Training	3.0		3.0	3.0	
TON	Others	Economic and Public Sector Reform Program	10.0		10.0	10.0	
VAN	Finance	Rural Financial Services	5.0		5.0	5.0	
<b>South Pacific Regional Mission (SPRM)</b>							
COO	Social Infrastructure	Water Supply and Sewerage	2.5		2.5	2.5	
<b>Total</b>			<b>248.7</b>	<b>115.3</b>	<b>45.4</b>	<b>160.8</b>	<b>87.9</b>

ADF = Asian Development Fund, COO = Cook Islands, FIJ = Fiji Islands, FSM = Federated States of Micronesia, KIR = Kiribati, NAU = Nauru, OCR = ordinary capital resources, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands, SAM = Samoa, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu

**Table A3.7. Lending Pipeline, 2002**  
(\$ million)

Country	Sector	Project Title	Total	OCR	ADF	Bank Total	Govt
<b>Pacific Operations Division (POHQ)</b>							
FIJ	Others	Tourism Development	17.0	12.0		12.0	5.0
KIR	Finance	Outer Islands Development Program	8.0		8.0	8.0	
PNG	Others	Provincial/Local Level Management	37.5	15.0		15.0	22.5
PNG	Agriculture & Nat. Resources	Coastal Water Fisheries	12.5	5.0		5.0	7.5
PNG	Transport & Comm.	Road Sector (Road Mgmt. and South Region Maintenance)	75.0	30.0		30.0	45.0
PNG	Agriculture & Nat. Resources	Rural Sector Linkages	25.0	10.0		10.0	15.0
RMI	Social Infrastructure	Outer Islands Basic Social Services	5.0		5.0	5.0	
SAM	Agriculture & Nat. Resources	Agriculture Development and Agro-Processing	4.0		4.0	4.0	
SOL	Others	Provincial Government Capacity Building	8.0		8.0	8.0	
TUV	Social Infrastructure	Tuvalu Maritime School Upgrade	2.0		2.0	2.0	
VAN	Social Infrastructure	Skills Development	2.0		2.0	2.0	
<b>South Pacific Regional Mission (SPRM)</b>							
VAN	Social Infrastructure	Outer Islands Infrastructure Development Program	7.5		7.5	7.5	
<b>Total</b>			<b>203.5</b>	<b>72.0</b>	<b>36.5</b>	<b>108.5</b>	<b>95.0</b>

ADF = Asian Development Fund, COO = Cook Islands, FIJ = Fiji Islands, FSM = Federated States of Micronesia, KIR = Kiribati, NAU = Nauru, OCR = ordinary capital resources, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands, SAM = Samoa, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu

**Table A3.8. Lending Pipeline, 2003**  
(\$ million)

Country	Sector	Project Title	Total	OCR	ADF	Bank Total	Govt
	<b>POHQ</b>						
COO	Social						
	Infrastructure	Outer Islands Development	3.0		3.0	3.0	
FIJ	Social						
	Infrastructure	Urban Sector Development	20.0	14.0		14.0	6.0
PNG	Social						
	Infrastructure	Adult/Informal Education	40.0	16.0		16.0	24.0
PNG	Social						
	Infrastructure	Health Sector Development Program II	50.0	40.0		40.0	10.0
PNG	Agriculture & Nat. Resources	Coastal Environment	25.0	10.0		10.0	15.0
PNG	Agriculture & Nat. Resources	Sandaun/East Sepik Sustainable Development	35.0	14.0		14.0	21.0
SAM	Transport & Comm.	Telecommunications and Information Technology	7.5		7.5	7.5	
SOL	Social						
	Infrastructure	Rural Infrastructure and Services	8.0		8.0	8.0	
VAN	Agriculture & Nat. Resources	Agriculture and Fisheries Development Program	5.0		5.0	5.0	
	<b>Total</b>		<b>193.5</b>	<b>94.0</b>	<b>23.5</b>	<b>117.5</b>	<b>76.0</b>
	<b>Total 2001-2003</b>		<b>645.7</b>	<b>281.3</b>	<b>105.5</b>	<b>386.8</b>	<b>258.9</b>

ADF = Asian Development Fund, COO = Cook Islands, FIJ = Fiji Islands, FSM = Federated States of Micronesia, KIR = Kiribati, NAU = Nauru, OCR = ordinary capital resources, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands, SAM = Samoa, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu

**Table A3.9. Technical Assistance, 2001**  
(\$'000)

Country	Sector	Type	Title	Amount (\$'000)	
				Bank	Total
<b>Pacific Operations Division (POHQ)</b>					
COO	Others	ADTA	Improving the Performance of Frontline Services	100.0	100.0
COO	Social Infrastructure	ADTA	Utilities Management and Regulation	100.0	100.0
FIJ	Finance	ADTA	Institutional Strengthening of CMDA and Suva Stock Exchange	200.0	200.0
FIJ	Finance	ADTA	Implementation of Financial Management Act I	300.0	300.0
FIJ	Others	PPTA	Tourism Development	300.0	300.0
FIJ	Social Infrastructure	ADTA	Strengthening of Institutional Capacity Under Suva-Nausori Water Supply	400.0	400.0
FIJ	Transport & Comm.	PPTA	Strengthening/Implementation of LTA Phase I	300.0	300.0
FSM	Social Infrastructure	ADTA	Basic Skills Development	400.0	400.0
FSM	Finance	ADTA	State Government Capacity Building I	500.0	500.0
FSM	Finance	ADTA	Private Sector Development	200.0	200.0
NAU	Finance	ADTA	Strengthening Banking & Corporatization Laws	250.0	250.0
NAU	Finance	ADTA	Small Business Development and Microfinance	150.0	150.0
PNG	Agri & Natl Res.	PPTA	Coastal Waters Environment	400.0	400.0
PNG	Transport & Comm.	ADTA	Maritime Administration	350.0	350.0
PNG	Social Infrastructure	PPTA	Adult/Informal Education	400.0	400.0
PNG	Others	PPTA	Provincial/Local Level Public Services Reform	300.0	300.0
PNG	Transport & Comm.	PPTA	Road Sector (Road Management and Southern Region Maintenance)	400.0	400.0
PNG	Others	ADTA	Public Services Reform Cluster TA	750.0	750.0
PNG	Others	ADTA	Poverty Analyses	400.0	400.0
RMI	Social Infrastructure	PPTA	Outer Islands Basic Social Services	300.0	300.0
RMI	Agriculture & Natural Resources	ADTA	Community Based Coastal Marine Resources Development	350.0	350.0
RMI	Others	ADTA	Strategic Advisory Team	600.0	600.0
SAM	Energy & Industry	ADTA	Loss Assessment for EPC	100.0	100.0
SAM	Finance	ADTA	Implementation of Privatization Strategy	300.0	300.0
SAM	Finance	ADTA	Development of Non Banking Financial Institutions	300.0	300.0
SAM	Transport & Comm.	ADTA	Telecommunications Sector Study	200.0	200.0
SAM	Others	ADTA	Household Income Survey for Poverty Assessment	100.0	100.0
SOL	Others	ADTA	Performance Oriented Management in the Public Sector	800.0	800.0
SOL	Others	ADTA	Support for Public Sector Reform Phase I	200.0	200.0
TON	Others	ADTA	Economic and Public Sector Reform Phase I	600.0	600.0
TUV	Finance	ADTA	Microfinance Institutional Enhancement	250.0	250.0
TUV	Others	ADTA	PIER 2001	150.0	150.0
VAN	Agri & Natl Res.	PPTA	Agriculture and Fisheries Development	400.0	400.0
VAN	Finance	ADTA	Capacity Building in Rural Financial Services	200.0	200.0
<b>South Pacific Regional Mission (SPRM)</b>					
COO	Others	PPTA	Outer Islands Development	300.0	300.0
KIR	Others	ADTA	Community Development & Participation II	150.0	150.0
KIR	Social Infrastructure	ADTA	Strengthening Operations and Management Capacity of Public Utility Board	200.0	200.0
KIR	Others	ADTA	Poverty Assessment and Strategy	150.0	150.0
VAN	Others	ADTA	Frontline Services Performance Enhancement Phase II	150.0	150.0
VAN	Others	ADTA	CRP Sustainability Phase II	400.0	400.0
VAN	Others	ADTA	Capacity Building in the Legal Sector	300.0	300.0
<b>Total</b>				<b>12,700.0</b>	<b>12,700.0</b>

**Table A3.10. Technical Assistance, 2002**  
(\$'000)

Country	Sector	Type	Title	Amount (\$'000)	
				Bank	Total
<b>POHQ</b>					
COO	Others	ADTA	Support to Reform Program Phase I	200.0	200.0
COO	Others	ADTA	Local Government Capacity Building	300.0	300.0
FIJ	Others	ADTA	Policy Think Tank in PM's Office	100.0	100.0
FIJ	Others	ADTA	Implementation of Environmental Management Act	200.0	200.0
FIJ	Others	ADTA	Strategy for Local Government Systems	200.0	200.0
FIJ	Finance	PPTA	Rural Financial Services	250.0	250.0
FIJ	Social Infrastructure	ADTA	Implementation of Urban Sector Strategy I	400.0	400.0
FIJ	Social Infrastructure	PPTA	Urban Development	350.0	350.0
KIR	Others	ADTA	Outer Islands Development Program Implementation	300.0	300.0
FSM	Others	ADTA	Public Enterprises Privatization and Corporate Governance III	400.0	400.0
FSM	Others	ADTA	State Government Capacity Building II	500.0	500.0
NAU	Finance	ADTA	Privatization Strategy and Support	300.0	300.0
PNG	Social Infrastructure	PPTA	Technical and Vocational Education and Training	500.0	500.0
PNG	Agri & Natl Res.	PPTA	Sandaun Province Sustainable Devt.	500.0	500.0
PNG	Social Infrastructure	PPTA	Health Sector	400.0	400.0
PNG	Others	ADTA	Provincial/Local Level Public Services Management	500.0	500.0
PNG	Others	ADTA	Statistical Systems	600.0	600.0
PNG	Others	PPTA	Urban Informal Sector Development	500.0	500.0
RMI	Finance	ADTA	Microfinance	400.0	400.0
RMI	Social Infrastructure	ADTA	Outer Islands Social Services Management	300.0	300.0
RMI	Others	ADTA	Support of Private Sector Unit II	300.0	300.0
SAM	Transport & Comm.	PPTA	Telecommunications and IT	300.0	300.0
SAM	Finance	ADTA	Economic Sector Planning and Management	600.0	600.0
SOL	Others	ADTA	Public Sector Reform Program III	200.0	200.0
SOL	Agri & Natl Res.	PPTA	Fisheries and Infrastructure Project	800.0	800.0
TUV	Social Infrastructure	ADTA	TMS Strengthening	200.0	200.0
VAN	Social Infrastructure	PPTA	Urban Sanitation, Public Health and Environment Project	500.0	500.0
VAN	Finance	PPTA	Private/Financial Sector Development	300.0	300.0
VAN	Social Infrastructure	ADTA	Capacity Building in Skills Development (attached to loan-cofinancing)	200.0	200.0
<b>SPRM</b>					
KIR	Social Infrastructure	ADTA	Aerial Photography of Kirimati Island	200.0	200.0
VAN	Social Infrastructure	ADTA	Capacity Building in Infrastructure Management (attached to loan)	150.0	150.0
VAN	Others	ADTA	CRP Sustainability Phase III	300.0	300.0
VAN	Others	ADTA	Vanuatu National Council of Women II	200.0	200.0
<b>Total</b>				<b>11,450.0</b>	<b>11,450.0</b>

Note: The FIJ and SOL programs were based on the country programming missions and will be revisited once political conditions stabilize.

**Table A3.11. Technical Assistance, 2003  
(\$'000)**

Country	Sector	Type	Title	Amount (\$'000)	
				Bank	Total
	<b>POHQ</b>				
COO	Others	ADTA	Support for Public Sector Reform Program II	500.0	500.0
FIJ	Finance	ADTA	Implementation of Financial Management Act Phase II	200.0	200.0
FIJ	Transport & Comm.	ADTA	Implementation of LTA Phase II	150.0	150.0
FIJ	Social Infrastructure	ADTA	Implementation of Urban Sector Strategy Phase II	200.0	200.0
FIJ	Social Infrastructure	PPTA	Skills Development & Employment Creation	350.0	350.0
FIJ	Agri & Natl Res.	PPTA	Agriculture Diversification and Agro-Processing	400.0	400.0
FIJ	Agri & Natl Res.	ADTA	Marine Biodiversity Conservation and Sustainable Development	200.0	200.0
PNG	Agri & Natl Res.	PPTA	Enga/S. Highlands Sustainable Development	600.0	600.0
PNG	Agri & Natl Res.	ADTA	Rural Development	350.0	350.0
PNG	Social Infrastructure	PPTA	Rural Water and Sanitation	600.0	600.0
PNG	Transport & Comm.	PPTA	Transport Infrastructure	600.0	500.0
PNG	Others	ADTA	Governance	500.0	500.0
PNG	Others	PPTA	Small./Medium Enterprise Development	500.0	500.0
PNG	Others	ADTA	Central Agencies Capacity Building	250.0	250.0
RMI	Others	ADTA	Strategic Advisory Team Phase II	600.0	600.0
SAM	Social Infrastructure	ADTA	Education and Youth Development	400.0	400.0
SAM	Transport & Comm.	ADTA	Telecommunication and IT (Phase II)	300.0	300.0
SOL	Others	ADTA	Support for Reform Program IV	800.0	800.0
SOL	Agri & Natl Res.	ADTA	Coastal Resources Management	400.0	400.0
TON	Others	ADTA	Economic and Public Sector Reform II	600.0	600.0
VAN	Agri & Natl Res.	ADTA	Capacity Building in Agriculture and Fisheries Management	200.0	200.0
VAN	Social Infrastructure	ADTA	Capacity Building in Urban Sanitation, Public Health and Environment	200.0	200.0
VAN	Others	ADTA	PIER	200.0	200.0
	<b>Total</b>			<b>9,100.0</b>	<b>9,100.0</b>
	<b>2001-2003 Grand Total</b>			<b>33,250.0</b>	<b>33,250.0</b>

Note: The FIJ and SOL programs were based on the country programming missions and will be revisited once political conditions stabilize.