

# **ASIAN DEVELOPMENT BANK**

## **REGIONAL COOPERATION STRATEGY AND PROGRAM 2004–2006**

### **THE PACIFIC**

**July 2003**

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AusAID	–	Australian Agency for International Development
COO	–	Cook Islands
CROP	–	Council of Regional Organisations in the Pacific
EC	–	European Commission
EEZ	–	exclusive economic zone
FEMM	–	Forum Economic Ministers Meeting
FFA	–	Forum Fisheries Agency
FIJ	–	Fiji Islands
FSM	–	Federated States of Micronesia
GDP	–	gross domestic product
GEF	–	Global Environment Facility
GNP	–	gross national product
ICT	–	information and communications technology
IGO	–	intergovernmental organization
KIR	–	Kiribati
MDG	–	Millennium Development Goal
NAU	–	Nauru
NZAID	–	New Zealand Agency for International Development
OCR	–	ordinary capital resources
PACER	–	Pacific Agreement on Closer Economic Relations
PARD	–	Pacific Department
PDMC	–	Pacific developing member country
PICTA	–	Pacific Island Countries Trade Agreement
PIFS	–	Pacific Islands Forum Secretariat
PFTAC	–	Pacific Financial Technical Assistance Centre
PNG	–	Papua New Guinea
PSD	–	private sector development
RCSP	–	regional cooperation strategy and program
RETA	–	regional technical assistance
RMI	–	Republic of the Marshall Islands
SAM	–	Samoa
SOE	–	state-owned enterprise
SOL	–	Solomon Islands
SOPAC	–	South Pacific Applied Geoscience Commission
SPC	–	Secretariat of the Pacific Community
SPREP	–	South Pacific Regional Environment Programme
TA	–	technical assistance
TIM	–	Timor-Leste
TON	–	Tonga
TUV	–	Tuvalu
UNDP	–	United Nations Development Programme
USP	–	University of the South Pacific
VAN	–	Vanuatu

## NOTE

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

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# REGIONAL COOPERATION STRATEGY AND PROGRAM 2004-2006

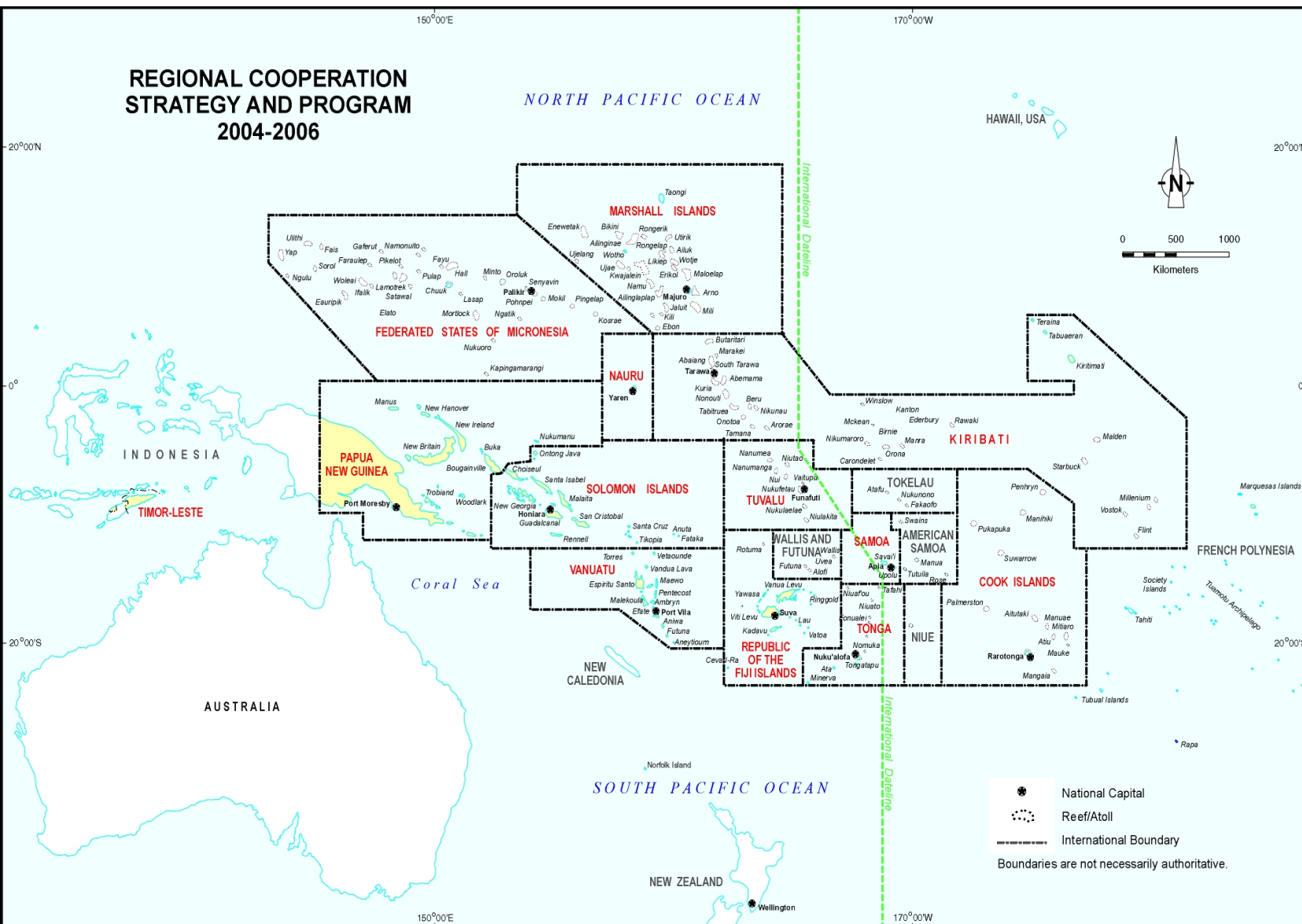
NORTH PACIFIC OCEAN

HAWAII, USA



0 500 1000  
Kilometers

MAP



## EXECUTIVE SUMMARY

Pacific developing member countries (PDMCs) are widely dispersed over a large geographical area and differ significantly in size, population, endowments, opportunities, and development constraints. Because of their special features, PDMCs face unique but common challenges. The economic performance of the Pacific in the 1980s and early 1990s was disappointing, despite a high investment ratio supported by generous aid flows, and was associated with high population growth rates. As a result, poverty has been increasing. The political environment in the Pacific has been quite unstable, and frequent change of government is a common feature. There are serious governance issues. The institutional capacities are weak, reflecting the limited availability of human resources and low skill levels. Pressure on the environment has been increasing due to population growth, urbanization, the use of inappropriate technologies, and climate change. Private sector development has been weak and remains one of the most difficult challenges facing PDMCs. A number of factors, both natural and introduced, constrain business activity in the Pacific.

Although the Pacific has made significant progress in human resources development over the last three decades, the larger PDMCs tend to be those with the poorest social indicators. In the environment sector, there has been some progress in terms of policy reform, regional agreements, and application of human and financial resources. However, overall environmental management presents an unsatisfactory picture associated with unsustainable exploitation of natural resources and inadequate risk management.

There is a well-developed framework of regional organizations in the Pacific. The average annual flow of grant funds for regional projects has been about \$67 million. During the last 26 years (1977–2002), the Asian Development Bank (ADB) has given about \$22.0 million of cumulative grant assistance for regional technical assistance to the Pacific. There has been no lending project of a regional nature extended by ADB to any group of PDMCs.

No two Pacific countries have a common land boundary, and many of them are separated by vast expanses of ocean. There is limited economic integration and intra-Pacific trade is below 5% of total PDMC trade. Accordingly, compared to the other parts of the world, regional cooperation in the Pacific appears to be driven by a very different set of factors, which appear to be the following: (i) the need for a collective voice in a world dominated by large countries and economic and political blocs (as buyer, as seller, and as a political bloc); (ii) the challenges arising from isolation; (iii) the need for economies of scale, particularly in building appropriate knowledge and technology for the specialized but common needs of the Pacific; (iv) the lack of specific skills in individual countries; (v) the sharing of knowledge and experience; and (vi) external agencies' interest in cooperation among PDMCs for cost and strategic considerations.

From a regional perspective, the key development challenges facing the Pacific are (i) increasing productivity, (ii) reducing transaction costs, and (iii) prudently managing the environment and natural resources. These are the necessary underpinnings for sustained economic growth, achievement of the Millennium Development Goals (MDGs), and poverty reduction. Two key factors that explain the “Pacific paradox” of low economic growth alongside high investment are the low efficiency of public expenditure and investment, and weak private sector development. Transport and other transaction costs are high due to the small size, remoteness, and geographical fragmentation and dispersion of the PDMCs. These explain the high cost structure in these economies, which adversely affects the level of consumption, business profitability, and quality of life. Economic activities in the Pacific revolve around the

environment and the ocean. Almost all Pacific countries rely heavily on primary commodity production and exports, marine-based resources, and tourism. Thus, a key to the prosperity of the Pacific is the sustainable management of these natural resources and maintenance of the pristine environment. These common problems define the agenda for regional cooperation in the Pacific.

Because of the low level of economic integration and high geographical dispersion, the nature and scope of regional cooperation in the Pacific vastly differs from regional cooperation elsewhere. Because of the geographical dispersion, the scope for cooperation among PDMCs in physical investment or infrastructure at the regional level is limited. One of the most critically needed regional public goods for the Pacific is appropriate knowledge and technology related to the specialized but common needs of these countries. It is also important to build related regional institutional capacity, with a view to obtaining the benefits of economies of scale and improving the availability of skills in the Pacific. Accordingly, the key theme of ADB's regional cooperation strategy will be to build and/or strengthen knowledge and regional institutional capacity in the following four focus areas: public expenditure and investment, private sector development, transport and communications, and environment and natural resources. In this process, ADB will also support building and/or strengthening regional consensus and the local pool of expertise. To ensure shared interest, ownership, and participation of the PDMCs, the regional cooperation strategy will respond to the differences across the Pacific by variation in emphasis and approach for different groups of countries in the region. ADB would also seek greater consultation and partnership with regional organizations and focus on enhanced participation of local officials and experts.

The regional lending program for the Pacific for 2004–2006 comprises three regional loan projects amounting to \$8.8 million (average about \$2.9 million per annum) from the Asian Development Fund (ADF) out of the portion earmarked for regional projects, and cofinancing amounting to \$1 million. The actual ADF allocation will be guided by the requirements of the performance-based allocation policy. The regional technical assistance program for 2004–2006 comprises 13 regional projects amounting to about \$4.5 million (average about \$1.5 million per annum) in TA grants from ADB and about \$2.0 million in grants from other sources.

The strategy assigns high priority to ADB collaborating and coordinating with all development partners and stakeholders. The main risks to the strategy and program emerge from the possibility of a weakening of Pacific governments' commitment to reform in the focus areas of this strategy, policy reversals, lack of consensus among PDMCs, lack of experience with regional lending products, and the presence of self-serving "in-groups" in regional organizations. However, the level of risk faced by this regional strategy and program is manageable, and is mitigated by the process of ADB operations and measures, such as consultative processes and coordination with external agencies, inbuilt within the strategy itself. The development, design, and implementation of projects will further address these risks.

The 2004–2006 program supports the implementation of the strategy. The program is well sequenced, and focuses on building knowledge and institutional capacity. ADB will closely monitor implementation and assess the impact of the new strategy and program.

## I. CURRENT DEVELOPMENT TRENDS AND ISSUES

### A. Economic Growth

#### 1. The Pacific Setting

1. **Geographical setting.** The 13 Pacific developing member countries (PDMCs) of the Asian Development Bank (ADB) are widely dispersed over a large geographical area and differ significantly in size, population, endowments, opportunities, and development constraints. The total population of the PDMCs is 8.2 million. About 83% of the total population of the Pacific lives in the four low-income, resource-rich countries.<sup>1</sup> The total exclusive economic zone of the PDMCs is 19.1 million square kilometers, or 36 times larger than their total landmass of about 544,000 square kilometers.

2. **Economic features.** Despite small land areas, most PDMCs command vast marine-based resources, including fish, pearls, and seabed minerals. The region offers great biodiversity and substantial other natural resources, including forests, agricultural land, and minerals. The subsistence sector in the Pacific is productive, and extreme poverty and hunger is virtually unknown. In some areas, the pristine environment offers tourism potential. The Pacific also has high potential for the development of niche markets in many other areas, such as organic, ethnic, and marine products. Further, some Pacific countries have benefited substantially in terms of bilateral aid and preferential trade and immigration agreements largely due to their historical ties with industrial countries and the strategic location of some of the countries. On the other hand, the economies in the Pacific face many constraints due to their small size, narrow production base, remoteness, and geographical dispersion. Import dependence and external openness are common to all Pacific countries. There is limited diversification in production, which adds to their vulnerability to external developments. The Pacific is also highly vulnerable<sup>2</sup> to natural calamities. Thus, PDMCs face unique, but common, challenges. Having a larger population, Papua New Guinea (PNG) is the only exception to the above, although only partially, as it manifests many of the features described above.

3. **Implications.** The Pacific setting is substantially different from most of the rest of the world. No two Pacific countries have a common land boundary, and many of them are widely separated by vast expanses of ocean. Intra-Pacific trade is also very low (below 5% of the total trade of these countries), which reflects a low level of economic integration. However, there is a strong commonality within the Pacific in terms of its specialized features and isolation. This setting defines the stage for regional cooperation in the Pacific, which turns out to be quite different from regional cooperation found elsewhere in Asia.

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<sup>1</sup> Pacific countries include the Democratic Republic of Timor-Leste (Timor-Leste), which joined ADB in 2002. Together with the other 12 PDMCs, the Pacific is divided into three groups of countries following the classification of ADB's *Pacific Strategy for the New Millennium*: low-income, resource-rich countries (Papua New Guinea [PNG], Solomon Islands, Timor-Leste, and Vanuatu), higher-income countries (Cook Islands, Fiji Islands, Federated States of Micronesia [FSM], Samoa, and Tonga), and island atoll countries (Kiribati, Marshall Islands [RMI], and Tuvalu), and Nauru.

<sup>2</sup> Seven Pacific countries, ranked according to a composite vulnerability index by the United Nations Conference on Trade and Development, fall among the 30 most vulnerable out of 111 countries. In particular, Vanuatu is the most vulnerable country in the world, with Tonga at 3rd and Fiji Islands at 8th. Joint Commonwealth Secretariat/World Bank Task Force, Conference on the Small States, St. Lucia, West Indies, 17–19 February 1999, *Small States: A Composite Vulnerability Index*.

Figure 1: Subregional Sector Shares in 2000, %

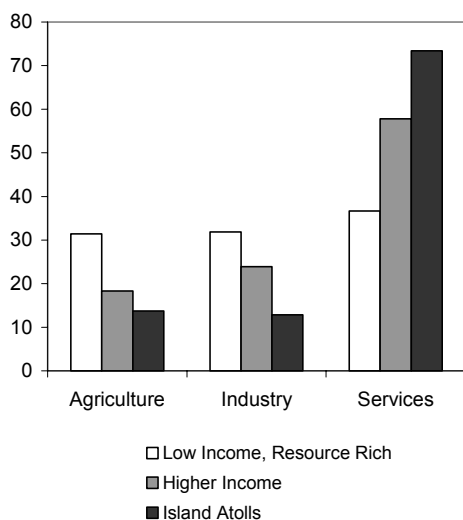
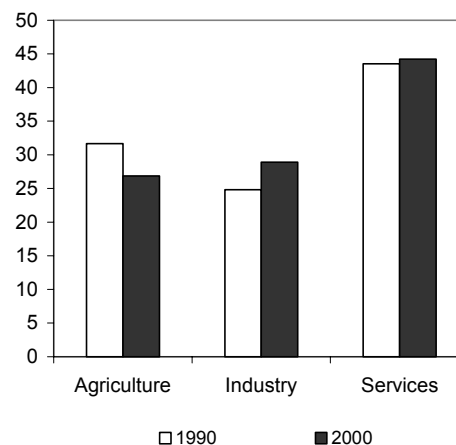


Figure 2 : Regional Sector Share of PDMCs, %



Note: The agriculture sector includes the agriculture, forestry, and fisheries subsectors. The industry sector includes the manufacturing, mining and quarrying, construction, and electricity, gas, and water subsectors. The services sector includes the wholesale and retail trade, transport, storage, and communications services, financing/commerce, insurance, real Estate, and business services, and community/government, social, and personal services subsectors. Nauru and Timor Leste are not included due to lack of data. Sector shares are in percent of real GDP.

Sources: ADB. *Asian Development Outlook 2003*. Manila; ADB. *Key Indicators 2002*. Manila; and country reports.

## 2. Structure of the Economy

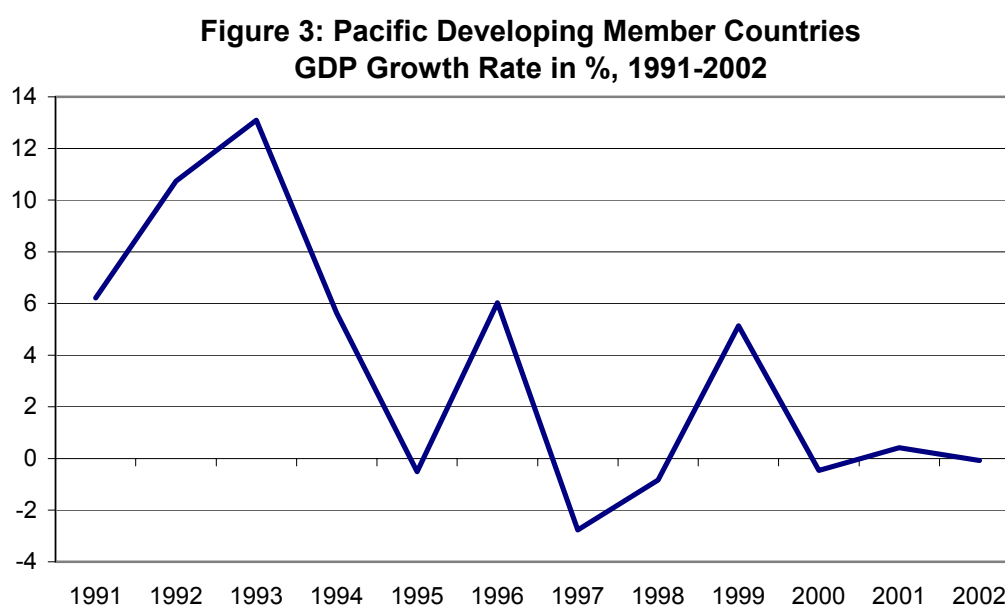
4. Primary commodity production and export, and tourism are the two basic economic activities of the Pacific. All of these are impacted strongly by the quality of environment and natural resources management. The main primary commodities are agricultural and forestry products, fisheries, and minerals. Except for fisheries, most other primary commodities have a limited regional dimension. The structure of economies varies widely across the Pacific (Figures 1 and 2). In general, the services sector (including public services) dominates and manufacturing is small, which is also reflected in the low level of private sector activities in the Pacific. While minerals and petroleum are important for many low-income, resource-rich countries, fisheries and tourism are two of the most important sectors in almost all Pacific countries. The total contribution of fisheries<sup>3</sup> ranges from 1.4% (Papua New Guinea) to 21.5% (Kiribati) of gross domestic product (GDP), with a weighted average of 3.2% of total GDP for the whole Pacific. Fisheries contributes to GDP both directly and indirectly, through income from fishing license fees. Fisheries is particularly important for smaller countries. In the case of Kiribati and Tuvalu, the contribution of fisheries license fees exceeded 40% of GDP in 1999. Tourism, which depends strongly upon the ease of access and "connectivity", and the quality of the environment, contributed about 8% of the total GDP of the Pacific in 1998.

<sup>3</sup> ADB. 2001. *The Contribution of Fisheries to the Economies of Pacific Island Countries*. Data exclude Timor-Leste.



### 3. Macroeconomic Trends<sup>4</sup>

5. There was a declining trend in the economic growth rate of the Pacific over the 1990s (Figure 3 and Appendix 1), reflecting the low productivity of investment and declining stock of natural resources. In 2000–2002, the situation worsened in comparison with the performance of 1999. This was due to sociopolitical instability, which reflected the long period of weak economic performance, increasing unemployment, hardship, and frustration. In 2002, despite some strengthening of international commodity prices, a rise in tourist arrivals, and generally expansionary fiscal policies, the internal problems accompanied by weak macroeconomic management prevented the Pacific from posting a recovery after 2 years of near stagnation, and in fact, real GDP declined by a weighted average rate of 0.1% that year. The regional economic growth figure masks a variation in outcomes in different PDMCs. The low-income, resource-rich countries, higher-income countries, and island atoll countries and Nauru showed a wide variation in 2002, with subregional growth rates of -2.5%, 3.4%, and 3.4%, respectively. The decline in 2002 was confined to the low-income, resource-rich countries, with each country individually recording a decline in GDP; this generally reflected sociopolitical instability, and poor economic and environmental management in this group of countries. Regional economic indicators are in Appendix 1.



Source: ADB. *Asian Development Outlook 2003*. Manila; ADB. *Key Indicators 2002*. Manila; country reports.

6. The management of public finances continues to be a major issue in the Pacific. Fiscal outcomes in 2002 (Table 1) were disappointing, particularly among the larger countries. Although there has been some improvement from the early to mid-1990s, nearly all PDMCs are facing fiscal stability, vulnerability, or sustainability issues. In some countries, the situation is approaching crisis proportions. The average inflation rate increased from 6.9% in 2001 to 7.1% in 2002, reflecting a weakening of most Pacific currencies, and higher local food and transport

<sup>4</sup> Unless specified, GDP data for the Pacific exclude Nauru and, for the period 1995 and before, Timor-Leste due to lack of data. Time series of gross national product (GNP) data for the above period are not available for all PDMCs.

prices in some countries. Despite some rise in several countries, merchandise exports declined by around 10% for the region as a whole, largely reflecting a sharp fall in Papua New Guinea's exports due to declining oil reserves. Imports also declined by about 6.0%, reflecting higher costs as currencies generally depreciated in real effective terms. In 2002, the overall current account for the region recorded a small deficit for the first time since 1997, primarily reflecting the current account situation in Papua New Guinea. The flow of remittances, which is very important for some PDMCs, particularly Samoa and Tonga, remained strong in 2002. In several PDMCs, trust funds suffered capital losses in 2002, reflecting the weakness in global equity markets.

**Table 1: Budget Figures as Percent of GDP**

Country	Revenue		Expenditure		Fiscal Deficit	
	1996	2002	1996	2002	1996	2002
Cook Islands	36.2	43.4	43.1	43.1	-6.9	0.3
Fiji Islands	–	20.1	–	27.0	–	-7.0
Kiribati	98.6	119.1	110.0	125.0	-11.4	-5.9
Marshall Islands	80.5	79.0	61.9	69.9	18.5	9.1
Micronesia, Federated States of	76.7	69.1	76.4	66.7	0.2	2.4
Papua New Guinea	26.7	29.5	27.0	33.3	-0.3	-3.8
Samoa	50.5	33.4	49.0	35.5	1.5	-2.1
Solomon Islands	34.7	25.0	38.6	37.2	-3.9	-12.2
Timor-Leste	–	11.5	–	20.1	–	-8.6
Tonga	30.8	32.1	30.8	32.1	0.9	-0.6
Tuvalu	147.7	155.6	146.1	70.9	1.6	84.7
Vanuatu	24.9	21.7	26.6	23.8	-1.7	-2.1

– = data not available.

Note: Nauru data not available.

Sources: Various government budget papers; ADB. 2003. *Asian Development Outlook 2003*.

7. The Pacific Agreement on Closer Economic Relations (PACER), which covers 12 PDMCs (excluding Timor-Leste) was signed in August 2001. As a first step under PACER, a free trade agreement, the Pacific Island Countries Trade Agreement (PICTA), was also initiated. PICTA aims to remove most tariffs on trade among PDMCs by 2010 and all tariffs by 2016. PICTA came in force recently. In view of these developments, the European Commission (EC) has allocated substantial funds for assistance to the Pacific in the area of economic integration over the next 5 years. Trade liberalization entails adjustment costs but also brings benefits in terms of improved international competitiveness. To help realize these benefits to the maximum, complementary reforms to improve the efficiency of public enterprises and enhance the regulatory environment for business will be critical for all Pacific countries as they move toward greater economic integration under PACER.

## **B. Poverty**

8. In the past, poverty was not a major issue in the Pacific due to the relatively high per capita GDP, the existence of a productive subsistence sector, and strong traditional family or community support mechanisms. However, poverty has been increasing in the Pacific because of more than two decades of weak economic performance associated with rapid population growth (at an annual rate of 2.4% during 1985–2001), lack of creation of new formal sector employment opportunities, urban drift, and changes in traditional support mechanisms. Lack of employment opportunities and access to basic services are the main problems facing the poor.

Further, because of the high costs associated with distance, per capita GDP does not best reflect the consumption and welfare levels of the people of the Pacific. While hunger is not a major problem, consumption of a diversified basket of goods and services is somewhat more difficult than in most other regions. Further, poverty varies widely in incidence, depth, and severity across the Pacific. Income levels vary substantially, with per-capita gross national product (GNP) in 2000 ranging from \$453 in Timor-Leste to \$4,355 in the Cook Islands (Table 2). The problem of poverty is now being increasingly recognized by governments in the Pacific, and a number of countries have either signed or are in the process of entering into poverty partnership agreements (PPAs) with ADB. Pacific poverty and social indicators are in Appendix 1.

**Table 2: Nominal GNP Per Capita in 2000**

Country	US\$
Cook Islands	4,355
Fiji Islands	1,820
Kiribati	950
Federated States of Micronesia	2,110
Marshall Islands	1,970
Papua New Guinea	700
Samoa	1,450
Solomon Islands	620
Tonga	1,660
Timor-Leste <sup>a</sup>	453
Tuvalu	1,296
Vanuatu	1,150
Pacific developing member countries <sup>b</sup>	1,112

<sup>a</sup> Figure for Timor-Leste refers to 2001.

<sup>b</sup> The regional figure is calculated as a weighted average where the computation of weights is based on the World Bank Atlas method using gross national income (GNI). GNIs for 4 of the PDMCs are not available, namely Cook Islands, Marshall Islands, Timor-Leste, and Tuvalu. For these countries, weights are estimated using nominal gross domestic product data.

Note: Nauru data not available.

Sources: ADB. *Key Indicators 2002*; World Bank. *Development Indicators 2002*.

### C. Political Environment

9. The political environment in the Pacific has been quite unstable, and frequent change of government is a common feature. Since 1999, most Melanesian<sup>5</sup> countries have experienced major ethnic conflicts, which resulted in unexpected political changes. Governments in the Solomon Islands and the Fiji Islands were changed around mid-2000 following armed violence. Papua New Guinea and Vanuatu have also been experiencing social tensions, with their own political implications. Timor-Leste also experienced major civil unrest at the end of 2002. According to a 2001 study,<sup>6</sup> competition for resources, exacerbated by the insecurity of property rights, has been a major cause of these conflicts in Melanesia. These tendencies were aggravated by unemployment among the growing young population and the tradition of treating ethnic and communal loyalties as being above allegiances to national governments. In some

<sup>5</sup> Melanesia comprises the Fiji Islands, Papua New Guinea, Solomon Islands, and Vanuatu.

<sup>6</sup> National Centre for Development Studies. 2001. *The Economics of the "Arc of Instability."* Asia Pacific School of Economics and Management, The Australian National University. Canberra.

Pacific countries, such difficulties are significantly mitigated by the ability to migrate to Australia, New Zealand, or the United States.

#### **D. Governance and Institutional Capacity**

10. Reflecting the limited availability of human resources and low skill levels, institutional capacities in the Pacific are weak. Almost all Pacific countries suffer from poor governance. Weak governance also reflects the difficulty of managing the transition from traditional to modern systems of management. The process of change is slow due to the strong traditional system of kinship and loyalty to family, and the wide diversity of languages in many countries. These difficulties are further compounded by the diverse political systems emanating from the colonial history of the Pacific. The main areas of concern related to governance and institutional capacity are (i) linkages between the traditional and modern systems of governance; (ii) public finance management; (iii) continuity and predictability in policy; (iv) accountability and transparency in government; (v) quality of public administration; (vi) role and function of good governance institutions, such as the ombudsman, attorney general, auditor general, and public service commission; and (vii) corruption. As a result, the public sector shows low efficiency and productivity, and private sector development is subdued.

#### **E. Gender**

11. The Pacific presents a mixed picture on the gender front. While women have shown good academic and social achievements in higher-income countries, their relative position remains lower in a majority of countries. In particular, gender discrimination is a major concern in the low-income, resource-rich countries, which have more than 80% of the total population of the Pacific. This is reflected in low academic achievement, low proportion of women in formal employment, and high population growth rates.

#### **F. Private Sector**

12. Private sector development remains one of the greatest failures and most difficult challenges in the Pacific. A number of factors, both natural and introduced, constrain business activity in the Pacific Islands. In particular, private sector development has suffered from excessive state intervention and weak legal and regulatory frameworks. Accordingly, the private sector is relatively small. In 2002, government expenditure ranged from 20% to above 100% of GDP, with the regional average at 33.5%. In addition, public enterprises and joint ventures with substantial public participation contribute significantly to GDP, suggesting a relatively weak role played by the private sector. In the Fiji Islands, private investments exceeded public investments until the mid-1980s, but had fallen well below the level of public investments by 2000. Private investments in smaller countries constitute a much smaller proportion than public investments. While the private sector employs about 60% of the labor force in the formal sector in the larger countries, the proportion is much lower in smaller countries.

13. Some key areas of private activity in the Pacific are commercial agriculture, fisheries, logging, retail and wholesale trade, hotels and restaurants, banking, and transport. In some countries, the private sector is involved in minerals and petroleum, livestock enterprises, pearls, and fish loining and canning. There is significant foreign ownership in most of these ventures. Involvement of the private sector has led to some diversification and development of niche markets. Public-private partnerships, particularly in utilities, offer potential for significant growth in private sector involvement, although the existing public-private partnerships in infrastructure and utilities have not been able to provide cost-effective services due to weak regulations. The

primary and tertiary sectors continue to offer most opportunities for the private sector. The growth of the tourism sector is highly dependent on private sector development. Although manufacturing and processing activities are generally small and limited to cottage industries, small-scale manufacturing, and breweries, the private sector can become more active in these activities. Further, governments have paid insufficient attention to private sector development in terms of collective efforts and regional cooperation. ADB is in the process of developing a private sector development (PSD) strategy for the Pacific (Box 1).

### **Box 1: Developing a PSD Strategy for the Pacific**

ADB has completed private sector assessments (PSAs) for 4 PDMCs as well as a consolidated regional PSA under RETA 6037. A PSD strategy for the Pacific is being developed based on these assessments. The new strategy will seek ways to systematically address some of the most critical and common problems identified in these PSAs that have a pernicious effect on PSD: extensive state involvement, high cost environment, poorly supplied public goods, underdeveloped financial markets, complex investment policies, and poor governance toward business and public services. The new strategy will aim to promote policies and institutions that are suitable for improving the business environment, by setting the right incentives and ameliorating the problems of size, distance, and vulnerability that are generally common to all PDMCs.

## **G. Environment**

14. Pressure on the environment in the Pacific has been increasing due to population growth, urbanization, the use of inappropriate technologies, and climate change. A major problem is the unsustainable exploitation of natural resources, including fisheries. The majority of the Pacific peoples live in low-lying coastal areas that are particularly vulnerable to climate change, climate variability, and sea-level rise. The latter threatens both the availability of fresh water and agricultural productivity through its impact on groundwater lenses. In addition, the Pacific countries have a fragile environment and are vulnerable to natural disasters. Pacific environment indicators are in Appendix 1. ADB has initiated a comprehensive effort to prepare a Pacific Region Environment Strategy (Box 2).

### **Box 2: Preparation of a Pacific Region Environmental Strategy**

ADB has recently initiated a study to formulate a Pacific Region Environmental Strategy (RETA 6039) to develop an operational framework for both environmentally-related assistance to the region, as well as to mainstream environmental considerations into all aspects of ADB's operations in the PDMCs. The study covers: (i) a review of the current environmental issues and response strategies; (ii) an assessment of previous environmentally-related assistance provided by ADB and other major donors in the region to draw lessons from these experiences; and (iii) identification and discussion of priority areas for intervention by mapping out future directions for ADB's environmental assistance to the region in the period 2005–2009. The RETA is also funding a series of case studies to analyze recent practical experience from promising environmental management approaches and from new ideas and experiences on how to "mainstream" environmental considerations into development plans, policies, and programs. The strategy is being developed in a consultative manner with feedback solicited through the RETA website and extensive consultations held with a wide range of PDMC stakeholders.

15. Good environmental management is critical for sustainable development in the Pacific. In many PDMCs, the loss of the pristine environment can seriously impair the tourism sector. Future sea-level rise could even threaten the existence of some island atoll countries. Many of the environmental issues are common across the Pacific, which can benefit from economies of scale through greater regional cooperation. A good example of a recent regional cooperation initiative is the agreement on sustainable management of tuna fish stocks indicated in Box 3. Almost all PDMCs have ratified the relevant global environmental agreements necessary for accessing the Global Environment Facility (GEF). ADB is now a GEF Executing Agency with direct access to GEF resources, so it can play a new and enhanced role in helping the PDMCs gain access to GEF funds. ADB has actively interacted and collaborated with GEF regarding the environmental issues of the Pacific. Apart from other things, adaptation to climate change and variability is a common area of interest between the two organizations. A recent discussion at management level between ADB and GEF has further strengthened the partnership.

**Box 3: Commission for the Conservation and Management of Highly Migratory Fish Stocks—An Example of Regional Cooperation in the Pacific**

Adopted on 5 September 2000, the Convention on the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean (WCPO) is one of the first regional fisheries agreements to be adopted since the conclusion in 1995 of the Agreement for the implementation of the provisions of the United Nations Convention on the Law of the Sea of 10 December 1982 (UNCLOS) relating to the conservation and management of straddling and highly migratory fish stocks. All PDMCs (except Kiribati) had signed the Convention as of September 2002. The objective of the Convention is to ensure the long-term conservation and sustainable use of highly migratory fish stocks in WCPO. This will be achieved through appropriate management measures, most notably the introduction of total allowable catches for the various species, and the introduction of management regimes—similar to those governing the exclusive economic zones—for the high seas areas completely surrounded by PDMC exclusive economic zones. A Commission with overall responsibility for the implementation and governance of the various measures will be established. The adoption of the Convention and the establishment of the Commission are timely measures to ensure that the biggest tuna fishery in the world will not face the same overexploitation as the majority of other fish resources in the world.

## H. Regional Cooperation

16. There is a well-developed framework of regional organizations in the Pacific. Numbering over 200,<sup>7</sup> these organizations support cooperation among governments and nongovernment organizations on a variety of issues, including politics, economics, sector development, commerce, trade, and religion. There are wide differences in the structure and membership of these regional organizations. The major formal regional organizations in the Pacific are more limited in number and can be broadly divided in two groups: organizations associated with the Council of Regional Organisations in the Pacific (CROP),<sup>8</sup> which is a high-level advisory body, and other regional organizations. The Pacific Islands Forum Secretariat (PIFS) serves as the secretariat of CROP. Organizations associated with CROP are partly funded by the contributions of, and governed by, member governments, and are referred to as intergovernmental organizations (IGOs). The 10 IGOs are: (i) Forum Fisheries Agency (FFA), Honiara, Solomon Islands; (ii) Pacific Islands Development Program (PIDP), Honolulu, Hawaii; (iii) PIFS, Suva, Fiji Islands; (iv) South Pacific Tourism Organisation (SPTO), Suva, Fiji Islands;

<sup>7</sup> ADB. 1998. *A Different Kind of Voyage*. Manila.

<sup>8</sup> The previous name of CROP was the South Pacific Organisations Coordinating Committee (SPOCC).

(v) Secretariat of the Pacific Community (SPC), Noumea, New Caledonia and Suva, Fiji Islands; (vi) South Pacific Regional Environment Programme (SPREP), Apia, Samoa; (vii) South Pacific Applied Geoscience Commission (SOPAC), Suva, Fiji Islands; (viii) University of the South Pacific (USP), Suva, Fiji Islands; (ix) South Pacific Board for Education Assessment (SPBEA), Suva, Fiji Islands; and (x) Fiji School of Medicine, Suva, Fiji Islands. A brief description of these IGOs is given in Appendix 2. Most of the countries that are members of these organizations are also members of ADB. Part of the stimulus for the economic, governance, and public sector reforms in the Pacific is attributable to the annual meetings of Pacific heads of state and ministers, particularly the Forum Economic Ministers Meeting (FEMM), which is organized by PIFS (Box 4). The other regional organizations are nongovernmental in nature, although public agencies are often members. These other regional organizations include the Pacific Power Association, Pacific Water Association, Pacific Islands Telecommunications Association, Pacific Islands Broadcasting Association, Association of South Pacific Airlines, and South Pacific Association of Supreme Audit Institutions, among others. In addition, there are some subregional organizations in the Pacific, the most prominent of which is the Melanesian Spearhead Group.

#### **Box 4: Forum Economic Ministers Meeting**

Beginning in 1997, ministers of member countries of the Pacific Islands Forum with finance and related portfolios have met annually. Economic reforms, private sector development, and globalization are the central part of the agenda of these meetings. By 2002, FEMM had met six times and is considered a catalyst for economic reforms in the Pacific. Funding agencies, including ADB, participate in these meetings.

17. While the past experience of regional organizations in implementation of regional projects is mixed, these organizations serve as facilitators and vehicles of regional cooperation. They have strong regional linkages and possess specialized knowledge related to the region. They also contribute to capacity within the region and, in many cases, are controlled by PDMC governments or public agencies. However, capacity constraints, inadequate involvement of local experts, diffused agendas, and growth of self-serving in-groups have undermined the effectiveness of these organizations and examples of excellence are limited. A good example of regional cooperation in the Pacific is the USP (Box 5).

#### **Box 5: Regional Cooperation for Tertiary Education in the Pacific**

The University of the South Pacific (USP) was established in 1968 as a regional response to the Pacific's need to provide higher education and training for its people. It is a major institution offering tertiary education. It is jointly owned by the governments of 12 Pacific countries: Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Nauru, Niue, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu. USP is a multimodal teaching and learning institution offering both on-campus teaching as well as distance learning opportunities. The university has three major campuses at Fiji Islands, Samoa, and Vanuatu, and a USP Center in each member country. Almost half the total students throughout the member countries receive education through a distance education program extended with the help of a satellite communications network. USP offers undergraduate and postgraduate study programs covering a wide range of disciplines, and training programs for skill upgrading. It also has substantial research activities, which relate closely to the common issues of the Pacific.

## II. ASSESSMENT OF DEVELOPMENT STRATEGIES FROM A REGIONAL PERSPECTIVE

### A. Economic Goals and Performance

18. The overall development goal adopted for the current regional strategy (1997) of PIFS is sustainable economic growth leading to improvements in the quality of life for the peoples of the Pacific Islands. This broadly captures the economic goals of the individual Pacific countries. In addition, FEMM in July 2002 identified several key principles and actions that could support the attainment of the overall regional goal: good governance, broad-based consultations, socioeconomic impact assessments, improvement of business environment, greater consultation and partnership between public and private sectors, and incorporation of environmental and social issues into economic planning and budgeting processes.

19. The economic performance of the Pacific in the 1980s and early 1990s was disappointing, despite a high investment ratio supported by generous aid flows. During 1985–2001, aggregate GDP and per capita GDP of the Pacific grew at average annual rates of 2.9% and 0.7%, respectively (Table 3). Although 1990–1995 was a high-growth period, it was associated with unsustainable exploitation of natural resources. The more recent period of 1996–2001 saw worsening economic performance, with an average annual GDP growth rate of only 1.2% associated with a declining annual per capita GDP of 0.9%. The most important factors contributing to the slowdown during 1996–2001 were political instability and the declining stocks of natural resources in low-income, resource-rich countries (footnote 1). While the other two groups of countries experienced near stagnation, the higher-income countries recorded modest average economic growth above 2.2% per annum during 1996–2001, above the rate of population growth. The overall disappointing performance largely reflects country-level failures; however, regional cooperation also failed to play a major catalytic role. Apart from being affected by the general inefficiencies of the Pacific described above, the effectiveness of regional cooperation was also undermined by the inadequate focus on private sector development, weak regional institutional capacity, limited transfer of skills, and lack of genuine consensus on some issues.

**Table 3: Gross Domestic Product**

	GDP Growth, %			
	1985–1989	1990–1995	1996–2001	1985–2001
Low-Income, Resource-Rich PDMCs	2.6	6.7	0.5	3.3
Higher-Income PDMCs	0.2	2.6	2.2	1.7
Island Atoll PDMCs	6.0	3.1	0.1	2.9
<b>Pacific</b>	1.9	5.6	1.2	2.9
	Per Capita GDP Growth, %			
	1985–1989	1990–1995	1996–2001	1985–2001
Low-Income, Resource-Rich PDMCs	0.3	3.4	-2.4	0.4
Higher-Income PDMCs	-1.0	1.9	1.5	0.9
Island Atoll PDMCs	3.4	1.7	-1.4	1.1
<b>Pacific</b>	-0.1	3.1	-0.9	0.7

PDMC = Pacific developing member country.

Sources: ADB. *Asian Development Outlook 2003*; ADB. *Key Indicators 2002*; and country reports.

20. Major economic reforms were initiated in the Pacific toward the end of the 1990s, mainly triggered by fiscal difficulties. These reforms focused on fiscal discipline, downsizing government, private sector development, and strengthening governance. However, with a few



exceptions, the Pacific has achieved very limited success in these efforts. With a background of generous aid over the last three decades, the Pacific seems to have failed to address the core issues constraining productivity and socioeconomic development. Most underlying problems of the Pacific are common to all countries, with the lack of appropriate knowledge and technology a major problem. Regional cooperation has a strong role to play in addressing these common problems and providing economies of scale in efforts to build knowledge and technology for addressing country-level issues. The FEMM held in July 2002 reaffirmed the importance of regional cooperation in the Pacific to meet the challenge, and to make better use of the opportunities of globalization.

## **B. Social and Environmental Performance Assessment**

### **1. Social Performance Assessment**

21. Although the Pacific has made significant progress in human resources development (HRD) over the last three decades, most low-income, resource-rich countries fall far behind the other PDMCs. The quality of education is deteriorating in some countries, and school retention rates in rural areas and outer islands are generally low everywhere. There is a mismatch between skills and employment opportunities. Poor quality of public service delivery is a major concern in the rural areas and outer islands in most Pacific countries. Population growth<sup>9</sup> in low-income, resource-rich countries is a major challenge, given the high proportion of young people in the population. In low-income, resource-rich countries, gender discrimination is also a major concern. Another social concern in the Pacific is the increase in both non-communicable and communicable diseases, particularly HIV/AIDS (in the case of Papua New Guinea). This situation has led the main funding agencies to continue assigning a high priority and resources for HRD in country-specific as well as regional operations. ADB also supports HRD in its operations in many countries. However, ADB's support to HRD at the regional level has been limited partly to avoid overlap and duplication with other funding agencies.

22. The country-wise picture of the Pacific with respect to MDGs has been described in a recent ADB publication.<sup>10</sup> There is a wide variation in the achievement of MDGs across the Pacific. Papua New Guinea, Solomon Islands, Timor-Leste and, to a lesser extent, Vanuatu are lagging far behind in achieving most of the MDGs, and there are significant discrepancies between rural and urban areas, and the gender gap is particularly noticeable in education. These countries have generally experienced limited progress on most counts and have experienced deterioration with respect to some MDGs in the recent past. The maternal mortality ratio is alarmingly high (and deteriorating) in Papua New Guinea and Timor-Leste. While malaria and tuberculosis remain the major causes of morbidity in these countries, the incidence of HIV/AIDS is increasing rapidly in Papua New Guinea. Access to sanitation and safe drinking water has improved, but is still low. The higher-income countries—Cook Islands, Fiji Islands, Samoa, and Tonga—have almost achieved the MDGs relating to universal primary education and gender equality in primary and secondary education and in literacy rates. Despite good progress in reducing child mortality and maternal mortality ratios, further progress is required in these countries to achieve the MDGs. In terms of access to both clean water and improved sanitation, the Federated States of Micronesia lags behind others in this group. Among island atoll countries and Nauru, the highest incidence of poverty is in Kiribati, which also has low access to safe water and sanitation, and a high maternal mortality ratio. On the other hand,

<sup>9</sup> During 1990–2001, the average annual population growth rate of the Pacific, excluding Timor-Leste, was 2.7%, which was associated with growth rates of 3.2%, 0.8%, and 1.6% in low-income, resource-rich countries, higher-income countries, and island atoll countries and Nauru, respectively.

<sup>10</sup> ADB. 2003. *Millennium Development Goals: Relevance and Progress*. Manila.

many parameters related to education are relatively good in these countries. In general, across the Pacific, achievement of MDGs appear linked to economic growth and quality of public service delivery. They also reflect the availability and quality of management of natural resources. These common underlying issues offer an important agenda for regional cooperation.

## **2. Environmental Performance Assessment**

23. There is much to be done in the Pacific to improve environment and natural resources management at both the national and regional levels. There has been some improvement in community-based approaches and the areas covered by formal systems of protection. Further, ecotourism, charging of user fees, and the certification of wood and marine products are being introduced. However, this has not been sufficient to reverse the declining productivity of land, forest, coastal, and marine ecosystems. While there have been positive recent steps through landfill development (Cook Islands, Fiji Islands, Samoa, Tuvalu), waste management remains a critical challenge in many PDMCs. Efforts to remove stockpiles of hazardous wastes should be combined with the reduction of wastes at their source and encouragement of both domestic and industrial recycling. Sea-based sources of pollution are also increasing. In response to these needs, the Australian Agency for International Development (AusAID) is supporting a major waste management program in the Pacific. Another critical area for prudent management of the environment and natural resources is environmental governance. Weak environmental legal and regulatory frameworks associated with a lack of environmental legislation constrain these efforts. Progress in expanding information management and the limited use of information technology has also been slow. While the Pacific environment is fragile, there has been limited progress in the use of renewable energy. The common and critical fisheries resources suffer from weak management, resulting in diminished economic benefit to the region and doubtful long-term sustainability.

24. Even the most optimistic forecasts of future reductions in greenhouse gas emissions still leave the Pacific facing sea-level rise, changing rainfall patterns, a hotter average climate, and increasingly intense storms. With most of the region's population living in coastal areas, the development of appropriate, affordable, and cost-effective adaptation measures is urgently required. Governments are attempting to better understand and respond to climate change, but the capacity to appropriately and cost-effectively incorporate vulnerability into development patterns remains an enormous challenge. There is a need to strengthen and focus regional cooperation on selected subjects, where the benefits of collective efforts are greater. The exercise related to ADB's forthcoming Pacific Regional Environment Strategy has already identified such areas.

## **C. Resource Mobilization**

25. The financial contributions of PDMCs to regional activities have been focused on the core budgets of regional IGOs for their day-to-day operations. The funding agencies largely fund the balance of the core funds and work program budgets of these IGOs, including specific regional cooperation projects and programs. In addition to funding these regional projects, funding agencies also directly implement similar regional projects in the Pacific. Because of variation in program periods (for example, annual, 3-year, and 5-year), specific-year data are difficult to compile for regional assistance. According to data provided by PIFS, the average

annual flow of grant funds to the Pacific for regional projects has been about \$67 million.<sup>11</sup> The top two sources were Australia and New Zealand, which provided close to 60% of the total funds. These funds were applied to a wide spectrum of activities. Agriculture, forestry, and marine resources topped the list and accounted for about 17% of the total. Other prominent areas were health, education, and economic reforms and governance, each accounting for about 10% or more of the total. Private sector development and environment each received about 5% of the total. It is notable that HRD is a priority for all three main sources of funds (Australia, New Zealand, and European Commission) of regional activities in the Pacific.<sup>12</sup> The European Commission is also providing €9 million over 5 years for trade integration. The priority regional activities of the various funding agencies, which have also been considered in the formulation of this strategy, are in Appendix 2.

#### **D. ADB Assessment of the Role of Regional Cooperation in Developing Member Country Development Strategies**

26. The Pacific does not lend itself to the types of regional cooperation found elsewhere in Asia, due to the dispersed geography and low level of economic integration. At the same time, however, a well-developed institutional framework for regional cooperation exists in the Pacific. All governments in the Pacific generally support these regional organizations, although most funding is from industrial countries.

27. Regional cooperation in the Pacific appears to be driven by a vastly different set of reasons from other parts of the world. These key drivers appear to be the following: (i) the need for a collective voice in a world dominated by large countries and economic and political blocs (as buyer, seller, and a political bloc); (ii) the challenges arising from isolation; (iii) the need for economies of scale, particularly in building appropriate knowledge and technology for the specialized but common needs of the Pacific; (iv) the lack of specific skills in individual countries; (v) the sharing of knowledge and experience; and (vi) funding agencies' interest in cooperation among PDMCs due to cost and strategic considerations. While some of these are beyond the scope of the activities of multilateral organizations, it is imperative that ADB builds selectively on these existing foundations of regional cooperation in the Pacific.

28. In the Pacific, many international best practices have been accepted and applied at the country level only after their acceptance at the regional level. Often, acceptance of reforms and good practices is easier at the regional level as it generates competitive behavior among countries in terms of their international image. Regional initiatives complement the development efforts undertaken at the country level, and command a strategic importance from an external agency perspective. It is notable that most major regional organizations are substantially or fully funded by external agencies.

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<sup>11</sup> Total official development assistance (ODA) to the Pacific, including both bilateral (or country-specific) and regional funds, is much larger and the former constitutes the bulk of the total. In terms of the total, net ODA to the Pacific has been in the order of \$0.7 billion per year in the recent past, of which about three-fourths is provided by bilateral sources, including Australia, Japan, New Zealand, and US, while the remaining amount comes from multilateral agencies, including ADB, European Commission, International Monetary Fund, United Nations Development Programme, and World Bank.

<sup>12</sup> The priorities of the main funding agencies of regional activities are as follows: (i) AusAID—economic reform and governance, health, rural development and education, environment protection, and natural resource management; (ii) NZAID—education, health, environment, and law and justice; and (iii) European Development Fund (EDF)—economic integration, human resources, and fisheries.

### III. ASIAN DEVELOPMENT BANK DEVELOPMENT EXPERIENCE

#### A. Impact of Past Assistance

29. During the last 26 years (1977–2002), ADB has provided about \$22.0 million of grants for regional technical assistance (RETA) to the Pacific. There has been no loan project of a regional nature for the Pacific.<sup>13</sup> The past RETA projects were more directed toward thematic and crosscutting issues, rather than development of specific sectors, which were addressed more at the country level. About 58% of total regional assistance in the past 25 years, in terms of sector classification,<sup>14</sup> falls under the category "others," indicating lower emphasis on the development of specific sectors.

30. The impact of ADB's regional projects in the Pacific has been modest and difficult to measure. However, regional assistance served a strategic purpose and complemented ADB's country assistance programs. Many of ADB's regional assistance projects were strategically designed to disseminate international best practices, a fact which explains the emphasis on thematic and crosscutting issues. Such projects helped promote the acceptance, at the country level, of the importance of economic, governance, and public sector reforms; private sector development; and management of public finances, financial sector development, and statistical development. However, ADB assistance lacked selectivity in sector/thematic, as well as geographical, focus. The latter is critical for greater consensus and commitment. A lack of lending operations also constrained the regional cooperation efforts of ADB.

#### B. Portfolio Performance and Status

31. A major discernible change in the composition of ADB's RETAs in the last two and a half decades arose from the influence of economic, governance, and public sector reforms initiated by most Pacific countries around the mid-1990s, which led to an increased emphasis on economic and policy analysis. As of 30 June 2003, ADB had 23 ongoing RETAs in the Pacific. These related to a wide range of activities, including good governance, environmental protection, information and communications technology, poverty, private sector development, investment promotion, fisheries, civil aviation, and statistics. The status of the portfolio as of 30 June 2003 is given in Appendix 3. While there have been delays, implementation of these RETAs has not faced major difficulties.<sup>15</sup>

#### C. Conclusions and Lessons for the Regional Cooperation Strategy and Program

32. External support is one of the many factors that have shaped developments in the Pacific. Some key lessons can be drawn from the regular project reviews, project completion reports, and a recent report on reform programs in the Pacific.<sup>16</sup> The most critical issue is the sustained commitment of PDMC governments to such reform programs, particularly at the political level. Other valuable lessons include the importance of careful project design, greater

<sup>13</sup> ADB made an investment of \$3 million in 1997 from its private sector window in the Kula Fund, which is a private regional equity fund in the Pacific.

<sup>14</sup> In the past, RETAs were not classified in sector and thematic categories. The suggested classification is tentative and it has been prepared only for analytical purposes.

<sup>15</sup> The status of implementation of the country portfolios in PDMCs also provides some insight into the general problems faced in the Pacific. In 2002, contract awards and disbursements were only 45% and 51% of annual targets, respectively, largely reflecting delays in the adoption of policy and legislative measures. Shortage of counterpart funds was another common problem.

<sup>16</sup> ADB. 1999. *Reforms in the Pacific: An Assessment of ADB's Assistance for Reform Programs in the Pacific*. Manila.

focus on implementation, and attention to sustainability issues. ADB operations should be demand driven and owned by the governments. Involvement of key stakeholders is also critical for enhancing the ownership and quality of projects at the entry level. It is also important to keep local culture and limited local capacity in mind while designing specific projects. Further, the design of projects should clearly target skills transfer, which has been one of the weaknesses of ADB's past technical assistance. There should be a clear focus on outcomes and impacts, both at the design and implementation stages. Another recommendation from these studies is to maintain continuity of ADB involvement in a more programmatic way. Recent ADB operations have begun gradually to reflect these lessons, but there is still substantial scope for improvement.

#### **IV. ASIAN DEVELOPMENT BANK STRATEGY**

##### **A. Key Development Challenges**

33. From a regional perspective, the key development challenges facing the Pacific are (i) increasing productivity, (ii) reducing transaction costs, and (iii) prudently managing the environment and natural resources. These are the necessary underpinnings for sustained economic growth, achievement of the MDGs, and poverty reduction in the Pacific.

##### **1. Increasing Productivity**

34. Two key factors that explain the "Pacific paradox" of low economic growth alongside high investment are the low efficiency of public expenditure and investments, and weak private sector development. As a result, the growth of employment opportunities has been unable to keep pace with the high population growth rate, resulting in the mixed picture on MDGs, increasing poverty, and increasing social conflicts. These common underlying issues define a major agenda for regional cooperation in the Pacific.

35. Most of the governments in the Pacific generally have a poor track record of effective management of public finances, which is critical from the perspective of macroeconomic stability as well as the delivery of public services. A related aspect is the predominance of low-return public investments in the Pacific. Over the period, public investments have been channeled to low-return areas, including inefficient public enterprises. The public sector covers a wide range of commercial activities related to utilities, trade and marketing, sugar, fisheries, tourism, and finance, among others. Being the largest employer in the formal sector, the public sector has emerged as the residual employer without full productivity considerations. This defines a high reservation wage, which seriously distorts the labor markets and inhibits private sector development. Some key common issues related to public finance management are fiscal sustainability, fiscal and development frameworks, expenditure management, integrity of systems and institutions, and inefficiency of public enterprises. These are common technical and institutional issues, where regional cooperation offers opportunities through economies of scale in building appropriate region-specific knowledge and techniques, and strengthening commitment through knowledge sharing and peer learning.

36. In the Pacific, as elsewhere, a strong and dynamic private sector is vital to long-term economic growth and improved quality of life, and thus is a necessary condition for sustained poverty reduction. However, private sector development in the Pacific has been very slow, reflecting a weak policy and regulatory environment, excessive state involvement, poor governance, low enterprise and risk-taking behavior, poor financial intermediation, and the traditional land tenure system. This land system generally involves community ownership of

land, which means that land cannot be used as collateral for commercial loans. This has emerged as a major factor constraining private ventures. In its country operations, ADB is individually addressing issues related to the traditional land tenure system, keeping in view the wide differences in such systems and variations in the level of political readiness. Private sector development in the Pacific is also constrained by the difficulties in achieving economies of scale in small markets. A sustainable solution to the problem of low productivity in the Pacific lies in rapid expansion in the role of the private sector. There is also a need to strengthen the role of public-private partnerships, particularly in the provision of infrastructure and utilities. The private sector faces common problems throughout the region, which the policy and regulatory structure should address appropriately. Some of the problems in the Pacific differ significantly from the experience in most other parts of the world. Some of the standard practices have also been tried in the past but without much success. There is a need to develop appropriate knowledge and technology for the Pacific to address the underlying issues, where there have been insufficient regional efforts in the past.

## **2. Reducing Transaction Costs**

37. Transport and other transaction costs in the Pacific are high due to remoteness, geographical fragmentation and dispersion, and the small volume of transactions. As a result, exports obtain lower returns and imports cost more. The geographical dispersion within individual countries adds further to transport costs, which explains the high cost structure in these economies. This adversely affects the consumption level, business profitability, and quality of life. The costly and often unreliable transport infrastructure also reflects a predominant state involvement that crowds out the private sector and causes fiscal problems. Thus, reducing transaction costs offers part of the solution to many of the problems of the Pacific. There are opportunities for Pacific countries to cooperate in the various modes of transport, particularly air services, which is the lifeline of the region's vital tourism sector. A related but much wider issue is the need to improve connectivity in the Pacific. ICT has the potential to address this issue by neutralizing the distance and isolation factors. This is not a new area for the Pacific, as ICT-based health and education systems are already operating on a pilot basis in some countries. However, the full potential of ICT remains unrealized. Promotion of regional cooperation in these areas requires resources beyond the RETA grant assistance offered by ADB so far.

## **3. Prudently Managing the Environment and Natural Resources**

38. Economic activities in the Pacific revolve around the environment and the ocean. Almost all Pacific countries rely heavily on primary commodity production and exports, marine-based resources, and tourism. Primary commodities offer lower value than value-added products, and are often exhaustible. Apart from the direct fish catch, the Pacific benefits from marine-based resources largely from fishing license fees and the marketing of pearls. There is scope for increased revenues from these items. Other marine-based resources, such as mineral deposits, have not been exploited, but may have potential. The high tourism potential of the Pacific is rooted in its pristine environment and clean beaches. Imprudent use or management of these can erode the very basis of their appeal to tourists. Thus, a key to the prosperity of the Pacific is the rational management of its environment and natural resources, where regional cooperation can play a major role due to a convergence of interests.

## **B. Regional Cooperation Strategy and Program Strategic Thrusts**

### **1. Strategic Focus**

39. As explained earlier, the nature and scope of regional cooperation in the Pacific differ significantly from regional cooperation elsewhere. The primary emphasis of the regional cooperation strategy of ADB will be on creating those regional public goods that address the longstanding and underlying problems facing the Pacific. Because of the wide geographical dispersion, the scope for cooperation in physical investment or infrastructure at the regional level is limited. One of the most critically needed regional public goods for the Pacific is appropriate knowledge and technology related to the specialized but common needs of these countries. It is also important to build related regional institutional capacity, with a view to obtaining the benefits of economies of scale or improving skill availability in the Pacific. Accordingly, the key theme of ADB's regional cooperation strategy is to build and/or strengthen knowledge and regional institutional capacity in the following four focus areas.

40. **Public Expenditure and Investment.** ADB will support regional efforts for improving management of public expenditure and investment, which is a common need across the Pacific. ADB's regional assistance will include sharing of appropriate policies and practices based on regional and global experience in small states, and provision of technical advice.

41. **Private Sector Development.** The strategy aims to address, on a regional basis, some of the key constraints to private sector development. Based on international and local experience, ADB will support development of effective practices for improving the business environment and private sector development. The focus of ADB assistance will be on reducing the cost of doing business, and improving the legal and regulatory framework.

42. **Transport and Communications.** ADB will support the development of cost-effective and efficient transport and communications in the Pacific. In the transport sector, ADB will help PDMCs establish sound legal and regulatory frameworks, institutional development, and management of related public infrastructure. In the case of ICT, the strategy aims to improve connectivity to address a wide range of issues, including public service delivery, social inclusion, and disaster mitigation. ADB will also work with regional organizations on building appropriate policy and regulatory frameworks for ICT.

43. **Environment and Natural Resources.** The strategy will address selected aspects of environment and natural resources management that are of common concern in the Pacific. Accordingly, the strategy will cover management, sustainability, and risk mitigation issues. Among the natural resources, the strategy will focus on fisheries, given their economic importance in the Pacific.

44. In this process, ADB will support the building and strengthening of regional consensus and a local pool of expertise. In order to augment resources for regional cooperation in the Pacific, ADB will explore sources of channel financing and cofinancing available for activities consistent with ADB's strategy. This will also enhance coordination and synergy among various development partners.

### **2. Enhancing Cooperation—A Geographical Focus**

45. There is a wide variation in resource endowments, capacities, opportunities, and development constraints across the Pacific. These and the dispersed geography often define

the possibilities of economic complementarities. As a result, the areas of common interest existing among the different sets of countries vary both across the Pacific and from issue to issue. Accordingly, to ensure shared interest, ownership, and participation of recipients, the regional cooperation strategy should respond to the differences in the region by variation in emphasis and approach for different groups of countries. This approach will also ensure robust links and appropriate sequencing between regional and country-level operations, as under this approach the regional operations will have strong roots in participating countries' interests. In view of the multiple possibilities, this strategy does not prescribe any specific sets of areas for specific sets of countries. The design of projects will be fully guided by the emerging consensus among participating countries.

### **3. Operating Principles**

46. The following operating principles will guide the design and implementation of regional interventions:

(i) ADB will pursue consultation and deepen partnerships with regional organizations to enable it to benefit from the vast regional knowledge base and strong linkages established by these organizations. This collaborative approach will help avoid duplication, rationalize activity areas, generate synergy, and enhance funding agency coordination. Thus, ADB will collaborate with related regional organizations in building consensus and identifying participating countries in its regional projects. While the design and implementation of ADB's regional projects will often be based on such partnerships, in special cases, these organizations can also be involved directly in ADB project implementation.

(ii) The participation of local experts in regional activities and regional organizations has remained limited in the Pacific, which has resulted in inadequate transfer of skills to the region. Further, international consultants engaged under external agency-funded projects tend to undertake tasks themselves rather than to focus on hands-on training and transfer of skills. These weaknesses have undermined the effectiveness of regional cooperation and aid in the Pacific. ADB operations will address these weaknesses by incorporating enhanced participation and transfer of skills under the strategy. The design of ADB's regional projects will incorporate enhanced participation of local officials and experts to help develop a local/regional pool of expertise and stimulate the local consulting industry. Further, all ADB projects and activities will emphasize the transfer of skills to the extent possible.

## **V. ASIAN DEVELOPMENT BANK ASSISTANCE PROGRAM**

### **A. Overall Assistance Level**

47. The regional lending program for the Pacific for 2004-2006 comprises three regional lending projects<sup>17</sup> amounting to \$8.8 million (average about \$2.9 million per annum) to be financed from the portion of the Asian Development Fund (ADF) earmarked for regional projects. The actual ADF allocation will be guided by the requirements of the performance-based allocation policy. Ordinary capital resources (OCR) lending is also an option. In addition, there is cofinancing amounting to \$1 million in the lending program. The RETA program for 2004–2006 comprises 13 regional projects amounting to about \$4.5 million (averaging about \$1.5 million per annum) of assistance from ADB's grant TA funds. The 2004–2006 RETA

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<sup>17</sup> Each regional lending project involves more than one loan for more than one participating country.



program includes an additional amount of about \$2.0 million in grant assistance from various channel-financing agreements for bilateral and multi-agency trust funds.

## **B. Asian Development Bank Assistance for the Strategic Priorities**

48. The ADB regional program of assistance for 2004–2006 has been developed to implement the new strategy. As described in Appendix 4, the formulation of this strategy and program involved wide stakeholder consultations. While some areas have been considered as appropriate for only country-level operations, the detailed design of each regional project in the focus areas of the regional cooperation strategy and program (RCSP) will be carefully linked with national operations. The focus areas of ADB operations during this period are indicated in Table 4, which is followed by a brief description of the program. The assistance pipeline is given in Appendix 5. Detailed strategies and roadmaps for the focus areas are given in Appendix 6. However, these suffer from the weak database existing in the Pacific. These sector strategies and roadmaps are also based on extensive analysis and consultations. The concept papers for lending and non-lending projects in the 2004–2006 regional program are shown in Appendix 7 and Appendix 8, respectively.

**Table 4: Regional Cooperation Strategy and Program  
Strategic Focus Areas of ADB Operations (2004–2006)**

<b>Strategic Sectors/Thematic Areas</b>	<b>Focus Area</b>
Public expenditure and investment	<ul style="list-style-type: none"> <li>• Public financial management</li> </ul>
Private sector development	<ul style="list-style-type: none"> <li>• Secured transaction frameworks</li> <li>• Privatization and regulatory reforms</li> </ul>
Transport and communications	<ul style="list-style-type: none"> <li>• Competition, safety, and efficiency in the transport sector</li> <li>• Promoting e-governance and improved service delivery through information and communications technology</li> </ul>
Environment and natural resources	<ul style="list-style-type: none"> <li>• Adaptation to climate change/variability</li> <li>• Sound environmental management</li> <li>• Prudent management of, and revenue generation from, fisheries</li> </ul>

### **1. Public Expenditure and Investment**

49. Weak management of public finances, including imprudent capital expenditure, remains at the core of inefficiencies seen in almost all Pacific countries. Accordingly, supporting regional efforts related to the management of public finances is at the heart of ADB's strategy. In 2004–2006, ADB will focus on the improvement of public financial management by supporting the Pacific Financial Technical Assistance Centre (PFTAC), which provides an efficient and cost-effective way to extend technical support in these critical areas. PFTAC assists PDMCs in improving financial and administrative reforms through capacity building, policy advice, and practical technical assistance in public expenditure management, tax policy reform, and tax administration, among other things. The support to PFTAC is programmed for advisory TAs of \$433,000 per annum over a 3-year period (2004–2006), subject to annual review and availability of funds.

## 2. Private Sector Development

50. The strategy aims to improve the business environment and support private sector development. A major constraint facing private sector development in the Pacific is the lack of a framework for secured transactions, particularly since it is so difficult to use land as collateral for loans under the customary land tenure systems. ADB's 2004–2006 regional program will help improve the environment for secured lending based on international best practices and the specific circumstances of the Pacific. This is expected to facilitate increased lending for micro, small, and medium enterprises, and reduced borrowing interest rates, thereby reducing the cost of doing business. Another major factor constraining private sector development is the weak legal and regulatory framework. During 2004–2006, ADB will also provide assistance to address this weakness. An improved legal and regulatory framework will enhance the general business climate, reduce risks, and send important signals to potential investors. It will also support increased private sector participation in infrastructure provision. The special features of the Pacific require an innovative approach for private sector development. Accordingly, the design of ADB's assistance would aim to suitably modify international best practices to suit the needs of the Pacific. In view of its importance, ADB will closely coordinate with other funding agencies to avoid duplication and to derive full synergy in operations related to private sector development. Details on the strategy and roadmap for private sector development are given in Appendix 6.

**Table 5: Private Sector Development**

Year	Project	Modality	Amount (\$)
2004	Supporting Secured Transaction Frameworks in the Pacific	ADTA	700,000
2006	Privatization and Regulatory Frameworks in the Pacific	ADTA	600,000

ADTA = advisory technical assistance.

## 3. Transport and Communications

51. All activities and programs contributing to economic and social development and poverty reduction, including private and public finance, trade and commerce, education, and social services are significantly impacted by the price structures and competitiveness of transport markets and communications facilities. In the transport sector, ADB will support promoting (i) competition and efficiency and (ii) reduction in costs related to civil aviation safety. In the case of communications, ADB will focus on development and use of ICT to address a wide range of issues by improving connectivity and reducing transaction costs.

### a. Transport Sector

52. Most transport services in the Pacific region are delivered by the private sector. However, private sector entry and exit in these markets are impeded by the inefficiencies and deficiencies in the policy and regulatory frameworks, public management of infrastructure assets, limitations of the infrastructure, and other public procedures providing inadequate incentives and, at times, disincentives for competitive transport operations. The 2004–2006 regional program includes review and assessment of the constraints to efficient transport sector operations in the region. It will prepare a coordinated program of recommendations for reducing the entry barriers and constraints to effective and least-cost transport operations, enhancing the role of the private sector, and improving public governance.

53. Seven PDMCs (Fiji Islands, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu) founded the Pacific Aviation Safety Office (PASO) in August 2002, mainly to achieve cost effectiveness in safety-related operations based on economies of scale and shared capacity. It will provide professional aviation safety oversight services and aviation safety audits for commercial clients in the region at a lower cost by engaging regional professional staff and by being located in the region. PASO will enable a cost-effective and systematic improvement in aviation safety in the region. During 2004–2006, ADB plans to extend a regional project loan to support the capacity building of this new institution and finance the initial establishment costs of PASO.

#### **b. Information and Communications Technology**

54. Making available to developing countries the benefits of new technology, especially in ICT, is one of the MDGs. This has a greater economic significance for the Pacific than most regions, as ICT has the promise to mitigate the difficulties emanating from isolation, distance, and geographical dispersion. ADB will focus on the use of ICT for improving governance, delivery of public services, enhancing social inclusion, and improving disaster management by increasing connectivity and reducing transaction costs.

55. Delivery of public services to the outer islands and remote communities has been a challenge for the Pacific. The 2004–2006 regional program will develop a regional loan project which will improve delivery of basic services to remote communities based on the use of ICT. This will build on Pacific success stories in this area. Lack of information and transparency underlies weak governance and systemic inefficiencies in the region. Accordingly, ADB's 2004–2006 regional program includes a project preparatory RETA to develop a project for improving governance through the use of ICT. The ICT infrastructure created in this process will improve connectivity in general and be available for other transactions of the governments and people of the region. Thus, it will help reduce transaction costs in the Pacific in many other areas as well.

**Table 6: Transport and Communications**

<b>Year</b>	<b>Project</b>	<b>Modality</b>	<b>Amount (\$)</b>
2004	• Establishment of the Pacific Aviation Safety Office	Loan	1,800,000
	• Private Sector Transport Analysis	ADTA	427,000
2005	• Regional Provision of Basic Social Services to Remote Communities through ICT	Loan	3,000,000
	• Regional Strengthening of the Provision of Basic Social Services through ICT	ADTA	250,000
2006	• Regional E-Governance Project in the Pacific	PPTA	350,000

ADTA = advisory technical assistance, ICT = information and communications technology, PPTA = project preparatory technical assistance.

#### **4. Environment and Natural Resources**

56. PDMCs have a high degree of economic and cultural dependence on the natural environment, as well as vulnerability to a wide range of natural disasters and weather extremes. ADB can play an important leadership role by encouraging continued and more effective regional cooperation on topics related to environmental management, sustainability, and risk mitigation issues. Among the natural resources, ADB's strategy assigns high priority to management of fisheries, a common natural resource to all Pacific countries.

### a. Environment

57. ADB's 2004–2006 regional program will focus on environmental adaptation to climate change and variability, environmental governance, and renewable energy and energy efficiency. The vulnerability of the Pacific to climate change is high and even threatens the existence of some habitats. Though investment projects needed to adapt to the adverse impacts of climate change and variability must be implemented at the country level, this is clearly a Pacific-wide challenge. Accordingly, this is a priority in ADB's regional program, which aims to develop a regional loan project with cofinancing from GEF. Effective national and regional environmental governance is a prerequisite for sustainable development and to minimize national and transboundary environmental impacts in the Pacific. ADB's 2004–2006 regional program includes an advisory RETA project to improve environmental governance in the Pacific. Many rural communities in PDMCs lack economic and social opportunities because they do not have access to electricity or other modern forms of energy. The commercial development of renewable sources—coupled with higher efficiency of energy use—offers the potential to fill this gap without adversely affecting the Pacific environment. Since this is a common problem having serious environmental implications across the Pacific, especially in outer island settings, it has been included in ADB's program of assistance.

### b. Fisheries

58. ADB's objective for the fisheries sector is to foster its prudent management with a view to contributing to the social and economic development in the Pacific. The 2004–2006 regional program has been designed to continue the 2003 regional program, which included an advisory RETA to support improvement in the returns from licensing of foreign vessels in the Pacific. The access arrangements beyond the waters where vessels are based determine the spread of benefits among the parties to the arrangement. ADB's program will support a review of the regional arrangements governing the preferential access of purse seiners and the possibilities of including a large number of longliners. Development of the important tuna fisheries in the Pacific has faced difficulties due to various tax regimes in the region. The 2004–2006 regional program will support a review of these regimes and examine the opportunities for harmonization and development of an appropriate taxation framework for the PDMCs. A harmonized tax regime may also result in higher resource rent for the Pacific.

**Table 7: Environment and Natural Resources**

Year	Project	Modality	Amount (\$)
2004	• Adaptation to Climate Change in the Pacific	PPTA	600,000
2005	• Strengthening Environmental Governance in the Pacific	ADTA	900,000
		ADTA	300,000
2006	• Review of Regional Access Arrangements in Fisheries		
	• Adaptation to Climate Change in the Pacific	Loan	4,000,000
	• Renewable Energy Program for the Pacific Islands	ADTA	600,000
	• Development of Fisheries Taxation Regimes in Pacific Island Countries	ADTA	400,000

ADTA = advisory technical assistance, PPTA = project preparatory technical assistance.

## **C. External Funding Coordination and Partnership Arrangements**

### **1. Development Partners**

59. ADB assigns high priority to collaborating and coordinating with all development partners and stakeholders. Apart from country-specific assistance, the Pacific has benefited from a generous flow of aid for regional activities as well. Thus, the role of various funding agencies is very important from a regional perspective also. Australia and New Zealand are the top two funding sources of regional projects in the Pacific. Together with the European Development Fund,<sup>18</sup> Canada, France, Japan, and United Kingdom, they account for about 80% of total regional assistance. Other funding agencies include ADB, Food and Agriculture Organization of the United Nations, and the United Nations Development Programme. Other stakeholders in the development of the Pacific include the elaborate network of regional organizations, the private sector, and civil society.

### **2. Consultation and Coordination Mechanisms**

60. ADB uses both formal and informal platforms for consultation and coordination with these development partners and stakeholders. Australia (through AusAID)/ADB high-level consultations are held annually. Periodically, trilateral meetings of ADB, AusAID, and World Bank are also held. Further, there are country-specific consultative group meetings, which offer opportunities for major funding agencies to meet and discuss various issues, including regional-level coordination. In addition, ADB generally participates in other agency meetings that are held from time to time. In general, ADB missions also coordinate closely with representatives of key funding agencies and visit their offices in Australia and New Zealand. In conjunction with its assistance program, ADB will continue to actively pursue cofinancing from official sources to address the important priorities for ADB operations in the Pacific. ADB will maintain its dialogue with PDMC governments and regional organizations to identify appropriate cofinancing for the projects. ADB will closely coordinate with all development partners and stakeholders during the project preparatory phase to avoid duplication and generate synergy. It will also make efforts to establish proper sequencing and complementarities between its own and other funding agencies' operations in areas of shared concern.

61. In the past, ADB has liaised closely with IGOs or regional organizations associated with CROP through participation at various meetings and regular mission visits of staff. ADB will continue to pursue collaboration and partnership with regional organizations in the Pacific. It will also assign high priority to consultations with the private sector. A key lesson from past experience is to keep the local culture and the need for civil society participation in mind in designing specific projects for the Pacific. There is no formal structure of interaction with the private sector and civil society. However, ADB makes substantial efforts to consult them closely through workshops, regular mission visits, and use of alternative channels such as the Kula Fund and the Foreign Investment Advisory Service. ADB missions also coordinate closely with the key NGOs in the Pacific. The opening in 2003 of a new resident mission in Papua New Guinea and offices in Suva and Sydney in 2004 will boost the consultation and coordination activities of ADB.

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<sup>18</sup> The European Development Fund covers cooperation with African, Caribbean, and Pacific countries under the Cotonou agreement, which covers 14 Pacific countries.

## **D. Indicative Internal Resource Requirements**

62. The regional work program for 2004–2006 consists of processing 3 loans and 13 RETA projects, out of which 2 are project preparatory TAs. In addition, there would be programming work associated with the preparation of a regional cooperation strategy and program update (RCSPU) in each of the 3 years. The indicative staff requirement for the same is about 9.8 professional staff years over the 3-year period, or an average of about 3.3 professional staff years per annum, which is within the staff resource level earmarked for regional work in the Pacific Department in the recent past. The remainder of the earmarked resources is planned to be devoted to policy dialogue, participation in regional events, funding agency coordination, and consultations with private sector and civil society organizations.

## **VI. RISKS AND PERFORMANCE MONITORING AND EVALUATION**

### **A. Risks**

63. The strategic emphasis on building and/or strengthening knowledge and institutions responds to the underlying needs and enjoys a broad consensus in the Pacific. Thus, the level of risk faced by this RCSP is considered to be manageable. The main risks to the strategy and program emerge from the possibility of weakening of Pacific governments' commitment to reform in the focus areas of this strategy, policy reversals, lack of consensus, lack of experience with regional lending products, and presence of self-serving "in-groups" in regional organizations.

64. These risks are reduced partly due to some mitigative aspects of the process of ADB operations in the Pacific. ADB has been a main funding agency supporting reforms in most countries in the Pacific since the mid-1990s, thus, a constituency for reforms already exists. Further, ADB continues to support reforms in the focus areas through its country operations in many countries, which can reinforce regional efforts. These mitigate significantly the risks related to government commitment. ADB operations place great emphasis on collaborating and coordinating with development partners and all stakeholders. ADB has also been actively participating in multi-agency efforts in countries facing political instability and external shocks, which has helped policy stability and build consensus for reforms. This strategy emphasizes such collaboration and coordination with development partners and all stakeholders, which will further strengthen policy stability and consensus for reforms in the relevant sectors. There are some mitigative measures inbuilt within the strategy itself. The risk arising from lack of consensus is mitigated by an approach to respond to the differences by variation in emphasis and approach for different groups of countries. Thus, selection and development of specific projects will be strongly guided by the level of economic complementarities and mutual benefit among the participating countries. ADB will also draw upon a wider range of regional networks, bringing in more NGOs, women, small businesses, diaspora communities, and other alternative stakeholders. It is proposed to further address the various risks through appropriate mitigative measures taken during development, design, and implementation of specific projects.

### **B. Monitoring Process and Plan**

65. The sector/thematic strategy and roadmaps (Appendix 6) indicate parameters for monitoring of progress in the respective areas. Further, ADB procedures require the design of projects to include measurable output and outcome indicators. These provide the basic foundation for monitoring of implementation of this strategy. The overall monitoring of implementation and impact will also rely on regional reports, macro data, and relevant

evaluation of Pacific performance by other development partners and the regional organizations. Apart from the direct and objective data, the monitoring process will also take into account qualitative information and indirect indicators. Another critical element of monitoring will be the feedback received from the authorities and political leadership of PDMCs.

66. The process of monitoring and evaluation will use all formal and informal sources of information. First, the implementation of each project will involve periodic progress reports. Second, there are regular reports published by regional organizations, governments in the Pacific, and other development partners. Third, ADB resident missions and regular missions will monitor and evaluate progress on a regular basis. Last, ADB will also use all major meetings such as FEMM and PDMC governors' meetings to assess the impact of the strategy and program implementation.

## REGIONAL ECONOMIC, POVERTY/SOCIAL, AND ENVIRONMENT INDICATORS

Table A1.1: Regional Economic Indicators<sup>a</sup>

Item	1998	1999	2000	2001	2002
A. Income and Growth					
1. GDP per capita (\$, current)	918	876	828	737	720
2. GDP growth (\$, in constant prices)	-0.8	5.1	-0.5	0.4	-0.1
Agriculture (% share to total GDP) <sup>b</sup>	26.6	25.0	26.9	25.6	26.1
Industry (% share to total GDP)	30.8	29.5	28.9	30.3	29.3
Services (% share to total GDP)	42.6	45.5	44.2	44.2	44.6
B. Savings and Investment (current market prices)					
1. Gross domestic investment (% of GDP)	—	—	—	—	—
2. Gross domestic savings (% of GDP)	—	—	—	—	—
C. Inflation <sup>c</sup>					
1. Consumer price index (annual % change) <sup>d</sup>	9.8	9.4	9.1	6.9	7.1
D. Balance of Payments <sup>e</sup>					
1. Merchandise trade balance (% of GDP)	0.4	2.4	3.5	-3.7	-4.4
2. Current account balance (% of GDP)	0.9	1.3	3.9	2.8	-1.9
3. Merchandise export (\$ growth (annual % change)	-14.2	9.8	-0.6	-12.6	-9.7
4. Merchandise import (\$ growth (annual % change)	-19.7	4.6	-3.2	3.6	-5.8
E. External Payment Indicators					
1. Gross official reserves (\$ million, end of period) <sup>f</sup>	1,134	1,227	1,277	949	849
2. External debt (in US\$ million)	2,193	2,252	2,267	2,292	1,975
3. External debt service (% of GDP)	31.2	33.4	34.6	37.9	32.4
F. Memorandum Items					
1. GDP (current prices, US\$ million)	7,023	6,750	6,555	6,056	6,088
2. Population (millions)	7.67	7.72	7.93	8.23	8.47

— = not available, GDP = gross domestic product.

Note: The Pacific developing member countries comprise Cook Islands, Kiribati, Fiji Islands, the Federated States of Micronesia (FSM), Nauru, Papua New Guinea (PNG), Marshall Islands (RMI), Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

<sup>a</sup> Economic data for Cook Islands, Nauru, Timor-Leste, and Tonga are reported on a fiscal year that ends in June. FSM and RMI report data on a fiscal year that ends in September. Kiribati, PNG, Solomon Islands, and Vanuatu report data on a fiscal year that ends December. Real GDP growth, inflation rate, and the current account as a % of GDP for the entire region were weighted by gross national income, using the World Bank's Atlas aggregation method. Shares of agriculture, industry, and services sectors to GDP for the region were weighted by nominal GDP in US\$.

<sup>b</sup> Economic data (except population data) for Nauru are not available, thus regional economic data were drawn excluding Nauru.

<sup>c</sup> The real inflation rate does not include Timor-Leste. Timor-Leste's inflation rate in 1998 and 1998 was 80% and 140%, respectively.

<sup>d</sup> Period average.

<sup>e</sup> No gross international reserves for FSM and RMI; no data available for Timor-Leste and Tuvalu.

<sup>f</sup> Exports and imports are recorded in free on board (FOB) values, except for Cook Islands, PNG, and Samoa, where exports are recorded as FOB and imports as cost, insurance, and freight (CIF). Data sources for Kiribati and Timor-Leste do not report whether CIF or FOB had been used.

Sources: ADB. *Asian Development Outlook 2003*. Manila; ADB. *Key Indicators 2002*. Manila; and country sources.



**Table A1.2: Regional Poverty and Social Indicators**

Item	Period	
	1998	2000
<b>A. Population Indicators</b>		
1. Total Population ('000)	7,665	7,931
2. Annual Population Growth Rate (%)	2.7	2.7
<b>B. Social Indicators</b>		
1. Maternal Mortality Rate (per 100,000 live births) <sup>a</sup>	253.1	—
2. Infant Mortality Rate (below 1 yr/1,000 live births) <sup>b</sup>	41.9	32.7
3. Life Expectancy at Birth (years)	57.6	59.8
4. Adult Literacy (%) <sup>c</sup>	57.3	65.5
5. Population with Access to Health Services <sup>d</sup>	94.0	—
6. Population with Access to Sanitation (%) <sup>d</sup>	36.9	—

— = not available; GDP = gross domestic product.

Note: Regional figures for population growth rate, life expectancy at birth, adult literacy rate, population with access to health services, and population with access to sanitation are weighted averages of country figures using country population figure as weights.

<sup>a</sup> 2000 figure does not include Federated States of Micronesia (FSM) and Samoa in computation; 1998 figure does not include Marshall Islands (RMI) and Timor-Leste (TIM) in computation.

<sup>b</sup> 2000 figure does not include, FSM, RMI, TIM, and Tuvalu in computation.

<sup>c</sup> 2000 figure does not include FSM, TIM, and island atolls group in computation.

<sup>d</sup> 1998 figure does not include TIM in computation.

Baseline data sources: ADB. *ADB Key Indicators 2001 and 2002*; ADB. *Basic Statistics of DMCs including MDGs* (May 2002); United Nations Development Programme. *Human Development Report 2001 and 2002*; UNDP. *Pacific Human Development Report (1999)*; and WHO. *Western Pacific Region Health Data Bank* (2001).

Table A1.3: Regional Environmental Indicators

Item	PDMC						
	Cook Islands	Timor-Leste	Fiji Islands	FSM	Kiribati	Nauru	PNG
<b>1. Air Pollution</b>							
Carbon Dioxide (CO <sub>2</sub> ) Emissions							
Total (millions of metric tons)	—	—	0.8(1996)	—	0(1998)	—	2.4(1996)
<b>2. Land Use and Deforestation</b>							
Total Land Area (sq. km)	240	14,874(2001)	18,270(2000)	702(1999)	717	21(1999)	462,840(2000)
Average Annual Deforestation							
Area (remaining sq. km)	—	—	8,150(2000)	—	280(2000)	—	306(2000)
% change <sup>a</sup>	—	—	0.2(2000)	—	0(2000)	—	0.4(1990-95)
Arable Land (% of total land)	—	—	—	—	—	—	—
Cropland, Permanent (% of total land)	—	—	4.7(1998)	—	50.7(1998)	—	1.3(1998)
Pastures, Permanent (% of total land)	—	—	—	—	—	—	—
Population Density, Rural (people per sq. km)	—	—	207(1998)	—	—	—	6,260(1998)
<b>3. Biodiversity and Protected Areas</b>							
Nationally Protected Area(s)							
Area (sq. km)	3.6(1998)	—	456.6(1998)	106.3(1998)	587(1998)	0(1998)	15.566(1998)
Number	5(1998)	—	23(1998)	16(1998)	12(1998)	0(1998)	45(1998)
Mammal Species							
Total Known	—	—	4(1998)	—	—	—	214(1998)
Threatened	—	—	4(1998)	—	0(1998)	—	57(1998)
Bird Species							
Total Known	—	—	74(1998)	—	—	—	644(1998)
Threatened	—	—	9(1998)	—	0(1998)	—	31(1998)
<b>4. Urban Areas</b>							
Urban Population							
% of total population	59(1996)	24(2001)	47.8(1998)	29.7(2000)	37.3(2000)	—	17.4(2000)

Item	PDMC					
	RMI	Samoa	Solomon Islands	Tonga	Tuvalu	Vanuatu
<b>1. Air Pollution</b>						
Carbon Dioxide (CO <sub>2</sub> ) Emissions						
Total (millions of metric tons)	—	0.1(1996)	0.2(1996)	0.1(1998)	—	0.1(1996)
<b>2. Land Use and Deforestation</b>						
Total Land Area (sq. km)	181.3(1999)	2,820.00	28,370.00(1999)	699	25.9	12,190.00(1999)
Average Annual Deforestation						
Area (remaining sq. km)	—	1,050.00(2000)	—	40(2000)	—	4,470.00(2000)
% change <sup>a</sup>	—	2.1(2000)	0.2(2000)	0(2000)	—	-0.1(2000)
Arable Land (% of total land)	—	—	—	—	—	—
Cropland, Permanent (% of total land)	—	23.7(1998)	0.6(1998)	43.1(1998)	—	7.4(1998)
Pastures, Permanent (% of total land)	—	—	—	—	—	—
Population Density, Rural (people per sq. km)	—	241(1998)	787(1998)	367(1998)	—	478(1998)
<b>3. Biodiversity and Protected Areas</b>						
Nationally Protected Area(s)						
Area (sq. km)	11.3(1998)	114.8(1998)	199(1998)	47.1(1998)	8(1998)	34.7(1998)
Number	1(1998)	7(1998)	12(1998)	11(1998)	1(1998)	8(1998)
Mammal Species						
Total Known	—	3(1998)	53(1998)	—	—	12(1998)
Threatened	—	2(1998)	20(1998)	0(1998)	—	3(1998)
Bird Species						
Total Known	—	40(1998)	163(1998)	0(1998)	—	76(1998)
Threatened	—	6(1998)	18(1998)	0(1998)	—	6(1998)
<b>4. Urban Areas</b>						
Urban Population						
% of total population	70.7(1998)	21.5	19.7(2000)	36.9(1998)	—	20(2000)

— = no data available, FSM = Federated States of Micronesia, PNG = Papua New Guinea, RMI = Marshall Islands.

<sup>a</sup> A positive number indicates a loss of forest area, a negative number a gain.

Sources: Central Intelligence Agency. *The World Factbook— Country Profiles* (2001); Secretariat of the Pacific Community. *Pacific Island Populations Data Sheet* (1997); South Pacific Regional Environment Programme (SPREP). *Action Strategy for Nature Conservation in the Pacific Islands Region* (1999-2002); SPREP/ADB. *Country National Environmental Management Strategy 1993*; SPREP/ADB. *Country State of the Environment Report 1993*; World Bank. World Development Indicators database (April 2002); World Bank. *The Little Green Data Book* (2000); UNDP. *Human Development Reports 2000 and 2001*; South Pacific Applied Geoscience Commission, *Country Profiles* (1999); New Zealand Overseas Development Assistance, *East Timor Country Paper* (August 2001).

## REGIONAL ORGANIZATIONS AND EXTERNAL ASSISTANCE

**Table A2.1: Pacific Intergovernmental Regional Organizations**

Pacific Intergovernmental Organization	Mission	Structure and Purpose
Forum Fisheries Agency (FFA)	To enable member countries to manage, conserve, and use the tuna resources in their exclusive economic zones and beyond, through enhancing national capacity and strengthening regional solidarity.	The FFA has 16 Pacific island member countries. The secretariat of FFA with about 50 staff is located in Honiara, Solomon Islands. FFA extends policy advisory services to its membership on the sustainable management and development of tuna resources in the western and central Pacific Ocean. Its services include marketing, monitoring and surveillance, management of multilateral treaties, and capacity building in member countries.
Pacific Islands Development Program (PIDP)	To provide top-quality, personalized education in international development policy to mid-career professionals, and to make recognized contributions to global knowledge and practice of international social, political, and economic development.	PIDP is based at the East-West Center in Hawaii and was established in 1980 as a forum of interested countries, funding agencies, NGOs, and the private sector for discussion on critical issues of development. PIDP has 5 major activity areas: (i) Secretariat to the Pacific Islands Conference of Leaders, (ii) research, (iii) education and training, (iv) Pacific Islands News, and (v) the US-Pacific Island Nations Joint Commercial Commission Secretariat. PIDP also serves as a vehicle of interaction of Pacific countries with private industry.
Pacific Islands Forum Secretariat (PIFS)	In support of a vision for a sustainable, prosperous, and secure Pacific, the PIFS has as its mission "to provide policy options to the Pacific Islands Forum, and to promote Forum decisions, and regional and international cooperation."	Located in Suva, Fiji Islands, the PIFS is the administrative arm of the Pacific Islands Forum and the chair of the Council of Regional Organisations in the Pacific (CROP). Its programs and activities support, or implement, decisions by the Forum leaders. The main area of its activities includes promoting regional cooperation through trade, investment, economic development, and political and international affairs.

Pacific Intergovernmental Organization	Mission	Structure and Purpose
		PIFS implements a work program for cooperation among member states in 3 main areas: (i) development and economic policy, (ii) political and international affairs, and (iii) trade and investment.
South Pacific Applied Geoscience Commission (SOPAC)	To contribute to sustainable development, reduce poverty, and enhance resilience for the people of the Pacific by supporting the development of natural resources, in particular, non-living resources; investigating natural systems and the reduction of vulnerability, through applied environmental geosciences, appropriate technologies, knowledge management, technical and policy advice, human resources development, and advocacy of Pacific issues.	SOPAC is located in Suva, Fiji Islands and has 16 Pacific island countries and territories plus Australia and New Zealand as members. Its primary responsibilities include sustainable development, poverty reduction, and enhancing resilience of the people of the Pacific. SOPAC focuses on development of natural resources, particularly non-living resources. Its activities include investigating natural systems and reducing vulnerability using applied environmental geosciences. In the process, SOPAC builds appropriate knowledge and technologies, extends technical and policy advice, and supports human resources development. SOPAC's key program areas are: (i) ocean and islands, (ii) community risks, (iii) community lifelines, and (iv) corporate support.
Secretariat of the Pacific Community (SPC)	To develop the technical, professional, scientific, research, planning, and management capability of Pacific island people to enable them to make informed decisions about their future development and well-being.	Located in Noumea, New Caledonia, and Suva, Fiji Islands, SPC was established in 1947. SPC was previously called the South Pacific Commission. It is a regional technical development agency for selected areas. There are 3 major divisions within SPC, which deal with: (i) land resources, (ii) marine resources, and (iii) social resources. SPC supports decision making in its member countries by extending a variety of services including information, advice, scientific and technical data, and training. SPC also works to build technical, professional, scientific, research, planning, and management capability in its member countries.

Pacific Intergovernmental Organization	Mission	Structure and Purpose
South Pacific Regional Environment Programme (SPREP)	To promote cooperation in the South Pacific region and to provide assistance in order to protect and improve its environment and to ensure sustainable development for present and future generations.	SPREP is located in Apia, Samoa. The activities of SPREP focus on (i) capacity building for planning and managing national environmental programs, (ii) promoting regional cooperation with transboundary or global-level issues, and (iii) awareness generation. SPREP works in partnership with its members, NGOs, intergovernmental organizations (IGOs), regional and international development partners, local communities, and the private sector. It also assists Pacific island members to put their concerns on the agenda of the various regional and international forums dealing with the environment and sustainable development. Key result areas of SPREP are: (i) natural conservation, (ii) pollution prevention, (iii) climate change and variability, (iv) economic development, and (v) processes and interventions.
South Pacific Tourism Organisation (SPTO)	To strengthen regional cooperation in sustainable tourism business development with due regard for the preservation of traditional cultures and the environment, so as to enhance the socioeconomic development and well-being of the peoples of the South Pacific.	SPTO was formerly known as Tourism Council of the South Pacific. It was established in the mid-1980s and is located in Suva, Fiji Islands. The main purpose of SPTO is to facilitate joint promotion of tourism in the Pacific. Its objectives include (i) strengthening regional cooperation in tourism development; (ii) optimizing the contribution of tourism to the sustainable development of the region; (iii) stimulating international awareness of the region and promoting tourism to the region; (iv) enhancing the human, economic, natural, and other resources of the region; and (v) increasing creative capacities and promoting cultural identities within the region. There are four major divisions within SPTO dealing with marketing, research, human resources development, and finance and administration.

Pacific Intergovernmental Organization	Mission	Structure and Purpose
University of the South Pacific (USP)	The objects of the University shall be the maintenance, advancement, and dissemination of knowledge by teaching, consultancy, and research and otherwise, and the provision at appropriate levels of education and training responsive to the well-being and needs of the communities of the South Pacific.	USP is headquartered in Suva, Fiji Islands and was established in 1968. It is the main institution extending tertiary education in the Pacific. Other activities of USP include training and research. The governments of 12 Pacific island countries jointly own USP, which is a multi-modal teaching and learning institution providing innovative, cost-effective, relevant, and internationally recognized education and training. It offers flexible learning and teaching facilities and has three campuses in the region.
South Pacific Board for Educational Assessment (SPBEA)	The SPBEA promotes self-reliance among member countries in the area of educational assessment and encourages them to keep abreast with current developments in the area of educational assessment.	The SPBEA extends assistance to its member countries to develop their own assessment procedures toward national and/or regional educational certificates by providing training, assistance in development of assessment procedures and moderation of assessment instruments, approving prescriptions for and providing examination papers, and organizing and administering regional examinations.
Fiji School of Medicine	To provide appropriate training to produce a health worker who can provide the necessary services to cope with the perceived needs of the Pacific community.	The Fiji School of Medicine was established more than 100 years ago and is located in Suva, Fiji Islands. The school has become an intergovernmental organization associated with CROP only recently. Its courses and curriculum have undergone several changes. Its medical training program offers both diploma and degree courses. Since 1997, further refinement of the MBBS course resulted in a vertically integrated 6-year program maintaining the principles of problem-based learning. The school provides training in a number of health-related specializations. It also promotes regional cooperation in this field of medical and health science disciplines including dentistry,

Pacific Intergovernmental Organization	Mission	Structure and Purpose
		pharmacy, physiotherapy, radiography, laboratory technology, dietetics, and environmental health.

Note: The Council of Regional Organisations in the Pacific (CROP) comprises heads of 10 Pacific intergovernmental organizations. CROP is a high-level advisory body established to improve cooperation and coordination among the various regional intergovernmental organizations.

Source: Secretariat of the Pacific Community. 2002. *Regional Organizations of the Pacific: Working Together*, and official web sites of the various organizations.



**Table A2.2: Priority Areas of Main Donors Supporting Regional Activities in the Pacific**

<b>Funding Agency</b>	<b>Priority Areas for Regional Activities</b>
AusAID	<ul style="list-style-type: none"> <li>• Education and training</li> <li>• Health</li> <li>• Environmental protection &amp; natural resource management</li> <li>• Economic reform</li> <li>• Governance</li> <li>• HIV/AIDS</li> <li>• Domestic violence</li> </ul>
Canada	<ul style="list-style-type: none"> <li>• Marine resources</li> <li>• Environment</li> </ul>
Department for International Development (DFID)	<ul style="list-style-type: none"> <li>• Education</li> <li>• Rights and good governance</li> </ul>
European Commission	<ul style="list-style-type: none"> <li>• Regional economic integration</li> <li>• Human resource development</li> <li>• Fisheries</li> </ul>
Food and Agriculture Organization (FAO)	<ul style="list-style-type: none"> <li>• Agriculture and forestry</li> </ul>
France	<ul style="list-style-type: none"> <li>• Education</li> <li>• Health</li> <li>• Energy</li> <li>• Industry and trade</li> </ul>
Japan	<ul style="list-style-type: none"> <li>• Remote education for human resource development and technology transfer</li> </ul>
NZAID	<ul style="list-style-type: none"> <li>• Health</li> <li>• Education</li> <li>• Law and justice</li> <li>• Environment</li> </ul>
United Nations Development Programme (UNDP)	<ul style="list-style-type: none"> <li>• Governance</li> <li>• Human rights</li> <li>• Gender</li> <li>• Sustainable livelihoods</li> <li>• HIV/AIDS</li> <li>• ICT</li> </ul>
World Bank	<ul style="list-style-type: none"> <li>• Private sector development</li> <li>• Regional economic and sector studies</li> <li>• Catastrophe risk management</li> <li>• Commodity price risk management</li> <li>• Adaptation to climate change</li> <li>• Trade liberalization</li> <li>• Globalization</li> </ul>

Source: Official documents and web sites.

**PORTFOLIO STATUS**  
(as of 30 June 2003)

TA No.	TA Name	TA Objective	Amount (\$)	Approval Date	Completion Date	Implementation Status
5853	Financial Sector Study in Selected PDMCs	(1) To assess the state of financial sector development in selected PDMCs. (2) To formulate a strategy for the sustainable development of sound financial systems, taking into account the specific characteristics of the PDMCs.	660,000	9 August 1999	30 June 2002	Deliverables completed. TCR circulated on 31 March 2003.
5891	South Pacific Project Facility II	To stimulate productive private sector investment and business activities by enhancing the provision of business and technical advice to private sector entrepreneurs and businesses.	300,000	23 December 1999	31 December 2002	TA completed/ TCR circulated on 19 June 2003.
5896	Strengthening the Live Reef Fish Trade (LRFT) Management in the Pacific DMCs	To help PDMCs establish sound policies, strategies, and management policies for the LRFT, and to strengthen regional PDMC cooperation on sustainable management of live reef fish resources.	215,000	28 December 1999	30 November 2002	Submission of reports ongoing.
5907	Poverty Assessment in PDMCs	(1) To prepare poverty assessments for each of the 12 PDMCs, using existing data, and consulting with government, the private sector, and civil society (2) To assist the governments of Solomon Islands and Vanuatu in their efforts to generate and analyze data for poverty profiling.	400,000	28 March 2000	30 June 2003	Poverty assessments completed for each PDMC. Database of social and poverty indicators for PDMCs being updated.
5908	Pacific Governance and Public Sector Management	To build capacities of senior government officials (including parliamentarians) to manage and support the reform processes in PDMCs and East Timor.	300,000	31 March 2000	31 December 2002	Services completed. TA financially closed. TCR circulated for interdepartmental comments.

TA No.	TA Name	TA Objective	Amount (\$)	Approval Date	Completion Date	Implementation Status
5913	Capacity Building to Promote Traditional Environment	To help PDMCs to sustainably use their natural resources by promoting the use of traditional environmental management practices, knowledge, and values.	300,000	10 May 2000	30 April 2003	Services commenced.
5928	Cooperative Airspace Management Study in the Pacific Region	(1) To prepare a detailed feasibility analysis of options for provision of upper airspace navigation services using a Communications Navigation Surveillance/Air Traffic Management system (2) To evaluate the distribution of costs and benefits to the PDMCs, and impacts on economic development and growth.	350,000	25 August 2000	30 June 2003	Ongoing.
5963	Private Sector Development in the Pacific	To assist the private sector and the governments to address major impediments to private sector development as a means of creating greater employment and faster economic growth in the region.	350,000	15 December 2000	31 December 2002	Ongoing. TA closing extended due to delay in commencement of other activities.
5990	Information and Communications Technology Assessment in the Pacific	To help PDMC governments assess their ICT readiness, prepare the framework for future development in the sector, and identify bankable projects for such.	300,000	18 July 2001	15 April 2003	Reports submitted. Publication of "ICT Assessment in the Pacific" being prepared.
5998	Youth- and Gender-Sensitivity Public Expenditure Management in the Pacific	To improve public expenditure management by integrating a gender and youth perspective into governments' budget policies.	50,000	24 September 2001	31 August 2003	Ongoing.
6002	Consultative Workshops for Poverty Reduction Strategies in Selected PDMCs	(1) To initiate a broad-based poverty consultation process involving representatives from the government, civil society (including nongovernment organizations [NGOs]), the	300,000	11 October 2001	31 March 2003	Almost completed. Reports submitted. Mop-up operations underway.

TA No.	TA Name	TA Objective	Amount (\$)	Approval Date	Completion Date	Implementation Status
6009	Capacity Building and Regional Cooperation for Economic Statistics in Selected PDMCs	private sector, and the community. (2) To formulate country-owned poverty reduction strategies. To upgrade the capacity of concerned agencies to prepare a minimum set of economic statistics, particularly the key economic indicators, in selected PDMCs and support regional cooperation for the same.	500,000	13 December 2001	31 March 2004	Team Leader extended services in different countries as per work program. A regional workshop was also organized in Fiji. A survey specialist was engaged.
6031	Promotion of Effective Water Management (Kiribati and East Timor components)	To start the Program to promote effective water management policies and practices at regional, subregional, and country levels and thereby catalyze the implementation of ADB's water policy in the Asia and Pacific region, including within ADB itself.		26 April 2002	31 July 2003	Ongoing. Inception Report submitted by consulting firm.
6037	Private Sector Development (PSD) Strategy for the Pacific	To help develop a coherent ADB regional strategy for PSD that will support the development of a strong and dynamic private sector, which can contribute to long-term, sustainable economic growth and sustained poverty reduction in PDMCs.	300,000	24 June 2002	30 June 2003	Ongoing. Excellent progress so far.
6039	Formulation of the Pacific Region Environmental Strategy (PRES) 2004–2008	To produce a strong and well-articulated regional environmental strategy that will review major environmental challenges in the region and clearly formulate the strategic objectives and activities for ADB's assistance for 2004–2008.	400,000	26 June 2002	30 June 2003	Implementation 75% completed. Finalization of the PRES ongoing, with need to extend TA closing date to 31 December 2003.
6047	Preparation of National Poverty Reduction Strategies in PDMCs	To increase the impact of national development interventions in PDMCs in favor of Pacific peoples who are disadvantaged, vulnerable, in the lowest income brackets, and	500,000	6 September 2002	30 September 2003	Ongoing. Services just started on the Fiji Islands.

TA No.	TA Name	TA Objective	Amount (\$)	Approval Date	Completion Date	Implementation Status
6049	Pacific Financial Technical Assistance Centre (PFTAC) 2002	might otherwise be considered relatively poor. To ensure that PFTAC will continue to provide assistance to PDMCs so as to strengthen and improve their economic and financial management capacities.	433,000	12 September 2002	31 December 2002	TCR circulated on 28 March 2003.
6061	Pacific Fund for Strategic Poverty Analysis	To establish the feasibility of creating a Pacific Fund for Strategic Poverty Analysis that will provide for more effective and efficient international assistance to the region for institutional capacity building and the analysis and dissemination of poverty data.	50,000	31 October 2002	30 April 2003	Ongoing.
6064	Climate Change Adaptation	To mainstream "adaptation through risk reduction," on a pilot basis, in development planning and management in selected PDMCs and ADB operations.	800,000	8 November 2002	31 January 2004	International consultant and domestic consultant have already been recruited. Selection of consulting firm for implementation of country components now underway.
6065	Assessing Community Perspectives on Governance in the Pacific	(1) To examine, through collaboration with a Pacific regional nongovernment organization, the role of citizens and leaders in a democracy, differences between traditional and modern forms of governance, and strategies to bridge the identified gaps. (2) To raise awareness of the potential impact of governance on the citizens' daily lives.	200,000	15 November 2002	30 June 2003	Letter of invitation sent and proposals awaited. Inception and interim reports received. Draft report being prepared by Foundation of the Peoples of South Pacific International.
6085	Fostering Demand for Good Governance	(1) To disseminate the findings and conclusions of the country governance assessment work undertaken by ADB, generate shared understanding of governance challenges facing PDMCs, enhance the	490,000		30 June 2004	Governance seminar to PDMC ministers and senior public officials completed in June 2003. Regional Governance Workshop will be held 29-31 July in Fiji Islands.

TA No.	TA Name	TA Objective	Amount (\$)	Approval Date	Completion Date	Implementation Status
		commitment of all stakeholders to a governance improvement agenda, and explain the rationale for ADB's strategy to enhance governance in the Pacific and its application in each PDMC. (2) To provide an opportunity for each PDMC to examine its own governance systems and practices, take stock of the lessons learned for the region and individual countries, and develop its own governance improvement strategy.				
6102	Renewable Energy and Energy Efficiency Program for the Pacific	To help create an environment that will enable the development of a market-based rural energy sector, in which mature renewable energy efficiency applications play a key and increasing role.	600,000	28 April 2003	31 May 2005	Shortlisting completed on 20 June 2003. Invitation for submission of financial and technical proposals sent.
6107	Preparing a Pro-Poor Subregional E-Government Project for Providing Basic Service Delivery to Remote Communities in the Pacific	To contribute to economic growth and poverty reduction in remote and poor communities in the Pacific while fostering regional cooperation and governance. It will assist PDMCs in assessing their e-government demand and implementation capacity, mainly with reference to basic social service delivery to remote and disadvantaged communities.	290,000	23 May 2003	31 December 2004	Contract negotiations awaited. Consulting Services currently processing the request for TA individual consultant for Economist/Rural Development Expert.

ADB = Asian Development Bank, ICT = information and communications technology, PDMC = Pacific developing member country, TA = technical assistance, TCR = technical assistance completion report.

## PROCESSES OF REGIONAL COOPERATION STRATEGY AND PROGRAM PREPARATION

1. Preparations for the Regional Cooperation Strategy and Program (RCSP) 2004–2006 were initiated following the adoption of the new business processes for the reorganized Asian Development Bank (ADB), which reemphasize the strategic importance of regional cooperation. Formation of the regional cooperation committee and its initial work guided the process. Prior to this RCSP 2004–2006, a status paper describing ADB's regional program in the Pacific was prepared in 2002.
2. Being the first strategy covering regional operations in the Pacific, the initial work relied strongly on study and analysis of the significant amount of regional economic, thematic, and sector work (ETSW) done in the Pacific,<sup>1</sup> and extensive discussions within the Pacific Department. The extensive ETSW in the Pacific provided in-depth understanding and a good starting point. It also provided a sound information base for the discussions within and outside the Pacific Department. In addition, it saved time and resources that would have otherwise gone in conducting these studies. This was followed by consultations with governments and other stakeholders.
3. Extensive consultations were held with government authorities from very early stages of the preparation of the RCSP. These consultations continued, using various possible modes and platforms throughout the process, and helped identify national interests in regional cooperation as well as the priority areas. Consultations were also held with representatives of civil society and the private sector. Consultations with the former helped discern some cultural and local factors relevant to the new strategy and program, while those with the latter provided insight into the underlying issues constraining private sector development in the Pacific.
4. The Pacific has an extensive framework of regional organizations, mainly defined by the intergovernmental organizations (IGOs) associated with the Council of Regional Organisations in the Pacific (CROP). These organizations serve as strong vehicles of regional cooperation and possess specialized knowledge related to the region. Extensive consultations were held with these organizations. These consultations and use of their knowledge banks enriched the preparation of the RCSP.
5. The preparation of the RCSP also took into account the regional priorities of other development partners of the Pacific. The program profile of the Australian Agency for International Development (AusAID)—a major funding agency for regional activities—covering 2002/03 was also being finalized around the initial stages of RCSP preparation. The New Zealand Agency for International Development 2002/03 program was also finalized not long before. The regional strategy paper and regional indicative program for the period 2002–2007 of the European Commission (EC), which is another major funding source for the Pacific, was finalized near the end of 2002. These helped ADB prepare its strategy with a clear perspective.

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<sup>1</sup> These include (i) *Human Resource Development: Small Island Countries*, (ii) *Sociocultural Issues and Economic Development in the Pacific Islands* (Volumes I and II), (iii) *The Pacific's Tuna: The Challenge of Investing in Growth*, (iv) *A Different Kind of Voyage: Reforms in the Pacific*, (v) *Improving Growth Prospects in the Pacific*, (vi) *Reforms in the Pacific: An Assessment of ADB's Assistance for Reform Programs in the Pacific*, (vii) *Pursuing Economic Reform in the Pacific*, (viii) *Financial Sector Development in Pacific Islands Economies*, (ix) *The Contribution of Fisheries to the Economies of Pacific Island Countries*, (x) *Poverty: Is it an Issue in the Pacific?*, and (xi) *Indigenous Peoples, Ethnic Minorities and Poverty Reduction*. Except for the last two, all these studies have been published under ADB's "Pacific Studies Series".

6.      The draft RCSP 2004–2006 was also discussed in a meeting held on 10 June 2003 during the Forum Economic Ministers Meeting (FEMM) in Majuro, Republic of Marshall Islands. This helped strengthen ownership and commitment of governments in the Pacific at high political levels.



**ASSISTANCE PIPELINE**  
**Table A5.1: Assistance Pipeline for Lending Products, 2004-2006**

Sector/Project Name	Poverty Classification	Thematic Priority	Division	Year of PPTA	Total	Project Cost Finance (in \$ million)			
						OCR	ADB ADF	Total	Govt Cofinancing (Others)
<b>2004 Firm Loan</b>									
<b>Transport and Communications</b>									
Establishment of the Pacific Aviation Safety Office			PAHQ	—	3.0		1.8	1.8	1.2
<b>Subtotal</b>					<b>3.0</b>		<b>1.8</b>	<b>1.8</b>	<b>1.2</b>
<b>2005 Firm Loan</b>									
<b>Transport and Communications</b>									
Regional Provision of Basic Social Services to Remote Communities through ICT			PAHQ	2003	4.0		3.0	3.0	1.0
<b>Subtotal</b>					<b>4.0</b>		<b>3.0</b>	<b>3.0</b>	<b>1.0</b>
<b>2005 Standby Loan</b>									
<b>Environment</b>									
Adaptation to Climate Change in the Pacific			PAHQ	2004	6.5		4.0	4.0	1.5
<b>Subtotal</b>					<b>6.5</b>		<b>4.0</b>	<b>4.0</b>	<b>1.5</b>
<b>2006 Firm Loan</b>									
<b>Environment</b>									
Adaptation to Climate Change in the Pacific			PAHQ	2004	6.5		4.0	4.0	1.5
<b>Subtotal</b>					<b>6.5</b>		<b>4.0</b>	<b>4.0</b>	<b>1.5</b>
<b>Grand Total</b>					<b>13.5</b>		<b>8.8</b>	<b>8.8</b>	<b>3.7</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, Govt = Government, ICT = information and communication technology, OCR = ordinary capital resources, OTH = others, PAHQ = Pacific Operations Division, PPTA = project preparatory technical assistance.

Source: Asian Development Bank estimates.

Table A5.2: Assistance Pipeline for Nonlending Product and Services, 2004-2006

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				
			ADB		Others		Total
			Source	(US\$'000)	Source	(US\$'000)	(US\$'000)
<b>2004</b>							
<b>Private Sector</b>							
1. Supporting Secured Transaction Frameworks in the Pacific	PAHQ	AD	tbd	700.0	—	—	700.0
<b>Transport and Communications</b>							
2. Private Sector Transport Analysis	PAHQ	AD	—	—	tbd	427.0	427.0
<b>Environment</b>							
3. Adaptation to Climate Change in the Pacific	PAHQ	PP	tbd	300.0	tbd	300.0	600.0
<b>Others</b>							
4. Pacific Financial Technical Assistance Centre	PAHQ	AD	tbd	433.0	—	—	433.0
<b>Total</b>				<b>1,433.0</b>		<b>727.0</b>	<b>2,160.0</b>
<b>2005</b>							
<b>Transport and Communications</b>							
1. Regional Strengthening of the Provision of Basic Social Services through ICT	PAHQ	AD	tbd	250.0	—	—	250.0
<b>Environment</b>							
2. Strengthening Environmental Governance in the Pacific	PAHQ	AD	tbd	650.0	tbd	250.0	900.0
3. Review of Regional Access Arrangements in Fisheries	PAHQ	AD	tbd	300.0	—	—	300.0
<b>Others</b>							
4. Pacific Financial Technical Assistance Centre	PAHQ	AD	tbd	433.0	—	—	433.0
<b>Total</b>				<b>1,633.0</b>		<b>250.0</b>	<b>1,883.0</b>

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				
			ADB		Others		Total
			Source	(US\$'000)	Source	(US\$'000)	(US\$'000)
2006							
Private Sector							
1. Privatization and Regulatory Frameworks in the Pacific	PAHQ	AD	tbd	600.0	—	—	600.0
Transport and Communications							
2. Regional E-Governance Project in the Pacific	PAHQ	PP	tbd	350.0	—	—	350.0
Environment							
3. Renewable Energy Program for the Pacific Islands	PAHQ	AD	—	—	DCF	600.0	600.0
4. Development of Fisheries Taxation Regimes in Pacific Island Countries	PAHQ	AD	—	—	tbd	400.0	400.0
Others							
5. Pacific Financial Technical Assistance Centre	PAHQ	AD	tbd	433.0	—	—	433.0
Total				1,383.0		1,000.0	2,383.0

— = not available, ADTA = advisory technical assistance, ADB = Asian Development Bank, DCF = ADB-Danish Cooperation Fund for Renewable Energy and Energy Efficiency in Rural Areas, GEF = Global Environment Facility, ICT = information and communication technology, JSF = Japan Special Fund, PAHQ = Pacific Operations Division, PPTA = project preparatory technical assistance, TASF = Technical Assistance Special Fund, tbd = to be determined.

Source: Asian Development Bank estimates.

## SECTOR/THEMATIC STRATEGIES AND ROADMAPS

### A. Private Sector Roadmap for the Pacific

#### 1. Overview

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 thus is a necessary 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. At the same time, the private sector's unique ability to develop new ideas and absorb knowledge is indispensable to the process of technology generation and diffusion. The private sector also has an important role to play in providing infrastructure facilities and services, 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 number of factors, both natural and introduced, constrain business activity in the Pacific developing member countries (PDMCs). Natural constraints common to most of them include remoteness and internal geographical dispersion, economic exposure and susceptibility to natural disasters, narrow resource bases, small domestic markets and, to some extent, sociocultural factors. 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. Moreover, it is often argued that traditional and cultural patterns and attitudes negatively affect the role of entrepreneurship and development of private sector initiatives and activities. Because of their special but common features, private sector development (PSD) in the Pacific countries needs an innovative approach.

3. While support for PSD is an integral part of the poverty reduction strategy and of *A Pacific Strategy for the New Millennium* of the Asian Development Bank (ADB), a more holistic and consistent approach is indispensable to address the root causes that underlie the so far relatively poor progress in terms of PSD in the Pacific. The Pacific Department of ADB (PARD) is in the process of analyzing and systematically addressing the PSD-related challenges and constraints faced by PDMCs. ADB has completed private sector assessments for 4 PDMCs as well as at the regional level. A regional PSD strategy for the Pacific is being developed, which will provide the analytical basis for a regional PSD roadmap to be finalized by 2004. A PSD roadmap for the Pacific is in Table A6.1

#### 2. Issues and Challenges

4. **High Costs.** The natural constraints add to the cost of doing business. For instance, remoteness from foreign suppliers adds to the unit cost of inputs, and the small size of markets prevents economies of scale and results in distribution channels and wholesale operations with monopolistic market power that push up costs. While these factors may present problems to businesses in the Pacific region, companies in small economies elsewhere have successfully managed to overcome these obstacles. In the Pacific region, however, the effects of isolation and size tend to be exacerbated 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, and a

pervasive state presence in business that results in the crowding out of the private sector. It is difficult to escape the costs associated with remoteness or small size, but the regulation of business to minimize monopolies, carefully regulate monopolistic elements of business that cannot be made contestable, and having offshore regulators to avoid regulatory capture are all within the control of PDMC governments. In these areas, PDMCs need to introduce international best practice, suitably adapted to the special needs and environments of PDMCs, to provide an environment conducive to private sector development.

5. **Finance.** The financial sectors in 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 are that banking services do not reach beyond main urban areas, commercial banks have little outreach to low-income households, credit to indigenous entrepreneurs is extremely 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 microfinance programs are beginning to emerge but are still in their infancy in most countries.

6. The underdevelopment of the financial sector in PDMCs is connected to two important and related elements. First, is the lack of secured transaction frameworks. Lending only occurs where it is possible for the banks to obtain collateral on loans and the system for using property as security—particularly chattels—is cumbersome, expensive, and often not available at all. The essential feature of secured transactions is granting priority to a lender in collecting against some property of the borrower along with a legal system that permits the secured party to recover and sell the property in a timely way. Second is the customary land system. The system of customary land ownership presents particular challenges to lenders hoping to secure loans against property. With few exceptions, land and leases on land are not regarded as adequate security by financial markets. Moreover, since most PDMC constitutions prohibit the transfer of land to foreigners, banks with foreign ownerships are effectively barred from using land as security. To develop the financial market and mobilize capital, it will be necessary to better define land rights, probably through formalizing leasehold so that land becomes usable as collateral. In some countries in the region, such as Marshall Islands and Samoa, reforms in these areas are starting but in most they have not yet begun.

7. In addition to legal reforms to strengthen the secured transactions framework, credit information is a useful adjunct for lowering the cost of borrowing by providing records of payment history. However, so far there is no credit bureau in any of the PDMCs, although recently the Fiji Islands and Samoa have been facilitating related reform activities, in both cases in close cooperation with the private sector. It is also important that governments continue reforms to liberalize financial markets, with the long-term aim to effectively channel funds from savers to investors in order to promote economic development and poverty alleviation. Microfinance institutions are emerging in most of the countries in the Pacific but, to a large extent, so far do not conform to international best practices and their long-term viability is questionable. Commercialization of microfinance should be encouraged to develop a competitive and sustainable microfinance industry.

8. **Government Participation.** Most PDMC economies are dominated by the public sector, with the ratio of government expenditure to GDP estimated to be at nearly 35% region-wide and, in the case of smaller PDMCs even up to 100% (versus less than 14% for other developing countries). State-owned enterprises (SOEs) are engaged in a wide range of economic activities in most of the relevant sectors, including those that are usually undertaken by the private sector in larger developed economies. At the same time, most PDMCs have weak regulatory regimes

in place, which are often heavily politicized. As a result, performance levels are relatively low and SOEs tend to crowd out private investment. The situation has also created an inertia, exacerbating the hesitance to change. Privatization is generally slow and hampered by political interference, poor understanding of the concept of, and benefits from, privatization, and often, difficulties with property rights. The presence of the state can be likened to a tax on development. Even a smaller state can retain ownership of resources but contract out management through competitive bidding to the private sector, thereby gaining efficiency. An improved regulatory regime that allows for competition and the rapid adoption of technical change, combined with the sale of government-owned commercial businesses, would greatly lower costs and decrease the size of the state. While reform in this area is urgently needed, the special characteristics of PDMCs require a prudent and sensible, staged approach toward privatization. The intensity and scope of privatization, the sequencing of adequate supporting policies and regulatory frameworks, and awareness of decision makers and the general public are all important parameters to consider.

9. **Public Goods.** The state is 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. Paradoxically, in the Pacific region, governments often are not doing what they should do, and are doing what they should not do—a primary contributing factor to the prevailing low rates of return on capital.

10. **Transport and Communications.** One of the consequences of small size and remoteness experienced by all PDMCs is the cost of transportation, both surface and air. Unit costs are high because of distance from international markets, and small volumes often create a monopoly position for freight carriers and airlines. In addition, low volumes of interisland traffic within a country, but also intraregionally,<sup>1</sup> make road transportation and coastal shipping costly. High transport costs are equivalent to a tax on exports, imports, and locally traded products. They raise the cost of doing business and are costs that must be overcome if island economies are to effectively compete with others. State-owned airlines and coastal shipping are areas that should be opened up to some form of private sector participation. Poorly run ports and airports, with monopoly rights, further contribute to the cost of transport. Likewise, the development and application of adequate information and communications technology to decrease the costs for business is matter of priority. Virtual connectedness to the rest of the world would help to overcome the physical separation of the island nations.

11. **Natural Resources.** Pacific island countries are heavily dependent on natural resources for their livelihood and are likely to remain so for some time. This makes resource management a critical issue for their economic development. Some are rich in minerals and forest and all have fishery resources. Some countries manage their natural resources well and in a sustainable way, while others are less careful. Most countries face issues concerning the distribution of rents from those resources—issues related to property rights and the land issue. Often, central governments are sidestepped in deals between landowners and foreign investors. For the effective and sustainable management of natural resources, property rights must be established such that competition meets the normal condition that the marginal benefit of resource extraction equals the opportunity cost of the activity. Second, the rents from extraction, which represent a payment for the depletion of capital, need to be invested in an alternative form of capital so that the aggregate stock of capital of the community or country is maintained.

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<sup>1</sup> Intraregional trade in the Pacific is estimated to be only about 5% of total trade.

Despite the existing large policy and institutional gaps, the conditions can be met by committed governments, and ADB should encourage such reforms.

12. **Investment climate.** Critical characteristics of a good investment climate include sound macroeconomic management; trade and investment policies that promote openness, productivity, and growth; property rights; predictability of enforcement; ease of company formation; corporate governance; the availability of flexible collateral mechanisms to support access to credit; and reliable insolvency systems to minimize lender risk and encourage the rehabilitation of viable firms in financial difficulty. Laws and legal institutions play a vital role in the functioning of financial markets and the efficient intermediation of capital flows and domestic savings. Competition and, where necessary, regulation are essential to channel private initiative in socially desired directions. Overall, enhancing the environment for investment is about sound public policies for the private sector including, importantly, efficiently operating supporting institutions.

13. However, many elements of these characteristics are missing in PDMCs. Common complaints of business people include government policy uncertainty, red tape and bureaucracy, unfavorable general economic climate, government regulations, lack of skilled labor, land issues, lack of adequate infrastructure, and utility costs and reliability. Sometimes targeted industries and subsidies distort business decisions and have long-term negative effects on efficiency, profitability, and growth of the private sector.

14. Foreign investment is a controversial subject in PDMCs, as some foreign investors have been accused and found guilty of exploiting workers and damaging the environment, corrupting officials, and making exorbitant profits. Yet as the experience of other countries and regions demonstrate, foreign direct investment (FDI)—with its transfer of funds, technical and organizational skills, best practices, and market access—stimulates rapid growth in income for most members of society. The extent to which foreign investment can help or harm the poor depends very much on the enabling environment provided by governments. Companies investing abroad largely follow the environmental, social, and governance practices of the destination country, hence PDMCs maximize the beneficial impacts of FDI when they have a good operating framework for business.

### 3. External Assistance

15. Most other lenders and bilateral agencies support reform and capacity building in various areas impacting the improvement of the enabling environment for PSD. Australia and New Zealand have been providing marketing assistance, especially in view of promoting bilateral business flows. The European Investment Bank has been funding selective direct loans and investments to projects in support of local development banks, tourism projects, and infrastructure projects. The multiagency-funded South Pacific Project Facility assists local small and medium enterprises in project preparation and fund mobilization assistance. The Foreign Investment Advisory Service, a joint service of the International Finance Corporation and the World Bank, assists PDMCs to improve their foreign investment environment. The multiagency-supported Kula Fund is a venture capital fund targeting investments of US\$200,000 and above. ADB is in close coordination with the World Bank, which is considering national and regional initiatives to support regulatory frameworks in the Pacific.

#### **4. Asian Development Bank Regional Strategy**

16. The Pacific strategy for the new millennium,<sup>2</sup> approved in 2000, as well as the previous ADB strategy for the Pacific, has emphasized support for PSD as a priority area of development for the Pacific. Generally, as a major funding agency in the Pacific, ADB has been involved in almost all sectors and areas that impact on the enhancement of the enabling business environment. However, despite the resources that ADB, along with other development agencies, has directed to defining appropriate policy and institutional settings, and establishing an environment conducive to PSD, PDMC response has generally been slow. One reason may be that, so far, these interventions have not been carried out under a consistent, holistic policy and institutional framework for PSD. Another may be that, so far, many interventions have not addressed the underlying issues that impede PSD, especially those related to an effective institutional and governance framework. A regional PSD strategy, which will identify and address these issues, is being developed by PARD and will be finalized in 2003. In the interim, ADB's regional operations will focus on (i) supporting secured transaction frameworks and (ii) promoting privatization and legal and regulatory reforms.

#### **5. Performance Monitoring**

17. Medium- and long-term sector performance can be gauged through ratios indicating achievements in privatization and SOE reform, commercial bank credit provision to the private sector, domestic and foreign investment, formal employment, and increases in revenues from exports and tourism relative to imports.

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<sup>2</sup> ADB. 2000. *Pacific Strategy for the New Millennium*. Manila.



**Table A6.1: Private Sector Development Roadmap for the Pacific**

		Indicators	
		Current	10 Years
<b>1. Thematic Outcomes/Impact</b>			
(i) Reduced ratio of government expenditure to GDP (%)		34.7	tbd
(ii) Reduced ratio of government to private sector employment		—	tbd
(iii) Improved reliability and prices of public services		Poor	Improved
(iv) Increased commercial bank credit to the private sector		—	tbd
(v) Increased ratio of gross domestic investment to GDP (%)		14.5	tbd
(vi) Increased foreign direct investment in nominal terms (\$ million)		162	tbd
(vii) Increased ratio of revenue from exports and tourism to imports		—	tbd
(viii) Increased formal employment		—	tbd
<b>2. Thematic Outputs</b>			
(i) Number of SOEs involved in commercial activities reduced		High	Low
(ii) Regulatory frameworks improved and effective regulatory authorities established		Insufficient	Established/ improved
(iii) Secured transaction frameworks, including access to secure land title, improved		Insufficient	Established/ improved
(iv) Investment approval processes streamlined		Poor	Streamlined
(v) Business-related laws and enforcement improved		Insufficient	Improved
(vi) Per unit transportation costs (air and surface) reduced		High	Lower
(vii) Per unit communication costs (telephone and internet) reduced		High	Lower
(viii) Participation of the private sector in PSD-related policy decision making enhanced		Insufficient	Increased
(ix) Worker skills improved		Inadequate	Improved
(x) Labor market linkages between wages, productivity and skills improved		Inadequate	Improved
<b>3. Thematic Issues/ Constraints</b>	(i) Cost disadvantages in terms of remoteness, dispersion and market size. (ii) Weak PSD-supporting institutions, including laws, legal institutions, predictability of law enforcement, property rights, regulatory environment, and good governance. (iii) Undeveloped financial markets, including lack of secured transactions framework and access to secure land title. (iv) Cumbersome, nontransparent, and expensive business registration and investment approval processes. (v) Unreliable and expensive infrastructure. (vi) Weak provision of public goods on one hand, state interference in commercial activities on the other. (vii) Low productivity of work force and labor market inefficiencies.		

— = not available, PSD =private sector development, tbd = to be determined.

## **B. Information and Communication Technology (ICT)**

### **1. Overview**

18. One of the Millennium Development Goals (MDGs) is making available to developing member countries the benefits of new technologies, especially in information and communications technology (ICT). While some of the PDMCs' main islands and capitals are relatively well connected to the Internet either via submarine cables or satellite, this does not, however, extend to the majority of other towns and smaller islands, which often use radio and telephone for voice communication, or completely lack communications facilities. Data infrastructure in the Pacific is still not developed, given the distances and the very low population density of certain areas, which is often unable to offset the cost of setting up and maintaining data communications infrastructure.

19. PDMCs have recognized the importance of ICT and how it may help them reduce the transaction cost and ease poverty and hardship in the region. In fact, poverty in the Pacific is not about lack of food. It is mainly the lack of access to basic services such as health and education that are highly information-based. Service delivery can dramatically improve if ICT improves people's ability to obtain information and promotes a two-way flow of communication.

### **2. Issues and Challenges**

20. **Improving the ICT Policy and Regulatory Framework.** PDMCs are very diverse in terms of geography, natural resources endowment, culture, and human capacity. Thus, there cannot be a one-size-fits-all ICT strategy and program. However, where several countries may adopt common ICT programs in specific areas, they may benefit from the larger market that may be developed because of this synchronization or alignment among their activities and priorities. In the area of regulation for example, especially for smaller countries, they may band together or they may ask for the regulatory services of another country to assist them in this function, instead of doing it on their own. E-awareness raising campaigns can also benefit from economies of scale, if organized at regional level.

21. The coordinated management of the radio spectrum in the region may reduce the aggregate cost of operating a radio spectrum agency and would allow expertise to be concentrated in one organizational unit. Furthermore, in principle, the coordinated use of radio spectrum across several countries may result in more efficient utilization of scarce radio resources.<sup>3</sup> Frequency and time division multiple access could also represent low-cost appropriate technologies that overcome the barriers of distance. The training of government policy makers and the public on ICT (telecom) policy and the possible alignment of regulatory policies may result in a bigger market and lower costs. The expected outcome is a region where people, business people using ICT or in the ICT business, ICT technical support personnel, and visitors (such as tourists) can roam across the region and use ICT equipment, technologies, and services with similar specifications. The region will also benefit because of increased economic activity.

22. **Improving Access to Health and Education Services.** The provision of health and education services to PDMCs is extremely expensive. Significant savings and economies of scale can be achieved from expanded ICT development. The region is already employing

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<sup>3</sup> The efficiency increase may be restricted in the Pacific region due to the low intensity of usage and the dispersed locations of island nations.

distance learning through the University of South Pacific (USP) education network and is expanding it further. USP's latest development is the HealthNet project that provides a technological training program for health professionals in the region. With the experience gained in providing education and training services through ICT, the region may benefit further by expanding this capability to other schools on remote islands and for other school levels, and include in-service teacher training.

23. The region may also expand these services by improving the logistics for medicines and health care provisioning, especially for the remote islands and villages through ICT. The countries may benefit from a common program, through the sharing of content development as well as project information during the development and implementation stages, thus reducing risk and lowering costs. Training is a major issue. Training costs for everyone, including training for government policy makers, technology costs, and maintenance and support costs may also decrease because of the larger volume. Developing common programs or projects will cost less, and sharing lessons learned or increasing the amount of project information available will also lower costs because of reduced risk.

24. **Increasing Government Service Delivery, Accountability, and Transparency (e-Governance).** ICT has dramatically reduced the cost of collecting, storing, retrieving, and distributing information. The scope for increasing transparency, accountability, and participation cannot be overestimated. Several PDMCs may benefit by utilizing common e-governance systems among themselves. Instead of each country "reinventing the wheel" for each design and implementation of an e-government facility or service, they can benefit from the earlier experience of another country and speed up the provision of services to their citizens. Though the system will still have to adapt to local needs, most of the costs that will cover definition and development may have common features and therefore lower the costs involved.

25. There are, for example, e-commerce and e-procurement web sites that may be used at very low cost. In fact, there may even be a market for an e-government system to be run by a private company, or from one country, to provide services to another country.<sup>4</sup> Many, if not most, companies now acquire off-the-shelf software systems instead of making custom-built systems. This applies in both the public and private sectors and for both basic and complex computerized systems, e.g., e-microfinance to increase efficiency, accountability, and transparency. This direction is due to the common knowledge that customized software is definitely more expensive, and that office processes are converging to what may be called a global standard operating procedure in areas such as transaction types, transaction routing, and approvals, such that system reviews and audits will almost always push the organization toward system design that embodies "generally accepted principles".

26. **Improving Social Inclusion.** Bringing ICT to people goes beyond the provision of infrastructure. The provision of hardware has to be complemented with equity in access to information. Unless it is planned well, the introduction of ICT with its rapid technological advancements will leave women, poor, disabled, indigenous, and rural people further disadvantaged. Fortunately, the introduction of ICT itself allows new tools or systems to bridge the gap. Countries and their citizens in this sector may benefit from a common program or project that will address this need; sharing information on social inclusion programs will reduce risk. Such programs may be done in close coordination and in conjunction with all the five action

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<sup>4</sup> Call centers and other Internet business and transaction sites indicate that back-office processing is no different from the services to be provided by an e-government facility.

programs in the ICT roadmap (Table A6.2), so that inclusion programs will not be separate or standalone activities.

27. PDMCs are often at a disadvantage in terms of being able to take advantage of bulk pricing for commercial software and developing in-house expertise in software applications. One alternative would be the regional cultivation of "open source" software. Such software refers to applications and operating systems whose source codes are open for other parties to review, comment, refine, and add to (GNU/Linux and SuSE are examples). Anyone can take the source code, understand how it works, and use it with few restrictions. Users do not pay high proprietary software fees and most open source software is available for free. It would represent an opportunity to adopt cheaper software and solutions toward bridging the digital divide, as well as providing an alternative to purchasing expensive software and applications from monopolies.

28. **Reducing the Negative Effects of Natural Disasters.** Natural disasters wreak havoc on PDMCs. Instead of passively accepting this condition, PDMCs may want to cooperate and coordinate ICT development to improve their capability in reducing damage to lives and property, improve the capability to disseminate timely information to all concerned, and to improve the capability to provide assistance during times of emergency. The region may benefit by developing common programs, common guidelines or standards, a common infrastructure for data collection and management, and a common information infrastructure for disaster tracking, monitoring, and emergency alerts and emergency response.

### 3. External Assistance

29. **ADB Assistance.** ADB is assisting PDMCs to increase their awareness of the benefits that ICT could bring, and to facilitate regional cooperation as well as government-to-government (G2G) and government-to-donor (G2D) communications. It is also assisting, through lending and nonlending products, individual governments in the government-to-citizen (G2C) and government to business (G2B) areas, while increasing service delivery, accountability, and transparency.

30. In particular, the regional technical assistance (TA)<sup>5</sup> for ICT assessment in the Pacific is assisting PDMCs to (i) self-assess their ICT readiness, (ii) increase awareness of ICT importance, (iii) discuss best practices and lessons learned, and (iv) identify assistance needed to increase ICT effectively and equitability. Through this regional TA, several possible assistance projects, at the national and regional levels, were identified and discussed. Among them is a regional project for assisting USP to expand the reach of distance learning in the Pacific, which is expected to be submitted for ADB Management consideration in 2003.

31. **Other External Assistance.** Other external assistance to ICT development in PDMCs has come from a large number of funding agencies, institutions, and regional organizations. Among bilateral sources of funds, Australia, Japan, New Zealand, and the United States (US) are the most significant; among the multilateral and regional organizations, the Pacific Islands Forum Secretariat (PIFS), the International Communication Union (ITU), the United Nations Development Programme (UNDP), the South Pacific Applied Geoscience Commission (SOPAC), and the World Health Organization (WHO) are all involved.

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<sup>5</sup> ADB. 2001. *Technical Assistance for Information and Communications Technology Assessment in the Pacific*. Manila.

32. In particular, at regional level, ITU, PIFS, and UNDP are assisting PDMCs in improving the policy and regulatory framework. The governments of Australia, Japan, New Zealand, and US are assisting in the regional provision of telehealth and distance learning. The Pacific Disaster Center (PDC), SOPAC, and the South Pacific Regional Environmental Programme (SPREP) are assisting the region in disaster prevention and mitigation.

#### 4. Asian Development Bank Regional Strategy

33. The ADB Pacific strategy states that ADB will work with Pacific countries in using ICT to overcome constraints due to small size, isolation, and distance to markets. The regional TA for ICT assessment in the Pacific has identified and discussed several possible assistance projects. ADB has also identified the need to consider and involve critical elements such as the overall policy environment, operational and financial sustainability, human resources capacity, and appropriate technology.

34. Ensuring the sustainability of ICT initiatives beyond external financial intervention is critical. To be successful, projects at any level must be justified by a clear model demonstrating the benefits of establishing an information system and basing its ongoing operating costs on either potential revenue-generating activities within the community or the country, or on an increase in service provider efficiency, service delivery, and cost effectiveness. ADB strives to include sustainability mechanisms from the early TA stage to ensure continuity beyond initial financial support. Below are some of the possible roles ICT may have in the region.

35. **Policy and Regulatory Framework.** ADB will continue to work together with regional organizations in helping establish policy and regulatory frameworks to advance the growth of ICT infrastructure and to assist PDMCs refine their ICT directions that will help improve poverty reduction programs in the region. In fact, the ICT policy and strategic plan developed by the region states the general direction that individual countries may adopt. Possibly, over time, a *standard* work process will emerge and PDMCs will start using the same "transaction" and "services" platforms, thus, allowing cross-fertilization and economies of scale. This overall direction will need assistance in planning and defining capacity development, and assistance in project management.

36. **Health and Education Services.** As part of the continuing direction of ADB in supporting the improvement of basic social services in the region, ADB will seek out regional programs or projects that expand or improve on existing projects that already have a measure of sustainability and grassroots acceptance in the target areas such as the USP and Fiji School of Medicine. In particular, ADB is planning to assist the USPNet in improving the reliability and capacity of its external dialup system.

37. **Government Capabilities in Providing Services.** ADB will continue to foster cost effectiveness of government processing that eventually results in improved service delivery to their citizens. The proposed regional TA project to strengthen the provision of basic social services aims at increasing the delivery capacity of the government as well as transparency, accountability, and participation. Several countries may benefit by utilizing common e-government systems. Though the system will still have to adapt to local needs, most of the costs that will cover definition and development may have common design features and therefore lower the costs involved.

38. **Social Inclusion.** ADB endeavors to ensure that all its programs and projects are socially inclusive, in an attempt to negate any possible adverse effects of rapid ICT

development in the region. This will imply pro-poor connectivity options and web applications that work asynchronously, allowing substantial savings and affordability. The proposed regional TA projects for the provision of basic social services aims to empower the poor and disadvantaged to share the benefits of ICT. ADB will work with all stakeholders in developing ICT projects that can be sustained not only financially but provide knowledge value. The development of open source software solutions, particularly for government, would allow for easier replication of e-government service modules and standardization of approach at an affordable cost.

39. **Disaster Mitigation.** ADB will work with PDC, SOPAC, and SPREP to increase disaster awareness and mitigation. In particular, the proposed provision of basic social services in remote communities aims at providing awareness, early warning, monitoring, and mitigation also to the *last mile*, through information that can be easily conveyed and understood.

## **5. Performance Monitoring**

40. Medium-term performance will be monitored in the following areas: (i) access to e-government services, (ii) cost of accessing ICT, (iii) teledensity, (iv) ICT penetration in schools and computer literacy, and (v) distance learning and telehealth facilities and applications.

**Table A6.2: Information and Communications Technology Roadmap for the Pacific**

		Indicators	
		Current	5 Years
<b>1. Sector Outcomes/Impacts</b>			
(i)	Villagers can readily access government services within two hours' walk	5%	30%
(ii)	Children in primary schools with computer and Internet access	0.2%	10%
(iii)	Teachers with in-service training thru ICT	0.1%	10%
(iv)	Trained health workers, % of population	0.01%	0.1%
<b>2. Sector Outputs</b>			
(i)	All PDMCs Six stages of e-government	Stage 1,2	Stage 5,6
(ii)	Internet access cost for 20 hours per month	\$15 to \$110	\$10 to \$30
(iii)	Students attending distance learning courses	—	tbd
(iv)	Telecom bandwidth to PDMCs, per capita	0.01 kbps	1.0 kbps
(v)	Teledensity: no. of lines per 100 inhabitants	10	30
(vi)	No. of Internet service providers (ISP)	20	40
(vii)	Citizen's Internet access to gov't services, e.g., inquiries, cost per hour of Internet access	\$1.00	\$0.05
<b>3. Sector Issues/Constraints</b>	(i) PDMCs could benefit from ICT direction setting (ii) Inadequate ICT policy and regulatory framework (iii) Weak capacity at regional level (iv) Large distances and small population (v) High cost of international communications		

— = not available, ICT = information and communications technology, kbps = kilobit per second, PDMC = Pacific developing member country, tbd = to be determined.

## C. Environment and Natural Resources Management

### 1. Overview

41. The Pacific region is characterized by small land-masses dispersed over the world's largest ocean. There is a high degree of terrestrial and marine ecosystem and species diversity and an extraordinary level of endemism. PDMCs have a high degree of economic and cultural dependence on the natural environment as well as vulnerability to a wide range of natural disasters and weather extremes. PDMCs vary greatly in their physical and economic characteristics as well as their resource endowments. They possess a wide diversity of cultures and languages, traditional practices, and customs that define a close relationship between their peoples and their environments. Despite this diversity, however, they share some common characteristics that pose a threat to their fragile environment, such as geographical isolation, high rate of species extinction, limited land resources, rapid population growth, heavy dependence on marine resources, and vulnerability to natural disasters and to external and global shocks and changes. These threats must be addressed, and the capacities of the local governments and sector agencies to manage their resources must be strengthened. Similarly, the strong participation of civil society in natural resources protection and environmental conservation must be engaged. Otherwise, the destruction of the Pacific environment and its natural resources will continue unabated.

### 2. Issues and Challenges

42. **Natural Resources Conservation.** The natural resources upon which Pacific economies are so heavily dependent are under increasing pressure from rapid population growth, habitat destruction from logging and unsustainable agriculture, overharvesting of fish and wildlife resources, as well as the encroachment of invasive species. While the application of promising community-based approaches to conservation is increasing and the area covered by formal systems of protected areas is expanding, this has not been sufficient to reverse the declining productivity of land, forest, coastal, and marine ecosystems. Better understanding of how to mainstream traditional environmental management practices can increasingly play a role in developing culturally appropriate responses. Ecotourism, the charging of user fees, and the certification of wood and marine products are being gradually introduced to improve the financial sustainability of policies and programs and to adequately address key natural resources management problems.

43. **Waste Management and Pollution.** Pollution from sources on both land and sea continues to threaten public health, as well as the viability of Pacific ecosystems. While there have been positive recent steps through landfill development (Cook Islands, Fiji Islands, Samoa, and Tuvalu), waste management remains a critical challenge in many PDMCs. Similarly, efforts to remove stockpiles of hazardous wastes—including persistent organic pollutants—have begun. This should be combined with the reduction of wastes at their source and encouragement of both domestic and industrial recycling. Sea-based sources of pollution also are increasingly being addressed, though there remains much to be done in developing and implementing guidelines for oil spill response and the management of ship wastes and ports.

44. **Energy and Climate Change.** Even the most optimistic forecasts of future reductions in greenhouse gas emissions still leave the Pacific facing sea-level rise, changing rainfall patterns, a hotter average climate, and increasingly intense storms. With most of the region's population living in coastal areas, development of appropriate, affordable, and cost-effective adaptation measures is urgently required. Governments are attempting to better understand and respond



to climate change, but development of the capacity to appropriately and cost-effectively incorporate vulnerability and adaptation into development patterns and decision making remains an enormous challenge.

45. **National Policies and Institutions.** The level of human and financial resources devoted to environmental protection has increased in most PDMCs. Environment ministries, departments, and units have been established and in some cases expanded, and national sustainable development committees or councils are in place in some of the PDMCs. Significant time and effort has gone into priority setting through development of national environmental management strategies and other exercises. These provide a sound platform for future ADB assistance to address the range of environmental challenges facing the region, although enactment and implementation of basic environmental impact assessment legislation and procedures remain a challenge in many PDMCs. Increasing engagement of civil society and the legal basis for environmental management has been a hallmark of recent planning and priority setting, and it is important to encourage this trend.

46. **Regional Institutions.** Regional organizations in the Pacific continue to play useful roles by achieving economies of scale in addressing common and transboundary environmental challenges. Regional policies have been developed in the areas of oceans, energy, ICT, environmental education, and wastewater. Regional coordination and opportunities to mainstream environmental considerations into development policies and programs have increased through the establishment of roundtables for biodiversity conservation and for climate change, among others, and through the use of working groups by the Council of Regional Organizations in the Pacific (CROP) for marine, land, energy, and sustainable development. The regional legal framework also has been strengthened with the completion of the Convention on the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean and the entry into force of the Waigani Convention relating to the transboundary movement of hazardous wastes.

47. **Global Dimensions.** Almost all PDMCs have ratified the relevant global environmental agreements necessary for accessing the Global Environment Facility (GEF). But GEF-funded activities to date (for all except Papua New Guinea) have focused on planning and “enabling” activities. Now that ADB is approved for direct implementation of GEF medium and full-sized projects, it can play a new and enhanced role in helping PDMCs gain access to GEF funds. Regional TA and, possibly, regional lending operations, drawing upon GEF resources, should be expected to expand under these conditions. The recent World Summit on Sustainable Development has institutionalized the need for policy integration and mainstreaming. The Summit also agreed on specific targets and sustainable development goals and the need to better measure performance.

### 3. External Assistance

48. **ADB Assistance.** ADB continues to be an active partner in improving environmental management capacity and performance at the national and regional levels in the Pacific. Over the past 10 years, ADB has provided a large number of grant-financed TAs as well as loan-funded projects to help address environmental challenges facing PDMCs. From 1992 to 2002, ADB supported 76 TA activities (57 at the country level, and 19 regionally) and 15 loans with a total value of \$40.1 million for the TA activities (\$35.2 million at country level and \$ 4.9 million regionally) and \$108.8 million in loan resources.

49. These activities are grouped into five major categories or “sectors” of support:

- (i) institutional strengthening and capability building;
- (ii) social infrastructure (including water supply and sanitation, urban development, health and population, waste management, and environmental education);
- (iii) agricultural, marine, and other natural resources (including sustainable fisheries, coastal and marine protection, forestry, watershed management, and biodiversity conservation);
- (iv) energy, climate change and variability; and
- (v) others (including sustainable tourism and related development undertakings).

50. The largest portion of ADB's grant-funded TA has been in the areas of social infrastructure development, institutional strengthening and agriculture, and marine and other natural resources, while the majority of loan-financed assistance went to infrastructure investments. Other trends in ADB's support for environmental initiatives also emerged. The first phase of environmental assistance in the early 1990s focused on helping PDMCs prepare their national environmental management strategies as a framework for further action. This was accomplished through a combination of national and regional TAs. The emphasis then shifted to more specific sector work, notably relating to forestry, environmental aspects of energy, sustainable fisheries, and more recently on social infrastructure relating to water management, health and sanitation, waste management, and urban development. The current thrust of regional environmental assistance centers on mainstreaming environmental considerations into all key development sectors and building on previous energy sector work to identify market-proven alternative and renewable energy sources and also to help PDMCs adapt to climate change and variability.

51. **Other External Assistance.** Over \$60 million has been accessed by the Pacific from GEF to implement global environment agreements. The majority has been through the three regional programs: South Pacific Biodiversity Conservation Project, Pacific Islands Climate Change Assistance Project, and the Strategic Action Program for the International Waters of the Pacific Small Islands Developing States, totaling around \$27 million and a further \$28 million for full-size projects at the national level in Papua New Guinea. The balance (approximately \$7 million) has been used primarily for nationally executed enabling activities and medium-sized projects in the Federated States of Micronesia, Fiji Islands, and Samoa.

#### 4. Asian Development Bank Regional Strategy

52. ADB can play an important leadership role by encouraging continued and more effective regional cooperation on topics related to environmental management. Coordination of ADB's Pacific region environment strategy with the recently completed SOPAC strategy and the impending update of the SPREP Workplan (2003–2006), among others, also would help ensure common directions and good collaboration. The development of strategic partnerships between ADB and other organizations in this area also should be encouraged to leverage resources and heighten PDMC ownership of environmental management initiatives.

53. The environment and natural resources roadmap for the Pacific is in Table A6.3. A preliminary priority framework for regional cooperation in the environmental area is outlined below. The first two items relate to national and regional environmental governance.

54. **Environmental, Legal, and Regulatory Framework.** The deficiencies of environmental policy and legal frameworks is at the core of weak national and regional environmental governance in the Pacific, which require appropriate responses at both national and regional level.

55. ADB will provide complementary assistance on a regional level to develop and disseminate legal and regulatory models that can be adapted to local conditions and support building and/or strengthening capacity and institutional framework for the same. This will necessarily involve assistance to support participatory and consultative processes to ensure that all key stakeholders are engaged in the development and implementation (where appropriate) of legal and regulatory frameworks.

56. **Environmental Information Management.** The lack of reliable data on environmental conditions and trends poses a critical constraint to implementation of environmental regulations, development planning, and regional cooperation on transboundary and international issues.

57. ADB will work with PDMCs, CROP agencies, and others in the international community to help build and/or strengthen institutions and capacity for compilation and assessment of data on Pacific environments. Development of baseline information will include but not be limited to remote sensing data utilizing a geographic information system (GIS) for the organization of information covering land use, forest cover, rangelands, wetlands, coastal ecosystems, and other data sets. ADB also will encourage a process of environmental information management that is transparent, consistent, and commonly accessible (preferably web-based) to support both project-level environmental assessments and broader policy and program planning.

58. **Sustainable Management of Tuna Fisheries.** The harvest of highly migratory fish species is of tremendous economic importance to most PDMCs, and this is largely accomplished through the licensing of foreign fishing vessels to gain access to their exclusive economic zones (EEZs). The adoption of the Pacific Tuna Convention in 2000 is explicitly formulated to safeguard the sustainability of the highly migratory species and provides an opportunity for programs to better address sustainability issues of these fisheries and to contribute with interventions to ensure that its exploitation remains within these bounds.

59. ADB will assist with the effort to develop and effectively disseminate information on the appropriate sustainable management regimes of the Pacific tuna fisheries. This will likely directly contribute to increased benefits to PDMCs through greater opportunities to extract a just resource rent based on allocations but also through area-wide management policies.

60. **Renewable Energy and Energy Efficiency.** Many rural communities in PDMCs lack economic and social opportunities because they do not have access to electricity or other modern forms of energy. The commercial development of renewable sources—coupled with higher efficiency of energy use—offers the potential to fill this gap. Since this is a common problem across PDMCs, and especially in outer island settings, it warrants regional attention.

61. ADB will continue to address the constraints to expanded commercial provision and demand of energy from renewable sources and determine whether it can play a wider role in creating an enabling environment for markets for these energy services and associated institutions. Opportunities for cofinancing based on global benefits from greenhouse gas reductions also will be examined along with ADB's potential assistance in brokering such financing.

62. **Adaptation to Climate Change and Variability.** Though investments needed to adapt to the adverse impacts of climate change and variability must be organized and implemented at the country level, this is clearly a Pacific-wide challenge. ADB can play an important role in assisting at both the country and regional levels with the analysis and response to threats derived from climate change and variability, including responses to the consequences of sea-

level rise and the increased frequency and/or intensity of extreme weather events (e.g., typhoons and droughts). ADB will adopt a programmatic approach to dealing with these threats on a regional basis. The goal is to assist PDMCs' work toward integrating climate change and variability adaptation measures into their development planning, programs, and projects through a "risk reduction" approach. Pilot activities at the country level will complement regional analysis. Given the global roots of the problem, ADB also will help PDMCs gain access to international assistance through such mechanisms at GEF. ADB also will work within its own programming processes to incorporate and mainstream adaptation into selected aspects of its Pacific operations.

## **5. Performance Monitoring**

63. Medium-term performance will be monitored in the following areas: (i) participation of local communities in natural resources management; (ii) PDMCs' annual expenditures on environment-related activities, (iii) water quality of major rivers and costal zones, (iv) number of marine parks or sanctuaries, (v) restored forest and costal lands, and (vi) climate change adaptation programs for the Pacific. Mainstreaming of environmental concerns in ADB projects will be monitored on the basis of project data.

**Table A6.3: Environment and Natural Resources Roadmap for the Pacific**

	Indicators	
	Current	10 Years
<b>1. Sector Outcomes/Impacts</b>		
(i) Poverty incidence among communities in PDMCs	HDI = 0.597; HPI = 19.3 <sup>a</sup> —	tbd
(ii) Susceptibility to pollution-related diseases	108,000 sq km of reef areas at risk <sup>b</sup> —	tbd
(iii) Coral reef areas at risk	—	tbd
(iv) GDP per unit of energy use (as proxy for energy efficiency)	—	tbd
(v) Carbon dioxide emission (kg/per capita)	—	tbd
(vi) Area (both terrestrial and marine) protected to maintain biological	—	tbd
(vii) Proportion of population with sustained access to an improved water source	—	tbd
(viii) Proportion of population with access to improved sanitation	—	tbd
<b>2. Sector Outputs</b>		
(i) Access to and availability of clean water supplies and sanitation services for both rural and urban populations increased	Only 42% of population in PNG, while 100% in Nauru, Tonga, and Tuvalu have access to safe water <sup>c</sup> —	Half the proportion of people without sustainable access to safe drinking water tbd
(ii) A stable net forest area in each PDMC attained	Inadequate	Improved
(iii) Land management in PDMCs improved	Only 16% of population in Samoa, <sup>d</sup> while 98% in Cooks have access to adequate sanitation services <sup>e</sup>	Half the proportion of the population without access to adequate sanitation services (2015) tbd
(iv) Unplanned urban expansion arrested and no increase in disposal of untreated solid or liquid wastes achieved		
(v) Percentage of supply of energy through market-oriented non-fossil fuel sources increased and efficient use of energy improved significantly	70% of regional population have no access to electricity, but access vary from 10% to 100% at the national level —	tbd
(vi) Health of coastal ecosystems stabilized and harvests of near shore and migratory fisheries sustained	—	tbd
(vii) Management of designated protected areas improved and number of threatened species reduced. More protected areas established	232 protected areas with a total area of 25,500 sq km and a significant number of threatened species	tbd
(viii) Adoption of “no regrets” adaptation policy fully incorporated in national development policies	PDMCs are generally vulnerable climate change; Climate Change Framework for Action has been adopted, etc.	Improved

(ix) Well-functioning national and regional environmental agencies backed by sound legislation instituted	Practically all the PDMCs have environmental units/offices in the government bureaucracy	Established/ Improved
<b>3. Sector Issues/Constraints</b>	<ul style="list-style-type: none"> <li>(i) Threats to freshwater resources;</li> <li>(ii) Degradation of marine and coastal environments;</li> <li>(iii) Land and forest degradation;</li> <li>(iv) Urbanization and waste management issues;</li> <li>(v) Depletion of biological diversity;</li> <li>(vi) Energy-related environmental concerns;</li> <li>(vii) Adaptation to climate change, variability, extreme weather events, and sea level rise; and</li> <li>(viii) Weak environmental management capacities and related governance issues</li> </ul>	

— = not available, HDI = human development index, HPI = human poverty index, tbd = to be determined.

<sup>a</sup> United Nations Development Programme. *Human Development Reports 1999*. Suva.

<sup>b</sup> Burke, Lauretta, Dirk Bryant, Dr. John William McManus, and Mark Spalding. 1998. *Reefs at Risk*. Washington DC: World Resources Institute.

<sup>c</sup> ADB. *Key Indicators 2001*. Manila.

<sup>d</sup> Urban population growth rate highest in Samoa at 6.2% (Secretariat of the Pacific Community. 2002. *Pacific Island Populations Data Sheet*; South Pacific Geoscience Commission. 2002. *Country Profiles*).

<sup>e</sup> UNDP. 1999. *Human Development Reports 1999*. Suva.

## D. Pacific Offshore Fisheries Roadmap

### 1. Overview

64. Because of the relatively small size of most islands, major bodies of fresh water are not widespread in the region, with substantial rivers and lakes only in some of the larger islands of Melanesia. The small land areas of most islands create limited freshwater and nutrient runoff, resulting in low enrichment of the nearby sea. The ocean waters of the region are usually clear and low in productivity. Upwellings occur in the boundaries between currents and in other localized areas, and have important implications for the harvesting of marine resources.

65. The dispersed nature of the region's land among this vast area of water has several consequences for fisheries management. The inshore resources can often be effectively managed as unit stocks, because of separation by large distances and the species have limited larval dispersal. On the other hand, management of shared stocks of highly migratory species such as tunas in the offshore areas can only be effective if carried out on a multi-country basis. The presence of extensive areas of international waters (high seas) between the region's EEZs greatly complicates the region's fishery management efforts.

66. Many western-central Pacific (WCP) fishery management issues began to converge in the late 1970s. The draft of what was to become the United Nations Law of the Sea Convention<sup>6</sup> was nearing completion and most Pacific island countries were very keen to implement fishery-based investments to achieve greater economic self-reliance. But, at the same time, many large, vertically integrated fishing companies had begun disaggregating their catching, processing, and marketing activities, selling their fishing fleets, relocating their fish processing facilities to lower cost havens in South America and Southeast Asia, and focusing on marketing as their core activity. They drew markedly different conclusions from the same set of circumstances and felt that the declaration of 200-mile EEZs would fragment control of the fishery and that in future, skipjack, the bulk of the WCP tuna catch, would become an internationally traded commodity, with the least adept seller having the greatest influence on price.

67. In Japan, companies sold vessels to cooperatives of fishers, and US fishing companies sold vessels to Korean and Taipei, China owners who rightly believed that their more relaxed regulatory environment would enable them to succeed where the larger, US company-owned fleets had failed. The industry was right. The declaration of the EEZs' fragmented control of tuna stocks in the Pacific (and elsewhere) and the world economy drove low-skilled and labor-intensive jobs, such as fish processing, to productive but lower-cost areas.

68. At the same time, bilateral and multilateral development agencies embarked on programs for a business neither understood. Their strategies were based on coastal states rightly claiming an access fee or tax<sup>7</sup> from fishing states which caught fish within their EEZs but wrongly advocated investment in the means of production (owning vessels and processing plants). This became known as the tax-and-own strategy, and was based on the mistaken belief that by steadily displacing foreign fishing capacity with domestic capacity it would be possible to duplicate the apparent success of the foreign fleets.

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<sup>6</sup> The declaration of sovereignty 12 miles to seaward of the coastline and sovereign rights for a further 200 miles to seaward from the 12-mile limit.

<sup>7</sup> Access fees were loosely calculated as approximately 5% of the ex-vessel market value of the catch.

69. By the mid- to late 1980s, it had become abundantly clear that the Pacific island countries' scarce financial resources were locked in a marginal, complex, relentlessly competitive, commodity-based business, over which they had almost no control. As revenues fell short of the optimistic targets, the Pacific island countries looked for urgent remedies to mitigate the consequences of what had become unmanageable operating and capital losses. Attempts to improve the situation centered on applying legislation to compel fishing states to incur expenditures in the coastal state's economy, constant attempts to increase access fees, and regional arrangements that sought to limit catches in productive fishing grounds. But these initiatives, which added cost and reduced productivity, caused fishing states to misreport their catches. These initiatives were also the factors contributing to the distrust between the fishing nations and the Pacific island countries that prevails to this day.

70. For many Pacific island countries, the experience has been bitter and extremely costly. The Federated States of Micronesia, for example, had by 1996 invested more than \$150 million in failed fishing investments. However, despite these bad experiences, few Pacific island countries have yet recognized the practical limitations of their strategy or even considered alternatives.

## 2. Issues and Challenges

71. **The Resources.** The region's fishery resources can be broadly split into two main categories: offshore (oceanic), and inshore (coastal). The offshore resources include tunas, billfish (marlins and swordfish), and allied species. They are highly migratory, open-water species and form the basis of the region's industrial fisheries. The inshore resources include a wide range of fish and invertebrates. Because of their relative accessibility, these resources form the basis of most of the region's small-scale fisheries.

72. In the Pacific region, tuna is not only the most important of the fishery categories; it also produces almost 10 times the amount of fish of all the other fisheries of the region combined. In terms of value, tuna fisheries are worth over seven times that of all other fisheries combined. Average catches in the WCP in the last decade were around 1.6 million metric tons (mt) of tuna, as well as an unknown amount of by-catch, and the estimated total tuna catch for 1999 was 1.72 million mt. The four main tuna species caught are skipjack (primarily for canning), yellowfin (large species for sashimi, smaller/younger for canning), bigeye (higher grade sashimi), and albacore (for quality canning).

73. In general, the major tuna stocks on which the fishery is based are not believed to be biologically overexploited at present. On the contrary, the Secretariat of the Pacific Community (SPC) believes that present skipjack catches could be increased. There is, however, some evidence for a declining trend in bigeye catch rates.

74. **The Fleet.** Twenty countries operated in the WCP in 1999. However, the vast majority of the regional tuna catch was harvested by 174 purse seiners and 716 longliners of five distant water fishing nations (DWFNs)—Japan; Republic of Korea; Peoples Republic of China; Taipei, China; and the United States. In 1999, these fleets harvested 72% of the tuna catch in the Pacific region. The vessels pay access fees for fishing in the EEZs of Pacific countries; in 1999, the total access fees from these five major DWFNs amounted to \$60.3 million.



75. **Current Situation.** A fundamental problem is that the fish are not spread evenly throughout the WCP. Often commercial concentrations lie inconveniently beyond a Pacific island country's EEZ, but even within their EEZ the season may be brief and thus commercial opportunities have limitations. This fact more than any other threatens to split the Pacific island countries into two camps: those with tuna stocks in commercial concentrations most of the year around (winners), and those without (losers). The potential winners are the Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Papua New Guinea, Solomon Islands, and Tuvalu.

76. The recent formation of the Commission for the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean is timely and highly relevant to this complex fishery. Certain proposals in the text of the underpinning Convention call for the Pacific island countries to be granted catch allocations based on some mix of historic catches taken from their waters. The DWFNs would similarly be given catch allocations based on their historic catches. Both lots of allocations will be adjusted to aggregate at what managers, tasked with implementing the Convention, consider the total allowable catch for the WCP tuna fishery. Those fishing states unable to catch their "entitlement" and those Pacific island countries unable to have their quota caught can rent their uncaught allocations to more productive participants. This ability to "rent" surplus entitlements is one of the proposed cornerstones of the Convention.

77. It is very likely that the "winners" will contest this proposal as it can be viewed as a subsidy given by the countries that have abundant resources to those countries who do not.

### **3. External Assistance**

78. There are two main regional organizations dealing with the offshore fishery—the Forum Fisheries Agency (FFA) based in Honiara, Solomon Islands, and the Oceanic Resources Division of SPC based in Noumea, New Caledonia. FFA's mandate is to promote regional cooperation and coordination in respect to fisheries issues and concerns to secure maximum benefits to its member countries, in particular from the highly migratory fish species. FFA is funded from its member countries but receives additional funding for staff from AusAID and NZAID. Canada regularly funds specific projects, in particular in relation to fisheries regulations. SPC's mandate is to provide scientific information and advice necessary to manage the region's fisheries exploitation. SPC receives support from Australia; France; New Zealand; European Union; AusAID; Food and Agriculture Organization of the United Nations; Australian Centre for International Agricultural Research; GEF; University of Hawaii; Republic of Korea; and Taipei, China.

### **4. Asian Development Bank Regional Strategy**

79. ADB's objective for the fisheries sector is to foster sustainable economic growth and regional cooperation, and to contribute to accelerating the process of social and economic development. A fisheries roadmap for the Pacific is in Table A6.4. For the Pacific region in particular, greater economic benefits to the Pacific island countries from the highly migratory fish species are of paramount importance. However, the lessons learned from past interventions and inappropriate policies weigh heavily in the identification of the most appropriate assistance ADB can offer on a regional scale. Despite DWFN dominance and the uneven distribution of fish resources, there are nevertheless still opportunities for increasing benefits to all Pacific island countries, but naturally not on the same scale. Among these opportunities are (i) acquisition and operation of longliners is a viable option by many private sector companies in the Pacific island countries provided that the supporting policies and transport means are in place, (ii) granting of

long-term license arrangements to DWFNs against onshore investments such as loining plants, (iii) restricting the number of vessels at regional level and combining this with a rights-based license arrangement, (iv) introducing a helpful taxation regime to achieve competitive advantages, (v) a general increase in access fees through political affiliation, (vi) joint-venture arrangements to overcome credit constraints and/or create job opportunities, and (vii) providing competitively priced all-round vessel service and provisioning.

80. There are obvious limitations to influence a sector that is capitalized in the order of \$1.7 billion. However, many of the opportunities for the Pacific island countries lie in better understanding of how the sector operates and which key factors determine where and how the catch revenues are spent. There are unfortunately discouraging few success stories to this effect, but two countries have made remarkable progress and capitalized on their individual advantages, namely, Marshall Islands as an important transshipment location, and Papua New Guinea as an attractive place for establishing loining plants.

81. ADB will therefore concentrate on reviews and strategic analyses of policy issues and cooperation possibilities of interest to the largest number of Pacific countries and ensure that the information and recommendations will be published and disseminated regionwide. As the focus will be on management issues, FFA is likely to be the main counterpart for the execution of initiatives. The specific issues identified are:

- (i) optimization of resource rent, either through increased access fees and/or other options such as the introduction of a rights-based fishery; and
- (ii) taxation regimes appropriate for fully developed domestically based tuna fisheries, including investment policies and identification of potential country-specific comparative advantages; and
- (iii) review of the regional arrangements governing the preferential access of purse seiners from member countries, and whether these arrangements should be expanded to include the large number of longliners.

## **5. Performance Monitoring**

82. As the overall objectives are increased economic benefits and job-creation, these parameters will be the long-term indicators. At outcome level, the indicators are (i) appropriate policy changes based on recommendations, (ii) number of new or alternative license arrangements, (iii) increased investment in support and/or onshore processing facilities, and (iv) higher resource rent than present levels.

**Table A6.4: Fisheries Roadmap for the Pacific**

		Indicators	
		Current	5 Years
<b>1. Sector Outcomes/Impact</b>			
(i) Total fisheries contribution to total GDP increased (in %) <sup>a</sup>		3.2%	tbd
(ii) Job-creation directly related to offshore fisheries increased (number of people)		—	tbd
<b>2. Sector Outputs</b>			
(i) Increased number of licenses issued under a revised regional access arrangement (number of vessels)		36	55
(ii) Increased number of policy changes made at national level based on recommendations from reviews and analyses (number of countries)		2	6
(iii) Increased domestic investment		—	tbd
(iv) Higher resource rent realized (approx. levels in % of landed catch value)		4	7
(v) Conducive taxation regimes introduced (number of countries)		2	8
<b>3. Sector Issues/Constraints</b>	(i) Lack of updated information on offshore fisheries (ii) Inadequate dissemination of information (iii) Lack of transparency prevails in many countries regarding license income (iv) National fisheries policies are often outdated and inappropriate (v) Nontransparency in license negotiations and agreements (vi) Lack of understanding on how the offshore fisheries sector works and operates (vii) Emerging fragmentation of regional cooperation		

— = not available, tbd = to be determined.

<sup>a</sup> This will be different depending of the PDMC concerned. However, to take account of the greater potential for countries with abundant tuna stocks, the Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Papua New Guinea, Solomon Islands, and Tuvalu should experience an increase over 5 years in the order of 15%, whereas the other PDMCs will only experience an increase between 5–7%.

## **CONCEPT PAPERS FOR LENDING PRODUCTS**

This appendix contains the concept papers for projected lending products.

Table A7.1: Establishment of the Pacific Aviation Safety Office

Table A7.2: Regional Provision of Basic Social Services to Remote Communities  
through Information and Communications Technology

Table A7.3: Adaptation to Climate Change in the Pacific

**Table A7.1: Establishment of the Pacific Aviation Safety Office**

<b>1. Type/modality of assistance</b> <input checked="" type="checkbox"/> Lending <input checked="" type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector Development Project Loan <input type="checkbox"/> Other: Regional Project Loan <input type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input type="checkbox"/> Other than project preparatory <input type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input type="checkbox"/> Other:	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Transport and Communications Subsector: Civil Aviation b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: Rural Development <input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> Pacific Department	
<b>5. Responsible ADB officer:</b> To be decided.	
<b>6. Description of assistance –</b> <p><b>a. Background/linkage to country/regional strategy:</b> The Pacific developing member countries (PDMCs) are signatories to the Chicago Convention and committed to meeting international aviation safety standards. Regional cooperation in aviation safety regulation and oversight among PDMCs has reached an important milestone with the establishment of the Pacific Aviation Safety Office (PASO) in August 2002. Seven PDMCs (Fiji Islands, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu) founded PASO as a regional safety regulation and oversight function that allows its members to continue to meet their obligations and improve their capabilities through technical and institutional cooperation. PASO's core responsibilities are to audit (i) flight operations, (ii) airworthiness of aircraft, (iii) personnel licensing, and (iv) airport security and safety. The audits and inspections will be undertaken in accordance with the legal environment of the state of operation, based on local regulations and the Standards and Recommended Practices (SARPs) of the International Civil Aviation Organization (ICAO).</p> <p>The regional Project for the Establishment of the Pacific Aviation Safety Office will finance (i) establishment of PASO; (ii) initial operations enabling PASO to commence cost recovery-based functions; and (iii) training and technical assistance.</p>	

Subject to findings of loan fact-finding and other loan processing stages, the regional project will be a regional public sector loan supported by one Report and Recommendation of the President (RRP) on the Project and multiple loan agreements dividing the repayment responsibility equally among the participating PDMC governments.

**b. Goal and purpose:** Establishment of PASO permits implementation of a cooperative approach to improvement of aviation safety and security in the Pacific, based on economies of scale and shared capacity. PASO will maximize opportunities to create a harmonized and least-cost operating environment to develop a world-class safety regulation and oversight unit and aviation safety conditions in the region.

The regional project is crucial for ensuring that PASO operates as a high-standard function comparable to the services currently provided by out-of-the-region oversight service providers. The objective of the Project is to supply PASO with interim facilities over 5 years, including personnel and training that will build capacity of the new organization to fully assume its role as a regionally staffed and commercially financed entity. Within the 5-year period, PASO will become a sustainable, effective, and preferred service provider for regulation and oversight that will be selected on the grounds of its professional regional staff, lower operating costs, and systematic and focused services to its clients operating in PDMCs.

**c. Components and outputs:** The regional project will finance (i) establishment costs of PASO, including communications equipment and technical resources; (ii) international staff and travel; (iii) training; (iv) support to legislative and regulatory review, restructuring, and harmonization of standards; and (iv) initial operating capital. Financing for the regional project will be complemented with counterpart contributions, membership fees, and cofinancing from the Government of Australia. Counterpart and cofinancing resources will provide accommodation for PASO's offices, support to salaries of local and regional staff, and technical assistance for initial establishing of PASO, including nomination of its board and a chief executive officer.

**d. Expected results and deliverables:** The regional project is crucial for enabling commencement of PASO's operations. As a result, PASO will initiate aviation regulatory and safety oversight operations in the region at a level comparable to the services being delivered by developed country inspectors from outside of the region. The regional Project will (i) establish a competent international staff contingency capable of delivering oversight services and effective on-the-job training, (ii) support external training for regional staff in aviation regulatory auditing and oversight functions, (iii) support commencement of PASO's operations, and (iv) ensure its international and regional communications.

**e. Social or environmental issues or concerns:** No major social or environmental issues are expected.

**f. Plans for disseminating results/deliverables:** The project processing stages will include fact-finding and project appraisal missions involving all member countries of PASO; visits to the PASO offices in Port Vila, Vanuatu; and regional workshops among the aviation policy makers and the private and public sector clients of PASO. These missions will disseminate their findings among all PDMCs.

#### **7. Proposed executing/implementing agencies:**

Each participating PDMC government will be a Borrower under the regional Project. PASO will be the Executing Agency. Consulting services and any procurement under the regional Project will be in accordance with ADB's *Guidelines on the Use of Consultants* and ADB's *Guidelines on Procurement*.

#### **8. Nature/extent of Government/beneficiary involvement in identifying or conceptualizing the assistance:**

The concept paper will be sent for agreement to the relevant agencies of the participating governments, the established PASO Board, and the Pacific Forum.

#### **9. Timetable for assistance design, processing, and implementation**

- a. Year included in regional work plan: 2004
- b. Expected date of submission for approval
  - Lending: October 2004
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory):

## c. Period and duration of assistance{s}

Lending: 2004–2009

Nonlending:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

## a. For lending

☐ Ordinary capital resources:☒ Asian Development Fund: US\$1.8 million (more than one loan in the project)☐ Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

## b. For nonlending

☐ No resources required, other than ADB staff☐ ADB's administrative budget:☐ Grant TA funds☒ Other:

Total costs of the Project are estimated at \$3 million, of which about 60% would be funded from an ADB loan.

Cofinancing for the Project will be available from the Government of Australia, the future clients of PASO (airlines), and from the participating PDMCs in the form of counterpart funding and membership contributions.

The regional Project will be effectively coordinated among the cofinancing and the PDMC Governments with the support of the engaged PASO chairman and board and the Pacific Islands Forum Secretariat.

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A7.2: Regional Provision of Basic Social Services to Remote Communities through Information and Communication Technology**

<b>1. Type/modality of assistance</b> <input checked="" type="checkbox"/> Lending <input checked="" type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input type="checkbox"/> Other than project preparatory <input type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input type="checkbox"/> Other	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector: b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input checked="" type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> PAHQ/PARD	
<b>5. Responsible ADB officer:</b> Luigi Bodda, Project Economist	
<b>6. Description of assistance</b> <p><b>a. Background/linkage to country/regional strategy:</b> The Pacific strategy of the Asian Development Bank (ADB) states that ADB will work with its Pacific developing member countries (PDMCs) to utilize information and communications technology (ICT) to overcome constraints associated with small size and isolation, and to realize potential gains offered by links to global markets.</p> <p>PDMCs are constrained by dispersed populations, small sizes, and vast ocean distances. These constraints impose large costs on service provision in education, health, economic development, disaster mitigation and control, travel, and communications. Improvements in ICT now provide increasing opportunities for PDMCs to overcome these constraints by (i) reducing barriers of distance, (ii) improving service delivery, (iii) reducing costs, and (iv) improving knowledge and skill. Cooperation among PDMCs is essential to fully realize the benefits of ICT.</p> <p><b>b. Goal and purpose:</b> The overall objective of the assistance is to enhance an enabling environment for poverty reduction by improving ICT connectivity for strengthening the provision of basic social services in remote locations in the Pacific by improving connectivity and eventually, through it, education, health, governance, social inclusion, and disaster mitigation and control. The ICT infrastructure created in this process will also be available and help reduce transaction costs for many other transactions of the governments and people in the region.</p>	



**c. Components and outputs:** Outputs of this regional Project will include (i) identification and installation of an easy-maintenance system to provide basic social service delivery to remote locations through ICT, (ii) capacity building and monitoring of the Project's outputs, and (iii) fine-tuning of the project to make it financially and socially sustainable and beneficial to the poor.

**d. Expected results and deliverables:** The Project will enhance the delivery of basic services such as basic health and education, in poor and remote areas. The Project will also increase awareness of the possible benefits of e-government in social service delivery. Further, the project will result in an ICT infrastructure that will be available for multiple purposes.

**e. Social or environmental issues or concerns:** The Project will be designed as "easy maintenance," modular, and scalable to allow the inclusion of other PDMCs. Project selection criteria will include (i) contributing to poverty reduction, governance, and social inclusion; (ii) addressing common issues among PDMCs; (iii) enhancing regional cooperation and integration; (iv) involving areas where regional cooperation can decrease costs (economies of scale) and increase value (synergies); (v) involving sectors where ADB plays a pivotal role; and (vi) involving areas where the government(s) and ADB have an established policy dialogue.

**f. Plans for disseminating results/deliverables:** The main findings of the Project will be widely disseminated. If successfully implemented, there will be a specific awareness campaign to enlarge the system to other Pacific island countries.

**7. Proposed executing/implementing agencies:** ADB will be the Executing Agency. In each PDMC involved, the ministry of finance (or its equivalent) will act as implementing agency for the TA.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** During the ICT Readiness Workshop in the Pacific and during discussions with government officials and education providers in the Pacific, it was recognized that assistance is needed to improve and expand social inclusion and governance in the Pacific in order to reduce poverty and stimulate growth. The consultation will include all stakeholders, including women, the poor, and indigenous and rural people.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSPU: 2004
- b. Expected date of submission for approval
  - Lending: 3rd Quarter 2004
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory):
- c. Period and duration of assistance
  - Lending:
  - Nonlending:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - ☐ Ordinary capital resources
  - ☒ Asian Development Fund: \$3.0 million (more than one loan in the project)
  - ☐ Other

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
  - ☐ No resources required, other than ADB staff
  - ☐ ADB's administrative budget
  - ☐ Grant TA funds

If cofinancing is required indicate sources, and amount sought:  
If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSPU = country strategy and program update, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A7.3: Adaptation to Climate Change in the Pacific**

<b>1. Type/modality of assistance</b> <input checked="" type="checkbox"/> Lending <input checked="" type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input type="checkbox"/> Other than project preparatory <input type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input type="checkbox"/> Other:
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Infrastructure Subsector: Environment b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input checked="" type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input checked="" type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: <input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Social protection
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development
<b>4. Responsible division/department:</b> Pacific Department
<b>5. Responsible ADB officer:</b> Daniele Ponzi, Senior Economist (Environment)
<b>6. Description of assistance</b> <p><b>a. Background/linkage to country/regional strategy:</b> The Pacific region faces increasing environmental and socioeconomic pressures. The region already suffers from climate extremes such as droughts, floods, and tropical cyclones as a result of natural variability, including El Niño or La Niña events. The extent to which this climate variability is already due to human-induced climate change is not known. It is clear that future climate and sea-level changes threaten to increase the frequency and magnitude of such events. Substantial long-term changes in climate and sea levels are likely to occur within the region during this century and will have significant impacts on Pacific island countries, as confirmed by the Third Assessment Report (2001) of the Intergovernmental Panel on Climate Change (IPCC) and as documented in a number of regional assessments based upon IPCC scenarios. Adaptation to climate variability and climate change, and their impacts is, ultimately, an issue of sustainable development for all Pacific countries and possibly survival for the most threatened atoll nations. The integration of environment and development has been adopted in a broad range of international agreements, such as the United Nations Commission on Environment and Development Agenda 21 and Rio Principles and the Barbados Programme of Action. Under the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol, climate change issues are specifically addressed through the need to reduce greenhouse gas emissions and to adapt to the unavoidable impacts of climate change. Under the UNFCCC, small island developing states are recognized as being particularly vulnerable to climate change.</p>

Even without climate change, Pacific island countries are already severely affected by climate variability and extremes, and they remain extremely vulnerable to future changes in the regional climate that could increase the risks. They have clearly recognized the need to reduce their vulnerability to these increasing risks through adaptation processes and that adaptation requires the strengthening of human and institutional capacities to assess, plan, and respond to these challenges. Climate change has been identified as a priority issue by the Pacific Islands Forum (formerly the South Pacific Forum) leaders since the early 1990s through their annual Forum Communiqué. Concern reached its highest level in October 2000 when the Pacific Islands Forum's leaders endorsed the Pacific islands framework for action on climate change, climate variability, and sea level rise. The framework forms the basis for effectively addressing issues related to climate change and variability as a cooperative process among relevant stakeholders. While acknowledging that climate is a priority issue at the highest levels of governments, a lack of active support has been the case with key ministries concerned largely with matters of socioeconomic development, such as finance and planning, based on the belief that climate is an environmental, not developmental, issue. Hence, there is a need to ensure that the main development agencies adopt and implement "no-regrets" strategies that encompass adaptation measures that governments would undertake whether or not the predicted climate change impacts actually occur.

**b. Goal and purpose:** The goal of this Project is to respond sustainably to the risks of climate variability and climate change by implementing adaptation measures as part of normal economic development programs and projects. The immediate purpose of the Project is to demonstrate, through pilot projects, how no-regrets strategies can be mainstreamed into infrastructure development projects.

**c. Components and outputs:** The aim of the Project is to implement pilot adaptation projects in key sectors of PDMCs that will assist in the following components:

- building national adaptive capacity by learning through doing;
- strengthening social and economic evaluations of adaptation costs and benefits;
- building an enabling environment for adaptation technology transfer;
- enhancing the mainstreaming of adaptation into sector plans, policies and project formulation;
- evaluating the effects of the climate policy developments and mainstreaming efforts; and
- implementing pilot adaptation projects through key sectors supported by ADB.

**d. Expected results and deliverables:**

- National adaptive capacity created and/or strengthened;
- social and economic evaluations of adaptation costs and benefits built into project feasibility studies;
- an enabling environment for adaptation technology transfer established and appropriate networks established;
- mainstreaming of adaptation approaches into sector plans, policies, and project formulation;
- documentation of effects of the climate policy developments and mainstreaming efforts; and
- regional implementation of pilot adaptation projects through key sectors supported by ADB.

**e. Social or environmental issues or concerns:** The proposed Project will have significant economic and social benefits and no adverse effects are anticipated.

**f. Plans for disseminating results/deliverables:** The results of the pilot projects implemented will be collated into reports/CDs/web sites to ensure that best practices are disseminated throughout the region.

**7. Proposed executing/implementing agencies:** Finance departments and public works departments, in conjunction with other relevant agencies, will be engaged as executing and implementing agencies, respectively.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

The no-regrets approach was developed under the Pacific Islands Climate Change and Adaptation Program, funded by the Global Environment Facility (GEF). This approach has been endorsed by finance and environment departments at high-level consultations funded by the World Bank and ADB. National adaptation plans of action are being prepared for at least four Pacific countries under the Least Developed Countries Climate Change Adaptation Fund under the GEF. The Third Roundtable on Climate Change, Climate Variability, and Sea-Level Rise held on 10 May 2003 at Sigatoka, Fiji Islands, endorsed a proposed multi-funding agency programmatic approach to GEF funding of climate change adaptation to be jointly sponsored by ADB, UNDP, and World Bank. This Roundtable, established under the Pacific Framework for Action, includes all funding agencies, regional organizations, and Pacific Islands Forum member countries concerned about climate change. This project would be one of the first-phase projects under this proposed programmatic approach and would build on preparatory

work for the design of pilot projects under various ongoing technical assistance projects, including ADB's Climate Change Adaptation in the Pacific regional technical assistance.

#### 9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2005
- b. Expected date of submission for approval
  - Lending: July/August 2005
  - Nonlending (project preparatory): 2004
  - Nonlending (other than project preparatory):
- c. Period and duration of assistance
  - Lending: 5 years
  - Nonlending:

#### 10. Financing Plan

- a. For lending
  - ☐ Ordinary capital resources:
  - ☒ Asian Development Fund: \$4.0 million (more than one loan in the project)
  - ☐ Other:

If cofinancing is required indicate sources, and amount sought: not applicable

If known, provide cost estimates and financing arrangements. Not applicable

- b. For nonlending
  - ☐ No resources required, other than ADB staff
  - ☐ ADB's administrative budget:
  - ☐ Grant TA funds

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements.

ADB financing: Loan Amount—\$4 million (from ADF)

Other financing: Bilateral Grant—\$1 million, GEF funding \$1 million.

The total cost of the PPTA is estimated at \$750,000 equivalent, comprising \$600,000 in foreign exchange and \$150,000 equivalent in local currency costs. It is proposed that ADB and a channel financing source provide \$300,000 equivalent each on a grant basis to finance the entire foreign exchange cost. The selected governments will finance the remaining \$150,000 equivalent of the local currency costs.

Cost estimates and proposed financing arrangements for implementation:

ADB financing: PPTA—\$300,000; Loan—\$4 million (more than one loan in the project)

Other financing: PPTA—\$300,000; Grant—\$2 million

ADB = Asian Development Bank, CSP = country strategy and program, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, TA = technical assistance.

**CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES**

This appendix contains the concept papers for projected nonlending products and services.

Table A8.1:	Supporting Secured Transaction Frameworks in the Pacific
Table A8.2:	Private Sector Transport Analysis
Table A8.3:	Pacific Financial Technical Assistance Centre
Table A8.4:	Regional Strengthening of the Provision of Basic Social Services through Information and Communications Technology
Table A8.5:	Strengthening Environmental Governance in the Pacific
Table A8.6:	Review of Regional Access Arrangements in Fisheries
Table A8.7:	Privatization and Regulatory Frameworks in the Pacific
Table A8.8:	Regional E-Governance Project in the Pacific
Table A8.9:	Renewable Energy Program for the Pacific Islands
Table A8.10:	Development of Fisheries Taxation Regimes in Pacific Island Countries

**Table A8.1: Supporting Secured Transaction Frameworks in the Pacific**

<b>1. Type/modality of assistance</b> <input type="checkbox"/> Lending <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input checked="" type="checkbox"/> Other than project preparatory <input checked="" type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input type="checkbox"/> Other:	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector: b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Human development  <input type="checkbox"/> Good governance  <input checked="" type="checkbox"/> Private sector development  <input type="checkbox"/> Social protection           </div> </div>	
<b>3. Coverage</b> <div style="display: flex; justify-content: space-between;"> <input type="checkbox"/> Country           <input checked="" type="checkbox"/> Regional           <input type="checkbox"/> Interregional         </div> <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> PAHQ/PARD	
<b>5. Responsible ADB officer(s):</b> Winfried Wicklein, Private Sector Development Specialist	
<b>6. Description of assistance</b> <p><b>a. Background/linkage to country/regional strategy:</b> The financial sectors in 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 (i) banking services do not reach beyond main urban areas; (ii) commercial banks have little outreach to low-income households; (iii) credit to indigenous entrepreneurs is extremely limited; (iv) there is little lending to agriculture and fishing; (v) interest rate spreads are large (with some exceptions); (vi) informal lending is an important source of finance; and (vii) microfinance programs are beginning to emerge, but are still in their infancy in most countries.</p> <p>The underdevelopment of the financial sector in PDMCs is connected to two important and related elements, as follows:</p> <p>(i) <i>Lack of secured transaction frameworks.</i> Lending only occurs where it is possible for the banks to obtain collateral on loans and the system for using property as security—particularly chattels—is cumbersome, expensive, and often not available at all. The essential feature of secured transactions is granting priority to a lender in collecting against some property of the borrower along with a legal system that permits the secured party to recover and sell the property in a timely way.</p>	

- (ii) *Customary land system.* The system of customary land ownership presents particular challenges to lenders hoping to secure loans against property. With few exceptions, land and leases on land are not regarded as adequate security by financial markets. Moreover, since most PDMC constitutions prohibit the transfer of land to foreigners, banks with foreign ownerships are effectively barred from using land as security. To develop the financial market and mobilize capital, it will be necessary to better define land rights, probably through formalizing leasehold so that land becomes usable as collateral.

In some countries in the region, reforms in these areas are starting but in most they have not yet begun. With respect to secured transactions, the essential feature is granting priority to a lender in collecting against some property of the borrower along with a legal system that permits the secured party to recover and sell the property in a timely way.

In most PDMCs, the legal and physical preconditions for a functioning system for lending against vehicles, equipment, or accounts receivable are not in place. The ability to use collateral as a means of securing loans is critical to any properly functioning economy. It has enormous power to increase the credit limit, extend the repayment period, and reduce the costs of obtaining funds. Without a framework for securing loans, the cost of financing can become prohibitive, especially for small businesses. Creating collateral laws and establishing collateral registries that provide clearly defined rights to borrowers and lenders in the event of default, are effective ways of facilitating access to financial markets for those who currently do not have it. Therefore, there is a strong case for reviewing the existing framework in PDMCs, especially the physical databases in place and the legal system, and devise reform proposals.

Regional cooperation for creating secured transaction systems offers an opportunity to benefit from economies of scale in the TA. More importantly, a regional approach offers strategic advantages of experience sharing, political commitment through peer support, and opportunity to seek, as far as possible, consistency in related legislative reforms. Further, a regional approach will result in PDMCs being better placed to keep track of international progress in this area. The proposed regional TA supports private sector development, in line with ADB's private sector development strategy. It supports economic growth and poverty reduction through private sector development and employment creation, which is in line with *A Pacific Strategy for the New Millennium* and individual PDMC country strategies. Private sector development has been identified as a strategic thrust for regional cooperation for the Pacific.

**b. Goal and purpose:** The regional TA will promote business activities in selected PDMCs by improving the environment for secured lending. Secured transactions frameworks, based on international best practices and the specificity of the Pacific, are expected to facilitate increased lending for micro, small, and medium enterprises. At the same time, relative to unsecured lending, it will lead to reduced borrowing interest rates, increased loan amounts, and extended repayment periods. Thus, the regional TA will contribute to the development of financial sectors in the Pacific and promote private sector development in the PDMCs that decide to implement reforms on the basis of the findings of this proposed regional TA.

**c. Components and outputs:** Based on studies of selected PDMCs, an adequate framework for secured lending will be developed. It will address the economic consequences of problems in the frameworks for secured lending in the Pacific; the relevance of reform of secured transactions for rural credit; options for developing the security interests filing system; and options for legal reforms, including a model law that encompasses the proposed reforms. The findings will be presented to, and discussed with, PDMC officials during workshops and seminars to be held in the study countries, as well as at a regional workshop on secured transactions.

**d. Expected results and deliverables:**

- a report on adequate framework for secured lending that addresses the economic and legal implications as well as the physical security filing system;
- report on a model design for physical security filing systems that are suitable for the Pacific environment;
- model law for secured lending;
- increased awareness about secured lending;
- availability of model reform proposals applicable to the Pacific environment; and
- increased lending, especially to micro and small enterprises.

**e. Social or environmental issues or concerns:** None.

**f. Plans for disseminating results/deliverables:**

- The process will involve workshops and seminars in PDMCs as well as a regional workshop, which will help disseminate information during the TA implementation period itself.
- Public dissemination of the final report(s) through publication and ADB web site.



**7. Proposed executing/implementing agencies:** ADB will be the Executing Agency.**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

During private sector assessments in four PDMCs in 2002 and early 2003, the lack of secured lending was identified in all country studies, and agreed upon by governments and private sector representatives in the study countries.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2005
- b. Expected date of submission for approval
  - Lending:
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory): July 2005
- c. Period and duration of assistance
  - Lending:
  - Nonlending: 24 months

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - ☐ Ordinary capital resources:
  - ☐ Asian Development Fund:
  - ☐ Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
  - ☐ No resources required, other than ADB staff
  - ☐ ADB's administrative budget:
  - ☒ Grant TA funds: \$700,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A8.2: Private Sector Transport Analysis**

<b>1. Type/modality of assistance</b> <input type="checkbox"/> Lending <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Road Sector Development Project loan <input type="checkbox"/> Other: <input type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input checked="" type="checkbox"/> Other than project preparatory <input checked="" type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input type="checkbox"/> Other:	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Transport Subsector: Maritime/Ports b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input checked="" type="checkbox"/> Other: Rural Development <input type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> Pacific Department	
<b>5. Responsible ADB officer:</b> To be decided.	
<b>6. Description of assistance</b> <p><b>a. Background/linkage to country/regional strategy:</b> Efficient transport services are essential to economic development, particularly in the Pacific. Transport costs permeate all prices in PDMCs as these small, vulnerable, and generally resource-poor island economies rely on imports. Private transport operations experience significant interphases with public management of transport policies and assets. Effective public sector operations, the associated institutions, and incentives established under the regulatory frameworks contribute to transport markets, and either support or constrain competitiveness. Under competitive circumstances, entry and exit for transport operators is efficient, and the least-cost freight rates would support growth in private investments and employment. These, in turn, would support commerce and trade, local business development, export of goods and services, reduction in consumer prices, and subsequently, reduction of poverty.</p> <p>The RETA for Private Sector Transport Analysis will (i) assess the cost structures of transport services in the PDMCs and the competitiveness of the transport markets; (ii) assess the market factors, including entry and exit among other constraints to competitive transport sector management; (iii) identify and explore the reasons for these constraints and quantify the consequent impacts; (iv) recommend improvements for elimination of the constraints; and (iv) disseminate recommendations among the private and public stakeholders and funding agencies to identify funding for suggested interventions and programs.</p>	

**b. Goal and purpose:** The RETA permits a systematic analysis of the costly constraints to efficient transport markets in the Pacific region and identification of requirements and pragmatic programs for addressing the needs. The goal of the RETA is to improve the PDMCs' competitiveness by reducing cost of transportation. Consequently, the RETA contributes to reduction in cost of trade and commerce, and provision of employment, with indirect impacts reducing cost of consumer goods and poverty.

The RETA will enable a coordinated and comprehensive approach to upgrading of transport logistics necessary to support improvement in macroeconomic conditions in PDMCs. The RETA will develop a range of options and involve a variety participants in assessing its findings and identifying a way forward for implementing the necessary programs, including funding agencies and private sector participants. Through the RETA, ADB has a potential to deliver an effective and coordinated program that supports economic development in the highly trade-reliant PDMCs.

**c. Components and outputs:** The RETA will analyze the cost components of logistics involved in importing and exporting goods critical to PDMC economies, particularly growth and development. It will assess constraints to the effectiveness of private transport services and scope for expanding private participation in transport operations. It will identify and quantify impact of the causes constraining effective transport operations, and recommend required improvement for reduction in these constraints.

The RETA will commence with a preparation of a model that supports identification of efficiency of transport services and infrastructure in PDMCs. The model will examine cost components of logistics systems involved in importing and exporting, determining the relative importance of the transport modes for reducing costs of transport in the region and assessing the functional areas needing priority attention among sector policy and regulatory frameworks, institutions, finance, operation of assets, and management of transport operations.

The RETA will collate existing and develop new data and forecasts on transport operations, markets, and sector conditions in the Pacific region, and identify, compile, and examine cost components of transport service delivery. This process relies on in-depth country focus and comparative examination of impacts of constraints and application of the best/good practices from within and outside of the region.

The RETA will subsequently focus on identification of solutions for reduction of cost of logistics and transport, inducing thereby private transport services and asset management, and improvement in sector efficiency. It will outline pragmatic programs to enhance productivity of infrastructure, policy, and transport operations, and determine opportunities for expanding the role of the private sector.

The RETA will establish an analytical framework for developing a fundamental understanding of the strategies required for improving transport sector conditions, identifying regional and country-specific roadmaps for the transport sector, identifying the appropriate role of private operators, and determining how the proposed strategies can enhance the efficiency in transport services delivery. The RETA will develop cost-effective strategies for reduction of transport costs, appraise transport stakeholders, including the private and public sector participants and funding agencies regarding the impacts of the suggested strategies.

**d. Expected results and deliverables:** The RETA will prepare inception, monthly progress, midterm, draft final, and final reports that will be discussed in a minimum of three regional meetings involving three levels of consultations (i) among ADB and PDMCs on TA administration, outputs, and TA achievements; (ii) consultative meetings with stakeholders to consider progress achieved and views and options presented under the TA inception, progress, midterm, and draft final reports; and (iii) meetings convening aid agencies supporting the transport sectors in the Pacific region:

The RETA aims to prepare and develop consensus at regional and country levels on sector roadmaps and to identify resource requirements as well as sources of financing for implementing the proposed programs for the improvement of transport sector operations and the reduction of logistics costs in the Pacific region.

**e. Social or environmental issues or concerns:** Not applicable.

**f. Plans for disseminating results/deliverables:** Outputs of the RETA will be published and will establish a compendium providing a guide for the private operators, investors, and financiers, PDMC governments, funding agencies, and other interested parties of transport operations in the Pacific region. The RETA will conduct regional workshops to discuss and disseminate the findings among the policy makers, public and private sector representatives, and stakeholders.

<p><b>7. Proposed executing/implementing agencies:</b> ADB will be the Executing/Implementing Agency. Consulting services will be engaged in accordance with ADB's <i>Guidelines on the Use of Consultants</i>. Transport agencies in the Pacific region will be counterpart agencies to the study. ADB will coordinate the RETA with the regional transport organizations, including the Pacific Islands Forum and transport divisions of the United Nations Economic and Social Commission for Asia and the Pacific.</p>
<p><b>8. Nature/extent of Government/beneficiary involvement in identifying or conceptualizing the assistance:</b> The concept paper will be sent for agreement to the relevant agencies including the central agencies of PDMCs upon confirmation of funding.</p>
<p><b>9. Timetable for assistance design, processing, and implementation</b></p> <p>a. Year included in regional work plan: 2004</p> <p>b. Expected date of submission for approval Lending: June 2004 Nonlending (project preparatory): Nonlending (other than project preparatory):</p> <p>c. Period and duration of assistance{s} Lending: Nonlending: June-December 2004</p>
<p><b>10. Financing Plan</b> (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending  <input type="checkbox"/> Ordinary capital resources:  <input type="checkbox"/> Asian Development Fund:  <input type="checkbox"/> Other:</p> <p>If cofinancing is required indicate sources, and amount sought:  If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):</p> <p>b. For nonlending  <input type="checkbox"/> No resources required, other than ADB staff  <input type="checkbox"/> ADB's administrative budget:  <input type="checkbox"/> Grant TA funds:  <input checked="" type="checkbox"/> Other (Channel Financing Cooperation Funds): \$427,000</p> <p>If cofinancing is required indicate sources, and amount sought:  If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):</p> <p>a. For lending  <input type="checkbox"/> Ordinary capital resources:  <input type="checkbox"/> Asian Development Fund:  <input type="checkbox"/> Other:</p> <p>Other donor-funded road rehabilitation projects are underway in the Southern region. The present Project is coordinated with the other projects.</p>

ADB = Asian Development Bank, CSP = country strategy and program, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, RETA = regional technical assistance, TA = technical assistance.

**Table A8.3: Pacific Financial Technical Assistance Centre**

<b>1. Type/modality of assistance</b> <input type="checkbox"/> Lending <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input checked="" type="checkbox"/> Other than project preparatory <input checked="" type="checkbox"/> Economic, thematic, and sector work <input checked="" type="checkbox"/> Institutional development <input type="checkbox"/> Other:	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector: b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: <div style="float: right;"> <input type="checkbox"/> Human development  <input checked="" type="checkbox"/> Good governance  <input type="checkbox"/> Private sector development  <input type="checkbox"/> Social protection         </div>	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> Pacific Department	
<b>5. Responsible ADB officer:</b> Michaela Prokop, Economist	
<b>6. Description of assistance</b> <p><b>a. Background/linkage to country/regional strategy:</b> The focus of ADB's <i>Pacific Strategy for the New Millennium</i> relating to 2000–2004, and the 1996–1999 strategy, has been on economic growth as a means to reduce poverty through macroeconomic stability, public sector economic and financial management reforms, private sector development, and inclusive social development.</p> <p>Many PDMCs have undertaken economic and financial management reforms in the past decade. However, their small population, geographical isolation, and stages of development mean that capacity (in terms of skills and number of qualified people) to undertake and sustain economic and financial management is very limited. The International Monetary Fund, ADB, AusAID, and New Zealand Overseas Development Assistance have supported the establishment and continuing operations of Pacific Financial Technical Assistance Centre (PFTAC) as a main source of technical advice and hands-on assistance to PDMCs to underpin external agency support in these areas. In the past, PFTAC has provided extensive services to PDMCs and strengthened regional consensus on such issues. ADB's coordination with PFTAC has also been further strengthened over the recent past.</p> <p>Given the limited number of qualified people in the region, and realizing that improving these skills needs time, PDMCs will continue to require professional assistance, particularly in skills transfer and training in economic and financial management on a regular and long-term basis.</p>	

**b. Goal and purpose:** Sound financial, fiscal, and economic management in support of efficient government, effective economic resource allocation, and macroeconomic stability. The TA will promote regional cooperation through regional seminars and workshops.

**c. Components and outputs:** PFTAC's overall objective is to assist PDMCs improve financial and administrative reforms through capacity building, provision of policy advice, and practical technical assistance in four main areas: (i) strengthening public expenditure management and control through improvements in budgetary and accounting arrangements; (ii) improving the formulation and implementation of tax policy reform and strengthening tax administration and collection; (iii) ensuring financial sector stability and soundness of the banking system through adequate regulatory systems and effective prudential supervision; and (iv) improving capability to produce basic economic and financial statistics on an accurate, coherent, and timely basis.

**d. Expected results and deliverables:** Improvement of PDMC's capacity to provide policy advice and formulation, and to implement/sustain reforms in economic and financial management.

**e. Social or environmental issues or concerns:** Not applicable

**f. Plans for disseminating results/deliverables:** Not applicable

**7. Proposed executing/implementing agencies:** International Monetary Fund

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** PFTAC's activities have been judged as very successful by PDMCs and funding agencies since its inception in 1993.

**9. Timetable for assistance design, processing, and implementation**

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2004, 2005, 2006

b. Expected date of submission for approval

Lending:

Nonlending (project preparatory): not applicable

Nonlending (other than project preparatory): May 2004

c. Period and duration of assistance

Lending: not applicable

Nonlending: Annual assistance of \$433,000 (in principle, agreement of funding agencies is that assistance will be available for 3 years [2004–2006] subject to annual review and availability of funds)

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

a. For lending

☐ Ordinary capital resources:

☐ Asian Development Fund:

☐ Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

b. For nonlending

☐ No resources required, other than ADB staff

☐ ADB's administrative budget

☒ Grant TA funds: TA Special Fund: \$433,000

☐ Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A8.4: Regional Strengthening of the Provision of Basic Social Services through Information and Communication Technology**

<b>1. Type/modality of assistance</b> <input type="checkbox"/> Lending <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input type="checkbox"/> Other than project preparatory <input type="checkbox"/> Economic, thematic, and sector work <input checked="" type="checkbox"/> Institutional development <input type="checkbox"/> Other	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector: b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input checked="" type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> PAHQ/PARD	
<b>5. Responsible ADB officer:</b> Luigi Bodda, Project Economist	
<b>6. Description of assistance</b> <p><b>a. Background/linkage to country/regional strategy:</b> ADB's Pacific Strategy states that ADB will work with the PDMCs to utilize ICT in overcoming constraints associated with small size and isolation, and realizing potential gains offered by links to global markets.</p> <p>Despite more Pacific islanders being trained in ICT-related fields, human resources and capacity remain limited, especially in remote and poor areas. This has been identified by a number of stakeholders as one of the focus areas that needs to be readdressed to ensure that the region can begin to catch up with the rest of the world.</p> <p>ADB will provide assistance for the provision of basic social service to remote communities by expanding the reach of ICT. This needs institutional strengthening as well as ICT-related human resources development. Human resources in this instance are not limited to ICT personnel and professionals, but also to any person utilizing such infrastructure or intending to. This regional TA will foster cooperation among PDMCs while taking advantage of the relative economies of scale.</p> <p><b>b. Goal and purpose:</b> The overall objective of the assistance is to enhance an enabling environment for poverty reduction by strengthening the provision of basic social services in remote areas in the Pacific through the use of ICT.</p>	

**b. Components and outputs:** Outputs of this regional project will include: (i) assessment of the ICT-related human capacity in the Pacific to take advantage of the benefits that ICT could bring, (ii) enhancement of awareness of the possible benefits and how to maximize them, (iii) recommendations for institutional strengthening and capacity building, (iv) skill transfer to local counterpart staff and the wider public, and (vi) recommendations for making the project sustainable and beneficial to the poor.

**c. Expected results and deliverables:** The expected results of the assistance will include: (i) enhanced awareness and acceptance of ICT; (ii) establishment of the requirement for ICT development; (iii) establishment of tasks and responsibilities among the relevant stakeholders; (iv) assessment of the necessary institutional and organizational changes; (v) assessment of the training needs, including scenarios for training purposes; (vi) training on the job; and (vii) training of the local counterpart staff as local trainers.

**d. Social or environmental issues or concerns:** No major social and environmental issues are expected.

**e. Plans for disseminating results/deliverables:** The main findings of the Project will be widely disseminated. If successfully implemented, there will be a specific awareness campaign to enlarge the system to other Pacific island countries.

**7. Proposed executing/implementing agencies:** ADB will be the Executing Agency. In each PDMC involved, the ministry of finance (or its equivalent) will act as implementing agency for the TA.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** During the ICT Readiness Workshop in the Pacific and during discussions with government officials and education providers in the Pacific, it was recognized that assistance is needed to improve and expand institutional strengthening and human resources development in the Pacific in order to reduce poverty and stimulate growth.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSPU: 2005
- b. Expected date of submission for approval
  - Lending:
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory): July 2005
- c. Period and duration of assistance
  - Lending:
  - Nonlending:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - ☐ Ordinary capital resources
  - ☐ Asian Development Fund:
  - ☐ Other

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
  - ☐ No resources required, other than ADB staff
  - ☐ ADB's administrative budget
  - ☒ Grant TA funds: \$250,000

ADB = Asian Development Bank, CSPU = country strategy and program update, ICT = information and communications technology, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, TA = technical assistance.



**Table A8.5: Strengthening Environmental Governance in the Pacific**

<b>1. Type/modality of assistance</b> <input type="checkbox"/> Lending <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input checked="" type="checkbox"/> Other than project preparatory <input type="checkbox"/> Economic, thematic, and sector work <input checked="" type="checkbox"/> Institutional development <input checked="" type="checkbox"/> Other: Capacity Building	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector:  b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input type="checkbox"/> Poverty intervention  c. Key thematic area(s) <input type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input checked="" type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other:  <input checked="" type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> PAHQ/PARD	
<b>6. Responsible ADB officer:</b> Daniele Ponzi, Senior Economist (Environment)	
<b>6. Description of assistance</b>  <b>a. Background/linkage to country/regional strategy:</b> Effective national and regional environmental governance is a prerequisite for sustainable development and to minimize national and transboundary environmental impacts in the Pacific. Environmental governance in the Pacific is constrained by low capacity and institutional weaknesses related to implementation and adequacy of environmental legislation and associated regulations, and basic data on resource management and environmental quality trends.  In the Rio Declaration on Environment and Development, countries throughout the world undertook to develop their environmental legislation and associated regulations, such as for environmental impact assessments, to underpin policies and programs to support improved environmental quality and natural resources management. Many Pacific countries have become parties to multilateral environmental agreements. A minority of PDMCs has enacted environmental legislation, and most have yet to develop and allocate effective administrative mechanisms and associated resources to implement this legislation. These efforts are further constrained by inadequate environmental information and data, which is also important for developmental planning, monitoring of the Millennium Development Goals (MDGs), and regional cooperation related to transboundary and international environmental issues. There have been several recent assessments of environmental conditions and trends in the Pacific at both the regional and country levels. However, the availability of reliable and timely basic environmental data in the Pacific remains very weak. It is important to build or strengthen both legal and information	

aspects together to enhance their relevance and effectiveness. This would also result in cost effectiveness, which is critical for sustainability of such initiatives.

Thus, there is a need to build and/or strengthen (i) technical capacity in the field of environmental law and policy; (ii) institutions for the collection, analysis, and dissemination of reliable and relevant environment and natural resources data; and (iii) understanding among government officials and environmental management practitioners. This Project proposes to address these important items in the Pacific region.

**b. Goal and purpose:** The goal of the Project is to build and/or strengthen capacity and institutional structures for sustainable development and to minimize national and transboundary environmental impacts. The purpose of the Project would be to (i) train lawyers, judges, legislators and their staff, executive branch government officials, and other environmental management practitioners, and to enhance legal technical expertise to support the passage and implementation of environmental policies, legislation, and regulations; (ii) identify the relevant environmental information and data that will underpin enforcement; (iii) strengthen the existing national environmental and natural resources information management systems through a Pacific Environment Information Management System (building on earlier investments in capacity enhancement by ADB and other funding agencies) and enhanced capacity at the national level for institutionalized data collection, data analysis, documentation, and data presentation; (iv) strengthen regional cooperation and effective enforcement of various agreements and treaties related to regional environmental governance and minimize transboundary environmental impacts; and (v) institutionalize environmental monitoring and state of environment reporting as the primary means for environmental management at the local, national, and regional level.

**c. Components and outputs:** The Project would comprise the following components: (i) development of course materials and conduct of training course for government officials (from the executive, legislative, and judicial branches), environmental management practitioners, and environmental law and policy trainers in the area of environmental law; (ii) development of a model syllabus for teaching environmental law at university level as well as non-degree training curricula for practitioners; (iii) formulation of regionally tailored environmental law references to be used for training in environmental laws at basic as well as advanced levels; (iv) identification of appropriate parameters for data collection and monitoring that will underpin these laws; (v) establishment of appropriate institutional arrangements to support information collection and management; (vi) a program of environmental and natural resources information collection and management, linked to national state of environment reports and the United Nations Environment Programme's Global Environmental Outlook series; and (vii) information analysis and dissemination, including through the media. The outputs would comprise improved environmental governance at country and regional level including implementation and formulation capacity for environmental laws, systematic monitoring of various environmental parameters underpinning those laws, and increased transparency and availability of environmental information.

**d. Expected results and deliverables:** The Project would produce: (i) improved capacity and tools to help government officials and a selected group of policy and legislation experts to better understand policy and legal issues and to collect environmental evidence that will lead to successful prosecutions; (ii) incorporation of environmental law into the curricula of Pacific region universities and other institutions; (iii) creation of a core group of experts for the effective provision of TA as well as the teaching of environmental policy and law relating to the Pacific; (iv) regular and institutionalized monitoring of natural resources and environmental quality at sample locations in each of the PDMCs; (v) creation of a web site to disseminate the results of environmental monitoring; (vi) availability of information for use in the design and implementation of appropriate strategies for sustainable development of natural resources and mainstreaming environment in Pacific economic development planning; and (vii) awareness generation.

**e. Social or environmental issues or concerns:** The regional TA is specifically designed to support capacity building for improved environmental management in the Pacific and adverse social and environmental impacts are not expected. On the other hand, it would provide an improved basis for addressing the social and environmental concerns of the poor and the vulnerable in the Pacific region.

**f. Plans for disseminating results/deliverables:** The results would be disseminated through a web site, through the media, and regular publications at the local, national, and regional levels. Significant training activities are also envisioned.

**7. Proposed executing/implementing agencies:** The regional TA will work in cooperation with the United Nations Environment Programme, through a regional organization, IUCN–The World Conservation Union Environmental Law Center, and USP. The regional TA will also closely coordinate with national environment and natural resources management agencies/departments, and finance and economic planning agencies/departments, as appropriate.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

The Project would be designed and implemented through active participation of stakeholders that include the concerned government agencies/departments at the local, and national levels, NGOs, local communities, and other members of the civil society at the national level, and the appropriate and concerned regional institutions at the regional level.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSPU: 2005
- b. Expected date of submission for approval
  - Lending:
  - Nonlending:
  - Nonlending: 2005
- c. Period and duration of assistance
  - Lending:
  - Nonlending:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - ☐ Ordinary capital resources
  - ☐ Asian Development Fund:
  - ☐ Other

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
  - ☐ No resources required, other than ADB staff
  - ☐ ADB's administrative budget
  - ☒ Grant TA funds
    - ☒ TA Special Fund: \$650,000
    - ☒ Other (bilateral and multilateral trust funds, and cooperating organizations): \$250,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

Total Cost:	\$1,100,000
ADB	\$ 650,000
Cofinancing	\$ 250,000
Participating PDMCs	\$ 200,000

ADB = Asian Development Bank, CSPU = country strategy and program update, NGO = nongovernment organization, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A8.6: Review of Regional Access Arrangements in Fisheries**

<b>1. Type/modality of assistance</b> <input type="checkbox"/> Lending <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input type="checkbox"/> Other than project preparatory <input type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input checked="" type="checkbox"/> Other: RETA	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Natural Resources Subsector: Fisheries b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input checked="" type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: <input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> Pacific Department	
<b>5. Responsible ADB officer:</b> Thomas Gloerfelt-Tarp, Natural Resources Specialist	
<b>6. Description of assistance</b> <p><b>a. Background/linkage to country/regional strategy:</b> The Parties to the Nauru Agreement concluded an arrangement for reciprocal access in the purse seine fishery in December 1994, with the arrangement, known as the Federated States of Micronesia (FSM) Arrangement for Regional Purse Seine Access, entering into force in September 1995. The Arrangement has been successful in attracting purse seine vessels to base in Parties to the Arrangement with over 20 vessels currently on the Register of Eligible Vessels, and based in FSM, Kiribati, Marshall Islands, Papua New Guinea, and Solomon Islands. At the same time as this has occurred, there has been a rapid growth in the locally based longline fisheries in PDMCs, including Cook Islands, FSM, Fiji Islands, Papua New Guinea, Samoa, Solomon Islands, and Tonga. Other Pacific island countries including Kiribati, Niue, and Vanuatu are also investigating options to develop longline operations. In general, the longline operations are targeting the higher-value Japanese fresh sashimi market, but albacore is also supplied to canneries in the region.</p> <p>As fleets have grown, the need to negotiate access to beyond the waters where vessels are based has become apparent and the possibility of negotiating an arrangement similar to the FSM Arrangement has been discussed. Such an arrangement would increase the flexibility of operation for longline vessels based in PDMCs, but given the differing development levels of the fishery across PDMCs, care would need to be taken to ensure an equitable spread of benefits across the parties to the arrangement.</p>	

**b. Goal and purpose:** To review the contributions of the regional access arrangements to ascertain their contribution towards the development of the domestic industries; and to determine whether a similar arrangement may be applicable for longline operations.

**c. Components and outputs:** There are two components of the study: (i) analyzing the benefits and the costs, direct and indirect, of providing regional access and recommend options to strengthen the arrangement in terms of domestic industry development; and (ii) determining whether a regional access arrangement is possible for longline operations.

**d. Expected results and deliverables:** Strengthening of regional access arrangements, thus maximizing benefits flowing to Pacific Island countries. Prospects for longline arrangements will be determined.

**e. Social or environmental issues or concerns:** Sustainable benefits for the use of the tuna resources.

**f. Plans for disseminating results/deliverables:** Results will be published under the Pacific Studies Series and will be disseminated regionwide to all Pacific Island countries' relevant ministries and/or departments, development agencies, private sector, fisheries associations, regional libraries, NGOs, and selected scientific and educational institutions.

**7. Proposed executing/implementing agencies:** Forum Fisheries Agency

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** The issue was discussed during the Forum Fisheries Meeting covering all the Pacific Countries.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2004
- b. Expected date of submission for approval
  - Lending:
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory): July 2004
- c. Period and duration of assistance
  - Lending:
  - Nonlending: 10 months, beginning 15 April 2003

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - ☐ Ordinary capital resources:
  - ☐ Asian Development Fund:
  - ☐ Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
  - ☐ No resources required, other than ADB staff
  - ☐ ADB's administrative budget:
  - ☒ Grant TA funds: \$300,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, NGO = nongovernment organization, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A8.7: Privatization and Regulatory Frameworks in the Pacific**

<b>1. Type/modality of assistance</b> <input type="checkbox"/> Lending <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input checked="" type="checkbox"/> Other than project preparatory <input checked="" type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input type="checkbox"/> Other:	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector: b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: <input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> PAHQ/PARD	
<b>5. Responsible ADB officer:</b> Winfried Wicklein, Private Sector Development Specialist	
<b>6. Description of assistance</b> <p><b>a. Background/linkage to country/regional strategy:</b> Most PDMC economies are dominated by the public sector, with the ratio of government expenditure to GDP at nearly 30% in the region (versus less than 14% for other developing countries). State-owned enterprises (SOEs) are engaged in a wide range of economic activities in most of the relevant sectors, including those that are usually undertaken by the private sector in larger developed economies. At the same time, most PDMCs have weak regulation in place, which often is heavily politicized. Moreover, the small market sizes of PDMCs pose significant challenges for the design of regulatory regimes in terms of financial and technical capacities. As a result, performance levels are relatively low and SOEs tend to crowd out private investment. The situation has also created an inertia exacerbating the hesitance to change. Privatization is generally slow and hampered by political interference, poor understanding of the concept of, and benefits from, privatization, and often, difficulties with property rights. Furthermore, there is a widespread perception that the small market size makes competition unviable and, if ever, only occurs at the expense of the consumer.</p> <p>However, there is a certain degree of investor interest in the provision of PDMC infrastructure services, as can be seen for instance in the ICT sector. There is also international evidence that even a smaller state can retain ownership of resources but contract out management through competitive bidding to the private sector, thereby gaining efficiency. An improved regulatory regime that allows for competition and the rapid adoption of technical</p>	

change, while protecting consumer interests, combined with the sale of government-owned commercial businesses, would greatly lower costs, optimize the size of state interests in the economy, and increase the overall welfare of the people.

While reform in this area is urgently needed, the special characteristics of PDMCs require a prudent and sensible staged approach toward privatization and regulation. The intensity and scope of privatization, the sequencing of adequate supporting policies and regulatory frameworks, and awareness of decision makers and the general public are all important parameters to consider. Despite the importance for the economic development of PDMCs, little work has been done in the Pacific to assess these issues and develop appropriate approaches and solutions; hence the proposed regional TA.

The issues and constraints associated with privatization and regulation are of a similar nature throughout the Pacific. Therefore, regional cooperation offers the benefits of economies of scale, experience sharing, benchmarking, and political commitment through peer support and, as far as possible, consistency in related regulatory and legislative reforms, especially in case regional regulatory solutions will be favored. The proposed regional TA supports private sector development, in line with ADB's private sector development strategy. It supports economic growth and poverty reduction through private sector development and employment creation, which is in line with *A Pacific Strategy for the New Millennium* and individual PDMC country strategies. Private sector development has been identified as a strategic thrust for regional cooperation for the Pacific.

**b. Goal and purpose:** The regional TA will promote private sector development in the Pacific by encouraging privatization, where possible and in whichever form feasible, and helping develop adequate supporting regulatory and legal frameworks that protect consumers and assure investors. Increased private sector participation in infrastructure provision will increase the efficiency of services and release government budgets from subsidizing inefficiently operating SOEs, thereby freeing up public resources for social expenditures. An enhanced regulatory and legal framework will also improve the general business climate and send important signals to potential investors in other sectors.

**c. Components and outputs:** The proposed TA will, before the special background of the constraints faced by PDMCs, assess the options for privatization and adequate regulatory and legal frameworks, develop model regulatory frameworks on the basis of selected country/sector studies, and provide high-level advice to regional policy makers in these areas. The results of the exercise will be disseminated to policy makers through workshops and publications, and an information campaign targeting the general public will be included.

**d. Expected results and deliverables:**

- a report on options for privatization in the PDMC context;
- for the major privatization options identified, the report will include recommendations for an adequate supporting regulatory and legal framework;
- model structures and legal frameworks for the regulatory options identified; and
- increased awareness of policy makers and the general public about options for, and benefits of, private sector participation in infrastructure provision.

**e. Social or environmental issues or concerns:** None.

**f. Plans for disseminating results/deliverables:**

- The process will involve workshops and seminars in PDMCs as well as a regional workshop, which will help disseminate information during the TA implementation period itself.
- Public dissemination of the final report(s) through publication and ADB web site.

**7. Proposed executing/implementing agencies:** ADB will be the Executing Agency.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

During private sector assessments in four PDMCs during 2002 and early 2003, the predominance of SOEs in PDMC economies and the adverse implications were identified as a major obstacle to PSD. This was generally acknowledged and agreed upon by governments and fully supported by private sector representatives.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2005
- b. Expected date of submission for approval
  - Lending:
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory): July 2005
- c. Period and duration of assistance
  - Lending:
  - Nonlending: 24 months

**10. Financing Plan**

- a. For lending
  - ☐ Ordinary capital resources:
  - ☐ Asian Development Fund:
  - ☐ Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
  - ☐ No resources required, other than ADB staff
  - ☐ ADB's administrative budget:
  - ☒ Grant TA funds: to be determined \$600,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, ICT = information and communications technology, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, TA = technical assistance.



**Table A8.8: Regional E-Governance Project in the Pacific**

<b>1. Type/modality of assistance</b> <input type="checkbox"/> Lending <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Nonlending <input checked="" type="checkbox"/> Project preparatory <input type="checkbox"/> Other than project preparatory <input type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input type="checkbox"/> Other	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector: b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input checked="" type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> PAHQ/PARD	
<b>5. Responsible ADB officer:</b> Luigi Bodda, Project Economist	
<b>6. Description of assistance</b> <p><b>a. Background/linkage to country/regional strategy:</b> PDMC leaders are aware of the critical importance of ICT in fostering governance and regional cooperation and their vision envisages a regional community in which the processes of work, commerce, learning, social interaction, and government are facilitated and enhanced by ICT, enabling all citizens to take part in opportunities brought by the global information economy. This vision was reconfirmed during the ADB-financed workshop on ICT readiness in the Pacific. This regional TA seeks to assist the PDMCs in fostering cooperation.</p> <p>Public administration is information intensive. Electronic governance (e-governance) is the application of ICT to the process of government functioning to bring out simple accountable responsive and transparent governance. Furthermore, governance and ICT development in the Pacific region will be strengthened by regional cooperation.</p> <p><b>b. Goal and purpose:</b> The objective of the Project is to assist the PDMCs in assessing their e-governance demand and implementation capacity. The TA will also identify and formulate a regional e-government project, including a feasibility study, suitable for financing by ADB or other external funding agencies, and assess its long-term sustainability. The scope of the ensuing project will be determined in consultation with PDMCs based on the findings of the assessment.</p>	

**c. Components and outputs:** Outputs of this regional Project will include: (i) assessment of e-governance demand and implementation capacity, (ii) enhancement of awareness of the possible benefits of e-governance, (iii) review of the best practices and lessons learned, (iv) preparation of a feasibility study for a subregional e-governance project for external financing, and (v) recommendations for making the project sustainable and beneficial to the poor.

**d. Expected results and deliverables:** The implementation of the assistance will occur in two phases: (i) assessment of demand/supply and implementation capacity of e-governance in the Pacific, and (ii) development of a subregional e-governance project suitable for financing by ADB or other external funding agencies and assessment of its long-term sustainability.

**e. Social or environmental issues or concerns:** The project will be designed "easy maintenance" as modular and scalable to allow the inclusion of other PDMCs. Project selection criteria will include (i) contributing to poverty reduction, governance, and social inclusion; (ii) addressing common issues among the PDMCs; (iii) enhancing regional cooperation and integration; (iv) involving areas where regional cooperation can decrease costs (economies of scale) and increase value (synergies); (v) involving sectors where ADB plays a pivotal role; and (vi) involving areas where the government(s) and ADB have an established policy dialogue.

**f. Plans for disseminating results/deliverables:** The main findings of the Project will be widely disseminated. If successfully implemented, there will be a specific awareness campaign to enlarge the system to other Pacific island countries.

**7. Proposed executing/implementing agencies:** ADB will be the Executing Agency. In each PDMC involved, the ministry of finance (or its equivalent) will act as implementing agency for the TA.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** During the ICT Readiness Workshop in the Pacific and during discussions with government officials and education providers in the Pacific, it was recognized that assistance is needed to improve and expand governance, social inclusion in the Pacific in order to reduce poverty and stimulate growth. The consultation will include all stakeholders including women, poor, and indigenous and rural people.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSPU: 2006
- b. Expected date of submission for approval
  - Lending:
  - Nonlending:
  - Nonlending: July 2006
- c. Period and duration of assistance
  - Lending:
  - Nonlending:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - ☐ Ordinary capital resources
  - ☐ Asian Development Fund:
  - ☐ Other

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
  - ☐ No resources required, other than ADB staff
  - ☐ ADB's administrative budget
  - ☒ Grant TA funds: \$350,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSPU = country strategy and program update, ICT = information and communications technology, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A8.9: Renewable Energy Program for the Pacific Islands**

<b>1. Type/modality of assistance</b> <input type="checkbox"/> Lending <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> Other: <input checked="" type="checkbox"/> Nonlending <input type="checkbox"/> Project preparatory <input checked="" type="checkbox"/> Other than project preparatory <input type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input type="checkbox"/> Other	
<b>2. Assistance Focus</b> a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector: Energy b. For project preparatory and lending, classification <input type="checkbox"/> Core poverty intervention <input type="checkbox"/> Poverty intervention c. Key thematic area(s) <input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input checked="" type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: <input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<b>3. Coverage</b> <input type="checkbox"/> Country <input checked="" type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development	
<b>4. Responsible division/department:</b> PAHQ/PARD	
<b>Responsible ADB officer:</b> Daniele Ponzi, Senior Economist (Environment)	
<b>6. Description of assistance</b> <b>a. Background/linkage to country/regional strategy:</b> In PDMCs, petroleum products account for some 80% of primary commercial energy consumption, due to the use of diesel-fired power generation units and transportation. Renewable energy, mostly mini-hydro, contributes less than 10% of commercial energy use. About 70% of Pacific islanders have no access to electricity and the region's natural energy resources that have the potential to simultaneously increase development are underutilized. Much of the population is isolated and in very small concentrations. Therefore, markets are thin, difficult to serve, and without economies of scale.  The small size and isolated location of many outer islands result in the cost of conventional energy being three to four times higher than in the capital cities which in turn is substantially higher than in neighboring countries such as Australia and New Zealand. The high price and relatively high uncertainty (low security) of fossil fuel supply combined with the limited demand increases the unit cost of production for conventional power production.  Energy access is a key condition for poverty reduction. Without better access to sustainable energy services it is difficult to generate income for the poor and more generally achieve economic development goals. In addition, schools and hospitals require adequate supplies of energy for lighting, water supply, communications, and cooling.  The associated (ongoing) Renewable Energy and Energy Efficiency Project (REEP) regional TA will prepare, among others, a pipeline of potential renewable and energy efficiency projects for financing by various sources (ADB, GEF, UNFCCC-	

CDM, etc.), at the concept level. These project concepts will require further screening and feasibility analysis to establish their technical, financial, economic, social, and environment viability as well as the development of appropriate investment and implementation programs.

**b. Goal and purpose:** The purpose of the TA is to build on the work undertaken and results achieved under current regional renewable energy technical assistance to PDMCs—the REEP regional TA—and prepare feasibility studies for selected investment projects in mature renewable energy and energy efficiency applications. The TA will facilitate mobilization of external financing and subsequent project implementation (potential ADB/GEF/CDM or other funding sources) by conducting feasibility studies for the most promising projects selected from a long list developed under REEP.

**c. Components and outputs:**

- preliminary assessment of pipeline projects technical, financial, economic, social, and environmental viability;
- selection/screening and shortlisting of projects;
- undertaking of feasibility studies for the shortlisted projects; and
- mobilization of funding (ADB and external bilateral/multilateral).

**d. Expected results and deliverables:**

- selected “loan fact finding-ready” projects will be included in the lending program pipeline for a number of PDMCs; and
- a number of additional projects will be included in the financing programs of other funding agencies.

**e. Social or environmental issues or concerns:** The proposed activities will have significant positive environmental and social benefits, and all ADB social and environmental requirements will be followed.

**f. Plans for disseminating results/deliverables:** The results of the study will be disseminated through information and training materials to generate awareness about renewable energy sources and energy conservation practices.

**7. Proposed executing/implementing agencies:** ADB will be the Executing Agency. The respective energy ministries or electricity authorities of the selected PDMCs will assist in implementation.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

Active participation of local beneficiaries and the national governments right from the inception stage will be pursued.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSPU: 2005
- b. Expected date of submission for approval
  - Lending:
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory): July/August 2006
- c. Period and duration of assistance
  - Lending:
  - Nonlending: Commence November 2005

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - ☐ Ordinary capital resources
  - ☐ Asian Development Fund:
  - ☐ Other

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
  - ☐ No resources required, other than ADB staff
  - ☐ ADB's administrative budget
  - ☒ Grant TA funds

- ☐ TA Special Fund:  
☒ Other (Channel Financing Cooperation Funds): \$600,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

The total cost of the TA is estimated at \$750,000 equivalent, comprising \$600,000 in foreign exchange and \$150,000 equivalent in local currency costs. It is proposed that ADB Danish Cooperation Fund for Renewable Energy and Energy Efficiency in Rural Areas) provide \$600,000 equivalent on a grant basis to finance the entire foreign exchange cost. The selected governments will finance the remaining \$150,000 equivalent of the local currency costs.

ADB financing: \$600,000

Other financing: \$150,000

ADB = Asian Development Bank, CDM = Clean Development Mechanism, CSPU = country strategy and program update, GEF = Global Environment Facility, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, TA = technical assistance, UNFCCC = United Nations Framework Convention on Climate Change.

**Table A8.10: Development of Fisheries Taxation Regimes  
in Pacific Island Countries**

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p style="margin-left: 20px;"> <input type="checkbox"/> Project loan  <input type="checkbox"/> Program loan  <input type="checkbox"/> Sector loan  <input type="checkbox"/> Sector development program loan  <input type="checkbox"/> Other:         </p> <p><input checked="" type="checkbox"/> Nonlending</p> <p style="margin-left: 20px;"> <input type="checkbox"/> Project preparatory  <input checked="" type="checkbox"/> Other than project preparatory  <input type="checkbox"/> Economic, thematic, and sector work  <input type="checkbox"/> Institutional development  <input type="checkbox"/> Other         </p>						
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the          Sector:          Subsector: Environment</p> <p>b. For project preparatory and lending, classification</p> <p style="margin-left: 20px;"> <input type="checkbox"/> Core poverty intervention  <input type="checkbox"/> Poverty intervention         </p> <p>c. Key thematic area(s)</p> <table style="width: 100%; border: none;"> <tr> <td style="vertical-align: top; width: 50%;"> <input checked="" type="checkbox"/> Economic growth  <input type="checkbox"/> Gender and development  <input type="checkbox"/> Environmental protection  <input checked="" type="checkbox"/> Regional cooperation  <input type="checkbox"/> Other:         </td> <td style="vertical-align: top; width: 50%;"> <input type="checkbox"/> Human development  <input checked="" type="checkbox"/> Good governance  <input type="checkbox"/> Private sector development  <input checked="" type="checkbox"/> Social protection         </td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other:	<input type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input checked="" type="checkbox"/> Social protection				
<input checked="" type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input checked="" type="checkbox"/> Regional cooperation <input type="checkbox"/> Other:	<input type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input checked="" type="checkbox"/> Social protection					
<p><b>3. Coverage</b></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;"><input type="checkbox"/> Country</td> <td style="width: 33%;"><input checked="" type="checkbox"/> Regional</td> <td style="width: 33%;"><input type="checkbox"/> Interregional</td> </tr> <tr> <td colspan="3"><input type="checkbox"/> Internal policy development</td> </tr> </table>	<input type="checkbox"/> Country	<input checked="" type="checkbox"/> Regional	<input type="checkbox"/> Interregional	<input type="checkbox"/> Internal policy development		
<input type="checkbox"/> Country	<input checked="" type="checkbox"/> Regional	<input type="checkbox"/> Interregional				
<input type="checkbox"/> Internal policy development						
<p><b>4. Responsible division/department:</b> PAHQ/PARD</p>						
<p><b>6. Responsible ADB officer:</b> Thomas Gloerfelt-Tarp, Natural Resources Specialist</p>						
<p><b>6. Description of assistance</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> PDMCs have placed a high priority on the development of their domestic tuna industries and most are actively engaged in facilitating the development of fishing capacity in the purse seine and/or longline fisheries. Crucial to the development of the industry at this point is a conducive framework for investment, including a conducive tax regime. The mobile nature of the tuna fishery means that participants in the industry have the opportunity to locate their operations in different PDMCs and the taxation regime in place in a particular PDMC can be a significant factor in the decision on where an operation might be based. The lack of harmonization in tax regimes could also provide an opportunity for investors to play PDMCs off against each other and for this reason PDMCs need to consider the advantages of harmonizing taxation regimes.</p> <p><b>b. Goal and purpose:</b> Review the fisheries tax regimes in PDMCs looking at opportunities for regional harmonization and the development of a framework conducive to the development of the tuna industry.</p> <p><b>c. Components and outputs:</b> Undertake an initial assessment of the basic features of a fisheries taxation regime conducive to the development of the domestic industry in PDMCs, review and analyze the fisheries taxation regime in PDMCs to identify areas where the framework requires improvement, and assess areas where PDMCs could utilize a harmonized approach to fisheries taxation</p>						

**d. Expected results and deliverables:** An improved fisheries taxation regime leading to the growth of the tuna industry in PDMCs.

**e. Social or environmental issues or concerns:** Sustainable economic benefits from the exploitation of the tuna resources of PDMCs and the establishment of a viable industry able to contribute to the cost of fisheries management.

**f. Plans for disseminating results/deliverables:** Results will be published under the Pacific Studies Series and will be disseminated regionwide to all Pacific island countries' relevant ministries and/or departments, development agencies, private sector, fisheries associations, regional libraries, NGOs, and selected scientific and educational institutions.

**7. Proposed executing/implementing agencies:** Forum Fisheries Agency

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**  
The issue has been discussed during the Forum Fisheries Meeting covering all the Pacific Countries.

**9. Timetable for assistance design, processing, and implementation**

a. Year included in CSPU: 2006

b. Expected date of submission for approval

Lending:

Nonlending:

Nonlending: July 2006

c. Period and duration of assistance

Lending:

Nonlending: Commence August 2006 for a period of 6 months

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

a. For lending

- ☐ Ordinary capital resources  
☐ Asian Development Fund:  
☐ Other

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

b. For nonlending

- ☐ No resources required, other than ADB staff  
☐ ADB's administrative budget  
☐ Grant TA funds:  
☒ Other (Channel Financing Cooperation Funds): \$400,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSPU = country strategy and program update, NGO = nongovernment organization, PDMC = Pacific developing member country, RCSP = regional cooperation strategy and program, TA = technical assistance.