

**LTSF Review  
Country Consultation Meeting  
Pacific Region  
12 July 2007, Koror, Palau**

**Summary of Discussions**

1. A consultation meeting on the review of ADB's Long-term Strategic Framework with Pacific developing member countries (DMCs) was held on 12 July 2007 in Koror, the Republic of Palau. The meeting was chaired by VPO2 and was attended by senior officials of the Pacific Developing Member Countries (PDMCs) on the occasion of the Eleventh Forum of Economic Ministers Meeting (List of persons present in Attachment 1).

2. The consultation focused on three key items; (i) the future risks and challenges of the Asia and Pacific region as identified by the Eminent Persons Group (EPG) and their relevance to PDMCs; (ii) strategic options for ADB in addressing these risks and challenges and the relevance of EPG recommendations on operational priorities to the Pacific region, and (iii) ADB's own operational strengths and weaknesses.

3. Participants expressed their appreciation for the opportunity to share their views on ADB's long-term strategy and actively discussed the unique development challenges of the Pacific region and their requirements for ADB's assistance. The discussion is summarized below.

**A. Facing the Future Challenges of the Asia Pacific Region**

4. Following questions were posed to participants on future challenges of the region.

- How relevant are the risks and challenges identified in the EPG report to the Pacific member countries?
- What are other key development challenges and risks for the Pacific region?
- How appropriate are the three strategic directions proposed by EPG (inclusive growth, environmentally sustainable growth, and regional and global focus) for PDMCs?

5. **Poverty and Inclusive Growth:** Poverty is and is likely to remain a major problem in many PDMCs. In some islands poverty has even increased in recent years. Income inequalities are a major issue in all PDMCs, where income levels in the main islands tend to be much higher than in the outer islands. The gap appears to be widening, triggering migration to urban areas. Income disparities among the ethnic groups, rural/urban population is also causing migration to accelerate. This phenomenon has aggravated the deficiencies of adequate water and sanitation services in urban areas.

6. Achieving MDGs and sustaining gains made remain a major challenge in the region, where they face numerous vulnerabilities, some caused by natural disasters. Some PDMCs noted growth as a necessary condition for poverty alleviation, but growth alone is not sufficient. In their case, special focus on poverty alleviation and inclusive growth strategies will need to be pursued simultaneously. Any strategic shift, however, must be gradual in line with the changing circumstances of the region.

7. **Natural Resources and Environmental Degradation:** Climate change will have significant impact on PDMCs. The frequency of natural disasters is likely to increase, further weakening their foundation, and making their economies more vulnerable to disasters than ever. Given the fragility of their eco-systems, growth in PDMCs must be environmentally sustainable. Internally, deforestation is considered a major environmental issue.<sup>1</sup> Forests in PDMCs are facing the stress of regions growth. Deforestation and its potential adverse impact on the economy and vulnerability to natural disasters must be prevented. Furthermore, scarcity of conventional energy and rising energy costs are bound to have detrimental impact on the development of the region, though this was not mentioned in the EPG report. Overall, PDMCs gave strong support to ADB's strategic emphasis on pursuing environmentally sustainable growth.

8. **Infrastructure Bottlenecks:** Infrastructure bottlenecks were cited as a critical constraint to growth by a large number of PDMCs. Sustainable growth requires adequate and reliable infrastructure and hence is considered a prerequisite for stimulating inclusive growth and alleviating poverty. Lack of access to economic opportunities due to weak infrastructure (particularly water and power) is also the main cause of vast income disparities between the outer islands and the main island. Better and reliable transportation links and improved ICT will substantially improve access to opportunities and stimulate economic activities. However, correctly sequencing infrastructure development and adequate planning are also important. Example of positive impact on tourism as a result of infrastructure development was shared in the discussion.

9. **Financial Sector.** PDMC fully recognize the strategic role of the private sector in their development. Weak financial sector and the lack of access to affordable credit is the main hurdle for private sector development in PDMCs. Financial sector development, as in the case of many other sectors, is linked to access and therefore to the development of infrastructure, particularly the ICT infrastructure.

10. **Regional and Global Integration:** PDMCs generally supported ADB adopting a regional approach to resolving the region's challenges. However, the focus of assistance should remain on national programs.

11. **Issues not Covered in the EPG report:** PDMC's noted that good governance is critical for successful implementation of development programs and requested ADB to give adequate attention to governance. In particular, they reiterated the need for capacity building for improving governance in the Pacific region. Further, HIV/AIDS is considered another real risk for sustainable development for the Pacific region,<sup>2</sup> though

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<sup>1</sup> Forest cover varies greatly in the Pacific countries, ranging from 40-90% of total land area in the high islands to 5-40% for lower islands. The loss of forest cover has been major concerns for the forested countries in the Pacific, particularly PNG, Fiji Islands, Solomon Islands, and Vanuatu, resulting from logging and conversion to agricultural production, pastoral development, and mining. Forest resources have been crucial to sustaining the livelihoods of people by providing food, medicines, traditional and cultural materials, timber, fuel wood, soil, and water protection and shelter.

<sup>2</sup> The HIV pandemic has reached the pacific region late. Prevalence rates are considered low with the exception of PNG which has a generalized epidemic and an estimated prevalence rate of 1.6% (roughly 100,000 HIV+), reaching 3-4% in urban areas such as Port Moresby, Lae and Mt Hagen. The small island states of the Pacific most affected are those with large active ports and transiting seafarers and/or an important tourism industry. The HIV cases and rates reported by Pacific Island Countries are generally viewed as low/understated given the poor health infrastructure and the non-performing health information

this was not mentioned in the EPG report. Health and education continues to require substantial assistance.

## **B. Strategic Options**

12. Following questions were posed to participants on ADB's future strategic options.

- Are the core operational areas identified in the EPG report congruent with your requirements?
- Are there other operational areas (such as capacity development) more important to the Pacific region?
- What are ADB's strengths and weaknesses and core competencies?
- What innovations in lending or other non-lending products would be useful to the PDMCs?

13. **Operational Priorities:** While generally endorsing the operational priorities of infrastructure development, financial sector development, and energy and environment, the PDMCs cautioned against exclusive focus on inclusive growth. The strategic shift in operational priorities from the present focus on poverty alleviation will need to be undertaken in a phased manner. Many PDMCs reiterated the need to fully take into account country priorities while designing their programs.

14. **Selectivity and donor coordination:** PDMCs recognized the need and merits of becoming more selective. ADB will be able to deliver better quality and more effective programs if it becomes more selective and focused in its operations. Through improved aid-coordination with key donors in the region, and other specialized agencies, ADB can be selective in its programs, focusing on areas of its comparative advantage.

15. PDMCs also requested ADB to work closely with other donors to leverage more resources for development of large infrastructure projects. Blending concessional loans with bilateral grants may be considered in this regard. In view of the increasing flow of bilateral assistance to the region, ADB should become more aware of the approaches taken by other donors and carefully consider its instruments and approaches from the perspective of how it could add value in coordination with the activities of other donors.

16. **Knowledge, Innovation and Technological Development:** Technological development and innovation appear to be low priority areas for the countries in the region. More relevant for the region would be ADB sharing success stories in the region. ADB will be privy to vast knowledge about successful development experiences, particularly practical reform measures that yielded results in the Asia and Pacific region, some of which could be replicated in PDMCs. In terms of knowledge transfer, capacity development is considered a major requirement for the region in all ADB operations in PDMCs, irrespective of the sector.

## **C. Operational Strengths and Weaknesses**

17. **Weaknesses:** The following are identified as ADB's major operational weaknesses:

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systems. However, the conditions for increasing HIV incidence exist in most PDMCs. Poverty, unemployed youth, accelerating urbanization are some common factors.

- a. Cost of funds. PDMCs requested ADB to treat them as a special category due to their vulnerability to natural disasters which could have devastating impact on their incomes for prolonged periods. Sought ADB to review its country classification for graduation of PDMCs;
- b. Project processing. Long time required for processing projects, particularly loan processing is considered a major obstacle and ADB needs to be more speedy and flexible. It was felt that ADB can do better;
- c. Country ownership. Better country ownership in TA concept design, at least in countries where capacities exists, is considered a necessity. Also, responsibility for project implementation is excessively centralized in ADB. Need to improve country project implementation capacities and assign greater project implementation responsibilities to DMCs; and
- d. Charging of pre-payment fee from PDMCs which prepay loans when they have surplus funds due to favorable international commodity prices or other factors beyond their control is identified as an issue. Sought product innovation to dispense with such fees.

18. **Strengths:** PDMCs identified the following as ADB's strengths.

- a. Good track record in implementing infrastructure projects. ADB has been instrumental in developing infrastructure for the region and has left tangible development results;
- b. Aid coordination with bilateral donors and the ability to leverage additional funds for development; and
- c. Responsiveness. Quick response, particularly in cases of emergency assistance.

19. In closing the meeting, the Chair thanked the participants for their active participation in the consultation meeting, and assured them that ADB has taken note of specific concerns raised by the PDMCs in reviewing its long-term strategic framework.

**List of Participants**

<b>Country</b>	<b>Participant</b>	<b>Remarks</b>
Australia	Mr. Nicholas Cumpston Director, Pacific and Regional Section Department of Foreign Affairs and Trade (DFAT)	Observer
Cook Islands	Hon Dr. Sir Terepai Maoate Minister, Ministry of Finance & Economic Management  Mr. Sholan Ivaiti Financial Secretary Ministry of Finance & Economic Management	
Fiji	Mr. Keshwa N. Reddy Principal Economic Planning Officer	
Kiribati	Mr. Boorau Koina Deputy Secretary Ministry of Finance & Economic Development	
Nauru	Mr. Jonathon Kirkby Secretary for Finance	
New Zealand	Mr. Scott McHardy Senior Analyst, The Treasury  Mr. Craig Hawke Director, Pacific Group NZAID, Wellington  Mr. Dominic Walton-France NZAID, Wellington	Observers
Palau	Mrs. Sally Techitong-Soalablai Administrative Officer to the Minister Ministry of Finance	
Papua New Guinea	Mr. Lucas Alkan Acting Assistant Secretary Economic Policy Division, Port Moresby	
Republic of the Marshall Islands	Mr. Bruce Bilimon Assistant Secretary for Revenue & Taxation	

Solomon Islands	Mr. Shadrach Fanega Permanent Secretary Ministry of Finance and Treasury
	Dr. Bryn Battersby Ministry of Finance & Treasury
Timor-Leste	H.E. Mr. Armindo Maia Timor-Leste's Ambassador to Philippines
Tonga	Mr. Aisake Eke Secretary of Finance Ministry of Finance
Tuvalu	Mr. Aunese Simati Secretary for Finance Ministry of Finance & Economic Planning
Vanuatu	Mr. Simeon Athy Director General Ministry of Finance & Economic Management