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ADB's Approach to Assisting the Pacific (2010–2014)

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AusAID	–	Australian Agency for International Development
CPA	–	country performance assessment
DMC	–	developing member country
FSM	–	Federated States of Micronesia
GDP	–	gross national product
HLC	–	high-level consultation
ICT	–	information and communication technology
IED	–	Independent Evaluation Department
MDG	–	Millennium Development Goal
NZAID	–	New Zealand Agency for International Development
PARD	–	Pacific Department
PCCP	–	Pacific Climate Change Program
PIFS	–	Pacific Islands Forum Secretariat
PNG	–	Papua New Guinea
PRIF	–	Pacific Regional Infrastructure Facility
PSDI	–	Private Sector Development Initiative
RMI	–	Republic of the Marshall Islands
SME	–	small and medium enterprise
SOE	–	state-owned enterprise
SPC	–	Secretariat of the Pacific Community
TA	–	technical assistance

NOTE

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

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I. INTRODUCTION

1. The Pacific developing member countries (Pacific DMCs) of the Asian Development Bank (ADB) differ in many respects—including size, population, resource endowments, and social and economic achievements—but there are also many similarities. The Pacific is a region of great diversity but it is also a region of common problems and issues. Each country has unique characteristics, so country partnership strategies are prepared for each DMC. However, despite their differences, similarities in culture, traditions, history, and geography mean that they face many common development challenges as well as opportunities for cooperation and coordination. An ADB study of the case for further regionalism supported the formulation of the Pacific Plan.¹ A significant common feature is that most Pacific DMCs exhibit fragile situations.² ADB's approach to assisting the Pacific (The Pacific Approach) addresses these common challenges and opportunities, and seeks to identify where and how regional approaches and common guidelines can be used to improve the effectiveness of development assistance. The Pacific Approach addresses broad, strategic concerns. The rationale behind formulating a new Pacific Approach for 2010–2014 is summarized as follows.

- (i) The Pacific Approach provides alignment between the region's Pacific Plan and ADB's long-term strategic framework 2008–2020 (Strategy 2020).³
- (ii) The Pacific Approach sets overall strategic directions for operations in the Pacific, including how reforms would be taken.
- (iii) The Pacific Approach recognizes the need to respond with greater awareness to the complex fragile situations particular to most Pacific DMCs.
- (iv) Knowledge solutions, including better practice models, can be identified for replication within the region.
- (v) Public goods and services provided at the regional level can exploit economies of scale.
- (vi) A common framework can address similar social, cultural, and political binding constraints to growth and development, similar opportunities and development risks; and derive regional approaches to support growth and development, including the need to engage in non-traditional sectors for private sector operations.
- (vii) The Pacific Approach also recognizes the need to improve development effectiveness in anticipation of a possible substantial increase in ADB's assistance to the region.

2. Preparation of the Pacific Approach has been influenced by many reviews, studies, and experiences. Since preparation of the 2005 strategy,⁴ there have been several important developments. These include (i) adoption of Strategy 2020; (ii) adoption of ADB's approach to engaging with weakly performing countries or fragile situations, which currently includes nine Pacific DMCs; (iii) preparation of a midterm review of the 2005 strategy, which identified its

¹ ADB. 2005. *Pacific Studies Series: Toward a New Regionalism*. An ADB-Commonwealth Secretariat Joint Report to the Pacific Islands Forum Secretariat. Manila; and Pacific Islands Forum Secretariat. 2005. *The Pacific Plan for Strengthening Regional Cooperation and Integration*. Suva.

² ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila.

³ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

⁴ ADB. 2005. *A Pacific Strategy for the Asian Development Bank 2005–2009: Responding to the Priorities of the Poor*. Manila.

successes and weaknesses (footnote 2); and (iv) an evaluation of ADB's support for public sector reforms in the Pacific undertaken by the Independent Evaluation Department (IED).⁵

3. Crucial to ADB's approach in the Pacific is an understanding that, while development partners have an important role to play in supporting the development process in Pacific DMCs, the process will only yield sustained outcomes and impact if it is led by the countries themselves. However, broad social and political support for change is needed within countries, and this support has often been hard to achieve. The Pacific Approach has been developed in coordination with Pacific governments and in consultation with civil society, with a view to how ADB may help strengthen support for change. Lastly, although ADB has become one of the region's major development partners, the region's development needs and resource requirements greatly exceed available development assistance. This requires ADB to focus on the activities for which its skills and resources are best suited, and to collaborate and coordinate assistance closely with other development partners. Accordingly, the new Pacific Approach has been prepared in consultation with development partners.

II. DEVELOPMENT CONTEXT

A. Fragile Situation Characteristics

4. Most of the Pacific DMCs are considered to exhibit conditions of fragility that contribute to a complex development environment. Fragility and vulnerability in the Pacific include (i) isolation (both geographical and in knowledge sharing); small, sometimes dispersed populations and markets leading to limited economies of scale; a lack of consensus in the islands to risk limited resource endowments and develop private markets; limited human resources and a lack of capacity; limited natural resources for most Pacific DMCs; rapid population growth in some countries that outstrips job creation and welfare services; and a shortage of infrastructure with poor maintenance; (ii) weak core state functions of policy formulation, resource accumulation, and weak public sector management capacity constrained by underdeveloped political and social systems leading to weakening governance; (iii) weak social, political, and security systems affecting delivery of essential services; and (iv) volatility and unpredictability of international assistance, and high vulnerability to climate change and the risks of natural disaster. Such fragility helps explain the weak development effectiveness despite years of comparatively high levels of international assistance. The development challenge of the Pacific therefore requires a carefully considered approach.

B. Political, Economic, Social, and Environmental Characteristics

5. Pacific DMC governments suffer from weak public sector management and overall governance, including weak decision making in the public interest.⁶ Several countries have also suffered from civil unrest, political instability, and poor law and order. There are many elements to

⁵ ADB. 2009. *Support for Public Sector Reforms in the Pacific: Enhancing Results through Ownership, Capacity, and Continuity*. Manila.

⁶ ADB's Governance Policy and strategy papers are available on the website <http://www.adb.org/Documents/Policies/Governance/gov200.asp?p=policies>. The World Bank has produced a set of indicators to rank a country's government effectiveness through time. There are six levels, with level 1 being good and level 6 not good. Three Pacific nations have been assessed at level 3—the Cook Islands, the Fiji Islands, and Samoa. All others were assessed at levels 4 and 5, except Nauru which was level 6. Five Pacific DMCs improved the level of their government effectiveness over 1996–2007, while six experienced a decline (Kaufman, D., A. Kraay, and M. Mastruzzi. 2007. *Governance Matters VI: Governance Indicators for 1996–2006*. Washington, DC. Available: www.govindicators.org).

governance, but the following are at the core of good governance: the capacity of public institutions (including financial, fiscal, other macroeconomic, and civil service management); commitment to sound policies and accountability; transparency and participation; and an effective legal and judicial system. Some, more progressive, governments have actively embraced consultation and participation as well as greater transparency and accountability to build a constituency for better public sector management and difficult development decision making. Basic development indicators are presented in Table 1.

Table 1: Basic Indicators

Country	Average Annual GDP Growth (1998–2008)	Population ('000, 2008)	Annual Population Growth (1998–2008)	HDI (2007)
Cook Islands	3.6	21	1.9	0.829
Fiji Islands	2.0	838	0.5	0.718
Kiribati	1.6	99	0.1	0.597
Marshall Islands	2.3	53	1.7	0.708
Micronesia, Fed. States of	0.5	108	0.5	0.716
Nauru	(9.6) ^a	10	0.3	0.637
Palau	1.0	20	0.9	0.810
Papua New Guinea	2.3	6,450	4.1	0.437
Samoa	3.5	182	0.6	0.762
Solomon Islands	1.4	524	2.9	0.579
Timor-Leste	(1.8)	1,081	2.0	0.590
Tonga	1.8	102	0.3	0.730
Tuvalu	3.0	10	0.5	0.691
Vanuatu	2.4	233	2.5	0.640

() = negative, GDP = gross domestic product.

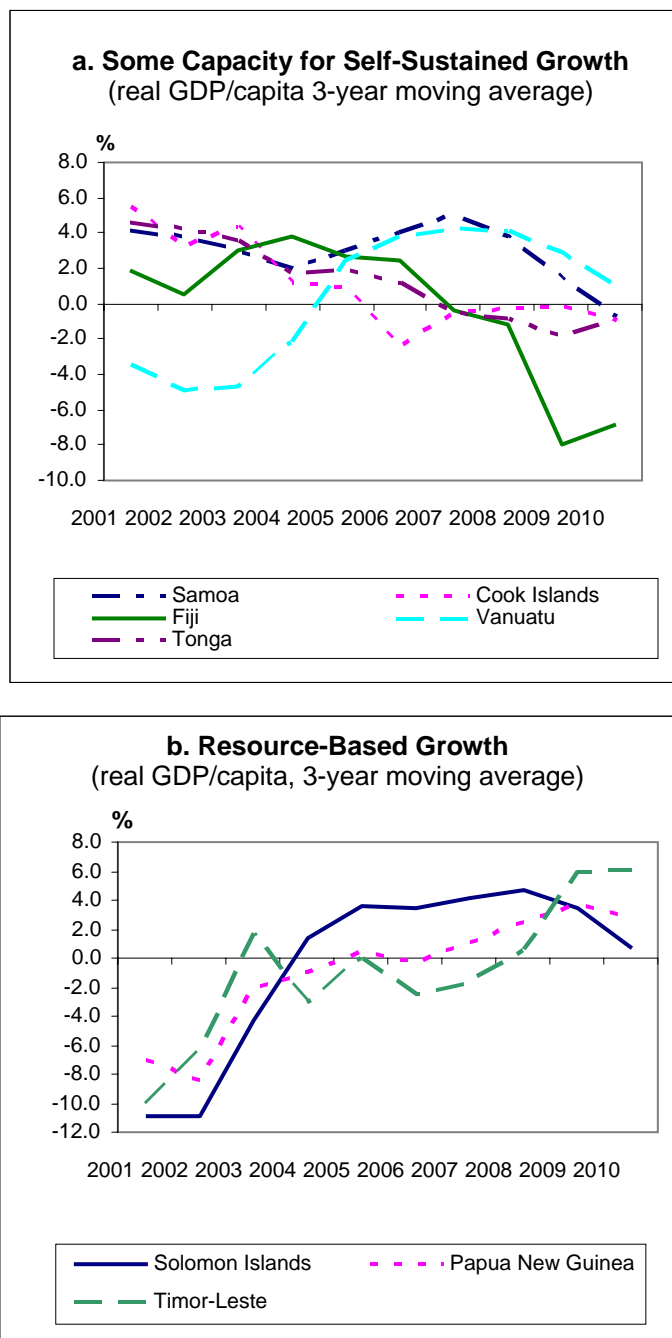
^a Derived for the period 2005–2008, earlier data not available.

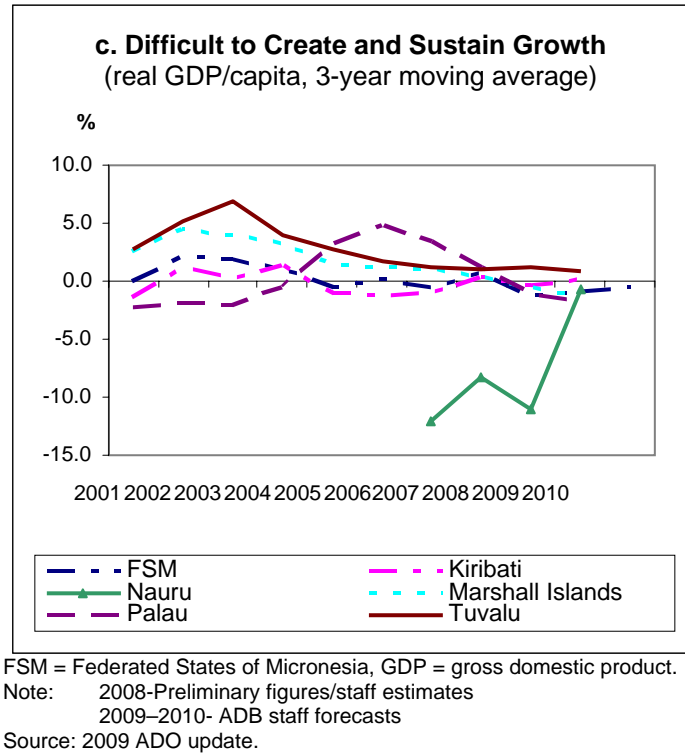
Sources: Asian Development Bank Pacific economic database; United Nations Development Program. 2008. *Human Development Report 2008*; Government of Australia. 2009. *Tracking Development and Governance in the Pacific*; ADB, UNDP, and ESCAP. 2009. *The Millenium Development Goals in Pacific Island Countries: Taking Stock, Emerging Issues and Way Forward*. Manila; and United Nations Development Program. 2009. *The Millenium Development Goals, Timor Leste*. Dili.

6. Overall economic progress of the Pacific DMCs has been mixed. The region can be broadly grouped into three categories of growth experiences (Figure 1). The first group—the Cook Islands, the Fiji Islands, Samoa, Tonga, and Vanuatu—has exhibited some capacity for self-sustained growth, partly resulting from good governance that also led to structural reforms. This has been derived from domestic activities such as tourism, agriculture, and fisheries, as well as some basic industries. The recent oil and food price shocks and global economic crisis caused growth to fall from 2008. The second group—Papua New Guinea (PNG), Solomon Islands, and Timor-Leste—has achieved resource-based growth, but has struggled to diversify its economies. Prospects for further growth rest on policies that support sustainable resource management together with other policy and institutional reforms and political stability. The last grouping—Kiribati, the Marshall Islands (RMI), the Federated States of Micronesia (FSM), Nauru, Palau, and Tuvalu—has found it difficult to adopt the policies and institutions that help create and sustain domestically-sourced growth at the national level, although all these countries have some sources

of income outside of external assistance (tourism, fish processing and licensing, trust fund incomes, and remittances) that have helped sustain their economies in the past.

Figure 1: Growth Experiences



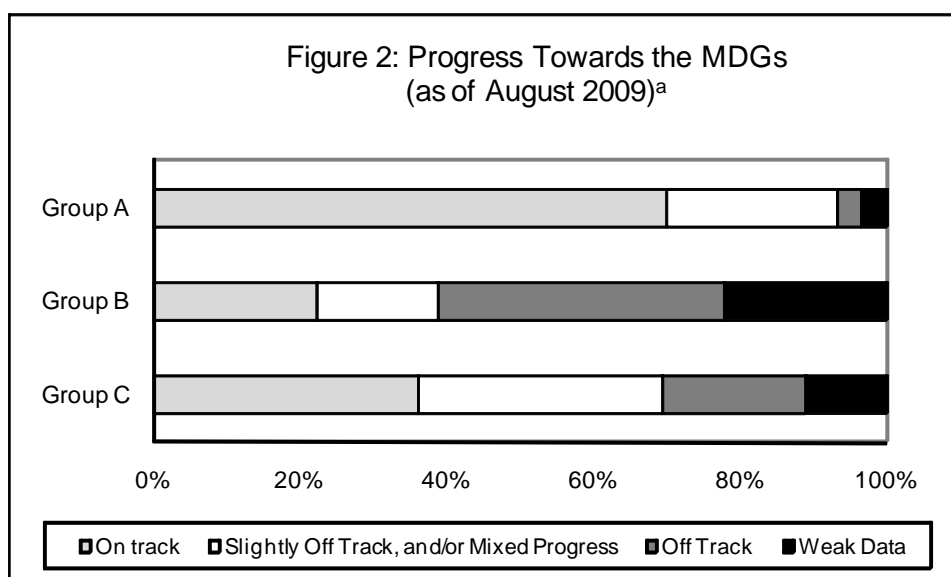


7. The Pacific region's development challenges have been compounded by the global financial and economic crisis, which has had a significant impact on the region's economies. Declines in remittances, tourism, and commodity exports, as well as consolidation in the region's nascent financial markets, have negatively affected fiscal stability and economic growth. The crisis has dampened the trade of well-performing Pacific DMCs and put further strain on the rest. It has also highlighted the need to accelerate critical structural reforms to increase the resilience of Pacific DMC economies so that they can achieve and sustain higher growth, and respond better to external shocks.

8. Reforms are needed to strengthen fiscal positions, improve the environment for private sector development, enhance public sector performance, and raise productivity to boost growth in the medium term. Particular constraints faced by the private sector include (i) the pervasive role of the state in many aspects of economic activity; (ii) the failure of financial markets to intermediate efficiently and provide access to finance, particularly in rural areas; (iii) business laws and regulations that are outdated and inadequate to support modern business transactions; (iv) inefficient, unreliable, and often expensive infrastructure, frequently provided by state-owned enterprises (SOEs); and (v) lack of competition as a result of small market size, public or private sector monopolies, and ineffective regulation.⁷ Countries in the South Pacific are taking steps to improve the environment for private investment and some have adopted policies to mitigate the impact of the economic crisis. In the medium term, the economic performance of the Pacific DMCs will likely be led by resource-rich countries such as PNG and Timor-Leste.

⁷ These are the findings of private sector assessments the Pacific Department has conducted for 8 Pacific DMCs to date. The assessments provide a solid foundation for more effective policy dialogue with Pacific DMC governments and deeper engagement with the private sector, shaping and focusing country strategies toward sound reform priorities.

9. Recent monitoring suggests the momentum of social development is being lost in some important areas.⁸ Monitoring of social developments in the Pacific DMCs is hindered by the shortage of consistent, regular measures of living standards. However, important insights can be gained from assessing progress in achieving the Millennium Development Goals (MDGs). Key MDGs—notably regarding education, gender equality, and disease management—have shown significant progress in four of the five category A Pacific DMCs (some capacity for self-sustained growth): the Cook Islands, the Fiji Islands, Samoa, and Tonga. Other Pacific DMCs are making some progress in these MDGs, although such progress must be qualified. Evidence suggests that the quality of primary education in the region is in decline,⁹ which mostly affects the poor. This results, at least in part, from weak public sector management. Women are less represented in leadership, higher education, and access to health and other welfare services. Gender stereotyping is also of concern. Other gender concerns include weak institutional capacities and political will for promotion of gender equality, unequal decision making, high levels of gender-based violence, and limited sexual and reproductive health rights in some countries. For the non-income MDGs, further weaknesses in the Pacific DMCs are in the areas of child and maternal mortality, environmental sustainability, and water and sanitation. The prevalence of HIV/AIDS is a particularly severe problem for PNG. MDG progress in group B countries lags behind other growth categories, as these countries experience greater problems implementing policies and improving institutions to distribute the benefits of resource-based growth. The overall regional MDG picture is poor, with non-income MDG indicators regressing or showing slow progress. Compared with Asia and the Pacific as a whole, more non-income MDG indicators are showing slow progress in the Pacific (Figure 2).



MDGs = Millennium Development Goals.

^a Data presented for the MDGs for which data are available for the Pacific developing member countries. These data are available for the non-income MDGs: Goal 2 (achieving universal primary education); Goal 3 (promoting gender equality and empowering women); Goal 4 (reducing child mortality); Goal 6 (combating HIV/AIDS, malaria, and other diseases); and Goal 7 (ensuring environmental sustainability).

⁸ Government of Australia. 2009. *Tracking Development and Governance in the Pacific*. Canberra and ADB, UNDP, and ESCAP. 2009. *The Millennium Development Goals in Pacific Island Countries: Taking Stock, Emerging Issues and Way Forward*. Manila.

⁹ ADB. 2005. *Better Learning, Better Future: Education and Training Sector Strategy for the Pacific*. Manila.

Notes:

Group A (some capacity for self-sustained growth): Cook Islands, Fiji Islands, Samoa, Tonga, and Vanuatu.

Group B (resource based growth): Papua New Guinea, Solomon Islands, and Timor-Leste.

Group C (difficult to create and sustain growth): Federated States of Micronesia, Kiribati, Nauru, Palau, Republic of the Marshall Islands, and Tuvalu.

Sources: ADB. *The Millenium Development Goals: Progress in Asia and the Pacific 2006 (for Timor-Leste)*; Government of Australia. 2009. *Tracking Development and Governance in the Pacific*; and ADB, UNDP, and ESCAP. 2009. *The Millennium Development Goals in Pacific Island Countries: Taking Stock, Emerging Issues and Way Forward*. Manila.

10. Increasing numbers of unemployed youth and poorly managed urbanization are other major social concerns. Population growth has tended to outstrip job creation in many Pacific DMCs, leading to younger populations and increasing numbers of disenchanting, unemployed youth. Rapid population growth is a serious concern in some Pacific DMCs. Rapid urbanization in the Pacific has caused severe strains on urban infrastructure and services, leading to haphazard provision of urban infrastructure, environmental degradation, and bottlenecks to expansion of economic activity and growth. Increasing urbanization is at least in part a response to the lack of economic activity as well as weak fiscal management and a decline in the delivery of basic social services in rural areas and outer islands. Traditional land tenure regimes in urban centers have largely been unable to adapt to the needs of rural and outer island immigrants, and this has led to the development of insecure squatter settlements with very poor solid waste, water, sanitation, electricity, and other urban services.

11. The rates of basic needs poverty¹⁰ are estimated to be rising in most Pacific nations. In the last 18 months to 2 years, the rate of basic needs poverty is estimated to have risen by up to five percentage points in most countries. It is now estimated that across the region, excluding PNG, about one-third of the population of the Pacific Island countries could be living below their national basic needs poverty lines. In PNG, where basic needs poverty is most prevalent, the most recent estimates indicate that the proportion could be as high as almost 60% in some of the most disadvantaged areas of the country. Overall, this means that the number of those estimated to be living below their respective national basic needs poverty lines could have increased from around 4.0 million to about 4.5 million in the space of 2 years (footnote 8). Traditional social safety nets exist. These are weakening as economies monetize and social safety increasingly needs to be supplemented by semi-formal arrangements.

12. Natural hazards, climate change, and deterioration of the environment pose further development challenges. Natural disasters including cyclones, earthquakes, and flooding occur frequently in the Pacific DMCs, imposing high damage and costs of repair—undermining development gains. Climate change (Box 1) poses an additional threat as Pacific DMCs are generally expected to suffer from sea-level rise, more frequent and intense tropical storms and flooding, prolonged periods of drought, bleaching of coral reefs, increasing scarcity of freshwater resources, and a higher incidence of vector-borne diseases. Rising ocean temperatures are predicted to alter the migratory routes of fish species such as tuna, which are critically important to Pacific DMC economies. Declining agricultural productivity as a result of the increasing salinity of soils and drought, and declining fish stocks could pose a risk to food security in the region. Weak environmental management capacities and governance have resulted in environmental

¹⁰ Basic needs poverty refers to the lack of access to basic services (e.g., education, health, transport and communications), lack of opportunities to participate fully in the socio economic life of the community (employment, economic activities), and lack of adequate resources (including cash) to meet the basic needs of the household or customary obligations to the extended family, village community and/or the church (UNDP. 2009. *Poverty in the Pacific: Definitions, Trends and Issues*. Fiji Islands).

degradation through habitat destruction, coastal development activities, and poor waste management practices. Weak governance has also led to unsustainable marine exploitation throughout the region and to deforestation in Melanesia. All these concerns pose serious challenges to sustainable development in Pacific DMCs.

Box 1: Pacific Climate Change Response

Since the early 1990s, Pacific developing member countries have articulated their priorities for addressing climate change at a regional level through the Pacific Plan for Strengthening Regional Coordination and Integration and the Pacific Islands Framework for Action on Climate Change 2006–2015,^a and nationally through documents such as National Adaptation Programs for Action and the United Nations Framework Convention on Climate Change National Communications.

In 2008, the forum leaders endorsed the Niue Declaration on climate change,^b which voiced the countries' deep concern for climate change threats to the economic, social, cultural, and environmental well-being of Pacific island countries; and called on development partners to scale up their technical and financial assistance for reducing vulnerability to climate change impacts.

In 2009, forum leaders reiterated their call to the world community to exert a collective effort to support implementation of the Niue Declaration by committing to a Pacific-tailored response to addressing climate change risks.

^a South Pacific Regional Environment Programme (SPREP). The Pacific Plan for Strengthening Regional Coordination and Integration and the Pacific Islands Framework for Action on Climate Change 2006–2015. Available at (http://www.sprep.org/climate_change/PYCC/documents/PIFACC.pdf)

^b Pacific Islands Forum Secretariat. 2008. Press Statement 92/08. Fiji. (<http://www.forumsec.org.fj/pages.cfm/newsroom/press-statements/2008/forum-leaders-endorse-niue-declaration-on-climate-change.html>).

Source: Pacific Islands Forum Secretariat. 2005. The Pacific Plan for Strengthening Regional Cooperation and Integration.

13. High consumption of diesel for power generation has significant adverse impacts on energy security, the economy, and the environment. While access to electricity in Pacific DMCs varies by country, it is less than 20% on average (PNG and Timor-Leste have the lowest access rates among ADB DMCs at less than 10%). Low access to electricity is a major constraint for economic development in some areas of the Pacific. The energy bill, in the form of imported petroleum products, is one of the largest cost items in the annual budgets and balance of payments of most Pacific DMCs. There is significant potential for reducing fuel imports through improved management, greater efficiencies, and use of alternate energy in the Pacific DMCs.

C. Regional Cooperation

14. Regionalism has been evolving slowly in the Pacific in response to developing circumstances. Today, regionalism is led by the Pacific Plan. The plan reflects the development aspirations of the Pacific DMCs, the common problems and opportunities Pacific DMCs face, and the benefits that regional solutions can offer. Countries of the region have worked together in three ways: (i) regional cooperation, (ii) regional provision of services, and (iii) regional market integration. The Pacific has a record of increasing regional cooperation initiatives. The main initiatives are the Pacific Islands Forum Secretariat (PIFS) and the Secretariat of the Pacific Community (SPC), which are included in the Council of Regional Organizations in the Pacific.¹¹

¹¹ Council of Regional Organisations in the Pacific members include the Pacific Islands Forum Secretariat, the Secretariat of the Pacific Community, the Forum Fisheries Agency, the South Pacific Applied Geosciences Commission, the Secretariat of the Pacific Regional Environment Programme, the South Pacific Tourism

The activities of these regional organizations are complemented by enhanced development partner harmonization and coordination of assistance programs. Regional service provision has also expanded—some of the most significant are the Pacific Forum Line, Pacific Association of Supreme Audit Institutions, Pacific Aviation Safety Office, Pacific Financial Technical Assistance Centre of the International Monetary Fund, followed more recently by the Private Sector Development Initiative (PSDI),¹² the Pacific Regional Infrastructure Facility (PRIF), Pacific Islands Financial Managers' Association, and the Pacific Economic Management technical assistance (TA).¹³ These regional services are mostly donor funded. They have succeeded in achieving economies of scale in the delivery of relevant services and the same approach can be extended to other services. Regional market integration has been limited beyond that achieved by private sector investments such as in aviation, banking, shipping, and telecommunications. The nature of regionalism reflects the region's lack of capacity, fragile situations, and lack of economies of scale. The slow development of proposed regional trade agreements reflects lack of capacity and the lack of trade opportunities given similar status and structure of the Pacific DMCs' economies.¹⁴ The lack of greater economic integration is also to be expected given the prior need to strengthen national identities in all Pacific DMCs.

15. There is significant potential for greater regional cooperation and integration, at least in the provision of common services and further private investment. A study of the issues and possibilities for a new Pacific regionalism (footnote 1) argued that good governance and economic growth are the highest priorities of the key goals of the Pacific Forum. It proposed prioritized initiatives for (i) good governance in the form of regional economic and statistics TA, regional capacity to assist customs officials, a regional ombudsman, and a regional panel of auditors; and (ii) for economic growth in increasing labor market access, creation of a Pacific aviation safety office, a joint purchasing facility for petroleum products, and improved fisheries access arrangements (footnote 1). All of these proposals have subsequently been pursued, some with ADB assistance.¹⁵

III. ADB OPERATIONS

A. The 2005 Strategy

16. The 2005 strategy (footnote 4) emphasized support for (i) the creation of a conducive environment for the private sector, (ii) the supply of and demand for quality basic social services, and (iii) the promotion of effective development processes. This provided a framework for ADB's engagement in the Pacific over 2005–2009. ADB has strengthened the focus of its country strategies around the strategic objectives of the Pacific Strategy, establishing key result areas that are in line with country development needs and priorities, taking into consideration ADB's comparative strengths in financing infrastructure projects. The formulation of the 2005 strategy for

Organisation, the University of the South Pacific, the Pacific Islands Development Program, the Fiji School of Medicine, and the South Pacific Board for Educational Assessment.

¹² ADB. 2006. *Technical Assistance for Private Sector Development Initiative*. Manila (TA 6353-REG).

¹³ ADB. 2009. *Technical Assistance for Pacific Economic Management*. Manila (TA 7280-REG, subprogram 1).

¹⁴ Pacific DMCs supported the earlier South Pacific Regional Trade and Economic Cooperation Agreement that gave islands preferential access to Australia and New Zealand markets but have been slow to sign up to free trade under the proposed Pacific Island Countries Trade Agreement and the umbrella Pacific Agreement on Closer Economic Relations agreements.

¹⁵ ADB initiatives include: ADB. 2007. *Technical Assistance for Support for Results-Based Management in the Pacific*. Manila (TA 6414-REG); ADB. 2005. *Technical Assistance for Aviation Legislative and Regulatory Review*. Manila (TA 6499-REG); ADB. 2008; *Technical Assistance for Strengthening Governance and Accountability in Pacific Island Countries (Phase 2)*. Manila (TA 6259-REG), and ADB. 2008. *Technical Assistance for Capacity Building for Regional Trade Integration and Facilitation*. Manila (TA 6497-REG).

the Pacific involved consultations with governments of Pacific DMCs, private sector groups, civil society organizations, development partners and, most importantly, the participatory identification of the priorities of the poor.

17. There have been important achievements under the 2005 strategy, according to the midterm review.¹⁶ Support has been provided for key projects in transport, power, water and sewerage, education, health, and public administration. As a knowledge bank, contributions have been made through support for capacity development, public policy analysis and reform, and improved development processes. With the support of cofinancing, substantial grants have been made available and access to traditional funding mechanisms has been improved. The need for a longer-term, more flexible approach to capacity development and greater emphasis on participatory approaches was recognized.

18. ADB has continued to play a role in helping Pacific DMCs pursue private sector-led growth by helping create a more conducive environment for the private sector. Key reforms supported include (i) strengthening the legal and business regulatory environment (development of various business laws); (ii) rationalization and privatization of SOEs and developing and/or streamlining the rationalization of privatization programs in certain Pacific DMCs; (iii) establishing a public-private partnership legal and policy framework in PNG; (iv) developing personal property securities frameworks in a number of Pacific DMCs; and (v) supporting the use of technology to increase access to finance in PNG, and Vanuatu. Progress has been slow, with the reforms so far leading to few actual private sector transactions, but there is evidence of positive benefits in countries where such reforms have been undertaken (Samoa and Vanuatu). Key reasons for slow progress are political economies that resist such reforms, and the need for rigorous analytical work and policy dialogue given the lack of adequate data and political sensitivity toward these reforms. Promoting an enabling environment for the private sector in the Pacific remains a challenge requiring a long-term commitment, including close consultations with key stakeholders, working through the prevailing political economy, and allowing for a flexible approach to the reform process.

19. Demand for ADB support for social services has been less than expected, partly because other development partners that provide grant funding have been active in this area. Greater emphasis was therefore placed on physical infrastructure development. Nevertheless, ADB continued to provide important and synergistic support in the education and health sectors, including developing strategies for skills development that respond to the emerging market demands of Pacific DMCs and piloting of information and communication technology (ICT) in education in Samoa. Transport projects in many countries are increasing remote areas' accessibility, allowing rural people to market their produce better through domestic and international markets and to access social services more readily.

20. The midterm review pointed to shortcomings in governance as potentially the deepest constraint to growth and development in the region. It stated that addressing weak governance remains central to successful ADB engagement. Actions taken and to be strengthened over the remainder of the 2005 strategy were to help (i) raise the responsiveness of government to community and business needs, (ii) enhance accountability, (iii) improve public policy formulation, and (iv) raise the quality of public expenditure. Policy dialogue has figured prominently in these efforts. In support of further improvement to strengthen development effectiveness, the review noted that additional efforts had been made to strengthen development partner coordination and

¹⁶ ADB. 2008. *Working in Fragile Environments. A Midterm Review of the Pacific Strategy (2005–2009)*. Manila.

that this needed to continue. The review also commented that environmental management was expected to grow in prominence under the refined 2005 strategy.

21. Strategy 2020, published in 2008, required ADB to “seek innovative means to strengthen the effectiveness of country-led models of engagement” in fragile countries and situations (footnote 3). ADB’s approach for its operations in weakly performing countries or fragile situations provides the context for its assistance to the Pacific, and initiatives have been tested in accordance with the directions laid down in this approach (footnote 2). For example, key infrastructure projects in Solomon Islands and Timor-Leste have led the way as models for engagement in fragile situations, incorporating such features as community-based modalities for procurement, long-term approaches to capacity development, and catalyzing significant cofinancing from bilateral development partners. Other examples are given in Appendix 1.

B. Past Assistance

22. ADB’s Asian Development Fund (ADF) and ordinary capital resources loans, ADF grants, and TA projects increased substantially during the 2005 strategy. During 2005–2008, 20 loan and grant projects for a total of \$431.6 million were approved, which is 76% higher than in the preceding 4-year period. Similarly, 84 TA projects (equivalent to \$56.7 million) were approved during 2005–2008, compared to 137 TA projects (for \$51.2 million) in the preceding 4 years. The 2005 strategy period has also seen the mobilization of a significantly higher amount of cofinancing—\$153.1 million (\$119.8 million for projects and \$33.3 million for TA) compared to \$23.9 million (\$18.0 million for projects and \$5.9 million for TA) in the previous period. ADB’s total assistance to the Pacific will nevertheless remain limited, requiring further strategy formulation and prioritization.

23. At the end of 2008, ADB’s Pacific portfolio comprised 27 loans and 12 grant projects with a total value of \$771.1 million, including \$122.2 million of cofinancing. The portfolio also comprised 80 TA projects for a total of \$87.7 million. Based on the current pipeline for 2009–2010, around \$560 million in new loans and \$99 million in ADF grants is expected by 2010.

24. With the introduction of ADF grants in 2005, the share of grant assistance has increased significantly. During 2005–2008, grant approvals were \$96.4 million, which accounted for 22% of the assistance approved. Loans accounted for 78% of approved assistance during 2005–2008. TA projects have on average become substantially larger, more flexible, and longer-term.

25. In terms of sector distribution, a review of the approved loans and grants for 2005–2008 reveals the importance of investment in infrastructure. A comparison of TA by sector reveals the continuing importance of public sector management, growth in multisector TA, and some increase in transport and ICT. TA has provided capacity building and institutional and policy reform in public sector management and in key sectors such as transport, energy, water supply, and sanitation.

C. Portfolio Performance in Fragile Situations

26. Portfolio performance in the Pacific DMCs has historically been below ADB-wide performance indicators. Implementation achievements over the last five years, reflected in commitment and disbursement ratios, have been half of the ADB averages. Weak capacity, slow decision making, and remoteness are a few of the many challenges faced in implementing projects in the Pacific region. Of the 12 projects completed during 2004–2008, 4 were rated

satisfactory, 6 partly satisfactory and 2 unsatisfactory. The project completion report (PCR) ratings are now validated by IED.

27. However, a gradual improvement in portfolio performance over the last few years has been noted. To some extent this can be attributed to TAs that have helped the Pacific DMCs in developing their capacity and enabling policy and institutional reforms. In addition, the Pacific Department (PARD) has strengthened its field presence by not only increasing staff in the field offices but also adding liaison offices in countries that do not have an ADB presence. PARD is also pursuing several initiatives to strengthen quality at entry. This includes introduction of project readiness filters to ensure that pre-implementation activities continue in parallel with project preparatory and loan processing activities. PARD has also stepped up its monitoring of key indicators of portfolio performance. PARD undertakes regular spring cleaning, and now holds more frequent detailed portfolio reviews to identify issues and take appropriate mitigation measures. As a result, the percentage of projects at risks, which has been highest among all the regional departments, has come down significantly over the last two years.

28. Moving forward, PARD plans to: (i) provide resources for pre-implementation activities in project preparatory works; (ii) use greater focus and selectivity in developing the lending pipeline with the aim of long-term involvement in sectors; and (iii) strengthen its field offices to work more closely with the executing agencies (EAs) in project implementation. Combined with parallel capacity development and policy and institutional reforms proposed in the Pacific Approach, this will contribute to help improve portfolio performance.

D. Development Partner Coordination

29. The development partners have a major role to play in assisting Pacific DMCs to address their development objectives. It is important to ensure that development partner assistance is (i) aligned with Pacific DMCs national development plans and strategies, (ii) closely coordinated to avoid duplication and reduce burdening counterpart agencies, and (iii) results-focused.

30. ADB has been involved in several key initiatives to ensure the coordination of its assistance programs with those of other development partners. Harmonization and alignment have been facilitated through the endorsement of the Paris Declaration and the Pacific Principles for Aid Effectiveness by Pacific DMCs and development partners, including ADB, in 2007. These arrangements are complemented by a number of development partner coordination initiatives, including the annual Pacific Leaders' Forum and the Post-Forum Dialogue with development partners organized by PIFS, and annual high-level quadrilateral consultations between ADB, the Australian Agency for International Development (AusAID), the New Zealand Agency for International Development (NZAID), and the World Bank. ADB is also strengthening its partnerships with the governments of India, Japan, the People's Republic of China, and the Republic of Korea. At the 2009 Pacific Island Forum Leaders Meeting, Pacific leaders committed to establishing a new development compact for the Pacific, the Cairns Compact, to drive more effective coordination among development partners to improve development effectiveness in pursuit of the MDGs. The Cairns Compact on Strengthening Development Coordination in the Pacific¹⁷ is based on a set of key principles reinforcing the role of broad-based, private sector-led growth, and improved governance and service delivery in driving development progress; recognizing the importance of greater investment in infrastructure; and reinforcing mutual

¹⁷ Pacific Islands Forum Secretariat. 2009. *Cairns Compact on Strengthening Development Coordination in the Pacific*. Fiji Islands. (<http://asiapacific.endpoverty2015.org/presscentre/pdf/AUS-NZ%20joint%20statement.pdf>).

accountability and responsibility between Pacific DMCs and development partners in achieving successful development outcomes.

31. Important achievements are also evident at the sector level. ADB has entered into partnerships with development partners to establish the Pacific Region Infrastructure Facility and the Pacific Infrastructure Advisory Center to improve service delivery alignment through government systems and increase harmonization between partners. Sector-wide approaches have been implemented in Samoa (education) together with AusAID and NZAID, in PNG (public sector financial management) with AusAID, and one is being planned in Solomon Islands (transport). ADB and the World Bank have initiated the formulation of a mechanism toward joint engagement of member countries in selected private sector development focus areas. As a result of these and other efforts, there is currently broad alignment between the Pacific Plan and the regional plans of AusAID, NZAID, and the World Bank, as well as ADB. Country level ownership of effective development partner coordination is recognized in a number of Pacific DMCs, for example in PNG, Samoa, Tonga, and Tuvalu.

IV. LESSONS

32. There is considerable information on the development of the 14 Pacific DMCs over the past 3 decades. This yields important lessons that can guide ADB's development approach to the region. Of particular relevance for future operations in the Pacific are the findings of the midterm review of the Pacific Strategy (footnote 16), the IED special evaluation study on public sector reform (footnote 5), and ADB's own extensive experiences and knowledge work that includes the Pacific capacity development study¹⁸ and the *Priorities of the People: Hardship in the Pacific Series*.¹⁹

33. Most importantly, these lessons consistently point, not just to what is required in the form of development assistance, but also how this assistance can be provided better. The region has suffered from investment in projects, including infrastructure projects without adequate institutional and human capacity development efforts and with a weak policy environment. The special evaluation study found that the broad thrust of ADB's support was relevant but there had often been weaknesses in implementation. It identified a need for (i) ownership or commitment to reform, (ii) support to develop the capacity for and understanding of reform, and (iii) ADB to provide continuity or stay the course in its support for change. The capacity development case studies concluded that the "below the water line" issues of culture, tradition, and personal and political relations can be very difficult to resolve in small, close-knit island societies (footnote 18). These and other experiences point to the need for demand-based formulation of assistance, to better understand and work through the political economy, incorporating a risk and change management strategy to implement reforms and to otherwise design and implement in a highly participatory manner. Where this process is conducted in an accountable and transparent way, it can also strengthen good governance. ADB continues to undertake knowledge work on the political economies of the Pacific DMCs. Of significant note is that security of land tenure—one of the most difficult development issues to resolve in the region—is improving in the PNG, RMI, and Samoa, primarily because of government-supported consultative processes.

¹⁸ ADB. 2008. *Pacific Capacity Development Study. Learning from Success. Improving Government; Responding to the Youth Crisis; Supporting Community-Based Capacity Development; A New Vision for the Health Sector in Tonga; The Role of USPNET in Capacity Development in the South Pacific Region; The Provincial Performance Improvement Initiative; From Dependency to Sustainability; Revamping the Cook Islands Public Sector; Fishing for Development*. Manila.

¹⁹ ADB. 2004. *Hardship and Poverty in the Pacific*. Manila.

34. The findings of the *Priorities of the People: Hardship in the Pacific Series* underpinned the 2005 strategy and they remain relevant today. The series consistently prioritized the need for (i) more jobs and private markets to create income opportunities, (ii) delivery of basic social services, and (iii) improved governance. These findings are supported by other development experience and they accord with the priorities of the Pacific Plan and that of other major development partners as well as with economic growth theory and development experience.²⁰

35. ADB-funded private sector assessments²¹ have firmly established the need to improve the administrative, legal, and operating environment for private sector development in the Pacific. Government activity has tended to crowd out private initiative, SOEs are overdue for reform, finance markets are poorly developed and need strengthening and deepening, and the regulatory environment could be greatly improved. Where governments have improved the environment for business, some with ADB assistance, finance markets have developed, investment has taken place, and jobs and market opportunities have been created.

36. A priority need is to raise the quality of basic social services, including basic education, and to make their provision more inclusive in terms of access—especially access by gender, the vulnerable, and rural and outer island communities (footnotes 8 and 9). There is still a great need to build land, sea, and air transport links and other connections; and improve their maintenance. However, as the capacity development study concluded, where the core functions of government are weak,²² as they have been in many Pacific DMCs, the delivery of public services (such as basic education and basic health services) has also been weak. This compounds the development constraints of geographic isolation. The quality of basic education can be raised by improved public sector management and improved connectivity, but requires higher quality input of dedicated educators and administrators. A more strategic approach is also required to help mainstream gender and youth needs in development processes.

37. According to the capacity development study and subsequent assessments of Pacific DMCs' capacities, although the shortage of individual skills and weak organizational systems are significant constraints to capacity development, inter-organizational, broader institutional and other systemic concerns tend to be much more constraining. Given all the existing constraints to capacity development in the Pacific DMCs, as well as the capability of some national and regional non-government agencies to effectively provide some services in the public interest, government functions could be prioritized and some public services could be outsourced. The Pacific Capacity Development study therefore recommended strengthening of core government functions and outsourcing non-core functions to other providers. Other lessons arising from the Capacity Development study include the need for stronger leadership and ownership; prioritization; demand-driven approaches; longer term intermittent and flexible support; an increased role for islanders in design and implementation; results-based support; and to ensure that aid does not undermine or overburden existing capacity.

38. Outsourcing the delivery of some public services has proven to be possible. Examples include the provision of health services by faith-based organizations in PNG; and the outsourcing

²⁰ ADB. 2002. *ERD Working Paper Series No. 15: A Framework for Establishing Priorities in a Country Poverty Reduction Strategy*. Manila.

²¹ ADB. 2004. *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific*. Manila. Eight private sector assessments (of which four are updates) were carried out for selected Pacific DMCs within the period of the Pacific Strategy 2005-2009.

²² These functions are policy formulation, economic management, public financial management and procurement, revenue generation, and civil service administration.

of youth welfare services on a competitive basis to nongovernment organizations, businesses, and other civil society organizations in the RMI.

39. Repeated experiences and assessments in the Pacific DMCs suggest that good governance underpins the more effective delivery of private and public goods and services.²³ The 2000–2007 *Priorities of the People: Hardship in the Pacific Series* (footnote 19) and the midterm review of the 2005 Pacific Strategy identified interrelated factors of weak governance and unreliable and insufficient infrastructure as having contributed to the weak performance of the Pacific DMCs. In the Cook Islands, Samoa, and Tonga in recent years, the adoption of good governance practices, better policies, and effective institutions have yielded benefits in terms of increased growth. However, weak governance continues to be a major constraint to growth, development, and improved income opportunities in the region. The means to improve public sector management—especially improved civil service performance within the small, close, and personal confines of the Pacific DMCs—remains elusive despite decades of assistance. ADB is researching this issue further.²⁴

40. Pacific DMC government support for increased connectivity through market liberalization can stimulate growth and development—overturning isolation in the region. For example, after the entry of the mobile telecommunications operator Digicel in Vanuatu, the mobile phone penetration rate increased from 17% to 70% within a year. The expansion of mobile phone services in PNG is estimated to have contributed around 2.5% points to GDP in recent years.²⁵ Similarly, the entry of Pacific Blue²⁶ has led to substantially increased traffic and reduced airfares, enabling business people and tourists to travel more easily and frequently. Increased reliance on private sector providers, often requiring reforms to state owned enterprises, has dramatically improved services. Improved business legislation has also enhanced international trade, transactions, and connectivity. Sector reforms and improvements to communications and transport are essential to overcoming the isolation often faced by remote communities.

41. Viable alternatives to diesel power generation are available and the Pacific DMCs energy bills can be reduced. The Fiji Islands, PNG, and Samoa have all reduced energy costs, partly through hydropower investments and by maintaining efficiencies in their generation and distribution networks. In recent years, high cost of imported fuels, security of supply and climate change concerns have caused governments to establish renewable energy targets. Most Pacific DMCs have cost-competitive renewable energy options available, however, high upfront costs and capacity constraints are currently limiting the uptake of renewable energy. Ongoing regulatory, institutional and tariff reforms have improved the financial performance and capacity of power utilities in some countries. This has led to improved efficiencies and quality of power supply in some urban areas. However, corporatized power utilities have lesser incentives to extend power supplies to unprofitable rural areas and in some areas access to power is declining. In order to improve access to energy, power sector reform needs to continue and utilities compensated for clearly defined community service obligations.

²³ While it is difficult to correlate governance indicators with growth, especially the World Bank's indicators, allowing for the fact that the Fiji Islands are not included in the country performance assessment (CPA) process, the overall summary CPA ratings reveal that good governance aligns with growth. Category A Pacific DMCs (i.e., countries that have some capacity for self-sustained growth) also performed better than all other Pacific DMCs in the three core governance dimensions of control of corruption, government effectiveness, and regulatory quality.

²⁴ ADB. 2008. *Strengthening Pacific Economic Analysis and Policy Development*. Manila. (TA 6463-REG).

²⁵ Ministry of Finance, Papua New Guinea. November 2008. Budget Speech. Port Moresby.

²⁶ Pacific Blue is the New Zealand based subsidiary of Australian airline Virgin Blue. Based in Christchurch, it currently operates low-fare air services within New Zealand, between New Zealand and Australia, and Australia to south Asia. It also operates services on behalf of Polynesian Blue.

42. Increased development partner harmonization and coordination of development programs have helped strengthen the delivery of development assistance programs at project, national, and regional levels. However, some development partners, including new and non-Development Assistance Committee development partners, are not yet party to the high-level consultations process and conflicting aid objectives can undermine Pacific DMC growth and development. Some public services can be delivered regionally, and there is potential for more development partner support for greater regional cooperation and integration.

V. THE PACIFIC APPROACH

A. Goal and Agenda

43. The goal of sustained and resilient, improved standards of living supports the overall vision of the Pacific Plan—a region of peace, harmony, security, and economic prosperity, so that all of its people can lead free and worthwhile lives. As previously assessed, some Pacific DMCs (the Cook Islands, the Fiji Islands, Samoa, Tonga, and Vanuatu) have achieved economic growth and social development through domestic economic activity between 2001 and 2008 but this has not been sustained. Others (PNG, Solomon Islands, and Timor-Leste) are finding it difficult to diversify and stimulate growth beyond exploitation of nonrenewable oil, minerals, and forests. Still other countries have yet to establish significant means to sustainable domestically generated growth beyond economic activity created by external assistance (FSM and Tuvalu). However, even the Pacific DMCs in this latter group have developed domestic sources of income where policies and institutions have been supportive. It is therefore argued that the economies of all 14 Pacific DMCs can reach increased levels of growth and development accompanied by greater economic prosperity, provided better policies and institutions are put in place and sustained (Table 2).

Table 2: Pacific Approach Framework

Goal	SUSTAINED AND RESILIENT IMPROVED STANDARDS OF LIVING
Agenda	To foster connectivity, consensus and a greater community through: <ol style="list-style-type: none"> 1. Inclusive and environmentally sustainable growth 2. Good governance 3. Regional Cooperation and Integration
Operational Priorities	<ul style="list-style-type: none"> • Transport, ICT • Energy • Urban Development, Water, Sanitation • Education
Drivers of Change	<ul style="list-style-type: none"> • Improved Private Sector Environment • Public Sector Management • Capacity Development • Climate Change Adaptation and Mitigation • Development Partnerships • Gender Mainstreaming

44. New technologies present an opportunity for greatly enhanced connectivity, which would allow the Pacific to build on traditions of consensus and thereby strengthen the sense of community at both national and regional levels. Inclusive economic growth, environmentally

sustainable growth, good governance, and strengthened regional cooperation and integration are all essential to realizing greater connectivity.

45. In the Pacific context, inclusive growth implies helping Pacific DMCs to pay particular attention to engaging women and youth, rural and outer islanders, and other disadvantaged and vulnerable people as valuable contributors to the growth and development process. This means managing the public service on a results basis such that basic social services are delivered for all. It also means land registration and security of tenure for urban squatter settlements, and reviewing all government policy and budgetary allocations for their impact on gender equity. At the project level, for example, inclusiveness may be measured in the form of gender actions undertaken and the creation of new jobs in infrastructure construction and maintenance. The processes of greater consultation and participation support difficult social and political decision making for inclusive growth.

46. Environmentally sustainable growth can be promoted through the twin objectives of economic growth and environmental sustainability via investments that optimize natural resource use, i.e., protect against overexploitation. For example, investments in cleaner and more energy-efficient technologies can promote growth through lower energy costs, reduce dependence on nonrenewable fossil fuels, and lower greenhouse gas emissions. Similarly, investing in the climate proofing of infrastructure can promote long-term economic growth by increasing a country's resilience to climate change.

47. As is evident in the region, good governance—in terms of accountability, transparency, participation, improved policy, and institutional settings—is essential for growth. Good governance will be promoted by ADB through better understanding and working through the political economy. This consists of policy dialogue; generating a substantial constituency or consensus for change; prioritizing assistance to strengthen core government functions; and through longer-term, more programmatic approaches, outsourcing other public services where feasible. In line with its Second Governance and Anticorruption Action Plan,²⁷ ADB will continue to implement risk-based approaches to strengthen anticorruption and accountability systems, including specific support for reforms and capacity building in public procurement to ensure efficient and effective use of public resources.

48. Priority ADB-funded regional cooperation and integration activities will build on existing identification and provision of priority regional public goods and services. It is proposed that ADB maintain a “flagship” regional TA program to support the Pacific Approach, comprising programs including a continuation of the existing PSDI, Pacific Economic Management TA, further strengthening of public financial management in Pacific DMCs, PRIF, and the Pacific Infrastructure Advisory Center, and a possible public sector management TA. This emphasis will allow Pacific DMC governments to prioritize attention to strengthening core government functions. Future regional TA will seek to ensure that there is a greater understanding and awareness of the benefits and costs of the activities within the countries, with the aim of ensuring increased commitment and ownership. This will be of particular relevance for activities where policy changes are important. It will be done by involving not just the government but also the wider community in the consultations leading to TA preparation. To promote greater economic integration, ADB is examining support to enhance subregional trade between PNG and Timor-Leste and Indonesia.²⁸ This will continue and likely expand.

²⁷ ADB. 2006. *Second Governance and Anticorruption Action Plan II (GACAP II)*. Manila.

²⁸ ADB. *Proposed Enhancing Capacity for Subregional Economic Corridors in the Pacific through Improved Cross Border Linkages Design – Papua New Guinea and Timor-Leste* (CDTA No. 43140). Manila.

B. Operational Priorities and Drivers of Change

49. The agenda will be implemented through selected, priority sector-level operations that accord with the needs of the fragile situations in the Pacific (Table 3). These priorities align with Pacific DMCs' priorities as well as areas in which ADB has a comparative advantage. ADB has a record in infrastructure development, both in Asia and the Pacific, and has improved the nature of infrastructure provision in the Pacific in recent years—including improving development impact, outsourcing to private contractors, gender promotion, and enhancing employment opportunities as well as attracting substantial cofinancing. ADB has much to offer, in particular, further provision of infrastructure. Investments in infrastructure not only build the Pacific DMCs' stock of capital but, designed for the Pacific; such projects also support the adoption of improved policies and better institutions, including improved construction methods and maintenance. The latter help secure higher levels of productivity in the Pacific DMCs. Stakeholder participation in infrastructure design supports stronger ownership, which leads to improved maintenance. The infrastructure needs of the Pacific vary by country. They are large and beyond what ADB and other development partners could provide. Funding levels are therefore rationalized through ADB's country performance assessment (CPA), performance-based allocation (PBA) policy,²⁹ and the formulation of country partnership strategies. ADB will continue efforts to work in collaboration with other development partners, and increase harmonization in planning and provision of infrastructure, through the PRIF and the Pacific Infrastructure Advisory Center. This will include efforts to raise awareness of the benefits of improved maintenance.

Table 3: Fragile Situations Characteristics and Future Operations

Characteristics	Future Operations for Pacific Approach, 2010–2014
Small isolated markets and a constraining political economy. Limited capacities, natural resources and infrastructure	Connectivity/ICT development, transport infrastructure Further strengthen private sector environment Working with interested parties Continued studies on political economies Knowledge management Flagship regional TA projects Capacity assessments in designing operations
Weak core state functions of policy formulation, resource accumulation, and weak public sector management capacity constrained by underdeveloped political and social systems	Strengthen core government functions Outsource public services Consensus for change focus Strategic gender mainstreaming Capacity assessments in designing operations Longer-term programmatic assistance Adoption of more flexible approaches Knowledge management Flagship regional TA projects
Weak social, political, and security systems affecting delivery of essential services	Consensus for change focus Stakeholder participation in infrastructure design Urban development focus on improved land tenure, water, sanitation, waste Public sector management for quality basic education Knowledge management

²⁹ ADB. 2001. *Policy on Performance-based Allocation for Asian Development Fund Resources*. Manila.

Characteristics	Future Operations for Pacific Approach, 2010–2014
	Capacity assessments in designing operations
Volatility and unpredictability of international assistance and high vulnerability to climate change and the risks of natural disaster	Assisting implementation of Paris Declaration Assisting Cairns Compact implementation Coordination with PIFS and SPC Expansion of development partnerships Expansion of ADB presence in all Pacific DMCs Provision of grants through PCCP Alternative and cost-saving energy

ADB = Asian Development Bank, DMC = developing member country, ICT = information and communication technology, PCCP = Pacific Climate Change Program, PIFS = Pacific Islands Forum Secretariat, SPC = Secretariat to Pacific Community, TA = technical assistance.

Sources: OECD, Development Assistance Committee, TA Capacity Principles Checklist, Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries).

50. ADB will continue to support development of land transport, maritime transport, and aviation as required—enhancing connectivity via multimodal networks and new technologies such as internet and mobile phone systems. Climate-proofing transport projects would include replication of ongoing work in Solomon Islands and Timor-Leste to strengthen climate change resilience. Recent ICT developments and investments in the Pacific DMCs also offer great promise to substantially overcome geographical and informational isolation. Gender analysis to take account of different gender roles and potential gender impacts will be incorporated in all future programs and projects. ADB funds, while enhanced, will still remain limited, requiring careful strategic prioritization. This will imply that ADB funds are mostly concentrated on viable investments, probably in urban centers, where population concentrations are large, and which are experiencing rapid rural urban migration. However, this focus would be complemented by analytical work and awareness raising of improved policy and institutional settings, and by broadening assistance programs in partnership with development partners.

51. Cognizant of the need to mitigate negative environmental impacts and strengthen climate change resilience, ADB will focus on development of renewable energy options and energy cost savings. This will include enhancing energy efficiency, and rehabilitation and expansion of power sector infrastructure with innovative financing approaches to enhance access to energy and to reduce reliance on imported diesel. ADB will also support developing a sound energy policy and sector strategies by helping to develop a more robust energy statistical database. Gender analysis to take account of different gender roles and potential gender impacts will be incorporated in all future programs and projects.

52. ADB support to urban development will focus on improving the supply and delivery of urban services. Urban services targeted include potable water, sanitation, solid waste disposal and urban transport capacity; provision of other appropriate social infrastructure, particularly for urban poor; and institutional reform to enable provision of financially and technically sustainable urban services that result in environmental quality improvements. All future urban infrastructure will be climate proofed. ADB's limited funds will be subject to strategic prioritization. Urban development strategies will incorporate gender analysis and seek to maximize women's participation. ADB will also support improved land registration and security of land tenure to help make the urban services more effective and efficient.

53. ADB will focus assistance on helping improve management of public services, school accreditation, and other performance-enhancing measures to improve the quality of education. The priorities for the education sector in the Pacific are reducing poverty; enhancing the status of women; and providing the knowledge, attitudes, and skills essential for pro-poor, sustainable economic growth. In support of these objectives, ADB will focus on increasing equity and access, improving quality, strengthening education management, mobilizing resources, strengthening partnerships, and applying new and innovative technologies. This will be reinforced with support to update and expand ICT and, together with other development partners, to help improve tertiary education targeted at improving the quality of educators and the managers and administrators of education.

54. Drivers of change are selected for their anticipated impact to bring about key reforms in fragile situations in the Pacific. A key driver of change is to continue the focus on helping the region to strengthen the environment for private sector development. ADB will intensify its efforts to improve the private sector environment in the Pacific, while noting the need to change the way we do such business, working with interested parties, in support of building a constituency or consensus for socially and politically difficult decision making. The PSDI will be sustained as one of the flagship regional TA projects through the new approach period to provide continued support to private sector development-related reforms and core analytical work and advocacy. The enabling private sector environment will be improved by building on the reform momentum gained in the past in the areas of SOE reforms, the legal and business regulatory environment, and access to finance. ADB will continue its three-pronged approach to enhancing access to finance—rural outreach, development of microfinance and other products for rural markets, and reforming the enabling environment for finance. ADB continues to contribute to regional developments in the financial sector, particularly in the area of secured transactions law reform in the Pacific, which is building on extensive work undertaken in Asia.³⁰ ADB has evaluated various business opportunities in infrastructure, capital markets, and financial sectors. However, the greatest portion of the current private sector activity in the Pacific is generated by small-scale entrepreneurs within the fishing, agriculture, and tourism sectors and other SMEs. ADB will continue to look for opportunities to support microfinance and funds with a focus on financing of SMEs. There are also potential private investment projects in nontraditional private sector operations sectors such as tourism. ADB can also contribute further to private sector development, with stronger transactional support for public–private partnerships and private sector operations.

55. ADB will assist Pacific DMC governments to recognize and strengthen core government functions to help strengthen public sector effectiveness. Where core government functions are weak, the delivery of public services has also been weak. Data collection capacities in support of assessments of performance are weak throughout the region and also require strengthening. ADB has been working in all of these areas. This will entail further attention to capacity development and support for institutions to provide advice and other support to core government functions including strengthening social protection policies and programs. This, as all other assistance, can be carried out in a manner that aims to build a demand for improved governance through consultation and participation of civil society. TA focusing on core government functions can, in turn, help strengthen policy dialogue to help implement better policies and establish stronger institutions.

³⁰ ADB. 2002. *Law and Policy Reform at the Asian Development Bank – A Guide to Movable Registries*. Manila. Available at http://www.adb.org/documents/reports/movables_registries/default.asp.

56. ADB has already taken steps to strengthen its assistance to capacity development. This has included detailed assessments of capacity, strengthening of quality at entry with the adoption of the eight principles of capacity development,³¹ and more careful assessment of all TA design. These efforts will continue.

57. ADB is committed not only to providing increased financial and technical support for measures that will ensure continued economic growth in the face of climate change, but also to facilitate Pacific DMCs' access to various financing facilities for building climate resiliency and promoting clean energy development. ADB will scale up its activities promoting climate change adaptation and disaster risk reduction work both at the country and regional levels. The Climate Change Implementation Plan for the Pacific³² was prepared recently, following intensive consultations with the Pacific DMC governments and other regional stakeholders. The plan proposes a scaling up of climate change adaptation efforts along with coordinated and harmonized responses among multiple partners. It also proposes capacity development to respond to climate change. ADB will support a Pacific-tailored response to support adaptation and mitigation measures through establishing a region-wide Pacific Climate Change Program (PCCP). It is envisaged that the PCCP will result in the systematic implementation of climate-adaptive investment projects and TA grants, together with climate mitigation actions in both individual countries as well as at the regional level. The PCCP will contribute to economic development and improved quality of life in the Pacific DMCs by improving resilience to climate change impacts and reducing the impact of natural disaster risks through mainstreaming of adaptation in policies, plans, programs, and projects; and in strengthening systems and capabilities that foster the adaptation process, including policies and institutions, legislation and regulations, information and decision support tools, as well as access to affordable financing of climate-proofed development initiatives. ADB will also continue to support the region-wide Pacific disaster management framework for action, 2005–2015;³³ and to support climate change adaptation efforts of Pacific DMCs through the Coral Triangle Initiative (CTI) and Global Environment Facility Pacific Alliance for Sustainability (GEF-PAS) processes.

58. ADB will support gender mainstreaming by helping to introduce gender as a key policy concern in the core functioning of governments. ADB will continue to align its support with existing regional gender policy commitments and to work in partnership with existing regional processes. Further, ADB will support the incorporation of gender-responsive inputs into central policy planning, gender budgeting, government decision making, public financial management, and public sector management as a core government concern. This will involve enhancing gender awareness in all capacity and institutional building efforts, including helping to strengthen the operations of the national women's organizations and other civil society organizations as relevant. ADB will promote the active participation of women stakeholders in the design, implementation, management, and monitoring of all projects. To promote women's participation in private sector development, gender analysis will assess distinct constraints that may be faced by women in entering businesses, including structural or institutional barriers to accessing financial resources and opportunities for developing business skills. A gender assessment will be undertaken when

³¹ ADB. 2008. *TA Capacity Principles Checklist*. Manila. Questions cover the potential for outsourcing, strengthening core government functions, design and monitoring framework, exit strategy and duration, demand for assistance, dimensions of capacity development, consultation and participation, dissemination of findings and change management.

³² ADB. 2009. *Climate Change Implementation Plan for the Pacific (2009–2015): Mainstreaming Climate Change in ADB's Operations*. 31 March 2009 (draft).

³³ South Pacific Islands Applied Geoscience Commission (SOPAC). 2007-2009. Implementation of the Hyogo Framework for Action and the Pacific Disaster Risk Reduction and Disaster Management Framework for Action 2005–2015. Available for download at (http://www.preventionweb.net/files/10641_MR06741.pdf).

the country partnership strategies are being prepared and maintained through projects when they are implemented.

59. Efforts will continue to promote ADB as the knowledge bank of the Pacific. Whether knowledge takes the form of the means to sustainable infrastructure, managing change in support of adoption of better policy, developing capacity and institutions, improving the private sector environment, or better approaches to the delivery of development assistance, efforts to identify, replicate, and disseminate all knowledge products will continue. Knowledge management is being monitored under PARD's 2009 Knowledge Management calendar.³⁴ The 2009 PARD knowledge management audit noted that, in addition to a number of technical improvements, ADB's knowledge solutions could be better marketed to all Pacific DMCs and all development partners through an ADB presence in each Pacific DMC.³⁵

60. While ADB, AusAID, NZAID, and the World Bank are full and active partners to the ongoing high-level consultation (HLC) process, ADB has also recently initiated high level dialogue with PIFS and SPC. However several other development partners in the region are not a party to the HLC process. Much more needs to be done for development partners to embrace a complementary if not unified approach to assisting the Pacific DMCs and thereby improve development effectiveness. ADB strongly supports efforts to improve aid effectiveness and development partner coordination. The quadrilateral meetings between ADB, AusAID, NZAID, the World Bank, and the Pacific Financial Technical Assistance Centre of the International Monetary Fund, and new partnerships with PIFS and SPC, and commitment to the Paris Declaration principles are examples. More recently, the Cairns Compact has refocused attention on aid coordination and effectiveness. ADB supports the compact and will work with the dialogue process to seek ways to implement it effectively. It is important that aid coordination mechanisms remain country-driven, pragmatic, and results-focused; and utilize established systems rather than duplicating existing systems, particularly in countries with limited capacity. The ADB corporate results framework, the Pacific Approach results framework, and annual development effectiveness reports will contribute to reporting under the Cairns Compact. ADB has already taken steps for development assistance to strengthen its ties with India, Japan, and the People's Republic of China. ADB will continue to seek to expand development partnerships and development partner coordination to new and non-Development Assistance Committee development partners, recognizing the incentives and disincentives provided by aid programs as well as the internal administrative and procedural constraints to development programs.

61. Well-coordinated efforts by all development partners can improve the delivery of development assistance through greater collaboration in assistance planning, and joint and parallel cofinancing arrangements. Building on the successful mobilization of cofinancing in the Pacific over the past 3 years, ADB will intensify its efforts to leverage increased cofinancing from other key development partners, as well as private sector investments, to meet the Strategy 2020 cofinancing targets. Three approaches are contemplated. Firstly, with respect to predictability, ADB will make concerted efforts to better align the respective loan and grant operations with priorities of the main development partners, and engage Pacific DMC governments in dialogue in joint and parallel cofinancing at the early planning stage. This would require longer-term firm cofinancing commitments from all parties at the outset. Secondly, in the interests of greater efficiency, jointly cofinanced operations could be packaged and planned and implemented on a regional, thematic basis whenever feasible, and within multiyear programs. The PRIF and PSDI

³⁴ The PARD 2009 Knowledge Management calendar lists the identified knowledge products to be published in 2009. The calendar also contains the target date, event, audience, and dissemination method for each product.

³⁵ ADB. 2009. *Pacific Knowledge Management Audit*. Manila.

are good examples of this approach. Lastly, cofinanced contracting processes could be simplified to reduce overheads and streamline processing times among ADB and development partners.

C. Operational Modalities and Implementation

62. A most important component of the approach is to strengthen the way ADB does business in the Pacific to enhance contributions to development effectiveness. Business operations need to be aligned to the Pacific Approach's agenda of utilizing new technologies to greatly enhance connectivity, allowing the Pacific to build on the traditions of consensus and strengthen the sense of community. The institutions, policy formulation, decision-making processes, and other management systems in the Pacific DMCs are weak. This weakness greatly limits policy and project implementation as well as the sustainability of all development assistance. External assistance has to take full account of such context in each Pacific DMC. Future assistance should, therefore, be provided in a manner that helps build capacity to strengthen decision making, to otherwise strengthen management, and improve policy and institutional settings. This reinforced operational modality, sustained over longer periods, will be a distinguishing feature of future ADB operations in the Pacific (summarized in Box 2).

Box 2: Facilitating Consensus and a Greater Community through Connectivity

ADB will help the PDMC Governments do the following:

- (i) Expand access through increased physical and virtual infrastructure.
- (ii) Include more people through improved public sector management and improved delivery of basic education.
- (iii) Undertake demand-side formulation of plans and programs to raise ownership and effective demand for growth and development.
- (iv) Work with relevant stakeholders—both from government departments and with agencies committed to change that may reside outside of government.
- (v) Work through a country-specific change management process accounting for the political economy, and designing and flexibly implementing a risk mitigation strategy.
- (vi) Employ strong communication appropriate to local circumstances (newspapers, radio, TV, town hall meetings, and other public presentations).
- (vii) Strengthen consultation and participation in support of building demand and ownership with consultation and participation conducted in a manner that enhances good governance, i.e., in an accountable and transparent as well as participatory manner.
- (viii) Work with other development partners active in the area to synergize support, reduce transaction costs, and improve development effectiveness.

Note: Examples of "successful" management of a consensus for change include the Kiribati nongovernment organization management of solid waste disposal; TA 4439-RMI: Improving the Environment for Private Sector Development; TA 4653-RMI: Increasing Ownership of and Effective Demand for Improved Urban Waste Management (2006); TA 4219-RMI: Youth Social Services (2004–2005); SSTA 3163-NAU: Social Awareness & Transitional Requirements for Reform Program (2003–2004); Strategy for the Development of Samoa (ongoing); TA 3074-TUV: Establish a Trust Fund for Island Development; Tuvalu Falekaupule Trust Fund (2004); and RETA 6047: Pacific "Priorities of the Poor" (2001–2007).

63. The Pacific Approach for 2010–2014 is consistent with Strategy 2020 and the Pacific Plan (Table 4). The vision of the Pacific Plan is adopted for the new Pacific Approach. Pacific Plan pillars of economic growth, sustainable development, and good governance are also adopted as the strategic agenda for ADB's new Pacific Approach. ADB operational priorities are selected in accordance with both the new Pacific Approach and other development partner activity in the

region. The Pacific Approach also largely accords with Strategy 2020 but with some differences in terms of emphasis. An improved private sector environment and public sector management, and participation and capacity development are all given greater emphasis as drivers of change in the Pacific Approach.

Table 4: Pacific Plan, ADB's LTSF 2020 and Pacific Approach 2010–2014

Pacific Plan	Pacific Approach 2010–2014	LTSF 2020
<p>Vision: A Region of Peace, Harmony, Security, and Economic Prosperity</p> <p>Economic growth</p> <ul style="list-style-type: none"> Increased sustainable trade and investment Improved efficiency and effectiveness of infrastructure development and associated service delivery Increased private sector participation in, and contribution to, development <p>Sustainable Development</p> <ul style="list-style-type: none"> Reduced poverty Improved natural resource and environmental management Improved health Improved education and training Improved gender equality Enhanced involvement of youth Increased levels of participation and achievement in sports Recognized and protected cultural values, identities and traditional knowledge <p>Good Governance and security through regionalism</p> <ul style="list-style-type: none"> Improved transparency, accountability, equity and efficiency in the management and use of resources Improved political and social conditions for stability and safety 	<p>Vision: A Region of Peace, Harmony, Security, and Economic Prosperity</p> <p>Goal Sustained and resilient improved standards of living</p> <p>Agenda To foster connectivity, consensus and a greater community through:</p> <ul style="list-style-type: none"> Inclusive and environmentally sustainable growth Good governance Regional Cooperation and Integration <p>Operational Priorities</p> <ul style="list-style-type: none"> Transport, ICT Energy Urban Development, Water, Sanitation Education <p>Drivers of Change</p> <ul style="list-style-type: none"> Improved Private Sector Environment Public Sector Management Capacity Development Climate Change Adaptation and Mitigation Development Partnerships Gender Mainstreaming 	<p>Vision: An Asia and Pacific Free of Poverty</p> <p>Strategic Agendas</p> <ul style="list-style-type: none"> Inclusive growth Environmentally sustainable growth Regional integration <p>Drivers of Change</p> <ul style="list-style-type: none"> Private sector development and private sector operations Good governance and capacity development Gender equity Knowledge solutions Partnerships <p>Core Areas</p> <ul style="list-style-type: none"> Infrastructure Environment, including climate change Regional cooperation and integration Financial sector development Education

64. ADB will commit to fund flagship regional TA that will continue to provide support to national programs. Such assistance will support the realization of economies of scale, the outsourcing of some public sector activities, enhanced public sector effectiveness, improved private sector environment, and improved governance. This may be applied on the full regional level or on a subregional level, recognizing that some Pacific DMCs have better policy and institutional settings than others.

65. The Pacific Approach will be implemented in accordance with the ADB approach to weakly performing countries (footnote 2). This supports adaptation of ADB business processes to suit the special circumstances of fragile situations. A new TA has recently been approved to help

strengthen ADB's response to the needs of such DMCs.³⁶ The application of ADB's Pacific Approach to dealing with fragile situations in the Pacific is in Appendix 1.

66. A focused and more strategically oriented TA program is needed for all Pacific DMCs. This would consist of fewer TA projects in each Pacific DMC running concurrently, which address the Pacific Approach's agenda. These TA projects could alternatively be combined into one country, "state-strengthening" TA. These programs would be focused on improving core government functions. This would require predictable and long-term funding.

67. ADB will adopt a longer-term, flexible, and more programmatic approach to support the development of the Pacific DMCs more effectively. This will be guided by the findings of the IED special evaluation study on public sector reforms in the Pacific—stressing the need for ownership, continuity, and capacity development (footnote 5)—as well as lessons learned from PARD's own assessments and knowledge work. Project assistance will be provided based on sector work and government plans, fully coordinated with key development partners, and supported by capacity development and better policies. Such operations would be provided on a sustained, long-term basis subject to achievement of targeted results. This will include continued employment of sector-wide approaches, framed by sector strategies, including improved policy settings and institutional arrangements, and partnering with other development partners. The Pacific Approach would also include longer-term performance-based budgetary assistance together with appropriate TA. Current work in setting fiscal frameworks in support of targeted program grant or program loan responses to the impact of the global economic crisis would be extended to other Pacific DMCs where such frameworks would help formulate program assistance and guide all other development assistance. This will include making greater efforts to understand and track public expenditure frameworks, especially recurrent as opposed to capital spending, and how external assistance contributes to fiscal and economic objectives.

68. ADB will strengthen portfolio implementation by continuing to monitor and review key portfolio performance indicators. It will (i) provide resources for pre-implementation activities during project preparation, (ii) be more selective in choosing lending modalities, (iii) strengthen field offices to work closely with executing agencies in project implementation, and (iv) provide further TA to help strengthen public procurement.

D. Monitoring, Risks, and Mitigation

69. Progress with the Pacific Approach will be assessed through a results framework that focuses on the agenda. The agenda is one of inclusive and environmentally sustained growth, good governance, and regional cooperation and integration. The results framework therefore aims to assess progress in (i) improving the environment for private sector-led investment and enterprise development in support of growth, (ii) improved public sector effectiveness in support of good governance; and (iii) efforts to strengthen regional cooperation and integration. This will largely be a qualitative assessment. The Pacific's regional outputs and outcomes are also reported through the Development Effectiveness Review. The Pacific Approach will be further monitored through each individual Pacific DMC country partnership strategy results framework, and by assessing the degree to which the future country partnership strategies conform to the Pacific Approach. Results monitoring will be coordinated with existing regional monitoring systems such as the Pacific Plan, the MDGs, and ADB's own CPA. Statistical data sets are weak in the Pacific. ADB will join other development partners in providing assistance to building relevant statistics compendia. The results framework for the Pacific Approach is in Appendix 2.

³⁶ ADB. 2009. *Technical Assistance for Supporting ADB's Engagement in Fragile Situations*. Manila.

70. The Pacific Approach incorporates risk mitigation measures. Risks include weak government commitment; deterioration in external, global economic conditions; and the potential for extreme climate change events. Risk mitigation measures that external agencies, such as ADB, can employ—with government consent—are to use consultation and participation to identify effective demand for change; to build on that demand to generate ownership; and to work through the prevailing political economy, utilizing communication campaigns to raise awareness of challenges and to seek to maintain a consensus for change. There are three reasons to believe that greater consensus can help achieve development outcomes in the Pacific: (i) the essential Pacific tradition of reaching decisions through consensus remains strong, especially at the community level; (ii) there is evidence of projects and plans that have achieved development outcomes through consultation and participation; and (iii) small numbers of relevant stakeholders need to be involved in decision making in many island settings. Other mitigation measures are strengthened quality at entry of assistance programs, enhancement of government capacities to manage reform, strengthened development partner harmonization and coordination, greater dissemination of knowledge solutions, and climate proofing of infrastructure.

STRENGTHENING FRAGILE SITUATIONS

Characteristics ^a	Directions	Examples of Current ADB Operations	Future Operations for the Pacific Approach, 2010–2014
Small isolated markets and a constraining political economy. Limited capacities, natural resources and infrastructure.	Context-based assistance "Do no harm" principle Long-term engagement aligned with local priorities Larger, flexible regional interventions Modification of processes, use of innovative modalities Delegation of relevant responsibilities to field offices	Focus on private sector environment and/or PSDI Long-term support for Solomon Islands' transport sector Flexible MFF, PNG Roads Political economy analysis, Kiribati Pacific Capacity Development Study based on island successes Flexible regional TA projects for Supporting Engagement in Fragile Situations Flexible utilization of MFF, cluster TA projects, and PCCP trust fund Capacity principles checklist in all project designs Other Development Partners' Operations AusAID, EC, Japan, MCA, NZAID, PASO, PRC, SOPAC, UNDP, US, World Bank Group	Further strengthen private sector environment Connectivity/ICT development, transport infrastructure Working with interested parties Continued studies on political economies Knowledge management Flagship regional TA projects Capacity assessments in designing operations
Weak core state functions of policy formulation, resource accumulation, and weak public sector management capacity constrained by underdeveloped political and social systems	Strengthen core government functions and institutions Recognition of widespread capacity constraints Long-term engagement aligned with local priorities Promotion of timely, responsive, and demand-driven initiatives Larger, flexible regional provision of public services Modification of processes, use of innovative modalities Delegation of responsibilities to field offices Strategic use of PIUs	Establishment of Public Policy Institute in the RMI Public financial management assistance Use of capacity principles checklist in all project designs Outsourcing Solomon Islands' transport maintenance to private contractors Employment of PIUs in Solomon Islands and Timor-Leste Regional TA for Supporting ADB's Engagement in Fragile Situations TA for Pacific Economic Management Utilization of MFF, cluster TA projects, and PCCP trust fund Other Development Partners' Operations AusAID, EC, Japan, MCA, NZAID, PFTAC,	Strengthen core government functions Outsource public services Consensus for change focus Strategic gender mainstreaming Capacity assessments in designing operations Longer-term programmatic assistance Adoption of more flexible approaches Knowledge management Flagship regional TA projects

Characteristics ^a	Directions	Examples of Current ADB Operations	Future Operations for the Pacific Approach, 2010–2014
Weak social, political, and security systems affecting delivery of essential services	Strengthen essential service delivery Good governance initiatives Engagement of civil society Policy dialogue Long-term engagement aligned with local priorities Modification of processes, use of innovative modalities Delegation of responsibilities to field offices Strategic use of PIUs	PIFS, RAMSI, SPC, UN, UNDP, World Bank Group Engagement of civil society in formulation of Nauru National Plan RMI civil society engagement in resolving youth welfare and waste disposal PNG health private sector participation model Civil society participation public sector management programs in FSM Regional TA for Supporting ADB's Engagement in Fragile Situations Development of peace building filter for country programming Use of capacity principles checklist in all project designs Other Development Partners' Operations Limited ADB engagement AusAID, Cuba, EC, France, GEF, India, Japan, NZAID, PIFS, PRC, RAMSI, SOPAC, SPC, Taipei, China, UN, UNDP, UNFPA, United States, UNICEF, WHO, World Bank Group	Consensus for change focus Stakeholder participation in infrastructure design Urban development focus on improved land tenure Public sector management for quality basic education Knowledge management Capacity assessments in designing operations
Volatility and unpredictability of international assistance and high vulnerability to climate change and the risks of natural disasters.	Long-term engagement aligned with local priorities Practical coordination with other development partners Larger, flexible regional interventions Promotion of timely, responsive, and demand-driven initiatives Modification of processes, use of innovative modalities Delegation of responsibilities to field offices Expanded use of grants and cofinancing	Expanded development partnerships Quadilateral cooperation agenda (ADB, AusAID, NZAID, World Bank) New, streamlined CPS outlines and processes Increasing loan processing by resident missions Representation in Samoa, Solomon Islands, Tonga, and Vanuatu ADB-PIFS and SPC coordination Use of capacity principles checklist in all project designs Other Development Partners' Operations HLCs: AusAID, NZAID, World Bank Group 2009 Forum Leaders Meeting,	Assisting implementation of Paris Declaration Assisting Cairns Compact implementation Coordination with PIFS and SPC Expansion of development partnerships Expansion of ADB presence in all Pacific DMCs Provision of grants through PCCP

Characteristics^a	Directions	Examples of Current ADB Operations	Future Operations for the Pacific Approach, 2010–2014
		PICs/Partners Meeting Cairns Compact	

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, CPS = country partnership strategy, DMC = developing member country, EC = European Commission, FSM = Federated States of Micronesia, GEF = Global Environment Facility, HLC = high-level consultation, ICT = information and communication technology, MCA = Millennium Challenge Account, MFF = multitranchise financing facility, NZAID = New Zealand Agency for International Development, PASO = Pacific Aviation Safety Office, PCCP = Pacific Climate Change Program, PFTAC = Pacific Financial Technical Assistance Center of the International Monetary Fund, PIC = Pacific Islands countries, PIFS = Pacific Islands Forum Secretariat, PIU = project implementation unit, PNG = Papua New Guinea, PRC = People's Republic of China, PSDI = Private Sector Development Initiative, RMI = Republic of the Marshall Islands, RAMSI = Regional Assistance Mission to Solomon Islands, SOPAC = Pacific Islands Applied Geosciences Commission, SPC = Secretariat to Pacific Community, TA = technical assistance, UN = United Nations, UNDP = United Nations Development Programme, UNFPA = United Nations Population Fund, UNICEF = United Nations Children's Fund, WHO = World Health Organization.

^a Based on Organisation for Economic Co-operation and Development-Development Assistance Committee Principles for Good International Engagement in Fragile States & Situations (2007) and Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries) (2007).

PACIFIC APPROACH RESULTS FRAMEWORK, 2010–2014

		Pacific Strategy		Key Areas of ADB Intervention	Key Risks and Mitigation Measures
Key Constraints	Pacific Plan Development Goals	Outcomes	Indicators		
Inclusive and Environmentally Sustainable Growth					
Pervasive role of the state in many economic activities, exacerbating the problems associated with size and geographical isolation	Increased private sector participation in and contribution to development in the Pacific	Improved enabling environment for private investment and enterprise development	Country performance assessment rating on criterion 6 (Business Regulatory Environment). This criterion assesses the extent to which the legal, regulatory, and policy environment helps or hinders private business in investing, creating jobs, and becoming more productive. Number of public private partnerships established.	Flagship Private Sector Development Initiative (PSDI) II Regional TA and country TA projects for promoting private sector development and improving the investment and regulatory environment Support for developing/catalyzing private sector involvement in projects in key sectors Loan and/or TA projects for development of micro-finance and other innovative financial products, applying latest technological advances	Risks: Weak government commtment to ownership of PSD reforms and improved public sector management Deterioration in external conditions destabilizes the business environment and poses challenges to prudent financial and economic management Mitigation: Focus on demand-driven reform initiatives Build consensus for change and policy dialogue Quality at entry of assistance programs Enhance government capacity to manage reforms
Good Governance					
Weak governance—public policies and institutions; public financial, fiscal, economic and civil service management delivery; and basic service delivery	Improved transparency and accountability	Improved Public Sector Effectiveness	Country performance assessment rating on criterion 13 (Quality of Budgetary and Financial Management). This criterion assesses the extent to which there is: (a) a comprehensive and credible budget linked to policy priorities; (b) effective financial management systems to ensure that the budget is implemented as intended in a controlled and	Regional and country level TAs targeting improved public financial management and economic management Regional/national TAs supporting improved governance, accountability and transparency	Strengthen development partner harmonization and aid coordination Enhance dissemination of knowledge solutions

		Pacific Strategy		Key Areas of ADB Intervention	Key Risks and Mitigation Measures
Key Constraints	Pacific Plan Development Goals	Outcomes	Indicators		
			<p>predictable way; and (c) timely and accurate accounting and fiscal reporting, including timely and audited public accounts and effective arrangements for follow up.</p> <p>Country performance assessment rating on criterion 16 (Improved Public Sector Transparency, Accountability and Corruption). This criterion assesses the extent to which the executive can be held accountable for its use of funds and the results of its actions by the electorate and by the legislature and judiciary, and the extent to which public employees within the executive are required to account for the use of resources, administrative decisions, and results obtained.</p>		
Regional Cooperation and Integration					
Limited regional integration limits opportunities for economic growth and contributes to weak delivery of goods and services as a result of lack of economies of scale at the national level	Increased Pacific and international partnerships in support of regionalism	Further development and improved delivery of regional public goods and services and promotion of greater economic integration	<p>Strengthening/expansion of existing regional initiatives</p> <p>Number of new regional and sub-regional initiatives implemented</p> <p>Country Performance Assessment rating on Criteria 4 (Improved Trade Policy Framework). This criterion assesses how the policy framework fosters trade in goods</p>	Regional TAs, grants, loans supporting increased regional cooperation and integration through infrastructure development (PRIF, PASAI), improved governance, accountability, financial and economic management (PEM, PRAI, PPFM), natural disaster management and climate change, conservation, private sector development (PSDI)	