

PRIVATE SECTOR ASSESSMENT

A. Performance, Problems, and Opportunities

1. The growth necessary to ensure sustainable economic development in Pacific island economies and to provide for the social needs of their populations can only occur through investment and entrepreneurship by the private sector.¹ Private sector growth is therefore essential for the long-term prosperity of the region. In Pacific island countries, the private sector spans all parts of the economy where economic activities are undertaken for profit, no matter how small. Private sector development therefore impacts the full spectrum of economic activity.²

2. The isolation and small market size, with limited or no opportunities for scale economies in production, constrain economic activities in the Pacific region. As a result, the private sector is generally characterized by a large informal sector engaged in small-scale agriculture, retailing, and services; widespread subsistence agriculture and fishing; the cultivation and export of indigenous root crops; and exports of some specialized agricultural products. Fishing and licensing, servicing, and supplying foreign fishing fleets within territorial waters is important in several countries, as is tourism, which is widespread. In addition, small industries manufacture products that are too costly to transport over large distances. A few countries, notably Papua New Guinea and Solomon Islands, have substantial mineral resources.

3. Small island economies rely on foreign trade to supply many of their needs because they are too small to generate economies of scale needed to produce most consumer and investment goods efficiently. Trade is also necessary to export the specialized products of the islands, such as niche agricultural products, natural resources, and services such as tourism. A weak business environment makes foreign trade difficult and costly. Lack of technical and business expertise that can be overcome by foreign investment has the potential to greatly increase productivity in Pacific island economies, which is the key to their long-term prosperity. It also creates opportunities for Pacific islanders as well as training in modern techniques of business management. However, many countries have restrictive laws and regulations for foreign investment.

4. Far-reaching reform of the region's business environment is required in the quest for sustainable growth. Such reforms include the modernization of business laws to support contracting over the vast distances of the Pacific; expanded access to finance to promote business expansion; a modern competition framework to promote market efficiency; the removal of discriminatory laws and practices that hold back the economic advancement of women; and improved functioning of state-owned enterprises through efficiency improvements, privatizations, and public–private partnerships. Upgrading infrastructure and connectivity is a further key component of promoting private sector development.

¹ This summary is based on private sector assessments of the Cook Islands (2015), Fiji (2014 update [unpublished], 2013, 2006), the Marshall Islands (2003), Papua New Guinea (2015, 2008), Palau (2007), Samoa (2015, 2008), Solomon Islands (2005), Timor-Leste (2015), Tonga (2015, 2008), and Vanuatu (2009), available at <http://www.adbpsdi.org/p/private-sector-assessments.html>

² Linked Document 1 provides more details on the development of the private sector in the Pacific region.

B. Pacific Private Sector Development Strategies and Approaches

5. Many Pacific region developing member countries (DMCs) now view the private sector as a key driver of growth. They have developed or are developing their own private sector strategies as part of their national development plans and are initiating and implementing a range of private-sector-oriented reforms.

6. Similarly, development partners have recognized the importance of the private sector for generating growth and prosperity. Australia's Department of Foreign Affairs and Trade is focused on building better enabling environments for business, strengthening key markets and sectors, and maximizing the development impact of individual businesses. New Zealand's Ministry of Foreign Affairs and Trade also assists countries in improving their business environments, as well as identifying ways to encourage private sector investment for development. Pacific Islands Trade and Invest, the International Finance Corporation, and the European Union also have private sector programs, while the Pacific Islands Private Sector Organization advocates the interests of the private sector in the Pacific region. Coordination is provided through regular meetings of the Pacific Private Sector Development Donor Group.³

C. ADB Sector Experience and Assistance Program

7. The Private Sector Development Initiative (PSDI) has been the main instrument of the Asian Development Bank (ADB) for promoting private sector development in the Pacific region.⁴ The initiative focuses on helping ADB's 14 Pacific region DMCs improve their business environments by removing the constraints on doing business, foster entrepreneurship, promote business formalization, and raise productivity. A key feature is reducing barriers to women's participation in business to unlock their economic potential. Ultimately, these reforms will enable the private sector to grow, create jobs, pay taxes, and lift people out of poverty. The PSDI leverages ADB's strategic focus on private sector development by providing an ongoing broad foundation of analytical work and an extensive demand-driven reform program to improve the business enabling environment in Pacific region DMCs.

8. ADB also implements the Pacific Business Investment Facility.⁵ The facility provides business advisory services to established small and medium-sized enterprises to raise commercial finance for their growth plans. Advisory services will be tailored to business needs, and may include support for business planning; financial management; corporate governance; marketing; and specialized technical skills for product development, certification, and export.

³ This group comprises representatives from ADB, Australia's Department of Foreign Affairs and Trade, the European Investment Bank, the International Finance Corporation, the New Zealand Ministry of Foreign Affairs and Trade, and the World Bank.

⁴ The PSDI is a regional technical assistance facility cofinanced by ADB and the governments of Australia and New Zealand, which entered its third funding phase in 2013. ADB. 2006. *Technical Assistance for the Private Sector Development Initiative*. Manila (\$9,839,350, approved on 21 November 2006, cofinanced by the Government of Australia); ADB. 2009. *Technical Assistance for the Pacific Private Sector Development Initiative, Phase II*. Manila (\$12 million, approved on 10 December 2009, cofinanced by the Government of Australia); ADB. 2013. *Technical Assistance for the Pacific Private Sector Development Initiative, Phase III*. Manila (\$30.5 million, approved on 6 June 2013, cofinanced by the Government of Australia and the Government of New Zealand); ADB. 2015. *Major Change in Technical Assistance for the Pacific Private Sector Development Initiative, Phase III*. Manila (\$8.08 million, approved on 15 June 2015, financed by the Government of Australia).

⁵ ADB. 2014. *Establishment of the Pacific Business Investment Trust Fund and Technical Assistance for the Pacific Business Investment Facility*. Manila (TA 8729-REG, \$12 million, approved on 26 September 2014, cofinanced by the Government of Australia).

9. ADB's country projects that support the private sector are the AgriBusiness Support Project in Samoa and the Microfinance Expansion Project in Papua New Guinea.⁶ ADB's information and communication technology projects also support private sector growth and lower the cost of doing business.⁷ Country-level technical assistance for state-owned enterprise reform also helps provide space for private sector service provision, while policy-based operations help push business environment reforms. In addition, ADB's Pacific and Private Sector Operations departments and Office of Public–Private Partnership collaborate to identify opportunities.

10. The following lessons can be drawn from ADB's experience in supporting private sector development in the Pacific region over the past decade:

- (i) Promoting an enabling environment for the private sector in the Pacific region remains a crucial challenge and requires a thorough analysis of the economic, political, and cultural issues and challenges facing Pacific region DMCs.
- (ii) Reform in the Pacific region requires awareness building and ongoing advocacy and outreach involving policy makers, the private sector, the media, and civil society. Regional benchmarking is an effective advocacy and monitoring tool.
- (iii) A regional and subregional focus facilitates learning from experiences gained from undertaking similar reforms in other Pacific region DMCs while ensuring that local needs, capacity, and conditions are reflected in proposed reforms. Notably, success in one country has motivated requests from other countries in the region for similar reforms.
- (iv) Being able to respond rapidly to requests is a key feature of successful business environment reform. The PSDI provides the flexibility to quickly mobilize expertise as reform opportunities arise, and to demobilize promptly when political commitment wanes, allocating resources where the demand is greatest and effectively supporting reform-minded governments and champions.
- (v) Because reform initiatives often take several years to design and implement, and relationships take time to build, a commitment to long-term engagement is critical.
- (vi) It is important to sequence and prioritize reforms according to the level of political readiness and local capacities, and design reform measures to meet existing institutional capacity.
- (vii) Close collaboration and coordination among development partners is important to maximize impact, especially in small, fragile states. Harmonizing private sector development assistance through cofinancing has proved effective.

⁶ ADB. 2014. *Samoa AgriBusiness Support Project*. Manila; ADB. 2010. *Microfinance Expansion Project*. Manila.

⁷ ADB. 2011. *Tonga–Fiji Submarine Cable Project*. Manila; ADB 2015. *Samoa Submarine Cable Project*. Manila; ADB. 2015. *North Pacific Connectivity Project*. Manila.