A Framework for Addressing the Financing Needs of Small Island Developing States
ABBREVIATIONS

ADB – Asian Development Bank
ADF – Asian Development Fund
DMC – developing member country
EVI – economic vulnerability index
FCAS – fragile and conflict-affected situations
FSM – Federated States of Micronesia
GDP – gross domestic product
GNI – gross national income
ICT – information and communication technology
IDA – International Development Association
IMF – International Monetary Fund
ODA – official development assistance
PBA – performance-based allocation
PNG – Papua New Guinea
PIAP – Project Improvement Action Plan
PPP – purchasing power parity
SDG – Sustainable Development Goal
SOE – state-owned enterprise
SIDS – small island developing states
UN – United Nations

NOTE

In this report, "$" refers to United States dollars, unless otherwise stated.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
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EXECUTIVE SUMMARY

This paper explores the special circumstances facing the Asian Development Bank’s (ADB) small island developing states (SIDS), and outlines a framework for development financing from ADB during the Asian Development Fund (ADF) 13 period (2021–2024).

Heterogeneity among SIDS. Despite common structural constraints arising from their small size, remote location, geographic dispersion, narrow asset bases, and exposure to disasters and climate change impacts—SIDS are not a homogenous group. Papua New Guinea, Solomon Islands, and Timor-Leste are three of the four largest SIDS by population, with substantial agricultural and mineral resources that have allowed for export-based generation of incomes. The Cook Islands, Fiji, Maldives, Palau, Samoa, and Vanuatu are economies where destination development has allowed significant income from inbound tourism. Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Tonga, and Tuvalu are among the smaller islands and atolls, with the narrowest resource bases and the most acute challenges in terms of geographic remoteness and dispersion.

Development financing needs. All SIDS need external financing to varying degrees, to close gaps in infrastructure required for basic service delivery, combat climate change, and address the effects of frequent economic shocks (including natural disasters). Indicators based on nominal per capita income do not capture the development financing needs of SIDS. Income-based measures also do not reflect the vulnerability of SIDS due to exposure to climate change and natural disasters—with the smaller islands and atolls being the most vulnerable. Economic volatility is further exacerbated by reliance on external sources of income including fishing license revenues and trust fund returns for the smaller islands and atolls, as well as private remittances in some tourism-based economies, all of which likewise tend to inflate measures of gross national income. Structural constraints facing SIDS manifest in high costs of service delivery, particularly in the smaller islands and atolls. The nexus of high vulnerability and elevated costs means that SIDS must contend with additional demands on public spending as available resources are effectively eroded by weak purchasing power. Domestic revenues are insufficient to cover expenditures across SIDS, although the shortfall tends to be lower in the tourism-based economies.

External assistance can address different priorities in SIDS based on specific needs. Among the three large resource-exporters, gaps in access to basic infrastructure services remain wide. Substantial resources will be required to close these gaps, in view of larger populations and more extensive geographical areas. Resources are also needed to safeguard sustainability of key exports and support the development of non-resource-based sectors, mainly through further infrastructure and policy improvements to develop a more robust economic base. Among tourism-based economies, the focus should also be on ensuring sustainability of tourism-driven growth in the face of vulnerability to external downturns and natural disasters. This can be achieved by further developing infrastructure to strengthen transport (air, maritime, and land) and digital connectivity, and building more resilient infrastructure to minimize impacts of disasters and climate change, and strengthening forward and backward linkages of the tourism sector with local input providers (e.g., agriculture produce for hotels and local services). The smaller islands and atolls face substantial remaining needs for infrastructure to boost domestic and international connectivity, as well as to strengthen climate- and disaster-resilience. Across all SIDS, support for reform of state-owned enterprises continues to be a priority, both to improve service quality and also to reduce the demand, which poorly functioning SOEs place on the budget. Development assistance will also continue to be necessary to help bridge operating deficits during
periods of unforeseen downturns in highly volatile revenue streams and supplement capacities to support fully functioning government systems. Some of these economies also require support to clear operating arrears and build reserves for longer-term fiscal sustainability—given limited sources of growth and fiscal revenues.

**Debt sustainability.** External borrowing among SIDS is mostly limited to public and publicly-guaranteed borrowing from bilateral and multilateral partners, as almost all SIDS lack access to commercial borrowing. Public debt-GDP ratios among SIDS have risen slowly since 2013, partly reflecting growing external financing flows for infrastructure development—even though the median public debt-GDP ratio among SIDS is still lower than the emerging and developing Asia average. However, it is important to minimize high-cost borrowing from non-concessional sources, so that development goals in SIDS are not jeopardized. The latest debt sustainability analyses show that a majority of the 15 SIDS (including the 6 smaller islands and atolls) face a high risk of external debt distress. Elevated ratings mostly reflect forward-looking risks arising from large external financing needs for public investment—which are assumed to be covered by loans when grant financing from development partners has yet to be confirmed or committed—as well as long-term costs associated with disasters. Risks are further exacerbated in the context of narrow economic and revenue bases and high costs of providing infrastructure and basic services. Relatively small annual revenue streams also limit financial capacity for loan repayment. However, it is important to highlight that none of the SIDS are technically in debt distress, which is reserved for countries that are already experiencing difficulties in servicing their debt or need debt restructuring. Nonetheless, most SIDS are taking significant steps to improve the government’s fiscal planning and management capacity, formulate and implement debt management policies and strategies, pursue broad-based reforms to reduce the pressure to borrow, and build the capacity to repay existing debt.

In order to contain debt distress risks, concessional assistance (including grants) will remain important—particularly for the smaller islands and atolls, to bridge remaining financial gaps. At the same time, SIDS must continue to take steps to control debt vulnerabilities, which can squeeze priority development spending, and to improve their debt management practices.

**Key principles.** Accordingly, this paper recommends two key principles underlying a financing framework to address the specific challenges faced by SIDS.

(i) **ADB’s development financing framework must explicitly account for the greater structural and physical vulnerability, and higher costs of living and service delivery in SIDS, which lead to a greater need for public spending on a per capita basis, in contrast with non-SIDS.** The limited scope for increasing public revenues means that ADB’s SIDS may require more concessional resources for longer periods than other countries with similar nominal per capita incomes. The transition to self-sufficiency and graduation is difficult because human capital and the ability to raise finance at reasonable costs both domestically and externally will mostly remain low. Broader access to resources can contribute to greater resilience to climate change, better regional integration, stronger institutions, faster poverty reduction, and improved human development outcomes.

(ii) **ADB must help address the debt distress risks faced by SIDS—both by providing and leveraging concessional financing (including grants) for those in greatest need and by helping them to better manage their debt vulnerabilities by tapping into sustainable sources of financing.** The availability of concessional financing can directly help improve the debt sustainability in SIDS. Many SIDS are indebted because of the impacts of disasters and their high costs of recovery, further exacerbated by constrained fiscal space,
limited revenue generation potential, and high costs of public services. Expanded concessional allocations will allow SIDS to move further away from potentially higher cost sources of financing. Moreover, while SIDS have the primary responsibility to contain debt-related risks, ADB (and other development partners) can provide financial and technical support. ADB should continue to help SIDS to take further steps towards broadening their revenue base, strengthening tax administration, eliminating wasteful subsidies, and prioritizing spending initiatives on social priorities, and also incentivize SIDS to better manage their debt. Commodity-dependent economies lacking diversification would need to build international reserve buffers and sovereign wealth funds, where appropriate, during periods of high commodity prices.

Donors’ guidance is sought for the proposed SIDS framework under ADF 13.
I. INTRODUCTION

1. The Asian Development Bank’s (ADB) Strategy 2030 advocates differentiated approaches for different country groups, and recognizes small island developing states (SIDS) as a group requiring special attention on account of their unique development challenges. Under Strategy 2030, ADB also proposes to direct its concessional finance towards supporting ADB’s poorest and most vulnerable developing member countries (DMCs). The ADB charter calls for special regard to the needs of the smaller or less developed member countries in the region. This paper explores the particular circumstances of the SIDS, and outlines a framework for engaging with SIDS through development financing from ADB during the Asian Development Fund (ADF) 13 period (2021–2024).

II. KEY DEVELOPMENT CHALLENGES

2. Of ADB’s 40 DMCs eligible for grant and lending assistance, 15 are SIDS (Appendix 1). Eight of them were classified as fragile and conflict-affected situations (FCAS) for 2019—primarily on account of low policy and institutional performance. The development challenges facing the SIDS are already well documented, and this paper does not attempt a comprehensive assessment. Instead, it focuses on particular challenges that have implications for development financing from ADB.

A. Heterogeneity among Small Island Developing States

3. In general, SIDS must confront structural constraints arising from their small size, remote location, geographic dispersion, narrow asset bases, and exposure to disasters and climate change impacts. They are usually characterized by low capacity to carry out basic government functions and to provide social and infrastructure services, small taxation bases, reliance on external revenue sources (including development assistance), dependence on imports (alongside low levels of exports), limited private sector opportunities, and high investment costs. Resilience to manage and mitigate risks is low, and SIDS are susceptible to external shocks. These factors lead to secondary development challenges, including low formal sector employment, urbanization pressures, and limited economic engagement of women. While extreme poverty is rare, large segments of the population are susceptible to shocks to prices or supplies of subsistence produce. SIDS lack access to market-based financing, and many face the risk of debt distress.

4. Although SIDS have several challenges in common, they are not a homogenous group. They range in size from small islands with populations below 20,000 (Cook Islands, Nauru, Palau, Tuvalu) to Papua New Guinea (PNG), which has more than 9 million inhabitants. While the

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4 The analysis excludes Niue, which is a new member yet unclassified for borrowing purposes. The analysis also does not take into account ADB’s five graduate members—Brunei Darussalam; Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.
5 ADB. 2018. Annual Report on the 2018 Country Performance Assessment Exercise. Manila. ADB’s FCAS classification is based on the harmonized approach adopted by ADB, the World Bank, and several other multilateral development banks. In 2019, 10 DMCs are classified as FCAS, two of which are affected by conflict (Afghanistan and Myanmar), while the other eight are Pacific SIDS and demonstrate the effects of fragility: the Federated States of Micronesia, Kiribati, the Marshall Islands, Nauru, Papua New Guinea, Solomon Islands, Timor-Leste, and Tuvalu.
Federated States of Micronesia (FSM), Kiribati, PNG, Samoa, Solomon Islands, Timor-Leste, and Vanuatu are lower-middle-income economies, Fiji, Maldives, the Marshall Islands, Nauru, Palau, Tonga, and Tuvalu are considered upper-middle-income economies based on nominal per capita gross national income (GNI). Only the Cook Islands is classified as high income. The degree of constraints, the risks and threats, and the potential opportunities are different for each of the SIDS. They also exhibit key structural variations that have implications for development support.

5. Based on their broad economic structures and population size, the SIDS can be divided into three subgroups:

(i) **Larger resource exporters.** PNG, Solomon Islands, and Timor-Leste are three of the four largest ADB SIDS by population. Substantial agricultural and mineral resources have allowed for export-based generation of foreign exchange incomes. Their ratios of export receipts to gross domestic product (GDP) range from 40% to 50%.

(ii) **Tourism-based economies.** The Cook Islands, Fiji, Maldives, Palau, Samoa, and Vanuatu have populations ranging from about 15,500 in the Cook Islands to more than 880,000 in Fiji. Destination development has allowed these SIDS to derive significant foreign exchange income from inbound tourism. Their ratios of tourism receipts to GDP range from about 20% in Samoa to almost 50% in the Cook Islands. This subgroup demonstrates that tourism can be a driver of growth at various stages of development.

(iii) **Smaller islands and atolls.** The FSM, Kiribati, the Marshall Islands, Nauru, Tonga, and Tuvalu are among the smaller SIDS, with populations ranging from about 11,500 (Tuvalu) to just over 110,000 (FSM and Kiribati). With the narrowest resource bases and the most acute challenges in terms of geographic remoteness and dispersion, these economies require heavier development assistance. Annual receipts of official development assistance (ODA) account for more than 20% of GDP and can exceed 60% in the smallest economies.

6. This grouping is not deterministic or exclusive—as they share common characteristics. Also, it is conceivable that small islands and atolls can become tourism-based economies in the future. Development assistance can, for example, support them to develop tourism and reap its benefits.

B. **Social Indicators**

7. Extreme poverty is rare in most SIDS, but wide variations exist. For example, more than one-third of the population in the FSM, PNG, and Timor-Leste lives below the national poverty line. Rural areas and outer islands generally face more economic hardships.

8. Most SIDS have achieved medium to high levels of human development. Based on the United Nations (UN) Human Development Index, which covers both income and non-income dimensions, only PNG and Solomon Islands of the larger resource exporters remain classified as low human development SIDS. Conversely, 5 of the 6 tourism-based economies are classified as

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7 The subgroups represent a continuum, with several shared characteristics across groups. For example, the Cook Islands and Palau are tourism-based economies but have population sizes similar to atolls like Nauru and Tuvalu.

8 Technically, Timor-Leste derives royalty income from offshore production and export operations by foreign companies within its exclusive economic zone.
having achieved high human development, while the smaller islands and atolls are evenly spread across the medium and high human development categories.\(^9\) On average, the index is highest among the tourism-based economies at 0.714, followed by the smaller islands and atolls at 0.668, while the larger resource exporters are lagging at 0.572.

9. Gaps in social development are apparent in the levels of access to basic services, and in education and health outcomes, particularly among the larger resource exporters (Appendix 2). Life expectancy is lowest in PNG—by far the most populous among the SIDS—at only 66 years, lower than the global average of 72. Also, 3 of the tourism-based economies (the Cook Islands, Palau, and Samoa) and another 3 of the smaller islands and atolls (the Marshall Islands, Nauru, and Tonga) are among the 10 countries with the highest shares of overweight or obese people in the world, highlighting a major challenge—that of preventing noncommunicable diseases.

10. SIDS seek to meet ambitious targets under the Sustainable Development Goals (SDGs). While data is scarce, available assessments show that SIDS have generally made good progress on the SDGs related to maternal mortality, infant deaths, and narcotics abuse (SDGs 3.1, 3.2, and 3.5), educational facilities (SDG 4.a), access to energy services (SDG 7.1), resilience to disasters (SDG 13.1), and birth registration (SDG 16.9).\(^10\) However, progress is weak on SDGs related to noncommunicable diseases (SDG 3.4), violence against and active participation of women (SDGs 5.2 and 5.5), share of renewable energy (SDG 7.2), sustainable tourism development (SDG 8.9), reduced inequalities in income (SDGs 10.1 and 10.4), conservation of coastal and marine areas (SDG 14.5), and use of information and communication technology (ICT) for development (SDG 17.8). Progress varies by country—the tourism-based economies do better in most cases than the large resource exporters and the smaller islands and atolls.

C. Cost of Living

11. The structural constraints of SIDS are manifest in high cost structures. Small markets translate into diseconomies of scale and limited competition, which results in elevated prices for locally produced goods, while high transportation costs raise the prices of imported commodities. Diseconomies of scale in production, limited competition, and remoteness raise the costs and the risk of doing business and delivering services. Although nominal per capita incomes may appear to be substantial, the narrow economic bases are insufficient to cover the minimum cost of running a government, particularly when economic indivisibilities and high costs of service delivery are exacerbated by geographic dispersion and remoteness. This generally means that living costs in SIDS are significantly higher than in non-SIDS.

12. Higher living costs in SIDS can be illustrated when using the concept of purchasing power parity (PPP)-adjusted GNI.\(^11\) Although each of the 15 ADB SIDS is classified as at least a lower-middle-income country based on nominal GNI per capita (para. 4), high cost structures restrict the purchasing power. Based on latest available data for 2018, the average nominal GNI per capita for the 15 ADB SIDS is more than 72% higher than that of the 25 non-SIDS DMCs.

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\(^9\) The 2018 Human Development Report shows that Fiji, Maldives, the Marshall Islands, Palau, Samoa, and Tonga have achieved high levels of human development; the FSM, Kiribati, Timor-Leste, and Vanuatu are at medium levels, and PNG and Solomon Islands at low levels. Because data is limited, the index was not calculated for the Cook Islands (estimated to have achieved high human development), nor Nauru and Tuvalu (medium to high).


\(^10\) UN Development Programme (UNDP), 2018. 2018 Pacific SDGs Progress Wheels. UNDP Pacific Office in Fiji.

\(^11\) PPP adjustments are based on measuring prices in different countries using a common basket of goods and services. Since exchange rates do not always reflect price differences between countries, GNI per capita is converted into international dollars using PPP rates. PPP rates provide a standard measure allowing comparison of real levels of expenditure across countries, just as conventional price indexes allow comparison of real values over time.
However, the average PPP-adjusted GNI per capita among the 15 SIDS is about 15% lower than that of the 25 non-SIDS DMCs. This reflects higher cost structures in SIDS than in non-SIDS. Notably, the smaller islands and atolls and the tourism-based economies have more elevated cost structures than the larger resource exporters.

D. Vulnerability

13. Income-based measures do not capture the vulnerability of SIDS, which is aggravated by high exposure to climate change and disasters caused by natural events. Structural and physical impediments lead to low capacity, diminish the ability to manage developmental risks, and reduce resilience to environmental shocks and economic downturns.

14. These impediments are captured by the concept of economic vulnerability, which reflects the risk that a country’s development will be hampered by natural or external shocks. Among existing indicators, the UN economic vulnerability index (EVI) may be the most comprehensive attempt to measure vulnerability based on physical and structural factors. The EVI measures economic vulnerability on a scale of 0 to 100 (a high index indicating elevated vulnerability). As of 2018, the average EVI among ADB SIDS is 55.7—almost double the 28.6 average of non-SIDS DMCs—highlighting heightened vulnerabilities.

15. Among the SIDS, narrow economic bases and exposure to climate change impacts are reflected in an average EVI of 61.4 for the smaller islands and atolls, the highest among the three subgroups. The tourism-based economies are exposed to volatilities in international travel trends, and this is reflected in an average EVI of 53.7, close to the average for all SIDS. However, given their relatively larger economic bases, the resource exporters are somewhat less vulnerable than the other SIDS, with an average EVI of 48.4 (although well above the average for non-SIDS).

16. To summarize, it is clear that SIDS are significantly more vulnerable than non-SIDS DMCs (Figure 1). Furthermore, contrary to what might be inferred from looking at nominal GNI per capita data, SIDS are not generally better off than non-SIDS DMCs. This is also evident in Figure 1, with PPP-adjusted GNI per capita among SIDS being broadly similar to that in the non-SIDS DMCs.

17. The vulnerability of SIDS is reflected in their volatile macroeconomic performance. Large year-to-year swings in business cycles are common, stemming not only from external shocks but also domestic factors such as the schedule and pace of large public infrastructure construction in the context of small economies. During 2009–2018, the coefficient of variation—or the ratio of the standard deviation to the mean—in real GDP growth exceeded 1.0 in 10 of the 15 SIDS, indicating high variance. Reflecting their relatively lower vulnerability (para. 15), the larger resource exporters tend to experience the smallest variations in macroeconomic performance, with an average coefficient of variation in real GDP growth of 0.8.

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12 S. Feindouno and M. Goujon. 2016. The Retrospective Economic Vulnerability Index, 2015 Update. Working Paper P147, Fondation pour les Etudes et Recherches sur le Développement International. Clermont-Ferrand. The EVI is the simple average of two sub-indexes: (i) the exposure sub-index, which is a weighted average of five component indexes—population size (25%); remoteness from world markets (25%); exports concentration (12.5%); share of agriculture, forestry, and fishery in GDP (12.5%); and share of population living in a low elevated coastal zone (25%); and (ii) the shocks sub-index, which is a weighted average of three component indexes—victims of natural disasters (25%), instability in agricultural production (25%), and instability in exports of goods and services (50%).

13 Furthermore, among the SIDS, GDP per capita tends to be around 6.8% lower than GNI per capita (average 2014-2018), while in other ADB DMCs, GDP per capita tends to be around 1.3% higher than GNI per capita. This reflects the greater reliance on external income sources (trust fund revenues, remittances, and tourism earnings) among SIDS, and hence their greater economic vulnerability.
However, the corresponding coefficient of variation is at least double in the tourism-based economies (1.6) and the smaller islands and atolls (1.7), indicating severe volatility. Exposure to natural hazards and shocks is exacerbated by shifts in visitor arrivals and expenditure patterns in the tourism-based economies, and by variations in public spending or one-off domestic factors in the smaller islands and atolls.

Figure 1: Vulnerability among ADB Developing Member Countries

Economic Vulnerability Index

GNI per capita, PPP adjusted, current international

ADB = Asian Development Bank, COO = Cook Islands, DMC = developing member country, FIJ = Fiji, FSM = Federated States of Micronesia, GNI = gross national income, KIR = Kiribati, MLD = Maldives, NAU = Nauru, PAL = Palau, PNG = Papua New Guinea, PPP = purchasing power parity, RMI = Marshall Islands, SAM = Samoa, SIDS = small island developing states, SOL = Solomon Islands, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu.

Note: The EVI for the Cook Islands is constructed by ADB staff following the United Nations methodology.

Sources: World Bank’s World Development Indicators, and United Nations Committee for Development Policy.

E. Fiscal Constraints

18. Largely on account of their narrow economic bases, SIDS lack the revenue sources to meet their financing needs. To illustrate, although collectively the Pacific SIDS raised an average of $7.3 billion in annual aggregate own-revenue collections during 2016–2018, high costs of service delivery meant that these were largely channeled toward covering recurrent public spending of $7.7 billion per annum. With SIDS generally struggling to maintain operating balances, some—including the FSM, the Marshall Islands, Palau, Solomon Islands, and Vanuatu—have policies in place to effectively limit recurrent spending to within projected annual revenue generation to avoid running operating deficits.

19. Domestic revenues. The SIDS have improved own-revenue mobilization, despite the myriad challenges they face. The median ratio of tax to GDP among the SIDS improved to 19.3% during 2012–2017, from 17.6% in the preceding 6 years. Overall, SIDS have outperformed the
non-SIDS counterparts in mobilizing tax revenues during 2008–2017, but their economic bases are not large enough to generate revenues to fully finance their priority spending needs.

20. Nontax revenues are significant for the smaller islands and atolls. The full implementation in 2012 of a vessel-day scheme for collecting license fees from foreign fishing fleets, for example, has been a game-changer for them. Although this exacerbates the risk of volatility, higher fishing license revenues have boosted nontax revenue collections two- to fourfold in the FSM, Kiribati, the Marshall Islands, Nauru, and Tuvalu.

21. **Total expenditures.** Despite these recent positive trends, domestic resource revenue mobilization among SIDS is generally insufficient to cover the public spending needs for basic services. Even though expenditures are generally achieving good results, high cost structures, coupled with the minimum costs of running fully functioning government systems, result in disproportionately high current public spending in these small economies. During 2008–2017, the median ratio of recurrent spending to GDP was 35.0%—well above the median domestic revenue mobilization (tax plus nontax) of 24.8% over the same period with pressure for recurrent deficits rising in the aftermath of disasters and during periods of unanticipated downturns in major, albeit highly volatile sources of revenue.

22. The greater need for government spending on critical infrastructure is another issue for the SIDS. Median capital outlays among SIDS added about 8.1% of GDP to public spending during 2008–2017. Although SIDS have benefited from an increase in ODA—inflows more than doubled between 2000 and 2012, growing from $955 million to $2.2 billion before falling back to $1.9 billion in 2013–2017—mostly to finance infrastructure needs, capital spending is still estimated to be $1.6–$2.3 billion below their needs for basic infrastructure; climate change adaptation; and disaster response, recovery, and reconstruction (para. 31).

23. **Fiscal needs.** Among the SIDS, the tourism-based economies come closest to being able to cover public spending needs through domestic revenue generation (table). However, even with a combination of strong tax effort and some supplementary nontax sources—e.g., departure fees, environmental fees, some fishing license revenues—these economies are unable to cover their current expenditures. The resource exporters run deficits reflective of significant spending needs to cover large populations dispersed across geographic land areas. Although the smaller islands and atolls registered the highest domestic revenue mobilization rate, helped by booming fishing license revenues, this group nonetheless also experienced wide shortfalls. This shows that recurrent expenditure remains disproportionately elevated in the context of very narrow economic bases, and reflects substantial remaining infrastructure gaps in these SIDS.

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14 The vessel-day scheme also contributes to promoting longer-term sustainability of fisheries stocks by setting firm effort limits linked to the total vessel days available per year. These limits are based on regular assessments by the world’s top tuna biologists at the Secretariat of the Pacific Community toward maintaining a minimum sustainable size of spawning tuna biomass in the Western and Central Pacific Ocean.

15 Among Pacific SIDS, Australia is by far the largest source of bilateral assistance, accounting for about 44% of total ODA inflows since 2000. Australia’s assistance is focused on the social sectors, particularly education and health, but also extends to critical infrastructure projects (e.g., roads in Kiribati and Solomon Islands).
Table: Fiscal Aggregates among Small Island Developing States, 2008–2017
(% of gross domestic product)

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<th>Smaller Islands and Atolls</th>
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<td>Domestic revenues</td>
<td>24.7</td>
<td>23.9</td>
<td>47.7</td>
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<td>Tax revenues</td>
<td>20.3</td>
<td>20.2</td>
<td>18.2</td>
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<td>Nontax revenues</td>
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<td>Capital expenditure</td>
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<td>13.6</td>
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<tr>
<td>Recurrent balance</td>
<td>(11.0)</td>
<td>(0.8)</td>
<td>(3.8)</td>
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<td>Overall balance (excluding grants)</td>
<td>(20.7)</td>
<td>(7.6)</td>
<td>(17.5)</td>
</tr>
</tbody>
</table>

(1) = negative.

F. Debt Financing

24. Given that domestic revenues are generally insufficient to cover expenditures, SIDS require significant external sources of revenue to finance development, but face difficulty in attracting commercial financing from market sources. Apart from Fiji (rated Ba3 by Moody’s and BB– by Standard & Poor’s) and PNG (rated B2 by Moody’s, B by Standard & Poor’s, and B+ by Fitch Ratings), both of which have highly speculative non-investment grade ratings for sovereign borrowing, the other SIDS are generally not widely rated. This reflects their limited access to market-based funds.

25. Debt indicators. External borrowing among SIDS is mostly limited to public and publicly guaranteed borrowing from bilateral and multilateral partners. The International Monetary Fund (IMF) notes that debt vulnerabilities in most SIDS have been rising, largely reflecting external financing flows for infrastructure development. Among 10 Pacific SIDS, both external and total public and publicly guaranteed debt–GDP ratios increased by about 12 percentage points on average between 2013 and 2017. Rising debt levels among SIDS to meet their development financing needs could jeopardize their development goals. There is a risk that SIDS may spend more on debt service and less on service delivery. It is particularly important to minimize high-cost borrowing from non-concessional sources.

26. Despite increasing debt-GDP ratios, the median public debt–GDP ratio among SIDS was 35% in 2018—still considerably lower than the emerging and developing Asia average of almost 52%. External debt tends to be highest in the smaller islands and atolls, although some tourism-based economies like Maldives, Samoa, and Vanuatu also have high external debt. The large resource exporters have the lowest external debt, while the Cook Islands and Fiji earn foreign exchange from tourism that also helps keep external debt in check.

27. Debt sustainability. The latest debt sustainability analyses show that most of the 15 SIDS face a high risk of external debt distress (Figure 2). Based on the IMF’s definitions, a high risk of

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16 In addition, the Cook Islands is rated B+ by Standard & Poor’s, Maldives is rated B+ by Fitch ratings, and Solomon Islands is rated B3 by Moody’s.
debt distress is generally associated with one or more of the solvency (debt-to-GDP and debt-to-exports) and liquidity (debt service-to-exports and debt service-to-government revenues) thresholds being breached under the baseline scenario. However, it does not indicate that a country already faces any repayment difficulties. Elevated ratings mostly reflect forward-looking risks arising from large external financing needs for public investment as well as long-term costs associated with disasters, exacerbated by narrow revenue bases and elevated costs of providing infrastructure and basic services. Most SIDS are taking significant steps to improve the government’s fiscal planning and management capacity, formulate and implement debt management policies and strategies, pursue broad-based reforms to reduce the pressure to borrow, and build the capacity to repay existing debt.

28. Among the SIDS, the risk of debt distress is most heightened in the smaller islands and atolls. All six SIDS in this subgroup are rated as being at high risk of debt distress, reflecting large projected financing gaps to cover public investment and even parts of annual recurrent government spending, as well as the impacts of climate change and disasters. In the context of small economic bases, these large financing gaps tend to result in breaches of solvency thresholds. Further, relatively small annual revenue streams limit financial capacity for loan repayment, reflected in potential breaches of liquidity threshold over the long-run. By contrast, only two among the tourism-based economies, and none of the larger resource exporters, currently have high risk of debt distress ratings. This highlights a positive link between vulnerability and debt distress risks.

29. Given the high vulnerability of SIDS, the IMF’s 2017 update to its debt sustainability analyses methodology for low-income countries, which incorporates potential impacts of future disasters (e.g., lower GDP growth, and larger fiscal and current account deficits reflecting post-disaster financing requirements), is appropriate and provides a more comprehensive view of debt dynamics. Consideration of vulnerability to disasters was the main driver of a shift in the IMF’s debt distress ratings for both Samoa and Tonga back to high risk in 2017.

30. It is important to highlight here that while some SIDS face elevated risks to debt sustainability, none of them are technically in debt distress. The IMF’s “in debt distress” rating applies to countries that are already experiencing difficulties in servicing their debt (as of August 2019, this rating applies only to 7 countries in Africa and 2 in the Caribbean).

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18 Under the standard IMF debt sustainability analysis methodology, all planned assistance from ADB, World Bank, and other multilateral development banks (MDB) are treated as regular loans for all years in the projection period for which grant financing has yet to be committed. This is necessary to avoid circularity as MDBs, in turn, link terms of assistance to the results of the latest IMF debt sustainability analysis. Grant financing committed based on results of the latest debt sustainability analysis are then captured in the next cycle.

19 The drivers behind these breaches vary across SIDS—in the FSM and the Marshall Islands, the scheduled end of Compact Grant assistance in 2023 is a key factor in the country ratings; features added in recent years to ensure consistent treatment of remittances and the risk of natural disasters across countries saw both Samoa and Tonga shift back and forth between high and moderate risk; while Kiribati, Nauru, and Tuvalu, by virtue of size and revenue limitations, are at high risk (despite holding valuable trust funds).


21 The IMF’s risk of debt distress ratings for Samoa and Tonga have fluctuated between moderate and high since 2012. A 2014 update to the IMF Debt Sustainability Analysis framework, which used a higher discount rate and included remittance inflows in the denominators of solvency (e.g., ratio of debt to GDP + remittances) and liquidity (e.g., ratio of debt service to exports + remittances) indicators, relaxed risk ratings from “high” to “moderate” for both countries, before consideration of potential disaster impacts shifted them back to “high” in 2017. The most recent update to the IMF’s methodology (as of July 2018 and applied to Kiribati, Maldives, PNG, Samoa, and Solomon Islands to date), which tightened liquidity thresholds for countries with weaker carrying capacities for debt, has so far not resulted in any further changes to debt distress ratings among the 13 SIDS which receive concessional assistance.
COO = Cook Islands, FIJ = Fiji, FSM = Federated States of Micronesia, GDP = gross domestic product, KIR = Kiribati, MLD = Maldives, NAU = Nauru, PAL = Palau, PNG = Papua New Guinea, RMI = Marshall Islands, SAM = Samoa, SIDS = small island developing states, SOL = Solomon Islands, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu.

Note: * denotes high risk of debt distress according to ADB classifications. Debt levels in Fiji, Nauru, and Palau are considered sustainable by the International Monetary Fund under the market access economy framework.

Source: International Monetary Fund debt sustainability analyses (latest available years), and World Economic Outlook (April 2019) database.

G. Development Financing Needs

31. Given the limited resources to finance public investments, annual capital expenditure has generally been low among SIDS, creating a significant backlog that is manifest in low access to basic services. For example, access to electricity services is only about 33.0% among Pacific SIDS, compared with 87.4% globally. Similarly, substantial gaps remain in the provision of water supply (52.6% vs. 88.5% globally) and sanitation services (30.0% vs. 68.0%). Estimates suggest that basic infrastructure; adaptation to climate change; and disaster response, recovery, and reconstruction alone can cost the Pacific SIDS between $3.5 billion and $4.2 billion annually.

(i) **Infrastructure.** Most SIDS still need access to better services and greater connectivity. The financing need just for basic infrastructure in the Pacific is estimated to exceed $2.8 billion per year—equivalent to 8.2% of GDP—up to 2030. In Maldives, establishing connectivity between the capital area and outer atolls is a top priority, and the financing need for basic infrastructure is estimated at more than 7% of GDP.

(ii) **Climate change.** SIDS are disproportionately susceptible to climate change. Depending on global efforts to limit warming, World Bank estimates suggest that Pacific
SIDS will need between $350 million and $1 billion annually during 2020–2029 (and between $400 million and $1.1 billion annually by 2040) to adapt to climate change, undertake necessary costal protection, and climate-proof infrastructure.\textsuperscript{23} Needs are especially acute in atoll countries such as Kiribati, the Marshall Islands, and Tuvalu, and could reach 5\%–10\% of GDP annually. The new government of Maldives will include enhancement of climate change resilience in its National Development Plan.

**(iii) Disasters.** SIDS are highly vulnerable to disasters and require resources for \textit{ex ante} preparedness as well as for disaster response, recovery, and reconstruction. In SIDS, a single disaster can set back development progress a decade or more.\textsuperscript{24} Country-level estimates by the Pacific Catastrophe Risk Assessment and Financing Initiative show that Pacific SIDS face average annual losses from earthquakes, tsunamis, and cyclones ranging from 0.2\% of GDP in Kiribati to 6.6\% of GDP in Vanuatu. Average annual losses for the Pacific SIDS from earthquakes, tsunamis, and cyclones are almost $300 million (with PNG accounting for about $85 million and Fiji for $80 million).

32. Although infrastructure, climate change adaptation, and disaster management are common priorities across all SIDS, their ordinality may vary in the three subgroups.

**(i) Larger resource exporters.** Gaps in access to basic infrastructure services remain wide. For example, electrification rates are only about 20\% in PNG and Solomon Islands, and road densities are also low. Priority needs are focused on closing these gaps, which will require substantial resources in view of larger populations and more extensive geographical areas to be covered. Other needs include measures to safeguard the sustainability of key exports and to support the development of non-resource-based sectors, mainly through further infrastructure and policy improvements, to develop a more robust economic base.

**(ii) Tourism-based economies.** Access to basic services is somewhat better in tourism-based economies—with exceptions, such as low electrification in Vanuatu. The focus should also be on ensuring the sustainability of tourism-driven growth in the face of vulnerability to external shocks. This can be achieved by safeguarding the main tourist attractions; building additional infrastructure to strengthen air, maritime, and land transport as well as digital connectivity; building more resilient infrastructure to minimize the impacts of disasters and climate change; and strengthening forward and backward linkages on the tourism sector with local input providers (e.g. agriculture produce for hotels and local services). Climate- and disaster-proofing can help reduce the magnitudes of, and recovery times from, major events, and minimize macroeconomic volatility.

**(iii) Smaller islands and atolls.** The smallest and most dispersed SIDS generally face the most acute resource constraints. They have substantial remaining needs for infrastructure to boost domestic and international connectivity, and to build climate and disaster resilience. Development assistance will also continue to be necessary to help bridge operating deficits—particularly amid unforeseen downturns in key sources of revenues—and to supplement capacities to support fully functioning government systems. Some of


\textsuperscript{24} The economic impact of Cyclone Pam in Vanuatu was equivalent to 60\% of GDP, and 2018 Cyclone Gita’s impact on Tonga is estimated to be 38\% of GDP.
these economies also require support to clear operating arrears and build reserves for longer-term fiscal sustainability, given their limited sources of growth and fiscal revenues.

33. It is important to note that summary indicators such as per capita nominal GNI can obscure critical challenges for SIDS that contribute to elevated needs for international assistance—particularly on concessional terms, so that debt distress risks are not aggravated. Perhaps the best example is Nauru, an upper-middle income country where grant assistance is still essential for development (Box).

### Socioeconomic Challenges for Nauru

With a population of about 13,500 residing in a land area of less than 21 square kilometers, Nauru is one of the smallest member countries of the Asian Development Bank. Although classified as an upper-middle-income country based on a per capita gross national income of $11,240 in 2018, Nauru faces significant development challenges: a narrow production base, remote location, high cost of service delivery, small population, insufficient infrastructure, and vulnerability to climate change. Nauru is classified as a fragile and conflict-affected situation, reflecting weaknesses in basic governance functions. The country’s outdated infrastructure hampers trade and growth, and it suffers from high incidence of non-communicable diseases.

Gross domestic product (GDP) growth in Nauru is highly volatile, averaging 18.0% during 2007–2016 due to a combination of favorable factors, such as the operation of Australia’s regional processing center for asylum seekers, high fishing license fees, and a brief resumption of phosphate mining. Annual growth in this period ranged from below 3% in 2015 to more than 35% in 2014. However, growth has tapered off since 2016 mainly because Australia scaled down the processing center. Primary phosphate deposits are almost exhausted, while below-surface mining requires substantial investment.

Nauru has been running fiscal surpluses, but this is solely due to grants for budget support and infrastructure development. During 2007–2016, Nauru’s fiscal deficit excluding grants averaged 23.3% of GDP. Nauru’s participation in a regional vessel-day scheme for collecting fishing license revenues from foreign fleets resulted in a structural increase in revenues from 13.9% of GDP in 2012 to an average of 21.2% since then, contributing to larger fiscal surpluses (including grants). In 2016, the government established a new intergenerational trust fund to save windfall income, to generate revenues for long-term fiscal sustainability. Recent surpluses were used to clear arrears, build government deposits and cash buffers, and contribute to the trust fund. Nauru’s public debt (much of which was accumulated during the economic downturn in the 1990s–2004 when Nauru defaulted on most of its public debt and accumulated arrears) has fallen from more than 170% of GDP in 2011 to about 61% in 2018—still one of the highest in the Pacific. External public debt, estimated at about 34% of GDP in 2018, comprises mostly loans from bilateral partners, overdue fees and obligations to international organizations, and foreign bonds defaulted on in the 1990s. The remaining domestic debt consists mostly of longstanding liabilities related to the liquidation of Bank of Nauru in the mid-2000s.

Nauru faces daunting challenges in sustaining growth and ensuring fiscal sustainability given its limited sources of growth and income. With access to the market undermined by severe macroeconomic volatility—arising from small size and vulnerability—Nauru is not expected to be able to tap substantial new borrowing on reasonable terms to finance development. In the absence of appropriate international assistance, fiscal spending will have to be adjusted—putting downward pressures on expenditure for critical infrastructure and basic services. Indivisibilities in infrastructure imply that large public goods cannot be provided without at least some external financing, as illustrated by an ongoing seaport project that costs about two-thirds of Nauru’s annual GDP. Accordingly, despite Nauru’s apparent upper-middle-income status, grant financing that does not add to debt can play a critical role in helping sustain socioeconomic development.

III. ADB SUPPORT TO SMALL ISLAND DEVELOPING STATES

34. ADB’s engagement with the SIDS is broadly guided by country partnership strategies, and has achieved strong results across sectors. The SIDS’ lending eligibility ranges from 100% grants to regular non-concessional assistance only (Appendix 1). During the ADF 13 period, assistance to SIDS will be aligned with ADB’s corporate strategy, with a differentiated approach to enable ADB’s most vulnerable DMCs to achieve development results.

A. Lending Eligibility

35. Access to ADB lending options varies among the 15 ADB SIDS, largely determined by their nominal per capita GNI, creditworthiness, and debt distress risks under the current resource allocation framework. At present, 13 SIDS have access to concessional assistance, while 7 receive 100% grant financing from ADB. All the smaller islands and atolls are 100% grant recipients. The eligibility of tourism-based economies ranges from grants-only (Samoa) to ineligible for concessional borrowing (Fiji and the Cook Islands).

36. Fiji and the Cook Islands are the only SIDS that are eligible for regular ordinary capital resources only, and do not have access to ADB concessional finances. However, Fiji has limited access to market borrowing, and faces challenges due to economic vulnerability. Fiji’s access to international financing is currently limited to borrowing from bilateral and multilateral development partners, plus commercial loans from export-import banks. The government regularly raises domestic financing through local bonds and treasury bills. Although Fiji’s sovereign credit rating is currently higher than that of PNG, which issued a US dollar-denominated sovereign bond in 2018 backed by expectations of steady income streams from mineral and petroleum resources, Fiji has yet to issue any sovereign bonds in the international market to finance budget gaps. Further, Fiji’s vulnerability to extreme weather has been demonstrated by a series of disasters including severe flooding in Nadi in 2009, and Cyclones Evan (2012) and Winston (2016), each resulting in damage and losses equivalent to more than 30% of annual GDP. On the other hand, although the Cook Islands is one of the most vulnerable countries, it is better off than the other ADB SIDS—assisted by strong growth in tourism, which accounts for about 60% of GDP. Nonetheless, the Cook Islands has yet to access international markets for commercial finance, and public debt is generally from lending by multilateral and bilateral partners, plus some domestic borrowing from local financial institutions.

B. Lending Volumes to Small Island Developing States

37. To support SIDS, ADB has been providing increasing amounts of financing—both concessional and total. In 2012, about $123 million worth of projects financed by ADF grants and concessional ordinary capital resources were committed. Commitments grew to about $191 million in 2016, and further expanded to $229 million in 2018. Similarly, total commitments (including ADF grants, concessional ordinary capital resources, and regular ordinary capital resources) expanded from about $239 million in 2012 to $438 million in 2018.
38. ADB has consistently taken steps to augment concessional resource allocations to SIDS. For the 13 SIDS eligible for concessional assistance, the introduction of annual base allocations of $3 million in January 2015, the doubling of base allocations to $6 million in January 2017, and the further increase in base allocations to $13 million (for 2019–2020) has underpinned ADB’s growing engagement.25

C. Achieving Results

39. Growing engagement has gone hand in hand with strong results. ADB’s engagement in SIDS is guided by country partnership strategies, under the umbrella of ADB’s overall corporate strategy. The Pacific Approach 2016–2020, which serves as ADB’s operational framework for the Pacific region and as the overall country partnership strategy for the 11 smaller Pacific island countries, outlines a three-pronged strategy.

(i) Reducing costs. ADB’s mainstay infrastructure program is focused on transport, ICT, and renewable energy to reduce the costs of connectivity and energy. The reform of state-owned enterprises (SOE) providing such infrastructure services contributes both to better service delivery and reduced demands on the budget. Improving the business environment and reforming SOE’s also helps reduce the costs of doing business and delivering services, and promotes growth led by the private sector.

(ii) Managing risks. ADB’s public sector management operations support SIDS in managing financial shocks and economic risks. ADB is integrating climate change adaptation and disaster risk reduction into its operations. Innovative instruments are being introduced to strengthen disaster preparedness and build resilience, such as the contingent disaster risk financing. Country resilience is also being enhanced by strengthening education, health, and social protection systems.

(iii) **Enabling value creation.** ADB is supporting legislative and financial reforms to improve the business environment. It is working closely with key partners in the Pacific, such as the World Bank, Australia, New Zealand, and the European Union, to encourage policy and legislative reforms that will strengthen the business environment, spur investment and private-sector-led growth, and support financial inclusion, including for women. ADB is also investing in human capital—education and health—to help lead to an enabling environment for reforms.

40. **ADB’s country partnership strategies for the larger Pacific SIDS of Fiji, PNG, and Timor-Leste, and also for Maldives, outline country-specific priorities.** In Fiji, ADB is assisting the government in encouraging private investment, making growth more inclusive, improving service delivery, reducing volatility, and building resilience. In Maldives, ADB shifted the focus of its assistance to developing the capital area, where an increasing population is adding considerable pressure on already-stressed urban infrastructure. In PNG, ADB is supporting inclusive growth by investing in transport and energy, reducing business and trade costs, expanding job and livelihood opportunities, strengthening rural primary health-care delivery, and improving access to water supply and sanitation. In Timor-Leste, ADB is supporting the emergence of a sustainable non-oil economy through the development of infrastructure, human capital, and a more enabling environment for business. It is also supporting the government on complex reforms to develop financial and productive sectors, strengthen fiscal policy, and prepare for regional integration.

41. **ADB-financed operations have contributed significantly to reducing poverty and improving the living conditions and quality of life in SIDS, including FCAS.** Tens of thousands of poor people gained access to reliable supplies of electricity and clean water, better transport networks, quality education, and economic opportunities. In addition to supporting the development of key infrastructure and services, ADB operations assisted countries in improving their institutional capacities and implementing reforms (Appendix 3).

42. **Infrastructure.** Strong development results were recorded in infrastructure, which accounts for more than 80% of ADB’s portfolio in SIDS. Since 2007, ADB’s operations in the Pacific have built or upgraded more than 2,000 kilometers of roads and bridges; laid more than 5,000 kilometers of fiber-optic submarine cables; delivered water supply to more than 400,000 people, sanitation services to about 100,000 people, and improved drainage systems for about 100,000 people; and financed projects to install 62 megawatts of renewable energy generation capacity, construct or refurbish more than 1,600 kilometers of transmission and distribution lines, and connect more than 10,000 households to electricity grids.

43. **Social sectors.** Likewise, ADB projects in health and education are helping the Pacific SIDS to improve social outcomes. ADB helped PNG revitalize rural health systems in 13 provinces by upgrading more than 115 rural primary health care facilities and training more than 300 rural health workers. ADB operations completed during 2008–2018 enabled almost 50,000 students across the Pacific to access better education under improved quality systems, and trained almost 1,500 teachers with quality or competency standards, enhancing student learning outcomes and teaching practices.

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44. **Cross-cutting priorities.** ADB assistance also yielded impressive results across important thematic and cross-sector priorities. Its policy-based operations proved to be a crucial instrument for enabling Pacific DMCs and Maldives to weather and recover from financial crises. Its assistance across multiple sectors delivered significant benefits for women. ADB reforms and investments promoted private sector development and a better business environment. Since 2009, ADB has successfully mobilized more than $160 million in additional financing for regional cooperation projects and programs in SIDS, over and above the funds that would otherwise have been made available through individual country allocations. ADB projects are (i) financing climate-resilient infrastructure; (ii) improving disaster risk reduction, response, and management; (iii) promoting low-carbon development; (iv) increasing access to climate and disaster risk finance; and (v) building core capacities to plan for and respond to climate change and disasters. ADB continues efforts to attract cofinancing and coordinate external development assistance, mobilizing greater resources for SIDS.

D. **Assistance during the Asian Development Fund 13 Period**

45. ADB’s engagement in SIDS during ADF 13 will be closely aligned with its corporate strategy. Strategy 2030 established seven operational priorities that ADB’s operations in the SIDS will support. Within each priority, ADB will selectively engage with each SIDS in subsectors and areas based on ADB’s comparative strength, country needs, and development partners’ activities.

(i) **Addressing remaining poverty and reducing inequalities.** ADB’s assistance will focus on education, including technical and vocational education and training, health services, and social protection to reduce vulnerability and inequality. It will support broader access to financial services and microfinance. Operations will also focus on essential infrastructure, connectivity, and social services—with an emphasis on rural areas and outer islands. Additional ADB priorities will include access to improved water supply and sanitation, electricity and the internet, and greater connectivity via roads, ports and airports.

(ii) **Accelerating progress in gender equality.** ADB will continue to help SIDS to (a) ensure gender-inclusive projects in all sectors to create economic opportunities for women and girls, (b) provide targeted training and skills development opportunities, (c) support women in leadership and decision-making roles, (d) enable women to reduce unpaid work responsibilities, (e) increase the resilience of women and girls to external shocks, and (f) promote policy dialogue on gender inclusiveness and equality. ADB will continue to mainstream gender considerations into project designs; support policy dialogue on gender equality; and build the capacity of governments to develop, deliver, and monitor gender equality results, in close collaboration with development partners.

(iii) **Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability.** ADB will ensure that climate change, disaster risk management, and environmental considerations are fully mainstreamed in its operational strategies for SIDS through country programming, and project design, implementation, monitoring, and evaluation. Strong emphasis will be placed on climate- and disaster-resilient infrastructure designs and on support for long-term planning that considers the effects of climate-change. ADB will also strengthen the financial preparedness and ability to respond to disasters of SIDS through instruments such as policy-based contingent financing and disaster insurance. Ensuring environmental sustainability will be at the
forefront of efforts to invest in the conservation and restoration of natural capital, e.g., healthy oceans, coastal zones, and marine ecosystems.

(iv) **Making cities more livable.** In response to rapid urbanization in SIDS, ADB will continue its integrated approach to the provision of water and other urban infrastructure and services, promoting (a) inclusive and equitable access to water supply, sanitation, solid-waste disposal, transport, and electricity; (b) environmental sustainability, including resilience to natural disasters and climate change; and (c) competitiveness and economic growth. ADB is helping governments to plan, design, and construct urban infrastructure that is more resilient to climate change and exposure to natural hazards. Its projects will help governments with long-term urban planning to ensure that services can be sustained, and encourage the involvement of the private sector and civil society organization in the provision of urban infrastructure and services. New projects will also involve the strengthening of institutional capacities to better plan, regulate, and manage urban assets and services.

(v) **Promoting rural development and food security.** ADB will support the provision of better health and education services to the rural areas and outer islands of SIDS, and strengthen market connectivity and agricultural value chain links. Microfinance projects will continue to support rural development.

(vi) **Strengthening governance and institutional capacity.** ADB will look for innovative ways to sustainably build up institutions and capacities. It will help develop innovative approaches to project programming, design, implementation, and operation and maintenance in SIDS, factoring in the limited capacity of government counterparts (both in terms of staff numbers and expertise) to fulfill these functions. ADB will focus on supporting the government reform process in the areas of fiscal (particularly debt management) and monetary policy, state-owned enterprises, revenue mobilization, and private sector development. ADB will continue to provide technical assistance to support business-friendly policies and legal reforms as well as transaction advisory services to help SIDS mobilize private sector investment structure viable public–private partnerships. ADB will continue to facilitate the adoption of stronger policies, regulatory frameworks, and fiscal measures to mitigate and recover from economic shocks. ADB will also assist SIDS through facilitating legislative reform to protect against money laundering and terrorism financing, and is ready to offer similar support to meet other global standards in public financial management.

(vii) **Fostering regional cooperation and integration.** Regional cooperation can be one of the strategies to overcome constraints associated with remoteness, smallness, and vulnerability to disasters and climate change. Many of ADB’s flagship technical assistance programs for the Pacific are regional in coverage and promote knowledge sharing across countries. ADB will prioritize projects that promote regional cooperation and integration in areas of common interest. In addition to supporting new maritime trade and transport links, ADB will explore options to assist SIDS in taking a regional approach to improving the financing for managing ocean and marine ecosystems. ADB will continue to encourage small Pacific countries to take a regional approach to disaster risk management.

46. **Expanding private sector operations.** Geographic isolation from more established markets and domestic economic activity makes it difficult to realize economies of scale in SIDS. In the foreseeable future, conventional energy, water, urban and transportation infrastructure and services may largely continue to be provided by sovereign entities in SIDS. Under Strategy 2030,
ADB will focus on expanding private sector support in frontier and underserved markets, including SIDS. ADB is committed to addressing SIDS’ specialized development challenges and will tailor its support for opportunities through a flexible approach and a willingness to consider smaller and riskier transactions with the use of blended concessional finance and technical assistance. ADB will also promote private sector investment, including through the use of instruments like partial risk guarantees and letter of credit facilities to address short term liquidity risks. ADB is assessing opportunities for private sector lending and equity investments in SIDS. Key sectors of focus include renewable energy, telecommunications, agriculture and health. Public-private partnerships are another area of growing support in SIDS, especially for maritime ports, airports, and larger scale energy and water projects.

47. Differentiated approach. Under Strategy 2030, ADB adopts a differentiated approach for SIDS in strategic planning, country strategy formulation and implementation, as well as in the design and implementation of projects and programs. New country partnership strategies will consider the roots of vulnerability and fragility, and possible ways to build resilience and stability—based on comprehensive fragility assessments and other relevant considerations (including institutional and capacity). The design of ADB operations will likewise take into account sources of vulnerability and fragility, and be based on realistic assessments of institutions and capacities. Implementation arrangements will be tailored to the specific needs and realities of SIDS, and will include measures to mitigate the increased risks in these environments—not least additional resources to strengthen executing and implementing agencies. ADB will also dedicate more of its own staff resources to ensure sufficient supervision and progress oversight.

48. To continue the improvements, ADB will take into account lessons from ongoing and completed operations, and will work to tailor its processes, approaches, and policies to ensure that they are suitable to the needs of SIDS.28 ADB will further refine and streamline its business processes to better address the specific needs of SIDS, reducing the administrative burden but maintaining a high attention to transparency and accountability. It will consider a differentiated set of rules and policies for smaller projects, including pilots. It will place strong emphasis on improving the sustainability of ADB operations in SIDS. The design of operations will take into account the existing capacity for operation and maintenance, as well as the overall life cycle cost, and will tailor technical solutions to everyday realities.

IV. ABSORPTIVE CAPACITY

49. Despite weaknesses in institutional capacity, SIDS are showing improvements in portfolio performance—with assistance from ADB and other development partners. ADB is taking some important steps to augment the absorptive capacity of SIDS, i.e., their ability to utilize additional resources effectively.

A. Absorptive Capacity for ADB Financing

50. At the macro level, SIDS have been absorbing and benefiting from increasing financial inflows. The ODA inflow more than doubled between 2000 and 2012, from $955 million to $2.2 billion, before falling back to $1.9 billion in 2017.29 In 2017, the ODA–GNI ratio ranged from

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29 Organisation of Economic Co-operation and Development, Development Assistance Committee database.
an average of 8%–9% for the larger resource exporters (skewed by Solomon Islands’ ODA–GNI ratio of more than 15%) and for the tourism-based economies to more than 26% for the smaller islands and atolls. More than 60% of ODA inflow to these states is from major bilateral donors, i.e., Australia, the United States, Japan, and New Zealand. Multilateral partners also have significant shares in ODA flows to SIDS, e.g., ADB (7%), the European Union (4%), and the World Bank (5%).30 The World Bank raised its annual minimum allocation of International Development Association (IDA) resources from the equivalent of $2 million under IDA 15 (2008–2011) to $21 million in IDA 18 (2017–2020).31 The Green Climate Fund is a relatively new donor, providing funding of about $300 million to Pacific DMCs since mid-2016. Also, nontraditional development partners are active in the Pacific, and while data on the amounts of such financing are not available in a comprehensive manner, they are considered to be significant.32

51. The SIDS have absorbed increased volumes of ADB financing effectively. ADB committed a total of more than $380 million in ADF grants and concessional ordinary capital resources to the 13 eligible SIDS in 2017–2018. This compares with commitments of $249 million in 2015–2016 and $247 million in 2013–2014. For 2019, projected commitments for ADB concessional financing in the 13 SIDS is $324 million, of which 79% is already committed as of 30 September. The demand for ADB support has grown significantly. In 2017–2018, $343 million in ADB concessional financing was approved for the 13 SIDS, compared with about $208 million approved in 2013–2014. Growth in demand was strong for investments in renewable energy, ICT, and health.

52. The success rates of ADB’s investments in the 13 SIDS eligible for concessional assistance have risen. The share of completed sovereign operations rated successful increased from 30% during 2009–2011 to 62% during 2016–2018.33 While this is below the ADB average of 77% successful projects in 2016–2018, the trend is positive.34 The sustainability of ADB sovereign operations in the Pacific increased from 50% during 2010–2012 to 56% during 2016–2018, indicating that outcomes of ADB operations are likely to be sustained over their economic life.

53. Similarly, the effective capacity of SIDS to convert resources to project delivery is evident in the generally improving pace of contract awards and disbursements. The contract award ratio in the 13 SIDS eligible for concessional assistance reached a record 44.4% in 2018 (up from 25.9% in 2014), significantly above the ADB average of 25.7% for sovereign operations. The disbursement ratio for sovereign loans and grants (projects and results-based operations) in these 13 SIDS went up from 17.6% in 2014 to 26.0% in 2017. The disbursement ratio then fell to 17.5% in 2018, compared with 21.0% for ADB sovereign operations, partly reflective of high commitments in 2017—even though absolute disbursement increased between 2017 and 2018.35

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30 These shares are averages for 2012–2016.
31 The World Bank is successfully delivering its increased IDA allocations. For the Pacific SIDS, the World Bank expects to commit the expanded IDA resources by 2019–2020.
32 According to the Lowy Institute, the People’s Republic of China’s assistance to five Pacific DMCs is estimated at a cumulative $738 million over 2006–2016.
33 The success rates are based on ratings by ADB’s Independent Evaluation Department in project or program completion report validations or project performance evaluation reports. The reporting year is based on the project completion reports’ circulation dates and ends on 30 June. For all 15 SIDS (including Fiji and the Cook Islands), success rates increased from 44% to 56% over the same reporting periods.
34 The success rates for all 15 SIDS (excluding regional projects) moved from 47% in 2010–2012 to 56% in 2016–2018.
35 The disbursement ratio, calculated as a percentage of undisbursed net balance based on commitments at the beginning of the year, declined in 2018 partly because (i) elections in Timor-Leste delayed project implementation; and (ii) the February 2018 earthquake in PNG diverted attention to the reconstruction of damaged infrastructure, while its impacts on road and air access delayed progress in other infrastructure projects.
Through measures to enhance project-readiness, the share of sovereign infrastructure projects in the 13 SIDS that were procurement-ready at approval increased significantly from 11.8% during 2012–2014 to 34.8% during 2016–2018.

54. The 13 SIDS eligible for concessional assistance show a positive trend in portfolio performance. The portfolio ratings in the country performance assessments increased from 3.31 in 2010 to 3.88 in 2018. This also signals improving absorptive capacity.

B. ADB Support to Strengthen Absorptive Capacity

55. The improvement in the absorptive capacity of SIDS reflects, among other aspects, greater efforts to ensure that projects are “spade-ready” when financing is approved, proactive measures to address capacity limitations in the SIDS, greater coordination with partners, and new and flexible approaches (Appendix 4).

56. **Improving portfolio performance.** Adopted in 2016 by ADB’s Pacific Department, the Project Improvement Action Plan (PIAP) lists four core areas of support: (i) encouraging governments to establish or strengthen centralized procurement and fiduciary functions, (ii) supplementing counterparts’ capacity to strengthen portfolio management, (iii) ensuring that land acquisition and safeguard issues are addressed upfront, and (iv) improving project readiness with detailed designs prior to the approval of financing. The PIAP has proven to be an effective mechanism for improving the performance of ADB’s Pacific portfolio as well as the implementation of individual projects. ADB is making efforts to further increase the number of design- and procurement-ready projects in SIDS by using the project readiness facility and the multitranche financing facility. ADB is also increasingly using regional technical and advisory support to boost the absorptive capacity of Pacific SIDS. As part of the PIAP, for example, technical assistance involves a regional project and procurement support team to provide training to executing agencies as well as on-the-ground assistance and capacity development for procurement, safeguards, financial management, disbursements, portfolio reviews, and project management.

57. **Development coordination.** Greater coordination of development partners also helps improve absorptive capacity and development outcomes. Counterpart staff in SIDS are typically limited in number, and their capacities are constrained. Coordination between development partners can ensure that complementarities are leveraged and duplication avoided. For example, the national infrastructure investment plans prepared by the Pacific Regional Infrastructure Facility have strengthened the priority-setting processes, and enable development partners to support critical projects. More and more, this collaboration takes the form of joint cofinancing of projects, which allows coordinated support to build absorptive capacity and allows sufficient financing to meet priority needs.

58. **New approaches.** ADB has taken several steps to tailor its business processes, approaches, policies, and guidelines to the unique circumstances of DMCs in fragile and conflict-

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36 The average score for small states improved from 3.38 in 2008 to 3.73 in 2016, while the average for other ADB concessional countries increased from 3.63 to 4.04 over the same period.
37 The PIAP was prepared in 2016 to overcome the constraints in SIDS that prevent timely and effective preparation and implementation of investment projects.
39 This was established in 2008 to provide TA, and research and knowledge products on key infrastructure issues to Pacific island countries; and as a coordination facility for the principal development partners in the region.
affected situations (eight of which are SIDS), and published a procurement guidance note.\textsuperscript{40} The Pacific Department, in close collaboration with the Procurement, Portfolio and Financial Management Department, is conducting research to identify innovative approaches to project design and implementation, including procurement in fragile situations in the Pacific. The research is expected to be completed by the end of 2019 and will result in practical and innovative measures to strengthen project design and implementation, including actions to (i) further strengthen the capacity of executing and implementing agencies for designing, implementing, and maintaining ADB-financed operations; (ii) find workable solutions to weak consultant and contractor markets; and (iii) improve ADB’s development effectiveness in fragile situations by further tailoring its processes and policies and by strengthening its internal capacity to operate in these situations.

59. \textbf{Enhanced staffing.} Strengthening the absorptive capacity of SIDS also requires that ADB staffing levels and its in-country presence are sufficient to ensure project quality, close coordination with government counterparts, effective knowledge transfer, robust portfolio performance, and better monitoring of development outputs and results. A detailed analysis of staffing needs of the Pacific Department resulted in 32 new positions to be provided from 2017 through 2019. The establishment of country offices in each of the 11 small Pacific SIDS was approved in August 2018, and having staff presence clearly strengthens ADB’s ability to safeguard its investments and manage risks and challenges during and after project implementation. A realignment of the Pacific Department within ADB in December 2018 established four sector divisions, and created the Portfolio, Results, and Quality Control Unit, which will focus on improving portfolio performance. Under the Pacific Partnership Facility, Australia and New Zealand are financing several staff positions to support project implementation, private sector development, and regional cooperation, intended to supplement ADB’s own growing staff resources in support of its expanding assistance program in the Pacific.

\textbf{C. Demand for ADB Financing}

60. The projected near-term financing demand in the 13 SIDS eligible for concessional resources is significant, at more than $2.3 billion for 2019–2022. More than 85\% of the pipeline demand is for infrastructure (transport, energy, urban and water, and ICT) (Appendix 5). A similar picture emerges when non-concessional resources are also considered. For all 15 SIDS (including Fiji and the Cook Islands), the total pipeline demand is for $4.3 billion in concessional and non-concessional resources. More than 81\% of it is for infrastructure (transport, energy, urban and water, and ICT).

61. ADB’s growing annual commitments, portfolio performance, and pipeline of potential investments demonstrate the capacity to effectively deliver increasing resource flows to SIDS. For most SIDS, available funds are fully programmed in the initial biennium of the ADF period, reflecting high demand for concessional financing and exacerbating resource constraints in the medium term. Delivering the 2019–2022 pipeline will require significant resources, and can ensure that ADB plays a stronger leadership role in projects.

\textbf{V. REVISION OF CONCESSIONAL RESOURCE ALLOCATION FRAMEWORK}

62. The differentiated approach under Strategy 2030 builds on ADB’s longstanding development support in SIDS, with its emphasis on understanding the local context, making a

\textsuperscript{40} ADB. 2018. \textit{Fragile, Conflict-Affected, and Emergency Situations: Guidance Note on Procurement}. Manila.
long-term commitment, ensuring country ownership, and being flexible in responding to the challenges.\textsuperscript{41} It helps strengthen institutions and fill capacity gaps, including support to implement ADB projects. However, to continue to build resilience and mitigate vulnerability, and meet the needs of SIDS in future, ADB has to ensure sufficient long-term financing and capacity development assistance.

63. The performance-based allocation (PBA) system, which guides ADB’s country allocations of concessional finance, is based on (i) needs, as captured by nominal GNI per capita and population size, and (ii) ability to absorb and utilize resources, as captured by country performance assessments and portfolio performance. However, nominal GNI per capita is not an adequate measure of development needs among SIDS, which are disproportionally vulnerable to shocks and face higher costs of living (para 16). Moreover, given the weighting accorded to country performance, SIDS with often weak policy performance are generally allocated smaller amounts under the PBA system.\textsuperscript{42}

64. Under ADF 13, ADB will seek to support the SIDS to meet their financing needs and build essential infrastructure while ensuring sustainable debt management. The enhanced base allocation for all concessional assistance countries introduced under ADF 12 is expected to expire in 2020 (para. 38). ADB proposes an economic vulnerability premium for ADF eligible SIDS under ADF 13. Its size will depend on the degree of vulnerability of a country, in contrast to the base allocation under ADF 12, which allocated a uniform amount to all eligible countries. The economic vulnerability premium aims to ensure additional financial resources for ADF grant-eligible SIDS on top of their PBAs, to help mitigate structural vulnerability.

65. The EVI (para. 14 and footnote 12) is identified as the most suitable index for use in the ADF resource allocation framework, based on its relevance, country coverage, data availability, simplicity, and comprehensiveness. It covers 145 developing countries worldwide, including all the 10 SIDS that are recipients of ADF grants, and is updated every 3 years by the UN Committee for Development Policy. The components of the EVI reflect key determinants of structural vulnerability of SIDS. EVI scores show little volatility since some parameters do not significantly change over time, which ensures relative stability in resource allocation between ADF cycles.

66. ADB proposes to use EVI scores to determine the size of the proposed economic vulnerability premium. The method for classifying SIDS by their EVI scores and the proposed amounts of the economic vulnerability premium according to the classification are elaborated in the discussion paper \textit{ADF 13 Strategic Directions and Resource Allocation Framework}.\textsuperscript{43} The introduction of the proposed economic vulnerability premium will benefit ADF-eligible SIDS under ADF 13, and help address their demand for resources.


\textsuperscript{42} Weak policy performance may be reflective of factors such as structural impediments and natural constraints, longstanding episodes of civil strife, suppressed accountability systems, or poor governance. However, the current PBA system does not distinguish between these factors. This leads to some inherent disadvantages for vulnerable SIDS—while a low policy performance score leads to lower PBAs on account of weak policies, a low policy performance score can also be reflective of structural vulnerability, which could in turn potentially point to the need for more resources to address the root causes and consequences of vulnerability.

VI. CONCLUSIONS AND RECOMMENDATIONS

67. Small economic bases, high costs of living, and vulnerability to external shocks suggest that SIDS will remain dependent on external financing in the foreseeable future; however, external assistance can address different priorities in SIDS based on specific needs (para. 32). Among other aspects, financing is urgently required to clear the backlog in infrastructure and social services. Support is also essential to help manage the costs of climate change and frequent disasters, halt the incidence of noncommunicable diseases, and improve the policy and institutional environment. The nexus between high vulnerability and elevated cost structures means that SIDS must contend with additional demands on public spending while available resources are effectively eroded by weak purchasing power.

68. Concessional assistance (including grants) will be important in order to contain debt distress risks—particularly for the smaller islands and atolls that are at high debt distress risk (para. 28)—and will help even to just bridge financial gaps in many SIDS. At the same time, SIDS must take steps to control debt vulnerabilities which can squeeze priority development spending, and improve their debt management practices.

69. Accordingly, this paper recommends two key principles underlying a financing framework to address the specific challenges faced by SIDS.

(i) ADB’s development financing framework must explicitly account for the greater structural and physical vulnerability, and higher costs of living and service delivery in SIDS, which lead to a greater need for public spending on a per capita basis, in contrast with non-SIDS. The limited scope for increasing public revenues means that ADB’s SIDS may require more concessional resources for longer periods than other countries with similar nominal per capita incomes. The transition to self-sufficiency and graduation is difficult because human capital and the ability to raise finance at reasonable costs both domestically and externally will mostly remain low. Broader access to resources can contribute to greater resilience to climate change, better regional integration, stronger institutions, faster poverty reduction, and improved human development outcomes.

(ii) ADB must help address the debt distress risks faced by SIDS—both by providing and leveraging concessional financing (including grants) for those in greatest need and by incentivizing them to better manage their debt vulnerabilities by tapping into sustainable sources of financing. The availability of concessional financing can directly help improve the debt sustainability in SIDS. Many SIDS are indebted because of the impacts of disasters and their high costs of recovery, further exacerbated by constrained fiscal space, limited revenue generation potential, and high costs of public services. Expanded concessional allocations will allow SIDS to move further away from potentially higher cost sources of financing. Moreover, the SIDS have the primary responsibility to contain debt-related risks, with financial and technical support from the international community. This would require broadening the revenue base, strengthening tax administration, eliminating wasteful subsidies, and prioritizing spending initiatives on social priorities. Commodity-dependent economies lacking diversification would need to build international reserve buffers and sovereign wealth funds, where appropriate, during periods of high commodity prices.

70. Over the longer term, SIDS must also take advantage of growing opportunities in the world economy. Further development of tourism will provide the main opportunity to accelerate growth and generate employment for many countries. Improved internet access and connectivity has the
potential to support the spread of knowledge and adoption of productivity-enhancing technologies. Fisheries could generate additional revenue and significantly boost incomes, especially in the smaller islands and atolls. Expanded labor mobility opportunities could generate an additional income for migrants, and expand remittance inflows from abroad.

71. The SIDS will continue to face development challenges to different degrees. At the same time, they must position themselves to take full advantage of their respective (and often limited) opportunities over the longer term, in order to accelerate economic growth and improve standards of living. International development assistance must support the SIDS in meeting their respective visions for transformation.

VII. ISSUE FOR DONORS’ GUIDANCE

72. Donors’ guidance is sought for the proposed SIDS framework under ADF 13.
ADB'S SMALL ISLAND DEVELOPING STATES

According to the United Nations' definition, the Asian Development Bank has 15 small island developing states among its developing member countries. Of these, 13 have access to its concessional assistance as of 1 January 2019.

Eligibility of ADB Small Island Developing States for Concessional Assistance

<table>
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<tr>
<th>Group A&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Group B&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Group C&lt;sup&gt;c&lt;/sup&gt;</th>
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<td>Group B&lt;sup&gt;h&lt;/sup&gt;</td>
<td>Group C&lt;sup&gt;f&lt;/sup&gt;</td>
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<tr>
<td>ADF-only&lt;sup&gt;b&lt;/sup&gt;</td>
<td>ADF blend&lt;sup&gt;c&lt;/sup&gt;</td>
<td>COL-only&lt;sup&gt;d&lt;/sup&gt;</td>
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<td>FSM</td>
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<td>Solomon Islands</td>
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<td>Cook Islands</td>
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<tr>
<td>Fiji</td>
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ADF = Asian Development Fund, COL = concessional ordinary capital resources lending, FSM = Federated States of Micronesia, PNG = Papua New Guinea.

<sup>a</sup> Based on the 2019 Debt Distress Classification for Concessional Assistance-only Countries.

<sup>b</sup> Receiving 100% grants.

<sup>c</sup> Receiving 50% grants.

<sup>d</sup> Receiving no grants.

<sup>e</sup> Eligible for COL and regular ordinary capital resources. India is a group B developing member country. It does not have access to concessional assistance resources.

<sup>f</sup> Eligible for ordinary concessional resources only.


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Access to concessional assistance (Asian Development Fund and/or concessional ordinary capital resources) for any new ADB member is contingent on consultation with the Asian Development Fund donors.
### ADB’S SMALL ISLAND DEVELOPING STATES—CHALLENGES

#### Social Development in ADB’s Small Island Developing States

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<td>98.0</td>
<td>8.2</td>
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<td>39.8</td>
<td>42.7</td>
<td>3.4</td>
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<td>97.9</td>
<td>95.9</td>
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<td>1.6</td>
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<td>100.0</td>
<td>65.6</td>
<td>27.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Palau</td>
<td>1.1</td>
<td>100.0</td>
<td>99.6</td>
<td>100.0</td>
<td>13.2</td>
<td>13.3</td>
</tr>
<tr>
<td>Papua New Guinea</td>
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<td>54.4</td>
<td>36.6</td>
<td>18.6</td>
<td>41.8</td>
<td>28.2</td>
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<tr>
<td>Samoa</td>
<td>(0.7)</td>
<td>96.8</td>
<td>95.5</td>
<td>96.6</td>
<td>14.2</td>
<td>7.1</td>
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<td>64.0</td>
<td>31.3</td>
<td>17.6</td>
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<td>44.0</td>
<td>40.8</td>
<td>17.4</td>
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<tr>
<td>Tonga</td>
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<td>99.9</td>
<td>93.5</td>
<td>13.7</td>
<td>0.9</td>
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<tr>
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<td>91.4</td>
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<td>90.5</td>
<td>53.5</td>
<td>22.6</td>
<td>25.8</td>
</tr>
</tbody>
</table>

**Averages:**

- **All SIDS**
  - Urban Population Growth: 2.3%
  - Access to Electricity: 88.2%
  - People Using at least Basic Drinking Water Services: 85.2%
  - People Using at least Basic Sanitation Services: 71.1%
  - Infant Mortality Rate: 23.1 per 100,000 live births
  - Over-Age Students, Primary: 11.2%

- **Larger resource exporters**
  - Urban Population Growth: 3.4%
  - Access to Electricity: 65.9%
  - People Using at least Basic Drinking Water Services: 57.0%
  - People Using at least Basic Sanitation Services: 31.3%
  - Infant Mortality Rate: 33.4 per 100,000 live births
  - Over-Age Students, Primary: 27.3%

- **Tourism-based economies**
  - Urban Population Growth: 2.2%
  - Access to Electricity: 92.4%
  - People Using at least Basic Drinking Water Services: 96.2%
  - People Using at least Basic Sanitation Services: 89.9%
  - Infant Mortality Rate: 14.4 per 100,000 live births
  - Over-Age Students, Primary: 10.1%

- **Smaller islands and atolls**
  - Urban Population Growth: 1.9%
  - Access to Electricity: 95.3%
  - People Using at least Basic Drinking Water Services: 88.8%
  - People Using at least Basic Sanitation Services: 72.2%
  - Infant Mortality Rate: 26.6 per 100,000 live births
  - Over-Age Students, Primary: 4.1%

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… = not available, ( ) = negative, ADB = Asian Development Bank, avg. = average, SIDS = small island developing states.

Note: Latest available data shown.

* Denotes data as of 2014 for the Federated States of Micronesia;

* Denotes data as of 2014 for the Federated States of Micronesia and Palau; 2015 for Tonga and Vanuatu; and 2016 for Fiji, the Marshall Islands, Nauru, Papua New Guinea, and Tuvalu.

Source: Secretariat of Pacific Community, National Minimum Development Indicator.
RESULTS OF ADB ASSISTANCE IN SMALL ISLAND DEVELOPING STATES

1. Asian Development Bank (ADB) assistance has yielded strong results across sectors and themes in its small island developing states (SIDS).¹

2. **Infrastructure.** Infrastructure accounts for more than 80% of ADB’s portfolio in SIDS, and ADB projects have helped improve access, connectivity, and service delivery.

   (i) **Transport.** ADB operations completed during 2010–2018 have built or upgraded more than 2,000 kilometers (km) of roads and bridges—nearly 1,800 km in rural areas—resulting in more than 540,000 daily vehicle-km in the first full year of operation. ADB helped expand or construct 19 airports, 11 ports, and numerous wharves and jetties in small outer island communities. In addition, it strengthened local capacities to carry out maintenance beyond project construction—ensuring that key infrastructure is economically viable over its lifetime and creates jobs for local communities.

   (ii) **Information and communication.** ADB’s information and communication technology (ICT) projects laid more than 5,000 km of fiber-optic submarine cables across the Pacific. The result is faster data transfer and lower internet costs.² Overall, ADB expects its ICT projects to cut internet costs by more than half for more than 500,000 people in the Cook Islands, the Federated States of Micronesia (FSM), Kiribati, Nauru, Palau, Samoa, and Tonga.

   (iii) **Energy.** ADB is the largest single source of financing for renewable energy across the Pacific, helping meet ambitious renewable energy targets and reduce reliance on expensive imported diesel. During 2007–2018, ADB approved financing for projects to install 62 megawatts of renewable energy generation capacity, construct or refurbish more than 1,600 km of transmission and distribution lines, and connect more than 10,000 households to electricity grids. For communities and businesses, the result is greater access to more affordable and reliable power. In Maldives, ADB is supporting the government in shifting to clean and cost-effective energy sources on 160 islands. This will reduce the country’s dependence on diesel, improve the financials of the electricity subsector, and solve key macroeconomic issues by tapping into indigenous and cheaper sources of power.

   (iv) **Urban and water.** During 2008–2018, ADB’s assistance in the Pacific helped deliver water supply services to more than 400,000 people; sanitation services to about 100,000 people; and improved drainage systems for around 100,000 people. Urban road upgrades and traffic management schemes have improved travel time and safety conditions for more than 70,000 city dwellers. Water sector projects are especially critical in many of the smaller Pacific atoll states, where water supplies are limited and highly vulnerable to increased saltwater intrusion. ADB and cofinancing partners are helping formulate realistic plans for achieving universal access to basic services such as clean water. In Maldives, ADB is helping establish an integrated regional solid waste management system in the capital area, consisting of collection, transfer, treatment using advanced waste-to-energy technology, disposal, recycling, and dumpsite closure and remediation.

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¹ This appendix is based on ADB. 2019. *ADB Operations in the Pacific.* Manila.

² In Palau, the cost of data transfer dropped by more than 75% after the cable became operational. In Tonga, the ICT project helped reduce internet costs by a similar factor, and more than doubled connection speeds.
3. **Social sectors.** ADB projects in health and education are helping SIDS to improve social outcomes.

   (i) **Health.** ADB’s support for Pacific health systems includes building capacities, upgrading key infrastructure, and providing resources to deliver better health outcomes. Its assistance helped Papua New Guinea (PNG) revitalize rural health systems in 13 provinces by upgrading more than 115 rural primary health care facilities and training more than 300 rural health workers. PNG’s health sector is benefiting from new policies, regulations, institutional arrangements, facilities, and ICT applications, which all strengthen service delivery and financial management. ADB is also implementing a regional vaccination program in Samoa, Tonga, Tuvalu, and Vanuatu, which will improve overall immunization coverage rates and support greater access to primary health services. ADB is now helping governments improve service delivery through ICT, including e-health.

   (ii) **Education.** ADB operations completed during 2008–2018 enabled almost 50,000 students to access better education under improved quality systems, and trained almost 1,500 teachers with quality or competency standards, enhancing student learning outcomes and teaching practices. ADB projects provided more than 12,000 students with new or improved educational facilities, e.g., classrooms, libraries, and laboratory buildings and equipment. The development of new ICT-enhanced campuses at the University of the South Pacific in Kiribati and in Solomon Islands will provide nearly 6,000 students with better access to higher education. Initiatives to strengthen literacy and numeracy in the FSM and the Marshall Islands are benefiting more than 5,000 primary school students. In Timor-Leste, ADB helped provide post-secondary skills training to more than 3,000 students.

4. **Cross-cutting priorities.** ADB assistance has also shown impressive results across important thematic and cross-sector priorities.

   (i) **Public sector management.** In view of ADB’s focus on institutional development and capacity building, its public sector management support can have impacts on multiple sectors. Policy-based lending and technical assistance are facilitating macroeconomic and sector reforms across SIDS. In partnership with multilateral and bilateral agencies, ADB is expanding its support for public financial management, national planning, policy-making, and good governance. Its policy-based operations have proven to be a crucial instrument for enabling Pacific developing member countries and Maldives to weather and recover from financial crises. These programs are facilitating reforms in key areas, including taxation, public expenditure management, increased commercialization and even privatization of state-owned enterprises (SOEs), and debt management (Box A3)—as well as in other sectors and thematic priorities, such as water, ICT, and disaster risk management.
### Box A3: Support for Debt Management through ADB Policy-Based Operations

The Asian Development Bank (ADB), together with other development partners, has provided financial support and technical expertise in the preparation and implementation of debt management strategies in several small island developing states.

In Tuvalu, ADB helped improve the government’s fiscal planning and management capacity by facilitating the formulation and implementation of a debt risk management and mitigation policy and strategy, which requires an impact analysis of any new guarantee or debt on job creation, poverty reduction on the outer islands, gender equity impacts, and impacts on health and education expenditure. In Tonga, ADB similarly helped the government operationalize its debt risk management and mitigation policy. Formulated in conjunction with the World Bank, the policy sets out the processes relating to new guarantees and debt, debt repayments, and preparation of government debt portfolio reports. In Samoa ADB helped complete a medium-term debt strategy to achieve fiscal discipline, which was part of the government’s Public Financial Management Reform Plan. ADB also assisted in the enhancement of the country’s debt strategy. It allowed Samoa to provide procedures for contracting new loans and issuing government guarantees. While a disaster brought about a breach of the debt ceiling (50.0% of gross domestic product), the country’s debt strategy helped keep debt manageable. In the Marshall Islands, ADB supported the development of public sector debt management guidelines, which regulate borrowing and lending activities of the government and require cabinet approval for concessional borrowings that state-owned enterprises will avail of. In Kiribati, ADB helped the government operationalize the country’s debt policy. The policy is designed to ensure sound loan and guarantee decisions, avoid recourse to expensive commercial loans, prevent re-accumulation of overdraft balances, and remove inappropriate loan guarantees to state-owned enterprises and joint ventures.

Recognizing that public financial management also greatly influences debt sustainability, policy-based operations also pursued broad-based reforms to reduce the pressure on governments to borrow, and to build the capacity to repay existing debt. Some of these reforms involved fiscal ratios that, analogous to the financial ratios and industry averages used to measure the performance of firms, help monitor and define targets in public financial management. After the 2008–2009 global financial and economic crisis, ADB’s policy-based operations employed fiscal ratios to build fiscal sustainability in support of economic recovery. To access a loan in 2009, the Cook Islands refined and updated ratios under the 1998 Manila Agreement and set targets for tax collections, the public wage bill, and the overall fiscal deficit, as well as for net borrowing and debt service. A related loan in 2012 required the government to meet the updated targets before funds could be disbursed. In Solomon Islands, support for economic recovery over 2010–2011 required continued compliance with the 2005 Honiara Club Agreement, which sets a threshold on government payroll spending, among other aspects.


(ii) **Gender inclusiveness.** ADB’s assistance across sectors delivered significant benefits to women. Its education and skills training programs helped women find jobs in nontraditional areas, such as repair and maintenance of solar power systems. Financial literacy programs supported by ADB reached close to 100,000 women, enabling them to open bank accounts, adopt sound saving habits, and practice financial discipline. ADB projects extended microfinance loans to more than 180,000 borrowers, mostly women, and provided loans to almost 100 small and medium-sized enterprises. ADB’s water, transport, energy, health, and ICT projects reduced many of the hardships faced by women in the region.

(iii) **Regional cooperation and integration.** Since 2009, ADB successfully mobilized more than $160 million in additional financing for regional cooperation projects and programs in SIDS, over and above the funds that would otherwise have been made available through
individual country allocations. Regional cooperation enabled the Pacific SIDS to accomplish common goals that would not have been technically or financially viable on an individual country basis. For example, sharing the costs of installing a submarine fiber-optic cable made such projects possible for small countries such as the Cook Islands and Nauru. Bulk procurement of vaccines is enabling four Pacific SIDS to benefit from economies of scale in improving health coverage and immunization rates. ADB projects facilitated the movement of more than 2 million tons per year of cross-border cargo. Maldives has been a member of the South Asia Subregional Economic Cooperation (SASEC) program since 2014. ADB’s assistance through SASEC includes support for Maldives’ national single window project, which will provide an efficient environment for streamlined international trade procedures between private stakeholders and border control agencies. Maldives used $6.66 million of set-asides (ADF and concessional ordinary resources lending for regional cooperation and integration) out of a total $10 million of ADB assistance for the project.

(iv) **Climate change and disaster risk management.** ADB projects are (a) financing climate-resilient infrastructure; (b) improving disaster risk reduction, response, and management; (c) promoting low-carbon development; (d) increasing access to climate and disaster risk finance; and (e) building core capacities to plan for and respond to climate change and disasters. ADB offers proactive help to its Pacific SIDS as well as Maldives to mobilize resources for climate change mitigation and adaptation. Since 2015, ADB helped the Cook Islands, Fiji, Kiribati, Nauru, and Tonga access and administer $133 million in concessional financing from the Green Climate Fund to build climate-proof infrastructure and renewable energy generation capacity, and to improve the business processes of power utilities. ADB also prepares climate change risk assessments for all its investments in the Pacific, and provided more than $65 million in disaster contingent financing to the Cook Islands, Palau, Samoa, Tonga, Tuvalu, and Vanuatu. Contingent financing delivers emergency resources in the aftermath of disasters, such as Cyclone Gita in Tonga in February 2018.

5. **Private sector development.** ADB has supported private sector development through its technical assistance and policy-based lending. As a key example of donor coordination, in 2006, ADB and the governments of Australia and New Zealand launched the Pacific Private Sector Development Initiative (PSDI), a flagship regional program aimed at creating an enabling environment for business and investment across the Pacific.³ PSDI is supporting business law reforms, public–private partnerships, state-owned enterprise (SOE) reforms, the economic empowerment of women, stronger consumer protection and competition policies, and improved access to finance for business and households. Through PSDI, ADB has supported reforms and investments resulting in (a) the provision of 60,000 new loans to individuals and small and medium-sized enterprises by allowing borrowers to use security other than land; (b) the transformation of microfinance institutions in PNG and Timor-Leste into commercial banks; (c) the reform of company laws and establishment of online business registries; (d) the privatization of several SOEs, and completion of two public–private partnership transactions; (e) improved profitability of SOEs in Fiji, the Marshall Islands, Samoa, Solomon Islands, and Tonga; and (f) greater economic empowerment of women, e.g., more women directors and shareholders in both

public and private enterprises. ADB’s transactional advisory services also help increase private sector participation in service delivery. ADB promoted economic inclusion in Maldives by bolstering economic activities, including on remote islands, with more opportunities and access to finance for micro, small, and medium-sized enterprises through loans, grants, and technical assistance.

6. **Other areas.** ADB is instrumental in attracting cofinancing and coordinating external development assistance. In SIDS, the harmonization of policies and procedures among development partners is essential, given their limited institutional capacities. Cofinancing from bilateral and multilateral partners assisted ADB in packaging investments that are larger and more transformative than would be possible on an individual basis. Joint policy discussions between key partners and SIDS provided for more flexible budget support for country-level reform efforts. On knowledge support, ADB technical assistance helped bridge knowledge gaps and build expertise.

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4 In Timor-Leste, ADB is helping attract private sector involvement in solid waste management in Dili; in PNG, ADB is helping engage the private sector to finance, construct, and manage a new passenger terminal for Jacksons International Airport in Port Moresby; and in Tonga, ADB is helping attract private sector financing for a 6-megawatt solar power generation plant.
MEASURES TO IMPROVE ABSORPTIVE CAPACITY

1. **Internal measures.** The improvement seen in the absorptive capacity of small island development states (SIDS) reflects increased efforts by the Asian Development Bank (ADB) to ensure that projects are “spade-ready” when financing is approved, and to post additional staff to the SIDS.\(^1\) Internal mechanisms to boost project portfolio performance include the use of (i) project readiness checklists to reduce the time required to award initial procurement contracts and to field consultants, and (ii) project design advances and ADB’s new project readiness facility to complete the detailed project design in advance of project approval. ADB is also taking proactive measures to reduce capacity limitations in the SIDS through provision of structured technical assistance (TA).

2. Adopted in 2016 by the Pacific Department, the Project Improvement Action Plan (PIAP)\(^2\) lists four core areas of support: (i) encouraging governments to establish or strengthen centralized procurement and fiduciary functions, (ii) supplementing counterparts’ capacity to strengthen portfolio management, (iii) ensuring that land acquisition and safeguard issues are addressed upfront, and (iv) improving project readiness with detailed designs prior to approval of financing. The PIAP has proven to be an effective mechanism for improving the performance of ADB’s Pacific portfolio and the implementation of individual projects. Since the PIAP’s inception, the portfolio performance risk rating of Pacific projects improved from 57% of projects on track in 2017 to 73% of projects on track in 2018, almost at par with the ADB-wide on track average of 75% in 2018. The uncontracted balance in Pacific SIDS also fell to 31% at the start of 2019, which is lower than the ADB average of 39%. The Pacific Department aims to further reduce the uncontracted balance in its portfolio to less than 30% by the end of 2019. The procurement time for transactions worth $10 million or more also improved; the average end-to-end procurement time, defined as the time from receipt of draft bidding documents to contract signing, decreased from 471 days in 2017 to 366 days in 2018 for an average gain of 105 days.

3. ADB is making efforts to further increase the number of design- and procurement-ready projects in SIDS by using the project readiness facility and multitranche financing facility. In the Pacific, the project design advance, now replaced by the project readiness facility, was used mainly to prepare large investments—e.g., for the ports in Nauru and Samoa, a road project in Solomon Island, and a road and port project in Tonga—or investments in the water sectors of Kiribati, Solomon Islands, and Vanuatu. ADB will continue to expand the use of the project readiness facility; in 2019, the Pacific Department is processing five facilities totaling about $47 million, primarily for transport, water, and urban projects.

4. **Regional approaches.** ADB is increasingly using regional technical and advisory support to boost the absorptive capacity of Pacific SIDS. As part of the PIAP, technical assistance (TA) of $3.9 million involves a regional project and procurement support team to provide training to executing agencies.\(^3\) As a result of high demand and the effectiveness of in-country assistance, the TA amount was increased by $1.2 million in 2019, for continued support in project implementation. The TA provided on-the-ground assistance and capacity development for procurement, safeguards, financial management, disbursements, portfolio reviews, and project management for about 30 projects.

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2 The PIAP was prepared in 2016 to overcome the constraints in SIDS that prevent timely and effective preparation and implementation of investment projects.
5. ADB is also supporting peer-to-peer learning through its Pacific Fellows Program (funded for $900,000), which will fortify the capacities of senior government representatives across the Pacific.\(^4\) Specialized expertise is also mobilized under TA to provide on-the-job training and problem solving, helping resolve complex project implementation and procurement issues. ADB also devoted TA resources to map the sources of fragility in Pacific SIDS classified as fragile and conflict-affected situations; identify issues and constraints in the project cycle, including procurement; and determine practical measures to improve future approaches and facilitate capacity building and institutional strengthening.\(^5\) A new regional TA project of $3.5 million supports the use of a differentiated approach in the Pacific in line with Strategy 2030 by assisting SIDS in adopting a longer-term planning horizon, promoting cross-sector synergies, and developing more programmatic approaches to sector investments.\(^6\) Extensive support for public financial management is being provided through TA and policy-based operations, with the broad objective of improving revenue streams (e.g., by improving taxation administration and transparency) and expenditure controls (e.g., by strengthening audit functions).

6. **Increases in staffing.** Strengthening the absorptive capacity of SIDS also requires that ADB staffing levels and its in-country presence are sufficient to ensure project quality, close coordination with government counterparts, effective knowledge transfer, improved portfolio performance, and better monitoring of development outputs and results. Since 14 of the 15 SIDS are in the Pacific region, and in recognition of its expanding portfolio, ADB has taken steps to increase the Pacific Department’s overall staffing levels.

   (i) A detailed analysis of staffing needs and the realignment of the department’s organizational structure resulted in 32 new positions to be provided from 2017 through 2019, both at headquarters and in ADB’s resident missions and regional offices in the Pacific.\(^7\)

   (ii) The Government of Australia, in 2018, concluded a Pacific Partnership Facility with ADB, under which it will finance six staff positions in the Pacific Department for a 5-year period from 2019 to 2023. These positions were filled and provide support for project implementation, private sector development, and regional cooperation. The Government of New Zealand also contributed to the Pacific Partnership Facility to finance five positions. Australian and New Zealand financing is intended to supplement ADB’s own growing staff resources in support of its expanding assistance program in the Pacific.

   (iii) The plan to set up Pacific country offices in each of the 11 smallest Pacific ADB member countries was approved in August 2018. Engaging full-time ADB staff (at least one national and one administrative staff) in these offices is consistent with the scaling-up of ADB operations in the Pacific. Having local staff presence strengthens ADB’s ability to safeguard its investments and manage risks and challenges during and after project implementation.\(^8\)

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\(^7\) Papua New Guinea Resident Mission; Timor-Leste Resident Mission; Pacific Subregional Office in Suva, Fiji; and Pacific Liaison and Coordination Office in Sydney, Australia.

\(^8\) ADB does not have a resident mission in Maldives. Although it managed operations in Maldives from its headquarters in Manila with the support of the resident missions in neighboring countries, the Government of Maldives has requested ADB to open an office in the country to manage the increasing portfolio.
The realignment of the Pacific Department within ADB, which became effective in December 2018, established four sector divisions and the Portfolio, Results, and Quality Control Unit. The realignment allows the department to step up the management of its operations, respond to the rapid expansion of ADB operations in the Pacific, and the focus on differentiated approaches for SIDS, in line with Strategy 2030. The new unit will also help ensure higher project readiness and enhance results of operations.

7. In addition, ADB allows for short-term assignments of experienced ADB staff outside their primary departments and offices. The Pacific Department initiated short-term assignments in Solomon Islands and Vanuatu to help develop the project implementation capacity of local staff. ADB’s Procurement, Portfolio and Financial Management Department provided the Pacific Department with three international procurement specialists to boost local procurement support; one is based in Papua New Guinea, the other two are supporting projects from ADB headquarters. Additional resources were provided to strengthen the financial management team in the Pacific Department to monitor compliance and improve financial management practices. These staff are providing support during processing and implementation, such as strengthening the financial management capacity of government institutions.

8. Given the increasing scale of ongoing and planned operations in Maldives, ADB is considering enhancing its support for portfolio management, and project and program coordination with oversight from either its headquarters or a resident mission in a neighboring country. ADB will explore feasible options, especially in the light of the ongoing review of ADB’s Resident Mission Policy, which will be completed in 2020.

9. Development coordination. Greater coordination of development partners also helps improve absorptive capacity and development outcomes. In SIDS, development partner coordination is particularly essential to ensure that development resources are effectively utilized to achieve intended outputs and outcomes. Counterpart staff in SIDS are typically limited in number, and their capacities are constrained. Coordination between development partners can ensure that complementarities are leveraged and duplication avoided. For example, the national infrastructure investment plans prepared by the Pacific Regional Infrastructure Facility have strengthened the priority-setting processes, and enable development partners to support critical projects. More and more, this collaboration takes the form of joint cofinancing of projects, which allows coordinated support to build absorptive capacity and allows sufficient financing to meet priority needs. ADB is also seeking to expand its engagement in different sectors across the SIDS—which will lead to a greater number of project-specific implementing agencies and help reduce pressures on individual implementing agencies.

10. New approaches. ADB has taken steps to tailor its business processes, approaches, policies, and guidelines to the unique circumstances of fragile and conflict-affected situations (eight of which are SIDS), and published a procurement guidance note. The Pacific Department, in close collaboration with the Procurement, Portfolio and Financial Management Department, is conducting research to identify innovative approaches to project design and implementation, including procurement in fragile situations in the Pacific. As part of this research, ADB consulted with staff of executing and implementing agencies, including project management units; consultants and contractors working on ADB-financed operations; development partners; and ADB staff to discuss their experiences in the design and implementation of operations in

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9 This was established in 2008 to provide TA, and research and knowledge products on key infrastructure issues to Pacific island countries; and as a coordination facility for the principal development partners in the region.

fragile situations, and approaches that have and have not worked well. The research, to be completed by the end of 2019, will result in practical and innovative measures to strengthen project design and implementation, including actions to (i) further strengthen the capacity of executing and implementing agencies for designing, implementing, and maintaining ADB-financed operations; (ii) find workable solutions to weak consultant and contractor markets; and (iii) improve ADB’s development effectiveness in fragile situations by further tailoring its processes and policies and by strengthening its internal capacity to operate in these situations.
### Table A5.1: ADB Financing Needs in Small Island Developing States Eligible for Concessional Assistance, 2019–2022 ($ million)

<table>
<thead>
<tr>
<th>State</th>
<th>Financing Need for ADB Pipeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federated States of Micronesia</td>
<td>66.93</td>
</tr>
<tr>
<td>Kiribati</td>
<td>131.29</td>
</tr>
<tr>
<td>Nauru</td>
<td>37.00</td>
</tr>
<tr>
<td>Palau</td>
<td>60.70</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>752.30</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>39.30</td>
</tr>
<tr>
<td>Samoa</td>
<td>73.36</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>406.85</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>170.00</td>
</tr>
<tr>
<td>Tonga</td>
<td>191.17</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>63.63</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>81.75</td>
</tr>
<tr>
<td><strong>Total Pacific SIDS</strong></td>
<td><strong>2,174.28</strong></td>
</tr>
<tr>
<td>Maldives</td>
<td>129.58</td>
</tr>
<tr>
<td><strong>Total all SIDS</strong></td>
<td><strong>2,303.86</strong></td>
</tr>
</tbody>
</table>

**Notes:**

1. Financing needs for pipelines for group B countries (Palau, Papua New Guinea, and Timor-Leste) reflect concessional ordinary capital resources lending only.
2. Projects are listed in the year they are determined as firm. Excludes 2022 standby projects and projects funded under Other Special Funds.
3. Indicative program for Maldives is based on the country operations business plan, 2020–2022 for Maldives (approved in July 2019); and for Pacific SIDS, is based on the Pacific Department’s 2019–2022 indicative pipeline as of 31 July 2019.
4. The projected financing needs are indicative and subject to change.

**Source:** Asian Development Bank.
# Table A5.2: ADB Financing Needs in Small Island Developing States – Concessional Assistance and Regular Ordinary Capital Resources, 2019–2022 ($ million)

<table>
<thead>
<tr>
<th>State</th>
<th>Financing Need for ADB Pipeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>50.00</td>
</tr>
<tr>
<td>Fiji</td>
<td>596.00</td>
</tr>
<tr>
<td>Federated States of Micronesia</td>
<td>66.93</td>
</tr>
<tr>
<td>Kiribati</td>
<td>131.29</td>
</tr>
<tr>
<td>Nauru</td>
<td>37.00</td>
</tr>
<tr>
<td>Palau</td>
<td>80.70</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>1,934.30</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>39.30</td>
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<tr>
<td>Samoa</td>
<td>173.36</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>406.85</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>322.00</td>
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<tr>
<td>Tonga</td>
<td>191.17</td>
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<tr>
<td>Tuvalu</td>
<td>63.63</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>81.75</td>
</tr>
<tr>
<td><strong>Total Pacific SIDS</strong></td>
<td><strong>4,174.28</strong></td>
</tr>
<tr>
<td>Maldives</td>
<td>129.58</td>
</tr>
<tr>
<td><strong>Total all SIDS</strong></td>
<td><strong>4,303.86</strong></td>
</tr>
</tbody>
</table>

**ADB = Asian Development Bank, SIDS = small island developing states.**

**Notes:**

1. Financing needs for pipeline for group B countries (Palau, Papua New Guinea, and Timor-Leste) reflect regular ordinary capital resources and concessional ordinary capital resources lending, and for group C countries (Cook Islands and Fiji) reflect regular ordinary capital resources lending only.

2. Projects are listed in the year they are determined as firm. Excludes 2022 standby projects and projects funded under Other Special Funds.

3. Indicative program for Maldives is based on the country operations business plan, 2020–2022 for Maldives (approved in July 2019); and for Pacific SIDS, is based on the Pacific Department’s 2019–2022 indicative pipeline as of 31 July 2019.

4. The projected financing needs are indicative and subject to change.

Source: Asian Development Bank estimates.
<table>
<thead>
<tr>
<th>Sector</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Total Sector Financing Need for Pipeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, natural resources, and rural development</td>
<td>3.00</td>
<td>0</td>
<td>0</td>
<td>21.00</td>
<td>24.00</td>
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<tr>
<td>Education</td>
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<td>0</td>
<td>23.00</td>
<td>18.00</td>
<td>41.00</td>
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<td>Energy</td>
<td>87.60</td>
<td>238.00</td>
<td>133.60</td>
<td>49.46</td>
<td>508.66</td>
</tr>
<tr>
<td>Finance</td>
<td>0</td>
<td>0</td>
<td>15.00</td>
<td>0</td>
<td>15.00</td>
</tr>
<tr>
<td>Health</td>
<td>64.25</td>
<td>0</td>
<td>10.00</td>
<td>0</td>
<td>74.25</td>
</tr>
<tr>
<td>Information and communication technology</td>
<td>20.00</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>20.00</td>
</tr>
<tr>
<td>Industry</td>
<td>10.00</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>10.00</td>
</tr>
<tr>
<td>Public sector management</td>
<td>54.63</td>
<td>17.00</td>
<td>37.00</td>
<td>27.00</td>
<td>135.63</td>
</tr>
<tr>
<td>Transport</td>
<td>98.26</td>
<td>562.00</td>
<td>38.00</td>
<td>248.50</td>
<td>946.76</td>
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<tr>
<td>Water and other urban infrastructure and services</td>
<td>102.72</td>
<td>244.21</td>
<td>119.63</td>
<td>62.00</td>
<td>528.56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>440.46</strong></td>
<td><strong>1,061.21</strong></td>
<td><strong>376.23</strong></td>
<td><strong>425.96</strong></td>
<td><strong>2,303.86</strong></td>
</tr>
</tbody>
</table>

Notes:
1. Financing needs for pipeline and financing available from the Asian Development Bank for group B countries (Palau, Papua New Guinea, and Timor-Leste) reflect concessional ordinary capital resources lending only.
2. Projects are listed in the year they are determined as firm. Excludes 2022 standby projects and projects funded under Other Special Funds.
3. Indicative program for Maldives is based on the country operations business plan, 2020–2022 for Maldives (approved in July 2019); for Pacific small island developing states, it is based on the Pacific Department’s 2019–2022 indicative pipeline as of 31 July 2019.
4. Indicative allocations for Pacific developing member countries are based on 2019 Indicative Resources available for Commitment memo and include performance-based allocation, Disaster Risk Reduction set-aside, Disaster Response Facility, and regional funds; and reflect adjustments such as frontloaded and carried-over allocations.
5. Indicative allocations for Maldives are based on 2019 Indicative Resources available for Commitment memo and include performance-based and disaster risk reduction allocations.
6. The projected financing needs are indicative and subject to change.

Source: Asian Development Bank estimates.