

RESPONDING TO THE PRIORITIES OF THE POOR:
A PACIFIC STRATEGY FOR THE ASIAN DEVELOPMENT BANK
2005–2009

October 2004

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPA	–	country performance assessment
CSO	–	civil society organization
CSP	–	country strategy and program
CSPU	–	country strategy and program update
DMC	–	developing member country
FSM	–	Federated States of Micronesia
HIV/AIDS	–	human immunodeficiency virus/acquired immunodeficiency syndrome
IMF	–	International Monetary Fund
KRA	–	key result area
MDG	–	Millennium Development Goal
NGO	–	nongovernment organization
OCR	–	ordinary capital resources
PARD	–	Pacific Department
PDMC	–	Pacific developing member country
PNG	–	Papua New Guinea
PSD	–	private sector development
RCSP	–	Regional Cooperation Strategy and Program
RMI	–	Republic of the Marshall Islands
SME	–	small and medium enterprise
SOE	–	state-owned enterprise
SWAp	–	sector-wide approach
TA	–	technical assistance

NOTE

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

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EXECUTIVE SUMMARY

The Pacific Strategy 2005–2009 provides a framework for the operations of the Asian Development Bank (ADB) in its 14 Pacific developing member countries (PDMCs) and for ADB support to Pacific regional cooperation. Detailed strategies and programs will continue to be developed at the country level, in support of the PDMCs' national development programs. The Pacific Strategy highlights differences among PDMCs, but also addresses common challenges.

This is an important juncture for the Pacific. The development performance of the PDMCs over the past decade has been mixed. Four PDMCs have achieved per capita economic growth at or near 3% since 1995, but six have suffered a contraction in per capita income during the period, and in four of these cases economic performance has been sharply negative. Social indicators are also distinctly mixed, with some PDMCs on track to achieve the Millennium Development Goals, while others are not making significant progress. Poverty is a growing concern in many PDMCs.

All PDMCs face significant challenges in generating broad-based and sustained economic growth from small, high-cost, and narrowly focused economies. While there are success stories in some countries and sectors, in general the private sector has been unable to lead economic growth. Job creation for rapidly growing populations has been minimal. ADB governance and private sector assessments highlight the fact that natural constraints are exacerbated by a policy and institutional environment that is highly unfriendly to business and that focuses more on resource distribution than economic growth.

A key governance challenge in the Pacific is for leaders and communities to promote the national interest through modern governance systems within small societies in which traditional family and clan obligations remain very important. Governance assessments highlight that in some countries, quality of leadership, corruption, accountability and transparency of government, and participation in development programs and ownership by the people are key issues. Concerns about these issues are widespread in many PDMCs, but progress has been made in some areas. The inability of PDMCs to build and retain capacity for vital functions, such as policy formulation and public financial management, is a key constraint.

In short, while natural constraints are real, the quality of policies and institutions is vital to the economic growth, social development, and poverty reduction prospects of the PDMCs. It is here that ADB should focus its attention. Even in the smallest and most resource-poor PDMCs there are opportunities to use existing, limited resources more efficiently and effectively.

Regional cooperation also has significant potential for mitigating the constraints of capacity and scale encountered in the Pacific. However, PDMCs have historically been unwilling to fully capitalize on this potential. The recent commitment of Pacific leaders to the development of a "Pacific Plan" may reinvigorate regional cooperation.

ADB's focus over the past decade has been on economic management, governance, and public sector reforms, and on supporting the development of key infrastructure. Lending volumes have been modest. Technical assistance (TA) has been a major demand from PDMCs. ADB portfolio performance has been uneven. Participation and local ownership have been key ingredients for success, especially in sustaining reforms. More broadly, PDMCs and development partners alike must reappraise their roles in creating the conditions for broad-based, private sector-led economic growth. Supportive rhetoric has not yet been translated into a conducive environment for business.

The goals of the Pacific Strategy 2005–2009 respond to the priorities of the poor of the Pacific, as expressed through ADB’s participatory poverty assessments: (i) opportunities to earn cash income and (ii) better access to basic social services. Strategic objectives and key result areas (KRAs) have been developed in response to these goals, lessons learned from recent experience and analytic work, and the assessment that improved governance, policies, and institutions are central challenges in the Pacific. Objectives and KRAs are consistent with ADB’s Poverty Reduction Strategy and commitment to the Millennium Development Goals. With limited staff and other resources, and given the important role of other development partners, greater focus, selectivity and impact is sought, through the selection of the following strategic objectives and KRAs:

Strategic Objective 1: Support a Conducive Environment for Private Sector

Key Result Areas for ADB:

- (i) An effective institutional, legal, and regulatory environment;
- (ii) Improved financial services;
- (iii) Improved state-owned enterprise ownership arrangements, accountability, and performance;
- (iv) Improved provision, operation, and maintenance of physical infrastructure; and
- (v) Effective institutional framework for developing skills in response to labor market demands.

Strategic Objective 2: Enhance the Supply of, and Demand for, Quality Basic Social Services

Key Result Areas for ADB:

- (i) Social sector strategies that are relevant and responsive to national objectives and client’s needs;
- (ii) Effective public, private, and development partner resource allocations for social services; and
- (iii) Capacity to manage and deliver quality social services.

Strategic Objective 3: Promote Effective Development Processes

Key Result Areas for ADB:

- (i) Increased community participation and ownership in development programs;
- (ii) Increased public demand for good governance, and for effective markets and services;
- (iii) Strengthened government transparency and accountability;
- (iv) Increased dialogue and cooperation among civil society organizations, private sector groups, and governments;
- (v) Improved availability and dissemination of quality data and information on development issues;
- (vi) Gender and environmental considerations mainstreamed into development planning and programs;
- (vii) Strengthened capacity of PDMC governments, civil society, and private sector groups to plan and manage for development results;
- (viii) Enhanced development partner coordination and harmonization; and
- (ix) Enhanced impact of regional cooperation.

The Pacific Strategy provides a mixture of continuity and new approaches in response to the mixed performance of the countries of the region. A strong focus on strengthening governance, as well as on effective management of the economy and public resources, will continue. Lending for key physical infrastructure will also continue where appropriate, often accompanied by TA on related policy and institutional issues.

ADB will significantly increase its engagement with PDMC governments, private sector groups and civil society organizations on the conditions required to generate domestic investment and private sector-led economic growth. This will require frank discussion of policy options and implications, sometimes addressing sensitive issues. PDMC leadership of the necessary reforms is essential.

The strategy's focus on the development process itself also brings new areas of emphasis. ADB will focus on broader participation and ownership, and will seek to build demand for good governance, effective markets, and services.

Under this new strategy, the nature of ADB's engagement in the region will be qualitatively different. Discussing key development issues widely, on the basis of quality information, is an important objective. A communications strategy will be developed, to enhance ADB's ability to promote its key messages. ADB's new field offices will play a vital role. ADB will focus more narrowly on the KRAs, with a view to developing high-quality knowledge-based products and services in these areas, and managing for results to ensure development effectiveness.

(map)

I. INTRODUCTION

1. The purpose of the Asian Development Bank (ADB) Pacific Strategy 2005–2009 is to provide a framework for ADB operations in its 14 Pacific developing member countries (PDMCs)¹ and for ADB support to regional cooperation in the Pacific. This third ADB Pacific Strategy² will allow ADB's Pacific Department (PARD) to better focus its activities, deepen its experience and expertise in key result areas (KRAs), and align resources to strategy objectives, in order to maximize the impact of ADB support to the development efforts of the PDMCs.

2. The strategy reflects important differences among the PDMCs, in terms of their geography and natural resources, people and cultures, and economic and social development status and performance, but it also seeks to address many common development challenges (Box 1). Given the important differences, the country level remains the focus for tailoring strategies and detailing ADB programs, through country strategy and program (CSP) and CSP update (CSPU) papers. CSPs and CSPUs will detail ADB's support for national development programs, in strategies and programs also consistent with the Pacific Strategy. ADB's Regional Cooperation Strategy and Program (RCSP) for the Pacific complements the country programs.

3. ADB has undertaken significant analytic work in preparation for this strategy, to better understand recent development performance in the Pacific and to guide effective approaches for the future. In accordance with ADB's Poverty Reduction Strategy, ADB has carried out extensive work both to improve its awareness of the extent and nature of poverty in the Pacific, and to identify possible responses.¹ Participatory poverty assessments provide a clear picture of development priorities as well as an organizing framework for this strategy. Studies of governance² and of the constraints to private sector development (PSD)³ also inform both the analysis of current development challenges and proposed ADB approaches. Thematic studies on the environment⁴ and gender⁵ also contributed to this paper, along with a forthcoming education sector study.

4. This paper was significantly strengthened by inputs received during a 3-month consultation phase involving PDMC governments, private sector groups, and civil society organizations (CSOs), Pacific regional organizations, key development partners in the Pacific, and direct feedback via ADB's web site. ADB staff have been extensively involved in the preparation of this strategy (Appendix 1 sets out the strategy formulation process).

5. Sections II and III of this paper analyze current development trends, issues, and strategies in the region. Section IV reviews ADB's development experience. Drawing on this analysis, Section V sets out ADB's strategy for the period 2005–2009. Sections VI and VII outline strategy implementation measures.

¹ Published work to date includes: ADB. 2001. *Poverty: Is It an Issue in the Pacific?* Manila; ADB. 2002–2003. *Priorities of the People: Hardship in the Pacific Series*. Manila; and ADB. 2003. *Millennium Development Goals in the Pacific: Relevance and Progress*. Manila. A regional TA (6047 REG) has assisted PDMCs to identify national poverty reduction strategies. A forthcoming publication on "Poverty and Hardship in the Pacific" in 2004 will synthesize this work. In addition, a regional TA (6157 REG) is strengthening capacity for statistics, poverty analysis, and strategy formulation across the region.

² ADB. 2004. *Governance in the Pacific: Focus for Action 2005–2009*. Manila (forthcoming).

³ ADB. 2004. *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific*. Manila.

⁴ ADB. 2004. *Pacific Regional Environmental Strategy 2005–2009*. Manila.

⁵ ADB. 2004. *Regional Gender Assessment and Strategy for the Pacific 2004*. Manila.

Box 1: The Pacific Developing Member Countries

They are Different....

- Papua New Guinea (PNG) has a large and diverse land mass of 440,000 square kilometers, including many islands, and is abundant in natural resources;
- Nauru comprises a single “rock” of 21 square kilometers;
- The size of maritime areas and richness of maritime resources vary enormously;
- PNG has more than 5 million inhabitants;
- Fiji Islands and Timor-Leste have nearly 1 million people each;
- Cook Islands, Nauru, Palau, and Tuvalu each have fewer than 25,000 residents;
- Melanesian PDMCs (PNG, Solomon Islands, and Vanuatu) are highly diverse in terms of language and ethnic groups;
- Federated States of Micronesia is a federation of island groups with different Micronesian languages and cultures;
- Polynesian PDMCs such as Cook Islands, Samoa, Tonga, and Tuvalu have more homogenous peoples and political structures;
- Cook Islands, Fiji Islands, Samoa, and Tonga have good basic education and health indicators;
- PNG, Solomon Islands, and Timor-Leste face significant challenges in providing effective basic social services to all;
- Economic growth has been solid in Cook Islands, Fiji Islands, and Samoa in recent years;
- Economic growth has been weak or negative in other PDMCs, and has seen significant reverses in Nauru, Solomon Islands, Marshall Islands and Papua New Guinea;
- Revenue sources and strategies vary; Federated States of Micronesia and Marshall Islands are very highly aid dependent;
- Remittances are important in Samoa and Tonga;
- Trust Funds underpin the economies of Kiribati, Nauru, and Tuvalu;
- Fiji Islands relies most among the PDMCs on domestic economic growth;
- Political instability is a perennial feature in some PDMCs;
- Fiji Islands and Solomon Islands experienced coups in 2000;
- Others exhibit significant political stability.

...but also Face Many Common Challenges

- Generating high and sustained rates of broad-based economic growth from small, high-cost, and narrowly focused economies;
- Minimizing the impact of natural constraints related to small and scattered populations, geographic dispersion and remoteness, and fragile environments;
- Maximizing the benefits arising from globalization for their economies and societies, especially from lower transport and communications costs and increasing trade opportunities, while managing the costs and risks;
- Delivering essential public goods and services with limited financial and human resources;
- Promoting the national interest, through merit-based approaches and good governance, in small societies that maintain strong family and clan obligations;
- Addressing emerging social issues, such as HIV/AIDS, noncommunicable diseases such as diabetes, and domestic violence; and
- Minimizing the high degree of vulnerability of their economies and societies to external shocks—natural and man-made.

II. CURRENT DEVELOPMENT TRENDS AND ISSUES

6. This Pacific Strategy has been developed at an important juncture for the region. The development performance of the PDMCs over the past decade has been mixed. Modest growth and social progress have been evident for a few, but minimal progress has been made in many PDMCs and a measurable decline in key economic and social indicators has occurred in some. In most PDMCs, outcomes have been less than hoped for by governments, the people, and development partners, underperforming targets set in development plans. A small number of PDMCs have experienced conflict and severe pressure on the rule of law, including two coups in recent years. International concern over money laundering and terrorism financing in some PDMCs has placed other PDMCs in an unwelcome spotlight. Nor, in many PDMCs, is there evidence of the capacity to deal with an increasing range of emerging social and economic challenges. The smallest, most resource-poor PDMCs, and outer-island groups within PDMCs have limited development options and marginal viability without significant external assistance. Notwithstanding some success stories, many Pacific islanders and development partners are therefore searching with greater urgency for appropriate solutions to the development challenges facing the people and countries of the region.

A. Economic Growth

7. There are significant differences among the economic circumstances and performance of the PDMCs. To some degree, these differences are growing. However, the most common picture is one of disappointing economic growth since the period of macroeconomic and fiscal reforms in the mid- to late 1990s. In six of the 14 PDMCs, economic growth is not keeping pace with high rates of population growth, so per capita incomes are declining, quite steeply in a few cases (see Table 1; see also Appendix 2, section A for country economic indicators).⁶ Conversely, Cook Islands, Kiribati, Samoa, and Tuvalu have achieved gross domestic product (GDP) per capita growth averaging about 3% per annum since 1995, although in the cases of Kiribati and Tuvalu this result is due largely to the strong performance of external receipts in the late 1990s, rather than to domestic economic expansion. Taken as a whole, the Pacific is significantly underperforming other developing regions of the world, both in terms of economic growth and in furthering its integration with the global economy (Table 2).

8. The fortunes of PDMC economies are closely tied to external events and conditions. All are highly open to trade, relying heavily on imports for many essential supplies while relying on a narrow range of commodity and natural resource exports and/or international tourism for their export receipts. Many PDMCs, especially Cook Islands, Samoa, and Tonga, have significant diasporas in neighboring industrial countries—Australia, New Zealand, and United States (US)—and remittances comprise a significant portion of the economy, fueling domestic consumption. Government receipts are likewise substantially influenced by external factors. Kiribati, Nauru, and Tuvalu are heavily reliant on earnings from their external trust fund investments. The Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI), and Palau are very highly dependent on aid provided through their Compact of Free Association agreements with the US. Thus, a key feature (and a key vulnerability) of most PDMC economies is their relatively low degree of reliance on domestic economic growth, and therefore on productivity improvements in the private sector, to drive the development process.

⁶ Data for Nauru are largely unavailable, but it is known to have suffered a very sharp decline in GDP and to have significantly depleted its offshore financial reserves during the period.

Table 1: Average Annual Changes in Real GDP, Population, and GDP Per Capita for Pacific Developing Member Countries, 1995–2002^a
(local currency terms)

Country	Annual GDP Growth (%)	Annual Population Growth (%)	Annual GDP/Capita Growth (%)
Cook Islands	3.00	(3.10)	6.30
Fiji Islands	2.40	1.10	1.30
Kiribati	4.60	1.60	2.90
Marshall Islands	(2.50)	2.40	(4.80)
Micronesia, Federated States of	(0.50)	0.20	(0.70)
Palau	2.90	2.20	0.60
Papua New Guinea	(0.10)	3.20	(3.20)
Samoa	4.40	1.00	3.40
Solomon Islands	(2.20)	2.90	(4.90)
Timor-Leste	0.90	(0.20)	1.90
Tonga	2.10	0.50	1.60
Tuvalu	4.30	1.30	3.00
Vanuatu	0.80	2.60	(1.70)
PDMCs, weighted average	0.90	2.40	(1.20)
PDMCs excl. PNG, weighted average	2.00	1.10	0.90

GDP = gross domestic product, PDMC = Pacific developing member country.

^a Nauru is not included due to the unavailability of data.

Source: Asian Development Bank Pacific economic database.

Table 2: Growth and Trade Comparisons among Developing Regions

Indicator	Annual Average over 1990–2002		
	1990–1994	1995–1999	2000–2002
Real GDP Growth (%)			
Selected PDMCs ^a	6.49	1.08	(0.05)
Selected Caribbean ^b	1.43	4.86	3.19
Southeast Asia	7.67	3.62	4.16
Sub-Saharan Africa	0.55	3.40	3.06
Total Trade (% of GDP)			
Selected PDMCs	100.56	102.47	^c
Selected Caribbean	77.42	78.99	75.45
Southeast Asia	82.68	105.50	122.37
Sub-Saharan Africa	53.20	58.98	64.91

GDP = gross domestic product, PDMC = Pacific developing member country.

^a Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Vanuatu.

^b Dominican Republic, Granada, Haiti, Jamaica, St Kitts & Nevis, St Lucia, St Vincent, Trinidad & Tobago.

^c Recent data are available for too few countries to provide a valid figure. In Fiji Islands and Tonga, the only countries for which data can be obtained up to 2002, levels of trade in GDP remain relatively constant.

Source: Derived from *World Development Indicators* data.

9. Economic success stories in the Pacific are scattered across sectors and countries. Tourism has been the key to Cook Islands success, with extensive foreign direct investment leading to capacity expansion (though this has not been sufficient to stem the flow of Cook Islanders migrating to New Zealand in search of greater opportunities). Recently, tourism has also rebounded strongly in the Fiji Islands. Agricultural export production in Papua New Guinea (PNG) has proven responsive to price incentives, and vanilla and palm oil have joined coffee and cocoa as important exports. Examples of successful entrepreneurship in fisheries can be found in several PDMCs. Only Samoa has demonstrated broad-based growth, albeit at relatively modest levels. This growth is based on microeconomic efficiencies generated by its significant public sector reforms and on moves toward economic liberalization. Even so, investment levels remain below those desired by the Samoan Government.

10. PDMCs have some advantages that can be exploited in a globalizing world, especially if transport and communications costs decrease: a relatively pristine natural environment, high-value marine resources, various other natural resources (in some PDMCs), and tourism potential, backed by English language capability.

11. Unfortunately, beyond the isolated examples noted above, weaknesses in the economic performance of the PDMCs are pervasive. The private sector has generally been constrained in leading economic growth. Job creation for growing young populations has been minimal: this is an issue of growing concern among Pacific island leaders and people alike. Agriculture and fisheries, key sectors for many Pacific islanders and especially the poor, have not generally provided strong growth. Savings are at very low levels, and both domestic and foreign investment levels have been declining, despite liquidity in the banking sector. Most PDMCs are handicapped by extremely low competitiveness, low productivity, and inadequate infrastructure.

12. The Pacific faces natural constraints that contribute substantially to these problems of competitiveness, productivity, economic growth, and revenue generation. Small, highly dispersed land areas and populations are located a long way from major world markets. Natural resource bases are fragile and primary production options are narrow in most PDMCs, to an extreme degree in the atoll PDMCs. PDMCs are highly vulnerable to natural disasters, such as cyclones. These factors in turn combine with societal norms that prioritize communal sharing of resources as a safety net (risk-mitigation) strategy. The apparent end result is to substantially reduce incentives for individual entrepreneurship, labor, and wealth accumulation.

13. However, ADB governance and private sector assessments suggest that internal constraints, related to the quality of policies and institutions, are also highly significant to the growth prospects of the PDMCs. With a large proportion of revenues coming from external sources, such as remittances, fishing license fees, and returns on investments in foreign financial markets, some PDMC governments may be too focused on resource distribution and insufficiently focused on the requirements for private sector-led domestic economic growth.

B. Private Sector

14. The five private sector assessments conducted to date⁷ highlight that the natural and, arguably, cultural constraints to PSD are greatly exacerbated by a policy and institutional environment that is highly unfriendly to business, be it small or large, formal or informal, domestic or foreign owned. Although the details are specific to each PDMC, the general

⁷ For Fiji Islands, Marshall Islands, Papua New Guinea, Tonga and Vanuatu. These are available at <http://adb.org/privatesector/Development/assessments.asp>.

conclusion is that improving policies and institutions is essential, in order to create an environment for private sector-led growth (see Appendix 3, Section A). Common issues include:

- (i) The role of the state is pervasive, both in its requirements for registration and for licensing of businesses and in its widespread (and often unsuccessful) ownership of businesses;
- (ii) In many sectors, the inefficiencies of state-owned enterprises (SOEs) are protected by an injunction against private sector competition. The result is that: (a) the services that are especially important for small and isolated economies (such as communications and transport) are provided at unnecessarily high cost and low quality, and (b) the scope for private sector development is unnecessarily limited;
- (iii) The institutional, commercial, and legal framework for the private sector is inadequate to support modern business transactions, and implementation of laws is often inadequate;
- (iv) Financial markets do not function effectively to finance investment. There is often no mechanism for the pledging of collateral as security for loans. This particularly disadvantages indigenous entrepreneurs; and
- (v) Specifically, inadequate security of land tenure raises a large barrier to investment. Land, which is one of the principal assets of indigenous Pacific islanders, cannot be mobilized for productive economic purposes. Land tenure is a contentious and complex issue requiring culturally sensitive and innovative approaches, but most PDMC governments are not actively seeking solutions.

15. In summary, the environment for PSD is hampered by most governments failing to do what they should do (providing property rights, ensuring the rule of law, and underwriting a conducive policy and institutional environment), while doing what they should not do (restricting business opportunities and operating inefficiently in markets). In some PDMCs for example, tax concessions and incentives (which reduce revenue returns to governments) are used to attract foreign investors on the one hand, while the lengthy approval process drives them away on the other. Indigenous and small private enterprise is most heavily affected by the problems in the policy and institutional environment. Nevertheless, some examples of tangible progress are evident. For example, both Samoa and Tonga have approved policies on SOE ownership and have started programs to clarify objectives, strengthen management and accountability, and divest themselves of SOEs that do not contribute to government objectives for SOEs.

16. Another critical issue that emerges in consultation with private sector representatives is the skills gap, in which professional, technical, and often basic trade skills are highly limited in supply. Education and training programs that are responsive to labor market demand would therefore be a valuable complement to policy and regulatory reforms which enable PSD.

17. Ambivalent attitudes to the private sector exist to varying degrees in the PDMCs, as does an interventionist philosophy among political leaders and officials. This is so partly as a consequence of an earlier, now discredited, policy consensus (including among development economists and partners) that a dominant state role is needed to overcome the challenges of smallness. The fact that foreign investors or ethnic minorities are often predominant in the private sector may also shape attitudes and policies.

18. The conclusion from ADB's private sector assessments therefore is that PDMCs are not yet testing where the natural constraints to PSD lie in the Pacific. A significant reorientation of thinking by governments is necessary, focusing on providing a supportive environment for domestic and foreign entrepreneurship and initiative, reducing the role and increasing the

efficiency of government, and avoiding targeting of “priority sectors” and other market distortions. Sensitive policy issues, including approaches to land tenure and foreign investment, will need to be carefully considered and addressed as part of this process.

19. It is important to highlight the potential role of the private sector in the Pacific’s development, while having realistic expectations of the private sector’s response to an improved operating environment. There are limits in two areas. First, levels of foreign investment may grow to a degree, but are likely to remain modest no matter how effectively a PDMC reforms its enabling environment for business. This is especially so as the tariff advantages of PDMC products in Australia, Europe, and New Zealand erode. Niche foreign investment is most likely. Domestic investment and entrepreneurship are where the greatest potential lies. However, even the domestic private sector cannot be expected to rapidly capitalize on all possibilities. PSD will require a long-term change in attitudes and expectations of government, the development of new skills, and periods of trial and error.

20. Second, in the smallest and most resource-poor countries and in outer-island groups of the region there are clearly natural limits to the growth potential for the private sector. However, increasing the efficiency and effectiveness of the use of scarce resources even in these environments is an essential development objective. Here, irrespective of ownership, private sector participation in the provision of public goods and services may have a role, by increasing contestability, as a potential means to increase the productivity and reliability, and reduce the cost, of service provision. Provided that the incentives and regulatory arrangements can be structured appropriately, competition for the market (e.g., auctioning a license to provide services such as interisland shipping for a set period, if necessary on a minimum subsidy basis) offers potentially important efficiency gains in these environments. These options have not been sufficiently tested in the Pacific to date.

C. Poverty

21. Largely unrecognized in previous decades, poverty is now a significant and growing issue in many PDMCs. Although data are unreliable, more than 25% of the population are believed to be living in poverty in Fiji Islands, Kiribati, FSM, PNG, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu (Appendix 2, sections A-C). Previously, poverty in the Pacific was mitigated by social safety nets within rural villages. However, traditional systems are breaking down. High rates of migration, internationally and internally to major towns in search of (largely nonexistent) jobs, are creating poverty in both unplanned and unserved peri-urban settlements as well as among the less productive (older and younger) populations left behind in rural areas and outer islands.

22. In 2002 and 2003, ADB conducted participatory assessments of poverty (referred to as “hardship” in some PDMCs) in eight PDMCs,⁸ in order to improve its understanding of the nature of poverty and of the priorities of the poor in the Pacific. While there are growing pockets of real destitution in some PDMCs, in most cases the issues raised relate to the difficulty of insufficient cash to purchase basic goods and meet community obligations, along with inadequate access to basic services, such as health care, clean water, and schooling. A broad definition of poverty for the Pacific was recommended by Pacific Islanders as part of this work.⁹

⁸ Fiji Islands, RMI, FSM, PNG, Samoa, Tonga, Tuvalu, and Vanuatu. These are published in ADB. 2002-2003 *Priorities of the People: Hardship in the Pacific* series. Manila.

⁹ ADB. 2004. *Poverty and Hardship in the Pacific* (forthcoming).

An inadequate level of sustainable human development, manifested by:

- (i) a lack of adequate resources (including cash) to meet the basic needs of the household or customary obligations to the extended family, village community and/or the church
- (ii) a lack of access to basic social services; and
- (iii) a lack of opportunities to participate fully in the socioeconomic life of the community.

23. These poverty surveys and analyses have yielded a clear understanding of the priorities of the poor in Pacific countries. As set out in Table 3, two priorities emerge consistently from these surveys of the poor across eight PDMCs:

- (i) access to cash income-generating opportunities, and
- (ii) access to basic social services, especially primary education, health care and clean water.

Table 3: Priorities of the Poor

Country	Income Opportunities	Basic Social Services	Others
Fiji Islands	•	•	<ul style="list-style-type: none"> • Strengthen traditional community leadership and governance to address the weakening of traditional structures.
Marshall Islands	•	•	<ul style="list-style-type: none"> • Improve frequency and regularity of visits by ships to outer islands to buy and sell copra and other goods.
Micronesia, Federated States of	•	•	<ul style="list-style-type: none"> • Improve governance standards. • Access to technical/vocational training. • Social issues: kava, drug, and alcohol abuse.
Papua New Guinea	•	•	<ul style="list-style-type: none"> • Strengthen existing law and order and enforcement agencies to improve personal security.
Samoa	•	•	<ul style="list-style-type: none"> • Access to housing assistance. • Greater access to technical/vocational training.
Tonga	•	•	<ul style="list-style-type: none"> • Improve coordination among community groups and between community groups and government. • Greater access to technical/vocational training.
Tuvalu	•	•	<ul style="list-style-type: none"> • Access to housing ownership scheme. • Sports facilities, equipment for the youth.
Vanuatu	•	•	<ul style="list-style-type: none"> • Better roads, shipping services, airstrips, and telecommunications facilities. • Resolution of land disputes. • Social issues, particularly kava drinking.

Sources: ADB. 2002–2003. *Priorities of the People: Hardship in the Pacific* series. Manila.

D. Social Development

24. Social indicators present a distinctly mixed picture in the Pacific. Human development indicators and human poverty indicators show wide disparities among the countries, with the lowest-ranking PDMCs at similar levels to some of the least-developed countries in the world (Table 4). In other PDMCs, human development levels are relatively good. As set out in Appendix 2, sections B and C, several PDMCs are not on track to achieve the Millennium Development Goals (MDGs). Particular weaknesses are evident in PNG, Solomon Islands, Timor-Leste, and Vanuatu, while FSM and RMI have to date generated poor social development outcomes from high levels of US government funding under their Compact of Free Association agreements. HIV/AIDS is a serious threat in PNG, and presents significant risks to other PDMCs.

25. In the PDMCs with relatively good performance in meeting the MDGs, maintaining service quality and responding to emerging challenges are significant issues, and are ranked as high-priority concerns in ADB's strategy consultations in Cook Islands, Samoa, Tonga, and Tuvalu. Tuvalu, for example, has seen high school enrollment rates rise but pass rates fall precipitously. Many PDMCs are struggling to deal with rapid increases in the incidence of noncommunicable diseases, such as diabetes.

26. Provision of basic education for all remains a challenge for a handful of PDMCs, with Nauru, Solomon Islands, PNG, RMI, and Timor-Leste having gross primary enrollment rates below 85%. Six PDMCs have drop-out rates greater than 50% at secondary level. Adult literacy rates are generally good except in FSM, PNG, and Vanuatu, but the above enrollment information and widespread concerns over the quality of education suggest that adult literacy rates may be on shaky foundations. Vocational education programs in the Pacific are of mixed quality, and are too often driven by supply rather than demand.

27. Tensions associated with weak economies, changing societies, and the uneasy coexistence of "traditional" and "modern" cultures have led to an expansion of social problems such as drug and alcohol abuse, domestic violence, and teenage pregnancies in many PDMCs. RMI, Samoa, and segments of Fiji Islands' population¹⁰ have some of the highest youth suicide rates in the world.

28. Conflict and insecurity have become increasing features of the Pacific landscape in the past decade. PNG and Solomon Islands have experienced protracted civil conflict and, especially in PNG, high levels of crime. Fiji Islands had coups in 1987 and 2000. In addition to the profoundly negative consequences of conflict and insecurity for economic and social development, conflict, crime, and physical insecurity cause significant damage to social trust and interaction.

Table 4. Human Development Indexes, Selected Countries, 2002

Countries	HDI
Selected PDMCs	
Fiji Islands	0.758
Papua New Guinea	0.542
Samoa	0.769
Solomon Islands	0.624
Timor-Leste	0.436
Tonga	0.787
Vanuatu	0.570
Caribbean	
Barbados	0.888
Dominica	0.743
Haiti	0.463
Jamaica	0.764
Southeast Asia	
Cambodia	0.568
Indonesia	0.692
Philippines	0.753
Viet Nam	0.691
Sub-Saharan Africa	
	0.480

HDI = human development index, PDMC = Pacific developing member country. Source: UNDP. 2004. *Human Development Report 2004: Cultural Liberty in Today's Diverse World*. New York.

¹⁰ Indo-Fijian females have the highest rate of female youth suicide in the world.

E. Gender

29. Three major areas of gender inequality are experienced across the Pacific: unequal rights to property, sexual and family violence, and severe under-representation in public life (see Appendix 3, Section B). In addition, many of the economic and social development challenges confronting the Pacific have important gender dimensions, such as women's predominant role in generating cash by selling produce in local markets. Priority issues identified in the national plans of action of Pacific government women's agencies¹¹ closely reflect the priorities of the poor elicited by ADB. PDMCs with the lowest human development indicators are also those with the most severe gender inequalities.

30. Institutional arrangements for promoting gender equality have proven problematic in the Pacific. Government women's development agencies have had great difficulty in implementing the international commitments of PDMCs. All are starved of resources and human capacity, and are given low priority in budget allocations. Renewed attention on the question of best approaches to promoting gender equality is warranted. Women's CSOs can be locally effective and have been important in addressing conflict in Bougainville and Solomon Islands, but more often have had little influence on policy at the national level.

F. Environment

31. Pacific islanders are heavily reliant on fragile land and in-shore marine environments and, in most cases, a limited natural resource base. Increasing environmental challenges threaten to undermine sustainable development in the Pacific. Population growth, urbanization, and an increased demand for cash income contribute to the emergence of localized environmental and natural resource management concerns. Climate change is a significant Pacific concern of global origin. Although problems are increasing on the whole, some success stories are evident, including solid waste management in the Cook Islands. Kiribati has also set a good foundation for progress through its national water resources management strategy.

32. An ADB Pacific Region Environmental Strategy (see footnote 4; also summarized in Appendix 3, section C), identifies eight critical environmental issues facing the region: (i) dwindling supply and quality of freshwater resources; (ii) degradation of the coastal and marine resources that form the ecological and economic foundation of many Pacific communities; (iii) depletion of forest resources and related habitat destruction, soil loss, reduced water quality, and the sedimentation of lagoon areas; (iv) pollution associated with rapid urbanization (e.g., ineffective waste management and contamination of scarce groundwater resources); (v) increasing pressures on biodiversity, which underpins both formal and subsistence economies; (vi) sustainable and affordable supply of energy; (vii) adverse impact of climate change; and (viii) weak environmental governance.

33. The Intergovernmental Panel on Climate Change has confirmed that the PDMCs, already highly vulnerable to natural disasters, may be among the most susceptible to the adverse impacts of climate change, and therefore the first to be forced to adapt. Impacts include reduced security of fresh water supply due to higher variability of rainfall and rising sea levels; coral bleaching; disturbances to agricultural production; changed human disease patterns (e.g., the spread of malaria to areas currently unaffected); and increased climatic extremes, such as unusually intense and unseasonal cyclones, flooding, droughts, and other natural phenomena.

¹¹ The national plans of action were prepared, usually in consultation with CSOs, drawing on and localizing the Beijing and Pacific Platforms for Action.

Appropriate responses involve mainstreaming climate change adaptation strategies (or “climate proofing”) into development strategies, in order to assess and address risks to the natural environment, infrastructure, and human development. These measures will involve additional costs to PDMCs.

G. Political Environment

34. The PDMCs have diverse political systems that provide divergent outcomes. The majority of PDMCs operate a form of Westminster-style democratic political system,¹² but the details (such as electoral systems) vary in ways that have a significant impact on the operations of the political system. Traditional authority is recognized through the democratic system in varying ways in Fiji Islands, Samoa, and Vanuatu, but in general it can be said that “modern” and “traditional” governance systems tend to coexist uneasily.

35. Continuity of constitutions and democratic systems has been a relative strength of the Pacific in its post-colonial period, with only Fiji Islands and Solomon Islands experiencing unconstitutional overthrow of elected governments. However, this is not to say that the current political systems have served the PDMCs well. In the Melanesian,¹³ and more recently some Micronesian,¹⁴ countries, political instability has become a perennial feature and has severely limited the scope for effective and far-sighted governance. The record of most political systems in addressing misbehavior among politicians is weak. Constitutional change was introduced in PNG in recent years to address these concerns, but to date has proven ineffective in practice.

H. Governance and Institutional Capacity

36. The preceding analysis suggests that policy and institutional constraints are, alongside natural constraints, at the heart of the constraints to growth and poverty reduction in the Pacific. If so, why are policies poor and institutions weak, to varying degrees, in many PDMCs?

37. A key governance challenge in the Pacific is for leaders to pursue the public good and merit-based approaches within small societies in which traditional family and clan obligations remain very important. It is also essential that leaders and communities balance demands for priority treatment for local interests with support for policies and approaches that address broad national concerns. This balance is not always achieved, especially in ethnically diverse Melanesia, where tribal allegiances remain strong and national loyalties are often of secondary importance. At the same time, provincial and local governments founder due to lack of resources and capacity to meet local demands.

38. Weaknesses in policy formulation and implementation processes are also widespread. Policy formulation often follows a top-down approach, with little participation or recognition that stakeholders beyond senior levels of government, including women and youth, may have valuable experience or perspectives to add. Furthermore, policy is too infrequently developed on the basis of careful data gathering and analysis. Policy processes are sometimes haphazard and sometimes externally driven, by development partners or specific interest groups. A widespread problem with the policy environment in the Pacific is that even when effective and

¹² FSM and Palau are exceptions, operating US-style presidential systems, and Timor-Leste has adopted a European congressional system. Tonga, a monarchy, is also different in that the King appoints the Cabinet and two thirds of Parliament and chairs the Privy Council, which has extensive powers.

¹³ PNG, Solomon Islands, and Vanuatu. Fiji Islands has both a Melanesian and Polynesian heritage.

¹⁴ Kiribati, RMI, FSM, Nauru, and Palau.

appropriate policies are in place, implementation through effective institutions is a major challenge.

39. The appropriateness of current institutions, often legacies of colonial systems and supported by development partners, may also be an issue. Such institutions may be ill-suited to very small countries, may coexist uncomfortably with traditional institutions, or may be unable to adapt to modern realities. Unnecessary complexity has sometimes been introduced, often with development partner support, despite shortages in some of the very basic competencies required for effective government. Even when institutions are appropriate in design, they have often been starved of resources or have failed to nurture and develop staff capacity in critical areas, such as public financial management or policy analysis and formulation. When available, these skills can atrophy easily if not demanded by political and official leaders.

40. One notable and important bright spot among the institutions of the Pacific has been the judiciary, which is generally independent, competent, free of corruption, and reasonably resourced. Although there are concerns about maintaining adequate numbers of capable judicial service personnel, the use of external judges to provide independence, and the sharing of regional resources have been successful approaches.

41. The role and scope of civil society in the Pacific appears to be broadening. A range of Christian denominations have traditionally played a very important role at the community level and in the delivery of education and health services. This role continues, although in some cases financing for church-based service delivery, whether from international, government, or community sources, has been increasingly constrained. In some countries, trade unions have also played a significant role in representing the interests of their members in the formal public and private sectors. More recently, a much wider array of CSOs has emerged, with a variety of interests and approaches, ranging from service delivery to advocacy on issues such as the environment and good governance. From their various perspectives, these newer CSOs wish to strengthen their capacity to contribute to the development of the Pacific.

42. Six country governance assessments¹⁵ and a regional governance assessment workshop¹⁶ have provided more specific detail on the issues that underpin the broader concerns about the quality of policies and institutions in the Pacific. While governance standards vary significantly across the PDMCs, the surveys highlight quality of leadership, levels of corruption, accountability and transparency of government, and societal ownership of (and participation in) reform programs as the key factors in the quality of governance in the region (Appendix 3, section D). Concerns are widespread, but progress is also evident in a range of areas, for example: the PNG Ombudsman Commission has been active and independent in strengthening the accountability of political leaders, and the Fiji Audit Office has successfully taken court action to ensure the transparent management of all public funds.

43. Leadership is a difficult and complex task in the Pacific, with traditional loyalties to family and clan mixing uneasily with Western economic systems and structures of government. It is required at all levels of society and throughout the public sector. Women are insufficiently represented in leadership positions in many PDMCs. For political leaders, the financial expectations of constituents usually exceed available resources; they often receive little guidance or support in executing their roles and responsibilities. In some PDMCs, these factors can combine to create a political leadership model that prioritizes distribution of resources to

¹⁵ For Fiji Islands, FSM, PNG, Samoa, Tonga and Vanuatu (unpublished).

¹⁶ Held on 29-31 July 2003 at Korolevu, Fiji Islands, and involving government and civil society representatives.

constituents over national considerations or generating long-term growth; it may also be tolerant of corruption and fuel endemic political instability. Political systems that allow rapid turnover of elected representatives can create incentives to capture and allocate resources as quickly as possible. Weak accountability and civil society institutions find it difficult to curb these influences, and breaches of existing laws and codes of conduct are not always punished. Pacific leaders therefore face great challenges, both to envisage a way forward for their societies and to determine how to rise above competing pressures at a personal level.

44. Leaders would have stronger incentives for good governance if they were more often held accountable for national development outcomes. Unfortunately, community participation in formulating national development policies has often been surprisingly weak for small countries with strong consultative traditions. After a post-independence period of placing great trust in political and bureaucratic leaders, popular concern over the quality of Pacific governance began to rise in the 1990s and several reform-oriented governments were elected. However, this trend has not, in most cases, resulted in sustained community demand for good policies, appropriate institutions, and accountable government in the national interest.

45. Limited awareness and ownership of the objectives of reform programs are likely to be among the factors for this failure to maintain broad-based demand for reform.¹⁷ The breadth and depth of community understanding of complex, essentially “foreign” systems and processes of government are also limited. Developing a critical mass of people with the confidence to speak on these subjects is a further challenge. Practical challenges also abound: effective mechanisms to encourage citizen’s participation in the legislative process are largely lacking, with information on the legislative agenda rarely available in advance and draft bills seldom published prior to parliamentary consideration. Weak ownership may also be influenced in part by the fact that few PDMC citizens pay income tax and a high proportion of the development budget is aid funded.

46. The failure of most PDMCs to sustainably build and retain human capital is another central and long-standing issue for the quality of governance and institutions. A “brain drain” arises from the inability of PDMCs to retain many of their most skilled and motivated people, especially in Polynesia,¹⁸ but increasingly in other countries too. Out-migration erodes the level of skills and capacity in PDMCs, in government, the private sector, and civil society, though it also has clear benefits, and some PDMCs pursue an active policy of exporting their people in order that remittances can support the economy. The influence of returning migrants exposed to different societies and economies can also have important benefits. ADB has supported the promotion of remittances as an economic strategy in the smallest PDMCs, e.g., by strengthening maritime training in Tuvalu. International expert views on the long-term costs and benefits of this strategy are mixed, and further study in the Pacific context is warranted. In any event, there appears to be no quick fix to the brain drain. The only sustainable solution for most countries is the long-term task of providing opportunities, through growing economies, for Pacific islanders to use their skills productively and profitably at home.

47. The combination of the above weaknesses plausibly explains a failure of policies and institutions in some PDMCs to meet modern challenges and demands. In these circumstances, it is perhaps not surprising that at times the rule of law has come under pressure, and crime and

¹⁷ With the exception of Samoa, most reforms have been implemented rapidly in response to economic crises, allowing little time (or perhaps insufficient priority) for broad-based discussion of reform objectives. Consequently, when the crisis has retreated, so has the reform momentum. This pattern of reform progress is not, of course, limited to the PDMCs.

¹⁸ Cook Islands, Samoa, Tonga, and Tuvalu.

ethnic tensions have risen. The international community is increasingly concerned about money laundering, transnational crime, and opportunities for terrorist activity in the region. These conditions provide a significant challenge to PDMC governments and development partners. Establishing the fundamentals of the rule of law is a prerequisite for strengthening policies and institutions, not least for PSD, and therefore for promoting economic and social development and attacking poverty.

I. Regional Cooperation

48. Regional cooperation has long been recognized as having the potential to address many of the constraints to development in the Pacific, by improving economies of scale, sharing the costs of (and human resources for) providing specialized public goods, jointly addressing common development challenges, and speaking with a common voice beyond the region. This recognition has led to the development of an extensive network of regional institutions.

49. However, there has been little evidence, until very recently, that the PDMCs are taking significant ownership of the deepening and broadening of regional cooperation. Regional organizations are largely funded by external agencies, with PDMCs making minimal contribution. Nor, with the possible exception of the University of the South Pacific, do PDMCs hold the regional institutions strongly accountable for their performance. Where possible, PDMCs have chosen national approaches over regional solutions, sometimes at great expense. A concern to maintain sovereignty is often given as the reason for national approaches. Nevertheless, there are many fields, ranging from aviation to fisheries, in which PDMCs can and do gain substantial economic and social benefits from regional cooperation, including reducing risk and vulnerability. Some important further opportunities are being missed. For example, expansion of the Pacific Island Countries Trade Agreement to trade in services would significantly enhance the agreement's benefits, and liberalized regional labor market arrangements would complement such an expansion. Of course, there are also limits to regional cooperation—in some economic spheres the PDMCs are competitors for external markets—and there are many cases in which cooperation will have differing benefits and costs among the PDMCs. Careful calculation of these costs and benefits is required.

50. A potentially significant political development has been the decision of the Pacific Islands Forum leaders in 2003 to review and reinvigorate regional cooperation. Leaders will adopt a "Pacific Plan" in 2005, in order to create stronger and deeper links between the countries of the region and identify practical steps in the (now revised) focal areas for the Forum: economic growth, sustainable development, good governance, and security.

J. Conclusion

51. The challenges facing the Pacific are significant, for the region as a whole and for weakly performing PDMCs in particular. For example, it will take Solomon Islands many years, perhaps decades, to rebuild its severely weakened institutions. Nauru faces a difficult future, with few remaining assets or resources. The risk of further deterioration in the economies, social development, and governance of some PDMCs should be treated seriously. However, significant opportunities also exist. Sound public sector reform progress in Samoa and strong private sector performance in Cook Islands and Fiji Islands, and advances in agriculture in Papua New Guinea are all valuable platforms on which to build. Incremental improvements in the quality of policies and institutions in other PDMCs can unlock the potential for much improved performance. Such improvements will be crucial to assist the PDMCs to tackle a

range of emerging trends: poverty, youth unemployment, noncommunicable diseases, and HIV/AIDS. A degree of urgency in improving development outcomes is required in all PDMCs.

III. PACIFIC DMC DEVELOPMENT STRATEGIES

A. Development Goals and Strategies

52. The status and efficacy of national planning processes vary significantly across the PDMCs. Appendix 4 summarizes national development strategies, where they exist. Most PDMC strategies emphasize both economic growth and equitable outcomes. Within this framework, noteworthy issues and trends are:

- (i) Statements of commitment to the private sector as the engine of growth are more common and pronounced than in earlier strategies;
- (ii) Some strategies increasingly recognize that poverty is a problem to be addressed;
- (iii) Promoting more equitable outcomes receives highest priority in some strategies, but for different reasons:
 - (a) in some PDMCs, outer-island development receives high priority,
 - (b) in post-coup Fiji Islands, the emphasis is on healing social rifts following the 1987 and 2000 coups, and
 - (c) in Samoa, the emphasis is on broadening the benefits of reform and economic growth, which are believed to run the risk of leaving the poor behind;
- (iv) Strengthening the rule of law, peace and security are priorities for Fiji Islands, PNG, Solomon Islands, and Timor-Leste;
- (v) Agriculture remains the main priority among the productive sectors; and
- (vi) Maintenance of Pacific cultures is a universal theme.

B. Resource Mobilization and Investment

53. Following a series of macroeconomic crises in the region in the mid- to late 1990s, PDMC governments are now more aware of the importance of macroeconomic and fiscal sustainability, especially as the public sector comprises a large proportion of most of their economies. Relative macroeconomic stability has been an important achievement of many, though not all, PDMCs in recent years. However, maintaining a sustainable fiscal policy is proving difficult in many cases. Revenue collection levels are generally not growing strongly, but demand for scarce public sector resources comes from an expanding population with raised expectations of service delivery. Development partner programs, by providing new assets to be maintained, can have the effect of adding to this demand. Uneconomic or underperforming SOEs are a drain on budgets in some PDMCs and a major source of risk to public finances in virtually all. As a consequence, some PDMCs' fiscal positions are gradually deteriorating.

54. PDMCs have a narrow range of options for financing their budgets and development programs. In the absence of significant or growing domestic revenues, PDMCs tend to rely on one or more of the following:

- (i) **Remittances.** Essentially private flows, remittances from overseas nationals are an important component of some PDMC economies (47.9% of GDP in Tonga in 2001, and 21.1% in Samoa). They largely support consumption expenditure.

- (ii) **Natural resource rents.** Oil, gas, and minerals in PNG; phosphate in Nauru; timber in PNG and Solomon Islands; fish in several PDMCs; and a missile-testing range in RMI have all been important sources of revenue for governments. However, the sustainability of these resources is problematic to varying degrees. Sustainable management of migratory fish species is an especially critical issue for the Pacific.
- (iii) **Trust fund revenues.** In Kiribati and Nauru, trust funds have been generated by income from phosphate mining and provide a substantial revenue flow to the economy (albeit severely mismanaged in the case of Nauru). In Tuvalu and the outer islands of RMI, trust funds have been established with development partner support to provide an ongoing revenue stream, and there is potential to replicate this approach elsewhere.
- (iv) **Marketing “sovereignty”.** Stamp sales in Kiribati and Tuvalu and, in Tuvalu, the licensing of the “.tv” internet domain have been positive examples; the sale of passports and establishment of offshore banking centers have been problematic, bringing the corruption associated with passport sales and international concern that PDMCs have provided a supportive environment for money laundering.
- (v) **External aid.** Aid remains an important revenue source to PDMCs, to a very high degree in the smallest PDMCs and specifically for FSM, Palau, and RMI, which receive substantial funds under their Compacts of Free Association with the US.

55. Each of these options carries limits, risks, and uncertainties about future expected revenues. Sustainable domestic private sector-led economic growth, including improved export performance, is therefore critical to securing successful development outcomes. Creating the conditions for this growth should therefore be a top priority for PDMC governments—though, as noted earlier, this is not always the case at present.

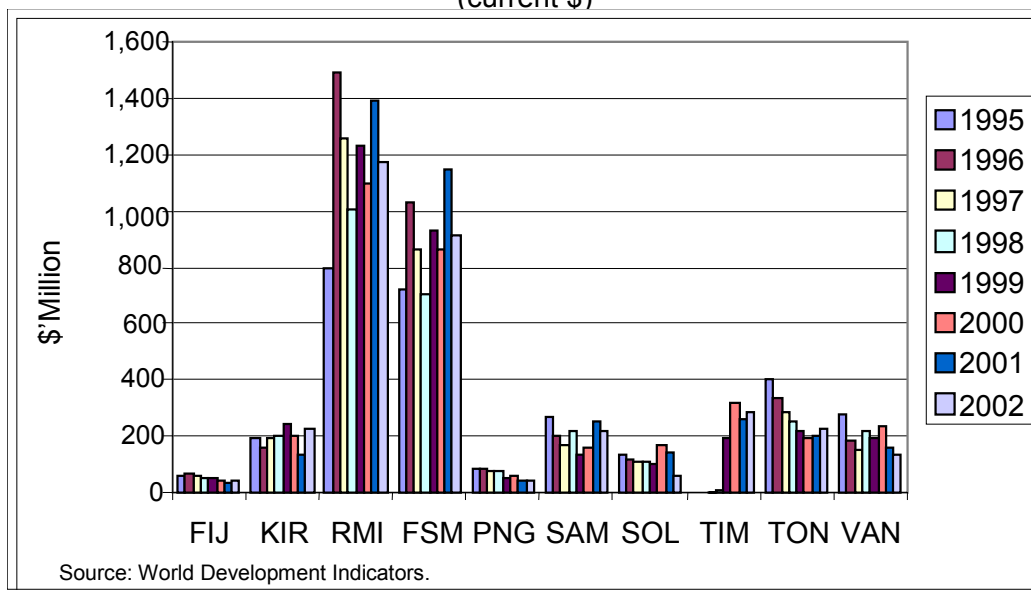
C. Role of External Assistance

56. Aid has long played an important role in the Pacific. On a per capita basis, aid flows are very high on average, and among the highest in the world in the US Compact countries—FSM, Palau, and RMI (Figure 1). However, there are significant disparities among the PDMCs, and it should be noted that aid “buys less” in high-cost PDMCs. Among the poorest PDMCs, PNG receives significantly lower per capita flows¹⁹ and Timor-Leste has experienced significant declines in external assistance quite soon after independence. Aid plays a relatively minor role in the Fiji Islands economy.

57. Some major bilateral partners have recently increased the level and changed the nature of their engagement with selected countries of the region. Australia, with regional support, has played a “hands-on” role in restoring stability in the Solomon Islands through a regional intervention mission. Australia and New Zealand (both Pacific Islands Forum members) are also strong supporters of enhanced regional cooperation through the upcoming Pacific Plan. Australia has also increased its engagement with Papua New Guinea, providing 200-300 personnel to fill in-line positions in central government and law and justice departments. The US is changing the nature of its relationship with the ‘Compact’ countries, requiring greater accountability for the expenditure of Compact funds and increasing the level of its dialogue with the countries on development strategies.

¹⁹ On a per capita basis, aid to PNG is less than that to Lao People’s Democratic Republic and similar to that to the Kyrgyz Republic—countries with similar populations and comparable challenges of geography.

Figure 1. Aid Flows Per Capita
(current \$)



FIJ = Fiji Islands, FSM = Federated States of Micronesia, KIR = Kiribati, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands, SAM = Samoa, SOL = Solomon Islands, TIM = Timor-Leste, VAN = Vanuatu.

58. Grant assistance predominates. Borrowing from international financial institutions (of which ADB is by far the largest in the Pacific) plays a modest financing role. The largest bilateral donors are Australia, Japan, New Zealand and the US. The European Union is also a significant grant donor. The International Monetary Fund (IMF), World Bank, and United Nations system focus on policy and technical advice, playing minor roles in financial terms. Several major development partners have a subregional approach, with Australia focusing to a large degree on Melanesia, the US almost exclusively on the North Pacific countries, and New Zealand traditionally on Polynesia (but now also extending to Solomon Islands). The sector and thematic focus, though less clear-cut, is highlighted in Appendix 2D. In contrast to the 1980s, agriculture is notable as a sector currently receiving little donor support. Much of the external assistance to the PDMCs over past decades has focused on supporting the provision of social services and the creation of managerial and technical capacity, especially for government.²⁰ Governance and public sector reform issues came increasingly into focus for external agencies in the mid-1990s.

59. Although hard evidence is scarce, it is reasonable to conclude that aid has contributed significantly to rising human development indicators in most PDMCs over recent decades, although in some cases these gains are now under threat. Importantly, external assistance played a decisive role in breaking the spiral of violence and decline in Solomon Islands and in contributing to a settlement of the Bougainville conflict in PNG. Aid has also provided, if not always sustained, important policy and technical contributions to ongoing management of governments. In the past decade, development partners have also played a vital role in highlighting governance issues and in strengthening governance and the rule of law in several PDMCs, with best results in those PDMCs where the partners have supported local commitment

²⁰ The two most important modes of capacity building have been (i) thousands of scholarships provided by Australia and New Zealand for tertiary study in those countries or within the Pacific, and (ii) expatriate personnel to serve in or with Pacific governments.

to reform (e.g., Samoa). Efforts have been at best a “holding operation” in other cases. In both sets of circumstances, development partner interventions have often been overly complex and unsustainable.

60. However, it is difficult to see that external assistance has been successful in promoting economic growth. Some commentators have argued that development partners have contributed to the weak performance of the Pacific, by underwriting the cost of a large but unresponsive public sectors, undermining the domestic private sector (including promoting commercial SOEs), or by delivering unsustainable prestige infrastructure projects with high recurrent costs.²¹ Aid may have reduced the imperative to focus on generating domestic growth and reinforced a traditional preoccupation with resource distribution. The high transaction costs of managing aid flows from a range of development partners with different expectations and approaches are also a significant burden on small and weak bureaucracies, and at times may have distracted governments from priority functions. However, as indicated by economic crises in some countries that experienced declining aid in the 1990s, Pacific economies would no doubt have been in a significantly worse fiscal position without aid. Nevertheless, PDMCs and development partners alike must reappraise their roles in creating the conditions for pro-poor economic growth in the Pacific.

D. Assessment of the PDMC Development Strategies

61. The production of national development plans, often supported by ADB, has had a very mixed effect in the Pacific, with fine words too infrequently translated into sustained action and insufficient attention given to hard choices and prioritization in light of resource constraints. Notwithstanding significant improvements in some of the more recent examples,²² experience with national development plans, ADB’s private sector and governance assessments, and discussions during ADB consultations on the Pacific Strategy 2005–2009 suggest the importance of getting the basics right: improving the environment for the private sector, reducing costs and inefficiencies in the economy, focusing on the provision of basic social services, and providing good governance.

62. These are not new issues. They have been discussed before and agreed by PDMC governments. However, they are yet to be effectively tackled in most PDMCs—in some cases because development partner-driven approaches failed to cement PDMC ownership. As a result, they remain at the top of the agenda. Building PDMC commitment and finding more effective ways to put in place and sustain appropriate policies and institutions are key to addressing these long-standing issues.

IV. ADB’S DEVELOPMENT EXPERIENCE

A. Impact of Past Assistance

63. While no single evaluation of ADB’s assistance to the Pacific is available, important insights are available from a PNG country assistance program evaluation, thematic evaluations

²¹ See, for example: Helen Hughes. 2003. *Aid has Failed the Pacific*. Available: www.cis.org.au.

²² Samoa has developed a rolling and consultative 3-year strategic planning process that is well integrated into government systems. Fiji Islands, Kiribati, and RMI are making progress on linking national strategies to sector plans and to performance frameworks. New approaches are also being developed to improve the quality of community participation feeding into the strategies, and of the dialogue with development partners.

(e.g., of public sector reform programs²³), an internal desk assessment of the implementation of the Pacific Strategy 2000–2004, and project completion and project performance audit reports. These are outlined in Appendix 5. The Pacific Strategy 2000–2004 had five broadly defined “strategic objectives” (economic management, governance, and public sector reforms; PSD; gender; environmental protection; and poverty reduction) and four “supporting objectives” (capacity building, infrastructure, financial sector development, and participation of civil society). Some objectives have received relatively little attention during this period (e.g., gender and financial sector reforms). In other areas important new work, especially analytic work on poverty, PSD, and the environment, is only now bearing fruit.

64. The objective on economic management, governance, and public sector reforms represented an area of continuity of work from the Pacific Strategy 1995–1999, and here the impact is clearer. The reinstatement and maintenance of macroeconomic stability, and to a lesser degree fiscal stability, often in the face of macroeconomic crises, has been a significant achievement in most PDMCs, made through ADB and other agency support (though Solomon Islands is a significant exception). PDMCs now place a much higher priority on maintaining macroeconomic stability. However, the public sector reform elements have had more mixed impact and sustainability, depending largely on the levels of local ownership of the reform objectives. Finally, the private sector response to the economic and public sector reforms has been generally disappointing, for reasons now highlighted. Different approaches will be necessary for improved performance in these areas in the future.

65. The 2000–2004 Pacific Strategy also introduced a three-part typology of the PDMCs involving (i) high natural resource, high poverty PDMCs (PNG, Solomon Islands, Vanuatu); (ii) moderate resource, good social development PDMCs (Cook Islands, Fiji Islands, FSM, Samoa, Tonga); and (iii) low resource, small, and vulnerable islands (Kiribati, RMI, Nauru, Tuvalu). This was a useful typology for highlighting variability among countries, as well as some common traits among groups of countries within the region. One deficiency was that it did not address quality of governance, a major theme of the strategy and the source of important differences within the three groups. For this reason, the practical impact of the typology was modest, with the clearest achievement being a focus during the strategy period on developing trusts funds for vulnerable and resource poor atoll countries such as Tuvalu, Kiribati and Marshall Islands. A more country-specific analysis is suggested for the new strategy period.

66. The PNG country assistance program evaluation and internal desk review highlight the difficulty of achieving significant impact without a medium- and long-term commitment to a manageable number of clearly defined objectives. ADB needs to be more selective and focused in the Pacific. Thematic evaluations point to the importance of understanding the institutional environment within which programs and projects work, and of addressing the root causes of problems in the performance of key institutions. These findings are complementary, suggesting the need for a broader, more analytic approach, with longer time frames, in fewer areas of focus. This is challenging to achieve in a region with many diverse, but relatively small-scale, requirements for assistance.

67. Lessons drawn from project-level evaluations and completion reports highlight the crucial importance of participation, broad and deep ownership by beneficiaries and community organizations, and effective development of human capacity. Participatory activities that build local ownership have been noted in a large number of project completion reports as being

²³ See, for example, Knapman, B. and Saldanha, C. 1999. *Reforms in the Pacific – An assessment of the ADB's Assistance for Reform Programs in the Pacific*. ADB Pacific Studies Series report No. 17. Manila.

critical factors in success or failure, with broad engagement involving the private sector, CSOs and communities, and government often crucial. This requires correct identification of the major stakeholders, at both the community and official levels. Equally important is that participation be sustained and embedded in local processes, especially if the focus is on difficult reforms.

68. Promoting more efficient and effective institutions for the management of transport, energy and water supply and sanitation infrastructure has been critical to increasing the impact and sustainability of ADB's lending operations in these traditional focus areas. This focus has usually led to more business-oriented approaches for government departments and SOEs. Some successes have been achieved (such as reform of public works departments in Samoa and of Fiji Power in the Fiji Islands), but in many cases much work remains to be done. The 2000–2004 Pacific Strategy also highlighted private sector participation in delivering these services as an appropriate strategy, but few suitable opportunities have emerged to date.

69. Capacity building has been a major focus of ADB activity in the Pacific, but the record of achievement is mixed. Too often, capacity building has been related to the objectives of the project rather than of the host organization, or the capacity-building requirements have been insufficiently analyzed, planned, or coordinated. In future, diagnostic studies of institutions require strengthening. Approaches need to accept the likelihood of high levels of staff turnover in the Pacific and to manage for high turnover. Consultants are widely used and often assume significant responsibilities for ADB projects in the Pacific. Their effective use is a significant component of the success or failure of capacity building objectives. Terms of reference need to better specify a capacity-building role and integrate this role with host organization objectives.

B. Portfolio Performance and Status

70. Key lending portfolio performance data are provided in Tables E1 to E4 in Appendix 2. The data show mixed and often weak portfolio performance, both in terms of disbursements and quality of outcomes. Borrowing by PDMCs has gradually declined in recent years, leading to negative net resource transfers in several countries. This decline has been a consequence of reduced capacity to borrow in PNG, the largest borrower, and disruption to lending programs in Fiji Islands and Solomon Islands following political disturbances. Delays in loan effectiveness and implementation are common, due to limited capacity within PDMC governments to fulfill ADB loan preparation and administration requirements.

71. Loan project evaluation ratings suggest relatively high rates of success for energy and for transport and communications projects, and much lower rates of success for agriculture and natural resources, for social infrastructure, and for finance sector projects. The clearer and more tangible objectives of the infrastructure projects may contribute to these ratings. Policy-based program loans have had mixed results, with political instability often undermining progress and the environment for reforms. In some cases, it may also be that the reforms, insufficiently communicated or too narrowly owned, have contributed to political instability.

72. Project evaluation ratings by country highlight Fiji Islands and Tonga as having relatively high rates of project success, while PNG, Samoa, Solomon Islands, and Vanuatu have relatively low rates of success. In the case of Samoa, there is recent evidence of improved portfolio performance. These variations are a consequence of differences in government capacity, ability or willingness to provide counterpart funding, and more results-oriented project management in the better performing PDMCs.

C. Conclusions and Lessons for the Strategy

73. A key conclusion and lesson for ADB operations in the Pacific from past assistance is that the development process itself is central to development outcomes—that how we do things is perhaps as important as what we do. Ensuring widespread and appropriate participation and ownership of development programs, especially reforms, is crucial to initial outcomes and to sustainability. Governments and development partners need to engage broadly, including with the private sector, CSOs, and communities. Building capacity requires more careful analysis of institutional issues and constraints and different approaches. Revisiting more thoroughly the concept of providing scarce human resources through enhanced regional cooperation is an important option.

74. Greater participation and more effective capacity development needs to be underpinned by improved availability of data on and analysis of key development issues, and this information needs to be communicated effectively to a range of audiences. Greater awareness of key development issues is essential to building demand for good governance, and for the policies and institutions that will produce good development outcomes.

75. Modest portfolio performance suggests concerns about capacity in PDMC governments, and that ADB project modalities may be placing a high administrative burden on governments. Effectiveness of project preparation and administration processes in Pacific environments needs ongoing review, with a view to streamlining administration and reinforcing capacity in PDMCs. Modalities that involve the private sector and civil society in the delivery of development programs also warrant greater attention.

76. A message that emerged from the consultations on the Pacific Strategy was the importance, in a heavily aid-dependent region, of all development partners providing assistance in a manner that does not distort the incentives for good financial management in PDMCs. The risk of governments being unable to fund recurrent costs of aid-funded infrastructure and the incentive to underfund maintenance in the expectation of receiving replacement infrastructure are simple examples. This risk and incentive highlight the importance of policy dialogue, development partner coordination, and a broad and long-term view of the impact of aid programs. Delivering this more considered approach will require ADB's limited resources to be better focused on clearly defined objectives.

V. ADB'S STRATEGY

A. ADB's Role in the Pacific

77. Feedback from PDMCs and from other partners suggests that, as a development partner for the PDMCs, ADB brings significant value as an independent agency with a strong economic policy focus and sound operational experience in the Pacific. ADB can also bring to the Pacific experience from other regions, both within and beyond its geographic mandate, and potentially bring the synergies of having public and private sector operations under one roof. In a region in which strengthening the quality of policies and institutions must be a central objective, TA, policy dialogue, support for national development strategies, and analytic work play a central role, more so than in any other operational region for ADB. In these circumstances, and with borrowing from multilateral banks playing a relatively minor role in financing development expenditures, lending levels cannot be the primary measure of ADB's performance in the Pacific.

78. As discussed in paragraph 57, major bilateral donors have recently increased and revitalized their engagement with the region. This provides opportunities for better coordination and also for ADB to complement their contributions and enhance the overall impact of development partner programs at this critical juncture for the Pacific. Australia, for example, is playing a vital role in strengthening law enforcement and public financial management in PNG and Solomon Islands. The World Bank is planning new work on regional labor markets and remittances. These interventions help the PDMCs provide much-improved conditions for a focus on private sector-led economic growth. Achieving complementarity with other partners will require selectivity by ADB, and a willingness to leave some important issues and fields to others, while agreeing to work collaboratively in other areas (noted below). Ongoing dialogue with other partners is also critical. To this end, ADB has prepared the Pacific Strategy in close consultation with the World Bank, and with the governments of Australia, New Zealand, and United States. Broad areas for coordination and for delegation to others have been identified as part of this process, and will be reviewed periodically.

B. Addressing Poverty in the Pacific

79. The adoption by ADB in 1999 of poverty reduction as its overarching objective has had important practical implications in the Pacific.²⁴ ADB continues to work closely with PDMC governments on poverty assessments, country-specific poverty reduction strategies, and building capacity for poverty analysis. These commitments, generally implemented under poverty partnership agreements between ADB and the PDMCs, have led to a clearer understanding of the priorities of the poor in the Pacific.

80. In the absence of a single development framework for the 14 PDMCs, and in support of ADB's vision of the Pacific region free of poverty, ADB will adopt the two priorities of the poor—opportunities for cash incomes and improved access to basic social services—as goals for the Pacific Strategy 2005–2009. Attainment of these goals will be measured in terms of PDMC progress in meeting selected MDG targets, among others.

81. In addition to pursuing strategic objectives and key result areas (KRAs) that address poverty reduction goals, ADB will continue to take specific measures through its country and regional cooperation programs to ensure that the priorities of the poor receive targeted attention. This will include support to the Secretariat of the Pacific Community to collect and analyze poverty data at the country level, and assist PDMCs to address poverty issues effectively in national and sector development planning processes.

C. Strategic Focus

82. Box 2 outlines the strategic framework for the strategy, setting out a vision, goals, and strategic objectives that will be vital in addressing the priorities of the poor, and the KRAs that will be the focus of ADB's contribution to achieving these objectives. The strategic objectives modify the three pillars of ADB's Poverty Reduction Strategy in the Pacific context. Greater focus and selectivity in ADB activities in the Pacific is sought through the selection of KRAs, in order to maximize impact.

²⁴ ADB's Poverty Reduction Strategy has been reviewed in 2004. The agreed review recommendations retain the three pillars of pro-poor growth, inclusive social development, and good governance; reduces the emphasis on poverty targeting in specific projects; and introduces capacity development as an additional crosscutting theme.

Box 2: 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 Objectives	Key Result Areas
1. Support a conducive environment for the private sector	<ul style="list-style-type: none"> • An effective institutional, legal, and regulatory environment • Improved financial services • Improved state-owned enterprise ownership arrangements, accountability and performance • Improved provision, operation and maintenance of physical Infrastructure • Effective institutional framework for developing skills in response to labor market demands
2. Enhance the supply of, and demand for, quality basic social services (health, education, clean water, and sanitation)	<ul style="list-style-type: none"> • Social sector strategies that are relevant and responsive to national objectives and client needs • Effective public, private and development partner resource allocations for basic social services. • Capacity to manage and deliver quality basic social services
3. Promote effective development processes	<ul style="list-style-type: none"> • Increased community participation and ownership in development programs • Increased public demand for good governance, and for effective markets and services • Strengthened government transparency and accountability • Increased dialogue and cooperation among civil society organizations, private sector groups and governments • Improved availability and dissemination of quality data and information on development issues • Gender and environmental considerations mainstreamed into development planning and programs • Strengthened capacity of PDMC governments, civil society, and private sector groups to plan and manage for development results • Enhanced development partner coordination and harmonization • Enhanced impact of regional cooperation
Country-Level Key Result Areas:	
<ul style="list-style-type: none"> • Will be selected from the set of KRAs above, as appropriate • A small number of additional KRAs may be added, based on country circumstances and responding directly to one or more of the strategic objectives 	

KRA = key result area, PDMC = Pacific developing member country.

83. This strategy maintains a focus on engagement and operations at the country level, albeit with an emphasis on more effective and inclusive processes and with regional cooperation playing an important complementary role. Alternative options, such as a focus on regional engagement or on predetermined sectors, have less scope to address the fundamental need to strengthen policies and institutions. Responsibility for policies and institutions remains primarily with national governments, supported by civil society, the private sector, and regional institutions.

84. There are important links and potential synergies between the three strategic objectives. Each involves support for a transformation of the role of government, so that government will (i) enable private sector development, (ii) focus on efficiency in resource use and on service delivery outcomes, and (iii) involve people, communities and the private sector in a more participatory and constructive way. Various synergies among KRAs can also be identified, for example, increasing community participation will help ensure that social services are responsive to client needs, and increased dialogue between the government and private sector will likely contribute to a more effective institutional, legal, and regulatory environment for PSD. Enhancing the impact of regional cooperation will assist in the achievement of many KRAs.

85. The strategy provides a mixture of continuity and new approaches in response to the mixed performance of the countries of the region. A strong focus on strengthening governance, and effective management of the economy and of public resources will continue, although with the new goals and objectives providing a more specific context for this work. Lending for key physical infrastructure will continue where appropriate, often accompanied by TA on related policy and institutional issues.

86. ADB will significantly increase its discussion and involvement with PDMCs to help create the conditions required to generate private sector-led economic growth. This new emphasis will require frank discussion with governments on policy options and implications, sometimes addressing sensitive issues. PDMC leadership of the necessary reforms is essential. Increasing concern over low growth rates and growing youth unemployment are reasons to believe that progress on PSD issues is increasingly possible.

87. The focus on the development process itself also brings new areas of emphasis. How governments and development partners do business is fundamental to the quality and sustainability of development outcomes. ADB will focus on broader participation and ownership, and seek to build demand for good governance, and for effective markets and services.

88. The selection of strategic objectives and KRAs to meet the goals of the strategy involves several important assumptions. The first, supported by international experience, is that broad-based private sector-led growth is the only sustainable path to economic growth, and through growth, to poverty reduction. A second assumption is that efficient markets can operate in the Pacific and, related to that, that the private sector can respond to the new opportunities provided for growth in a more conducive environment. Although there is scope for some debate on these issues, positive examples of private sector activity occur now despite very difficult conditions. Given important prerequisites (public goods such as macroeconomic stability, physical security, and a culture of adherence to the rule of law), the arguments in favor of the potential for a private sector response are set out in more detail in ADB's *Swimming against the Tide? An Assessment of the Private Sector in the Pacific* (2004). As noted earlier, there will be significant constraints to overcome. Increased domestic investment and entrepreneurship, rather than substantial foreign investment, is the major response sought in most cases. A phased approach and balanced expectations are appropriate.

89. One assumption related to the social services strategic objective is that PDMC governments will continue to be significant funders and providers of social services (along with development partners), but that appropriate roles for communities, civil society, and the private sector will be increasingly explored, with a view to getting better outcomes with scarce public funding, especially in the face of emerging health and education challenges.

90. A key assumption underpinning the third strategic objective is that greater interaction and cooperation involving governments, civil society, and private sector groups will promote better policies and more effective implementation in the national interest. This will require the availability of high-quality information on which to base policy dialogue, high levels of transparency and trust, and a refusal on all parts to pursue individual interests at the expense of national interests. Trust, in particular, is a key ingredient. In some PDMCs trust will need to be built from a low base and over time, through appropriate consultation processes.

91. The Pacific Strategy also assumes that, in the context of the Pacific Plan, prospects for the pursuit of advantageous opportunities for regional cooperation will be more favorable than in recent years.

92. As noted earlier, if greater focus and selectivity are to be achieved in ADB activities, this inevitably requires that ADB not involve itself in some sectors and themes and, as necessary, discontinue work in some areas. Trade and regional labor market issues have already been noted as areas best left to other development partners, based on their experience and expressed intent to undertake further work. In health and education, ADB will not generally delve too far into technical issues, such as curriculum and examination design, and will be selective regarding the MDG targets directly addressed. The environment is a specific area in which ADB proposes to complete all ongoing work, maintain a strong focus on water resource management and the environmental aspects of sanitation as part of its water supply and sanitation programs, and promote mainstreaming of environmental issues into development planning and programs as a KRA. However, ADB will scale back involvement in other areas, including some activities proposed in the Pacific Regional Environment Strategy (see footnote 4 and Appendix 3, Section C).

93. Details of the selection of strategic objectives and KRAs, and likely measures to implement them, are as follows:

Strategic Objective 1: Support a Conducive Environment for the Private Sector

94. Enabling the poor to access efficient markets for goods and services and to secure decent work is the key to allowing them to generate the cash income they require. Creating a conducive environment for the private sector will both promote the operation of efficient markets and expand opportunities in those markets. ADB proposes applying a broad definition of “the private sector” in its operations in the Pacific—including farmers and informal small businesses. This approach is not primarily about foreign investment. No distinction is made for policy or program purposes between domestic and foreign private businesses, nor the scale of business—by definition all except multinational businesses in the Pacific are micro, small, or medium enterprises. Agriculture and fisheries are, of course, key sectors in most PDMC economies and, through some country-specific KRAs, can be expected to receive attention under this strategy, consistent with a nondiscriminatory approach to PSD. Box 3 sets out ADB’s approach to PSD in the Pacific.

Box 3: ADB's Approach to Private Sector Development in the Pacific

No country in the world has grown economically and reduced poverty sustainably without the private sector playing a central role. Creating an environment in which micro, small, and medium enterprises—formal and informal, domestic and foreign—can develop is critical for the future economic and social well-being of the Pacific developing member countries (PDMCs). However, the private sector can only flourish and create jobs when its environment welcomes business. The Asian Development Bank (ADB) approach will be based on the following principles:

- A private sector strategy should not be about fostering specific companies or sectors. Markets are the best guide to the allocation of resources. Rather, a private sector strategy is about ensuring that the incentives and conditions that affect business and entrepreneurship promote productivity and growth, so that private sector operators can take advantage of opportunities wherever they may be identified.
- The disabling business environment that currently exists needs to be improved by addressing the root causes of the problems that impede business development, not the symptoms. Recent ADB-sponsored private sector assessments show that the most critical, underlying barriers to a flourishing private sector involve the pervasive role of the state; legal and administrative barriers; weak property rights, for movable property as well as land; poorly functioning financial markets; and high cost, poor quality utilities.
- The details of a strategy for improving the environment for private sector development (PSD) need to be worked out at country level, based on local analysis of the incentives and costs faced by businesses. Prioritizing a few critical issues will be important. A phased approach is appropriate.
- While an improved business environment will benefit all businesses alike, irrespective of firm size, smaller businesses and domestic investors will be the main beneficiaries. They are relatively more vulnerable to the high transaction costs typical of disabling business environments.
- Consultation and participation of stakeholders will be a guiding principle. Complex issues of land tenure, culture, control of resources, and quality of governance need to be addressed honestly and transparently.
- The private sector itself must play a central role in advising on policy. Governments must understand what is needed, and must not erect barriers to business. In turn, the private sector must not expect special preferences.

Support for this approach will be provided in a variety of forms. Technical assistance to governments to strengthen policies and institutions will be important. Support for state-owned enterprises to transform their operations will also play a major role, including support for privatization processes where appropriate. ADB will explore a range of public-private partnership options, including direct private sector investments if suitable opportunities emerge. Finally but crucially, ADB will continue its analytic work and policy dialogue on PSD, including detailed country private sector assessments and updates and thematic studies of key PSD issues for the Pacific.

95. Beyond the provision of essential public goods are several specific institutional requirements whose importance is now increasingly clear for PSD in the Pacific (and elsewhere): property rights, an efficient commercial legal system, light but effective regulation, an effective basis for financial intermediation, physical and social infrastructure, low-cost services, and institutions for developing appropriate skills. ADB KRAs will focus on these issues, while carefully monitoring and discussing with PDMCs the status of the above-mentioned prerequisites. ADB will work with PDMCs toward a significant re-orientation of the role of government, with a view to reducing high costs to business and ensuring the supply of these key public goods. A phased approach, taking highest priorities first, will be appropriate. Honest discussion of sensitive issues such as foreign ownership and ethnicity will be necessary. The

World Bank will be an important partner in these areas, and ADB and the World Bank have agreed on the importance of coordinating their assistance to PDMCs.

96. Priority issues regarding the institutional, legal, and regulatory environment are most appropriately determined on the basis of a country-level assessment. Building commitment to policy objectives is a vital prerequisite. A few reforms that can be implemented relatively simply and/or that will have a significant impact on incentives for businesses should then be prioritized. Removing unnecessary barriers to business will often be a relatively easy step if policy commitment is in place. Simplifying the legal and regulatory framework and making it more transparent will reduce opportunities for corruption, and can be achieved in tandem with updating often transplanted and outdated laws and regulations.

97. Weak property rights, including but not limited to land tenure, are a significant barrier to business investment in all PDMCs. Only Pacific islanders can decide on appropriate land tenure systems that best meet their objectives. Because land tenure is a contentious issue with many dimensions, determining the way forward will be a long and slow process. The process should be reinvigorated, or started, now. Given the importance of the issue to PSD, economic growth, and poverty reduction, ADB is willing to support PDMCs who wish to address land tenure issues. ADB is already playing a role in strengthening property rights more broadly, for example by strengthening the legal framework for using movable assets (such as vehicles and machinery) as collateral for bank loans. ADB will also highlight in its analytic work the key issues and the costs and benefits of tackling the range of property rights issues.

98. ADB recognizes the importance of a well-functioning financial system for PSD and pro-poor growth. In the Pacific, financial services, limited in scope, are offered to a small segment of the population and are frequently unavailable in rural areas and on outer islands. Development partner support for the financial sector generally takes a niche-market approach to large-scale finance, SME finance or microfinance, thereby supporting fragmentation of the financial sector. The development partners have paid insufficient attention to the specific characteristics of PDMC financial markets as a whole, and how they might best operate, given their small scale.

99. ADB will support improved financial services by following a financial systems development approach, addressing the delivery of all forms of financial services by a range of institutions to everyone who needs them. ADB will collaborate with other development partners to leverage resources and enhance impact, and support a range of market initiatives covering (i) retail capacity (e.g., microfinance institutions, savings and loan societies, banks), (ii) service infrastructure (e.g., training and knowledge centers, credit rating), and (iii) policies and regulations. ADB will build on existing financial infrastructure and institutions where possible, and promote the development of innovative products and delivery mechanisms.

100. SOEs represent a large proportion of many PDMC economies. Their role and performance have a significant impact on PSD, in terms of potentially crowding out businesses and in affecting competitiveness through the cost and quality of services provided to the private sector. Improved ownership arrangements, accountability, and performance of SOEs are therefore essential. ADB will assist governments to assess the public good rationale for all SOEs, and to divest those without a clear public good rationale. A range of ownership and operational arrangements can be pursued for SOEs providing public goods, with maximum efficiency the overriding objective. Enhancing contestability should be a key principle, with specific arrangements determined by local circumstances. This may include promoting competition within efficient markets, or competition for the right to operate the market for a fixed period (e.g., outer-island shipping) in some cases. Whether SOEs are privatized or retained in

public hands, creating appropriate regulatory frameworks that enhance contestability should be a priority. Given the shortage of regulatory skills and complexity of the issues, there is a strong rationale for exploring regional approaches to regulation.

101. The improved provision, operation, and maintenance of physical and social infrastructure, combined with governance arrangements for the competitive and reliable provision of related services, are essential to connect private sector producers to domestic and export markets. Most PDMCs have very limited infrastructure stocks, often in poor condition. ADB's approach to infrastructure and related services in the Pacific will focus on: (i) efficient and effective ownership and management arrangements; (ii) rehabilitation and sustainable maintenance of physical infrastructure; (iii) improving services to outer-island and rural areas (e.g., through innovative arrangements for interisland transportation); and (iv) working toward rationalization and pooling of resources at the regional level for shipping, aviation, and communications services.

102. Severe skills mismatches in Pacific labor markets stem partly from problems in the basic and formal education systems, scale problems (e.g., smaller PDMCs may only need one or two refrigeration mechanics, but having none may be extremely problematic to business), and partly from previous (supply-driven) efforts to address skill supply shortages. Supporting an effective institutional framework for labor force skills development is therefore a key challenge for PDMCs and, in order to address scale problems, for the region as a whole. This framework should promote both formal and nonformal skills development, involving government, nongovernment organizations (NGOs), churches, and the private sector in rural and urban areas.

Strategic Objective 2: Enhance the Supply of, and Demand for, Quality Social Services

103. There is significant, largely grant, donor support for the social sectors in the Pacific. ADB needs to define its role carefully and establish close relationships with selected PDMC social sector agencies and with other development partners. Details will usually best be established at the sector level within countries. Analytic work and TA will play a central role, with lending for social infrastructure also provided where requested and appropriate. Building on current work, ADB envisages a lead role in improving approaches for the delivery of water and sanitation in the Pacific and will focus particularly on MDG health and environment targets that are best addressed through improving access to, and quality of, water supply and sanitation. ADB's 2004 Pacific Regional Environment Strategy provides valuable lessons and recommendations for this work. A partnership role will be more appropriate in health and education.

104. MDG outcomes are likely to be significantly enhanced by the development and implementation of social sector strategies that are relevant and responsive to national objectives and client demands. Strategies that are closely aligned to national objectives can be expected to receive high-level support and fare better in budget processes. Services that respond to the need of the people in local communities create a virtuous circle of improving utilization, generating further demand and enhancing quality of outcomes. The strategy recognizes that social sector strategies will need to focus on both supply and demand aspects. Provision of quality services will lead to greater utilization, particularly by the poor and disadvantaged, only if social and economic barriers to use of services are reduced. ADB will explore innovative approaches for providing social services, such as NGO contracting.

105. Globally, sector-wide approaches (SWAs) are becoming an increasingly well-established basis for collaboration between DMC governments and development partners toward common objectives using shared resources. SWAs are still an emerging possibility in

the Pacific. ADB, with the Australian Agency for International Development (AusAID), has been a key supporter of movement in this direction in PNG's health sector. Significant progress is being made in the education sector in several PDMCs. ADB will be proactive in looking for ways to support SWAps. Coordinated donor approaches will also be explored at the regional level for regional public goods, such as surveillance and prevention of HIV/AIDS.

106. Demand for social services is growing, due to population increase, community expectations, and emerging social sector challenges, such as HIV/AIDS and noncommunicable diseases. However, public sector resources are limited, and stagnant in many PDMCs. This means that more effective public, private, and development partner resource allocations for social services will be essential to meet sector and MDG targets. In broad terms, increasing the proportion of public and development partner funds allocated to basic social services will make a significant contribution to this objective. In several PDMCs there is significant scope to do this, as secondary and tertiary services receive high proportions of public funds. Despite the large positive externalities, preventive health services receive only a marginal share of public funds. Options for mobilizing greater private contributions at the secondary and tertiary levels without unduly damaging usage rates (e.g., health insurance) might also be investigated in parallel. Detailed recommendations require careful assessment of specific issues for social service financing in each PDMC. Efficiency of expenditures and effectiveness of financial management are important related issues to be addressed.

107. The presence of appropriate plans and financing arrangements must be complemented by capacity and effective systems to manage and deliver quality social services. These systems must encourage service delivery organizations to manage for results. Human resource management is a key weakness to be addressed in many such organizations, along with asset, information, and financial management systems. Such systems, which will cover new infrastructure in some cases, must be robust and within the capacity of small organizations to sustain. Regional approaches will play an important complementary role, by promoting the sharing of lessons learned and providing economies of scale in addressing technical issues.

Strategic Objective 3: Effective Development Processes

108. The mixed development performance of PDMCs in recent years, notwithstanding significant development partner support, and the lessons learned from ADB's analytic work and experience in the region, suggest that a focus on how PDMCs and development partners do business will be an important factor in determining development outcomes in the Pacific. The objective of promoting more effective development processes therefore underpins the achievement of private sector and social service delivery objectives. The focus on the development process will also make a significant contribution to good governance in the region—addressing the four key elements of good governance, i.e., accountability, participation, predictability, and transparency—in addition to the governance measures arising from the private sector and social service delivery objectives.

109. Encouraging greater participation and ownership in development programs by the people of the Pacific will be central to improving the outcomes and sustainability of development programs and projects. Box 4 highlights PARD work already completed or under way that strengthens participation. ADB will build on and replicate these initiatives.

110. Consultations prior to and during the development of the Pacific Strategy confirm that civil society and private sector groups want to be engaged and contribute to improving development outcomes in the Pacific. This enthusiasm is a great asset for PDMC governments

and for development partners. Aside from commitment, these groups bring interesting ideas, experience, and a practical understanding of what works. For these reasons, promoting increased dialogue and cooperation among civil society, private sector groups, and governments will be an important focus for ADB. Combined with increased community participation, and measures to build the capacity and awareness of civil society and private sector groups, greater engagement by these groups with government is expected to contribute to increased public demand for good governance, and for effective markets and services.

Box 4: Participating in Development

The understanding and ownership that results from participation in development activities have supported the adoption of difficult decisions, most especially where the national interest may conflict with personal interest. This, in turn, has spurred increased revenue generation, public sector reform, and utility reforms, including the introduction of cost-recovery tariffs. Building on recent successes, the Asian Development Bank (ADB) is committed to strengthening the participation of stakeholders at all levels of its interventions, i.e., at the level of supporting national strategic planning, in country strategy and program formulation, in preparing loans and technical assistance projects, and in economic, thematic, and sector analysis.

A key challenge is to make the following relatively isolated good practice examples more widespread, internal to Pacific processes, and sustainable:

In **national strategic planning**, ADB technical assistance supported the extensive consultations that led to the formulation of the initial Samoa Statement of Development Strategy (1996–1998), which is considered to have substantially aided the Samoan people's understanding and support for necessary and subsequently successful public sector and economic reforms. Participatory processes have now been incorporated in three subsequent 'Statements of Development Strategy' and are completely managed by the Samoan Government.

In **country strategy formulation**, in the Marshall Islands, in 2003–2004, ADB and the Government brought together people from all walks of life to debate the future ADB country strategy for the country. Previous ADB-funded economic, thematic, and sector work was summarized and fed into the participatory process. People determined the issues that they wished to raise, and elected their spokespersons to a national meeting that succeeded in prioritizing future ADB assistance. The priority programs established by the community have now been adopted by Government to be designed and otherwise developed by further participation.

In **program formulation**, the people from all nine islands of Tuvalu participated in designing the Falekaupule (outer-island) Trust Fund. This fund is a low transaction cost, flexible, and demand-driven mechanism to channel resources to the islands for projects identified by the communities themselves according to a set of eligibility criteria.

In **technical assistance**, ADB has supported a highly participatory approach in the Fiji Islands that has resulted in a cabinet-endorsed Urban Policy Action Plan and broad stakeholder support in developing a Pilot Urban Land Development Program for the Greater Suva Region.

In **economic, thematic, and sector work**, the ADB-funded series of participatory poverty assessments in nine Pacific countries established the priorities of the poor of the Pacific—priorities that now direct both country strategies and this new Pacific Strategy.

111. However, to be fully effective, greater participation and public demand for governance will need to be complemented by several government measures. Strengthened government transparency and accountability will be essential, not least in the fight against corruption. Accountable public financial management, including audits of public expenditure, are a priority. Greater and more timely availability of current and proposed laws and regulations is also a key building block for good governance. Information and communications technology may provide opportunities for progress in these areas.

112. More broadly, governments and nongovernment groups and communities alike need to benefit from improved availability and dissemination of quality information on development issues as a basis for their dialogue, policy formulation, and planning. ADB's economic, thematic, and sector work has played an important role in this respect in the Pacific for many years. However, past efforts to strengthen the quality generation of statistics and policy-oriented research within PDMCs has been undermined by a lack of demand from leaders. Working with leaders to help them see the benefits of decision-making based on quality data, is therefore an essential component in this field.

113. Finally, the capacity of PDMC governments, civil society, and private sector groups to plan and manage for development results will need strengthening if consensus, appropriate policies, and effective participation are to result in practical change. Aligning government processes with development targets is central to this challenge: political decision-making processes, the budget, sector plans, and staff performance incentives all need to support implementation efforts. Managing the political economy of necessary reforms is an important corequisite. Given the importance of external assistance in the region, especially in terms of development expenditures, PDMCs' ability to manage development partner inputs—and to work with development partners to enhance their coordination and harmonization—is a key element of managing for development results.

114. Mainstreaming gender and environmental considerations into development planning and programs represents the best prospect to successfully address these important development concerns. The challenge is to ensure that processes in national planning, political decision making, and resource allocation are designed to take these important considerations into account in a systematic way. Building awareness of the issues at the political level and in finance and planning ministries is likely to be at least as important as strengthening the responsible line agencies. Improving the quality and relevance of key data and information on these issues, and integrating them with mainstream government information systems, is a specific challenge to be addressed. Important work undertaken by ADB to date in areas such as water resource management and climate change will be consolidated. Details on proposed ADB approaches for gender concerns and the environment are in Appendix 3.

115. Enhancing the impact of regional cooperation has a significant complementary role to play. Regional cooperation improves the environment for the private sector, by providing regional public goods in transport and communications and in specialized skills areas such as regulation. Regional public goods contribute to service delivery, including through support for effective financial management (e.g., the Pacific Financial Technical Assistance Centre), by promoting knowledge sharing and economies of scale (e.g., shared curriculum and education assessment systems or the University of the South Pacific). Finally, regional cooperation can also support improved governance and development processes through peer accountability (for example, the Forum Economic Ministers' Eight Principles of Public Accountability).

VI. DELIVERING THE PACIFIC STRATEGY

116. The identification of a defined set of KRAs gives strategic focus to ADB's operations in the Pacific, but detailed objectives and targets for programs and projects will continue to be determined at the country level, in programming discussions with PDMC governments and stakeholders. The KRAs provide a starting point for discussion, but selectivity in country programs will be sought, with only a limited set of KRAs to be addressed in any one PDMC. On occasion it may be appropriate to respond to a priority request from a PDMC government that does not address a listed KRA, though the request would be expected to address one of the three listed strategic objectives.

117. This approach is intended to allow ADB to reflect the varying circumstances among the PDMCs. In better performing PDMCs, the focus will be on supporting policy and institutional enhancements and infrastructure investments that accelerate current economic growth rates and raise the quality of services. In other PDMCs, the key challenge will be to turn around recent anemic growth and a decline in the quality of institutions. In Solomon Islands for example, a long-term focus on rebuilding basic institutions will be necessary, and in Timor-Leste strengthening new institutions is a key goal. Relatively weak performance among several PDMCs will warrant more careful analytic attention, in accordance with the approach outlined to Asian Development Fund (ADF) IX donors and using tools such as the World Bank's "low income countries under stress" (LICUS) framework. Innovative approaches to delivering ADB assistance will need to be developed in these cases, and will need to be combined with greater policy dialogue and regular contact with governments, CSOs, and private sector groups.

A. Overall Assistance Level

118. Eleven of the 14 PDMCs are eligible to access the ADF.²⁵ The recent ADF IX replenishment agreement provides a positive financing context and valuable policy guidance to this strategy. As a result of the ADF IX agreement, (i) the allocation of loan funds under ADF IX will be more closely linked to DMC performance and good governance, (ii) TA funds have been replenished, (iii) grants will be available for post-conflict and heavily indebted countries and to address HIV/AIDS, and (iv) there will be renewed focus on engagement with weakly performing DMCs.

119. Under a revised performance-based allocation process, ADF IX will feature a stronger link between country performance assessment (CPA), including governance, and ADF allocations. The allocation formula also provides a significant weighting for small states, so those ADF-eligible PDMCs with good governance, sound country performance, and capacity to manage higher debt levels should have improved access to ADF to meet their borrowing requirements. Conversely, PDMCs with low CPA rankings will receive reduced ADF allocations. In any event, with the debt levels of some PDMCs relatively high (and in a small number of cases close to unsustainable), the capacity of PDMCs to borrow from ADB will be carefully monitored as an element of the CPA. Enhanced dialogue between ADB and PDMC governments on these issues, and on the rationale for CPA ratings by ADB, will be essential.

²⁵ Fiji Islands is not ADF eligible and borrows from ADB's ordinary capital resources. Palau and Timor-Leste have not been classified in terms of eligibility at the time of writing. PNG is a blend borrower, with ADF resources supplemented by ordinary capital resources. Among the remaining ADF borrowers, Nauru is currently suspended from further borrowing due to nonpayment of arrears, and Solomon Islands and Vanuatu are both delaying further borrowing due to current high debt levels.

120. The likely outcome for ADF lending in the Pacific during the early part of the strategy period is for currently modest lending levels to remain as they are, or to gradually fall further, in the range of \$40–60 million annually. Ordinary capital resources lending of about \$20–40 million per annum is expected to be confined to PNG and Fiji Islands, where strong demand for improved infrastructure remains. In addition, ADB will monitor opportunities for private sector operations that would have a catalytic effect on private sector-led economic growth and leverage its support for improvements to public sector policies and institutions, in a PDMC or the region as a whole.

121. The main PDMC users of ADF grants are expected to be Solomon Islands and Timor-Leste, both poor post-conflict countries (and the former, highly indebted). The levels of ADF grant available to each, beginning in 2005, will be dictated by the revised performance-based allocation policy, the ADF IX allocation framework, and implementation guidelines. In both cases, ADF IX grants are expected to be focused on financing essential infrastructure and services that have a high poverty reduction impact. ADB will also explore opportunities to utilize ADF grants allocated to combat HIV/AIDS and other communicable diseases, especially in PNG and at a regional level.

122. TA will continue to be ADB's most important mode of assistance in the Pacific. Agreement in ADF IX to allocate 3% of ADF to replenish TA funds will be important in securing the TA program for the Pacific. ADB will seek to augment the Technical Assistance Special Fund and the Japan Special Fund with resources from channel financing funds. Grant cofinancing from bilateral donors (e.g., Australia) will also be pursued. On an indicative basis, an annual TA program of about \$15 million is envisaged, with about \$5 million of this for regional TA projects.

B. ADB's Assistance for the Strategic Objectives

123. Under the Pacific Strategy 2005–2009, the nature of ADB's engagement in the Pacific will be qualitatively different. While grant financing from other development partners is expected to remain relatively abundant for PDMCs, ADB's most important contribution and primary mode of assistance will be its knowledge products and services, provided mainly through grant-financed TA, economic, thematic, and sector analytic work, and policy advice. Discussing key development issues widely, on the basis of quality information, will be a key activity for ADB staff. ADB will seek to engage key officials and policy makers, including legislators and parliamentarians, CSOs, and private sector groups, in order to promote awareness, understanding, and implementation of policies that enhance economic growth and poverty reduction. Prime opportunities for dialogue will be in conjunction with formulation of country strategies and sector road maps as well as with the implementation of TA and investment projects. ADB will also identify opportunities at key points to conduct or support joint development partner–government retreats or workshops, which would provide an environment for building mutual trust and for an open exchange of views. In part, an objective of these events would be to identify and support champions for poverty reduction and sound economic management from among the key actors in government.

124. This engagement will be based on a sound analysis of the development issues and options facing PDMCs. ADB is committed to addressing the knowledge gap evident in many PDMCs. ADB is a leading provider of analytic work on key economic, thematic, and sector issues for the region, published through the Pacific Studies Series. ADB will continue to place high priority on this work, defining priority topics in terms of their contribution to Pacific Strategy and country strategy objectives. ADB will also continue to support the collection and analysis of

economic and poverty-related data, embedding this work in PDMC and regional institutions as far as possible in order to promote sustainability. Weakness of demand from policy makers for data and analysis as well as weak capacity to interpret data are current constraints that ADB will seek to address.

125. Maximizing the dissemination of this analytic work to a range of audiences, and the effectiveness of communication to varying audiences, is a key challenge in the Pacific environment. ADB will therefore develop and maintain a simple communications strategy and action plan as a key vehicle for effective delivery of the Pacific Strategy. Different communications formats for key messages, such as policy briefs, will be considered.

126. Consistent with the identification of participation and ownership as a strategy KRA, ADB will, in the formulation and implementation of ADB-financed projects, make a sustained effort to build community capacities and knowledge, through participatory approaches. ADB is developing practical user guidelines on promoting participation, and will apply these in the Pacific context, building on recent successful experience (see Box 4).

127. Strengthening the capacity of PDMC governments, CSOs, and private sector groups is a new thematic objective for ADB under its revised Poverty Reduction Strategy, and a KRA for the Pacific Strategy, with a focus on achieving development results in the three strategic objectives. ADB is currently preparing an action plan to strengthen capacity development outcomes throughout its operations. Once this action plan is in place, further work will be required to tailor the new approaches to the Pacific context. ADB will adapt the new approaches to local conditions as appropriate, and will engage in a discussion with PDMCs and other development partners with a view to identifying best practices for effective capacity development. Better institutional analysis during project design, strengthening terms of reference, and careful consultant selection based on ability to develop local capacity are among the practical steps that can be taken. Regional approaches will usually be appropriate for the delivery of more specialized capacity, exemplified by the establishment in 2003 and ongoing development (with ADB support) of a Pacific Aviation Safety Office.

128. Each of these commitments implies additional time and resources being spent on engagement and project preparation, with a view to better and more sustainable development results. Given finite resources, more focused programs concentrated in fewer sector and thematic areas will be necessary to meet these commitments, as will fewer individual projects.

129. PARD already has some flexibility in applying procedures and documentary requirements for CSP development and economic, thematic, and sector work. Given the small scale of many operations and the requirement for PARD to support a large number of PDMC clients with limited staff resources, PARD will continue to look for options to pilot new modalities and streamline procedures, consistent with ADB's corporate focus on managing for development results.

130. Under its new Disaster and Emergency Assistance policy, ADB will implement strategies for rehabilitation and reconstruction after disasters that lay the foundations for medium- and long-term development. Disaster prevention, mitigation, and preparedness may also be addressed.

131. ADB's Pacific regional cooperation program of TA and loans will play a vital part in delivering this strategy in two ways. First, and as outlined in the Regional Cooperation Strategy and Program (RCSP) 2004–2006, it will build and strengthen knowledge and regional

institutional capacity in key focus areas: currently public expenditure and management; PSD; transport and communications; and environment and natural resources. As noted above, improving analysis of the costs and benefits of regional cooperation will be a key theme. Second, the RCSP will support the achievement of the Pacific Strategy KRAs, by financing ADB analytic work, policy dialogue, and effective communication, either in a leadership role for ADB or in partnership with other development practitioners. The RCSP Update in 2005 will be an important opportunity to reshape the RCSP to ensure alignment with the Pacific Strategy and, importantly, with the emerging Pacific Plan of the Pacific Islands Forum.

132. In support of the KRAs in building demand for good governance and in promoting dialogue and cooperation among CSOs, private sector groups, and governments, ADB will undertake specific activities to strengthen the role and capacity of CSOs and private sector groups.

133. ADB has increasingly engaged with CSOs in recent years, in line with ADB policy and commitments made in *Pacific Strategy for the New Millennium 2000–2004* (see footnote 2). A recent study on CSO/ADB cooperation in the Pacific (unpublished) shows that a strategic framework outlining key areas and guiding the interaction between ADB, CSOs, and governments is required. ADB accepts this recommendation. Consistent with ADB's Framework for ADB-NGO Cooperation, the focus of ADB support for CSOs in support of the new strategy will have three prongs:

- (i) Promote an enabling environment, including regulatory and policy frameworks, for CSOs;
- (ii) Facilitate closer cooperation between CSOs and governments. ADB will promote improved understanding and appreciation for each other's roles and objectives. Lack of political literacy among CSOs, a key constraint to effective civic engagement, will be addressed. ADB will also facilitate CSO and government dialogue and consultations on issues of strategy and policy development; and
- (iii) Follow a systematic approach to CSO consultations and cooperation in ADB country operations. This consultation may, on a case-by-case basis, lead to practical cooperation in areas such as (a) project design and community needs assessments; (b) project implementation, (e.g., in basic service delivery); and (c) community impact assessments, project monitoring, and evaluation.

134. In order to support and monitor these commitments, ADB will designate a staff member in each of its Pacific field offices as a CSO liaison officer.

135. A similar approach will be appropriate for ADB's engagement with private sector groups, such as chambers of commerce. ADB will listen carefully to private businesses, with a view to better understanding business needs and incentive systems, and not with a view to directing private sector efforts. ADB will support enhanced dialogue between governments and private sector groups. ADB is also committed to working with chambers of commerce and similar groups to build their understanding of their roles and responsibilities as private sector representatives, and to raise their capacity to fulfill those roles. ADB's new Pacific Liaison and Coordination Office in Sydney will have lead responsibility for liaison with private sector groups.

C. External Funding Coordination and Partnership Arrangements

136. External assistance plays a significant role in the PDMCs, and ADB has a responsibility to work with other Pacific development partners toward better development outcomes. ADB will help maximize outcomes from development expenditures in the Pacific in three ways:

- (i) By continuing to support the development of national and sector development strategies by PDMCs, but with a strengthened focus on PDMC capacity to manage for development results and to integrate development partner resources and programs into PDMC plans;
- (ii) By selecting objectives, KRAs, programs, and projects that are complementary to other development partner inputs and by taking steps to harmonize with other partner programs where possible; and
- (iii) By promoting dialogue among development partners on key development policy issues, involving PDMCs to the extent possible, in order to reach agreement on key directions and on priorities for policy dialogue and analytic work.

137. Scope for official cofinancing on loan projects is likely to be relatively limited, but options will be explored to promote suitable arrangements for private sector participation in infrastructure development in the larger Pacific economies.

138. Bilateral funding of TA grants has been a significant source of funding for some of PARD's most innovative work in recent years, in fields such as poverty reduction and governance. Channel financing has also facilitated work in difficult environments which might not otherwise have been possible. ADB appreciates these opportunities provided by development partners. ADB will pursue these opportunities selectively, in support of Pacific Strategy objectives, to provide innovative and effective TA to the PDMCs.

D. Internal Resource Requirements

139. The new structure created by the establishment of new offices in Port Moresby, PNG; in Suva, Fiji Islands; and in Sydney, Australia significantly enhances ADB's capacity to deliver the Pacific Strategy. The field offices provide greater capacity for outreach, policy dialogue, and problem solving in project administration. The new structure will increase the accessibility and responsiveness of ADB to clients and other Pacific development partners, with about one third of PARD professional staff (and one half of all PARD staff) located in field offices.

140. This shift will create capacity for a greater focus in headquarters on policy and strategy, knowledge management, sector and thematic expertise, coordination, and quality assurance. A general principle will be to devolve programming and project administration to the staff in the field offices, with sector and thematic specialists based mainly in headquarters. However, given the limits presented by relatively small staff numbers, PARD will continue to operate in a matrix organization to some degree, drawing on specialist staff from any location as necessary.

141. The overall work program of the department and individual work plans of PARD staff will be reviewed and adjusted to ensure that activities and resources are fully aligned with the strategic objectives and KRAs. To allow more intensive staff involvement with PDMC counterparts, there will be an effort, through greater selectivity in country programs, to reduce the number of countries and/or issues of involvement for each staff member. PARD's staffing and skills mix will also need to be brought into line with the KRAs. An internal human resource

plan will be developed to guide this transformation. In general, most staff will need to upgrade skills and knowledge in the areas of participatory approaches, effective capacity development, political economy, and reform process facilitation.

142. Effective knowledge management will be a key to how effectively ADB delivers the Pacific Strategy. PARD has established a Knowledge Management Unit, which will build on work to strengthen ADB's knowledge management system and make ADB knowledge products more accessible for the Pacific. This work will be closely integrated with the proposed communications strategy for ADB Pacific operations.

VII. RISKS AND PERFORMANCE MONITORING AND EVALUATION

A. Risks

143. The successful implementation of this strategy will be most affected by the potential continuation of political instability in some PDMCs, accompanied by the risk of insecurity and conflict; the role of, and incentives provided by, development partners in the Pacific; and internal administrative and procedural constraints to PARD delivering the Pacific Strategy.

144. Recent experience in the Pacific gives reason to assume that there is a high probability of long-term, significant political instability in more than one PDMC during the strategy period, and a moderate likelihood of new or resumed conflict. Important long-term measures to address these issues relate to strengthening the development process, and specifically to enhancing participation in development programs and broadening and strengthening demand for good governance. Greater and more proactive engagement with policy makers (e.g., through informal "retreat" processes) may also have a useful preventive effect on instability in the weaker-performing PDMCs. However, it must be acknowledged that ADB has limited capacity to address the underlying systemic weaknesses in the political institutions of some PDMCs.

145. Incentives for good governance and effective policies and institutions in the PDMCs can be undermined if aid is provided without careful thought to broad policy and program outcomes. Responses to this risk should be multifaceted, including building the demand and capacity for good governance within PDMCs; include enhanced effort on policy dialogue and development partner coordination, both with PDMCs and among development partners; and assure careful project selection by ADB itself.

146. ADB administrative procedures are designed to ensure that resources are accounted for, to support quality control and to encourage clarity on roles of different parts of the organization. The procedures build on lessons from previous experience. However, ADB procedures can sometimes be complex to administer. They seek to manage the large scale of most ADB operations, which the Pacific does not share. There is a risk, given the relatively small number of PARD staff and large number of projects and PDMCs, that these procedures will constrain both PDMCs and ADB from developing and delivering the new products and services required to successfully implement the Pacific Strategy.

147. However, there are also opportunities to address this risk while ensuring that no short-cuts are taken on rules essential for accountability in areas such as procurement. In January 2002, the President approved a Pacific Operations Action Plan, which streamlined procedures for country strategy, programming, and economic, thematic, and sector work in the Pacific. This approval needs to be implemented in full and built upon, possibly including the development of

innovative delivery modalities and greater cooperation with other development partners. The greater focus of this strategy on more tightly defined objectives and KRAs are also important tools to manage the administrative burden. Finally, renewed ADB commitment to managing for development results will provide a supportive environment in which to pursue appropriate flexibility and responsiveness to the needs of ADB's clients—the PDMCs.

B. Performance Monitoring and Evaluation

148. The Pacific Strategy will both guide and benefit from the strengthening of results frameworks at the country level (in CSPs and CSPUs) and in sectors at the country level (in sector road maps). Countries and sectors within countries will be the “front line” for performance measurement and assessment by PARD.

149. The function of the results management approach for the Pacific Strategy will be to ensure, based on country-level outputs and outcomes, that PARD maintains a focus on its selected KRAs. KRA outputs and outcomes will therefore be the primary focus of Pacific Strategy monitoring. The approach will be fully integrated into PARD's work processes, draw on existing country-level data wherever possible, and seek to develop sustainable approaches to data gathering where new information is required.

150. ADB already has a corporate system of annual reporting on KRAs—PARD will adopt the Pacific Strategy KRAs for this purpose. Each KRA will be assigned a team, headed by a “process owner” from among PARD's sector or thematic specialists. This person will be responsible for compiling existing ADB country-level information on the KRA and for annually providing a brief progress report to PARD management. The report may recommend future directions for ADB work to advance achievement in the KRA (e.g., through regional technical assistance funds set aside for this purpose). Analogous to country desk officers, the process owner will not be directly responsible for implementing all activities contributing to a KRA, but will draw on input from all relevant project officers, and where possible will convene a KRA team from that group. An important output of the annual monitoring process will be to inform country teams of lessons learned and key issues to be discussed with PDMCs and reflected, as appropriate to local circumstances, in CSPs, CSPUs, programs, and projects.

151. ADB will identify common indicators (though not targets) to be used across the range of PDMCs. Regional analytic work, TA, and work with regional technical organizations will support this effort, with a view to building ownership of performance indicators in key development areas across the PDMCs. This work will also be advanced in cooperation with other development partners where possible (e.g., the World Bank on appropriate indicators for PSD in the Pacific). A draft Pacific Strategy Results Framework is in Appendix 6. It remains a work in progress.

152. Broad outcomes at the goal and strategic objective levels will be monitored annually using standard economic and social indicators that are widely available. PDMC reporting to the United Nations system on progress toward the MDG targets will be central. Data produced by regular ADB processes, including economic data published for the biannual *Asian Development Outlook* publications and results of ADB's CPA process for ADF-eligible countries will also provide key progress indicators at this level. The main purpose of data collected at the goal and strategic objective levels will be to provide trend information on development performance of PDMCs, highlight differences in performance among them, and provide early warning if operating conditions are not supportive for ADB activities. When important trends emerge, this information should prompt a review of the ongoing appropriateness of country-level KRAs and of targets set out in CSPs and CSPUs.

STRATEGY FORMULATION PROCESS

1. The Asian Development Bank (ADB) has undertaken significant analytic work in preparation for this strategy, to better understand recent development performance in the Pacific and to guide more effective approaches for the future. In accordance with ADB's Poverty Reduction Strategy, ADB has carried out extensive work to improve awareness of the extent and nature of poverty in the Pacific, and to identify possible responses.²⁶ Studies of the priorities of the poor in the Pacific have provided a clear picture of development priorities, and an organizing framework for the Pacific Strategy. Studies of governance²⁷ and of the constraints to private sector development²⁸ also inform both the analysis of current development challenges (Section II) and proposed ADB approaches (Sections V and VI). Thematic studies on the environment²⁹ and gender³⁰ also contributed to this paper, along with a concurrent education sector study. Finally, an internal desk assessment of the implementation of the Pacific Strategy for the New Millennium, 2000–2004 contributed to thinking about the role and delivery of the new Pacific Strategy.

2. ADB staff, and especially Pacific Department staff, have been extensively involved in the preparation of the strategy, commencing with a 2-day Pacific Department retreat in January 2004. The vision and goals for the new strategy were determined at the retreat, and the initial definition of strategic objectives began. Small group meetings after the retreat further developed the objectives and the necessary conditions to achieve those conditions, and began the process of defining key result areas (KRAs). This work contributed to the preparation of a Strategy Initiating Paper, which was discussed within ADB on 31 March 2004.

3. The Pacific Strategy 2005 – 2009 has been significantly strengthened by inputs received during a 3-month consultation phase involving Pacific developing member country (PDMC) governments, private sector groups, civil society organizations, Pacific regional organizations, key development partners in the Pacific, and direct feedback via ADB's web site. A Strategy Discussion Paper was circulated, and posted on ADB's web site to facilitate the consultation process. The schedule of consultations included the following:

²⁶ Published work to date includes: ADB. 2001. *Poverty: Is It an Issue in the Pacific?* Manila; ADB. 2002–2003. *Priorities of the People: Hardship in the Pacific Series*. Manila; and ADB. 2003. *Millennium Development Goals in the Pacific: Relevance and Progress*. Manila. A regional TA project has assisted PDMCs to identify national poverty reduction strategies. A forthcoming publication in 2004 will synthesize this work. In addition, a regional TA (6157 REG) is strengthening capacity for statistics, poverty analysis, and strategy formulation across the region.

²⁷ ADB. 2004. *Governance in the Pacific: Focus for Action 2005–2009*. Manila (forthcoming).

²⁸ ADB. 2004. *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific*. Manila.

²⁹ ADB. 2004. *Pacific Regional Environmental Strategy 2005–2009*. Manila.

³⁰ ADB. 2004. *Regional Gender Assessment and Strategy for the Pacific 2004*. Manila.

Table A1: Schedule of Consultations

Date	Parties Consulted	Format
7 April	PDMC reps. and development partners attending "Growth Opportunities in the North Pacific" conference	Presentation and discussion
28 April	Pacific regional organizations	2 hr roundtable
29 April	Pacific CSOs	1 day workshop
3 May	Australian CSOs, govt. departments, private sector	½ day workshop
14 May	Pacific DMC Finance Ministers/ ADB Governors	Presentation and discussion
24 May	ADB Board of Directors	Informal seminar
31 May–3 June	World Bank, AusAID, NZAID	Roundtable discussions
1 June	Australian academics (ANU only)	2 hr roundtable
3 June	New Zealand CSOs/academics (Wellington)	Lunchtime seminar
4 June	New Zealand CSOs (Auckland)	Lunchtime seminar
9 June	PDMC Finance Ministers, officials, development partners (FEMM)	Lunchtime presentation
5–7 July	Samoan Govt, CSOs, private sector	Presentations and discussion
9–13 July	Tongan Govt, CSOs, private sector	Presentations and discussion
17–21 July	Cook Islands Govt, CSOs, private sector	Presentations and discussion
4 August	University of the South Pacific	Roundtable

ADB = Asian Development Bank, ANU = Australian National University, AusAID = Australian Agency for International Development, CSO = civil society organization, FEMM = Forum Economic Ministers' Meeting, PDMC = Pacific developing member country, NZAID = New Zealand Agency for International Development.

4. In addition to face-to-face consultations, feedback was gathered through an email address established for this purpose and linked to the discussion paper on ADB's web site. Thirteen submissions were received in this form, some facilitated by PARD staff. Although the number of submissions was modest, they generally came from well-informed contributors and provide interesting and sometimes penetrating insights.

5. A brief summary of the key messages received and proposed ADB responses was presented to PDMC Governors at the Forum Economic Ministers Meeting in June, and subsequently posted on the ADB web site and distributed by email.

6. Further ADB staff involvement was facilitated during the drafting of the Pacific Strategy 2005 – 2009, including through a retreat for PARD staff and interested colleagues on 26 July. This retreat sought to further define KRAs for the strategy and to discuss implementation requirements, including how PARD might be organized to delivery the strategy.

7. While a broad approach to managing for development results is in place, development of the strategy results framework has emerged as an iterative process requiring further staff and perhaps external expert inputs. This task will be ongoing.

8. The draft strategy has been circulated to PDMC Governments for comment prior to discussion by the ADB Board of Directors.

COUNTRY AND PORTFOLIO INDICATORS

A. Economic Indicators

Table A2: Gross National Income
(World Bank Atlas method, \$'000)

Selected PDMCs	1995	1996	1997	1998	1999	2000	2001	2002
Fiji Islands	1,882	2,039	2,039	1,820	1,843	1,666	1,714	1,750
Kiribati	75	72	96	99	95	96	99	91
Marshall Islands	114	103	100	106	110	114	117	126
Micronesia, Federated States of	242	238	225	218	225	240	236	240
Palau	100	112	115	113	115	137	132	136
Papua New Guinea	4,952	5,153	4,696	4,123	3,841	3,426	3,028	2,840
Samoa	—	230	232	223	236	239	250	251
Solomon Islands	331	335	345	344	325	278	264	256
Timor-Leste	—	—	—	—	—	311	390	402
Tonga	159	167	178	170	173	166	156	146
Vanuatu	212	220	232	231	226	221	222	221
Total	8,067	8,669	8,258	7,447	7,189	6,894	6,608	6,459

— = not available, PDMC = Pacific developing member country.

Source: World Bank, *World Development Indicators*.

Table A3: Gross National Income Per Capita
(\$'000)

Selected PDMCs	1995	1996	1997	1998	1999	2000	2001	2002
Fiji Islands	2,440	2,630	2,600	2,300	2,300	2,130	2,100	2,130
Kiribati	940	880	1,150	1,150	1,080	1,070	1,070	960
Marshall Islands	2,320	2,100	1,990	2,110	2,150	2,200	2,220	2,380
Micronesia, Federated States of	2,270	2,180	2,030	1,910	1,940	2,030	1,970	1,970
Palau	5,850	6,250	6,410	5,960	6,070	7,220	6,610	6,820
Papua New Guinea	1,100	1,110	990	840	770	670	580	530
Samoa	—	1,390	1,390	1,380	1,390	1,390	1,440	1,430
Solomon Islands	900	890	890	870	800	660	610	580
Timor-Leste	—	—	—	—	—	420	520	520
Tonga	1,640	1,720	1,820	1,720	1,730	1,660	1,540	1,440
Vanuatu	1,260	1,270	1,300	1,240	1,170	1,120	1,110	1,070
Total	18,720	20,420	20,570	19,480	19,400	20,570	19,770	19,830

— = not available, PDMC = Pacific developing member country.

Source: World Bank, *World Development Indicators*.

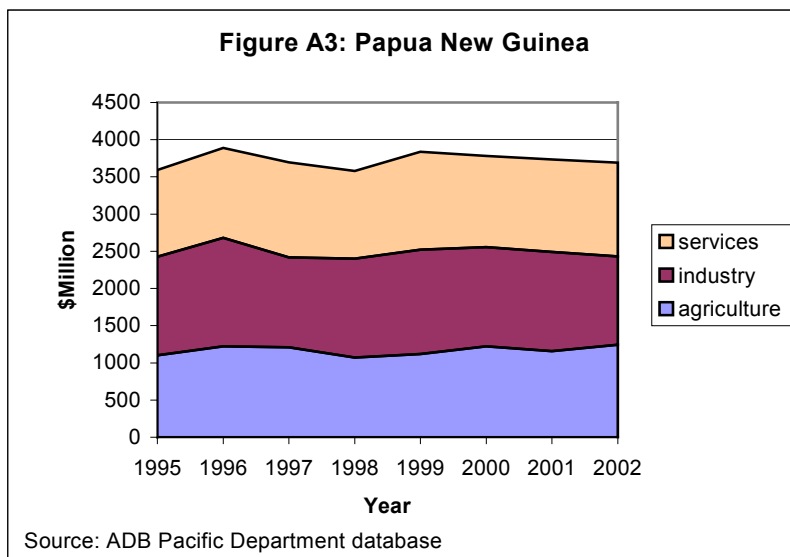
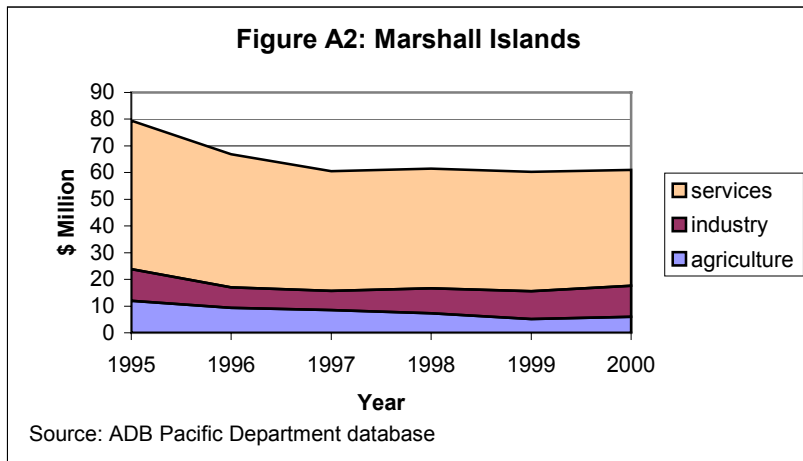
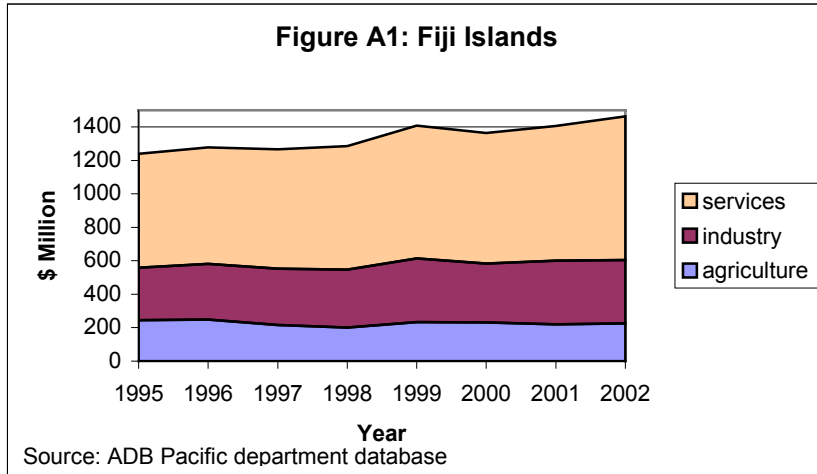
Table A4: Country Shares of Total Pacific Economy, Based on US\$ Gross National Income (%)

Selected PDMCs	1995	1996	1997	1998	1999	2000	2001	2002
Fiji Islands	23.33	23.52	24.69	24.44	25.64	24.17	25.94	27.09
Kiribati	0.93	0.83	1.16	1.33	1.32	1.39	1.50	1.41
Marshall Islands	1.41	1.19	1.21	1.42	1.53	1.65	1.77	1.95
Micronesia, Federated States of	3.00	2.75	2.72	2.93	3.13	3.48	3.57	3.72
Palau	1.24	1.29	1.39	1.52	1.60	1.99	2.00	2.11
Papua New Guinea	61.39	59.44	56.87	55.36	53.43	49.70	45.82	43.97
Samoa	—	2.65	2.81	2.99	3.28	3.47	3.78	3.89
Solomon Islands	4.10	3.86	4.18	4.62	4.52	4.03	4.00	3.96
Timor-Leste	—	—	—	—	—	4.51	5.90	6.22
Tonga	1.97	1.93	2.16	2.28	2.41	2.41	2.36	2.26
Vanuatu	2.63	2.54	2.81	3.10	3.14	3.21	3.36	3.42

— = not available, PDMC = Pacific developing member country.

Source: Derived from *World Development Indicators* data.

**Value-Added Composition of Gross Domestic Product, 1995–2002,
Selected Pacific Developing Member Countries**



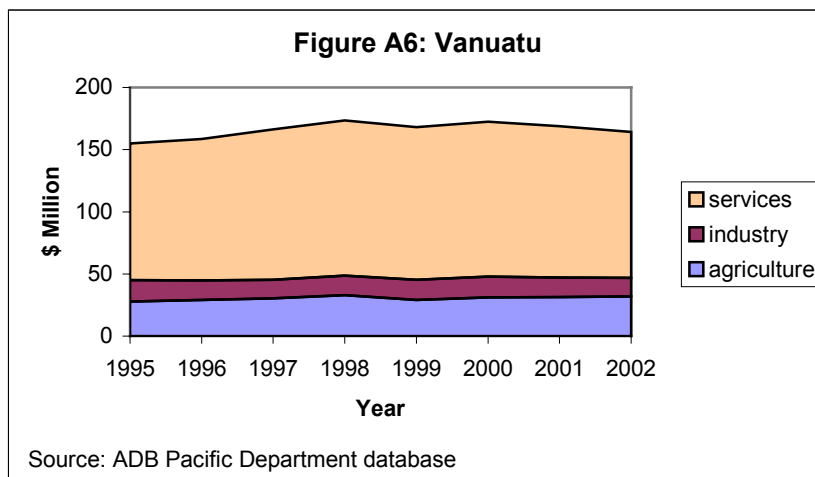
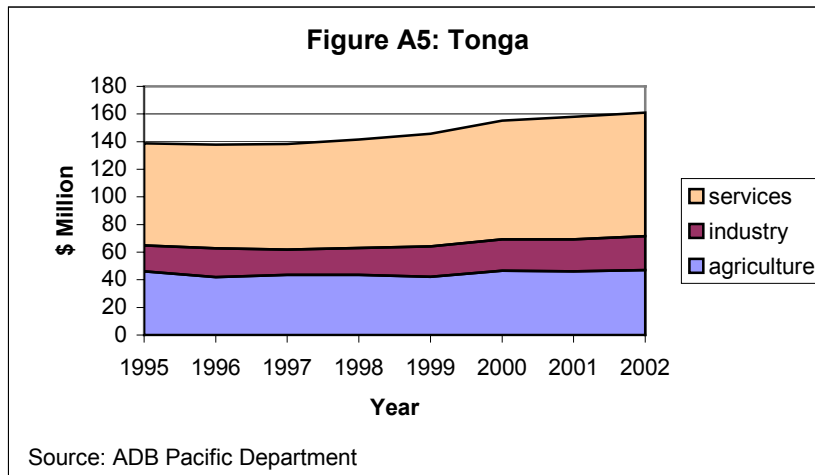
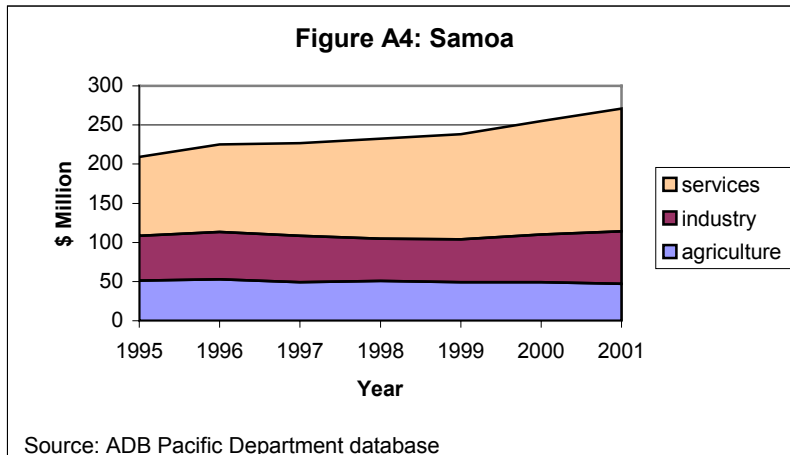


Table A5: Gross Domestic Investment^a
(% of GDP)

Selected PDMCs	1995	1996	1997	1998	1999	2000	2001
Fiji Islands	13.6	11.4	11.5	15.9	14.9	12.6	14.8
Papua New Guinea	22.1	22.7	21.3	17.9	16.4	13.0	—
Timor-Leste	—	—	—	35.0	21.0	29.0	39.0
Tonga	22.2	22.8	18.8	19.9	22.0	22.6	21.7
Vanuatu	25.5	21.2	18.8	17.7	20.3	22.1	20.0

— = not available, GDP = gross domestic product, PDMC = Pacific developing member country.

^a Gross domestic investment is equal to the sum of gross fixed capital formation and change in stocks.

Source: Derived from data on GDP by expenditure from ADB. 2002. *Key Indicators 2002*. Manila.

Table A6: Gross Domestic Savings
(% of GDP)

Selected PDMCs	1995	1996	1997	1998	1999	2000	2001
Fiji Islands	22.0	22.5	23.1	25.4	32.8	21.9	26.3
Papua New Guinea	41.2	31.0	21.5	22.6	13.3	25.3	—
Timor-Leste	—	—	—	4.0	(13.0)	(44.0)	(44.0)
Tonga	(26.4)	(32.0)	(22.2)	(29.6)	(18.4)	(14.9)	—
Vanuatu	18.1	15.7	20.3	22.4	19.2	19.3	20.6

— = not available, GDP = gross domestic product, PDMC = Pacific developing member country.

Source: ADB. 2002. *Key Indicators 2002*. Manila.

Table A7: Foreign Direct Investment
(\$'000)

Selected PDMCs	1995	1996	1997	1998	1999	2000	2001	2002
Cook Islands	—	28	21	11	(12)	(28)	—	—
Fiji Islands	70	(33)	29	196	(20)	(25)	90	77
Kiribati	0	1	1	1	1	1	1	1
Marshall Islands	—	—	(17)	(3)	—	—	—	—
Micronesia, Federated States of	—	—	—	(0)	(1)	—	—	—
Papua New Guinea	455	654	88	110	296	96	63	50
Samoa	3	1	20	3	2	(2.0)	1	1
Solomon Islands	2	6	9	2	(19)	1	(12)	(7)
Tonga	2	2	3	2	2	5	1	2
Tuvalu	—	—	—	0.1	0	—	0	0
Vanuatu	31	33	30	20	13	20	18	15
Total	563	664	163	331	274	96	162	139

— = not available, PDMC = Pacific developing member country.

Source: World Bank. 2004. *World Investment Report 2003*. Washington, and Organization for Economic Co-operation and Development. 2003. *Geographical Distribution of Financial Flows to Aid Recipients*. Paris.

Table A8: External Debt Outstanding
(% of GDP)

Selected PDMCs	1996	1997	1998	1999	2000	2001	2002
Cook Islands	33.5	32.7	83.0	77.3	73.7	70.7	66.3
Fiji Islands	11.9	11.5	13.6	14.0	15.1	13.8	12.7
Kiribati	18.0	16.0	14.8	15.6	15.7	20.3	17.8
Marshall Islands	137.8	133.2	126.4	99.5	87.4	65.9	66.1
Micronesia, Federated States of	47.9	46.9	45.9	39.7	29.3	24.7	22.8
Papua New Guinea	26.1	25.9	34.3	39.1	40.4	47.9	48.7
Samoa	82.9	67.2	71.3	65.8	66.6	60.8	55.0
Solomon Islands ^a	25.3	24.6	37.0	37.7	46.2	64.0	91.4
Timor-Leste							
Tonga	37.3	36.0	36.7	42.5	41.9	42.8	49.8
Tuvalu	—	—	—	—	—	—	—
Vanuatu	17.0	16.6	20.8	25.5	31.6	29.7	29.8

— = not available, GDP = gross domestic product, PDMC = Pacific developing member country.

^a The data on external debt as a percentage of GDP for Solomon Islands was calculated using official nominal GDP levels converted to US\$, millions, using exchange rates from the Central Bank of Solomon Islands and external debt levels in US\$ from the International Monetary Fund (IMF). The resulting series is different from those reported by the IMF largely due to differences between exchange rates and nominal GDP levels used by the IMF and that of official sources.

Notes:

1. External debt consists of Government debt plus government-guaranteed debt, except for Fiji Islands whose total foreign debt outstanding data is comprised of Government plus statutory bodies plus private sector debt.
2. In the case of Samoa, the IMF figure for total external debt includes IMF credit outstanding.
3. For the Federated States of Micronesia, Principal Balance of External Debt was taken from the *FSM Economic Review*, October 2002. It is unclear from the publication whether the total external debt figure includes private sector debt or not.

Source: ADB Pacific Department database.

Table A9: Central Government Expenditure
(% of GDP)^a

Selected PDMCs	1996	1997	1998	1999	2000	2001	2002	2003
Cook Islands	43.1	38.1	40.2	35.5	38.2	42.5	37.5	39.1
Fiji Islands	—	32.4	26.2	25.2	27.1	28.7	28.1	27.7
Kiribati ^b	111.8	119.1	116.5	111.4	102.6	139.5	136.0	149.9
Marshall Islands	61.9	65.5	59.4	56.8	65.8	93.9	78.2	76.9
Micronesia, Federated States of ^c	80.0	70.5	83.8	85.2	75.3	68.6	69.7	72.0
Papua New Guinea	27.0	28.8	27.3	31.9	33.6	35.6	33.4	33.4
Samoa	49.0	37.7	34.1	39.6	35.1	34.3	35.7	33.5
Solomon Islands ^d	38.6	39.6	40.5	51.1	39.7	34.0	36.1	15.3
Timor-Leste	—	—	—	—	—	14.5	13.8	19.8
Tonga	30.8	36.7	32.9	26.9	27.9	30.9	33.7	32.1
Tuvalu	146.1	121.9	95.9	126.2	224.5	175.3	70.9	93.0
Vanuatu	26.6	23.7	31.2	23.6	27.8	25.2	25.0	21.4

— = not available, GDP = gross domestic product, PDMC = Pacific developing member country.

^a Expenditure includes all nonrepayable payments made by Government, whether for current or capital purposes. Unlike the treatment in receipts, payments of grants or transfers are included within expenditure itself rather than forming a separate category. Net lending is lending minus repayments, which consists of loans made by Government to public and private bodies net of repayments of past loans for purposes of public policy. Government's acquisition of equities for public policy purposes is also included.

^b Revenue and expenditure prior to 1999 are for the consolidated government sector, while those from 1999 onward are for the central government only.

^c Refers to consolidated general government finances.

^d Actual to September and includes recurrent expenditure only.

Sources: ADB. 2004. *Asian Development Outlook 2004*. Manila; Pacific Department database.

Table A10: Central Government Revenue
(% of GDP)^a

Selected PDMCs	1996	1997	1998	1999	2000	2001	2002	2003
Cook Islands	36.2	39.1	37.7	33.1	36.3	44.0	37.7	35.9
Fiji Islands ^b	—	25.8	25.4	24.6	23.7	22.1	22.5	21.6
Kiribati	100.6	150.4	161.7	130.2	129.0	147.1	157.4	136.5
Marshall Islands	80.5	74.6	75.1	67.3	74.7	96.1	93.0	91.1
Micronesia, Federated States of ^c	80.2	70.9	76.6	77.0	68.4	62.4	72.2	73.8
Papua New Guinea	27.6	29.0	25.6	29.3	31.6	32.0	29.4	31.7
Samoa	50.5	40.0	36.1	40.0	34.4	31.9	33.6	32.9
Solomon Islands ^d	34.7	40.3	40.9	46.8	35.5	22.5	25.0	16.1
Timor-Leste	—	—	—	—	—	7.7	8.2	13.6
Tonga	31.7	31.8	30.4	26.7	28.7	30.0	32.1	28.9
Tuvalu	147.7	156.1	154.4	148.7	240.0	121.0	147.4	76.6
Vanuatu	24.9	23.1	21.7	22.5	21.0	21.6	21.9	20.3

— = not available, GDP = gross domestic product, PDMC = Pacific developing member country.

^a Revenue includes nonrepayable receipts from taxes (i.e., compulsory payments to government), income from property such as interests and dividends, fees and other charges. Nonrepayable receipts from other Governments and international institutions are separately classified as grants, which are included here as part of revenues in the calculation of overall fiscal balance.

^b Excludes asset sales.

^c Refers to consolidated general government finances.

^d Actual to September.

Sources: ADB. 2004. *Asian Development Outlook 2004*. Manila; Pacific Department database.

Table A11: Gross Private Transfer Receipts, 1990–2002
(% of GDP)^a

Selected PDMCs	1995	1996	1997	1998	1999	2000	2001	2002
Cook Islands ^b	1.4	1.4	1.6	1.5	1.3	1.3	—	—
Fiji Islands ^c	(1.3)	(1.4)	(0.5)	(0.4)	(0.6)	(0.8)	2.5	2.9
Kiribati ^d	11.4	12.1	14.3	14.0	13.2	12.5	12.1	11.3
Marshall Islands	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Micronesia, Federated States of	0.6	0.7	0.9	1.0	1.1	1.0	1.0	1.0
Papua New Guinea	1.5	1.0	1.4	2.2	1.8	0.4	0.9	0.6
Samoa ^e	17.6	16.3	17.2	16.7	17.9	19.3	17.4	21.1
Solomon Islands	6.0	4.5	4.2	3.6	8.1	5.7	8.6	7.1
Tonga ^f	30.3	27.0	26.2	27.2	26.8	31.3	39.6	47.9
Tuvalu ^g	18.2	15.5	31.1	30.6	28.7	29.3	38.1	—
Vanuatu	2.6	5.1	5.4	6.2	7.5	11.2	16.9	12.9

— = not available, GDP = gross domestic product, PDMC = Pacific developing member country.

^a Private transfer receipts in the balance of payments account are current transfer payments received by private persons and nonofficial organizations of the reporting country from the rest of the world that carry no provisions for repayment. In addition to workers' remittances, private transfer receipts include current transfers by migrants, gifts, dowries, inheritances as well as alimony and other support remittances.

^b Private remittance receipts only.

^c Net private sector transfers.

^d Refers to seamen's remittances, which is classified by Kiribati authorities in the balance of payments as factor income receipts rather than transfer receipts.

^e Excludes earnings remitted by residents working on short-term contracts overseas defined as factor income from abroad.

^f In fiscal year ending 30 June.

^g Estimates for the early 1990s, 1997 to 2000, and 2001 from the Central Statistics Division and the Tuvalu Trust Fund Advisory Committee 2001 Report, cited in ADB, 2002. *Tuvalu: 2002 Economic & Public Sector Review*. Manila.

Sources: ADB Pacific Studies Series, various publications; Cook Islands, *Quarterly Statistical Bulletin*; Central Bank of Solomon Islands, *Quarterly Review*; Fiji Islands Bureau of Statistics, *Key Statistics*; International Monetary Fund; National Reserve Bank of Tonga, *Quarterly Bulletin*; Reserve Bank of Fiji, *Quarterly Review*; Reserve Bank of Vanuatu, *Quarterly Economic Review*; Treasury of Samoa, *Quarterly Review*, various issues.

Table A12: Growth Rate of Merchandise Exports
(% change per year)

Selected PDMCs	1995	1996	1997	1998	1999	2000	2001	2002	2003
Cook Islands	10.3	(31.0)	(10.1)	13.9	10.6	155.9	(25.7)	(32.3)	—
Fiji Islands	9.4	20.4	(17.2)	(17.6)	19.2	(4.2)	(8.4)	2.6	9.2
Kiribati	42.0	(27.9)	16.2	(6.0)	55.3	(60.3)	25.0	15.6	11.5
Marshall Islands	5.4	(18.0)	(16.6)	(63.4)	32.7	19.1	11.8	—	—
Micronesia, Federated States of	79.7	(11.8)	(17.4)	14.5	(12.1)	8.3	2.1	17.9	2.4
Papua New Guinea	13.4	(2.4)	(14.8)	(16.1)	9.1	7.3	(13.7)	(9.5)	17.9
Samoa	149.5	15.1	45.1	28.7	(3.5)	(24.9)	10.8	(9.0)	33.8
Solomon Islands	18.2	(3.4)	(4.0)	(9.7)	6.5	(53.8)	(32.6)	13.5	20.2
Timor-Leste	—	—	17.1	27.1	(14.8)	(90.4)	(20.0)	50.0	16.7
Tonga	(12.8)	(26.0)	4.4	(10.1)	1.6	(9.6)	3.4	57.4	—
Tuvalu	3.6	10.4	—	—	—	—	—	—	—
Vanuatu	8.8	9.1	22.7	1.6	(24.0)	1.6	(24.1)	1.1	20.1
Regional Growth	13.1	1.4	(13.9)	(15.0)	9.8	(0.5)	(12.8)	(5.8)	15.9

— = not available, PDMC = Pacific developing member country.

Source: ADB Pacific Department database.

Table A13: Growth Rate of Merchandise Imports
(% change per year)

Selected PDMCs	1995	1996	1997	1998	1999	2000	2001	2002	2003
Cook Islands	(0.4)	(10.8)	10.9	(20.9)	9.7	22.7	(8.1)	(8.9)	—
Fiji Islands	6.2	10.7	(2.2)	(25.2)	25.1	(8.7)	(4.2)	13.5	10.4
Kiribati	32.5	8.4	2.6	(16.5)	24.4	(2.7)	12.1	18.3	23.1
Marshall Islands	6.1	(2.8)	(15.9)	10.4	2.4	(20.6)	(10.6)	—	—
Micronesia, Federated States of	(8.4)	11.5	(4.7)	0.4	(3.0)	10.1	8.6	(9.0)	8.3
Papua New Guinea	7.8	23.3	(1.6)	(27.0)	(0.1)	(7.0)	(6.4)	2.1	6.0
Samoa	15.2	7.4	1.1	(3.2)	19.3	(8.2)	21.7	4.5	7.4
Solomon Islands	8.5	(23.2)	24.0	(0.1)	(25.1)	(16.0)	(12.4)	(11.0)	(2.8)
Timor-Leste	—	—	—	7.0	(21.7)	83.2	(0.9)	(13.9)	(8.1)
Tonga	1.6	(10.1)	(9.5)	29.7	(28.9)	12.8	(4.1)	2.3	—
Tuvalu	5.7	10.4	—	—	(26.5)	6.0	—	—	—
Vanuatu	5.5	(10.5)	(3.6)	(5.5)	9.3	(7.6)	0.9	(0.4)	10.2
Regional Growth	6.8	12.3	(1.1)	(19.7)	4.8	(2.9)	(3.4)	3.5	6.9

— = not available, PDMC = Pacific developing member country.

Source: ADB Pacific Department database.

Table A14: Balance of Trade
(\$ '000)

Selected PDMCs	1996	1997	1998	1999	2000	2001	2002	2003
Cook Islands	(40.6)	(43.4)	(41.1)	(34.6)	(40.2)	(41.2)	(40.5)	(45.5)
Fiji Islands	(236.9)	(343.7)	(210.3)	(293.6)	(240.7)	(255.1)	(348.1)	(390.9)
Kiribati	(32.8)	(32.9)	(26.8)	(31.5)	(35.9)	(39.8)	(47.2)	(58.7)
Marshall Islands	(53.6)	(45.2)	(61.6)	(61.3)	(45.6)	(38.7)	—	—
Micronesia, Federated States of	(81.4)	(79.9)	(78.0)	(77.3)	(85.4)	(93.8)	(80.9)	(88.8)
Papua New Guinea	1010.6	662.2	716.7	880.9	1099.3	874.9	681.6	918.0
Samoa	(88.9)	(85.5)	(78.1)	(97.5)	(92.5)	(111.7)	(121.2)	(126.5)
Solomon Islands	43.8	8.8	(6.1)	39.9	(23.1)	(34.2)	(19.0)	(6.3)
Timor-Leste	—	(94.0)	(91.0)	(67.0)	(230.0)	(244.0)	(195.0)	(161.0)
Tonga	(53.8)	(47.0)	(66.2)	(43.4)	(51.7)	(48.7)	(43.6)	(56.6)
Tuvalu	8.7	—	—	—	—	—	—	—
Vanuatu	(53.7)	(45.6)	(42.5)	(57.8)	(50.1)	(58.0)	(57.4)	(61.3)
Total	421.4	(146.1)	15.0	156.8	204.1	(90.3)	(271.3)	(77.5)

— = not available, PDMC = Pacific developing member country.

Source: ADB Pacific Department database.

B. Progress Toward the Millennium Development Goals and Targets in the Pacific

Overview: The record of Pacific developing member countries (PDMCs) with regard to progress toward the Millennium Development Goals (MDGs) is mixed. Several countries, notably those in Micronesia and Polynesia, have already achieved certain targets such as universal primary education or the elimination of gender disparities in education. While some have made significant progress, others are struggling to provide the social, economic, physical, and political environment that promotes human development. Solomon Islands and, to a lesser extent, Papua New Guinea (PNG), Timor-Leste, and Vanuatu are lagging behind in achieving many of the social targets. Discrepancies also continue to exist between islands and between rural and urban areas. Signs of increasing pockets of poverty and hardship challenge countries and development partners to better target policies and programs.

Goal 1: Eradicate Extreme Poverty and Hunger

Time series data on poverty are not available. Poverty line incidence based on US\$1/day has been estimated only for Republic of the Marshall Islands (RMI) at 20.0% (1999) and Vanuatu at 40.0% (1998). For the other PDMCs, poverty incidence has been estimated from calculations of national basic needs poverty lines (BNPLs) derived from household income and expenditure surveys. The population living below these national BNPLs were estimated to be 12.0% in Cook Islands (1998), 25.5% in the Fiji Islands (1990/91), 50.0% in Kiribati (1996), 30.1% in Federated States of Micronesia (1998), 20.3% in Samoa (2002), 23.0% in Tonga (2001), and 29.3% in Tuvalu (1994). In some countries, there are wide variations in poverty incidence between rural and urban areas, with the latter often experiencing the highest rates of poverty. Qualitative information and other indicators suggest that poverty levels have increased.

Goal 2: Achieve Universal Primary Education

Universal primary education has been achieved or almost achieved in most of the PDMCs except Solomon Islands, and parts of PNG. Secondary enrollment levels, however, show great variations but remain relatively low in most countries. Most PDMCs also face the challenge of access to educational facilities in remote areas and need to improve the quality of education and relevance to the employment market.

Goal 3: Promote Gender Equality and Empower Women

The gender gap is particularly noticeable in Solomon Islands and Vanuatu. While female enrollment ratios have increased, they remain low for secondary education. In these countries there is also a significant gender gap in adult literacy rates. In most of the other countries gender disparity in education has, or has almost, been eliminated in primary and to a large extent in secondary education. Indeed in some countries (Samoa and Tonga), girls are outperforming boys at secondary level. Female participation in employment averages about one third across the region, but participation in politics remains limited in most PDMCs.

Goal 4: Reduce Child Mortality

Child mortality rates remain high in Solomon Islands and Vanuatu. In the other PDMCs mortality rates have decreased and should achieve the target by 2015.

Goal 5: Improve Maternal Health

Maternal mortality ratios are high in Federated States of Micronesia (FSM). In most other PDMCs, mortality rates have decreased with increasing access to skilled health personnel.

Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases

Few data on HIV/AIDS prevalence rates are available. However, the recent sharp increase in the reported rate of infections in PNG may have regional implications, especially for those countries that might be deemed to be at greatest risk (Fiji Islands, Kiribati, RMI, FSM, and Tuvalu).

Contraception prevalence is very low in Timor-Leste, only 8% in 2000, and down from 11–13% in 1997–1999. In most other countries the rate averages around 30–35%.

In most PDMCs, morbidity and mortality rates associated with noncommunicable diseases have risen significantly. Infectious diseases including malaria (where this is endemic), tuberculosis, and those associated with poor water and sanitation continue to pose the most serious health risk.

Goal 7: Ensure Environmental Sustainability

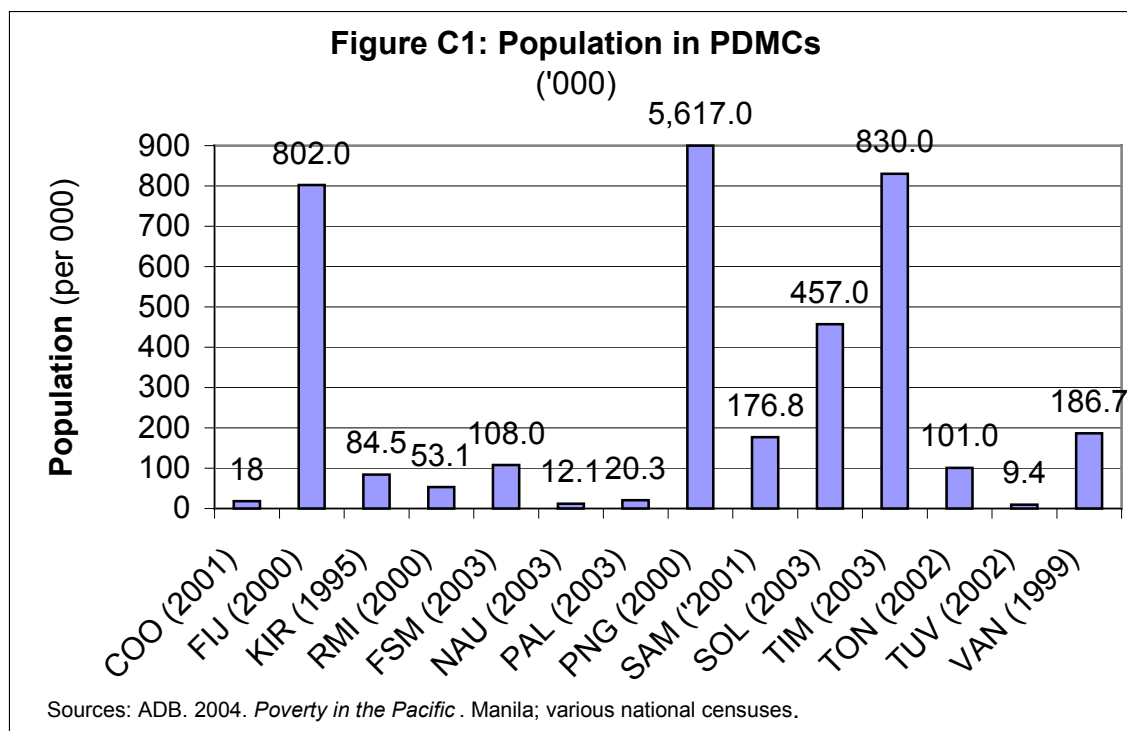
Access to safe drinking water and improved sanitation varies and definitions are inconsistent. Access is generally good in Cook Islands, Samoa, Tonga, and Tuvalu, yet remains a challenge in Fiji Islands, Kiribati, Solomon Islands, and Vanuatu, particularly in rural and remote areas.

Goal 8: Global Partnership for Development

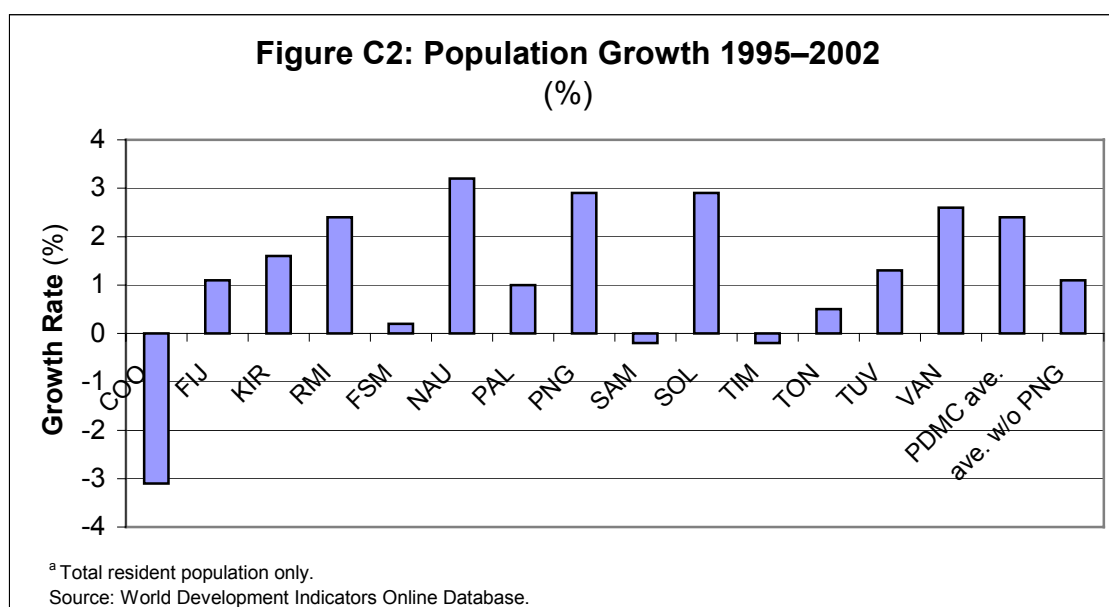
Youth unemployment has been increasing in many countries, averaging over 25% at the regional aggregate level and reaching over 50% in parts of FSM. The increasing number of unemployed youth poses one of the serious challenges for PDMCs to meet the MDG goals.

Source: ADB estimate

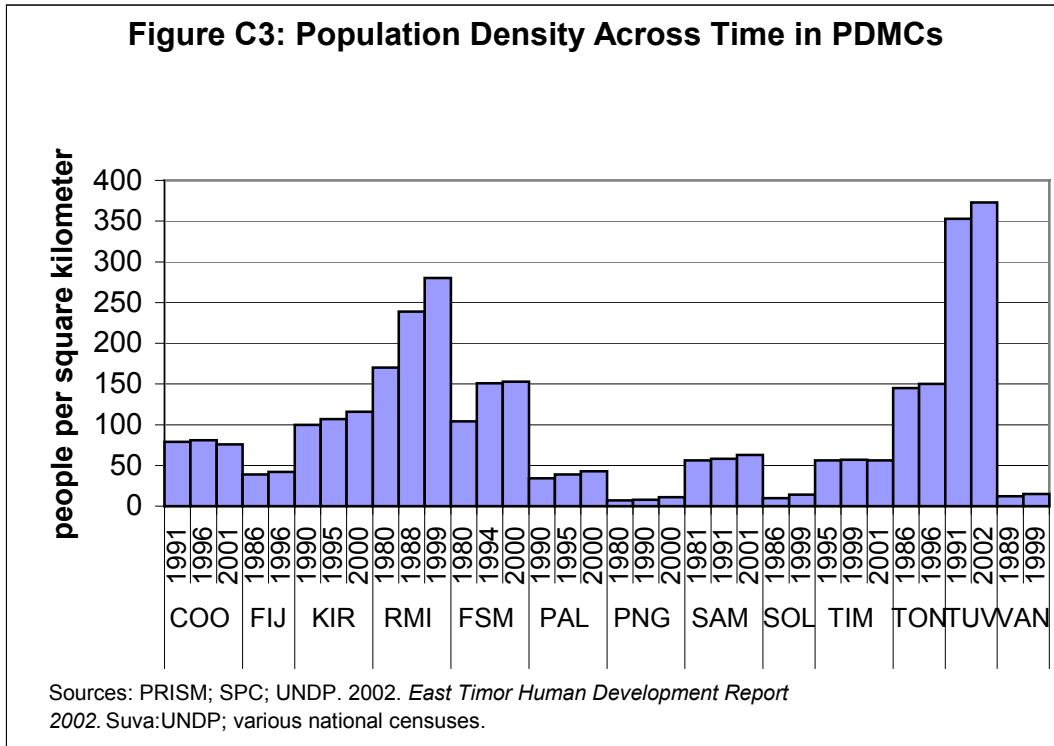
C. Social Indicators



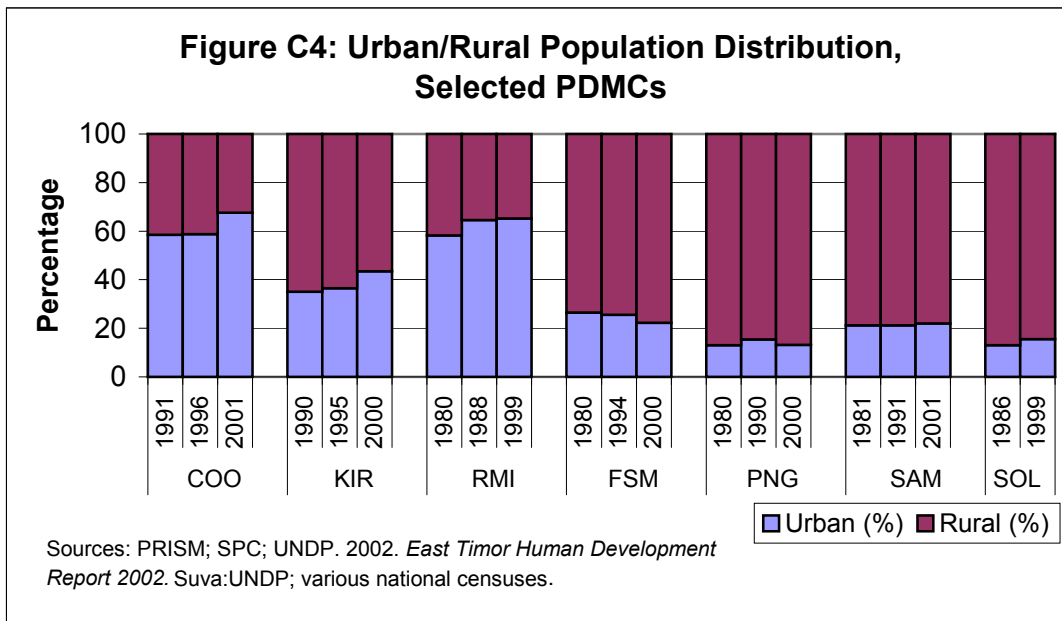
COO = Cook Islands, FIJ = Fiji Islands, FSM = Federated States of Micronesia, KIR = Kiribati, NAU = Nauru, PAL = Palau, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands, SAM = Samoa, SOL = Solomon Islands, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu.



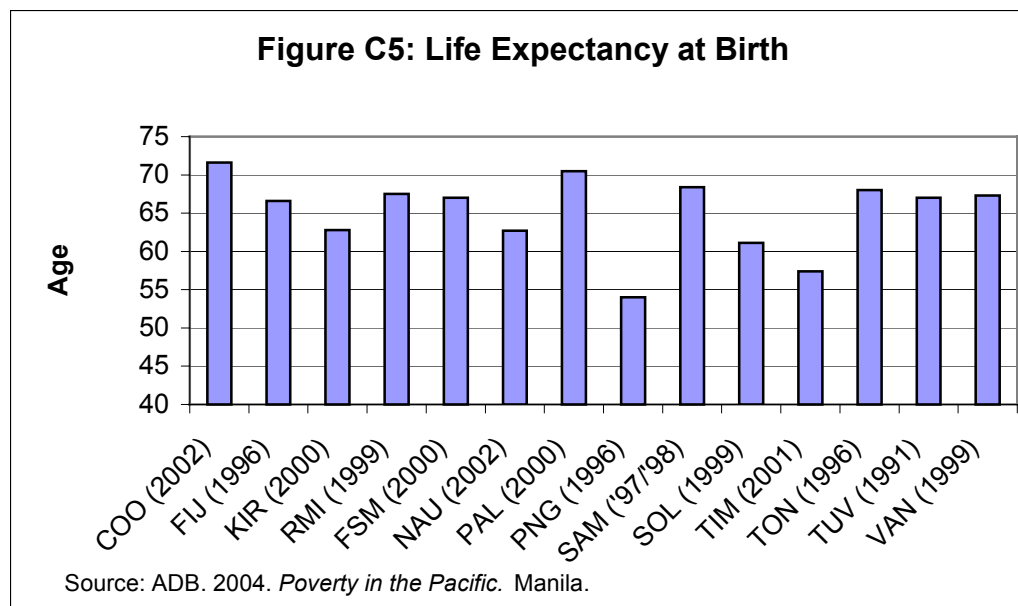
COO = Cook Islands, FIJ = Fiji Islands, FSM = Federated States of Micronesia, KIR = Kiribati, NAU = Nauru, PAL = Palau, PDMC = Pacific developing member country, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands, SAM = Samoa, SOL = Solomon Islands, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu.



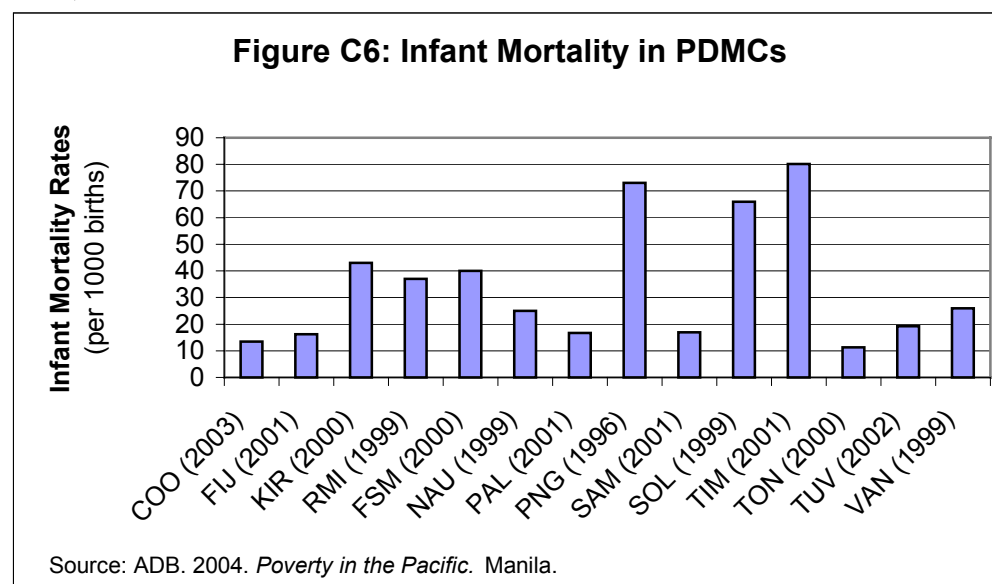
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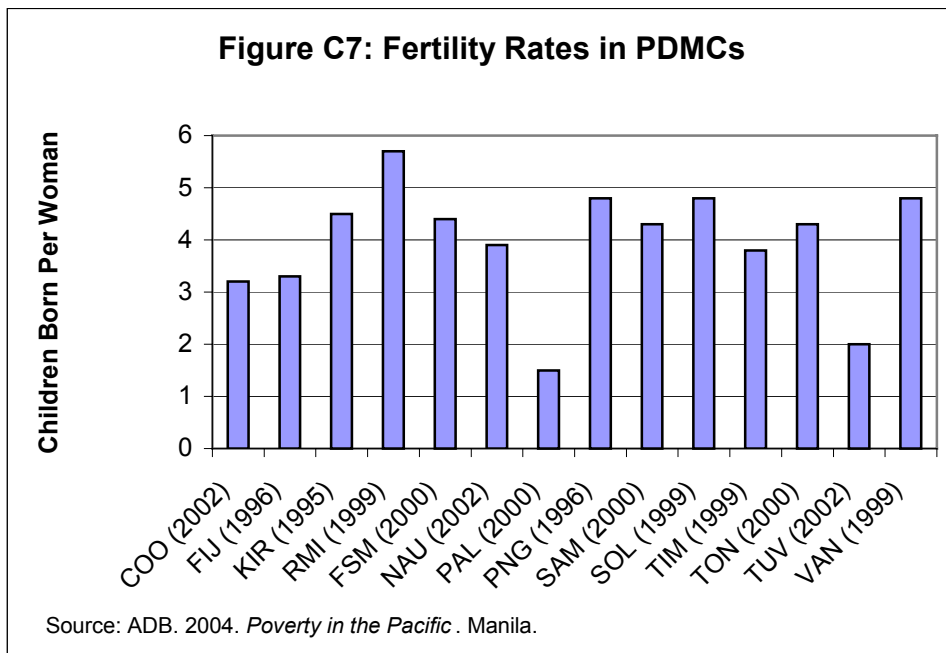
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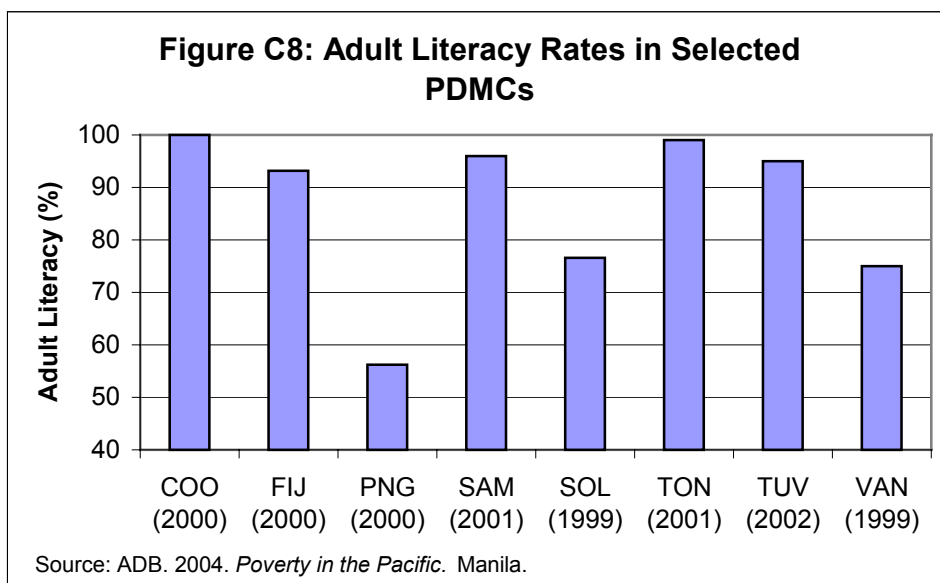
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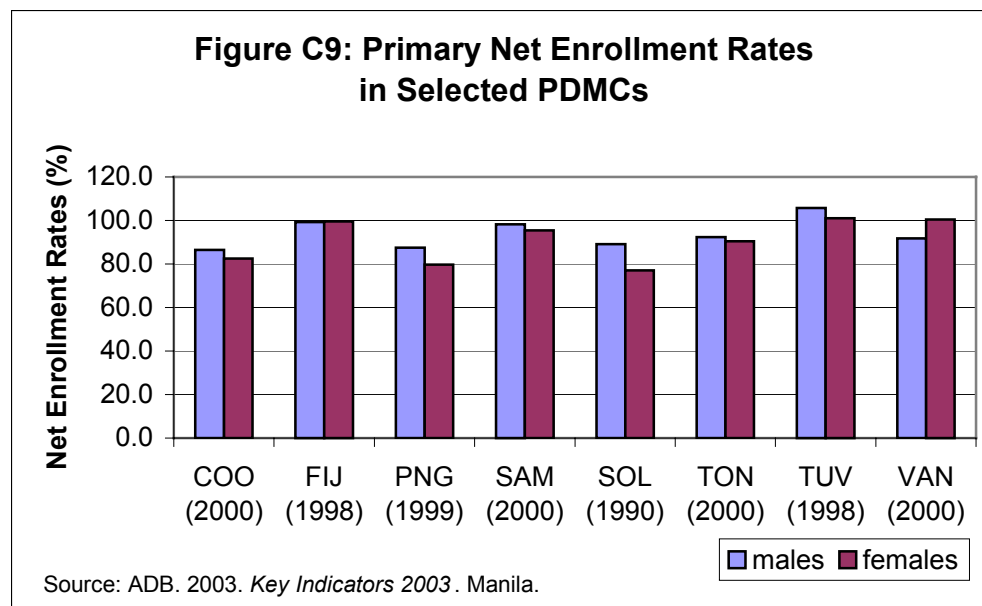
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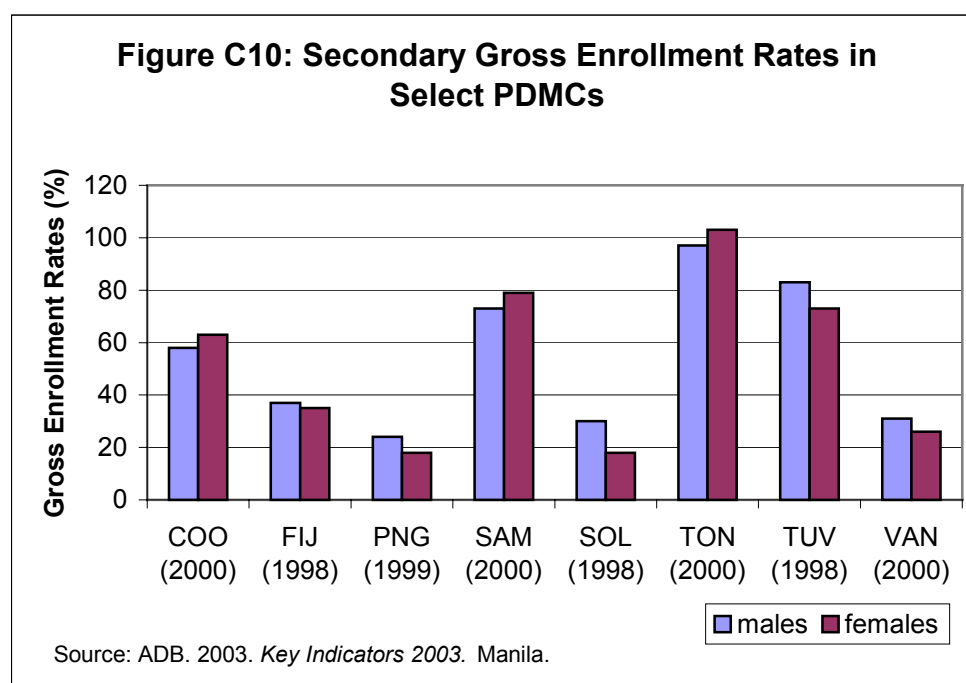
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COO = Cook Islands, FIJ = Fiji Islands, PDMC = Pacific developing member country, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu.

Table C1: Access to Improved Water Source

PDMCs	Year	Access to Improved Water % of Households						UNDP Improved Sanitation
		Latest Census Data			WHO/UNICEF			
		Total	Urban	Rural	Total	Urban	Rural	
Cook Islands	1990				100	100	100	95
	1998							
	2000				100	100	100	
	2001	93	98	87				
Fiji Islands	1990					96	69	77
	1996	93						
	1998							
	2000				47	43	51	
Kiribati	1990					91	63	76
	1998							
	2000	60	77	49	47	82	25	
Marshall Islands	1998							82
	1999	88	84	96				
Micronesia, Fed. States of	1998							44
	2000	93	94	92				
Nauru	1998							100
Palau	1990					100	97	86
	1998							
	2000	83	78	94	79	100	20	
Papua New Guinea	1988					93	23	24
	1990		89					
	1998							
	2000				42	88	32	
Samoa	1990					100	77	90
	1998							
	2000				99	95	100	
	2001	89	92	88				
Solomon Islands	1990					82	58	64
	1998							
	2000					94	65	
Timor-Leste	1998							26
Tonga	1990					92	98	95
	1996	99						
	1998							
	2000				100	100	100	
Tuvalu	1988					99	100	85
	1998							
	2000				100	100	100	
	2002	93	94	92				
Vanuatu	1988					100	64	87
	1998							
	1999	60	87	52				
	2000				88	63	94	

Sources: Various National Statistical Office websites; World Health Organization (WHO)/United Nations Children's Fund (UNICEF), Joint Monitoring Programme for Water Supply and Sanitation, Coverage Estimates 1980-2000 (Sept-01); WHO/UNICEF/Water Supply and Sanitation Collaborative Council, *Global Water Supply and Sanitation Assessment 2000 Report*; United Nations Development Programme (UNDP) *East Timor Development Report 2002*; UNDP, *Pacific Human Development Report 1999*. Table 1.14 Access to Water

Table C2: Access to Improved Sanitation

PDMCs	Year	Access to Improved Sanitation % of Households						UNDP Improved Sanitation
		Latest Census Data			WHO/UNICEF			
		Total	Urban	Rural	Total	Urban	Rural	
Cook Islands	1990				100	100	100	98
	1998							
	2000				100	100	100	
	2001	100	100	100				
Fiji Islands	1990					91	65	85
	1996	99						
	1998							
	2000				43	75	12	
Kiribati	1990					91	49	46
	1998							
	2000	31	54	22	48	54	44	
Marshall Islands	1998							77
	1999	80	92	57				
Micronesia, Fed. States of	1998							51
	2000	25	59	16				
Nauru	1998							97
Palau	1990					95	100	95
	1998							
	2000	79	92	52	100	100	100	
Papua New Guinea	1988					54	56	25
	1998							
	2000				82	92	80	
Samoa	1990					100	92	97
	1998							
	2000	100	100	100	99	95	100	
	2001	89	92	88				
Solomon Islands	1990					73	2	16
	1998							
	2000					98	18	
Timor-Leste	1998							51
Tonga	1990					92	98	85
	1996	99						
	1998					88	78	
	2000				100	100	100	
Tuvalu	1988					79	77	49
	1998							
	2000				100	100	100	
	2002	87	92	83				
Vanuatu	1988					82	33	91
	1998							
	1999	96	97	95				
	2000				100	100	100	

Sources: Various National Statistical Office websites; World Health Organization (WHO)/United Nations Children's Fund (UNICEF), Joint Monitoring Programme for Water Supply and Sanitation, Coverage Estimates 1980-2000 (Sept-01); WHO/UNICEF/Water Supply and Sanitation Collaborative Council, *Global Water Supply and Sanitation Assessment 2000 Report*; United Nations Development Programme (UNDP) *East Timor Development Report 2002*; UNDP, *Pacific Human Development Report 1999*.

D. Development Coordination Matrix

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
National development planning	KRA: Capacity to manage for dev. results Activities: strategic planning processes in KIR, PNG, VAN, TIM	Australia—strategic planning: PNG, SOL US—strategic planning: FSM, RMI, PAL
Economic and public sector reform		
Macroeconomic management		IMF—policy and technical advice PFTAC (multi-donor)—banking supervision and macroeconomic stats. components
Microeconomic reform – including SOEs	KRA: Institutional, legal, and regulatory environment KRA: Improved financial services KRA: SOE performance KRA: Physical and social infrastructure Current activities: P.S assessments; legal/regulatory environment: SOL; financial sector: VAN, regional; SOEs and infrastructure: several PDMCs	WB group (including FIAS)—legal and regulatory environment; Australia: economic reforms in SOL US—economic reforms in FSM, RMI Japan—key physical infrastructure PRC—key physical infrastructure Taipei, China—key physical infrastructure
Trade		EU—technical advice New Zealand—technical advice (Note: PI Forum/development partners - trade facilitation)
Public sector reform	Current activities: capacity building, TIM	Australia—Enhanced Coop. Program PNG; public sector reform SOL; public sector governance in several PDMCs; scholarships New Zealand—public sector governance in several PDMCs; scholarships US—in FSM, RMI
Private sector development	KRAs: x4, as for microeconomic reform, above Current activities: as for microeconomic reform, above	WB (PEDF, multi-donor)—SME support. EU—(CDE): SME support, (EIB) finance US—in FSM, RMI
Education	KRA: service delivery strategies KRA: resource allocation for social services KRA: capacity and effective systems Current activities: basic educ: SAM, TUV, RMI, FSM; TVET: PNG, VAN, FSM.	New Zealand—basic ed, scholarships EU—basic ed, TVET Australia—basic (esp, PNG), ed. systems/ management, higher ed/ training (incl USP), scholarships US—in FSM, RMI Japan—ed. equipment / supplies

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Health	KRAs: x3 as for education above Current activities: PNG, RMI, FSM.	Australia—primary health, HIV/AIDS, health management, medical training New Zealand—primary health, patient referrals US—in FSM, RMI UN system—international health targets Japan—hospital: TUV World Bank—TIM, SOL, TON.
Gender/Youth	KRA: participation, ownership Current activities: youth social services: RMI; youth and gender public expenditure management: regional.	UN system—gender
Infrastructure - general		US—all infrastructure sectors in FSM, RMI
Transport	KRA: provision, O&M of physical infrastructure Current activities: roads: PNG, FIJ, TIM, SOL; Shipping/ports: PNG, FIJ, SOL; Air: FIJ, regional; sector planning, cap. bldg: TIM, SOL	Japan—roads & bridges: PNG, VAN, RMI, TIM SOL; ports: SAM EU—bridge: FIJ Taipei,China: roads, bridges, ports
Communications	KRA: provision, O&M of physical infrastructure Current activities: rural ICTs: regional	Japan, Australia—for University Sth Pac. UNDP—rural ICTs: SOL, VAN World Bank: regulatory framework: SAM.
Energy	KRA: provision, O&M of physical infrastructure Current activities: SAM, TIM, regional	Japan—power supply in KIR, TIM EU—rural electrification, solar: FIJ, FSM, RMI
Water Supply and Sanitation	KRA: provision, O&M of physical infrastructure KRAs: x3 as for education above Act.: PNG, FIJ, FSM, SAM, KIR, COO, TIM	Japan—TON, PNG
Urban Infrastructure	KRA: provision, O&M of physical infrastructure Current activities: elements of WSS projects listed above, esp. FIJ and SAM.	UN Habitat
Environment	KRA: mainstream environment into planning/programs Current activities: climate change: regional	World Bank—climate change, KIR Australia—regional issues Japan—coral reefs; regional issues
Agriculture, Forestry and Fisheries	KRA: Institutional, legal, and regulatory environment Current activities: Agriculture: PNG, FIJ; fisheries: regional	World Bank—forestry: PNG EU—marine resource monitoring (through SPC); coastal fisheries Australia—forestry: SOL; regional fisheries

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Law and justice		Australia—institutional strengthening for courts, police, prisons; domestic violence US—law, security in TIM
Land management/administration	KRA: Institutional, legal, and regulatory environment	Australia—SOL
Peace and conflict resolution		Australia—esp. SOL, PNG New Zealand—esp. SOL UN system
Strengthening civil society	KRA: community participation, ownership KRA: demand for good governance KRA: cooperation govt, CSOs, private sector Current activities: capacity building budget processes	Australia—esp. PNG, SOL, TIM EU—Cotonou agreement funding
Country/regional focus	Lending: PNG, FIJ, SAM have largest portfolios and borrowing capacity. All other PDMCs eligible (Palau to be classified). Grant TA: all PDMCs. Economic work, policy advice and dialogue: all PDMCs.	Australia—PNG, SOL, TIM, regional cooperation, VAN, FIJ, others. US—FSM, RMI, PAL. New Zealand—SOL, regional cooperation, COO, SAM, TON, others. EU—regional cooperation, PNG, FIJ, TIM, SAM, VAN, SOL, KIR, others. Japan—PNG, PAL, TIM, SAM, FIJ, regional cooperation, others PRC—PNG, FIJ, others. Taipei,China—SOL, KIR, RMI, TUV, PAL. World Bank—PNG, TIM, SAM, TON, SOL, KIR, VAN. Portugal—TIM.

COO = Cook Islands, EIB = European Investment Bank, EU = European Union, FIAS = Foreign Investment Advisory Service, FIJ = Fiji Islands, ICT = Information & Communication Technology, IMF = International Monetary Fund, KIR = Kiribati, KRA = Key result area, O&M = Operations and Management, PFTAC = Pacific Financial, Technical Assistance Centre, PDMC = Pacific developing member country, PAL = Palau, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands, SAM = Samoa, SOE = State-owned Enterprise, SOL = Solomon Islands, SPC = Secretariat of the Pacific Community, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, TVET = Technical and Vocational Education and Training, VAN = Vanuatu, WSS = Water Supply and Sanitation.

Source: ADB estimate

E. Portfolio Indicators

Table E1: Disbursements and Net Transfers of Resources
(end of 2003)

Disbursements and Transfers	COO			FIJ			FSM			KIR			NAU			PNG		
	OCR	ADF	Total	OCR	ADF	Total	OCR	ADF	Total	OCR	ADF	Total	OCR	ADF	Total	OCR	ADF	Total
Disbursements ^a																		
Total Funds Available for Withdrawal (\$ mn)	-	2.50	2.50	56.80	-	56.80	-	33.80	33.80	-	10.20	10.20	-	-	-	192.3	72.7	265.0
Disbursed Amounts (\$ mn, cumulative)	-	0.60	0.60	23.50	-	23.50	-	11.10	11.10	-	5.70	5.70	-	-	-	63.5	13.5	77.0
Percentage Disbursed (disbursed amount/ total available)	-	26.0	26.0	41.3	-	41.3	-	32.8	32.8	-	56.0	56.0	-	-	-	33.0	18.5	29.0
Disbursements (\$ mn, latest year)	-	0.50	0.50	8.80	-	8.80	-	2.70	2.70	-	2.40	2.40	-	-	-	8.24	5.57	13.81
Disbursement Ratio (%) ^b	-	22.0	22.0	20.9	-	20.9	-	11.7	11.7	-	37.9	37.9	-	-	-	6.0	9.4	7.0
Net Transfer of Resources (\$ mn)																		
2000	-	0.10	0.10	(2.90)	-	(2.90)	-	4.10	4.10	-	1.00	1.00	(0.10)	-	(0.10)	(15.1)	(2.5)	(17.6)
2001	-	0.20	0.20	(2.70)	-	(2.70)	-	2.20	2.20	-	1.30	1.30	(0.10)	-	(0.10)	19.0	(5.7)	13.3
2002	-	(0.30)	(0.30)	(3.00)	-	(3.00)	-	1.10	1.10	-	0.70	0.70	0.00	-	0.00	(13.0)	(4.0)	(17.0)
2003	-	(0.02)	(0.02)	0.90	-	0.90	-	2.40	2.40	-	2.30	2.30	0.00	-	0.00	(13.1)	(4.6)	(17.7)

Disbursements and Net Transfers of Resources (continued)

Disbursements and Transfers	RMI			SAM			SOL			TON			TUV			VAN		
	OCR	ADF	Total	OCR	ADF	Total	OCR	ADF	Total	OCR	ADF	Total	OCR	ADF	Total	OCR	ADF	Total
Disbursements ^a																		
Total Funds Available for Withdrawal (\$ mn)	4.0	32.8	36.8	-	18.5	18.5	-	12.6	12.6	-	11.1	11.1	-	2.1	2.1	-	9.0	9.0
Disbursed Amounts (\$ mn, cumulative)	4.0	20.2	24.2	-	3.2	3.2	-	1.0	1.0	-	11.1	11.1	-	0.1	0.1	-	9.0	9.0
Percentage Disbursed (disbursed amount/ total available)	100.0	61.5	65.7	-	17.4	17.4	-	8.0	8.0	-	100.0	100.0	-	6.2	6.2	-	100.0	100.0
Disbursements (\$ mn, latest year)	0.5	4.6	5.0	-	1.9	1.9	-	0.2	0.2	-	6.1	6.1	-	0.1	0.1	-	0.01	0.01
Disbursement Ratio (%) ^b	100.0	28.8	30.8	-	11.8	11.8	-	2.1	2.1	-	108.2	108.2	-	0.1	0.1	-	0.1	0.1
Net Transfer of Resources (\$ mn)																		
2000	-	9.5	9.5	-	(2.1)	(2.1)	-	(0.5)	(0.5)	-	2.2	2.2	-	(0.02)	(0.02)	-	9.9	9.9
2001	2.0	5.9	7.9	-	1.6	1.6	-	(0.8)	(0.8)	-	(0.6)	(0.6)	-	1.1	1.1	-	2.1	2.1
2002	1.3	6.3	7.6	-	(1.2)	(1.2)	-	-	-	-	4.1	4.1	-	(0.04)	(0.04)	-	(0.2)	(0.2)
2003	0.2	4.0	4.2	-	(0.8)	(0.8)	-	(3.0)	(3.0)	-	5.0	5.0	-	0.1	0.1	-	(0.8)	(0.8)

- = not available, ADF = Asian Development Fund, mn = million, COO = Cook Islands, FIJ = Fiji Islands, FSM = Micronesia, KIR = Kiribati, NAU = Nauru, PNG = Papua New Guinea, OCR = ordinary capital resources, RMI = Marshall Islands, SAM = Samoa, SOL = Solomon Islands, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu.

^a Includes ongoing loans and loans with disbursements in 2003.

^b Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year have also been added to the beginning of undisbursed loans.

Table E2: Portfolio Indicators for ADB Pacific Loan-funded projects—Evaluation Rating by Sector
(1975–2003)
(as of 31 January 2004)

Sector	GS/HS/S		PS		US		Total
	No.	%	No.	%	No.	%	No.
Agriculture & Natural Resources	3	18.8	7	43.8	6	37.5	16
Energy	5	62.5	3	37.5	0	0.0	8
Industry & Nonfuel Minerals	1	100.0	0	0.0	0	0.0	1
Transport & Communications	11	78.6	2	14.3	1	7.1	14
Social Infrastructure	1	14.3	5	71.4	1	14.3	7
Finance	3	18.8	11	68.8	2	12.5	16
Multisector	3	60.0	0	0.0	2	40.0	5
Others	2	66.7	1	33.3	0	0.0	3
Total	29	41.4	29	41.4	12	17.1	70

GS = generally successful; HS = highly successful, PS = partly successful, S = successful, US = unsuccessful.

Source: Operations Evaluation Department, Postevaluation Information System.

Table E3: Portfolio Indicators for ADB Pacific Loan-funded Projects—Evaluation Rating by Country (1975–2003)
(as of 31 January 2004)

Sector	GS/HS/S		PS		US		Total
	No.	%	No.	%	No.	%	No.
Cook Islands	1	33.3	2	66.7	0	0.0	3
Fiji Islands	6	60.0	2	20.0	2	20.0	10
Kiribati	1	50.0	0	0.0	1	50.0	2
Micronesia, Fed. States of	1	100.0	0	0.0	0	0.0	1
Papua New Guinea	7	33.3	13	61.9	1	4.8	21
Marshall Islands	0	0.0	1	100.0	0	0.0	1
Samoa	4	30.8	6	46.2	3	23.1	13
Solomon Islands	1	14.3	3	42.9	3	42.9	7
Timor-Leste	0	0.0	0	0.0	0	0.0	0
Tonga	7	87.5	1	12.5	0	0.0	8
Tuvalu	0	0.0	0	0.0	0	0.0	0
Vanuatu	1	25.0	1	25.0	2	50.0	4
Total	29	41.4	29	41.4	12	17.1	70

GS = generally successful, HS = highly successful, PS = partly successful, S = successful, US = unsuccessful.

Source: Operations Evaluation Department, Postevaluation Information System.

Table E4: Portfolio Implementation Status (as of 31 May 2004)

No.	Sector/ Theme ^a	Project Name	Loan No.	Loan Amount		Milestone Dates				% of Project Completion
				OCR (\$ mn)	ADF (\$ mn)	Approval Date	Effective- ness	Closing Date		
								Original	Revised/ Actual	
1	AGR	Smallholder Support Services	1652-PNG	7.600		10 Dec 98	21 Dec 99	31 Dec 04		55
2	AGR	Nucleus Agro-Enterprises	1889-PNG(SF)		6.726	18 Dec 01	2 Aug 02	30 Jun 04	1 Dec 05	15
3	AGR	Coastal Fisheries	1925-PNG(SF)		6.290	24 Oct 02	22 Jul 03	28 Feb 08		10
4	FIN	Microfinance & Employment	1768-PNG(SF)		10.697	19 Oct 00	20 Sep 01	31 Dec 06		26
5	PSD	Private Sector Dev. Program	1873-FSM(SF)		5.649	12 Dec 01	24 Apr 03	1 Aug 05		
6	PSD	Private Sector Dev. Project	1874-FSM(SF)		9.207	12 Dec 01	24 Apr 03	1 Aug 06		7
7	FIN	Financial Management	1703-PNG	25.800		21 Oct 99	27 Oct 99	30 Jun 05		55
8	MUL	Public Service Program	1875-PNG	70.000		12 Dec 01	13 Dec 01	31 Mar 03	30 Jun 04	^b
9	PSD	TA Loan on Privatization of SOE	1628-SOL(SF)		1.032	27 Aug 98	24 Nov 98	31 Dec 00	31 Jan 02	80
10	I&T	Small Bus. Dev.	1785-SAM(SF)		3.910	21 Nov 00	8 Jun 01	31 Aug 06		58
11	WSS&WM	Suva Nausori Water Supply	2055-FIJ	47.000		18 Dec 03		30 Jun 09		1
12	MUL	Basic Social Services	1816-FSM(SF)		9.103	20 Dec 00	21 Jan 03	30 Jun 07		1
13	EDU	Employment Oriented Skills	1706-PNG(SF)		20.973	28 Oct 99	26 Jan 00	30 Jun 06		47
14	WSS&WM	Prov'l. Towns Water Supply & Stn.	1812-PNG(SF)		17.600	14 Dec 00	31 May 02	30 Sep 05		7
15	EDU	Skills Trng. & Voc. Education	1791-RMI(SF)		7.545	29 Nov 00	29 Jan 01	30 Jun 05		55
16	WSS&WM	Sanitation & Drainage	2026-SAM(SF)		8.231	27 Nov 03		30 Jun 09		0
17	EDU	Maritime Training	1921-TUV(SF)		2.041	16 Oct 02	19 Feb 03	30 Jun 05		15
18	WSS&WM	Waste Management	1832-COO(SF)		2.450	17 Jul 01	25 Oct 01	28 Feb 04	28 Feb 05	65
19	MUL	Sntn. & Health Improvement	1648-KIR(SF)		10.180	8 Dec 98	15 Sep 99	31 Dec 03	31 Dec 04	90
20	EDU	Education Sector	1752-SAM(SF)		7.498	5 Sep 00	17 Oct 00	31 Oct 04		68
21	ENE	Power Sector Improvement	1886-SAM(SF)		6.891	17 Dec 01	28 Oct 02	30 Jun 04		35
22	MUL	Emergency Rehab.	1823-SOL(SF)		11.420	21 Dec 00	19 Mar 01	30 Jun 04	30 Jun 07	10
23	T&C	Road Upgrading & Maintenance	1709-PNG	63.000		16 Nov 99	15 Feb 00	30 Jun 06		35
24	T&C	Rehab. of Maritime Nav aids	1754-PNG	19.800		12 Sep 00	16 May 01	30 Apr 06		18
25	T&C	Community Water Transport	2079-PNG(SF)		18.845	25 Mar 04		30 Jun 12		0
26	T&C	Outer-island Infra.	1948-RMI(SF)		7.791	28 Nov 02	15 Jun 03	30 Jun 07		14
27	T&C	FRUP III	1530-FIJ	40.000		26 Aug 97	15 Jan 98	30 Jun 04	31 Dec 05	70
28	T&C	Fiji Ports	1902-FIJ	16.800		5 Mar 02	3 Sep 02	30 Jun 06		40
		Total PARD Loans		290.000	174.079					
		Timor-Leste Grants	Grant No.	Grant Amount						
1	FIN	Microfinance	8186-TIM(TF)	4.000		6 Dec 00	18 Dec 00	31 Dec 03	31 Dec 04	93
2	MUL	Emergency Infra. Rehab.	8181-TIM(TF)	29.800		13 Apr 00	19 Apr 00	30 Nov 02	30 Jun 04	97
3	MUL	Emergency Infra. Rehab.	8198-TIM(TF)	9.000		18 May 02	18 May 02	31 Dec 03	31 May 05	17
		Subtotal Timor-Leste		42.800						

^a AGR = Agriculture and Natural Resources, COO = Cook Islands, ENE, = Energy, EDU = Education, FIJ = Fiji Islands, FIN = Finance, FSM = Micronesia, I&T = Industry and Trade, MUL = Multisector, PNG = Papua New Guinea, PSD = Private Sector Development, RMI = Marshall Islands, SAM = Samoa, SOC = Social, SOL = Solomon Islands, TIM = Timor-Leste, TUV = Tuvalu, T&C = Transport and Communication, WSS&WM = Water Supply, Sanitation, and Waste Management.

^b Program loans have no physical progress.

Source: ADB Estimate

THEMATIC ASSESSMENTS AND STRATEGIES

A. Private Sector Development in the Pacific: Swimming Against the Tide?

1. In the Pacific region, as elsewhere, a strong and dynamic private sector is vital to long-term economic growth and improved quality of life, and is thus a necessary (but not sufficient) condition for sustained poverty reduction. As a result of economic growth, per capita incomes rise, employment is created, and the government can access additional resources through taxation to provide opportunities to disadvantaged and vulnerable groups who do not benefit directly from economic growth. The private sector also has an important role to play in providing infrastructure as well as basic social services, provided that monopolistic behavior is regulated. The private sector can only flourish and create employment opportunities, however, if the environment in which it operates is conducive to business.

2. A raft of factors, both natural and introduced, constrain business activity in the Pacific. Natural endowment constraints common to most PDMCs include remoteness and internal dispersion, economic exposure and susceptibility to natural disasters, narrow resource bases, small domestic markets and, to some extent, sociocultural factors. In addition, however, frequently PDMC governments—deliberately or inadvertently, directly or indirectly—create an environment that adds to the cost of doing business, thus reducing profits and discouraging dynamism and entrepreneurship.

3. The private sector in the economies of the Pacific region is generally characterized by:

- (i) a large informal economy, especially in retailing and services;
- (ii) widespread subsistence agriculture and fishing;
- (iii) cultivation and export of indigenous root crops;
- (iv) export of some specialized agricultural products;
- (v) fishing, as well as licensing, servicing, and supplying foreign fishing fleets within territorial waters;
- (vi) widespread but mainly small tourist sectors;
- (vii) small industries manufacturing products that are costly to transport over the large distances; and
- (viii) substantial mineral resources among a few countries, most notably Papua New Guinea and Solomon Islands.

4. The private sectors in the Pacific are handicapped by various common problems that have a pernicious effect on private sector development and need to be given attention by governments and development partners alike:

- (i) **Macroeconomic environment.** The economic performance of the Pacific islands has been disappointing over past decades, despite relatively high investment rates and aid flows that are among the highest in the world on a per capita basis. Macroeconomic stability and microeconomic efficiency are closely linked. A key challenge facing many PDMCs is to deal with problems resulting from fiscal imbalances, inefficient tax and tariff systems, and unsustainable exchange rate policies.
- (ii) **Extensive state involvement, weak state regulation.** Most PDMC economies are dominated by the public sector, with the ratio of government expenditure to gross domestic product estimated to be at nearly 30% region-wide and, in the case of smaller PDMCs, much higher (versus less than 14% for other developing

countries). In addition, state-owned enterprises (SOEs) are engaged in a wide range of commercial activities throughout all sectors. Pervasive state involvement in PDMC economies tends to crowd out private sector activity, competes with the private sector for scarce trained workers, and is often associated with inefficient and costly provision of services. Privatization is generally slow and hampered by political interference, poor understanding of the concept and benefits, and often, difficulties with property rights. At the same time, most PDMCs have weak regulatory regimes for the provision of services, which are often heavily politicized.

- (iii) **High-cost operating environment.** All of the above factors combine to create a high-cost operating environment for business. While the natural endowment constraints add to the cost of doing business in the PDMCs, they are compounded by inappropriate government intervention that further pushes up costs and reduces competition. These include, among others, high and variable import tariffs with numerous exemptions, inefficient and poorly regulated government monopolies, restrictions on foreign investment, and a pervasive state presence in business. The presence of the state can be likened to a tax on development. As a result, Pacific island businesses are facing (a) high input costs that arise from goods that have to be imported over long distances and are often compounded by high and variable import duties as well as poorly run ports and airports with monopoly rights; and (b) costly and often unreliable infrastructure, including transport, often due to inefficient SOEs or private monopolies that are firmly entrenched, as well as weak regulatory regimes. High transport costs are equivalent to a tax on exports, imports, and locally traded products. When the costs of doing business are high, firms will be discouraged from establishing or expanding their business. Businesses that can pass on costs, such as those producing nontraded goods or protected import-replacement goods, will predominate while export-focused businesses, which must compete in the global arena, will tend to be fewer and smaller.
- (iv) **Underdeveloped financial markets.** The financial sectors in the PDMCs are underdeveloped and provide a minimal range of banking services—demand and savings deposits and limited commercial and personal loans. Common characteristics in the region’s banking system include the following: banking services do not reach beyond main urban areas; commercial banks have little outreach to low-income households; credit to indigenous entrepreneurs is very limited; there is little lending to agriculture and fishing; interest rate spreads are large (with some exceptions); informal lending is an important source of finance; and, though microfinance programs are beginning to emerge, they are still in their infancy in most countries. In short, financial markets do not intermediate effectively between savers and investors. In particular, the weak institutions associated with collateralizing and collecting debts exclude many from the financial system. Land tenure issues and the lack of well-functioning secured transactions frameworks in virtually all PDMCs are underlying issues that should be addressed as a matter of priority.
- (v) **Poor legal environment and investment policies for businesses.** Many of the business laws in the Pacific are outdated, being historically modeled closely on laws of other countries with very different institutional frameworks and capacities. Likewise, many PDMCs have cumbersome, nontransparent, and expensive

business registration and investment approval processes, as well as complex and discretionary foreign investment policies. The supporting institutional capacities are generally weak, including those for enforcement. This environment does not achieve the economic objectives for which it was created. It increases transaction costs for businesses, and has an especially strong adverse impact on indigenous entrepreneurs. In an internationally competitive environment, this also serves as a disincentive for foreign direct investment in light of the more attractive options available in many other countries.

- (vi) **Political instability and poor governance.** In some PDMCs and, to various degrees, the private sector is facing the problem of political instability and poor governance, which makes longer-term planning by business ineffective. Political instability and governance problems are incompatible with the usual long-term planning horizon that is a cornerstone of the business environment and that is critical for encouraging private sector development. The tourism sector is doubly affected in that both investors and tourists stay away from countries facing such problems.

5. In conclusion, the state is effectively failing to supply public goods that underlie effective and efficient private sectors—secure property rights, a legal system that allows contracting with confidence, efficient and low-cost infrastructure, and regulations that are clear and efficiency enhancing. In short, PDMC governments are often not doing what they should do, and are often doing what they should not do.

6. A combined impact of all these impediments appears to be that rates of return on capital are low throughout the region. Although detailed analysis of this issue is lacking, the indirect evidence indicates that low rates of return on capital are endemic in the Pacific region. On a net basis, there have been outflows of private capital from many of the countries. Although real interest rates are below those in many developing countries in other parts of the world, many in the formal private sector maintain that they are too high to yield an adequate reward for entrepreneurial effort.

7. These factors exist in one variant or another in most of the PDMCs. A successful strategy to promote private sector development in the Pacific requires the development of policies and institutions that will reduce the very high-cost and disabling business environment that currently exists in almost all PDMCs. There is not a lot that can be done to escape the costs associated with remoteness or smallness, but the soundness of macroeconomic policies, the regulation of business to minimize monopolies, carefully regulating monopolistic elements of business that cannot be made contestable, and providing effective legal and regulatory frameworks are all within the control of government.

B. Pacific Gender Assessment and Strategy

1. Assessment

1. **Summary.** Although gender relations and issues vary between and within PDMCs, Pacific women accord high priority to increasing their opportunities for economic participation and to improving social service outcomes in all of their national plans of action.³¹ These priorities match the goals of the proposed Pacific Strategy 2005–2009, as well as the highest priorities of the poor identified by ADB³². Key issues for improvement of development outcomes for Pacific women are political and economic empowerment, protection or provision of property rights, and elimination of violence and discrimination.

2. **Economic Advancement.** There are subregional differences in the roles of women in the economy; women in Melanesia and in some parts of Micronesia do most of the subsistence farming, and fishing too in many cases, as well as providing much of the labor for commercial agriculture. This is not generally the case in Polynesia. Throughout the Pacific, however, women predominate in informal trading, especially trading in food and other local produce.

3. Women's participation in the paid work force is lower than men's in all PDMCs; the difference is greatest in Papua New Guinea. The proportion of women in executive positions is low; however, women are well represented in middle-level professional and technical employment in most countries. Overall, women in the labor force tend to be concentrated in lower paid, lower status work, or unpaid work.

4. Although women play a major role in the rural economy in most PDMCs, they lack property rights in most countries, which is a constraint to their economic participation and advancement.³³ Land reform is needed to stimulate private sector growth, but there is a risk that women may be excluded from formal rights to land unless there are strong measures to prevent this. Under current quasi-traditional systems of land tenure, women and men have more or less equal use rights to terrestrial and marine resources, but in most PDMCs women have little or no role in decision making in relation to the disposition of property (even when they have traditional ownership and inheritance rights).

5. Liberalization of trade will open many economic opportunities to Pacific people, but Pacific women have raised various concerns about potentially negative impacts that need both recognition and provisions in trade and economic arrangements. Concerns include the exploitation of female labor and erosion of labor standards, and livelihood displacement. For example in countries with significant tourist industries, traditional women's handicrafts are being replaced by cheaper imported Asian substitutes which are marketed as indigenous crafts. Another, more complex issue is food imports. Women are the major producers and sellers of food in most PDMCs, and sales of food and produce are often the only source of income they have control over. But consumers are increasingly choosing to buy cheap, low-quality, imported food. While this lowers the cost of living for the poor, it also deprives poor women of a livelihood. Further, this trend is accelerating dietary change linked to rising rates and costs of noncommunicable diseases, particularly diabetes.

³¹ National plans of action for women have been prepared by governments working with civil society in 12 PDMCs.

³² ADB. 2002-2003. *Priorities of the People: Hardship in the Pacific Series*. Manila

³³ No regionally comparable data exist on the proportion of households headed by women, or the proportion of women who do not own or have rights to property.

6. **Social Service Outcomes.** Life expectancy in PDMCs has not improved in the past decade. The human development index (HDI) is lowest in Kiribati, PNG, Solomon Islands, and Vanuatu. The HDI gender ratio is lower for females in all of these countries except Kiribati, and lower in RMI and FSM.³⁴ A comparative regional analysis showed that literacy and life expectancy are lower among women in RMI, FSM, PNG, Solomon Islands, and Vanuatu.³⁵ The countries with the lowest HDI have endemic malaria, a disease with side-effects that contribute to low life expectancy and to maternal mortality.

7. Diabetes is a major, increasing health problem in urban populations in all PDMCs and in both rural and urban population in most Polynesian and Micronesian countries. Regionally, the prevalence rate is between 12% and 20% and women are disproportionately affected.³⁶ Treatment costs are soaring, and PDMC governments are increasingly finding it difficult to meet these costs.

8. Increasing rates of HIV/AIDS and other sexually transmitted infections (STI) in PNG and Kiribati affect both sexes. High rates of STI have been detected in women in Samoa and Vanuatu, a cause for concern, particularly in relation to risk of the spread of HIV. The spread is related to factors such as sexual violence against women and to the relative powerlessness of women in negotiating the terms of sexual relations. These issues also affect women's reproductive choices. Population growth in the Pacific is slowing, but fertility rates are still high by world standards, particularly in RMI and Solomon Islands, and over 40% of the population in RMI, FSM, Nauru, Tonga, Solomon Islands, and Vanuatu are under 15 years of age.

9. Violence against women is a serious social problem in most, if not all, PDMCs. Key factors are high social tolerance of violence, inadequate legislation to protect women from family violence, and weak and sometimes inappropriate law enforcement.

10. Access to clean water is a major issue for women in some PDMCs, particularly in FSM, PNG, Solomon Islands, and Vanuatu. Women are the main users of water, and have to fetch it if a modern supply system is unavailable or not functioning. Lack of—or poorly maintained—transport infrastructure, especially in PNG, Solomon Islands, and Vanuatu, is a major limiting factor to the provision of and access to all basic services.

11. Access to educational services has improved in most PDMCs over the past decade but illiteracy is still very high in younger age groups in PNG and Solomon Islands, especially among girls, who tend to drop out after the first few years of primary school. Girls and boys participate equally at primary school levels in most PDMCs and Fiji Islands, Kiribati, Samoa, and Tonga have high secondary participation rates in which girls are doing as well as or better than boys.

12. **Improved Development Processes.** Women's right to participate in decision making varies. In Samoa and Tonga, for example, women have traditional authority in their descent groups, but not in their conjugal families. In most countries, women are excluded from formal processes of decision making at all levels. Female representation in national legislatures in Pacific countries is among the lowest in the world.

³⁴ UNDP 1999. *Pacific Human Development Report*. Suva.

³⁵ Gender ratio in the composite human poverty index (HPI) for 13 PDMCs. UNDP. 1999. *Pacific Human Development Report*. Suva. Table 4, p.23. HPI Indicators with sex variables are life expectancy (the percentage of women and men not expected to survive to age 40) and literacy (the percentage of adults who are illiterate).

³⁶ See, for example, Terry Coyne. 2000. *Lifestyle Diseases in Pacific Communities*. Noumea: SPC. The higher prevalence of diabetes in women is linked to higher levels of body fat among Pacific women than men.

13. Gender is a governance issue—there are serious questions as to whether PDMC governments have the will to address gender disparity. Although all have made national, regional, and international commitments to promote Women in Development (WID) and Gender and Development (GAD),³⁷ they have delegated the responsibility of overseeing the fulfillment of these commitments to government women’s agencies. These agencies lack the funds, human resources, capacity, and institutional status to fulfill their mandate. The few with viable programs are dependent on aid. Although over the past decade significant aid has been directed to strengthening WID and GAD programs (including ADB TA in several countries), the current trend is to downgrade government women’s agencies within public sector reform programs.

2. A Gender Strategy for the Asian Development Bank in the Pacific

a. Focus on Gender and Development in the Poorest Countries

14. All ADB projects should contain explicit gender mainstreaming provisions, based on the prior identification of gender issues or disparities in the sector. However, ADB should specifically increase its focus on gender and development in the poorest PDMCs, where the disparities are also greatest. Issues in these countries include improving service outcomes in education, health, water and sanitation, roads and transport services, law reform and enforcement, and rural financial services.

b. Integrate Gender Explicitly into Asian Development Bank Strategies and Programming

15. Gender impacts and opportunities should be identified, with increasing specificity, at national, sector, and project levels. It is therefore essential that ADB country strategies and programs (CSPs), CSP updates, sector road maps, and project identification and preparation should analyze and address gender issues. Gender issues can be expected to arise in relation to governance, public sector reform, economic reform, land reform, and policies for encouraging the growth of the private sector development.

16. ADB’s Pacific Strategy 2005–2009 provides a framework of strategic objectives and key result areas (KRAs), which will guide the process of country strategy and program formulation by ADB in the Pacific. Gender issues will therefore be identified and addressed within this broad framework. All of the KRAs have gender dimensions, but some present specific opportunities for a proactive ADB contribution to gender equality in the Pacific:

(i) Strategic Objective 1: Support a conducive environment for the private sector

KRA: An effective institutional, legal, and regulatory environment.

Opportunity for ADB action: Support gradual land reforms which promote and protect women’s property rights, economic participation, and community well-being.

³⁷ All PDMC governments have endorsed the Pacific Platform of Action for Women and Sustainable Development; most have endorsed the Beijing Platform of Action for Women and Beijing +5. Seven governments have ratified the Convention for the Elimination of All Forms of Discrimination against Women (CEDAW); and nine governments have endorsed the Commonwealth Plan of Action for Women.

(ii) Strategic Objective 2: Improve access to, and quality of, social services (health, education, clean water, and sanitation)

KRA: Service delivery strategies that are relevant and responsive to national objectives and client demands.

Opportunity for ADB action: Ensure that sector strategies capture and highlight gender issues, and address most significant disparities.

Opportunity for ADB action: Design and deliver water and sanitation systems that meet the needs of women, as primary users of these services.

(iii) Strategic Objective 3: Effective Development Processes

KRA: Increased public demand for good governance, effective markets, and services.

Opportunity for ADB action: Improve the capacity of women's civil society organizations to analyze, provide information, and advocacy on governance issues.

KRA: Strengthened capacity of PDMC governments, civil society, and private sector groups to plan and manage for development results.

Opportunity for ADB action: Ensure that equal gender outcomes are integrated into results frameworks, with disaggregated data provided for monitoring purposes.

c. Assist Governments to Strengthen Approaches to Meeting their Commitments to Women in Development and Gender and Development

17. ADB should encourage and assist governments to fulfill their commitments to WID: governments should reconsider the mission and function of government women's departments or divisions. These agencies should focus on the coordination and mainstreaming rather than the implementation of WID activities. Governments must ensure that women's agencies have the necessary human and financial resources to fulfill this mission.

18. ADB should also encourage and assist governments to integrate GAD into government operations: governments should establish new high-level gender policy and planning units in key ministries such as planning and finance. The units should identify gender gaps in each sector and assist to develop and monitor gender mainstreaming policies and strategies within the operations of each line ministry, ensuring that there are adequate budgetary provisions.

C. Pacific Environmental Issues and Responses

1. Pacific countries have a high level of economic and cultural dependence on their natural environment. Agriculture, fishing, and tourism remain the main economic activities in most parts of the Pacific, and for many communities represent the sole source of income and exports. However, the health and productivity of natural systems are coming under increasing stress from the pressures of rapid population growth and pollution.

2. Traditional knowledge and practices have major relevance for environmental protection in the Pacific, but where chiefly authority has been eroded, such conservation practices are falling into disuse. In partial compensation, the number and role of nongovernment organizations (NGOs) and community-based groups addressing environmental challenges have increased steadily.

1. Key Environmental Issues in the Pacific

3. A broad consensus has been reached over the past decade on the most significant environmental problems facing the Pacific. Eight priority concerns consistently emerge:

- (i) threats to freshwater resources, including the fragile groundwater lens that is subject to depletion in many small islands;
- (ii) degradation of the marine and coastal environment, especially coral reefs and inshore fisheries;
- (iii) degradation of land and forests, largely due to expanded agricultural production and to some extent human settlement and construction activities;
- (iv) urbanization and waste management issues;
- (v) depletion of biological diversity and the development of sustainable conservation strategies that address human needs;
- (vi) energy-related environmental concerns;
- (vii) adaptation to climate change, extreme weather events and sea level rise; and
- (viii) weak environmental management capacities and related governance issues.

2. Challenges and Lessons Learned

4. ADB's Pacific Regional Environment Strategy identifies the following challenges and lessons learned from recent experience:

- (i) Building on the information provided in national environmental management strategies, especially with regard to the links between environmental management and economic development;
- (ii) Utilizing the Council of Regional Organizations in the Pacific for overall environmental program coordination, facilitating the dissemination of information on resources and on best management practices at national and regional levels;
- (iii) Localizing Pacific responses to global environmental issues. Pacific countries have excelled at getting their voices heard in international forums but as yet have largely failed to demonstrate the relevance of global issues to domestic economic development (e.g., through mainstreaming a climate change adaptation approach in economic planning and management);
- (iv) Replicating local (community and government) successes, which are often not designed with replication in mind, so impacts remain highly localized;
- (v) Most PDMCs still lack a legal framework covering the major aspects of environmental protection and natural resource management. Pacific traditions of

- local management authority and attempts to impose top-down formal management structures need to be reconciled;
- (vi) Environmental mainstreaming. Little progress has been made in mainstreaming environmental considerations into the development of policies, plans, and programs for key sectors and national economic development planning;
 - (vii) Regional, national, or local interventions. Development partners favor regional programs for ease of organization and economies of scale. Yet environmental problems are ultimately solved locally, even those with global dimensions. This argues for interventions at national, subnational, and local levels; and
 - (viii) Consultation, participation, and awareness. Public outreach and awareness-raising efforts need to be given priority. Civil society needs to be more fully engaged in environmental policies, plans, and programs in the region.

Table 3.1: Pacific Region Environmental Strategy, 2005–2009

Environmental Issues/ Actions	Level of Proposed ADB Assistance			
	Local	Subnational	National/ Sector	Regional
Water Supply, Sanitation, and Waste Management	Yes			
Integrated Water Resource management	Yes	Yes		
Sustainable Tourism and Biodiversity Conservation	Yes	Yes		
Renewable Energy and Energy Efficiency		Yes		
Coastal Resource Management		Yes		
Marine Resources and Sustainable Fisheries Management				Yes
Climate Change and Variability Adaptation		Yes		
Environmental Governance and Mainstreaming			Yes	Yes
Information Management				Yes

ADB = Asian Development Bank.

Source: **ADB estimate**

D. Governance Assessments in the Pacific

1. **Summary of Findings and Proposed Strategy for 2005–2009.** Governance assessments of six countries, representing diverse geographic, cultural, and political systems,³⁸ were undertaken by ADB staff. The assessments provide a broad understanding of the governance issues warranting priority attention. A regional overview report (currently in preparation) synthesizes the country analyses and adds material on other countries from desk studies, identifying key priorities across the region.

2. Country assessments were undertaken through a combination of top-down and bottom-up approaches. The former included reviews of the constitution and legislation, policy documents, academic research, and interviews with senior officials, politicians, traditional chiefs, civil society participants, and other development partners who have a presence in the country. This work was supplemented by a study of the views and understandings of 20 communities in four countries³⁹ regarding traditional and modern (national) governance institutions and processes, and the impact of the two systems on lives and the community.

3. ADB's country governance assessment framework examines institutions, processes, policies, and practices of governments in five areas:

- (i) Legislature, machinery of government, and public administration;
- (ii) Public financial management, including intergovernmental fiscal relations, procurement, and anticorruption measures;
- (iii) Legal and regulatory framework;
- (iv) Judicial system; and
- (v) Civil society participation and capacity to scrutinize government activities.

4. **Summary of Key Findings.** Key issues that are common to most countries in the region and where ADB and other development partners may choose to provide assistance include the following.

5. Legislature, machinery of government, and public administration: in all but one country there is a clear separation of powers and the exercise of democratic principles is legislated and generally observed. However, the effectiveness of these institutions and processes in delivering good governance are increasingly a matter of debate. The following issues are observed:

- (i) Lack of meaningful/effective parliamentary oversight of the executive branch, due to lack of understanding, capacity, or simply lack of interest by members of Parliament;
- (ii) Uneasy coexistence of modern and traditional systems of governance. The former advocates individual merit, equality, and rights, against the latter's priority and loyalty for kin and community, consensual and consultative values within the traditional hierarchy and authority of chiefs, and the defined roles of men and women. This explains in part the often ineffective application of a merit-based public service, corrupt practices in the name of culture, and the weaknesses in the electoral system;
- (iii) Poorly resourced and ineffective oversight institutions, such as the office of ombudsperson, auditor general, and other similar agencies;

³⁸ Fiji Islands, Federated States of Micronesia, Papua New Guinea, Samoa, Tonga, and Vanuatu.

³⁹ Fiji Islands, Kiribati, Solomon Islands, and Vanuatu. The study was undertaken for ADB by the Foundation of the Peoples of the South Pacific International.

- (iv) Weaknesses in government policy-development and decision-making systems and capacity, especially at the whole-of-government level;
- (v) Loss of management and technical staff, and inadequate training of current staff;
- (vi) Decentralization of service delivery with inadequate consideration of alternatives, costs, operational issues, and human capacity at local levels
- (vii) Absence of effective mechanisms to encourage citizens' participation in the legislative process: information on the legislative agenda and draft bills are not made available prior to parliamentary consideration.

6. Public financial management reforms have been a key focus of development partners in the past decade. Where undertaken as a result of fiscal crises, macroeconomic stabilization measures were generally successful, with public expenditure controlled and revenue administration and collection improved. However, sustainability of systems has proven elusive in most countries, for several reasons:

- (i) Application of "leading edge" concepts and techniques took little account of local constraints, cultural value systems, and capacity for managing change;
- (ii) Reforms were seen as driven by development partners, resulting in lack of community commitment;
- (iii) Inadequate aid coordination;
- (iv) Inadequate effort to link strategic priorities, resource allocation decisions, and budget execution and monitoring; and a lack of analytic capacity to assure these links;
- (v) Ineffective capacity building and continual loss of skills;
- (vi) Absence of effective sanctions for financial transgressions, abuse of systems, and a poor culture of compliance with rules and procedures; and
- (vii) Corruption.

7. The legal and regulatory framework is generally weak and underdeveloped. In addition, the lack of skills and resources to enforce compliance, and the lack of predictability and transparency of policy decisions are key constraints.

8. Judicial systems are generally independent, relatively free of corruption, and reasonably resourced. However, delays in court cases, especially concerning land, are becoming unacceptable in some countries. The use of external judges is seen as being effective in providing independence in close-knit societies and in overcoming skill shortages.

9. Civil society participation, through freedom of information, association, speech, and religion is guaranteed in all countries. Most threats of libel against journalists are settled without much damage to media freedom. The strength of civil society is uneven and NGOs suffer from uncertain financing and lack of financial management skills. Most Pacific NGOs focus on social development or environmental issues.

10. The key findings of the community governance assessment project indicated: (i) a lack of understanding by members of the selected communities of the national governance processes and institutions and how communities can take advantage of opportunities, except through the traditional system of kin/family connection to elected national leaders; (ii) a gradual loss of knowledge of traditional customs and values and a declining respect for the authority of chiefs and elders, particularly among youth and more highly educated members of society; and (iii) incompatibility between modern governance, with its top-down approach, unilateral decision making, corruption, and inadequate service delivery with community governance traditions.

Traditional governance systems, while consensual among leaders, are seen as hierarchical and male dominated, leaving women and youth out of the process.

11. These findings confirm the impact of the traditional customs and values on the electoral system and expectations of favors from leaders. On the other hand, the decline of knowledge of, and respect for, the traditional chiefly authority and community values are seen as contributing to land disputes and crime. Communities believe that a more consultative approach in determining service priorities and modes of delivery, while more time consuming, will make outcomes more relevant and understandable to them.

12. **Proposed Funding Agency and ADB Actions.** Support from development partners for improved governance in the Pacific remains critical, given the poor economic performance of most countries in the past decade. The objectives of the reforms of the mid-1990s remain valid: macroeconomic stability, public sector efficiency and effectiveness, and private sector development. However, lessons from past reform actions should be learned and applied in thinking about both strategy and approaches. Stronger ownership and implementation by the countries themselves is critical. Skill and resource constraints need to be carefully assessed and creative solutions considered. Public sector reforms need supportive actions to generate economic growth. Actions to ensure that any growth dividends are distributed broadly are essential in order to maintain popular support for reforms.

13. Given ADB's mandate and limited resources, and recognizing the important roles played by other development partners in the region, a specific focus proposed for ADB governance assistance is on policies and activities that will help improve management of public financial resources. This might include:

- (i) Improving capability of central government agencies to develop policies and programs consistent with the government's strategic direction;
- (ii) Linking government strategic priorities to the annual budgetary process;
- (iii) The effective and timely reporting of budget execution, for management and accountability purposes;
- (iv) Improving government capability to implement appropriate public enterprise reforms and subsequent performance monitoring; and
- (v) Improving the public policy and financial knowledge and advocacy skills of civil society groups.

14. Improving governance is not only about good institutions and processes but also a matter of education and culture. Other development partners and regional institutions play an important role in improving the quality of leadership, providing civic education, and strengthening democratic processes. The proposed ADB focus on improving the management and accountability of public financial resources, while narrow given the findings briefly described above, is a strategic response building on ADB experience and expertise, to make sure that governments are open, accountable, and responsive to the community in the use of public resources for the common good. It underpins and complements objectives of access to markets and social service delivery.

SUMMARY OF PACIFIC DEVELOPING MEMBER COUNTRY NATIONAL DEVELOPMENT PLANS

A. Cook Islands

1. The Cook Islands government is in the process of completing a 20-year Vision and 5-year Medium-Term Strategy for implementation in 2005.

2. Whilst there have been several coalition governments since 1999, the broad policy framework of government has been consistent since economic reform in 1995. This has allowed for steady recovery from an economic downturn and has guided the country on a path of solid economic recovery. The government has established six National Outcomes to capture the essence of promoting the interests and welfare of the “people first” philosophy. It has also established principles encompassing the three pillars of sustainable development. These are:

- (i) Good Governance - strengthening the public service and institutions, good leadership and governance, ensuring safe communities and national security through law and order, and promoting national interests abroad by working actively with the international community;
- (ii) Social Progression - advancing social development through equal access to basic services such as health, education, welfare and reduction of social and inter-island disparities;
- (iii) Economic Sustainability - maintaining macroeconomic stability to sustain private sector growth, and putting additional resources into the growth sectors: Marine Resources, Tourism, Agriculture, and Offshore Financial Services;
- (iv) Infrastructure Support - enhancing infrastructure development and services to sustain economic growth and provide for future social and environmental needs;
- (v) Outer Islands Development - empowering the people of the Outer Islands by advancing the principles of good governance, including decentralized administrative infrastructure and improved management systems; and
- (vi) Environment Management - maintaining environmental integrity through sustainable development of natural resources and management of environmental impacts, institutional and capacity building as well as retaining traditional and cultural values.

B. Fiji Islands

4. **Strategic Development Plan (SDP), 2003–2005.** This resulted from a consultative process involving a wide range of individuals from the Government, the private sector, and nongovernment organizations. It identifies priorities for the medium term to steer the country toward the vision of a peaceful and prosperous Fiji Islands. Summarized as “Rebuilding Confidence for Stability and Growth,” the priorities are grouped as follows:

- (i) Rebuilding confidence for stability:
 - (a) Enhancing security and law and order;
 - (b) Promoting national reconciliation and unity;
 - (c) Alleviating poverty;
 - (d) Strengthening good governance;
 - (e) Reviewing the Constitution;
 - (f) Resolving the agricultural land lease issue;
 - (g) Implementing affirmative action.

- (ii) Rebuilding confidence for growth:
 - (a) Maintaining macroeconomic stability;
 - (b) Raising investment levels for jobs and growth;
 - (c) Reforming the public sector to reduce the cost of doing business;
 - (d) Rural and outer-island development;
 - (e) Structural reforms to promote competition and efficiency.

5. These strategic priorities and more detailed sector policies will guide line ministries in developing their corporate plans and identifying budget priorities. Policy implementation will be monitored in varying degrees at the officials and ministerial levels. The Government will initiate discussions with the private sector and civil society on how they can be engaged to help monitor policy implementation.

C. Kiribati

6. **National Development Strategy (NDS), 2004–2007.** The principal objective of the Government's development policies is to enhance and ensure the equitable distribution of development benefits to the people of Kiribati according to the principles of good governance. This objective is contained in the new statement of National Development Strategy (NDS), 2004–2007 with the key policy areas being: (i) economic growth through a partnership of public and private investment in infrastructure and production; (ii) equitable distribution of services and economic opportunity particularly on the outer islands; (iii) public sector performance through improved efficiency in resource use by ministries and public enterprises; (iv) equipping people to manage social and economic change through policies in education, health, culture, and governance; (v) sustainable use of physical resources including adaptation to climate change; and (vi) protecting and using financial reserves while making use of them to finance development, particularly through the village banks and strengthening the governance of the Revenue Equalization Reserve Fund (RERF).

7. The strategy recognizes the importance of mobilizing the active participation of all key stakeholders to foster a sense of ownership as well as ensure cooperation and commitment to its implementation. The Government Policy Statement delivered to Parliament on 3 September 2003 is the principal guideline for the NDS. Relevant studies sponsored by the Government and development partners such as the Asian Development Bank (ADB), International Monetary Fund (IMF), United Nations (UN), and the World Bank were also incorporated. The NDS is consistent with the Millennium Development Goals. In addition, consultative workshops were held to give a voice to local communities, especially those from the outer islands.

8. Various ministries and public enterprises will plan the activities in accordance to the Government's aims. These will be published in operational plans and business plans, which will be closely linked to the annual government budget. Performance will be monitored and reported to Parliament and the public.

D. Republic of the Marshall Islands

9. **Vision 2018 (Strategic Development Plan for 2003–2018).** At the Second National Economic and Social Summit (NESS2) held on Majuro from 26 March to 1 April 2001, the Government and various representatives of the Marshallese people committed themselves to ensure that a strategic development plan framework was implemented. As a result, Vision 2018, the country's strategic development plan framework for the period 2003–2018, was discussed and endorsed.

10. The national vision is the product of reformed planning process involving extensive consultations with representatives of all strata of society. The extensive consultative meetings, starting with NESS2 and the working committees, promoted greater coordination between all government ministries, statutory agencies, and the people. A major component of the reformed planning approach in the formulation of Vision 2018 is grassroots analysis.

11. Vision 2018 sets out in very broad terms the country's goals and objectives for the next 15 years and how the Government would go about achieving them. The 15-year period was chosen mainly to align the strategic development plan framework with the duration of the Compact of Free Association with the United States. The recent negotiation of the Compact stimulated the country's need to assess the first 15 years of its independence and see how it could move forward.

12. To achieve Vision 2018, 10 key enabling conditions are necessary, namely: (i) sound system of governance with political stability and commitment to the Vision 2018, and a competent and honest public service; (ii) high investment in education and research; (iii) fostering a culture of high savings, investment, and productivity; (iv) ability to take advantage of emerging global trends; (v) effective and responsible economic and financial institutions; (vi) facilitating equitable development of the outer islands; (vii) strengthening the spirituality of the Marshallese people; (viii) more harmonized development in the context of healthy lifestyles, and the prevailing culture and sustainable environment; (ix) fostering fundamental change in the attitudes and behavior of all citizens, government, local governments, businesses, public corporations, and nongovernment organizations (NGOs); and (x) effective partnership and coordination among the national Government, atoll local governments, NGOs, private sector, civil society, and citizens.

13. Vision 2018 outlines 10 broad goals, each with specific objectives: (i) operating in an interdependent world; (ii) enhanced socioeconomic self-reliance; (iii) an educated people; (iv) a healthy people; (v) a productive people; (vi) law-abiding people; (vii) God-loving people; (viii) respecting individual freedom and fundamental human rights; (ix) respecting culture and traditions; and (x) environmental sustainability. The national vision, through its broad strategies, also describes the range of options to be taken in order to achieve the 10 national goals.

14. The next step after having adopted Vision 2018 is to transform this plan framework into actions. Master plans are being developed based on major policy sectors— Human Resources Development; Outer-islands Development; Culture and Traditions; Environment; Information Technology; Private Sector; Infrastructure Development; Resources and Development; and Tourism. The master plans will describe in detail policy decisions under each sector, priority programs and projects together with the costing, and an indication of the institutional implementation framework.

15. In addition to the master plans, strategic action plans will also concurrently be developed for all ministries, statutory agencies, and atoll local governments. These strategic plans will describe the detail responsibilities of each agency, whether a ministry, statutory agency or atoll local government, indicating mainly the relevant program of actions and activities toward achieving the targets stipulated in each of the master plans. Critical to the transformation process of the plan into actions is the integration of the budgeting process to ensure it complements the priority programs and projects stipulated in Vision 2018.

E. Papua New Guinea

16. **Medium-Term Development Strategy (MTDS), 2003–2007.** This draft strategy reflects the Government's commitment to realize the vision for a peaceful, just, and prosperous society through good governance; export-driven growth; and rural development, poverty reduction, and empowerment through human resource development. These in turn go hand in hand with a wider policy framework that encourages recovery and development in the nation. The draft document is expected to be finalized before the end of 2004.

17. Political stability and public sector reform embody good governance according to the MTDS. One of the primary reforms the Government seeks to accomplish is fiscal discipline and better fiscal management that allows for macroeconomic stability. Reducing costs and wastage in government administration is central to this. Equally important are a strategic prioritization of available resources and a cost effective implementation of priority programs that results in enhanced service delivery. This opens up the opportunity to introduce systems such as user-pay charges and contracting out service delivery to more efficient community-based organizations and/or private sector agencies. Reforms in the rule of law and the administration of justice are also highlighted in the MTDS. More specifically, the strategy draws attention to the Government's openness toward unconventional methods such as community participation in mediation and conflict resolution as well as possible alternatives to imprisonment. In addition, the strategy mentions the necessity of providing security over the nation's major highways. Similar emphasis is given to the rehabilitation and maintenance of transport infrastructure, specifically the Highlands Highway. In relation to this, a National Roads Authority (NRA) will be established to manage road maintenance, accessing road user and road damage charges.

18. Export-driven growth encourages an outward looking and internationally competitive trade and investment regime without neglecting the protection of the natural environment. Seven sectors were assessed as having the most potential for competing successfully in international export markets: agriculture (specifically cocoa, coffee, copra, oil-palm, and spices), fisheries, forestry, manufacturing, mining and other nonrenewable resources (e.g., petroleum and other fuels), services, and tourism. These sectors have some common concerns that the Government seeks to address. These include insufficient access to credit, infrastructure and facilities, markets as well as marketing facilities and information, research and extension services, and training programs. For the agriculture sector, a national agricultural development plan and reform in the land tenure system must be established. In addition, the Government proposes to encourage nucleus agro-enterprises. In the fisheries, forestry, and spice sectors, increased monitoring of trade (e.g., illegal trading of vanilla) as well as management of the sectors (e.g., shifting toward plantation forestry from log harvesting) must be undertaken. The Government also plans to address concerns such as volatile prices and weak incentives for copra growers.

19. Rural development, poverty reduction, and empowerment through human resource development seeks to directly invest in people to mobilize labor and village-based land holdings through the provision of basic services. Here, the Government emphasizes its role as "helping out, not handing out," by aiming to remove obstacles to investment, growth, and wealth creation. Agricultural development, access to microcredit as well as the promotion of small and medium enterprises and the informal sector are fundamental to this. A new law on the informal sector was passed in 2003. In addition, human capital investment is also integral to this objective. Increased expenditure in education and health will not only empower the people, but also promote gender equality. In education, reforms are aimed at having each child complete 9 years of basic education under the implementation of universal primary education. Curriculum reform,

teacher training, investment on infrastructure and rural education facilities as well as increased teacher salaries are also sought. For health, rural areas are specifically targeted as diseases like pneumonia, malaria, diarrhea, tuberculosis, measles, and anemia continue to cause approximately 40% of deaths among those aged under 45. Similar focus will be given to combating HIV and AIDS.

F. Samoa

20. **Strategy for the Development of Samoa (SDS), 2002–2004.** The vision of SDS 2002–2004 is “For every Samoan to enjoy an improved quality of life premised on a competitive economy with sustained economic growth, improved education, enhanced health standards and strengthened cultural and traditional values.” The theme “Opportunities for All” reinforces and supports the vision. This SDS aims to implement policies and strategies that will create opportunities for improved economic and social welfare for everyone.

21. Nine key strategic outcomes have been identified to guide the development of the Samoan economy toward the achievement of the vision:

- (i) stable macroeconomic framework;
- (ii) improve education standards;
- (iii) improve health standards;
- (iv) improve private sector development and employment creation;
- (v) enhance agricultural opportunities;
- (vi) strengthen social structure;
- (vii) improve infrastructure and services;
- (viii) improve opportunities for tourism industry; and
- (ix) enhance public sector efficiency.

22. Samoa is preparing a new Strategy for the Development of Samoa 2005–2007 during 2004. The Government is placing a high priority on participation and consultation during this process.

G. Solomon Islands

23. **National Economic Recovery and Development Plan 2003–2006 (NERRDP).** Following the Multi-Donor Economic Governance mission in late 2002, a consultative process resulted in the National Economic Recovery and Development Plan 2003–2006 (NERRDP). This included workshops, individual discussions, written submissions, and follow-up meetings with a wide range of stakeholders including government representatives, multilateral and bilateral donors, private companies and organizations, nongovernment organizations (NGOs), and other individuals.

24. Finalized in November 2003, the NERRDP represents an important attempt to introduce order to policymaking and public expenditure. Following a period of significant political, social, and economic turmoil, the NERRDP is being implemented in the context of a Regional Assistance Mission to Solomon Islands (RAMSI), whose mandate is to assist the Government to restore law and order⁴⁰. It sets out a program in five strategic areas: (i) normalizing law and

⁴⁰ RAMSI comprises military personnel, police and civil servants from several members of the Pacific Islands Forum, and is led by Australia. RAMSI's mandate, renewed annually by Parliament, is to assist the Solomon Islands Government to restore law and order and sound economic management.

order as well as the security situation; (ii) strengthening democracy, human rights, and good governance; (iii) restoring fiscal and financial stability and reforming the public sector; (iv) revitalizing the productive sector and rebuilding supporting infrastructure; and (v) restoring basic social services and fostering social development.

25. The resources for the implementation of the NERRDP will be channeled through the Government's annual recurrent and development budgets. The Department of National Planning Reform (DNPR) with assistance from its development partners is responsible for monitoring plan implementation. Coordination with various sectors of society will also be conducted by the DNPR. Progress reports on plan implementation will be provided to the Government and made available to the public, specifically civil society, NGOs, and development partners.

H. Timor-Leste

26. **East Timor 2020: Our Nation, Our Future.** The first national development plan (NDP) for Timor-Leste has been a participative process, involving constituents in every sector of the economy to identify the problems they face and to suggest solutions to those problems. A vast number of people across the country participated in surveys and meetings to help shape a "national vision" for the new country. It is the first time that the people of Timor-Leste have voiced their views about the future of their nation, based on democratic ideals and self-determination. A countrywide consultation was conducted to reach thousands of people in every district and walk of life, resulting in the national vision for the year 2020.

27. Timor-Leste's NDP and associated road map focus on two development goals: (i) to reduce poverty and (ii) to promote equitable and sustainable economic growth.

28. The Government's immediate priorities are law and order, justice, the legitimization of local authorities, employment creation, and service delivery for poverty reduction in health, education, and agriculture. In the medium term, the Government will focus on infrastructure development, education and health, and economic recovery. The Government is committed to a market-based economy and emphasizes the importance of foreign investment to stimulate the economy.

29. The first set of tasks is to establish government capabilities, enabling legislation, and the institutions required to pursue development priorities. These are significant challenges that become unmistakably visible in each of the plan sector strategies where the ministries and their directorates emphasize these priorities.

30. A second set of priority tasks is for every sector of government to pursue development activities that help reduce poverty. These are very often interdependent with priorities of economic growth, through which the nation's productive capacity is strengthened to create new jobs and higher levels of earned income, and, in time, a vibrant middle class.

31. A third set of priority tasks consists of an extensive list of barriers that face every sector and all government agencies. These barriers are monetary, social, cultural, and structural impediments to economic growth and to the nation's efforts to reduce poverty. Many sector-specific objectives are subsequently focused on reducing or eliminating these barriers, so that progressive development programs can be implemented.

I. Tonga

32. **Strategic Development Plan Seven (SDP7), 2001–2003.** The Government's overall development goal, stated in this plan, is improving the quality and standard of living for all Tongans. It plans to achieve this through: a stable macroeconomic environment; sustainable economic growth led by private sector development; support from an efficient and well-structured public sector; and maintenance of physical infrastructure and protection of the environment. Achievement in the above areas will generate equitably shared economic benefits. Also, it seeks to establish an independent regulatory authority to protect public interest from utilities operating with monopoly power. Priority in spending will be given to education, health, and basic infrastructure such as sanitation and drainage infrastructure in some areas of Tongatapu.

33. In promoting private sector growth, the Government aims to reduce barriers to foreign investors and to facilitate investment in the agriculture, fisheries, and tourism sectors. The Government also recognizes the impact of insufficient training and employment opportunities for the rural poor and urban youth. Moreover, SDP7's vision includes the achievement of gender equity.

34. In addition, SDP7 places special emphasis on environmental conservation and careful management of natural resources for sustainable economic development and the continued welfare of Tongans, especially in an underregulated fishing sector.

35. These economic and fiscal objectives were reaffirmed in the Government's comprehensive Economic and Public Sector Reform Program (EPSRP) approved by the Cabinet in early 2002. Preparations for SDP8 for the period of 2005–2007 are under way.

J. Tuvalu

36. **National Development Strategy (NDS) 1995–1998.** Tuvalu's overall development goal is to achieve the highest possible living standards within the constraint of its limited natural resources. This NDS still serves as the Government's basic strategy document, pending the formulation of a new strategy. Originally planned for 2004–2007, frequent changes of government in the last couple of years have delayed the preparation of the new strategy.

37. There are five priority programs in the current NDS: (i) public sector reforms; (ii) improvement of economic infrastructure, especially interisland shipping and telecommunications; (iii) education for life aimed at raising standards of education and training; (iv) encouragement of export-oriented business investment (while encouraging overseas employment); and (v) upgrading of human settlements. Of these five, the new Government reiterated the first four areas in the state of the nation address in February 2003. Emphasis on greater self-reliance for the outer islands and reduction of poverty were also included as government priorities.

K. Vanuatu

38. The Government's **Priorities and Action Agenda (PAA)** aims to help (i) build capacity for sound economic management and good governance, (ii) create an enabling environment for private sector development, and (iii) reduce poverty by improving service delivery to rural populations. In addition, as presented by the Prime Minister to the National Summit in

November 2002 and subsequently endorsed by the Council of Ministers, the Government of Vanuatu gives priority to the following:

- (i) improving governance and public service delivery via strengthened law enforcement and macroeconomic management capacity;
- (ii) improving the lives of rural people through better access to markets and management of natural resources;
- (iii) raising private investment by lowering obstacles to private enterprise;
- (iv) enabling greater stakeholder participation in policy formulation; and
- (v) increasing equity in access to services and employment opportunities.

39. As a follow on to this work, ADB is currently providing technical assistance to the Government of Vanuatu in preparing a medium-term strategic framework that will set the priorities of sector development and corporate plans, departmental budgets, and project proposals.

LESSONS FROM ASIAN DEVELOPMENT BANK EXPERIENCE IN THE PACIFIC

A. Background and Introduction

1. This note is based on a desk review of relevant information available within ADB, for the purpose of informing preparation of the Pacific Strategy 2005-2009. It draws on all relevant reports of ADB's Operations Evaluation Department, an external study of ADB assistance for economic and public sector reforms in the Pacific⁴¹, a sample of 30 TA Completion Reports and a selection of internal working papers.

2. The purpose of the ADB Pacific Strategy 2000-2004 (see footnote 2) was to provide a broad framework for Asian Development Bank (ADB) operations in the Pacific, within which country strategy and program updates (CSPUs) would detail strategic objectives and priorities for individual Pacific developing member countries (PDMCs). Five broad strategic objectives (economic management, governance, and public sector reforms; private sector development; gender; environmental protection; poverty reduction) were supported with an emphasis on capacity building, infrastructure and financial sector development, and greater participation of civil society.

3. It is too early to evaluate the success of this broad approach in achieving its longer-term objectives, especially the extent of poverty reduction; progress in this dimension will become evident only over a longer period of time. The lessons, therefore, focus on intermediate stage outcomes, i.e., the quality of the dialogue and design and feedback from the individual loan and technical assistance (TA) activities.

B. Asian Development Bank Assistance

4. There are defining characteristics to ADB's assistance to the Pacific over the past decade regardless of the prevailing strategy. Specific themes include (i) a preferred modality—an emphasis on TA and capacity building, supported by infrastructure investment, (ii) a sense of urgency—support to governments often in crisis, and (iii) a hope that the private sector would respond institutional reforms. The results at the implementation, or operational level, have been largely positive in terms of relevance of design and achievement of outputs, but the outcomes of many of the reforms have been less than anticipated.

5. Where ADB has been less successful is in building the institutional and human capacity and eliciting a real response from the private sector. There is a realization that upgrading institutional capacity will require a long-term effort and commitment by ADB with small, incremental change, especially given the low base in many countries. In contrast, despite the rhetoric in many documents, real attention to the needs of the private sector is only beginning in earnest with private sector assessments either completed or under way in most of the PDMCs.

6. Several lessons can be drawn from this experience, although the lessons do not lead to dramatically new conclusions. Discussions within the Pacific Department have been under way for some time in all of these areas. What may be different is the increasing clarity and critical importance some of these factors may have in sustaining development impacts over time.

⁴¹ Knapman, B. and Saldanha, C. 1999. *Reforms in the Pacific – An assessment of the ADB's Assistance for Reform Programs in the Pacific*. ADB Pacific Studies Series report No. 17. Manila

C. Lessons

7. Lesson in three broad areas can be viewed as critical to the success of ADB assistance: participation, institutional capacity, and ownership.

1. Participation, Consultation, and Coordination

8. Participatory activities have been noted in very many project and TA reports as one of the most critical factors in the success or failure of ADB assistance. In particular, processes that include the private and public sectors, nongovernment organizations, and community groups are essential for the successful implementation of complex reforms and the maintenance of infrastructure. When these processes to build a sense of local ownership were circumvented at the design stage of project formulation, outcomes, especially of reforms, were less than anticipated.

9. Establishing a process requires the support of key individuals who are able to undertake an advocacy role and effectively communicate a clear and simple vision of the reforms needed. In some cases a participatory national summit process proved useful. Where conducted, summits engendered much broader understanding of the issues, not only in the executive and legislative branches, but also in the wider community. Another approach suggested the benefits of detailed group discussions in formulating policies, with the workshop approach being particularly valuable. However, regardless of choice of process, it is important to ensure that there is full participation and agreement of all parties, and that all parties then continue to publicly acknowledge their agreement.

10. The participatory process can sometimes become a lower government priority or even become undermined in times of economic crisis. ADB's experience provides instances where complex reforms designed during crisis periods have had an unanticipated impact on local populations. Specifically, during the crisis, a government's main focus is on the inflow of foreign exchange and expediting disbursement. There may be less attention on the part of the government to ensuring that policy actions carried out under a reform program remain relevant to the country's needs at the local level. This can result in lower commitment to a project accompanied by a significant loss of momentum in the community toward any proposed changes to the legislative or institutional framework. Delays, failure to implement policy actions, or even back-tracking on reforms (e.g., by re-hiring in the public sector) can significantly lower the development impact of ADB assistance. Accordingly, it is important that complex reforms be developed and continually communicated through broad coordination on the strategic direction and sequencing among the funding community and the government.

2. Institutional Capacity⁴²

11. Building institutional capacity has sometimes been an explicit, and often an implicit, objective in much of ADB assistance to the Pacific. Specific covenants have been attached to projects, and TA provided, to strengthen the institutions and their capacity. This assistance has generally not been successful. Almost all projects and TA provide support for capacity building through training, institutional reviews, and organizational support. However, capacity building has often been too closely related to the needs of the project rather than to the needs of the institution, raising concerns about the sustainability of the institutional capacity once the project finishes. There is a need to balance the focus to include the larger institutional development

⁴² See also Use of Consultants, below, for related issues.

factors. This includes the smallness of Pacific public sector organizations, which makes them highly vulnerable to capacity depletion in the all-too-common event of a small number of key personnel leaving the organization.

12. The focus on institutional strengthening is directly related to the low capacity in many PDMCs. However, there has been too little selectivity and specificity in much of the assistance directed to enhancing institutional capacity. Institutional diagnostics to identify problems have been carried out to varying degrees but without a uniform approach to ensure good analytic outcomes. This has sometimes resulted in a mismatch between the needs of the institution and its ability to effectively absorb the assistance. In such cases consultants can end up writing reports by themselves, without being able to build the capacity of the local staff. In other cases, the terms of reference contain rhetoric on capacity building with little real expectation that there will be a significant change in the institutional capacity.

13. Capacity building in ministries, including training of Directors General, directors, and other senior staff has often been done on an ad hoc basis. Overwhelming needs and lack of clarity in terms of reference have led to underperforming assistance in this area. In one TA example, it was recognized that training on leadership and communications skills, and understanding reform dynamism were the priority; however, there was no methodical approach to delivering the training to the intended beneficiaries. More time and resources could have been devoted to the mentoring and training roles, to better equip the counterparts. Similarly, the absence of any coordination in the efforts aimed at institutional reform initiatives in the legal system and judiciary, parliamentary reforms and constitutional amendments affected the overall effectiveness of these activities.

14. Another chronic problem in building institutional capacity is retaining staff in counterpart agencies. Sometimes a consultant will experience almost a complete change in counterpart staff during the term of a project. Staff are also often absent from the office for long periods, may leave government service after receiving training, or after training, are sometimes transferred to other departments. In a human resource-scarce environment, qualified and trained staff are a rare and sought-after commodity. However, the retention of trained staff is very important for longer-term sustainability of institutional capacity. Measures to maximize the likely stability in the work force to be trained must be considered, along with contingency plans for loss of key personnel. Incentive systems to retain trained counterpart staff should be explored for the benefit of the executing agency and implementing agency.

15. The combination, timing, and sequence of assistance (lending and TA) have sometimes been determined by the immediate needs, or the availability of funds, and other priorities in country programs, rather than by strategic capacity-building choices. It is important that ADB assistance spells out a medium-term strategy for building institutional capacity, providing a framework for continuous assistance with interim milestones (targets to be attained through individual TAs), and acknowledging institutional conditions (especially implementation and absorption capacity). In addition, there needs to be more openness to testing innovative measures and pilots to be scaled up if successful.

3. Broad Political Ownership

16. It is difficult to implement economic reforms, especially public sector restructuring, in the absence of strong, high-level, government commitment and ownership. The presence of resources and development needs does not necessarily translate into viable opportunities. Identifying and understanding government incentives and constraints in promoting and adopting

difficult reforms is crucial for successful assistance. Often diagnostics have not included detailed assessments of (i) different stakeholders and how institutional change would impact on them, (ii) the supporters and opponents of institutional change, or (iii) the level of commitment to the activity.

17. One successful approach is the use of a “champion” from within the country’s leadership or from the highest levels of government. While this is important, the existence of a champion may not be sufficient. There have been instances where policy actions and reforms appeared to be progressing well initially, as there was a strong commitment to maintaining direct dialogue with the local as well as the national government, but the program eventually faltered. It has become evident in the Pacific country context that one champion is not enough, largely due to changes in government or other factors. Sustainability, in particular, is a major investment-related concern, especially with macro-level policies. It is important to factor in appropriate provisions for possible political changes, no matter how strong the initial support, and for policy differences between government agencies.

18. Another method to development ownership has been linking the existing long-term government vision for development, to concrete assistance activities. This can provide a basis for utilizing limited resources; policy interventions can then be prioritized, sequenced, and owned by the stakeholders to improve the chances of implementation. Using this approach, ADB has supported governments taking the lead role in implementation of reforms and resulted in a greater commitment and ownership of the program by the government and staff. Building on this approach, some projects illustrated a number of design changes to include greater ownership at all levels. Some of the changes included moving (i) from an insufficient understanding of local end-users’ needs to greater end-user orientation; and (ii) from generic ownership, based on national or sector policies, to stronger ownership by selecting project locations where commitment from provincial governments could be obtained.

19. Regardless of the approach taken to coalesce ownership, lessons from the Pacific suggest a need for upfront government action and commitment as a condition of ADB involvement. Given limited resources, policy interventions must be prioritized, sequenced, and owned by the stakeholders to improve the chances of implementation. The effectiveness of much of the assistance is strictly correlated with the manner in which these activities are endorsed by the government and felt to be locally owned—as well as being supportive of the overall process of economic and social development.

D. Use of Consultants

20. Another issue particular to the Pacific is the use and role of consultants. As a result of both the relatively large number of TA projects in the region and the thin spread of Pacific Department staff across 14 PDMCs (approximately two professional staff per country), the Pacific Department draws heavily on staff consultant inputs to support all facets of operations. A significant amount of responsibility for the design as well as implementation has been delegated to consultants, including capacity-building assistance. The tasks of consultants routinely include advisory services, line functions, system design, and PDMC government staff development. Weaknesses in consultants’ terms of reference have reduced the effectiveness and possibly the efficiency of assistance. Often, staff development for PDMC officials receives less than desirable attention, and in many cases no training needs assessments have been carried out. Instead, it is often assumed that skills and knowledge could be imparted through on-the-job training and workshops, regardless of staff qualifications and complexity of tasks to be learned. In addition, terms of reference of consultants have emphasized technical tasks over educational

or teaching assignments that are required for capacity building, thus creating an incentive to get the technical job done rather than to build capacity for doing so. This bias was often further compounded by time limitations.

21. Consultant reports often included numerous recommendations for institutional change, but they were not necessarily structured in a time-bound series of events, nor did they often identify the parties to take action. There were several instances of manuals or reports prepared by consultants that were never used and no evidence of awareness of these outputs among governments.

The key messages for using consultants more effectively are:

- (i) Ensure that the training requirements are assessed appropriately when formulating a TA and reviewing its implementation and sufficient resources are devoted to support the training.
- (ii) The terms of reference of consultants need to be changed to give greater emphasis to the capacity-building role where appropriate and eliminate rhetoric where capacity building is not feasible under the TA.
- (iii) Allow for more mid-course adjustments as needed to suit the changing circumstances.
- (iv) Manuals and reports should be prepared during the implementation of the assistance and followed by seminars and training to support broader dissemination and discussion.

PACIFIC STRATEGY RESULTS FRAMEWORK (DRAFT)

1. This appendix should be read in conjunction with Box 2 and Section VII.B of the main report. The latter outlines in broad terms how this results framework will be applied.
2. Although the framework represents a good start, further work is required in the following areas:
 - (ii) better definition of targets and indicators;
 - (iii) establishing whether data can be obtained which are timely and updated regularly (and, if not, identifying alternative indicators with better data availability); and
 - (iv) establishing a data baseline.
3. This further work will be carried out in ways that build staff ownership of results against each key result area (KRA) initially, and external ownership in due course. As a first step, Pacific Department staff have been asked to nominate, based on their responsibilities and/or interests, the KRAs for which they would like to be involved in establishing the targets and indicators and then contributing to ongoing monitoring. This will allow the establishment of the KRA teams referred to in Section VII.B.
4. This work will be advanced during the period leading up to Asian Development Bank Board consideration of the Pacific Strategy 2005–2009 on 25 October. It will also continue beyond that date, especially with regard to completion of the results baseline.

[Draft – under development]

Goal / Objective / Key Result Area (KRA)	Outcome Targets	Performance (Intermediate) Indicators	Means of Verification	Relevant ADB (and other agency) Activities
Goal: Access of the poor to cash income opportunities, through efficient markets	<ul style="list-style-type: none"> • MDG Target 1: Halve the proportion of people whose income is < \$1/day • Average > 5% annual growth in GDP/capita and in GDP/ capita of bottom quintile of population, sustained over 5 years 		<ul style="list-style-type: none"> • PDMC (annual?) reporting on MDG targets? • HIES's by PDMCs? (How frequent in future?) Other means? 	<ul style="list-style-type: none"> • UNDP/SPC support to PDMCs for MDG reporting • ADB/SPC Poverty Program (RETA 6157)
Strategic Objective 1: Support a conducive environment for the private sector	<ul style="list-style-type: none"> • Sustained increases in private sector investment, production and employment 	<ul style="list-style-type: none"> • Increasing satisfaction among businesses with operating environment 	<ul style="list-style-type: none"> • Official statistics, Central Banks • Regular business surveys (undertaken by whom?) 	<ul style="list-style-type: none"> • ADB Country PSD assessments • ADB Country Performance Assessments (for ADF countries) • WB 'Doing business' indicators and report
Key Results Areas: 1.1 An effective institutional, legal and regulatory environment	<ul style="list-style-type: none"> • Reduced start-up and compliance costs for businesses 	<ul style="list-style-type: none"> • Increasing numbers of businesses registered, active 	<ul style="list-style-type: none"> • Annual assessments for the ADO report • ADB Country Performance Assessments (for ADF countries) • Periodic detailed PSD country assessments commissioned by PARD • World Bank 'Doing Business' report • Business surveys (not done now: sponsor?) • Data from PDMC Departments of Commerce 	<ul style="list-style-type: none"> • ADB PS assessments/ reports, and policy dialogue. • Possible further work on PSD indicators for the Pacific? • WB "doing Business" report, if they repeat • Further RETAs? Analytic work? • FIAS and PEDF programs

<p>1.2 Improved financial services</p>	<ul style="list-style-type: none"> Increasing levels of credit provision to private businesses, as a % GDP 	<ul style="list-style-type: none"> Decreasing interest rate spreads Increasing lending maturities Lending levels under new legal and regulatory frameworks for collateral (fixed and movable) 	<ul style="list-style-type: none"> Central Bank reports Central and commercial bank data Surveys of commercial banks? 	<ul style="list-style-type: none"> Secure transaction frameworks: RETA (2004); VAN, SAM?, Land: FIJ, PNG, SAM?
<p>1.3 Improved state-owned enterprise (SOE) ownership arrangements, accountability and performance</p>	<ul style="list-style-type: none"> Corporate governance of SOEs complies with regulatory requirements Improved financial and service delivery performance of SOEs Privatization of SOEs without a clear community service obligation, in accordance with due process 	<ul style="list-style-type: none"> SOE portfolios structured to meet clear objectives SOEs meeting mandated accounting and reporting requirements Policy and regulatory framework in place for SOE privatization 	<ul style="list-style-type: none"> Reports to parliaments Audit reports SOE Annual reports As above Documented evidence of SOE review and disposal plan Processes developed for disposal Documented SOE review; Clarity in SOE Charters, including on reporting requirements Reports to Parliaments Audit reports SOE Annual reports Policy and regulations enacted 	<ul style="list-style-type: none"> Previous RETAs on benchmarking utility performance (water, power) SOE reform loans: FIJ, SAM, TIM (grant), planned for RMI, FSM SOE reform TAs: TON, SOL, FIJ, PNG, SAM,

<p>1.4 Improved provision, operation and maintenance of physical infrastructure</p>	<ul style="list-style-type: none"> • Functional (? How to benchmark?) transport, communication and energy services available at decreasing unit cost 	<ul style="list-style-type: none"> • Increasing capacity, outreach and reliability of PDMC transport, energy & communications infrastructure • Increasing public and private investment in infra. development and maintenance • Increasing volume of transport, communication and energy services provided 	<ul style="list-style-type: none"> • Surveys of transport, communication and energy service availability and cost (Are these done now?) • Infrastructure inventories and condition, performance assessments? • PDMC Govt data? <p>PDMC Government, Central Bank data</p>	<ul style="list-style-type: none"> • RETA: Regional Transport analysis (2004); Australian regional aviation, shipping studies • Other analytic work in energy, ICTs? • Loans and TAs in PNG, FIJ, SOL, VAN, KIR, TIM, SAM
<p>1.5 Effective institutional framework for developing skills in response to labor market demands</p>	<p>To be developed</p>	<p>To be developed</p>	<p>To be developed</p>	<p>To be inserted</p>
<p>Goal: Improved social service outcomes for the poor</p>	<ul style="list-style-type: none"> • MDG Target 3: Ensure that boys and girls will be able to complete a full course of primary schooling • MDG Target 4: Eliminate gender disparity at all levels of education by 2015 • MDG Target 5: Reduce by 2/3 under five mortality rate • MDG Target 6: Reduce by 3/4 maternal mortality ratio • MDG Target 7: Have halted and begun to reverse spread of HIV/AIDS • MDG Target 8: Have halted and begun to reverse incidence of malaria and other major 	<ul style="list-style-type: none"> • Progress towards MDG targets 	<ul style="list-style-type: none"> • PDMC annual (TBC) reporting on MDG targets 	

	diseases			
	<ul style="list-style-type: none"> MDG Target 10: Halve proportion of people without sustainable access to safe drinking water 			
Strategic Objective 2: Enhance the supply of, and demand for, quality social services (for health, education, clean water, sanitation)	<ul style="list-style-type: none"> Duplication at this level with MDGs 	<ul style="list-style-type: none"> Duplication at this level with progress towards MDG targets 		
Key results areas: 2.1 Social sector strategies that are relevant and responsive to national objectives and client needs 2.2 Effective public, private and donor resource allocations for social services 2.3 Capacity to manage and deliver quality social services	<ul style="list-style-type: none"> Attainment of localized MDG targets and progress indicators Improved social service outcomes being delivered with greater efficiency Results-based management of service delivery agencies 	<ul style="list-style-type: none"> Stakeholder participation in formulating and monitoring strategies Evidence of alignment of national development strategies, national budgets and social sector strategies Strategies approved, with appropriate resources Progress against milestones in implementing strategies Increasing proportion of public and donor expenditures on basic services Decreasing unit costs for services delivered Human resource plan that addresses strategic objectives being implemented <ul style="list-style-type: none"> Increasing % professional and technical staff receiving annual in-service skills training Increasing % of managerial and professional staff receiving annual management development programs 	<ul style="list-style-type: none"> Annual reports of service delivery agencies?? ADB reports ?? Consultant reports Annual reports of service delivery agencies? Public expenditure reviews Budget papers and budget outcome reports Annual reports of service delivery agencies 	<ul style="list-style-type: none"> Donor studies on HD/ financing social services (planned by WB, UNDP; possible ADB follow-up) TAs: PFTAC; PNG PERR Youth/ gender budgeting; RETA: Res. Alloc. Pro-poor/participatory; PNG (health), SAM TUV (ed.), KIR, TUV? (wss) Elements in projects with water/sanitation agencies? PNG Health SWAp? Education

		<ul style="list-style-type: none"> Effective financial management system operating. 		sector activities?
Goal: Goals 1 & 2, as above	As for Goals 1 & 2, above	As for Goals 1 & 2, above	As for Goals 1 & 2, above	As for Goals 1 & 2, above
Strategic Objective 3: Devise and support more effective development processes	N/A. Outcomes relate to the achievement of Strategic Objectives 1 & 2.			
Key results areas: 3.1 Increased participation and ownership in development programs 3.2 Increased public demand for good governance, effective markets and services 3.3 Strengthened government transparency and accountability 3.4 Increased dialogue and cooperation among civil society organizations, private sector groups and governments 3.5 Improved availability and dissemination of quality data and	N/A N/A <ul style="list-style-type: none"> Government financial management and reporting requirements met in a prompt manner Information readily available about government policies, laws and regulations Accountability institutions operational, with appropriate sanctions for violations of laws and good leadership practice Policies and programs developed using best ideas from all stakeholders	<ul style="list-style-type: none"> To be developed Evidence of effective and appropriate representations by private sector and civil society groups Incidence of policy proposals by CSOs/PS being incorporated by government Regular and substantive dialogue by governments with CSOs and the private sector Wider audience for, and greater practical relevance of, ADB publications and other 	<ul style="list-style-type: none"> Surveys of civil society and private sector groups (supported by ADB?) Surveys as above? Budget outcome reports; Audit reports Stocktake of government gazettes/websites, undertaken through country governance assessments? Annual reports of accountability institutions; surveys of civil society? Surveys?? Awareness surveys, conducted under a communications strategy? 	<ul style="list-style-type: none"> RETAs: CSO participation in budget formulation; Making resource allocation pro-poor and participatory; ADB engagement with Chambers of Commerce RETA: Youth/gender budgeting; PFTAC Public financial management TAs: PNG, TON, FSM,

information on development issues		communications		<ul style="list-style-type: none"> • RETA: Strengthening poverty analyses and strategies; • Various PIERs, poverty assessments and Pacific Study series reports;
3.6 Gender and environmental considerations mainstreamed into development planning and programs		To be developed		
3.7 Strengthened capacity of PDMC governments, civil society and private sector groups to plan and manage for development results	To be developed??	<ul style="list-style-type: none"> • ADB loans and TAs contain appropriate, measurable capacity building objectives ?? • Improving portfolio performance in meeting stated capacity building objectives 		
3.8 Enhanced donor coordination and harmonization	To be developed	To be developed		
3.9 Increase the level and impact of regional cooperation		To be developed		

ADB = Asian Development Bank, ADO = Asian Development Outlook, CSO = Central Statistics Office, FIAS = Foreign Investment Advisory Service, FIJ = Fiji Islands, GDD = gross domestic product, HIES = Household Income & Expenditure Survey, ICT = Information & Communication Technology, KRA = key result area, MDG = Millennium Development Goal, PEDF = Pacific Enterprise Development Facility, PERR = Public Expenditure Review and Rational, PDMC = Pacific developing member countries, PFTAC = Pacific Financial Technical Assistance Center, PNG = Papua New Guinea, PSD = private sector development, SAM = Samoa, SOE = state-owned enterprise, SOL = Solomon Islands, SPC = Secretariat of the Pacific Community, TBC = to be completed, TON = Tonga, UNDP = United Nations Development Programmed, VAN = Vanuatu, WB = World Bank.

Source: ADB estimate