



Midterm Review

January 2008

Working in Fragile Environments: A Midterm Review of the Pacific Strategy (2005–2009)

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AusAID	–	Australian Agency for International Development
CEA	–	country environment assessment
DMC	–	developing member country
FSM	–	Federated States of Micronesia
GDP	–	gross domestic product
GEF	–	Global Environment Facility
MDG	–	Millennium Development Goal
NGO	–	nongovernment organization
NZAID	–	New Zealand Agency for International Development
PDMC	–	Pacific developing member country
PNG	–	Papua New Guinea
TA	–	technical assistance
UNDP	–	United Nations Development Programme
WPC	–	weakly performing country

NOTE

In this report, “\$” refers to US dollars.

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EXECUTIVE SUMMARY

Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank 2005–2009 provides a framework for the engagement of the Asian Development Bank (ADB) in the 14 Pacific developing member countries (PDMCs), i.e., Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu. The strategy emphasizes the support for (i) the creation of a conducive environment for the private sector, (ii) the supply and demand for quality basic social services, and (iii) the promotion of effective development processes.

At this midway point of the Pacific Strategy, the region continues to display the symptoms of a fragile development process. Economic growth generally remains low, and civil unrest, political instability, and poor law-and-order remain hindrances to the region's development. Progress towards the achievement of the unfulfilled Millennium Development Goals appears to be losing momentum in a number of countries, and the recent international debate has highlighted the vulnerability of the PDMCs to climate change. Responsibility for addressing the region's development challenges rests primarily with the governments, the business sectors, and the communities of the PDMCs. The social and political support for change needs to build internally if political and economic reforms are to be owned locally and implemented with vigor. Recognition that external parties are an important source of support for the needed process of change, and that these parties cannot lead the way, guides the work of ADB in the Pacific.

In 2007, seven PDMCs were categorized as weakly performing countries (WPCs)—Kiribati, the Marshall Islands, the Federated States of Micronesia, Papua New Guinea, Solomon Islands, Timor-Leste, and Vanuatu. Collectively, they account for 87% of the PDMC population. The remaining PDMCs exhibit characteristics of fragility, even though they are not currently defined as WPCs. ADB's approach to WPCs aims at providing increased flexibility and responsiveness to addressing issues facing WPCs. Building on existing initiatives, the extra needs of WPCs are to be addressed through improvements to existing mechanisms, the adoption of new modalities and instruments, the relaxation of business processes and increased resources.

Against a background of ongoing fragility and a heightened attention to WPCs, this midterm review of the Pacific Strategy sets out the actions that have been taken to implement key initiatives in ADB assistance. The midterm review also presents key next steps. Importantly, the midterm review describes how ADB's Pacific operations will—in close collaboration with donor partners in the region—harness new opportunities to respond to the needs of the PDMCs, while focusing on its comparative advantage.

There have been important achievements under the Pacific Strategy. As a project bank (ADB's traditional role in the Pacific), support has been provided for key projects in transport, power, water and sewerage, education, health, and public administration. As a knowledge bank (ADB's newer and growing role in the region), contributions have been made via support for capacity development, public policy analysis and reform, and improved development processes. ADB's contribution as a knowledge bank has also been transmitted through a broader engagement in policy dialogue and a deepening of donor coordination built on the principles of the Paris Declaration on Aid Effectiveness.

The region's need for development assistance has been addressed through both traditional lending instruments and an increased availability of nonlending products. With the support of cofinancing from donor partners, substantial grants have been made available for the

Pacific region. Access to traditional funding mechanisms has also been improved through streamlined processes, and an easing of rate of return requirements and more flexibility in cost-sharing arrangements is to be implemented over the remainder of the Pacific Strategy period.

Among other matters, the need for a longer-term, more flexible approach to capacity development is recognized. A detailed action plan is being prepared through the Pacific Capacity Development Study, and early outputs are to be adopted through this midterm review. The Pacific Strategy introduced a heightened level of attention to policy analysis and debate, and efforts will continue to be made to increase the policy dialogue with the PDMCs with a focus on state building. It is recognized that the flexibility provided under new policy and operational frameworks provides an important opportunity to strategically use ADB and donor partner resources to leverage policy reform in the PDMCs.

There is to be a deeper engagement with the nonstate entities within PDMCs, including representatives of civil society, the private sector, and faith-based groups. The country strategy and program formulation is to utilize participatory approaches to strengthen both the demand for, and supply of, essential policy and institutional reforms. Midterm reviews of country programs are to be undertaken as a partnership with government and nongovernment stakeholders. The same participatory approach is to be employed to help assess capacity strengths and weaknesses and to design and implement flexible approaches to building capacities.

Additional efforts are to be made to coordinate donor assistance to PDMCs. High-level consultations have already made an important contribution under the Pacific Strategy, notably between ADB, the Australian Agency for International Development, and the World Bank, and between ADB and the New Zealand Agency for International Development. Donor coordination forums that initially pursued harmonization and alignment have also begun to explore policy issues. This extension in scope is to be given added support over the remainder of the Pacific Strategy. Efforts are continuing to develop relationships with a broader range of donors. Joint analysis and programming work is also being enhanced.

While the Pacific Strategy generally focused on areas of need in the Pacific and where ADB has a comparative advantage, demand for ADB support in the provision of basic social services—such as education and health—has been less than expected. This reflects both a lack of prioritization from PDMCs and the presence of other development partners with a comparative advantage in the social sector. Accordingly, refinements to the Pacific Strategy have been made to better target ADB resources by placing more emphasis on the provision of physical infrastructure. Refinements also provide for a more explicit focus on governance, and for the adoption of a regionwide results framework to help ensure consistency across country strategies and to focus attention on the implementation of regionwide initiatives.

Environmental management is expected to grow in prominence under the refined Pacific Strategy. Climate proofing, which has already been mainstreamed into infrastructure works, will be supported by the heightened attention to physical infrastructure under the refined Pacific Strategy. Environmental management is also being addressed through stand-alone activities. Notably, ADB is one of the seven Global Environment Facility agencies in the Pacific that will implement projects under the Global Environment Facility–Pacific Alliance for Sustainability, a program designed to help Pacific countries to grow in a sustainable manner.

I. INTRODUCTION

1. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank 2005–2009* was approved in late 2004.¹ Built on assessments of the priorities of the poor and other sector and thematic studies, the Pacific Strategy provides a framework for the engagement of the Asian Development Bank (ADB) in the 14 Pacific developing member countries (PDMCs).² The Pacific Strategy emphasizes the support for (i) the creation of a conducive environment for the private sector, (ii) the supply and demand for quality basic social services, and (iii) the promotion of effective development processes. The Pacific Strategy has now reached its midpoint of implementation.

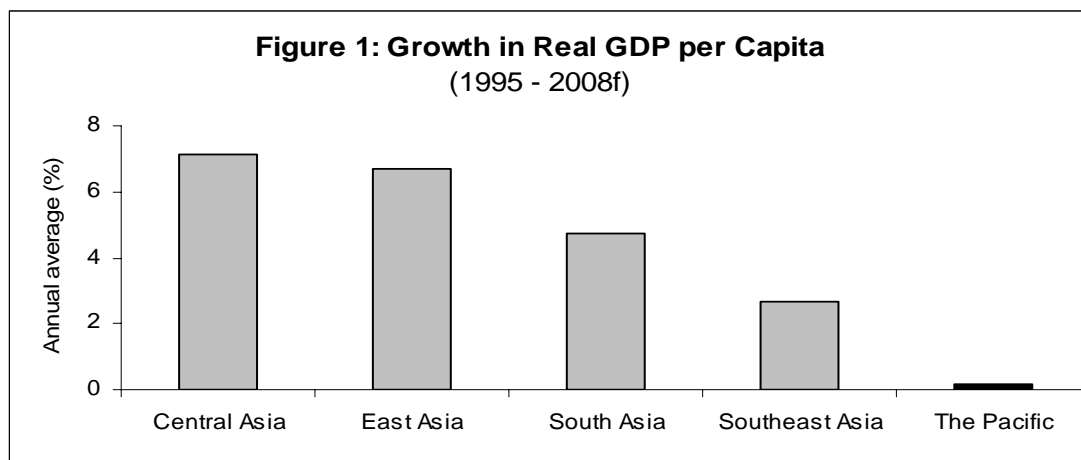
2. The Pacific region continues to display the symptoms of a fragile development process. Importantly, economic growth remains low even after allowing for some recent improvement. Across the region, growth in real gross domestic product (GDP) averaged 2.6% per annum during the period 2005–2006, and is expected to average 3.4% annually during 2007–2008. The region's relatively high annual population growth rate of 2.1% means that little progress is being made in raising per capita incomes. In Asia, high growth provides a buffer against economic downturn (Figure 1). The Pacific does not enjoy such a buffer, and much of the region's population is exposed to a decline in living standards when economic conditions weaken. There have, however, been some relative success stories, most noticeably in progress made by the Cook Islands, Palau, and Samoa, and in the Solomon Islands' recovery from earlier civil strife.

3. The fragility of the state in some PDMCs also remains evident. The capital of Solomon Islands experienced riots in April 2006, as did the capital of Tonga in November 2006. In both cases, violence was triggered by public concerns over the integrity of government and resulted in ethnically targeted property destruction. In May 2006, there was violence, destruction, and the failure of key state institutions in Timor-Leste, and widespread violence reemerged during 2007 in the context of the national election. A military-led government was established in the Fiji Islands following its fourth coup in December 2006. International military and police support was required in Solomon Islands and (through the United Nations) in Timor-Leste, while developments in the Fiji Islands were subject to widespread international criticism. Law-and-order problems remain a key development constraint in Papua New Guinea (PNG).

4. Against a background of ongoing fragility, this midterm review of the Pacific Strategy sets out the actions that have been taken over the first half of the strategy to implement key initiatives in ADB assistance. The midterm review also presents the next steps to be taken in implementation. Importantly, it describes how ADB's Pacific operations will harness new opportunities that have emerged, and improve its response to the needs of the PDMCs. Notably, since approval of the Pacific Strategy, ADB strategies and policies have been developed to improve ADB's capacity to respond to fragile and weakly performing member countries. The midterm review explains how these new ADB strategies and policies will be incorporated into ADB's assistance to the Pacific.

¹ ADB. 2004. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank (2005–2009)*. Manila.

² The 14 PDMCs are the Cook Islands, the Fiji Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu. A profile of economic conditions, the state of governance, progress towards the Millennium Development Goals (MDGs), and living standards in the PDMCs is provided in Appendix 2.



f = forecast, GDP = gross domestic product.

Source: ADB, *Asian Development Outlook*, various years.

II. REGIONAL UPDATE

A. Economic Conditions

5. The first 2 years covered by the Pacific Strategy saw a steady but low rate of annual economic growth of 2.6% across the region, which was up on the average annual growth of 0.9% of the preceding 2 years. A slight improvement is expected over the medium term, with growth forecast to average 3.4% per year during 2007–2008. Much of the improvement is attributable to a recovery from recession in PNG, which is a net exporter of oil and a producer of gold and copper; high world prices led a turnaround that has spread more broadly through the economy. Solomon Islands, Vanuatu, and Palau have also achieved an economic turnaround. In the case of Solomon Islands, the turnaround is driven by an expansion in public expenditure, an unsustainably large rise in logging, and the reopening of palm oil plantations and processing facilities that were damaged during the conflict of 1999. In Vanuatu, key factors contributing to growth have been an expansion in tourism and foreign-oriented real estate development, while in Palau, externally financed public infrastructure and tourism are supporting an improved economic performance.

6. The economies of Samoa and Tuvalu are benefiting from an expansion in publicly funded capital projects, with a restructuring of the national airline also contributing to growth in Samoa through the stimulus provided to tourism. Timor-Leste is forecast to achieve high growth in 2007 due to an influx of international support and rising public expenditure. The Cook Islands is expected to continue to grow, but at a relatively low rate as foreign investment has recently slowed and fishing and pearl farming remain weak.

7. Elsewhere, very little growth is expected over the remaining period of the Pacific Strategy. The economies of the Fiji Islands and Tonga are forecast to contract in 2007 due to the adverse effects of civil unrest on tourism and business activity more broadly. The erosion of international trade concessions has also contributed to a weakening in economic activity in the Fiji Islands, while in Tonga, a fall in prices of agricultural and fishing exports is contributing to the weakening economy. Very low growth is expected in the Marshall Islands, the Federated States of Micronesia (FSM), and Kiribati, while public sector restructuring is expected to see the economy further contract in Nauru.

8. Growth prospects are constrained by underinvestment. In the public sector, high government wages bills are a long-standing cause of underinvestment. They restrict expenditure on capital works and also the essential goods and services required for service delivery. The result is that too little government expenditure finds its way into investment in the productive physical infrastructure and human capital needed for growth and development. Surges in wage bills remain a feature of the region. Over the first half of the Pacific Strategy, average pay rates increased by 70% in Tonga, by 25% in Samoa, and by 20%–25% in Vanuatu, and public sector employment has risen sharply in the Marshall Islands. The problem of underinvestment is aggravated in many areas by gross shortfalls in maintenance.

9. Underinvestment by the private sector is linked to weaknesses in the enabling environment. A supportive approach to private investment is behind most periods of sustainable economic growth in the region. The importance of the enabling environment is readily evident at a sector level, where deregulation and the introduction of competition have triggered lower prices and expanded service delivery. Recent positive examples are provided by telecommunications in PNG, Samoa and Tonga, and air transportation in Samoa and Vanuatu. Regionally, however, there has generally been slow progress in putting in place a supportive enabling environment. Of the PDMCs, only Timor-Leste recorded a notable improvement to its international ranking from 2005 to 2007 under the World Bank's ease of doing business indicators (but with an aggregate ranking of 168 out of 178 countries in 2007, Timor-Leste remains weakly performing against this measure).³ In conclusion, the region as a whole needs to pay much greater attention to improving the environment for private sector-led investment and growth.

B. Governance

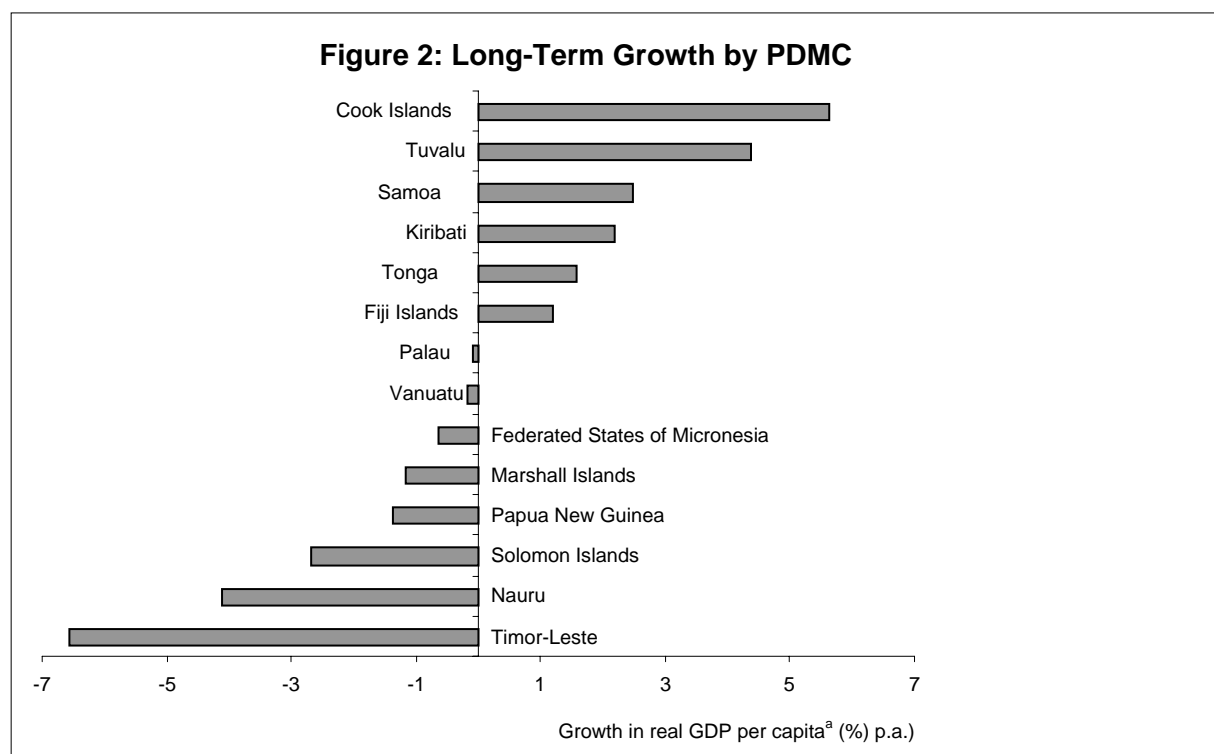
10. The state of governance has been and remains one of the key factors behind the region's growth outcomes. Those PDMCs with good governance—such as the Cook Islands, Samoa, and Tuvalu (Figure 2)—have tended to grow, while those experiencing coups, armed conflict, civil unrest, and weak law-and-order—such as Timor-Leste, Solomon Islands, and PNG—have performed poorly over time. Those PDMCs that have managed their public funds poorly—such as Nauru, the Marshall Islands, and the FSM—have also failed to achieve sustainable growth. The state of governance is not the only determinant of long-term growth in the region, but it is a factor that has distinguished the better economic performers from the weaker ones.

11. Reflecting civil unrest and ongoing law-and-order problems, governance indicators show a deterioration in the international standing of the three largest PDMCs—the Fiji Islands, PNG, and Timor-Leste. All recorded a notable weakening in their international ranking from 2004 to 2006 against the World Bank's measure of the control of corruption and of political stability. The ranking against the World Bank's measure of the rule of law also deteriorated in PNG and Timor-Leste, while the ranking for voice and accountability declined substantially in the Fiji Islands and Timor-Leste. Transparency International's measure of corruption placed PNG at 162 out of 179 countries in 2007, a notable deterioration from the ranking of 102 out of 145 countries in 2004.⁴ Of the smaller PDMCs, Tonga has been a source of concern in recent years;

³ Table A2.3. Derived for countries for which data are available from the World Bank Doing Business Project. Available: <http://www.doingbusiness.org/economyrankings/>

⁴ World Bank Worldwide Governance Indicators Project (available: <http://info.worldbank.org/governance/wgi2007>) and Transparency International Corruptions Perceptions Index (available: http://www.transparency.org/policy_research/surveys_indices/cpi/). 2007 is the first ranking available for Kiribati (ranked 84 in 2007), Samoa (57), Solomon Islands (111), Tonga (175), and Vanuatu (98). Timor-Leste was ranked 123 out of 179 countries in 2007, while the Fiji Islands was ranked 55 out of 158 countries in 2005.

its international ranking against the World Bank's measure of political stability and control of corruption has declined markedly since 2004. Governance indicators have recently stabilized or shown some slight improvement in other PDMCs.



GDP = gross domestic product,

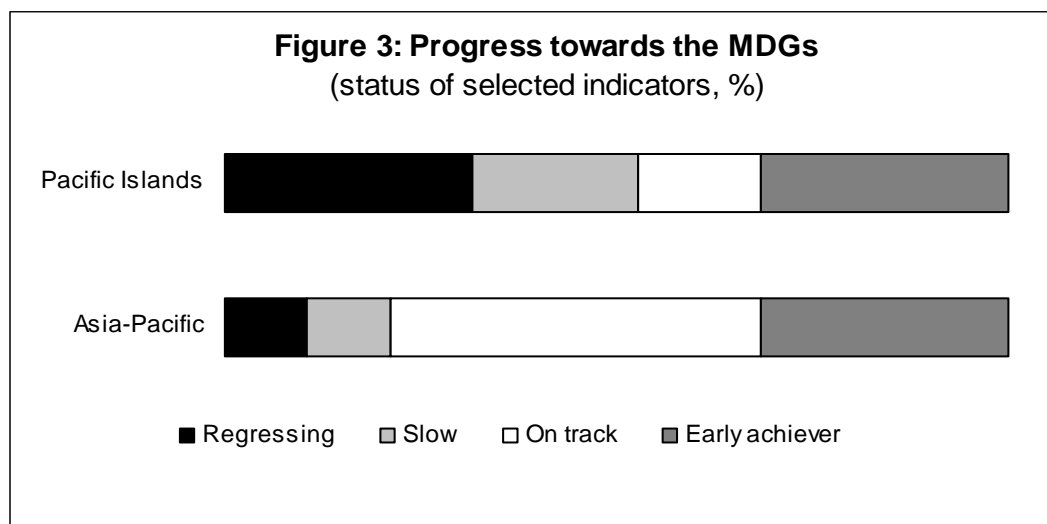
^a Derived for the period 1996–2006, except for Timor-Leste and Palau (1998–2006) and Solomon Islands (1997–2006). The estimate for Nauru is illustrative only.

Sources: ADB, *Asian Development Outlook*, various years; and United Nations Statistical Division.

12. On balance, within the region as a whole weak governance continues to be a major constraint to growth, development, and improved livelihoods. Stronger understandings of governance and prevailing political economies should be factored into the design of future assistance programs.

C. Progress Towards Achieving the Millennium Development Goals

13. Monitoring of developments in poverty in the PDMCs is hindered by the shortage of consistent, regular measures of living standards. Important insights can, however, be gained from monitoring progress in achieving the Millennium Development Goals (MDGs). In the relatively more advanced PDMCs—such as the Cook Islands, the Fiji Islands, Samoa, and Tonga—the key MDGs, notably in respect of education, gender equality, and disease management, have been achieved. Other PDMCs are generally making good progress in these areas. However, recent monitoring suggests the momentum of development is being lost in some important areas. Compared with the Asia and Pacific region as a whole, in the Pacific more nonincome MDG indicators are regressing or showing slow progress (Figure 3). For the nonincome MDGs, the key weaknesses in the PDMCs are in the areas of child mortality, environmental sustainability, and water and sanitation. The prevalence of HIV/AIDS is a particularly severe risk for PNG.



Note: Data are presented for the MDGs for which data are available for the Pacific Islands. These data are available for the nonincome 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).

Source: ADB, Economic and Social Commission for Asia and the Pacific, and the United Nations Development Programme (UNDP). 2006. *The MDGs: Progress in Asia and the Pacific 2006* (available: <http://www.mdgasiapacific.org>).

14. Underinvestment in social and physical infrastructure is contributing to the slow rate of progress towards achieving the MDGs. A recent World Bank study provided estimates of the investment required to meet selected MDGs.⁵ In relation to water and sanitation, for example, the annual investment needed in half of the PDMCs (the Fiji Islands, Kiribati, Palau, PNG, Samoa, Solomon Islands, and Vanuatu) was estimated as \$37 million for water and \$53 million for sanitation. ADB is one of the region's major donors in water and sanitation, yet ADB funding for the sector, which has averaged around \$10 million per year since the late 1990s, is only a small fraction of the estimated need. Moreover, ADB's field experience suggests that \$90 million is a low estimate and that substantial additional investment would be economically justifiable.

D. The State of the Environment

15. The PDMCs are among the most environmentally vulnerable nations in the world. Six of the PDMCs are rated as facing extreme environmental vulnerability, with a further three rated as highly vulnerable. The pressures from high population growth rates in stressed natural environments (particularly in the atoll nations), unsustainable practices in some industries (notably logging), and, in some PDMCs, the additional pressures of coastal-based tourism and land development, are continuing the degradation of the region's natural resources.

16. There is a heightened awareness of the consequences for the region of climate change. A recent report by the World Bank concluded that the southern Pacific is experiencing a significantly drier (by 15%) and warmer (by 0.8° Celsius [C]) climate. The central equatorial Pacific, by contrast, is experiencing more intense rain (representing a change of about 30%) and a similarly hotter climate (0.6° C). Sea surface temperatures in both areas have increased

⁵ World Bank. 2006. *The Pacific Infrastructure Challenge, A Review of Obstacles and Opportunities for Improving Performance in the Pacific Islands*. Washington, DC.

by about 0.4° C. These changes are also linked in part to an increased frequency of El Niño⁶ events. Rates of change are likely to increase in the future in terms of average and extreme conditions, and increasing climate variability. Average temperatures are expected to rise by between 1.0° C and 3.1° C; the sea level is expected to rise by between 9 centimeters (cm) and 90 cm by the end of the century, with the eastern Pacific experiencing the largest rise. Cyclones are expected to increase in intensity by about 5%–20%, while storm frequency is likely to increase in the equatorial and northern Pacific. Coral reefs that provide habitat for a wide range of marine plants and animals will come under additional pressure. In general, the future climate is expected to become more El Niño-like, resulting in more droughts in the southern Pacific and more rain and consequent floods in the equatorial Pacific.⁷

17. The evidence from experience to date indicates that extreme events such as drought, extreme high tides, violent winds, and storm surges are the major risks to the continued habitation of low-lying islands in the Pacific. Sea-level rise exacerbates all the risks. As time goes on, the effect of climate change will become more important. Even the consequences of a drought are increased by sea-level rise, as groundwater supplies are affected. Violent winds usually increase the rates of coastal erosion, which in turn reduces the size of the freshwater lens under atolls. Unless there are dramatic reductions in greenhouse gas emissions, the sea level will indeed rise to such heights that this alone would cause many of the islands of the Pacific to become uninhabitable. But before this happens, extreme events such as those mentioned above will have made the islands uninhabitable.

III. THE PACIFIC PORTFOLIO

A. Overview

18. As of the end of November 2007, ADB's Pacific portfolio comprised 29 loan projects, 12 grant projects, and 86 technical assistance (TA) projects, with a total value of \$684.5 million (Table 1). A further three projects with a total value of \$117.9 million (ordinary capital resources and Asian Development Fund [ADF]), and an additional five (4 firm and 1 supplementary technical assistance) with a total value of \$2.7 million (Japan Special Fund and Technical Assistance Special Fund) were approved by the end of 2007. Based on the current pipeline, around \$203 million in new ADF loans and over \$43 million in ADF grants are expected by 2010. Over the same period, over \$400 million in new ordinary capital resources operations and \$44 million in new TA is anticipated.

19. The total level of approved ADB assistance has increased substantially under the Pacific Strategy. Total approvals in 2005–2007 were \$462.4 million, 141.1% above the \$191.7 million in approvals of the preceding 3 years. Total approvals per Pacific island resident are expected to more than double in the first 3 years of the Pacific Strategy, to average approximately \$16 per person.

20. With the introduction of ADF grants in 2005, there has been a shift in assistance towards grant projects. In the 2005–2007 period, \$126.9 million of grants were approved, which accounts for 27.4% of the assistance approved over the first 3 years of the Pacific Strategy. Even though the value of loan approvals almost doubled over the first 3 years of the Pacific Strategy, loans have accounted for a smaller share of total assistance; they accounted for

⁶ El Niño events are large climate disturbances which are rooted in the tropical Pacific Ocean, and occur every 3 to 7 years.

⁷ World Bank. 2006. *Not If But When – Adapting to Natural Hazards in the Pacific Islands Region. A Policy Note*. Washington, DC.

58.3% of approved assistance during 2005–2007, which is down on the 77.6% share of the preceding 3 years. The share of total assistance provided as TA has also declined, even though the value of TA rose by 54.0% over the first 3 years of the Pacific Strategy compared with the preceding 3 years. TA projects have become substantially larger on average as more flexible, cluster, rolling design, and longer-term TA projects are being adopted.

Table 1: ADB Pacific Portfolio

Active as of	Loans			Grants			Technical Assistance	
	Number	\$ million		Number	\$ million		Number	\$ million
		ADB	Co-financing		ADB	Co-financing		
31 Dec 2004	31	508.6	12.9	4	0.0	42.8	134	57.9
30 Nov 2007	29	472.8	21.9	12	53.7	52.6	86	83.5

Source: ADB Central Operations Services Office.

21. An increase in cofinancing has been a key contributor to the rise in project approvals in the Pacific Strategy period. Cofinancing of \$142.1 million accounts for 30.7% of the total value of approvals in the period 2005–2007. Most cofinancing resources were provided for loan projects (\$52.8 million in 2005–2007). Substantial cofinancing was also provided for grants (\$61.4 million in 2005–2007) and cofinancing for technical assistance of \$27.9 million is almost four times the level of the preceding 3 years.

22. According to ADB's Pacific Department's project performance reports, as of 30 November 2007 implementation progress for six of the seven loans approved since 2005 was satisfactory.⁸ Implementation progress for the seventh—the Fiji Islands Alternative Livelihood Development Project⁹—was unsatisfactory and the project was subsequently cancelled at the request of the Government of the Fiji Islands. The 12 grant projects in the Pacific Department's current portfolio were approved between 2005 and 2007. According to the Pacific Department's project performance reports, as of 30 November 2007 implementation progress was satisfactory for all of the 12 grant projects, and none were flagged as having potential problems or being at risk.

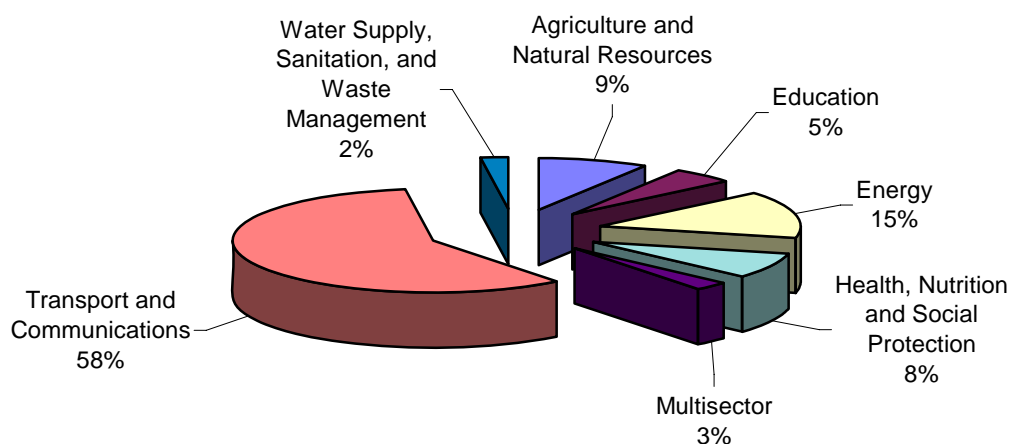
23. Of the 86 TA projects in the Pacific Department's current portfolio, 52 were approved under the Pacific Strategy. Of these 52 TAs, 9 are for project preparatory TA, 31 are for advisory and operational TA, and 12 are for regional TA. According to the Pacific Department's TA performance reports as of 30 November 2007, implementation progress was rated (i) "satisfactory" for all 9 project preparation TA projects, with one rated "highly satisfactory"; (ii) "satisfactory" for 25 of the advisory and operational TA projects, while two were rated "partly satisfactory" and four were rated "highly satisfactory"; and (iii) "satisfactory" for 11 regional TA projects, and "partially satisfactory" for one regional TA project.

24. In terms of sector distribution, a comparison of the approved loans and grants program for 2005–2007 (Figure 4) and projected loans and grants program for the period 2008–2010 (Figure 6) reveals the continued importance of investment in infrastructure and the support for public policy, and the anticipated reduction in investment in social services. A comparison of the approved (Figure 5) and projected (Figure 7) TA reveals an anticipated adjustment in ADB's activities in the Pacific towards infrastructure.

⁸ Information on the individual portfolio items and their status and performance is provided in Appendix 4.

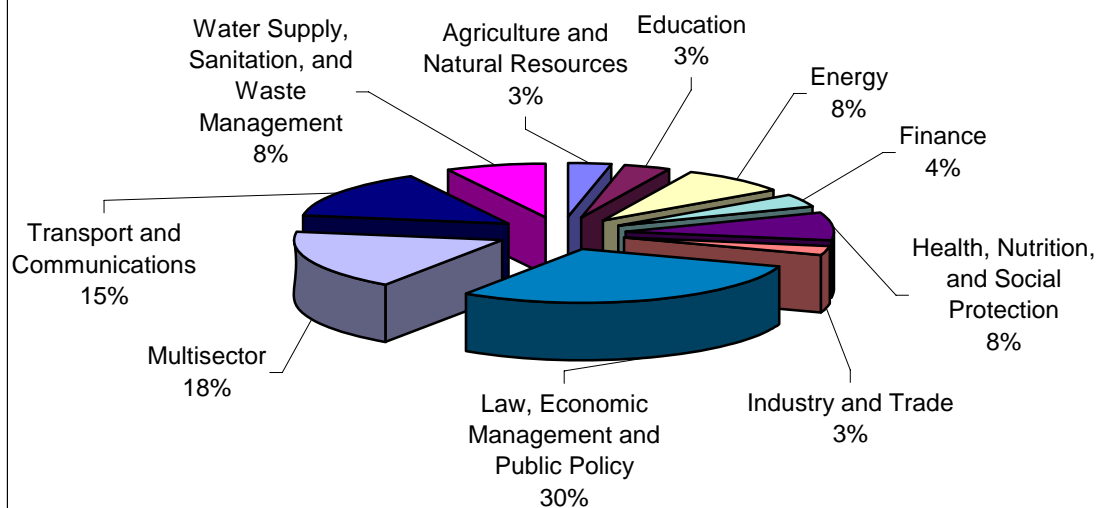
⁹ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Fiji Islands for Alternative Livelihoods Development Project*. Manila (Loan No. 2158, for \$49.8 million, approved on March 2005).

Figure 4: 2005–2007 Loans and Grants Program
(% of total value)



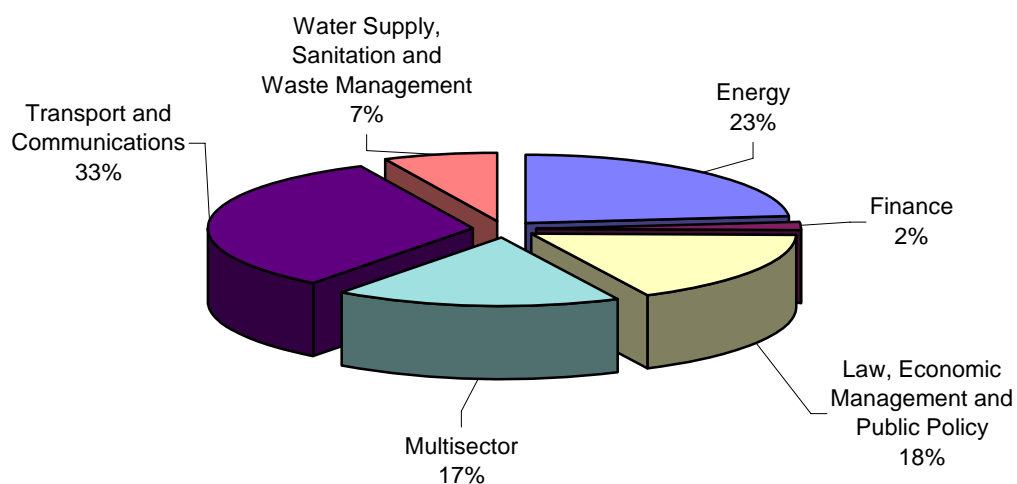
Source: Asian Development Bank.

Figure 5: 2005–2007 Technical Assistance Program
(% of total value)



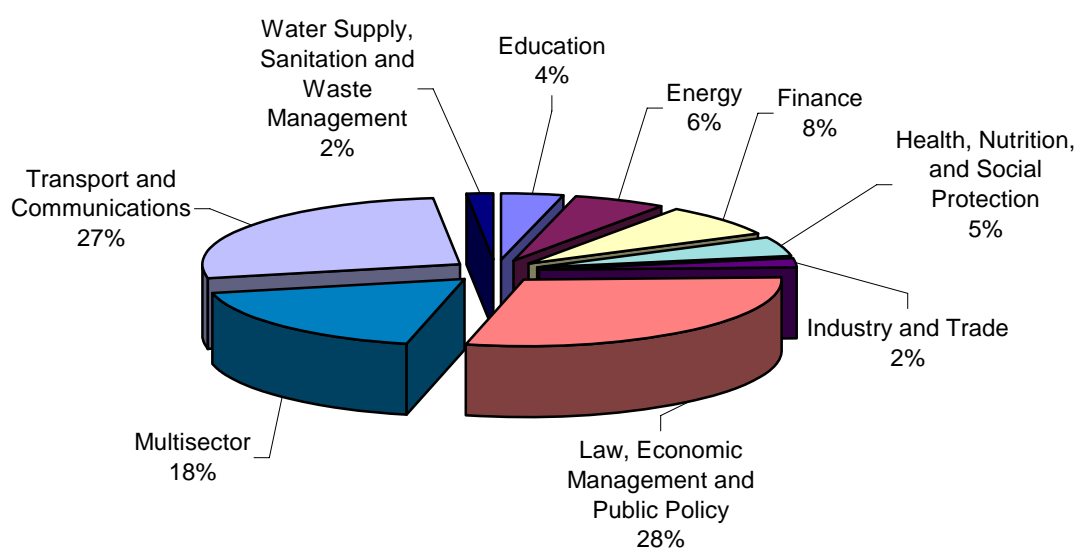
Source: Asian Development Bank.

Figure 6: 2008–2010 Projected Loans and Grants Program
(% of total value)



Source: Asian Development Bank.

Figure 7: 2008–2010 Projected Technical Assistance Program
(% of total value)



Source: Asian Development Bank.

B. Strategic Directions at a Country Level

25. Country strategies and/or country operational business plans have been approved for 12 PDMCs within the framework of the Pacific Strategy,¹⁰ three new country strategies are well advanced in their preparation,¹¹ and the full cycle of new country strategies is to be completed in 2008. ADB has managed to strengthen the focus of its country strategies around the strategic objectives of the Pacific Strategy. To the extent possible, the aim has been to establish key result areas that are in line with country development needs and priorities, taking into consideration ADB's comparative advantages and the division of labor among development partners. Current strategic directions at a country level are summarized in Table 2.

26. For the Fiji Islands, the Marshall Islands, and the FSM, strategic directions closely follow the strategic objectives of the Pacific Strategy. This is particularly the case for the Fiji Islands. Strategic directions in Kiribati, PNG, and Timor-Leste are broadly consistent with the strategic objectives of the Pacific Strategy.

27. Strategic directions in Palau, Solomon Islands, and Vanuatu focus on the first strategic objective of the Pacific Strategy (to "support a conducive environment for the private sector"). The second strategic objective of the Pacific Strategy (to "enhance the supply of, and demand for, quality basic social services") is not being addressed in ADB's operational strategies for these countries. This is because of extensive assistance provided by a number of other donors in the education and health sectors.¹² Solomon Islands and Vanuatu country strategies are not addressing the third strategic objective of the Pacific Strategy (to "promote effective development processes") because of extensive assistance in this area by other donors.¹³

28. In the Cook Islands, Nauru, Samoa, Tonga, and Tuvalu, the strategic directions are broadly comparable with the first and second strategic objectives of the Pacific Strategy. Operations in these countries also develop aspects of the third strategic objective.

¹⁰ ADB. 2007. *Cook Islands: Country Operations Business Plan 2007–2009*. Manila; ADB. 2006. *Fiji Islands: Country Strategy and Program Update 2006–2008*. Manila; ADB. 2006. *Kiribati: Country Strategy and Program Update 2006–2007*. Manila; ADB. 2005. *Federated States of Micronesia: Country Strategy and Program Update 2006–2007*. Manila; ADB. 2006. *Marshall Islands: Country Strategy and Program Update 2007–2011*. Manila; ADB. 2006. *Palau: Country Strategy and Program Update 2007–2009*. Manila; ADB. 2007. *Papua New Guinea: Country Operations Business Plan 2008–2010*. Manila; ADB. 2006. *Papua New Guinea: Country Strategy and Program 2006–2010*. Manila; ADB. 2007. *Federated States of Micronesia: Country Operations Business Plan 2007–2009*. Manila; ADB. 2007. *Tonga: Country Operations Business Plan 2007–2009*. Manila. ADB. 2005. *Papua New Guinea: Country Strategy and Program Update 2005–2006*. Manila; ADB. 2007. *Samoa: Country Operations Business Plan 2007–2009*. Manila; ADB. 2007. *Solomon Islands: Country Operations Business Plan 2008–2010*; ADB. 2006. *Solomon Islands: Country Strategy and Program Update 2007–2009*. Manila; ADB. 2007. *Timor-Leste: Country Operations Business Plan 2008–2010*. Manila; ADB. 2005. *Timor-Leste: Country Strategy and Program Update 2006–2008*. Manila; ADB. 2007. *Tonga: Country Partnership Strategy 2007–2012*. Manila; and ADB. 2006. *Vanuatu: Country Strategy and Program Update 2006–2009*. Manila.

¹¹ The Cook Islands, Samoa and Tuvalu.

¹² Notably by Taipei,China in Palau, and in Solomon Islands and Vanuatu by the Australian Agency for International Development (AusAID), the European Commission, France, Japan, the New Zealand Agency for International Development (NZAID), the People's Republic of China, Taipei,China, various United Nations agencies, and the World Bank.

¹³ Notably Australia (AusAID and other sources), the European Commission, Japan, NZAID, the Pacific Financial Technical Assistance Centre, United Nations Development Programme (UNDP), and the World Bank.

Table 2: Strategic Directions at a Country Level

PDMC	Strategic Focus of Sector Operations	Key Cross-cutting Issues/Major Challenges	Alignment to the Pacific Strategy
Cook Islands	Climate proofing Infrastructure (including energy and wastewater and sanitation)	Promoting private sector-led, environmentally sustainable economic growth through improved economic and social infrastructure. Improving public sector service delivery.	Partially aligned
Fiji Islands	Infrastructure (including roads, power, and airport rehabilitation and upgrading) Governance	Strengthening the economic environment for private sector-led growth aimed at job creation. Providing reliable, affordable basic social services. Building effective development institutions.	Closely aligned
Kiribati	Outer-island growth Economic and financial planning	Equitable economic development. Sustainable development. Fiscal security.	Broadly consistent
Marshall Islands	Private sector development Education and economic policy	Enhanced private sector environment. Improving governance and public service delivery.	Closely aligned
FSM	Good governance, with a particular focus on economic management and accountability Ensuring inclusive social development and promoting sustained private sector-led growth	Pro-poor economic growth. Inclusive social development. Good governance.	Closely aligned
Nauru	Capacity building State-owned enterprise reform	Debt management.	Partially aligned
Palau	Economic and fiscal management Private sector development Infrastructure	Strengthening economic and fiscal management. Promoting policies for private sector development. Facilitating sound infrastructure development and management.	Narrowly focused
Papua New Guinea	Infrastructure (roads, power, gas, and ports) Public sector management Private sector development	Good governance. Export-driven economic growth. Fostering rural development, poverty reduction, and human resource development.	Broadly consistent
Samoa	Infrastructure Education Private sector development Economic policy	Removing infrastructure constraints. Improving delivery of public services. Promoting private sector development.	Narrowly focused
Solomon Islands	Infrastructure (transport) Private sector development	Provide transportation infrastructure and services. Create an enabling business environment.	Narrowly focused
Timor-Leste	Infrastructure Capacity building	Creating opportunities for economic participation. Providing basic social services.	Broadly consistent
Tonga	Infrastructure (road, drainage, and sanitation), fiscal governance, private sector development, rationalization of public enterprises, urban planning, and management	Providing infrastructure through urban development. Prudent macroeconomic and fiscal management. Private sector development.	Partially aligned
Tuvalu	Public financial management, state-owned enterprise governance, water, sanitation and waste management, and education	Providing long-term TA cluster in financial management. Prudent macroeconomic and fiscal management.	Partially aligned
Vanuatu	Legal business environment Access to finance	Increasing private sector contribution to the economy through strengthened policy, and institutional and legal framework for business.	Narrowly focused

FSM = Federated States of Micronesia, PDMC = Pacific developing member country.

Sources: ADB country strategies and programs, country strategy and program updates, and country partnership strategies, various years.

C. Key Achievements

29. Due to limitations in the available data and the short period since the publication of the previous Pacific strategy, it is not possible to provide complete performance data against the key result areas. However, there have been important achievements under the Pacific Strategy at a project level, where ADB has operated as both a project bank and a knowledge bank. The project bank is ADB's traditional role in the Pacific, most widely seen in sectors such as transport, power, water, and sewerage. It is complemented by ADB's newer role as a knowledge bank, and this contribution is primarily transmitted via its TA projects and policy-based loans. Extensive support is provided for capacity building and for the analysis of public policy issues, such as through publication of the widely read Pacific Studies Series¹⁴ and the country gender and environmental assessments. ADB also contributes as a knowledge bank through nonproject activities such as an active engagement in policy dialogue and donor coordination.

1. Support a Conducive Environment for the Private Sector

30. Creating an environment in which micro, small, and medium-sized enterprises—formal and informal, domestic and foreign—can develop is critical for the future economic and social wellbeing of the Pacific. To assist policy development in this area, and to ensure a sound basis for ADB interventions, in-depth private sector assessments have been conducted throughout the region. Under the Pacific Strategy, private sector assessments have been carried out or updated for Fiji Islands (2005), Palau (2006), PNG (2007), Samoa (2007), Solomon Islands (2005) and Tonga (ongoing). A mini private sector assessment is included in the Pacific Islands Economic Report for Tuvalu¹⁵ published in 2007, and mini private sector assessments are to be included in the economic reports for the Cook Islands (to be published in 2008) and Kiribati (to be published in 2008). With the FSM, the Marshall Islands, and Vanuatu having been studied previously, the private sector environment for 11 of the 14 PDMCs can now be considered as assessed. The private sector assessments and associated private sector development reform road maps—recently completed in the Fiji Islands, Samoa, and Solomon Islands—have helped shape and focus country strategies. The result is that private sector development is now firmly anchored in most country strategies and programs. This analytical work has also provided the foundation for more effective policy dialogue with PDMC governments, as well as deeper engagement with the private sector.

31. Private sector assessments consistently identify difficulties faced by businesses in accessing finance. A loan to the FSM has supported the implementation of a well-functioning legal, regulatory, and technical secured transactions framework that allows for the effective pledging of movable assets and recovery in the event of loan default. This assistance is being replicated in the Marshall Islands, Samoa, Solomon Islands, and Vanuatu. As of the end of 2006, the Small Business Development Project¹⁶ in Samoa had supported a total of 546 small business loans under the Small Business Loans Guarantee Scheme and a further 53 loans under the Micro Finance Facilities. Business training is also being provided through the Small Business Enterprise Centre. Support has also been provided for microfinance in PNG, Timor-Leste, and Vanuatu. ADB made an equity investment in Kula Fund II Limited, which provides long-term equity finance for small and medium-sized enterprises in the Pacific islands.

¹⁴ The series is published by the Asian Development Bank to provide the governments of the Pacific developing member countries with analyses of economic and other issues.

¹⁵ ADB. 2007. *Tuvalu 2006 Economic Report From Plan to Action*. Manila.

¹⁶ ADB. 1999. *Small Scale Technical Assistance to the Independent State of Samoa for Small Business Development Project*. Manila (TA 3262, approved on September 1999, for \$150,000).

32. ADB has supported three PDMCs (Samoa, Solomon Islands, and Vanuatu) in reforming company laws and company registries. ADB has also helped the Fiji Islands to prepare and promulgate public–private partnership legislation, and to develop an electronic transactions law. Three countries (Kiribati, the Marshall Islands, and Samoa) have also been assisted in land-related reforms, while four (the Fiji Islands, Samoa, Solomon Islands, and Tonga) were assisted to rationalize ownership and management arrangements of state-owned enterprises, strengthen governance arrangements, and improve monitoring mechanisms. In late 2006 and with cofinancing from Australia, the Private Sector Development Initiative¹⁷ was launched to leverage ADB's private sector development operations and provide a rapid response mechanism for private sector development reform in the key result areas of state-owned enterprise reform, access to finance, and the legal business environment.

33. The institutional framework for skills development has been addressed through a regional TA project implemented by the Pacific Islands Forum Secretariat in coordination with the major development partners. The TA project has successfully produced a set of strategies for skills development that is responsive to emerging market demands of both the formal and informal sectors of 13 PDMCs.

34. In such a large, dispersed region as the Pacific, transport is crucial to development, particularly in allowing the growth of trade in goods and services. ADB has continued to play a key role in (i) financing essential transport infrastructure, (ii) supporting the building of capacity to manage transport facilities, and (iii) creating a policy environment conducive to transport sector development.

35. Infrastructure projects in Solomon Islands and Timor-Leste have led the way as innovative models for engagement in fragile states. These projects have incorporated such features as community-based modalities for procurement and have catalyzed significant cofinancing from bilateral development partners.

36. In Solomon Islands, three transport infrastructure projects are helping restore social and economic activities following a period of civil conflict and a recent natural disaster. The Post-Conflict Emergency Rehabilitation Project,¹⁸ Road Improvement Project,¹⁹ and Emergency Assistance Project²⁰ all focus on improving the capacity of the transport network to support rural development, spur economic growth, and reduce poverty. More reliable transport services will increase the ability of rural people—who make up nearly 80% of the population—to market their produce, derive income from natural resources, and access health and educational services. These projects have already provided 95 kilometers (km) of sealed roads, 50 km of unsealed roads, and rehabilitation and repair of 50 bridges. Two of these projects will have a similar scale of civil works for roads and bridges. This work was recently praised by nongovernment organizations (NGOs) in Solomon Islands, who indicated that improved roads were making a huge difference to communities, including improved services and marketing of produce. The

¹⁷ ADB. 2006. *Technical Assistance for the Private Sector Development Initiative*. Manila (RETA 6353, approved on October 2006, for \$8,7000,000).

¹⁸ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Solomon Islands for the Post-Conflict Emergency Rehabilitation Project*. Manila (Loan No. 1823, for \$10.00 million, approved on December 2000).

¹⁹ ADB. 2006. *Proposed Asian Development Fund Grant for the Solomon Islands for the Road Improvement (Sector) Project*. Manila (Grant No. 0048, for \$16.2 million, approved on August 2006).

²⁰ ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Grant to the Solomon Islands for the Emergency Assistance Project*. Manila (Grant No. 0078, for \$4.9 million, approved on June 2007).

activity also demonstrates the catalytic role of ADB resources in attracting substantial grant cofinancing from Australia and New Zealand.

37. In Timor-Leste, ADB's Road Sector Improvement Program²¹ is utilizing \$10 million in ADF grant resources and \$2.5 million in government funding to (i) rehabilitate and maintain four crucial roads in agricultural areas in order to promote economic and social development, and (ii) explore low-cost community-based modalities for road maintenance. In addition to road rehabilitation, the program is implementing a community empowerment component that aims to strengthen the capacity of rural communities to respond to the risks and opportunities associated with increased connectivity to the national road network. This includes partnerships with civil society organizations (including CARE Australia) to assist, design and implement socially inclusive, gender-responsive community activities.

38. The approach of integrating road improvement and community empowerment is bringing significant benefits to participating communities. This includes connecting isolated communities to main roads, primary facilities, and markets while providing skills necessary for economic activities. Workshops for communities are being followed by field training in road maintenance, selection of local crew members, and training in group management and road maintenance techniques.

39. ADB is leveraging its infrastructure project by providing TA to support sector policy and planning, resource mobilization and coordination, and design and implementation. ADB and AusAID are working to fast-track infrastructure projects to accelerate growth and provide jobs and services. This includes assisting the Government to prepare, procure, and manage contracts, goods, and works in order to execute up to \$100 million of its self-funded capital development program.

40. Helping to strengthen the environment for private sector development in the Pacific remains a crucial challenge. The emerging reform momentum requires continued assistance to (i) enhance understanding and awareness, (ii) identify reform opportunities, and (iii) design and implement sustainable reform measures.

2. Enhance the Supply and Demand for Quality Basic Social Services

41. Demand for assistance in the provision of social services has not been as high as anticipated under the Pacific Strategy. Nevertheless, important contributions have been made to social service delivery under the strategy.

42. In Kiribati, the Sanitation, Public Health, and Environment Improvement Project²² is contributing to improvements in the health and wellbeing of the people through, among other activities, supporting the better management and use of scarce water resources. The project has resulted in (i) the implementing of a new flat rate water tariff, (ii) the testing of constant flow devices in over 300 households, (iii) establishing a leak detection program, and (iv) initiating the development of new water resources at Abatoa and Tabiteuea.

²¹ ADB. 2005. *Proposed Asian Development Fund Grant for Timor Leste for the Road Sector Improvement Project*. Manila (Grant No. 0017, for \$10.0 million, approved on September 2005).

²² ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Kiribati for the Sanitation, Public Health and Environment Improvement Project*. Manila. (Loan No. 1648, for \$10.24 million, approved on 8 December 1998).

43. ADB's support for the Samoa SchoolNet and Community Access Project²³ is piloting the use of information, communications, and technology in education by adopting e-learning materials, providing e-training, information, communications and technology equipment, and internet connections to five local schools and two community access facilities. This has already generated enthusiasm among teachers, students, and communities. A comprehensive Samoa Education web portal provides access to electronic educational materials and teachers have been trained in the use of this system. Building on the success of, and lessons learned from, the pilot, Samoa has asked for a grant to expand SchoolNet to all 42 government and missionary schools and their communities. This will provide access to e-learning for about 15,000 secondary students and train 800 teachers. It will be an integral part of the ongoing broader Education Sector Project II supported by the Government, AusAID, NZAID, and ADB using a sectorwide approach.

44. An established success for ADB in PNG has been its support for a sectorwide program in health. ADB has long played a lead role in the health sector and, under the Health Sector Development Program,²⁴ initiated what has evolved into a sectorwide approach led by the Government, with active development partner support (including from Australia, New Zealand, and United Nations agencies). This coordinated approach has also been adopted for the HIV/AIDS area. This was one of the first sectorwide approaches to be developed in the Pacific, and has also been adopted for addressing the HIV/AIDS problem in PNG. An ADF grant for HIV/AIDS prevention and control is helping prevention activities reach rural populations by integrating the management capabilities of the private sector, the reach of churches and NGOs, and public service infrastructure. This includes involving a number of operators in the mining sector, the oil and gas extraction industry, and plantations in obtaining management input into rehabilitating and supporting surrounding health services, and introducing and supporting HIV/AIDS testing, treatment, and care. It has also supported a national surveillance plan and mobilization of resources to improve HIV/AIDS surveillance nationwide. At a regional level, ADB is working to improve the management and delivery of HIV/AIDS prevention services in 10 countries through (i) strengthening surveillance, (ii) supporting prevention activities at the community level, and (iii) targeting vulnerable groups. The project forms a core part of the regional strategy on HIV/AIDS prevention.

45. In conclusion, demand for assistance in the provision of social services has not been as high as anticipated under the Pacific Strategy. This is largely because of extensive assistance provided by a number of other donors in education and health sectors on a grant basis. Nevertheless, important contributions have been made under the strategy.

3. Promote Effective Development Processes

46. In PNG, ADB has continued to play a leading role in helping the Government develop and implement its Financial Management Improvement Program.²⁵ Although the program initially suffered delays—in part because of the Government's setting of possibly overambitious objectives and modalities—there has been solid progress in refining the underlying systems,

²³ ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Asian Development Fund Grant to the Independent State of Samoa for the Samoa Schoolnet and Community Access Project*. Manila (approved on 14 December 2007 for \$6.9 million).

²⁴ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Papua New Guinea for the Health Sector Development Program*. Manila (Loan No. 1516, for \$45.0 million, approved on February 1997).

²⁵ ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Papua New Guinea for the Financial Management Project*. Manila (Loan 1703, approved on September 1999, for \$46.9 million).

which are now being implemented through an integrated financial management system, together with significant capacity development. The financial management sector provides an example of strong donor partnership—AusAID, UNDP, and ADB have been working closely to prepare coordinated programs of further assistance, and may be joined by the European Union and the World Bank.

47. The program is being implemented as part of a broader public expenditure review and rationalization process. Among other initiatives, in early 2007 the Government enacted and began implementing a Fiscal Responsibility Act, and has taken positive steps to open up the budget preparation process, including inviting and reviewing submissions on budget priorities from individuals, businesses, and civil society. The Medium-Term Financial Management Strategy, which is being developed for public expenditure review and rationalization, will further progress these initiatives. Specifically, the Medium-Term Financial Management Strategy will cover (i) budget preparation; (ii) budget execution; (iii) national and subnational agency accounting; (iv) cash and bank management; (v) debt management; (vi) financial and performance reporting and monitoring, including for statutory authorities and state-owned enterprises; (vii) internal controls and audit; and (viii) external scrutiny that includes the Auditor-General's Office, parliament and civil society. Similarly, project capacity-building efforts are part of wider efforts to develop public financial management capacity, including extensive scholarship, training, and secondment programs.

48. ADB is supporting design work on a regional investment project for the Pacific Regional Audit Initiative that is expected to contribute to (i) stronger strategy and plan formulation processes, (ii) public financial management, and (iii) audit capacities in PDMCs. It is also assisting PDMC governments with ongoing efforts to identify and address governance risks, especially in the areas of financial management, procurement, and anticorruption, and is helping reform public enterprises and utilities with an initial focus on financial management. ADB has also supported, as appropriate, the development of the PNG Gas Project²⁶ (the nature of this project is in transition).

49. ADB is assisting with national planning in the PDMCs as part of efforts to improve the ability to manage for development results. These activities have also strongly focused on ensuring community participation in the development process. TA design to support Nauru's National Sustainable Development Strategy 2005–2025 emphasized stakeholder engagement in planning as well as the development of the capacity for participation. The demonstration provided is considered to have been a contributor to the decision by the Constitutional Review Committee to utilize an open and inclusive review process. ADB also provided assistance in the development of Tonga's Strategic Development Plan 8, and Tuvalu's Te Kakeega II through a range of public meetings and forums to discuss national development priorities, and to build the capacity of civil society in Vanuatu to engage in development decision making with regard to governments and donors. Similar activities have been undertaken in Palau and Samoa and are planned to help prepare the next Strategy for the Development of Samoa. Support to national planning in the Fiji Islands was initiated but not completed due to the military coup. In the Marshall Islands, dialogue between government and civil society has been greatly strengthened with the help of ADB support for private retreats, public presentations, use of the local media, and extensive consultation and participation policy. In the Marshall Islands, ADB is also supporting the establishment of an independent public policy institute to help further stimulate demand for good governance.

²⁶ ADB. 2005. *Technical Assistance to Papua New Guinea for Preparing the PNG Gas Project*. Manila (approved on December 2005, for \$1.25 million).

50. A key initiative in capacity building has been the conduct of a regionwide capacity-building study. This study is aimed at assessing the means to improve capacity development and the drafting of an action plan and improved business processes. In the FSM, a capacity-building master plan was piloted last year, with its implementation being supported this year. Replication is planned in other PDMCs if successful.

51. Effective development processes are supported by the availability and dissemination of quality data and information. Accordingly, ADB has remained active in capacity building in economic statistics and poverty analysis. Regional TA also commenced under the Pacific Strategy in support of demographic and health survey work in the Marshall Islands, Nauru, PNG, Solomon Islands, and Tuvalu. The information will provide up-to-date health and demographic measures for these countries, and these form an important input into sound decision making. The assistance will also leave in place regional core and country-specific manuals and trained staff to enable future surveys to be continued.

52. Country environment assessments (CEA) under a regional TA project²⁷ have been implemented in the period 2005–2007, and nine CEA reports have been prepared.²⁸ A synthesis report presenting findings of all CEA reports is in preparation. The report will present a situation analysis and information on (i) the role of the environment and natural resources in the economy, (ii) improvements as well as any deterioration in environmental quality, (iii) opportunities to improve environmental quality, and (iv) priority actions identified through stakeholder consultations. The synthesis report will provide further assessment on the impact of climate change on Pacific island countries, showing areas of concern related to environmental quality, and will highlight the importance of climate change in terms of both sustainable development and long-term sustainability (survival) of the Pacific island countries. The Pacific Strategy addresses environmental constraints in the region where it refers to eight environmental challenges faced by the Pacific countries, including the impacts of climate change. Such challenges were reconfirmed by CEA studies and reflected in CEA reports. The significance of environmental issues differs among countries. Priorities for action have been formulated and included in the CEA report that will be used by ADB and other multilateral and bilateral donors, and is included in PDMC development plans. The recently launched GEF–Pacific Alliance for Sustainability investment program will help Pacific countries to grow in a sustainable manner. The proposed strategy has been estimated to cost approximately \$100 million in grant funds (consisting of \$25 million already committed and \$75 million of new funds over 3–4 years). Seven GEF agencies in the Pacific (ADB is one such agency) will implement projects under the program. Major bilateral donor agencies in the region (particularly AusAID and NZAID) have also been active in assisting PDMCs to address environmental concerns.

53. Efforts are being made to bring gender and youth considerations into the mainstream of PDMC development planning and programs, and regional TA funding from 2008 is planned to continue this work. Examples are the targeted increase in the percentage of women workers in the Timor-Leste roads project and the inclusion of mothers in school committees in the Samoa education project (footnote 23). Good progress has been made in PNG in mainstreaming gender considerations into ADB's road projects.

²⁷ ADB. 2005. *Technical Assistance for Mainstreaming Environmental Consideration in Economic and Development Planning Processes in Selected Pacific Developing Member Countries*. Manila (approved on 6 December 2004, for \$600,000).

²⁸ These are: Fiji Islands (May 2005), the FSM (October 2005), PNG (November 2005), the Marshall Islands (September 2005), Samoa (October 2006), Kiribati (December 2006), Palau (April 2007), Vanuatu (October 2007), and Solomon Islands (November 2007).

54. Gains have been made in efforts to widen communications coverage and the dissemination of information prepared by ADB. These activities are both critical to generating effective demand for better governance in Pacific island countries and to raising awareness and fostering transparency of ADB activities in the Pacific and beyond. A plan and budget for external relations and communications with specific targets and outputs—including a list of planned publications—was approved early in 2007. ADB's participation in the 2007 biennial Pacific Islands News Association Conference is an example of successful widening of coverage. The Pacific Department's External Relations Officer organizes media coverage for ADB activities and media interviews for ADB staff, including a 2-day private sector development awareness workshop for Pacific journalists in October 2007. For ADB's website, a system was established from January 2006 for regular updating of the three Pacific regional and 14 PDMC web pages, and 11 sector and thematic websites were posted.²⁹ In support of improved communications coverage, all TA projects approved since 2006 have included a budget item for "appropriate English and local language publication and dissemination".

IV. LESSONS³⁰

55. The Pacific region is changing slowly, and the constraints and opportunities have been identified for some time. This is evidenced by the recurring messages in both the latest and the less recent economic, social, and political assessments of the PDMCs. Hence the lessons to be factored into donor assistance are largely well established.

56. One of these key lessons is that improving governance and strengthening institutions is critical. The history of growth and development in the small islands of the Pacific has repeatedly illustrated how political stability and good government underpin good returns on public and private investment. A well-functioning government apparatus—including transparent and accountable rules and regulations, support for improved policy formulation, and institutional development—and an overall environment that supports improved and improving public and private sector operations, are essential for social and economic growth and development. Such government apparatus is generally weak in the Pacific and this is a primary reason for the region's lack of growth and development.

57. Many ADB and other capacity-development studies have concluded that capacity building requires a long-term, dedicated approach.³¹ Where government performance has been weak, reform or change is highly unlikely to happen overnight. Government and society may not understand the policies and institutions, the rules and regulations, and other environmental factors that can build capacity. Alternatively, fewer, larger, and longer-term ADB TA projects have recorded some positive impact in capacity building. Such assistance may require time frames that cover decades. Such an approach may commence with a strong focus on direct operational support in the early years and increasingly incorporate a focus on capacity building over time.

²⁹ The websites were (i) Improving Delivery of Infrastructure Services; (ii) HIV/AIDS Prevention and Capacity Development in the Pacific Project; (iii) Tonga Integrated Urban Development Project; (iv) Pacific Regional Environmental Strategy 2005–2009; (v) Federated States of Micronesia 2005 Economic Report; (vi) Juumemmej; (vii) Fiji Islands Country Gender Assessment; (viii) PNG Country Strategy and Program 2006–2010; (ix) PNG Governance Assessment; (x) Country Strategy and Program Updates for the Fiji Islands, Kiribati, the Marshall Islands, Solomon Islands, and Vanuatu; and (xi) Trust Funds in the Pacific.

³⁰ As part of preparing this midterm review, the Operations Evaluations Department's database of evaluation studies has been examined and the lessons from these studies have been incorporated.

³¹ See, for example: ADB. 2005. *Special Evaluation Study on ADB Policy for the Health Sector*. Manila (July); ADB. 2005. *Evaluation of the Health and Population Project in the Marshall Islands*. Manila (December); and ADB. 2006. *Papua New Guinea: Higher Education Project Performance Evaluation Report*. Manila (July).

58. While the Pacific region's development constraints may be generalized, solutions must be tailored to the particular circumstances of each PDMC. From experience, the timing of interventions is also highly specific to individual circumstances. One-size solutions cannot resolve all problems, and greater flexibility is needed;³² this is especially true in fragile environments.

59. In keeping with the conclusions of many academic studies and other research, the Pacific Capacity Development study³³ concludes that ownership is essential.³⁴ Too many development projects and other interventions have been designed at a distance from the Pacific, assuming that foreign technical, professional, and financial solutions can resolve the personal, political, social, and cultural challenges of the Pacific. The foreign input-dominated projects constrain (or even prevent) change and reform. Proposed solutions are unlikely to succeed if not initiated and owned by relevant island communities. It therefore follows that the design of any proposed interventions must be based on, and driven by, the Pacific context. In particular, the characteristics and dynamics of the prevailing political economy must be factored into the design of country strategies, projects, and programs in the weakly performing countries (WPCs) of the Pacific. This will, of necessity, require much longer duration in-country design missions.

60. Participation is essential, given the importance of ownership, context, individual application, the need for longer-term interventions, and the importance of building the government apparatus (including good governance). It must be deepened through a partnership approach in all ADB activities in the Pacific region.

61. Many of the initiatives already adopted under the Pacific Strategy and planned for the remaining period of the strategy represent a response to these key lessons. The nature of the response over the remainder of the Pacific Strategy has been shaped by three key initiatives.

62. The first key initiative is an ADB review of the needs of WPCs. The review emphasized capacity development as central to engagement with WPCs. It also recognized the considerable variation among WPCs in terms of the political economy, development needs, capacity constraints, and reform orientation. In so doing, it acknowledged that no single or standard approach for engaging with WPCs will apply.³⁵

63. The second key initiative is an ADB-wide study of the TA. The study concluded that "ADB needs to consider better ways to plan, manage, and deliver TA. A long-term programmatic approach to TA would facilitate ongoing capacity building, with each intervention forming part of a longer-term process of reform." The study mapped out a way forward, including the pursuit of (i) stronger corporate and country strategic focus for all TAs; (ii) strengthened strategic and technical quality controls; (iii) strengthened TA design through consultation and participation, with a view to strengthened DMC ownership, government and/or executing agency participation,

³² As argued in ADB's Medium-Term Strategy II: "A more flexible approach is required to meet the needs of (such) weakly performing countries. This will include not only special fields and modalities of intervention and allocation of resources, but also special forms of partnership with the government and development partners, flexibility in the application of policies and procedures, and staff with appropriate skills to tackle the unique problems of these DMCs and suitable incentives." (ADB. 2006. *Medium-Term Strategy II 2006-2008*. Manila; and ADB. 2001. *Long-Term Strategic Framework 2001-2015*. Manila.)

³³ The study is financed under TA 6245-REG: Strengthening Pro-Poor Policy in the Pacific.

³⁴ See for example ADB. 2006. *Evaluation of the Tonga Outer Islands Agriculture Development Project*. Manila (December).

³⁵ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The ADB's Approach to Engaging with Weakly Performing Countries)*. Manila.

and teamwork; (iv) stronger institutional and organizational analyses incorporated into the TA; and (v) preparation of TA completion reports jointly with executing agencies and other primary stakeholders, with more emphasis on outputs and outcomes.³⁶

64. The third key initiative is the ongoing Pacific Capacity Development study, which echoed the findings of the ADB-wide review of TA. The study presented a number of recommendations to improve development partner approaches to capacity development in the region, including the need to (i) undertake joint ongoing analyses of the political economy through participatory processes, (ii) allow more time for in-country strategic analyses and design, (iii) consider funding of the entire and longer-term country strategy, (iv) extend assessments of capacity strengths and weaknesses to include nongovernment agencies, (v) base country strategy design and monitoring frameworks on capacity-development indicators, and (v) engage more donors to engage in joint country strategy formulation.

65. Ongoing implementation of the Pacific Strategy is also shaped by the lower than expected demand for assistance in the provision of social services. Active engagement in social service delivery was anticipated under the Pacific Strategy, yet the extensive assistance provided in education and health by other donors, and a lower than expected prioritization of social services by PDMC governments, calls for a focus of ADB resources on other sectors.

V. HELPING REDUCE FRAGILITY

66. In 2007, seven PDMCs were categorized as WPCs—the FSM, Kiribati, PNG, the Marshall Islands, Solomon Islands, Timor-Leste, and Vanuatu.³⁷ Collectively, they account for 87% of the PDMC population. Even though not currently defined as WPCs, the remaining PDMCs exhibit characteristics of fragility. Nauru, Tonga, and Tuvalu in particular are at significant risk of being classified as WPCs in the future. Country performance has been stronger over time in the Cook Islands, the Fiji Islands, Palau, and Samoa, but because of geographic, environmental, social, and political factors even these countries are at risk. This interpretation of the fragility of the PDMCs guides the work of ADB in the Pacific.

67. ADB's approach to WPCs aims at providing increased flexibility and responsiveness to addressing issues facing WPCs. This is to be achieved through improving existing mechanisms as well as adopting new modalities and instruments, relaxing business processes, and increasing resources. ADB was proactive in the Pacific in advancing such modalities even before their advocacy by the WPC approach. Such modalities now figure prominently in ADB's approach to helping reduce fragility in the PDMCs. Substantial additional funding is being made available for ADB's nonlending products, notably of grants and technical assistance, over the first half of the Pacific Strategy. Higher levels of cofinancing have also been an important source of the additional assistance.

68. While nonfunding factors are a more important constraint to development in the PDMCs than any funding constraint, it is recognized that development assistance needs to be available at a reasonable cost. Under the new ADF grants framework, ADF-only countries are eligible for grants.³⁸ The proportion of ADF funds to be provided on a grant basis is contingent on the country's debt distress. The debt-distress thresholds will be contingent on the findings of the

³⁶ ADB. 2007. *Special Evaluation Study on Performance of Technical Assistance*. Manila (March); and ADB. 2006. *Special Evaluation Study of the Involvement of Civil Society Organizations in ADB Operations*. Manila (June).

³⁷ Non-PDMCs included in the indicative list of WPCs are Afghanistan, the Lao People's Democratic Republic, Nepal, Sri Lanka, and Tajikistan.

³⁸ ADB. 2007. *Revising the Framework for Asian Development Fund Grants*. Manila.

ADB's country performance assessments—those used in the performance-based allocation of ADF resources—and debt-sustainability analysis. Five PDMCs are eligible to receive all or a substantial share of their assistance as grants, at least initially (2007–2008). These PDMCs are Samoa (the grant component of ADF assistance is initially set at 50%), Solomon Islands (100%), Timor-Leste (40%, to the end of 2008), Tonga (50%, dependent on a formal reclassification under the graduation policy), and Tuvalu (100%).

69. A number of WPCs in the Pacific do not have access to ADF grants (FSM, Kiribati, the Marshall Islands, PNG, Vanuatu, and, from 2009, Timor-Leste). For these countries, engagement will be limited to ADF loans and TA. To address the needs of these countries and other fragile countries, a proposal for an additional funding tool—a WPC multidonor trust fund—is being discussed with donor partners. It is proposed that the fund would be accessible by those countries already classified as WPCs and those that exhibit aspects of fragility and risk falling into the WPC category, including where growth and stability is constrained by fragile and weakly performing subregions or areas. In addition, an easing in rate of return requirements will be sought for access by fragile PDMCs to existing funding sources, in keeping with their weak economic prospects. Furthermore, the flexibility provided by a new cost-sharing policy is to be applied in the PDMCs with a view to allowing ADB financing of as much as 99% of loan projects and TA where there is strong local ownership and commitment.³⁹

70. Additional flexibility is to be adopted to remain engaged in PDMCs facing crisis. As argued in ADB's Medium-Term Strategy II:

the detrimental consequences of neglecting weakly performing countries or limiting support solely to humanitarian assistance can be substantial. The absence of badly needed development assistance can contribute to such countries becoming more unstable. Over time, lack of engagement may threaten the stability of neighboring countries, create opportunities for international terrorism, and displace people and create refugees. Although humanitarian aid is necessary to save lives in the immediate aftermath of disasters and conflicts, it is insufficient to meet the rehabilitation and reconstruction requirements and the long-term development needs of weakly performing countries.⁴⁰

71. Capacity building in PDMCs is to respond to the recognized need for a longer-term approach within a Pacific context. A detailed action plan is being prepared through the Pacific Capacity Development Study. As an initial step, a TA Checklist and a TA Completion Questionnaire are to be adopted. The checklist is designed to improve entry control systems, while the completion questionnaire is an anonymous survey for those targeted by TA that is designed to improve monitoring and evaluation. Adoption of these measures is also an initial response in the Pacific to the recommendations of the recent ADB-wide review of TA. It is anticipated that TA clusters will be employed more frequently in future Pacific programs. This is to support a longer-term engagement, more flexible design, and adaptation during implementation.

³⁹ This is to apply to ordinary capital resources and ADF public sector loans (other than policy-based program loans, and limited or nonrecourse financing to subsovereigns or nonsovereigns of the public sector), ADF grants, and TA loans and grants. ADB. 2005. *Cost Sharing and Eligibility of Expenditures for ADB Financing: A New Approach*. Manila (R193-05).

⁴⁰ ADB's Medium-Term Strategy II 2006–2008 is the second in a series of medium-term strategies designed for shorter time periods to elaborate on the approach of ADB's Long-Term Strategic Framework 2001–2015. (ADB. 2006. *Medium-Term Strategy II 2006–2008*. Manila, and ADB. 2001. *Long-Term Strategic Framework 2001–2015*. Manila.)

72. It is recognized that some gaps in capacity in the PDMCs will need to be filled over the medium term by a higher-than-normal external input, notably via project implementation units. The Pacific Capacity Development Study identified that, from the Pacific region's point of view, gap filling or capacity substitution may be perceived as a valid public policy option as long as project implementation units transform to government over the longer term. Following from the Pacific Capacity Development Study, demonstration of a firm understanding of country context and a careful assessment of the real demand for such assistance would be required as a precursor to establishing new project implementation units. A clear exit strategy based on a long-term view of capacity development would also be required before adopting any such intervention.

73. Policy dialogue is an important mechanism available to ADB to build on its role as a knowledge bank. Efforts to increase policy dialogue with the PDMCs are to figure in the ongoing implementation of the Pacific Strategy. There is a need for dialogue focused on state building. Governance shortcomings are potentially the region's most severe binding constraint to growth. It is recognized that the flexibility provided under the new policy and operational frameworks provides an important opportunity to strategically use ADB and donor partner resources to leverage policy reform in the PDMCs. Such a strategic use of resources is considered complementary to the extra flexibility provided under the new ADB policy frameworks.

74. Efforts to increase policy dialogue with the PDMCs would build on progress so far under the Pacific Strategy, which has introduced a heightened level of attention to policy analysis and debate. Notable examples have been (i) the participatory approach of the latest round of Pacific island economic reports, (ii) the conduct of private sector assessments, and (iii) the dialogue in support of the annual country performance assessment. The country performance assessment process in particular is increasingly guiding policy dialogue—in the Marshall Islands, for example, it has been adopted in the country's reform agenda. Such initiatives will remain important in the implementation of the Pacific Strategy.

75. New approaches will also be explored to strengthen the analytic underpinnings of ADB's engagement. Strategic analysis can help identify strategic priorities, and offer staff, PDMC government, and civil society insights into constraints to growth and development and elucidate better practices and approaches. These approaches allow for assessment of the political economy, and for the real, effective demand for proposed assistance needs to be better integrated into country strategies and development activities, along with the analysis of binding constraints. Integration of such new approaches into country strategies is to commence with the preparation of country strategies for the FSM and Palau in 2008.

76. There is to be a complementary, deeper engagement with the nonstate entities in PDMCs—including representatives of civil society, the private sector, and faith-based groups. ADB will strengthen participation in all its support activities. Country strategy and program formulation will utilize participatory approaches to strengthen both the demand for, and supply of, essential policy and institutional reforms.⁴¹ The same participatory approach will be employed to help assess capacity strengths and weaknesses and to design and implement flexible approaches to building capacities. Midterm reviews of country programs will be

⁴¹ Engagement with civil society, business, and faith-based groups is to be modeled on the approach adopted in preparing the Greater Mekong Regional Cooperation Strategy and Program and subsequent country-level consultation (ADB, 2006. *Promoting Nongovernment Organizations Support for Poverty Reduction in the Greater Mekong Subregion*. Manila [TA 6118-REG, final report. January]).

undertaken in a participatory manner with government and nongovernment stakeholders.⁴² This widening in engagement will help ensure that assistance is tailored to the needs of each PDMC. PDMCs that receive most of their assistance as grants will be actively encouraged to hold forums on development progress involving representatives of civil society, business, faith-based groups, and the media. ADB will seek financial support for such forums.

77. ADB's recent experience in engaging civil society in policy dialogue has highlighted that future activities will need to address (i) government sensitivities of perceived duplication of existing government–NGO dialogue, (ii) the perception that NGOs have usurped government roles, and (iii) concerns about NGO legitimacy and representativeness. To help address these issues, more time needs to be spent engaging with PDMC governments on the benefits and challenges of participatory approaches.

78. Additional efforts are to be made to coordinate donor assistance to PDMCs. The Pacific Strategy laid the foundation for improved coordination, and important progress has been made. Donor coordination forums that initially pursued harmonization and alignment in order to avoid the overloading of absorptive capacity have also begun to explore policy issues. This extension in scope will be given added support, notably through the work of ADB's senior management and field offices and the resourcing of additional joint analytical work.

79. ADB will continue to assist the PDMCs to plan and adjust for environmental and climate change.

80. Efforts will continue to implement the Governance and Anticorruption Action Plan II, which focuses on collaborative approaches to providing information and knowledge about risks and potential mitigation measures.⁴³ Efforts aimed at improving governance and anticorruption measures within the PDMCs are to be focused, not spread over too many sectors, and brought into the mainstream of operations. Implementation is to be collaborative, not imposed on PDMCs, with sectors chosen for risk assessment in consultation with PDMCs. The governance and/or anticorruption orientation of country strategies will be strengthened through a risk-based approach. Eventually, risk assessments will be included in loan documents (reports and recommendations of the President). The Samoa country strategy is to provide a pilot, with education and water supply and sanitation infrastructure the proposed priority sectors. The Pacific Department will conduct governance, institutional, and corruption risk assessments over the next 3 years in other PDMCs as appropriate.

VI. DEEPENING DONOR COOPERATION

A. The Evolving Regional Framework

81. The Pacific Strategy strengthened the commitment of ADB to (i) pursue activities complementary to those of its development partners, (ii) take steps to harmonize with partner programs where possible, and (iii) promote dialogue among development partners. ADB also committed to integrating development partner resources and programs into PDMC plans. These commitments are critical to the Pacific Strategy's efforts to promote effective development processes.

⁴² This engagement is to focus on the monitoring of progress in achieving the strategy results framework—the cornerstone of the new country strategies.

⁴³ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

82. Soon after approval of the Pacific Strategy, most PDMCs and donor agencies operating in the region—including ADB—endorsed the Paris Declaration on Aid Effectiveness.⁴⁴ Endorsement rested on a commitment of donors to (i) harmonize development assistance at the country level; (ii) align assistance with national priorities, strategies, institutions, and procedures; and (iii) make maximum use of regional systems. These commitments were tailored to the region's needs through the Pacific Aid Effectiveness Principles agreed to by the Forum Economic Ministers Meeting in July 2007 (Appendix 3). Derived from the Paris Declaration and workshops and consultation across the region, these principles provide both a set of guiding principles and measurable indicators of progress in their implementation. The July 2007 Forum Economic Ministers Meeting also agreed that a separate Pacific Island Countries/Partners Meeting would be held annually to discuss issues around harmonization, coordination, and aid effectiveness.

83. Important achievements are also evident at the country level. In Tonga, ADB—together with AusAID and NZAID—has worked to formulate a joint donors' statement built around the principles of the Paris Declaration. A similar statement for PNG is nearing completion. In PNG, efforts to achieve alignment have led to ADB and other key donors adopting components of the results framework of the country's Medium-Term Development Strategy in their country strategies. At the sector level, movement towards harmonized strategy and programs has been made in the education sector in Samoa, in the transport sector in Solomon Islands, in the health sector in PNG, and in the context of a possible multipartner Pacific Regional Infrastructure Fund.

84. In October 2005, regional leaders endorsed the Pacific Plan for Strengthening Regional Cooperation and Integration to strengthen regional cooperation and integration on trade, private sector development, service delivery, and the achievement of good governance.⁴⁵ The Pacific Plan is based on the concept of regionalism, i.e., that of countries working together for their joint and individual benefit. There is now broad alignment between the Pacific Plan and the regional plans of ADB, AusAID, NZAID, and the World Bank (Table 3).

85. High-level consultations have played a central role in the Pacific Strategy. Three joint consultations have been held between ADB, AusAID, and the World Bank under the umbrella of a cooperation agenda in PNG and the Pacific. Applying the lesson that successful cooperation is carefully targeted with timetables for specific actions, the focus of the second cooperation agenda was narrowed, and four substantive themes were pursued: (i) harmonization of selected donor processes and/or systems, including procurement and working through partner government systems; (ii) private sector development; (iii) public sector capacity development; and (iv) corporate information sharing between cooperation partners. Consultations in August 2007 agreed on further harmonization approaches, including (i) establishing an infrastructure working group, (ii) developing a common set of indicators to measure progress in promoting private sector development, and (iii) conducting a proposed joint country performance assessment and country policy and institutional assessment exercise in the Pacific. An independent review of the ADB, AusAID, World Bank cooperation agenda pointed to the important contribution of the initiative in improving donor coordination in the Pacific.⁴⁶

⁴⁴ Organization for Economic Co-operation and Development. 2005. Paris Declaration on Aid Effectiveness. Paris. The Paris Declaration was endorsed by ADB, the World Bank and other multilateral development banks, the United Nations and other major aid and donor agencies, and some 90 countries.

⁴⁵ Pacific Islands Forum Secretariat. 2005. *The Pacific Plan for Strengthening Regional Cooperation and Integration*.

⁴⁶ ADB, AusAID, and World Bank. 2006. *Cooperation Agenda in PNG and the Pacific—First Annual Independent Review Report*. Manila.

Table 3: Comparison of the Regional Plans

Pacific Plan Item	Comparable strategic direction in regional strategies			
	ADB	AusAID	NZAID	World Bank
Economic growth.	Support a conducive environment for the private sector.	Stronger broad-based growth.	Economic development, trade, and fisheries.	Improve the incentives for private sector-led growth and employment.
Sustainable development.	Enhance the supply of, and demand for, quality basic social services.	Enhanced service delivery, including effective financial management.	Education, health, and environment.	Strengthen government capabilities in service delivery.
Good governance and security for Pacific countries through regionalism.	Promote effective development processes.	More effective, accountable democratic government, and improved law, justice, and security.	Governance.	

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, NZAID = New Zealand Agency for International Development.

Source: Pollard, S. 2006. *What Works: Seven Guides to Best Policies and Practices for a Better Pacific*. Manila.

86. Cooperation and harmonization efforts have also advanced with other donors. Notably, three high-level consultations have been undertaken between ADB's Pacific Department and NZAID.⁴⁷ Joint country strategy and program missions and analyses have been carried out or are planned for the Fiji Islands, the FSM, Kiribati, the Marshall Islands, Samoa, Tonga, Tuvalu, and Vanuatu. Common use of the public expenditure and financial accountability performance measurement framework has figured in this joint work.

87. For private sector development, cooperation has moved beyond sharing information in the context of the Pacific Private Sector Development Working Group (which meets quarterly and involves key Private Sector Development Initiative donors [footnote 17]). Cooperation efforts are now targeting (i) a convergence of Private Sector Development Initiative strategies and approaches; (ii) a strategic division of labor and coordinated Private Sector Development Initiative country programming; and (iii) more ambitiously, joint project design and implementation. For example, ADB and the World Bank have initiated the formulation of a mechanism towards joint engagement of member countries in selected Private Sector Development Initiative focus areas.

B. Next Steps

88. High-level consultations are providing an important forum for advancing harmonization and alignment through donor coordination. They have also emerged as a forum for advancing donor coordination on policy issues, and consequent coordination dialogue with PDMC governments. ADB will seek to deepen the policy discussion over the remaining period of the Pacific Strategy with an emphasis on the needs of the WPCs in the region. The country performance assessment is expected to figure prominently in these efforts.

89. The increased policy discussion is complementary to the extra flexibility provided under the new ADB policy and operational frameworks. It is also seen as a response to the high transaction costs incurred in achieving policy reform in the Pacific. The number of interest groups that can emerge in a PDMC in the face of policy change can be as numerous as in a

⁴⁷ Harmonization with NZAID has advanced on several fronts. In the Cook Islands, harmonization with NZAID and other development partners has been driven by donor support for development of the National Sustainable Development Plan. In the Cook Islands infrastructure sector, ADB undertook the basic analysis of needs, and development partners adopted the study for implementation. For infrastructure aspects of the Cook Islands cyclone recovery programs, ADB injected flexibility into its program to allow for increased use of donor grants as funds became available. Joint project preparation missions have also been undertaken in Solomon Islands.

much larger country, and each interest group can have as much influence over a policy decision as an interest group in a much larger country. Hence, despite the small populations of the PDMCs, the degree of difficulty faced in managing policy change can be similar to that seen in much larger countries. When country and donor resources are spread across a large number of activities, they can lack the critical mass required to achieve helpful change. Donor coordination offers the potential to consolidate efforts and overcome high transaction costs. Where opportunities present themselves, this will be achieved through increasing focus on a joint strategy formulation and country programming.

90. Donor coordination is also critical to keeping donor activities within local capacities to absorb. Overloading of local systems is most likely when donors have multiple entry points to a partner government's system. When there are multiple entry points, a donor can inadvertently encourage adoption of an initiative even though it may (i) displace a more important local activity, (ii) displace the initiative of another donor, or (iii) give rise to inconsistency between activities. Most PDMCs have established coordination points within their administration to lessen this problem, but such coordination points can struggle to cope with the high demands faced. Donor coordination forums would be encouraged to provide a clearing house for the requests from donors for government resources (whether they be in time or in financial terms). The aim is to encourage a prioritized, consistent package of donor requests that can be presented to partner governments for their consideration, preferably in the context of the PDMC's annual budget round. Such a process would also provide important feedback to donors by facilitating monitoring of the extent to which partner governments have been able, or are willing, to respond to donor initiatives.

91. Efforts will continue to develop relationships with a broader range of donors. Productive consultations about cooperation in the north Pacific were conducted in November 2006 and again in August 2007 between the United States Department of Interior and ADB. Recent discussions with the Japan Bank for International Cooperation are to be pursued to explore potential collaboration in Samoa, Solomon Islands, and PNG. Additionally, a formal collaboration process with the People's Republic of China is soon to be initiated, and ADB is also discussing possible areas for collaboration with India. ADB will continue to seek to extend relations with other emerging donors. Such discussions will take into consideration the potential tensions between foreign relations and development policy, and in particular the potential for unconditional grant aid to undermine incentives to undertake difficult domestic policy reform.

92. ADB is seeking to strengthen its field presence in PDMCs through leveraging resources with other donors active in the region. A possible joint representation with the World Bank is being considered in Samoa and Tonga, building on the field presence already established in the Fiji Islands, PNG, Timor-Leste, and the special coordination office in Sydney, Australia.

VII. MANAGING REGIONAL INITIATIVES

93. ADB support for regionalism in the Pacific is guided by its Regional Cooperation and Integration Strategy.⁴⁸ The strategy identifies four roles ADB can play in support of regional cooperation and integration: (i) providing financial resources and/or helping DMCs mobilize funding and TA (i.e., acting as a money bank); (ii) acting as a knowledge bank by creating, consolidating, and disseminating knowledge to DMCs and information on regional cooperation and integration; (iii) helping DMCs and regional and subregional bodies build institutional capacity; and (iv) serving as an honest broker by catalyzing and coordinating regional cooperation and integration. Regionalism is far less advanced in the Pacific than it is in other

⁴⁸ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

ADB regions. Under the Pacific Strategy, ADB has focused on the provision of regional public goods and support for trade and investment integration.

94. Flexibility and responsiveness to emerging concerns and policy directions have been important to implementation of the Pacific Strategy. A discernable shift in the focus of regional activities has been achieved, predominantly to achieve a better match between the regional TA pipeline and the strategy. The regional portfolio has also been simplified, producing greater focus, selectivity, and impact in light of ADB's limited staff and other resources and the important role in the region of other development partners. This has led to a smaller number of typically larger value new regional TA projects. As a result, the ongoing portfolio can be more effectively monitored and supported, and offers considerable efficiency enabling activities to cover a representative number of PDMCs.

95. There are good case studies of ADB support to the regional provision of services in the Pacific. ADB has provided recurrent core funding to the Pacific Financial Technical Assistance Center of the International Monetary Fund.⁴⁹ Activities in the transport sector have also proved successful, and include the first regional loan in the Pacific—Establishment of the Pacific Aviation Safety Office.⁵⁰ Regional cooperation is leading to harmonization of regulations, training, and inspections that was not possible when each country was acting alone, and has provided safety and security expertise to countries that would otherwise not have the necessary capability. This activity has also catalyzed additional resources for TA, including from New Zealand. Lastly, the regional TA Implementation of the Pacific Education Strategy: Skills Development project,⁵¹ which is executed by the Pacific Island Forum Secretariat in coordination with major development partners, successfully produced a set of strategies for skills development that are responsive to emerging market demands of both the formal and informal sectors of 13 PDMCs.

96. Key lessons can be drawn from experiences in implementing regional activities, cognizance of which can enhance the effectiveness of future regional operations. Importantly, there is an ongoing need to help the PDMCs develop a greater understanding of the benefits and costs of regionalism.⁵² Subregional approaches, which allow for variation in emphasis and approach, can also be more successful in the Pacific if groups of countries are allowed to self-select. Consultative and participatory processes also contribute to success by generating ownership of activities and promoting sustainability. Regional initiatives are most successful and can effectively complement Pacific Strategy objectives when they directly address national needs and priorities, and complement and build upon sectors and themes in which ADB has a strong track record. Regional interventions can play an important role through building demand for, and reinforcing the focus of, national assistance. Successful regional interventions, however, can be time and resource intensive, often requiring long-term engagement. Consequently, it is important to continue to pursue a selective approach to regional

⁴⁹ ADB. 2006. *Technical Assistance in Support of the Pacific Financial Technical Assistance Centre in the Pacific Island Countries*. Manila (April).

⁵⁰ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Pacific Aviation Safety Office for the Establishment of the Pacific Aviation Safety Office Project*. Manila (Loan 2183, approved on September 2005, for \$2.1 million).

⁵¹ ADB. 2005. *Technical Assistance to the Independent State of Samoa for the Implementation of the Pacific Education Strategy: Skills Development Project*. Manila (approved on November 2005, for \$975,000).

⁵² There are noteworthy examples of progress in regionalism: the Pacific Island Countries Trade Agreement has received sufficient ratifications to come into force, the Pacific Plan was adopted in 2005, and the Pacific Islands Air Services Agreement came into force in 2007 as a vehicle for liberalizing and integrating air services between the Pacific Island Forum countries. However, progress has generally been slower than hoped and there have been recent episodes of protectionism.

engagement, focused on areas of ADB comparative advantage and on activities that are owned by, and can demonstrate tangible benefits to, Pacific island countries.

97. Delays in closure for the regional activities approved under the Pacific Strategy (11 TA projects, a regional loan, and a regional grant) indicate that implementation of regional activities in the Pacific sometimes takes longer than expected. Portfolio performance has also been affected by the limited pool of national consultants available in PDMCs, and by the learning process involved in ADB's use of a number of development partners—including NGOs and regional organizations—to implement TA.

98. Given these lessons and the history of slow acceptance of regionalism in the Pacific, it is important to adopt a measured approach to regional assistance that focuses on demonstrating where regional action can add value to country-level objectives. It is critical to create the appropriate environment for the success of these interventions through inclusive, participatory, and consultative dialogue and information sharing with stakeholders in order to promote understanding of regional issues at a national level.

99. These priorities will continue to be pursued through the regional operations business plan. ADB will focus on knowledge products that better target the analytical needs of the region, and will take a more active role in catalyzing regional development through policy dialogue involving all stakeholders. It will have the aim of identifying the policy and institutional environment required to facilitate regional cooperation, such as improved governance, sound economic management, and a supportive environment for private sector development.

VIII. A REFINED PACIFIC STRATEGY

100. The Pacific Strategy pointed to the urgency required in all PDMCs to improve development outcomes. The continuing fragility of the region reinforces the need for urgency. This fragility is most evident in (i) the poor state of governance, (ii) weak economic growth, (iii) the slow rate of progress towards achieving some MDGs, and (iv) growing environmental pressures. Responsibility for action rests primarily with the PDMCs—with their governments, business sectors, and communities. The social and political support for change needs to build internally if political and economic reforms are to be owned locally and implemented with vigor. External parties are an important source of support, but they cannot lead the way.

101. Building on consultation with partner governments, the Pacific Strategy set a vision of supporting the Pacific to become a region free of poverty. Strategy goals were established to help the region pursue (i) access by poor people to cash income opportunities, through efficient markets; and (ii) improved social service outcomes for poor people. The Pacific Strategy has provided tangible support towards achieving these goals, but external assistance is only one of many factors required for development. Overall, progress remains slow and much more needs to be done, especially in helping to raise the demand for better performance within the PDMCs.

102. The Pacific Strategy identified the potential continuation of political instability (accompanied by insecurity and conflict) in some PDMCs as one of three key risk factors. This has proven to be the dominant risk facing the Pacific Strategy. Political instability, insecurity, and conflict have curtailed economic growth and imposed a costly burden on the region's communities. This situation is a reflection of shortcomings in governance—shortcomings that are potentially the deepest constraint to growth and development in the region. The orientation in the Pacific Strategy to addressing weak governance remains central to successful ADB engagement in the region. Actions have been taken under the Pacific Strategy 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. These actions are to be strengthened over the remainder of the Pacific Strategy.

103. The Pacific Strategy identified the role of, and incentives provided by, development partners, and internal administrative and procedural constraints, as the two other key risk factors. Substantial efforts have been made to lessen these risks. Donor coordination, focused on the principles of the Paris Declaration on Aid Effectiveness, has deepened, and further gains are in train. More flexible and responsive policies have been adopted, business processes have been revised to streamline operations, and an increased field-office presence has helped raise the effectiveness of administration. The improvements are reflected in the large increase in assistance approved under the Pacific Strategy. The important contribution made by cofinancing to the increase in assistance is a direct result of the gains made in donor coordination under the Pacific Strategy.

104. Investment is needed in the region's infrastructure if fragility is to be reduced. Investment is needed to (i) service growing populations, (ii) target the needs of the disadvantaged, (iii) ameliorate environmental pressures, and (iv) help the PDMC economies to be more competitive. While it is difficult to reliably estimate the investment needs of the PDMCs, recent analysis confirms expectations of a large funding gap. ADB has continued to play a key role in providing the region's physical economic and social infrastructure. Lower-cost funding mechanisms have been put in place to help fund the large backlog of infrastructure works that has accumulated.

105. Those PDMCs that have achieved sustainable growth have achieved this through private sector-led growth. ADB has played a role in helping PDMCs pursue private sector-led growth by helping create a more conducive environment for the private sector. Support has been provided under the Pacific Strategy for (i) reforming the legal and regulatory environments, (ii) strengthening the financial sectors, and (iii) improving the performance of state-owned enterprises. These efforts will continue over the second half of the Pacific Strategy. There is relatively limited potential for ADB to utilize private sector lending or equity instruments in the PDMCs. However, this potential is expected to emerge over the medium to long term through continued effort to develop the region's private sector.

106. While the Pacific Strategy generally focuses on areas of need in the Pacific and where ADB has a comparative advantage to meet these needs, demand for ADB support in the provision of basic social services—such as education and health—has been less than expected. This reflects both a lack of prioritization from PDMCs and the presence of other development partners with a comparative advantage in the social sector. ADB assistance under the remainder of the Pacific Strategy can therefore be better targeted by placing more emphasis on the provision of physical infrastructure. However, in health and education, ADB will remain open to supporting valuable initiatives in close collaboration with other development partners.

107. A refined Pacific Strategy 2005–2009 is summarized in Table 4.⁵³ It differs from the original strategy in two important respects: The original strategic objective 2 has been narrowed from “Enhance the supply of, and demand for, quality basic social services” to “Support

⁵³ It is apparent that while acting as a strategic guide to all engagement in the Pacific, the Pacific Strategy has in effect also taken on the role of a regional strategy. In future, this role could be recognized through accepting the Pacific Strategy as the Pacific Regional Cooperation Strategy, while simultaneously maintaining its very useful broader role as a guide to all Pacific operations.

physical, economic, and social infrastructure development”. The key result areas for this strategic objective have also been refined towards physical infrastructure and away from social sector strategy and policy (which instead will be addressed at a broad level under strategic objective 3). The original strategic objective 3 has also been revised from “Promote effective development processes” to “Good governance” in order to more explicitly recognize the focus on governance under the Pacific Strategy.

108. The refined Pacific Strategy is complemented by the establishment of a results framework for use in monitoring and evaluation. A results framework that traces the alignment of ADB activities with PDMC development goals is presented in Appendix 1. The framework is designed to support a stronger emphasis on managing for developing results at a regional, country, and activity level. To-date, results frameworks have been applied at a country and activity level only. The regionwide results framework is intended to help ensure consistency across country strategies and to focus attention on the implementation of regionwide initiatives.⁵⁴

109. The results framework rests on a series of indicators of performance. Ideally, these would be indicators of outcomes achieved under the Pacific Strategy as opposed to outputs (e.g., km of roads built or number of policy proposals submitted to government) or inputs (e.g., the number of experts fielded or dollars spent). However, outcomes can be difficult to measure and data limitations in the PDMCs add a further constraint to the use of outcome indicators. The indicators of the results framework are a combination of outcome, output, and income indicators. In some cases the indicator requires refinement, notably in terms of an acceptable standard of performance. This refinement is to be undertaken over the final implementation of the Pacific Strategy.

⁵⁴ The regional results framework is a complement to initiatives pursued at a country and project level within the PDMCs in response to the management for development results Action Plan (ADB. 2006. *Managing for Development Results in ADB: Revised Action Plan*. Manila.)

Table 4: Summary of a Refined Pacific Strategy 2005–2009

Vision: A Pacific region free of poverty Goals: <ul style="list-style-type: none"> • Access of the poor to cash income opportunities, through efficient markets. • Improved social service outcomes for the poor. 	
Strategic Objective 1: Support a Conducive Environment for the Private Sector Key Result Areas: <ul style="list-style-type: none"> (i) An effective institutional, legal, and regulatory environment (including for skills development in response to labor market demands). (ii) Improved financial services. (iii) Improved state-owned enterprise accountability and performance. 	
Strategic Objective 2: Support Physical Economic and Social Infrastructure Development Key Result Areas: <ul style="list-style-type: none"> (i) Better transport infrastructure. (ii) Improved energy infrastructure. (iii) Better rural infrastructure. (iv) More clean water and sanitation. (v) Improved climate proofing of infrastructure. 	
Strategic Objective 3: Good Governance Key Result Areas: <ul style="list-style-type: none"> (i) Strengthened government transparency and accountability. (ii) Increased stakeholder participation and ownership in development programs. (iii) Increased public demand for good governance and for effective markets and services. (iv) Effective public, private, and development partner resource allocations for basic social services. (v) Strengthened capacity of Pacific developing member country governments to plan and manage for development results. (vi) Improved availability and dissemination of quality data and information on development issues. (vii) Gender and environmental considerations mainstreamed into development planning and programs. (viii) Enhanced development partner coordination and harmonization. (ix) Improved service delivery and economic integration through enhanced regional cooperation. 	

Source: Asian Development Bank.

STRATEGY RESULTS FRAMEWORK

PDMC Development Goals		Regional Strategy Outcomes		Key Areas of ADB Intervention	Key Risks
Goals ^a	Key Constraints	Outcomes	Indicators		
A. Strategic Objective 1: Support a Conducive Environment for the Private Sector					
Economic Growth Increased sustainable trade (including services) and investment. Increased efficiency and effectiveness of infrastructure developments and associated service delivery. Increased private sector participation in, and contribution to, development.	Tensions between traditional and modern systems of government.	An effective institutional, legal, and regulatory environment (including for skills development in response to labor market demands).	Meaningful improvement against the country performance assessment measure of structural policies. ^{b,c}	Regional and country TA projects for private sector development reviews, the legal environment, secured transactions, tax reform, and skills development.	A weakening in domestic growth heightens sensitivity to the prospect of change.
	A tendency towards patronage rather than wealth creation in some PDMCs.			Loan projects in private sector development, small-business development, training and skills development, agriculture development, and coastal fisheries management.	A deterioration in external conditions destabilizes the business environment.
	Shortage of technical capacity to develop and implement policy.	Improved financial services.	Rising ratio to GDP of domestic lending by commercial banks (measure of financial depth) and non-bank financial intermediaries (measure of financial market diversification). ^b Declining interest rate spreads in the commercial banking sector, in countries with a relatively high spread (measure of market efficiency). ^b	Regional TA projects on private sector development reviews, the legal environment, prudential regulation, and secured transactions. Loan projects in microfinance.	New governments are formed that place a lower priority on private sector development. Businesses favored by existing discriminatory arrangements mobilize opposition to reform.
	Community sensitivity to the presence of foreign businesses.				
	Cultural constraints on market-based trade in land.	Improved state-owned enterprise accountability and performance.	Meaningful improvement in state-owned enterprise indicators from the PEFA. ^b	Loan and TA projects in state-owned enterprise reform and public financial management. Support for the Pacific Financial Technical Assistance Centre.	Increased migration of skilled labor. Declining government support for the collection and publishing of performance information.
	Some business resistance to best-practice approaches to regulation and new competition.				
	Social responsibilities of state-owned enterprises as a service provider and source of employment.				

PDMC Development Goals		Regional Strategy Outcomes		Key Areas of ADB Intervention	Key Risks
Goals ^a	Key Constraints	Outcomes	Indicators		
B. Strategic Objective 2: Support Physical Economic and Social Infrastructure Development					
Economic Growth Increased sustainable trade (including services) and investment. Increased efficiency and effectiveness of infrastructure developments and associated service delivery. Increased private sector participation in, and contribution to, development.	Insufficient revenue base to support public investment. Shortage of technical capacity to develop and implement infrastructure projects. Weak pro-poor focus in planning and budgeting. Weaknesses in the environment for private sector involvement in infrastructure.	Better transport infrastructure. Improved energy infrastructure. Better rural infrastructure. More clean water and sanitation. Improved climate proofing of infrastructure.	Increased real value of ADB infrastructure assistance to the region (in per capita terms). Meaningful improvement in the performance of infrastructure. ^b Number of PDMCs successfully adopting public–private partnerships in infrastructure development and/or maintenance. Increased volume (in per capita terms) of works completed in the region by ADB (e.g., kilometers of roads maintained, number of households serviced by new water supply systems). Meaningful increase in proportion of, urban and rural population with sustainable access to a potable water source. ^{b,d} Meaningful increase in proportion of urban and rural populations with sustainable access to sanitation. ^{b,d} Meaningful increase in proportion of population (i) with access to an electricity supply, and (ii) whose electricity is generated from renewable resources. ^{b,d}	Loan and grant projects for major road, electricity, port, wharves, maritime navigation aids, and water and sanitation developments. Emergency rehabilitation (post-conflict and natural disasters) of infrastructure through loan and grant projects. Regional TA on infrastructure planning, climate-proofing, and capacity building in infrastructure development and management.	Natural disasters and climate change require additional expenditure and a shift in expenditure priorities. Public projects are implemented outside normal processes. New government priorities lead to a reduced emphasis on infrastructure maintenance expenditure. Increased migration and staff turnover impede capacity-development initiatives.
Sustainable Development Reduced poverty. Improved natural resource and environmental management.	High unit costs from smallness and remoteness.				

PDMC Development Goals		Regional Strategy Outcomes		Key Areas of ADB Intervention	Key Risks
Goals ^a	Key Constraints	Outcomes	Indicators		
C. Strategic Objective 3: Good Governance					
Good Governance Improved transparency, accountability, equity, and efficiency in the management and use of resources in the Pacific. Security Improved political and social conditions for stability and safety. Sustainable Development Reduced poverty. Improved natural resource and environmental management. Improved health. Improved education and training. Improved gender equality. Enhanced youth involvement. Recognized and protected cultural values, identities and traditional knowledge.	Tensions between traditional and modern systems of government. A tendency towards patronage rather than wealth creation in some PDMCs. Cultural barriers to broad-based engagement with civil-society representatives. Cultural biases against gender balance in some cultures. Shortage of technical capacity to develop and implement infrastructure initiatives. Potential for incompatibility between PDMC and donor standards and practices. Generally light approach to providing safeguards on land use.	Strengthened government transparency and accountability.	Meaningful improvement in indicators from the PEFA. ^b Increased number of PDMCs with an up-to-date PEFA. Meaningful improvement against the country performance assessment measure of transparency, accountability and corruption in the public sector. ^{b,c}	Loan and TA projects in public financial management. Regional TA on procurement and capacity development by the Pacific Financial Assistance Centre. Implementation of the governance and anticorruption action plan.	Civil unrest prevents a systematic response to governance issues. Nongovernment parties decline to engage with governments in some PDMCs. Climate change places unexpected pressure on natural resources.
		Increased stakeholder participation and ownership in development programs.	Number of midterm reviews of country partnership strategies subject to broad-based focus-group assessment (government, civil society, business, and faith-based groups). Public dissemination of progress reports on implementation of the regional strategy.	Participatory approach to preparation of the regional and country assistance strategies. Regional and country TA in support of pro-poor development planning.	Increased migration and staff turnover impede capacity-development initiatives. New foreign policy initiatives lead to divergent approaches to the selection, design, and implementation of public projects. Rising corruption undermines confidence in the use of government processes.

PDMC Development Goals		Regional Strategy Outcomes		Key Areas of ADB Intervention	Key Risks
Goals ^a	Key Constraints	Outcomes	Indicators		
C. Strategic Objective 3: Good Governance (continued)					
		Effective public, private, and development partner resource allocations for basic social services.	Meaningful improvement against the country performance assessment measure of equity in public resource use and building human resources ^{b,c}	Regional and country TA in support of education and health sector planning and management. Regional and country TA on HIV/AIDs prevention and control. Grant support for education and health sector infrastructure.	Government commitment to regional initiatives wanes. Declining government support for collecting and publishing information on the state of governance wanes.
		Strengthened capacity of PDMC governments to plan and manage for development results.	Meaningful improvement against the country performance assessment measure of public sector management and institutions. ^{b,c} Number of loan projects and TA projects receiving a satisfactory assessment from (anonymous) client surveys of compliance with the principles of good capacity building.	Regional and country TA on leadership and pro-poor development planning.	
		Improved availability and dissemination of quality data and information on development issues.	Number of PDMC statistical bureaus releasing national accounts, government financial statistics, and balance of payments (or, when not prepared, current account estimates) within 12 months of year-end. Number of Millennium Development Goal targets that can be meaningfully measured.e	Regional TA in strengthening capacity in statistical agencies and the capacity to conduct and analyze large-scale surveys (household income and expenditure survey, demographic health survey). Regional TA in poverty analysis and civil society's engagement in government decision making.	

PDMC Development Goals		Regional Strategy Outcomes		Key Areas of ADB Intervention	Key Risks
Goals ^a	Key Constraints	Outcomes	Indicators		
C. Strategic Objective 3: Good Governance (continued)					
		Gender and environmental considerations mainstreamed into development planning and programs.	Meaningful improvement against the country performance assessment measure of gender equality and policies and institutions for environmental sustainability.b,c Number of PDMCs producing up-to-date national gender and environmental assessments. Number of PDMCs trialing gender-responsive budgeting. Number of midterm reviews of country partnership strategies with meaningful input to gender and environmental issues by broad-based focus groups (government, civil society, business, and faith-based groups). Number of ADB staff receiving training in gender and the environment.	Regional TA projects for the conduct of country gender and environmental assessments. Regional and country TA in support of environmental planning, social protection systems, and pro-poor development planning.	
		Enhanced development partner coordination and harmonization.	Meaningful progress in implementing the Pacific Aid Effectiveness Principles. Meaningful improvement in donor-related indicators from the PEFA. Meaningful improvement in national perceptions that development partners' programs are aligned with national and regional priorities. ^d	Participation in donor coordination forums. Revisions to ADB processes and systems. Alignment of country strategies with national development plans and objectives.	

PDMC Development Goals		Regional Strategy Outcomes		Key Areas of ADB Intervention	Key Risks
Goals ^a	Key Constraints	Outcomes	Indicators		
C. Strategic Objective 3: Good Governance (continued)					
		Improved service delivery and economic integration through enhanced regional cooperation.	Support of Pacific Plan objectives under the Pacific Regional Business Plan ADB participation in regional coordination fora (e.g., PIC Partners Forum, Forum Economic Ministers meetings, Forum Leader's Meeting).	Participation in regional coordination forums. Implementation of ADB's business plan for regional cooperation and regional TA projects in key sectors under the business plan.	

ADB = Asian Development Bank , DMC = developing member country, GDP = gross domestic product, PEFA = public expenditure and financial accountability, PDMC = Pacific developing member country, PIC = Pacific island country; TA = technical assistance.

^a Goals (bold text) and objectives (non-bold text) are from the Pacific Plan (Pacific Islands Forum Secretariat. 2005. *The Pacific Plan for Strengthening Regional Cooperation and Integration*. [p. 4]).

^b This would apply for PDMCs receiving substantial assistance in the relevant area.

^c Country performance assessment ratings are provided in Appendix 2.

^d A similar indicator is adopted in the monitoring and evaluation framework of the Pacific Plan (Pacific Islands Forum Secretariat. 2005. *The Pacific Plan for Strengthening Regional Cooperation and Integration*. [pp. 22–35]). Monitoring of this indicator is to be linked to the monitoring of the Pacific Plan.

^e Base-year measurements of the Millennium Development Goals is tracked in ADB, Economic and Social Commission for Asia and the Pacific, and United Nations Development Programme. 2006. *The MDGs: Progress in Asia and the Pacific 2006*. and ADB, Economic and Social Commission for Asia and the Pacific, and United Nations Development Programme. 2007. *The MDGs: Progress in Asia and the Pacific 2007. Asia Pacific MDG Study Series*.

ECONOMIC AND DEVELOPMENT INDICATORS

Table A2.1: Features of the PDMCs

PDMC	Land area (km ²)	Sea area ('000 km ²)	Population (2006 estimate)			Environmental vulnerability	Living languages (number)
			Persons	Growth rate (to 2010 % p.a.)	Density (people/km ²)		
Cook Islands ^a	237	1,830	13,572	(2.0)	57	Extreme	5
Fiji Islands	18,272	1,290	831,263	0.7	45	High	10
Kiribati	811	3,550	93,706	1.9	116	Extreme	2
Marshall Islands	181	2,131	55,981	1.0	309	High	2
FSM	701	2,798	110,218	0.5	157	Extreme	18
Nauru	21	320	10,131	0.3	482	Extreme	3
Palau	488	616	20,044	0.5	41	High	4
PNG	462,840	3,120	6,187,108	2.1	13	At risk	830
Samoa	2,935	120	185,234	0.8	63	High	2
Solomon Islands	28,370	1,340	487,237	2.4	17	Vulnerable	70
Timor-Leste	14,874		1,015,187	3.1	68		19
Tonga	650	700	99,298	0.3	153	Extreme	3
Tuvalu	26	900	9,652	0.1	371	Extreme	2
Vanuatu	12,190	680	221,417	2.6	18	Vulnerable	109

PDMC = Pacific developing member country, km = kilometer, FSM = Federated States of Micronesia, PNG = Papua New Guinea.

^a Population reported is the resident population. The total population is approximately 20,000 persons.

Sources: Pacific Department database, Secretariat of the Pacific Community, 2006 (available: <http://www.spc.int/demog/>); South Pacific Applied Geoscience Commission and the United Nations Environment Programme, Environmental Vulnerability Index (available: www.vulnerabilityindex.net); Gordon, Raymond G., Jr. (ed.) 2005. *Ethnologue: Languages of the World* (available: www.ethnologue.com).

Table A2.2: Social Indicators

PDMC	Infant mortality rate (per 1,000) (latest year)	Human development index (2004) ^a	Pacific Development indices, late 2002 ^b			
			Human development	Gender development	Gender empowerment	Human poverty
Cook Islands	17		0.79	1.17	3.33	7.30
Fiji Islands	16	0.76	0.67	1.04	0.79	8.90
Kiribati	48		0.59	0.97	0.32	22.70
Marshall Islands	51		0.67	1.02	0.90	15.70
FSM	34		0.68	1.04	0.77	13.40
Nauru	25		0.65	1.00	1.52	16.10
Palau	10		0.77	1.15	3.61	7.20
PNG	55	0.52	0.40	0.73	0.10	43.20
Samoa	24	0.78	0.73	1.10	0.75	5.80
Solomon Islands	24	0.59	0.41	0.77	0.06	36.10
Timor-Leste	52	0.51				
Tonga	20	0.82	0.72	1.09	0.82	4.80
Tuvalu	31		0.64	1.02	0.61	9.90
Vanuatu	31	0.67	0.59	0.96	0.44	23.80

PDMC = Pacific developing member country, FSM = Federated States of Micronesia, PNG = Papua New Guinea.

^a Index values are comparable internationally. A higher value shows a higher state of human development.

^b Index values are Pacific-specific and not directly comparable to international indices. A higher value shows a better performance against the measure, except for the human poverty measure where a lower value is better.

Sources: ADB. 2007. *Key Indicators*. Vol. 38. Manila; United Nations Development Programme (available: www.undp.org); United Nations Development Programme. forthcoming. *Pacific Human Development Report 2006*. Suva: UNDP and the University of the South Pacific.

Table A2.3: Governance Indicators
(international rankings)

PDMC	World Bank Governance Indicators (2006) ^a						Ease of Doing Business (2007)
	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	
Cook Islands			58	67	84	72	
Fiji Islands	35	51	53	39	52	46	36
Kiribati	63	96	36	17	78	59	73
Marshall Islands	88	86	14	18	49	38	89
FSM	81	86	48	57	70	50	112
Nauru	82	86	9		71		
Palau	89	86	32		71		82
PNG	49	23	23	23	18	9	84
Samoa	64	89	58	53	81	63	61
Solomon Islands	52	51	18	13	20	49	79
Timor-Leste	39	17	27	7	11	20	168
Tonga	46	66	30	22	64	5	47
Tuvalu	71	96	46	22	84	56	
Vanuatu	64	96	40	49	63	63	62

PDMC = Pacific developing member country, FSM = Federated States of Micronesia, PNG = Papua New Guinea.

^a Percentile rank from 0 to 100, where a high rank is better.

^b Rank from 174 countries, where a lower rank is better.

Sources: [World Bank Worldwide Governance Indicators Project \(available: http://info.worldbank.org/governance/wgi2007/\)](http://info.worldbank.org/governance/wgi2007/); and World Bank Doing Business Project (available: <http://www.doingbusiness.org/economyrankings/>).

Table A2.4: Economic Indicators

PDMC	GDP per Capita (\$, 2006)	External Government Debt ^a		Ratio of Trade in Goods and Services to GDP (%) ^b		Agriculture, Forestry, and Fishing Shares ^c	
		Debt to GDP (%)	NPV of Debt to GDP (%)	Exports	Imports	GDP (%)	Employment (%)
Cook Islands	10,998	21	16	77	62	14	9
Fiji Islands	3,639	4	3	51	66	15	48
Kiribati	673	26	19	7	149	9	77
Marshall Islands	2,240	51	37	24	72	13	21
FSM	2,179	45	33	16	84		45
Nauru ^d	2,637	1,015	745	11	74	11	
Palau	7,598	11	8	79	83		11
PNG	938	21	15	66	31	30	86
Samoa	2,419	37	25	3	44	14	46
Solomon Islands	688	64	51	49	53	53	76
Timor-Leste	361	0	0	3	39		
Tonga	2,328	37	26	18	64	24	41
Tuvalu	2,176	34	25	28	38	17	40
Vanuatu	1,685	23	19	44	52	15	76

PDMC = Pacific developing member country, FSM = Federated States of Micronesia, PNG = Papua New Guinea.

^a Latest available estimate. For some PDMCs the net present value of debt is an indicative estimate only.

^b Data are for 2005, with the exception of Tuvalu that are for 2002.

^c Latest available year.

^d The estimate of GDP per capita includes a substantial level of unpaid public sector salaries and wages. Excluding these unpaid items provides a more meaningful estimate of GDP per capita of \$2,038.

^e Derived for non-oil GDP.

Sources: ADB. 2007. *Key Indicators*. Vol. 38. Pacific Department database; Sugden and Taniguchi. 2007. Structural Change versus Economic Inertia. *Pacific Economic Bulletin*. Volume 22. No.2.

Table A2.5: GDP Growth

PDMC ^a	Annual change in real gross domestic product (%)									
	1999	2000	2001	2002	2003	2004	2005	2006	2007f	2008f
Cook Islands	2.7	13.9	4.9	2.6	8.2	4.3	0.1	0.8	2.5	3.5
Fiji Islands	8.8	(1.7)	2.0	3.2	1.0	5.3	0.7	3.4	(3.1)	1.5
Kiribati	7.0	4.0	4.4	2.7	(1.5)	2.3	2.5	1.1	1.0	1.0
Marshall Islands	(2.9)	5.1	2.7	3.8	3.4	5.6	1.7	1.3	2.5	
Federated States of Micronesia	(2.6)	4.2	0.4	1.4	3.3	(4.3)	1.5	(0.7)	1.0	1.5
Palau	(3.9)	(0.2)	1.3	(3.5)	(1.3)	4.9	5.5	5.7	5.5	4.8
Papua New Guinea	1.9	(2.5)	(0.1)	(0.2)	2.2	2.9	3.4	2.6	5.2	4.5
Samoa	2.2	6.1	7.0	1.0	3.1	3.4	5.2	2.6	3.1	
Solomon Islands	(0.5)	(14.3)	(9.0)	(1.6)	6.4	8.0	5.0	6.1	6.3	4.0
Timor-Leste	(35.5)	13.7	16.5	(6.7)	(6.2)	0.3	2.3	(1.6)	22.0	3.5
Tonga	2.3	5.4	2.6	3.0	3.2	1.4	2.3	0.7	(3.5)	0.1
Tuvalu	(1.6)	(1.0)	13.2	5.5	4.0	4.0	2.0	3.0	2.5	2.5
Vanuatu	(3.2)	2.7	(2.6)	(7.4)	3.2	5.5	6.8	5.5	4.7	4.6

() = negative, F = forecast, PDMC = Pacific developing member country.

^a Data are not available for Nauru.

Source: ADB. *Asian Development Outlook*.

Table A2.6: International Comparisons of Progress to the MDGs

Item	MDG Indicator 8. Youth Literacy Rate of 15–24 Year-olds (%)		MDG Indicator 7b. Primary Completion Rate (% of students enrolled in the final grade of primary school 1)		MDG Indicator 30. Population with Sustainable Access to an Improved Water Source (% of population)		MDG Indicator 31. Population with Access to Improved Sanitation (% of population)	
	1990	2000/04 ^a	1999	2004	1990	2004	1990	2004
World	84.3	87.2	82.8	86.1	78.0	83.0	49.0	59.0
Developing Regions	80.9	85.0	80.4	84.4	71.0	80.0	35.0	50.0
Oceania^b	73.5	72.8	64.2	64.4	51.0	51.0	54.0	53.0
Sub-Saharan Africa	67.4	73.1	50.7	56.4	49.0	56.0	32.0	37.0
Northern Africa	66.3	84.3	90.2	91.2	89.0	91.0	65.0	77.0
Latin America and the Caribbean	92.7	96.0	96.2	98.3	83.0	91.0	68.0	77.0
Eastern Asia	95.5	98.9	101.8	98.1	71.0	78.0	24.0	45.0
Southern Asia	61.5	72.2	70.9	82.3	72.0	85.0	20.0	38.0
South-Eastern Asia	94.3	96.2	88.2	95.3	76.0	82.0	49.0	67.0
Western Asia	80.1	91.3	78.9	81.6	85.0	91.0	81.0	84.0
Commonwealth of Independent States	99.2	99.7	93.3	91.4	92.0	92.0	82.0	83.0
Developed Regions	99.7	99.3	98.6	98.8	100.0	99.0	100.0	99.0
Least-Developed Countries	56.3	63.7	48.6	53.4				
Landlocked Developing Countries	65.0	70.3	55.3	60.6				
Small Developing States	84.8	85.3	73.3	75.1				

MDG = Millennium Development Goal

^a Data refer to the latest literacy estimates and projections released by the UNESCO Institute for Statistics (UIS) for the reference period 2000–2004.

^b PDMCs comprise approximately 90% of the population of the Oceania region. The indicators for the PDMCs as a group would be slightly below the indicator for the Oceania region.

Source: UN Statistics Division (available: <http://unstats.un.org/unsd/mdg/default.aspx>).

Figure A2.7: Progress Towards the MDGs in the PDMCs

	Goal 1	Goal 2		Goal 3			Goal 4		Goal 6			Goal 7								
	Underweight children	Primary enrolment	Reaching Grade 5	Primary completion rate	Gender primary	Gender secondary	Gender tertiary	Under-5 mortality	Infant mortality	HIV prevalence	TBC prevalence	TBC death rate	Forest cover	Protected areas	CO ₂ emissions	ODP CFC consumption	Water urban	Water rural	Sanitation urban	Sanitation rural
Goal Achieved																				
Cook Islands					•	•		•	•				•			•				
Fiji Islands		•	•	•	•	•	•	•	•		•	•	•	•		•				
Kiribati				•	•	•					•	•		•		•				
Marshall Islands				•		•	•				•	•		•		•	•	•		
FSM								•	•		•	•		•			•	•		
Nauru					•	•		•	•		•	•			•	•				
Palau		•		•		•	•	•	•		•	•	•	•	•	•			•	
PNG											•	•		•	•	•				
Samoa				•	•	•		•	•		•	•	•	•	•	•			•	•
Solomon Islands		•			•				•		•	•		•	•	•			•	
Timor-Leste											•	•			•					
Tonga		•		•		•	•	•	•		•	•		•		•	•	•	•	•
Tuvalu				•	•						•	•				•			•	
Vanuatu					•			•	•		•	•		•						
Pacific Islands							•				•	•		•	•	•				
Goal on Track																				
Cook Islands																				
Fiji Islands										▲										
Kiribati			▲										▲					▲	▲	
Marshall Islands		▲						▲											▲	
FSM													▲							
Nauru																				
Palau																				
PNG			▲			▲														
Samoa		▲	▲																	
Solomon Islands						▲														
Timor-Leste								▲	▲					▲						
Tonga													▲							
Tuvalu									▲				▲	▲			▲	▲		▲
Vanuatu		▲		▲									▲			▲				
Pacific Islands		▲	▲			▲							▲	▲		▲				
Goal Slowly Progressing																				
Cook Islands																				
Fiji Islands																				
Kiribati								■	■								■			■
Marshall Islands									■											■
FSM																			■	
Nauru																				
Palau																	■			
PNG								■	■											
Samoa																				
Solomon Islands								■												
Timor-Leste																				
Tonga																				
Tuvalu								■												
Vanuatu																				
Pacific Islands				■				■	■									■		
Goal Slowly Regressing																				
Cook Islands		▼													▼					
Fiji Islands															▼				▼	▼
Kiribati															▼					
Marshall Islands					▼												▼			
FSM																▼				▼
Nauru				▼								▼								
Palau					▼													▼		▼
PNG				▼	▼					▼			▼				▼	▼	▼	▼
Samoa							▼								▼		▼	▼		
Solomon Islands													▼							
Timor-Leste	▼												▼							
Tonga					▼							▼			▼					
Tuvalu			▼																	
Vanuatu						▼	▼	▼							▼		▼	▼		
Pacific Islands					▼					▼			▼				▼	▼	▼	▼

• = goal achieved; ▲ = goal on track; ■ = goal slowly progressing; ▼ = goal slowly regressing.

FSM = Federated States of Micronesia, PNG = Papua New Guinea, MDG = Millennium Development Goal.

Source: ADB, Economic and Social Commission for Asia and the Pacific, and United Nations Development Programme. 2007. The MDGs: Progress in Asia and the Pacific 2007. *Asia Pacific MDG Study Series*.

Table A2.8: ADB PDMC Country Performance Assessment Ratings

Criteria	COO	KIR		RMI		FSM		PNG		SAM		SOL		TON	TUV	VAN	
	2005	2005	2006	2005	2006	2005	2005	2006	2005	2005	2006	2005	2005	2005	2005	2005	2006
A. Economic Management	4.8	3.7	2.7	3.5	2.7	3.7	3.8	3.7	4.5	3.5	3.5	3.3	3.3	4.0	3.7		
1. Macroeconomic Management	5.0	3.5	2.0	3.5	2.5	3.5	4.0	3.0	4.5	4.5	4.0	3.0	3.5	4.0	4.0		
2. Fiscal Policy	5.0	3.5	3.0	3.5	2.5	3.5	3.5	3.5	4.5	3.5	3.5	3.0	3.0	4.0	3.5		
3. Debt Policy	4.5	4.0	3.0	3.5	3.0	4.0	4.0	4.5	4.5	2.5	3.0	4.0	3.5	4.0	3.5		
B. Structural Policies	4.3	3.0	3.3	3.3	3.0	4.0	3.0	2.8	4.2	3.0	2.8	3.2	2.7	3.0	3.0		
1. Trade	4.5	3.0	2.5	4.0	3.0	5.0	3.5	3.5	4.5	4.0	3.5	2.0	3.0	3.0	3.0		
2. Financial Sector	4.5	3.0	4.0	3.5	3.5	4.0	3.0	2.5	4.5	3.0	3.0	4.5	2.5	3.0	3.0		
3. Business Regulatory Environment	4.0	3.0	3.5	2.5	2.5	3.0	2.5	2.5	3.5	2.0	2.0	3.0	2.5	3.0	3.0		
C. Policies for Social Inclusion/Equity	4.3	3.1	2.4	3.0	2.7	2.8	2.5	2.4	4.4	2.6	2.5	3.6	3.6	2.7	2.7		
1. Gender Equality	4.5	3.5	2.5	3.0	2.5	3.0	2.0	2.0	4.5	2.5	2.5	3.5	3.5	2.5	2.5		
2. Equity of Public Resource Use	4.5	3.0	2.0	2.5	2.5	3.0	3.0	3.0	4.5	3.5	3.0	4.0	4.0	3.0	3.0		
3. Building Human Resources	5.0	2.5	2.5	3.0	3.0	2.5	2.0	2.0	5.0	2.5	2.5	4.5	4.0	2.5	2.5		
4. Social Protection and Labor	4.0	3.0	2.5	3.0	3.0	2.5	3.0	2.5	4.0	2.0	2.0	2.5	3.5	2.5	2.5		
5. Policies and Institutions for Environmental Sustainability	3.5	3.5	2.5	3.5	2.5	3.0	2.5	2.5	4.0	2.5	2.5	3.5	3.0	3.0	3.0		
D. Public Sector Management and Institutions	4.3	3.2	3.3	3.1	2.7	3.5	2.7	2.7	4.5	2.8	2.8	3.1	3.4	2.9	2.8		
1. Property Rights and Rules-based Governance	4.5	3.5	4.0	3.5	3.0	4.0	2.0	1.5	4.5	2.5	2.5	4.0	4.5	3.0	2.5		
2. Quality of Budgetary and Financial Management	4.0	3.0	3.5	3.5	3.0	3.5	2.5	3.0	4.5	3.5	3.0	3.0	3.0	3.0	3.0		
3. Efficiency of Revenue Mobilization	5.0	3.0	3.0	3.0	3.0	3.5	3.5	3.5	4.5	2.5	3.0	3.0	3.0	3.0	3.0		
4. Quality of Public Administration	4.0	3.0	3.5	2.5	2.0	3.0	2.5	2.5	4.5	2.5	2.5	3.5	3.0	3.0	3.0		
5. Transparency, Accountability and Corruption in the Public Sector	4.0	3.5	2.5	3.0	2.5	3.5	3.0	3.0	4.5	3.0	3.0	2.0	3.5	2.5	2.5		
E. Portfolio Performance	4.5	4.5	4.5	5.0	4.5	3.0	4.5	4.5	3.5	1.0	4.5	4.5	4.0	4.5	4.5		
1. Portfolio Performance	4.5	4.5	4.5	5.0	4.5	3.0	4.5	4.5	3.5	1.0	4.5	4.5	4.0	4.5	4.5		
Economic and Social Policy and Institutional Performance	4.5	3.3	2.8	3.3	2.8	3.5	3.1	3.0	4.4	3.0	2.9	3.4	3.2	3.2	3.1		
Public Sector Management and Governance Performance	4.3	3.2	3.3	3.1	2.7	3.5	2.7	2.7	4.5	2.8	2.8	3.1	3.4	2.9	2.8		
Portfolio Performance	4.5	4.5	4.5	5.0	4.5	3.0	4.5	4.5	3.5	1.0	4.5	4.5	4.0	4.5	4.5		
Composite Rating	19.3	11.5	10.7	11.5	8.7	11.7	9.4	9.1	18.4	6.1	9.4	11.4	11.6	10.4	9.8		

ADB = Asian Development Bank, COO = Cook Islands, KIR = Kiribati, RMI = Republic of Marshall Islands, FSM = Federated States of Micronesia, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu.

Source: Pacific Department database.

PACIFIC AID EFFECTIVENESS PRINCIPLES

Preamble

These principles derive from the Paris Declaration on Aid Effectiveness (2005). They have been work-shopped and consulted upon widely across the Pacific region, and are designed to fit the Pacific context. The Pacific Aid Effectiveness Principles, like the original Paris declaration, include actions and approaches for both countries and development partners (donors). References to the relevant section in the Paris Declaration, and related monitoring indicators, have been included.

Principle 1: Country leadership and ownership of development through an accountable and transparent national development planning and financial management system/mechanism which is adequately resourced from the national budget - including longer term operation and maintenance of donor sponsored development

(Paris Declaration Section 14, 19; Indicators 1, 2)

Principle 2: Multi-year commitments by development partners and countries aligned nationally identified priorities as articulated in national sustainable development strategies, or the like, with agreement on performance indicators and monitoring and evaluation mechanisms

(Paris Declaration Section 16, 26; Indicators 3, 5, 7)

Principle 3: Greater Pacific ownership of regional development, Development Partners' Pacific Regional Strategies designed and formulated with the Pacific Plan and other Regional Policies as their corner stone

(Paris Declaration 14, 15; Indicator 1)

Principle 4: Pacific Development Partners and Countries pursue a coordinated approach in the delivery of assistance. Encouraging harmonization will be a priority for both.

(Paris Declaration 32 – 42; Indicators 9, 10)

Principle 5: Strengthened institutional mechanisms and capacity in countries to enable increased use of local systems by development partners.

(Paris Declaration 17, 21, 22-24, 31; Indicators 4, 6, 8)

Principle 6: (i) Provision of technical assistance (TA), including in aid coordination/management, in such a way that ensures that capacity is built with tangible benefits to the country to support national ownership. Provision of an appropriate level of counterpart resources through established procedures and mechanisms. (ii) Short term TA, that address local skills gaps to conduct studies, are culturally sensitive.

(Paris Declaration 22-24; Indicator 4)

Principle 7: Use of an agreed monitoring and evaluation framework that will ensure joint assessments of the implementation of agreed commitments on aid effectiveness.

Source: Pacific Island Forum Secretariat.

PORTFOLIO INDICATORS

Table A4.1: Pacific Department Ongoing Loans (as of 30 November 2007)

Country	Loan Number	Loan Name	Milestone Dates		Loan Amount (\$M)	Disbursed (%)	Project Classification ^a	
			Approval	Closing			PP	At Risk
COO	2174-COO(SF)	Cyclone Emergency Assistance	Jun-2005	Dec-2008	2.9	50	Yes	Yes
Subtotal COO					2.9	50		
FIJ	2055-FIJ	Suva Nausori Water Supply & Sewerage	Dec-2003	Jun-2009	47.0	35	No	Yes
	1530-FIJ	Third Road Upgrading Project (FRUP III)	Aug-1997	Jun-2009	40.0	82	No	Yes
	1902-FIJ	Fiji Ports Development Project	Mar-2002	Mar-2007	16.8	100	Closed	
	2158-FIJ	Alternative Livelihood Development Project	Mar-2005	Jun-2011	0.7	100	No	Yes
Subtotal FIJ					104.5	76		
FSM	1816-FSM(SF)	Basic Social Services	Dec-2000	Aug-2008	7.4	26	No	No
	1873-FSM(SF)	Private Sector Development Program	Dec-2001	Feb-2007	3.5	100	Closed	
	1874-FSM(SF)	Private Sector Development Project	Dec-2001	Mar-2008	9.6	53	No	No
	2099-FSM(SF)	Omnibus Infrastructure Development Project	Nov-2004	Aug-2011	15.4	0	No	No
	2100-FSM	Omnibus Infrastructure Development Project	Nov-2004	Aug-2011	4.8	0	No	No
Subtotal FSM					40.7	26		
KIR	1648-KIR(SF)	Sanitation, Public Health, and Environment Improvement (SAPHE)	Dec-1998	Dec-2005	10.2	97	No	Yes
Subtotal KIR					10.2	97		
PNG	1709-PNG	Road Maintenance & Upgrading Sector	Nov-1999	Jun-2010	63.0	49	No	No
	2242-PNG	Road Maintenance & Upgrading Sector (Sup)	Jun-2006		35.0	1	No	No
	2243-PNG(SF)	Road Maintenance & Upgrading Sector (Sup)	Jun-2006		19.2	1	No	No
	1652-PNG	Smallholder Support Services Pilot	Dec-1998	Dec-2007	5.6	92	No	No
	1703-PNG	Financial Management	Oct-1999	Dec-2007	25.8	94	No	Yes
	1706-PNG(SF)	Employment Oriented Skills	Oct-1999	Dec-2007	21.4	78	No	Yes
	1754-PNG	Rehabilitation of the Maritime Navigation Aids	Sep-2000	Mar-2008	19.8	71	No	No

Country	Loan Number	Loan Name	Milestone Dates		Loan Amount (\$M)	Disbursed (%)	Project Classification ^a	
			Approval	Closing			PP	At Risk
	1768-PNG(SF)	Microfinance and Employment	Oct-2000	Dec-2008	11.2	51	No	No
	1812-PNG(SF)	Provincial Towns Water Supply and Sanitation	Dec-2000	Jun-2008	18.5	45	No	No
	1889-PNG(SF)	Nucleus Agro-Enterprises	Dec-2001	Dec-2005	2.5	61	No	Yes
	1925-PNG(SF)	Coastal Fisheries Management and Development Project	Oct-2002	Feb-2008	6.5	57	No	No
	2079-PNG(SF)	Community Water Transport Project	Mar-2004	Jun-2012	19.5	56	No	No
Subtotal PNG					248.0	49		
REG	2183-REG(SF)	Establishment of Pacific Aviation Safety Office (PASO)	Sep-2005	Apr-2011	1.6	25	No	No
Subtotal REG					1.6	25		
RMI	1948-RMI(SF)	Outer Island Transport Infrastructure	Nov-2002	Jan-2007	0.5	100		Closed
Subtotal RMI					0.5	100		
SAM	2026-SAM(SF)	Sanitation and Drainage	Nov-2003	Jun-2009	8.8	14	No	No
	2220-SAM(SF)	Education Sector Project II	Dec-2005	Jun-2013	8.9	1	No	No
	1785-SAM(SF)	Small Business Development	Nov-2000	Feb-2008	4.0	51	No	No
	2368-SAM(SF)	Power Sector Expansion Project	Nov-2007	Jul-2016	27.3	0	No	No
Subtotal SAM					49.0	7		
SOL	1823-SOL(SF)	Post Conflict Emergency Rehabilitation	Dec-2000	Mar-2008	11.5	95	No	No
Subtotal SOL					11.5	95		
TUV	1921-TUV(SF)	Maritime Training Project	Oct-2002	Dec-2007	2.1	50	No	No
	2088-TUV(SF)	Maritime Training Project	Aug-2004	Dec-2007	2.1	70	No	No
Subtotal TUV					4.2	60		
Total PARD					470.2	60		

COO = Cook Islands, FIJ = Fiji Islands, FSM = Federated States of Micronesia, KIR = Kiribati, NAU = Nauru, PAHQ = Pacific Operations Division, PAL = Palau, PARD = Pacific Department, PDMC = Pacific developing member country, PLCO = Pacific Liaison Coordination Office, PNG = Papua New Guinea, PNRM = PNG Resident Mission, PP = potential problem, REG = regional, RMI = Republic of the Marshall Islands, SOL = Solomon Islands, SAM = Samoa, SF = Special Funds, SPSO = South Pacific Subregional Office, SOTL = Special Liaison Office in Timor-Leste, TON = Tonga, TUV = Tuvalu, TIM = Timor-Leste, VAN = Vanuatu.

A “PP” refers to “potential problem”, which means a rating of “yes” indicates that there are areas in project implementation that may lead to possible delays. “At risk” means that the project has flagged items that may lead to delays in project implementation.

Source: Asian Development Bank.

Table A4.2: Pacific Department Ongoing Grants
(as of 30 November 2007)

Country	Grant No.	Grant Name	Milestone Dates		Grant Amount (\$M)	Disbursed (%)	Project Classification ^a	
			Approval	Closing Date			PP	At Risk
PNG	0042-PNG	HIV/AIDS Prevention and Control in Rural Development Enclaves Project	Apr-2006	Jul-2010	22.0	3	No	No
Subtotal PNG					22.0	3		
REG	0021-REG	HIV/AIDS Prevention and Capacity Development in the Pacific	Nov-2005	Sep-2010	8.0	2	No	No
Subtotal REG					8.0	2		
SAM	0031-SAM	Education Sector Project II (AusAID)	Dec-2005	Jun-2013	8.6	0	No	No
	0032-SAM	Education Sector Project II (NZAID)	Dec-2005	Jun-2013	8.6	0	No	No
	0087-SAM	Power Sector Expansion Project	Nov-2007	Dec-2016	15.4	0	No	No
Subtotal SAM					32.6	0		
SOL	0048-SOL	Road Improvement (Sector) Project (ADF)	Aug-2006	Jun-2011	0.4	4	No	No
	0049-SOL	Road Improvement (Sector) Project (AUS)	Aug-2006	Jun-2011	6.1	4	No	No
	0050-SOL	Road Improvement (Sector) Project (NZL)	Aug-2006	Jun-2011	9.8	4	No	No
	0078-SOL	Emergency Assistance Project	Jun-2007	Dec-2009	8.9	0	No	No
	0043-SOL	Post-Conflict Emergency Rehabilitation (AUS)	Feb-2006	Mar-2008	2.0	91	No	No
	0044-SOL	Post-Conflict Emergency Rehabilitation (NZL)	Feb-2006	Mar-2008	6.5	82	No	No
Subtotal SOL					33.7	23		
TIM	0017-TIM	Road Sector Improvement	Sep-2005	Jun-2008	10.0	5	No	No
Subtotal TIM					10.0	5		
Total PARD					106.3	9		

ADF = Asian Development Fund, AUS = Australia, AUSAID = Australian Aid for International Development, NZL = New Zealand, NZAID = New Zealand Aid for International Development, PARD = Pacific Department, PNG = Papua New Guinea, PP = potential problem, REG = regional, SAM = Samoa, SOL = Solomon Islands, TIM = Timor-Leste.

Note: The contract award of \$13.142 million under Grant 0042-PNG includes \$7.0 million from AusAID and NZAID of \$3.5 million each.

^a "PP" refers to "potential problem", which means a rating of "yes" indicates that there are areas in project implementation that may lead to possible delays. "At risk" means that the project has flagged items that may lead to delays in project implementation.

Source: Asian Development Bank.

Table A4.3: Pacific Department Ongoing TA
(as of 30 November 2007)

Country	TA No.	TA Title	Milestone Dates		Amount (\$M)	Disbursed (%)	Classification	
			Approval	Completion			DO	IP
COO	4605	Strengthening Disaster Management and Mitigation	Jun-05	Mar-07	0.524	95	S	S
FIJ	4270	Capacity Building in Water Sewerage Services	Dec-03	Aug-07	0.743	84	S	S
	4589	Rural and Outer Islands Development	May-05	Jul-07	0.687	98	S	S
	4764	Renewable Power Sector Development	Jan-06	May-08	0.650	76	S	S
	4850	Improving Infrastructure Services	Oct-06	Sep-08	0.700	0	S	S
	4704	Private Sector Development Roadmaps	Nov-05	Sep-08	0.300	30	PS	S
	4540	Fourth Road Upgrading (Sector) (JSF)	Dec-04	Apr-08	0.600	80	S	S
	4572	Strengthening Commercial Agricultural Development	Mar-05	Dec-07	0.600	27	S	S
	4840	Preparing Economic Restructuring Program Loan	Sep-06	Feb-08	0.150	3	S	S
FSM	4426	Public Utilities Corporation Governance	Nov-04	Mar-09	0.400	0	S	S
	4789	Implementation of the Public Sector Capacity Building Road Map	May-06	Jan-08	0.600	45	S	S
	4961	Strengthening Economic Management and Planning	Aug-07		0.400	0	S	S
KIR	4878	Integrated Land and Population Development Program in Kiritimati Island	Nov-06		0.630	0	S	S
	4456	Outer Island Growth Centers	Dec-04	Mar-08	0.800	46	S	S
NAU	4590	Reform of the Nauru Phosphate Corp.	May-05	Dec-07	0.375	80	Completed	
PAL	4929	Facility for Economic and Infrastructure Management	May-07	Jul-09	1.000	20	S	S
PNG	3716	Road Authority Development (JSF)	Sep-01	Dec-07	0.700	42	S	S
	4977	Preparing the Babeldaob Water Supply Project	Oct-2007	Dec-08	0.700	0	S	S
	3946	Improving Economic and Social Statistics	Oct-02	Dec-07	0.800	42	S	S

Country	TA No.	TA Title	Milestone Dates		Amount (\$M)	Disbursed (%)	Classification	
			Approval	Completion			DO	IP
REG	4208	Establishment of Pilot HIV/AIDS Care Centers	Oct-03	Dec-07	0.356	80	S	S
	4710	PNG Gas Project	Dec-05	Feb-08	1.000	69	S	HS
	4793	Lae Port Development Project-Tidal Basin Phase 1	May-06	Jun-08	1.060	63	S	S
	4798	Demographic and Health Survey in PNG	Jul-06	Jan-08	2.500	63	PS	S
	4882	Health Sector Support	Dec-06	Feb-08	0.850	0	S	S
	4932	Power Sector Development Plan	May-07	Jun-09	0.500	8	S	S
	4945	Highlands Highway Rehabilitation Project	Jun-07	Sep-08	0.500	0	S	S
	4947	Support for Public Expenditure Review and Rationalization	Jun-07	Jun-08	0.500	6	S	HS
	4722	Policies for Private Sector Development	Dec-05	Dec-08	1.000	1	S	S
	6009	Capacity Building and Regional Coop For Econ Stat in Selected Pacific DMCs (JSF)	Dec-01	Oct-07	0.500	63	S	S
	6157	Strengthening Poverty Analysis and Strategies	Dec-03	Dec-07	0.840	51	S	S
	6166	Pacific Regional Transport Analysis	Jan-04	Dec-07	0.345	64	S	S
	6204	Mainstreaming Environmental Considerations In Economic and Development Planning	Dec-04	Dec-07	0.520	76	S	S
	6207	Pacific Regional Social Protection Systems Assessment (JSF)	Dec-04	Dec-07	0.500	50	S	S
	6222	Leadership Enhancement and Advancement Program (LEAP)	Dec-04	Aug-07	0.641	96	HS	HS
	6241	Socioeconomic Implications of HIV/AIDS	Apr-05	Dec-07	0.300	71	S	S
	6245	Strengthening Pro-Poor Policy in the Pacific	Jun-05		2.050	65	S	S
	6257	Improving Delivery of Infrastructure Services	Sep-05	Dec-07	0.800	78	S	PS
	6258	Demographic and Health Surveys in the Pacific	Sep-05	May-08	1.000	21	S	S
	6259	Aviation Safety Legislative & Regulatory Review	Sep-05	Oct-10	0.450	0	S	S

Country	TA No.	TA Title	Milestone Dates		Amount (\$M)	Disbursed (%)	Classification	
			Approval	Completion			DO	IP
RMI	6268	Implementation of Pacific Education Strategy: Skills Development (JSF)	Nov-05	Aug-08	0.975	65	S	S
	6319	Pilot Strengthening of Civil Society Participation in Development in the Pacific	Apr-06	Dec-08	0.500	17	S	S
	6360	Strengthening Governance and Accountability in Pacific Island Countries	Dec-06	Nov-09	1.580	18	S	S
	6379	Supporting Strengthened Regional Cooperation Among PDMCs	Dec-06	Nov-08	1.000	7	S	S
	6162	Improving the Legal Business Environment	Dec-03	Dec-07	0.800	39	S	S
	6202	Diagnostic Studies for Secured Transactions Reforms In Pacific Region	Dec-04	May-08	0.870	67	S	S
	6353	Private Sector Development Initiative	Nov-06	Nov-11	8.700	11	S	S
	6164	Institutional Strengthening and Building Capacity to Handle Public Procurement	Dec-03	Dec-06	0.150	86	S	S
	6281	Pacific Financial Technical Assistance Centre (PFTAC) 2005-2008	Dec-05	Apr-08	0.800	100	S	S
	6414	Results-Based Management in the Pacific	Oct-07	Oct-10	1.000	0	S	S
RMI	4199	Strengthening Economic Policy, Planning and Statistics Office	Oct-03	Nov-07	0.461	100	HS	S
	4439	Improving the Environment for Private Sector Development	Nov-04	Nov-09	0.760	57	HS	HS
	4653	Increasing Ownership of and Effective Demand for Improved Urban Waste Management	Sep-05	Aug-07	0.300	72	HS	S
	4794	Pilot Collaborative Public Services Delivery	May-06	May-08	0.250	41	S	S
	4883	Building Capacity for Independent Country Partnership Strategy (CPS) and Country Performance Assessment (CPA) Results Management-A Pacific Pilot	Dec-06	Dec-09	0.150	7	S	HS
SAM	4229	Institutional Strengthening for Drainage and Wastewater Management	Nov-03	Sep-07	0.400	83	S	S

Country	TA No.	TA Title	Milestone Dates		Amount (\$M)	Disbursed (%)	Classification	
			Approval	Completion			DO	IP
SOL	4305	Supporting the Samoa Schoolnet and Community Access Pilot Project	Dec-03	Dec-07	0.655	73	S	S
	4738	National Teacher Development Framework	Dec-05	Nov-07	0.350	47	S	S
	4791	Preparing the Power Sector Expansion Program	May-06	Mar-08	0.750	47	S	S
	4994	Samoa National Energy Policy	Nov-07	Feb-10	1.850	0	S	S
	4417	Privatization Support	Oct-04	Oct-07	0.150	76	S	S
	4513	Strengthening State-Owned Enterprise Corporate Governance	Dec-04	Dec-07	0.400	82	S	S
	4712	Promoting Economic Use of Customary Land (JSF)	Dec-05	Sep-08	0.300	36	S	S
	4494	Institutional Strengthening of the Ministry of Infrastructure and Development	Dec-04	Jun-07	0.700	0	Completed	
	4588	Implementation of Interisland Transport Reforms	May-05	Dec-07	0.402	63	S	S
	4944	Strengthening Disaster Recovery Planning and Coordination	Jun-07	Dec-09	0.800	8	S	S
	4482	State-Owned Enterprises Reforms and Private Sector Participation	Dec-04	Sep-07	0.800	93	S	S
	4700	Supporting Business Law Reform	Nov-05	Jun-08	0.600	34	HS	HS
	4980	Domestic Maritime Support Project and Technical Support Program	Oct-07	Dec-09	2.000	0	S	S
	3731	Transport Sector Improvement (JSF)	Oct-01	Jun-07	0.500	86	S	S
TIM	4609	Infrastructure Sectors Capacity Development	Jul-05	Nov-08	0.600	55	S	S
	4272	Capacity Building to Strengthen Public Sector Management and Governance Skills (Phase II)	Dec-03	Feb-08	0.550	62	S	S
	4509	Strengthening Microfinance Operations	Dec-04	May-09	0.500	36	S	S
	4519	Strengthening Financial Management Capacity	Dec-04	Dec-07	0.250	78	S	S
	4646	Urban Water Supply and Sanitation	Sep-05	Feb-08	0.600	47	S	S

Country	TA No.	TA Title	Milestone Dates		Amount (\$M)	Disbursed (%)	Classification	
			Approval	Completion			DO	IP
TON	4869	Dili Water Supply Performance Improvement	Nov-06	Dec-09	1.000	0	S	S
	4942	Infrastructure Project Management	Jun-07	Nov-11	15.00	2	S	S
	4514	Rationalization of Public Enterprises (Phase 2)	Dec-04	Jul-07	0.150	45	S	S
	4488	Youth Microenterprise Development	Dec-04	Jun-08	0.250	26	S	S
	4865	Support to Implementing the Strategic Development Plan 2006/07-2008/09	Nov-06	Jan-08	0.510	0	S	S
TUV	4899	Rationalization of Public Enterprises, Phase III	Dec-06	Nov-08	0.400	13	S	S
	4466	Education Sector Reform and Development	Dec-04	Jun-07	0.300	18	S	S
	3942	Tuvalu Maritime Training Institute Strengthening	Oct-02	Jun-08	0.291	65	S	S
VAN	4902	Capacity Building for Taxation Reforms	Dec-06	Sep-08	0.300			
	4362	Development of a Medium Term Strategic Framework	Jul-04	Aug-07	0.500	95	S	S
	4457	Secured Transactions Reforms	Dec-04	Oct-08	0.800	45	S	S
	4856	Financial Services Commission on Institutional and Legal Reforms	Oct-06	Apr-09	0.800	26	S	S

COO = Cook Islands, CPA = country performance assessment, CPS = country partnership strategy, DO = development objective, FIJ = Fiji Islands, FSM = Federated States of Micronesia, IP = implementation progress, JSF = Japan Special Fund, KIR = Kiribati, NAU = Nauru, PAL = Palau, PDMC = Pacific developing member country PNG = Papua New Guinea, PSD = private sector development, REG = regional, SAM = Samoa, SOE = state-owned enterprise, SOL = Solomon Islands, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu.

^a Classification means the rating for the particular area of the project. "DO" stands for "development objective" and "IP" means "implementation progress". The ratings are as follows: HS = highly satisfactory means the project is expected to exceed most of its major immediate TA objectives, S = satisfactory means the project is expected to achieve most of its major immediate TA objectives, PS = partly satisfactory means the project is expected to achieve some of its major immediate TA objectives, and U = unsatisfactory means the project is unlikely to achieve its major immediate TA objectives.

Source: Asian Development Bank.