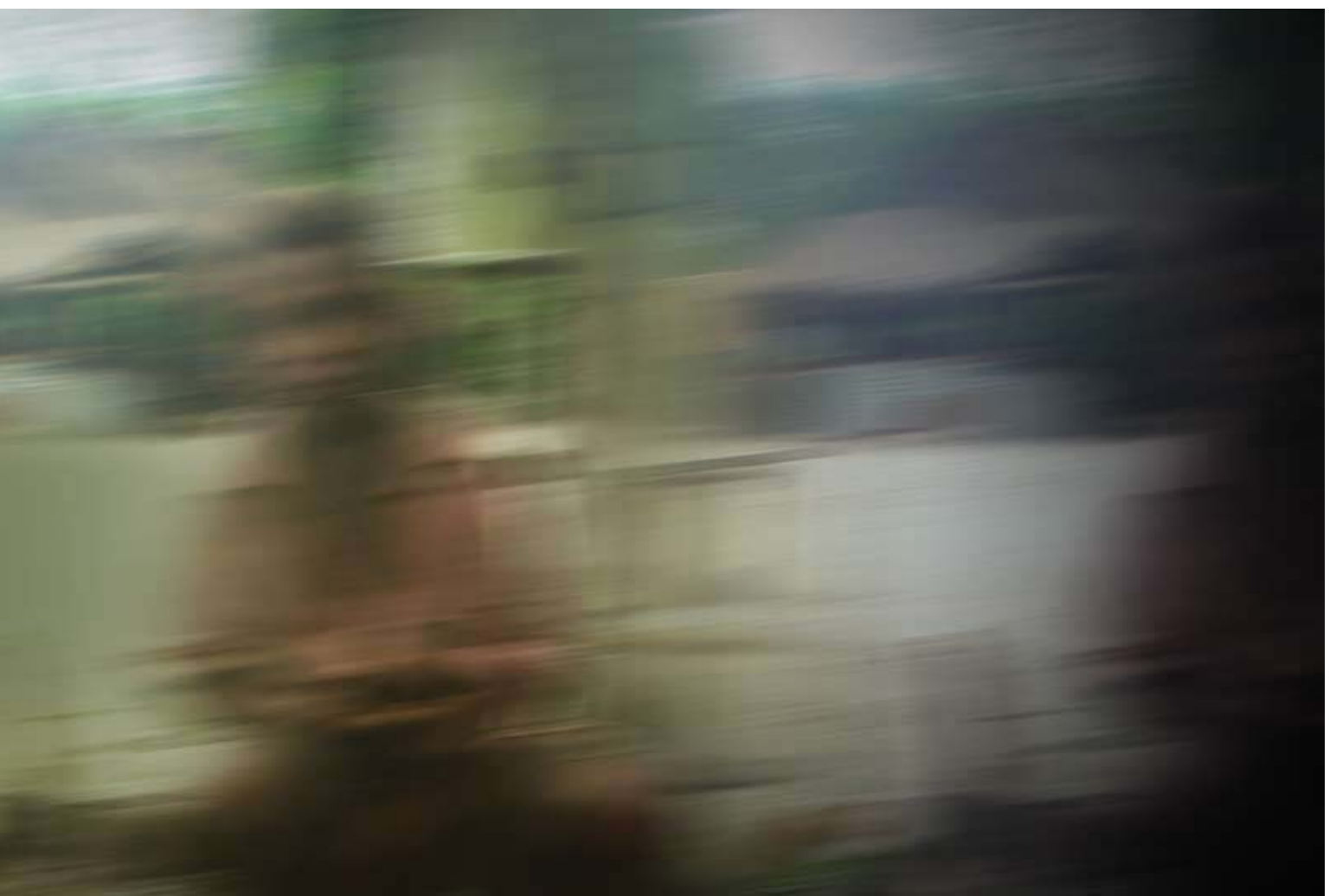




Pacific

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

ADB's traditional role in the Pacific has been that of a project bank, providing lending and grant support to the 14 Pacific developing member countries for key projects in transport, power, water and sewerage, education, health, and public administration. In its newer and growing role in the region, ADB has supported capacity building, public policy analysis and reform, and improved development processes.



For ADB in the Pacific, 2007 proved to be the strongest year yet in terms of the value of lending, grants, and cofinancing received. Loans totaling \$126.6 million and grants of \$46.5 million were approved (Tables 22, 23, and 25). Cumulative lending for the region amounted to \$1.8 billion (Table 26). ADB loans, grants, and technical assistance to the Pacific drew \$82.5 million in cofinancing, up \$40.4 million over 2006, continuing the trend of increasing levels of cofinancing.

New and innovative modes of assistance have allowed ADB to respond more quickly and flexibly to identified country needs and in partnership with other development partners. ADB stepped up its support to the Papua New Guinea transport sector: in its largest combined loan to the country so far, it approved \$100.0 million in loans with grant financing of \$2.3 million from the Japan Fund for Poverty Reduction and the HIV/AIDS fund for the Lae Port Development Project. ADB also pioneered a new instrument of engagement in a loan buy-down mechanism in Samoa. The mechanism was combined with approval of an Asian Development Fund (ADF) loan of \$26.6 million and an ADF grant of \$15.4 million for the Samoa Power Sector Expansion Project, which is cofinanced by the Japan Bank of International Cooperation (with a \$38.0 million loan) and the Government of Australia (with an \$8.0 million grant) (Tables 23 and 25). ADB continued its strong emphasis on facilitating private sector development in the Pacific. The \$8.7 million private sector development initiative, cofinanced by Australia, was launched in early 2007 and has already provided focused and practical support in the core areas of state-owned enterprise reform and public-private partnerships; financial sector reform; and reform of the institutional, legal, and regulatory business environments.

Highlights

- Emphasized new modes of assistance (community-based modes of procurement, a performance-based loan buy-down scheme, and grants)
- Deepened donor coordination of strategies, programs, and projects, which catalyzed a large increase in cofinancing and promoted harmonization and alignment
- Strengthened the Pacific program after the midterm review of the Pacific strategy (2005–2009) and the development of the first Pacific country partnership strategy (Tonga [2008–2012])
- Focused on capacity development through an in-depth assessment of the region's experience, which guided the redesign of internal processes and the development of new technical assistance approaches
- Supported regional cooperation through a regional operations business plan to strengthen national ownership of regional approaches, facilitate regional provision of services, and improve the environment for private sector development

ADB's contribution to the understanding of Pacific issues has been strengthened through increased attention to economic and social analyses. An in-depth assessment of capacity development experiences in the Pacific has created an important guide for future assistance. *Oceanic Voyages: Aviation and Shipping in the Pacific Region*, published in 2007, is expected to contribute to the reform of public sector operations

ADB's contribution to the understanding of Pacific issues has been strengthened through increased attention to economic and social analyses



ADB supports marine resource development

and policies in the transport sector, and to greater private sector participation in the provision of transport service. ADB also continued its regular series of Pacific Islands Economic Reports, publishing a report on Tuvalu and presenting draft reports to partner governments in the Cook Islands, Nauru, Palau, Papua New Guinea, Samoa, and Tonga. Private sector assessments for Papua New Guinea, Samoa, and Tonga helped elevate policy dialogue on private sector development issues and solutions, and led to agreements on the implementation of specific reform activities. ADB is supporting an analysis of household income and expenditure surveys and poverty throughout the region. Regional technical assistance is being provided to support demographic and health survey work in the Marshall Islands, Nauru, Solomon Islands, and Tuvalu.

PORTFOLIO MANAGEMENT

Actual performance against targets was more than 98% for disbursements (\$50.3 million) and 111% for contract awards (\$50.9 million) (Table 24). Papua New Guinea contributed 76% of contract awards and 55% of disbursements, and the Fiji Islands 11% and 25%. The number of active technical assistance (TA) projects has averaged 88 over the past 3 years. TA savings amounted to \$1.3 million in 2007. A cumulative total of 16 loan and grant projects and 42 TA activities have been delegated to the resident missions. This contributes to effective monitoring and strengthened partnerships with developing member countries and development partners. It also facilitates greater ADB engagement in policy dialogue at the national and regional levels.

TABLE 22 Pacific: Assistance by Country, 2007

(\$ million)

Country	Loans				Credit Enhancements			Grants		
	OCR	ADF	Total ADB	Official Cofinancing ^a	Guarantees ^a	Syndications ^a	Equity Investment	Grant-Financed Projects ^b	Technical Assistance Grants ^c	Multitranche Financing Facility ^d
Cook Islands	–	–	–	–	–	–	–	–	0.7	–
Fiji Islands	–	–	–	–	–	–	–	–	0.3	–
Kiribati	–	–	–	–	–	–	–	–	–	–
Marshall Islands	–	–	–	–	–	–	–	–	–	–
Micronesia, Federated States of	–	–	–	–	–	–	–	–	0.4	–
Nauru	–	–	–	–	–	–	–	–	–	–
Palau	–	–	–	–	–	–	–	–	1.7	–
Papua New Guinea	60.0	40.0	100.0	6.0	–	–	–	2.3	1.9	–
Samoa	–	26.6	26.6	38.0	–	–	–	29.3	2.5	–
Solomon Islands	–	–	–	–	–	–	–	9.0	2.8	–
Timor-Leste	–	–	–	–	–	–	–	6.0	15.0	–
Tonga	–	–	–	–	–	–	–	–	–	–
Tuvalu	–	–	–	–	–	–	–	–	–	–
Vanuatu	–	–	–	–	–	–	–	–	0.6	–
Total	60.0	66.6	126.6	44.0	–	–	–	46.5	25.8	–

– = nil, ADF = Asian Development Fund, OCR = ordinary capital resources.

Note: (i) For reference to sovereign and nonsovereign approvals, see Statistical Annex 1 (Sovereign and Nonsovereign Loan Approvals by Country) and Statistical Annex 10 (Nonsovereign Approvals and Total Project Costs by Country). (ii) Loans and grants include those that are officially cofinanced by external sources, and fully or partially administered by ADB. (iii) Totals may not add up because of rounding.

a For reference, see Tables 6a and 6b (Direct Value-Added Cofinancing Arrangements).

b For reference, see Statistical Annex 2 (Grant-Financed Project Approvals by Country).

c For reference, see Statistical Annex 17 (Technical Assistance Grants). Excludes regional technical assistance grants.

d Multitranchise financing facilities are facilities that will give rise to loans. Loans arising from the facilities are included under loans when approved by ADB.

TABLE 23 Pacific: Grant-Financed Project Approvals by Country, 2007

(\$ million)

Country	ADF	Other Sources ^a	Total
Papua New Guinea			
Lae Port Development ^b	–	0.8	0.8
Lae Port Livelihood and Social Improvement Project ^b	–	1.5	1.5
	–	–	–
Samoa			
Power Sector Expansion ^b	15.4	8.0	23.4
SchoolNet and Community Access Project	5.9	–	5.9
Solomon Islands			
Emergency Assistance	5.0	4.0	9.0
Timor-Leste			
Dili Urban Water Supply Sector Project	6.0	–	6.0
Total	32.2	14.3	46.5

– = nil, ADF = Asian Development Fund.

Note: Totals may not add up because of rounding.

a Officially cofinanced by external sources, and fully or partially administered by ADB.

b Grant component of a loan project.

TABLE 24 Pacific: Portfolio Performance Indicators for Sovereign Lending, 2006–2007

Country	No. of Ongoing Loans (as of Dec 2007)	Contract Awards/Commitments		Disbursements		Loans at Risk	
		2007 (\$ million)	2006 (\$ million)	2007 (\$ million)	2006 (\$ million)	2007 (%)	2006 (%)
Cook Islands	1	1.7	0.0	0.1	0.3	–	–
Fiji Islands	3	5.6	9.1	12.6	9.7	100.0	50.0
Micronesia, Federated States of	1	0.1	–	–	0.2	100.0	–
Palau	–	–	–	0.1	0.1	–	100.0
Papua New Guinea	4	3.7	3.7	3.6	2.5	–	40.0
Samoa	14	38.9	23.1	27.4	29.3	21.4	8.3
Solomon Islands	4	0.4	1.7	1.4	1.6	–	–
Timor-Leste	1	0.1	0.8	3.7	4.1	–	–
Vanuatu	2	–	3.2	1.1	1.2	–	–
Regional	1	0.5	–	0.3	0.2	–	–
Total^a	31	50.9	41.5	50.3	49.0	22.6	19.4

– = nil.

a Totals may not add up because of rounding.

TABLE 25 Pacific: Sovereign Loan Approvals by Country, 2007

(\$ million)

Country	OCR	ADF	Total
Papua New Guinea			
Lae Port Development Project	60.0	40.0	100.0
Samoa			
Power Sector Expansion Project	–	26.6	26.6
Total	60.0	66.6	126.6

– = nil, ADF = Asian Development Fund, OCR = ordinary capital resources.

TABLE 26 Pacific: Cumulative Lending and Disbursements by Country as of the end of 2007

(\$ million)^a

Country	Lending	Disbursements
Cook Islands	29.5	26.6
Fiji Islands	249.9	182.9
Kiribati	15.1	13.7
Marshall Islands	78.1	64.2
Micronesia, Federated States of	75.1	42.8
Nauru	5.0	2.3
Papua New Guinea	1,027.0	690.7
Samoa	156.6	105.7
Solomon Islands	79.3	65.8
Tonga	57.8	52.3
Tuvalu	7.8	6.6
Vanuatu	51.3	49.0
Regional	1.5	136.3
Total^b	1,834.0	1,438.6

a Includes nonsovereign (public and private sector) loans.

b Totals may not add up because of rounding.

COUNTRY HIGHLIGHTS

Cook Islands

Partnership priorities. The approved country operations business plan (2007–2009) builds on past assistance for infrastructure and fiscal management to help sustain private sector–driven growth. ADB’s priorities are to develop environmentally sound infrastructure and to improve the governance framework for infrastructure.

Impact of operations. The Pacific Islands Economic Report for Cook Islands was finalized, analyzing economic conditions, development constraints, and opportunities, in support of the preparation of the country partnership strategy for 2008–2012.

Fiji Islands

Partnership priorities. After Management approval of the Fiji Islands: Reengagement Approach on 5 April, ADB resumed its previously approved activities. ADB constantly monitored conditions, focusing on poverty conditions, and the engagement or endorsement of the interim government by international organizations and ADB’s shareholding countries.

Impact of operations. ADB’s engagement was limited to activities under the ongoing program involving road development and rehabilitation, water and sanitation, energy, economic reform, and private sector development. In late 2007, ADB supported harmonized economic sector work associated with an International Monetary Fund Article IV Consultation.

FIGURE 5 Pacific: ADB Lending by Country, 2006–2007 (Sovereign and Nonsovereign) (\$ million)

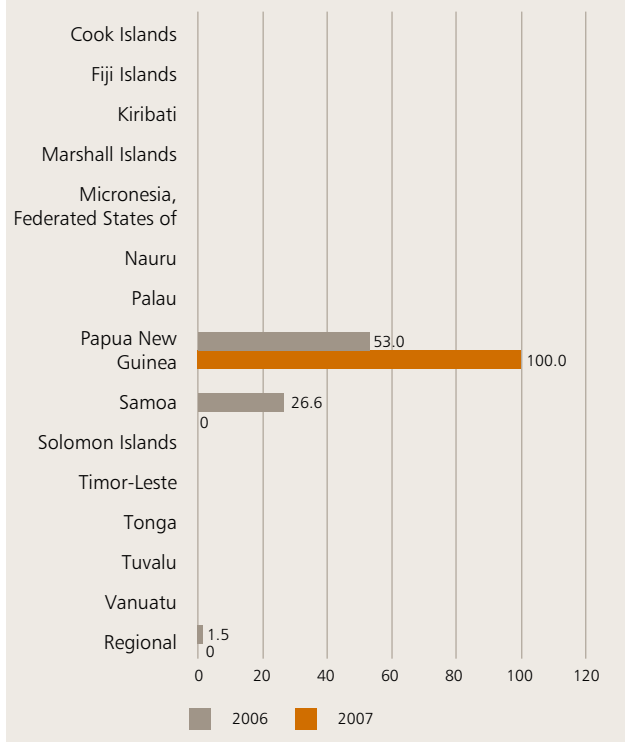
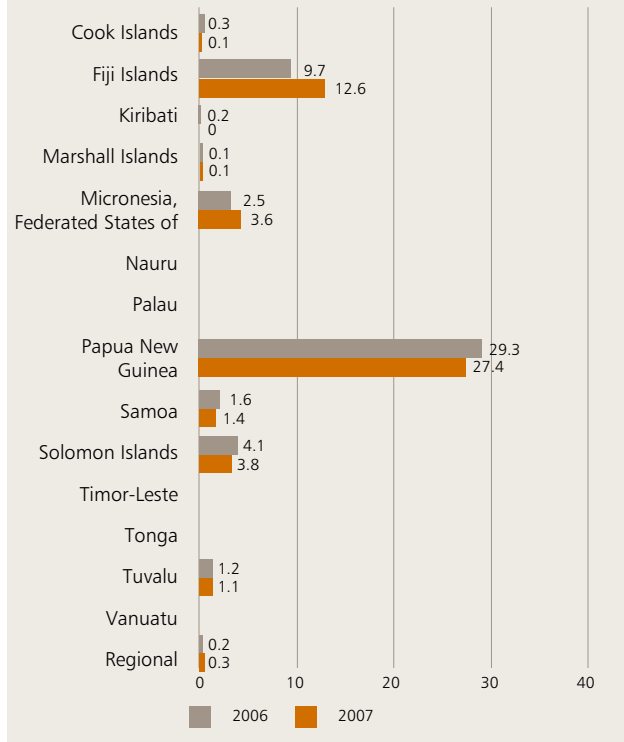


FIGURE 6 Pacific: ADB Disbursements by Country, 2006–2007 (Sovereign and Nonsovereign) (\$ million)



Kiribati

Partnership priorities. Against a background of limited resources and geographic isolation, ADB continued to help Kiribati achieve its priorities for economic growth, drawing on the potential drivers of tourism and marine resource development. ADB's support continued to emphasize outer-island growth and economic and financial planning.

Impact of operations. ADB continued a feasibility study for the development of water and sanitation in Kiritimati Island, the largest Pacific atoll, to build the basic infrastructure needed for growth through tourism. The Integrated Land and Population Development Program for Kiritimati Island was also mobilized to support land allocation. A Pacific Islands Economic Report—*Managing for Risks*—was prepared.

Marshall Islands

Partnership priorities. ADB's country strategy prioritizes support for improvements in public sector productivity, with an emphasis on improved delivery of basic social services; a better environment for private sector investment, job creation, and growth; and policy debate. The Marshall Islands repaid its loan arrears.

Impact of operations. ADB's technical assistance supported the formulation of a medium-term fiscal policy, the introduction of 5-year economic policy statements, and the strengthening of national statistics. In June, the ADB-funded Public Policy Institute at the College of the Marshall Islands was launched. Technical assistance also helped identify options for improved waste management in Majuro.

Federated States of Micronesia

Partnership priorities. The new country operations business plan (2007–2009) continued the focus on support for economic management and accountability, inclusive social development, and private sector-led economic growth.

Impact of operations. ADB's assistance comprised one ongoing loan and three ongoing technical assistance

ADB helped improve the business environment in the Federated States of Micronesia



Roads are being upgraded in Papua New Guinea

projects. Outputs under these activities included the establishment of two small business development centers, improvements in land court operations and legislation in Chuuk, the development of policies for personnel recruitment and performance evaluation in the public sector, the establishment of a project management unit to deliver an infrastructure loan across all four states, and support for the refurbishment of dispensaries and school facilities.

Nauru

Partnership priorities. ADB's country strategy and program for Nauru is concerned with the reform of state-owned enterprises, capacity building, and debt management.

Impact of operations. ADB's engagement with Nauru has focused on selective technical assistance. Most recently, a technical assistance project on utilities reform

was completed and formed the basis for the Government's utilities reform strategy, which is still being discussed. The first country performance assessment was carried out. A country economic report on Nauru was also completed.

Palau

Partnership priorities. Palau is a relatively new partner, having joined ADB only in 2003. ADB's strategic focus is the strengthening of economic and fiscal management, the promotion of policies for private sector development, and the facilitation of sound infrastructure development and management.

Impact of operations. ADB's technical assistance continued to support the development of a medium-term strategic development plan and policy advice to improve the delivery and management of public utilities, and to help minimize the cost of operating and maintaining public infrastructure. ADB supported an economic symposium to promote community engagement in development. ADB also prepared an environment assessment and a private sector assessment for the country, and an economic report on the Pacific Islands as a whole. The preparation of the first country partnership strategy for Palau began.

ADB aims to support Nauru build its capacity

Papua New Guinea

Partnership priorities. ADB's country strategy and program (2006–2010) deals with four strategic areas: public financial management, private sector development, the transport sector, and health and HIV/AIDS.

Impact of operations. To help improve public financial management, ADB provided technical assistance for the preparation of a medium-term financial management strategy and the strengthening of the governance of statutory authority. ADB also supported the rehabilitation of the Highlands Highway Network and helped the Government improve access to electricity.

Public-private partnerships with the oil and gas, agriculture, and mining industries continued to meet the threat of HIV/AIDS, with a focus on prevention in rural areas in association with private sector partners. A nationwide condom social marketing program was cofinanced by the Australian Agency for International Development and the New Zealand International Aid and Development Agency.

Samoa

Partnership priorities. ADB emphasizes support for infrastructure, education, private sector development, and public sector management.

Impact of operations. Through the nonlending program, ADB helped Samoa prepare for the privatization of the Samoa Broadcasting Corporation and the Samoa Shipping Services, slated for 2008, and helped strengthen the corporate governance of state-owned enterprises. ADB supported the Government's drive to modernize the registry of companies and introduce a framework for secure transactions. ADB technical assistance also supported the pilot-testing of new ways to promote productive use of customary land.

ADB helped pilot-test new ways to productively use customary land in Samoa

Fighting HIV/AIDS in Rural Papua New Guinea



Stopping HIV from reaching rural people

At least 8 out of 10 people in Papua New Guinea live in rural areas but are excluded from HIV/AIDS programs because villages are remote and inaccessible, rural health services have collapsed, and certain cultural practices remain deeply ingrained. Rural industries tend to give rise to an environment conducive to high-risk behavior in surrounding areas.

An Asian Development Fund grant approved in 2006 for HIV/AIDS prevention and control aims to change that. The grant—for \$22 million inclusive of \$7 million cofinancing—is helping stop HIV/AIDS from reaching rural populations in Papua New Guinea by integrating the management capabilities of the

private sector, the outreach of churches and nongovernment organizations, and the infrastructure of public services. The project draws on the relative strengths of other development partners, thereby fostering an environment of cooperation and collaboration.

Economic operators at the center of six large rural development enclaves in mining, oil and gas extraction, and plantations have signed memorandums of understanding with the Government detailing how they will help rehabilitate and support surrounding rural health services, and introduce and support HIV/AIDS testing, treatment, and care. The renovation of rural health infrastructure such as aid posts and health centers has begun.

Broad-based research on preferences has led to the development of a new condom. Behavior change programs are also being organized in communities surrounding the rural development enclaves. A national surveillance plan has been finalized and resources are being mobilized to improve HIV/AIDS surveillance nationwide.

ADB is organizing behavior change programs

The Sanitation and Drainage Project began to mitigate flooding in the capital. The Education Sector Project II significantly helped harmonize donor activities in education, while the Small Business Development Project provided small-business loan guarantees, micro loans, and business training.

Harmonization with funding agencies was further enhanced through joint missions to prepare the country partnership strategy (2008–2012) and ADB's observer role in the high-level strategy talks between the governments of Samoa, Australia, and New Zealand. The Pacific Islands Economic Report for Samoa and a private sector assessment were prepared.

Solomon Islands

Partnership priorities. ADB continued to help the Government provide transportation infrastructure and services and promote private sector development.

Impact of operations. ADB largely completed the implementation of the Post-Conflict Emergency Rehabilitation

Project (\$18.5 million), involving the repair of roads and other infrastructure damaged during the 1999–2003 conflict. The newly repaired roads helped increase economic activity throughout the project area, and maintenance contracts for local operators boosted private sector activity. ADB also continued its work on the \$16.2 million Solomon Islands Road Improvement Project, cofinanced by the governments of Australia and New Zealand.

The new State-Owned Enterprise Act was developed with ADB support and passed in 2007. ADB provided selective support in implementing the act, especially in performance standards setting and monitoring. ADB helped prepare two privatization transactions in Solomon Islands. In the key area of business law reform, with ADB support the Government prepared and submitted to Parliament bills on new companies, secured transactions, and trustees.

Timor-Leste

Partnership priorities. ADB completed the country operations business plan (2008–2010) for Timor-

Responding Quickly and Flexibly to a Tsunami Emergency in the Solomon Islands



Widespread damage

On 2 April, a massive undersea earthquake of magnitude 8.1 triggered a tsunami that struck the Western and Choiseul provinces of Solomon Islands. Damage to housing, infrastructure, schools, and medical facilities was widespread, and several villages were destroyed. About 20,000 out of a total population of 90,000 were affected, with some 5,000 people displaced and 52 dead.

ADB's disaster and emergency assistance policy prompted a rapid and effective response. ADB staff were on the ground within a week of the disaster. After an official request was made, ADB agreed to take the lead in coordinating the rehabilitation effort by government and development partner agencies. ADB also prepared a \$9 million Emergency Assistance Project, which the Board approved within 11 weeks

of the disaster. Asian Development Fund grant funds catalyzed significant cofinancing from the European Commission for the project.

The affected area generates a disproportionate share of Solomon Islands' national output and almost all of its tourism. The effects of the disaster thus have national economic implications. Recovery and rehabilitation depend on restoring access to affected areas and maintaining public health. However, the disaster has worsened the ability of major producers and rural people to export agricultural and fisheries products, gain access to markets and social services, support tourism, and enjoy safe water supplies. Growth is expected to slow down and poverty to worsen.

The Emergency Assistance Project will help the Government rehabilitate damaged infrastructure—rural and town roads, wharves and jetties, and the Gizo town water supply and sanitation system—and make it less vulnerable to climate change and natural hazards. The rehabilitation of damaged infrastructure is expected to make rural areas accessible once again, allow economic activities and social services to resume, and safeguard public health.

ADB responded rapidly and effectively



Emergency assistance helped people who lost their homes in the Solomon Islands

Leste, which emphasizes infrastructure development and capacity building as central to ADB's assistance.

Impact of operations. The Road Sector Improvement Project supported project management, design and supervision, community empowerment, and project performance monitoring. The Second Emergency Infrastructure Rehabilitation Project helped employ Timor-Leste's rural poor while improving access to markets and to education, health, and other basic services. Construction under the remaining three road contracts was completed. The project created jobs, injected money into poor communities, connected them to services, and reduced economic costs.

Tonga

Partnership priorities. ADB's country partnership strategy (2007–2012) is centered on poverty reduction and anchored in prudent economic and fiscal management, infrastructure development, and private sector growth.

Impact of operations. ADB, the Australian Agency for International Development, the New Zealand International Aid and Development Agency, and the World Bank signed a Joint Declaration on Aid Effectiveness with the Government of Tonga in September. The declaration applies the principles of the Paris Declaration on Aid Effectiveness and sets out initiatives for improved coordination of funding delivery in Tonga.

ADB mobilized technical assistance for the Rationalization of Public Enterprises, Phase III, and for Support for the Implementation of the Strategic Development Plan 8. The Youth Microenterprise Develop-

ment project continued developing pilot models for self-employment of the youth.

Tuvalu

Partnership priorities. ADB's assistance to Tuvalu continued to rest on the joint Tuvalu–ADB–Australian Agency for International Development strategy from 2006 and a set of benchmark indicators agreed on between these parties and the New Zealand International Aid and Development Agency.

Impact of operations. ADB continued to help upgrade the Tuvalu Maritime Training Institute (scheduled to be completed in 2008) to double the number of seafarers trained per year. Remittances from seafarers are an extremely important source of income for many in Tuvalu. The Pacific Islands Economic Report *Tuvalu 2006 Economic Report: From Plan to Action* was published. ADB also substantially completed preparations for the country partnership strategy (2008–2012). The streamlining of the tax system was pursued with the support of the Capacity Building for Taxation Reforms project.

Vanuatu

Partnership priorities. ADB's assistance program is concerned with promoting sustainable private sector-led economic growth.

Impact of operations. ADB continued to help Vanuatu improve access to financial services by supporting the Financial Services Commission in strengthening its institutional framework, including its corporate governance standards, supervisory capabilities, and organizational structure; reforming the company and bankruptcy laws; modernizing the registry of companies; and establishing a framework for secure transactions. The impact of these legal and institutional reforms will be measured once they are implemented over the next 18 months.

ADB helped Vanuatu access financial services, reform company and bankruptcy laws, modernize the registry of companies, and build a framework for secure transactions