

© Asian Development Bank 1999

All rights reserved

First published August 1999

This publication was prepared by Asian Development Bank staff. The findings, interpretations, and conclusions expressed in it do not necessarily represent the views of the Bank or those of its member governments. The Asian Development Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility whatsoever for any consequences of their use.

ISBN 971-561-253-9

Publication Stock No. 080499

Published by the Asian Development Bank
P.O. Box 789, 0980 Manila, Philippines

ABBREVIATIONS

ADB	- Asian Development Bank
ADF	- Asian Development Fund
AMI	- Air Marshall Islands
AMU	- Asset Management Unit
AusAID	- Australian Agency for International Development
BVDC	- Business Ventures Development Corporation
CBS	- Central Bank of Samoa
CIDB	- Cook Islands Development Bank
CRP	- Comprehensive Reform Program
DBV	- Development Bank of Vanuatu
EMPAT	- Economic Management and Policy Advisory Team
ERP	- Economic Reform Program
ESCAP	- Economic and Social Commission for Asia and the Pacific
FSM	- Federated States of Micronesia
FSP	- Financial Sector Program
FY	- Fiscal Year
GDP	- Gross Domestic Product
GNP	- Gross National Product
ICSI	- Investment Corporation of Solomon Islands
IMF	- International Monetary Fund
MFEM	- Ministry of Finance and Economic Management
MOU	- Memorandum of Understanding
MTBF	- Medium-Term Budget Framework
NBV	- National Bank of Vanuatu
NDC	- National Development Council
NPF	- National Provident Fund
NZODA	- New Zealand Overseas Development Authority
OECD	- Organization for Economic Cooperation and Development
OPO	- Office of Pacific Operations
PAT	- Policy Advisory Team
PDMC	- Pacific Developing Member Country
PERCA	- Public Expenditure Review Committee and Audit Act
PFTAC	- Pacific Financial Technical Assistance Centre
PSC	- Public Service Commission

PSIP	- Public Sector Investment Program
PSRP	- Public Sector Reform Program
PSU	- Private Sector Unit
RIF	- Reduction in Force Program
RMI	- Republic of the Marshall Islands
RRP	- Report and Recommendation of the President (ADB)
SIPEU	- Solomon Islands Public Employees' Union
SOEs	- State-Owned Enterprises
SOEMU	- State-Owned Enterprises Monitoring Unit
TA	- Technical Assistance
UNDO	- United Nations Development Organization
UNDP	- United Nations Development Programme
UNICEF	- United Nations Children's Fund
US	- United States
VAT	- Value-Added Tax
VNPF	- Vanuatu National Provident Fund

CONTENTS

	<i>Page</i>
Abbreviations	iii
List of Figures	viii
List of Tables	viii
List of Boxes	viii
Foreword	ix
1. An Overview	1
1.1 Introduction	1
1.2 Context and Triggers of Reform	2
1.3 The Process of Program Design	6
1.4 Scope and Content of the Reform Programs	11
1.5 Implementation Progress and Results of the Reform Programs	18
2. The Cook Islands	25
2.1 Introduction	25
2.2 The Macroeconomic and Governance Context	25
2.3 The Process of Program Design	28
2.4 The Content of the Program	31
2.5 Implementation	39
2.6 Results	41
2.7 Looking to the Future	48
3. Federated States of Micronesia	51
3.1 Introduction	51
3.2 The Macroeconomic and Governance Context	51
3.3 The Process of Program Design	56
3.4 The Content of the Program	59
3.5 Implementation	65
3.6 Results	69
3.7 Looking to the Future	75

4. Republic of the Marshall Islands	79
4.1 Introduction	79
4.2 The Macroeconomic and Governance Context	79
4.3 The Process of Program Design	84
4.4 The Content of the Program	86
4.5 Implementation	93
4.6 Results	95
4.7 Looking to the Future	98
5. Samoa	102
5.1 Introduction	102
5.2 The Macroeconomic and Governance Context	102
5.3 The Process of Program Design	105
5.4 The Content of the Program	107
5.5 Implementation	112
5.6 Results and Main Concerns	113
5.7 Looking to the Future	121
6. Solomon Islands	123
6.1 Introduction	123
6.2 The Macroeconomic and Governance Context	123
6.3 The Process of Program Design	126
6.4 The Content of the Program	129
6.5 Implementation	133
6.6 Results	135
6.7 Looking to the Future	140
7. Republic of Vanuatu	143
7.1 Introduction	143
7.2 The Macroeconomic and Governance Context	143
7.3 The Process of Program Design	147
7.4 The Content of the Program	150
7.5 Implementation	156
7.6 Results	158
7.7 Looking to the Future	167

8. Lessons Learned	169
8.1 Political Commitment, Ownership and Participation	169
8.2 Design Issues: Scope, Phasing and Pragmatism	170
8.3 Need for a Long-term Perspective	171
8.4 Distinguishing Between Inputs, Process, Outputs and Impacts	172
8.5 Timely and Reliable Information	173
8.6 The Influence of Culture	173
8.7 The Use of Long-Term Advisers and Consultants	174
8.8 Bank Staffing and Supervision	175
8.9 Conclusions	175
Appendix 1 Reform Programs in PDMCs: Design	177
Appendix 2 Reform Programs in PDMCs: Results	185
References	192

List of Figures

Figure 1.1	Reform Triggers and Medium-Term Goals	23
Figure 2.1	Cook Islands: GDP at 1990 prices	27
Figure 3.1	Structure of Revenue and Grants, FY1997 (%)	55
Figure 4.1	Real GDP per capita (1991 prices)	83

List of Tables

Table 1.1	Program Loans to PDMCs	3
Table 1.2	Public Service Size	22
Table 4.1	Public Service Downsizing	90
Table 7.1	Vanuatu Budget Estimates 1998 and 1999 (Vt million)	147

List of Boxes

Box 1.1	Ownership and Participation	8
Box 1.2	Governance-related Legislation	14
Box 1.3	Solomon Islands Reform of the Public Service	16
Box 2.1	The New Public Sector Legislation	31

FOREWORD

The 1990s has been a decade of major change for the Asian Development Bank and its Pacific Developing Member Countries (PDMCs). As the Bank has transformed itself from being primarily a project lender to being a broad-based development institution, a wave of economic, public sector and governance reform has broken on most PDMC shores. The Bank has assisted the reform process through provision of program loans and technical assistance.

This book presents the results of an assessment of Bank assistance to reform efforts in six PDMCs. The assessment was undertaken at the request of the Board of Directors of the Bank by an interdepartmental task force consisting of Cedric Saldanha (Chairperson, Office of Pacific Operations), Louis de Jonghe (Office of Pacific Operations), David Edwards (Economics and Development Resource Center), Manabu Fujimura (Economics and Development Resource Center), Michael Heppell (staff consultant, Strategy and Policy Office), Bruce Knapman (staff consultant, Office of Pacific Operations), and Salvatore Schiavo-Campo (Senior Advisor for Governance and Public Management). A summary report was prepared on the basis of individual country reports, which involved missions to the Cook Islands (October 1998), the Republic of Vanuatu (October-November 1998), the Federated States of Micronesia (January-February 1999), the Republic of the Marshall Islands (February 1999), Solomon Islands (February 1999), and Samoa (March 1999). These reports are published in order to make the findings available to the Pacific community, external funding agencies, and the public at large.

Special acknowledgment is made of contributions to the individual country reports by Manabu Fujimura (Samoa, Vanuatu), Michael Heppell (Cook Islands, Federated States of Micronesia), and Salvatore Schiavo-Campo (Samoa, Vanuatu).

Basudev Dahal

Director

Office of Pacific Operations