Performance Evaluation Report

Pacific Private Sector Development Initiative

Independent Evaluation

ADB

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NOTES

(i) The fiscal year of the Pacific Private Sector Development Initiative ends on 30 June.
(ii) In this report, "$" refers to US dollars.

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Abbreviations

ADB	–	Asian Development Bank
DFAT	–	Australian Department Foreign Affairs and Trade
DMC	–	developing member country
DMF	–	design and monitoring framework
FEMM		Forum Economic Ministers' Meeting
FSM	–	Federated States of Micronesia
IFC	–	International Finance Corporation
IMF	–	International Monetary Fund
M&E	–	monitoring and evaluation
MFAT	–	New Zealand Ministry of Foreign Affairs and Trade
PFTAC	–	Pacific Financial Technical Assistance Centre
PLCO	–	Pacific Liaison and Coordination Office
PNG	–	Papua New Guinea
PPP	–	public–private partnership
PRIF	–	Pacific Region Infrastructure Facility
PSA	–	private sector assessment
PSD	–	private sector development
PSDI	–	Pacific Private Sector Development Initiative
RMI	–	Republic of the Marshall Islands
RRP	–	report and recommendation of the President
SOE	–	state-owned enterprise
TASU	–	technical assistance supervising unit

Contents

	Page
Acknowledgments	vii
Basic Data	ix
Executive Summary	xi
Chapter 1: Introduction	1
A. Project Overview	1
B. Evaluation Purpose	1
C. Scope, Methodology, and Limitations	2
D. Structure of the Report	6
Chapter 2: Overview of Private Sector Development in the Pacific	7
A. The Private Sector Development Landscape in the Pacific	7
B. Why Private Sector Development?	8
C. Review of ADB Strategies and Operations in the Pacific	8
D. Other ADB PSD-Related Facilities in the Pacific	9
E. Pacific PSD Operations of Other Development Partners	11
Chapter 3: Design and Implementation	14
A. Time, Cost of Financing, and Expenditure	14
B. Focus Areas and Geographic Coverage	15
C. Organization and Operations	16
D. Design and Operational Changes	17
E. Monitoring and Evaluation	17
F. Expected Impacts, Outcomes, and Outputs	18
Chapter 4: Performance Assessment	20
A. Improving the Enabling Business Environment	20
B. Results of PSDI Operations: Access to Finance	35
C. Results of PSDI Operations: Business Law Reform	42
D. Results of PSDI Operations: State-Owned Enterprise Reforms and Public-Private Partnerships	47
E. Results of PSDI Operations: Economic Empowerment of Women	54
Chapter 5: Issues, Conclusions, and Recommendations	59
A. Issues	59
B. Conclusions	61
C. Recommendations	61

APPENDIXES

1. Strategies and Programs for ADB and Other Development Partners Related to Private Sector Development in the Pacific 66
2. Monitoring and Evaluation 73
3. Organization and Operations of the Pacific Private Sector Development Initiative 80
4. Summaries of Country Case Assessments 83
5. Summary of Survey Findings 104
6. Methodology for the Review of PSDI Outputs 107

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Basic Data

Pacific Private Sector Development Initiative

Data	TA 6353-REG	TA 7430-REG	TA 8378-REG
Classifications			
Sector	Multisector	Multisector	Multisector
Subsectors	FSD	FSD, EPAM, L&J, MF	FSD, EPAM, L&J, MF
Themes	PSD, SEG, RCI	PSD	PSD, SEG, RCI, GE
Subthemes	PILR, PEEEM	PR, PPP, PMS, PEEBE, WAM	PR, PPP, PMS, PEEBE, WAM, GEEO
Cost Financed by ADB ($ '000)			
Estimated cost	1,100,000	3,000,000	2,000,000
Actual cost	1,100,000	3,000,000	Ongoing
Cost Finance by Cofinanciers ($'000)			
Estimated cost	9,839,350	9,000,000	36,580,000
Actual cost	9,809,554	11,965,413	Ongoing
Use of Consultants			
International Consultants (person-months)	288	497	Ongoing
National Consultants (person-months)	131	49	Ongoing
Implementing Agency	PLCO	PLCO	PLCO
Milestones			
Board Approval	21 Nov 2006	10 Dec 2009	6 Jun 2013
Signing of TA Agreement	21 Nov 2006	11 Dec 2009	6 Jun 2013
Fielding of Consultants	19 Feb 2007	26 Jan 2010	
Expected TA Closing	30 Nov 2011	31 Dec 2013	31 May 2019
Actual TA Financial Closing	31 Jul 2013	31 Mar 2015	Ongoing
TCR Circulation	Sep 2013	May 2015	

ADB = Asian Development Bank, EPAM = economic and public affairs management, FSD = finance sector development, GE = gender equity, GEEO = gender equity in economic opportunities, L&J = law and judiciary, MF = microfinance, PARD = Pacific Department, PEEBE = promoting economic efficiency and enabling business environment, PEEM = promoting economic efficiency and enabling markets, PILR = policy, institutional, and legal reform, PLCO = Pacific Liaison and Coordination Office, PMS = promoting macroeconomic stability, PR = policy reform, PSD = private sector development, RCI = regional cooperation and integration, SEG = sustainable economic growth, TA = technical assistance, TCR = technical assistance completion report, WAM = widening access to markets and economic opportunities

Executive Summary

This evaluation of the Pacific Private Sector Development Initiative (PSDI), 2007–2017, examines whether the initiative has been successful in improving the enabling business environment of the 14 ADB Pacific developing member countries (DMCs). The program, managed by ADB through its Pacific Liaison and Coordination Office in Sydney, has provided support to Pacific DMC governments in the following areas: access to finance, business law reform, state-owned enterprise (SOE) reforms, public–private partnerships (PPPs), the economic empowerment of women, and competition and consumer protection. These interventions were complemented by analytical work and subprograms on cross-cutting issues. Since 2007, the PSDI has launched 276 subprograms, of which 93 had been completed as of 30 June 2017. From a total of $60.4 million allocated funds, $42.2 million had been disbursed as of 30 June 2017. Of the total funds, ADB provided $6.1 million, Australia $49.8 million, and New Zealand $4.5 million.

The evaluation found that, after a decade in operation, PSDI had supported the provision of several important inputs necessary for modern, functioning private sectors in Pacific DMCs. This was achieved in a political economy environment that generally made private sector reforms difficult. Nevertheless, the delivered outputs did not fully achieve the intended outcomes. This is because the provision of building blocks (i.e., outputs) conducive to improving the enabling business environment was not sufficient in itself. In managing the program and delivering value added, ADB did not provide sufficient strategic guidance, thus missing out on opportunities to draw on its knowledge and experience to lead the program.

PSDI remains a relevant program and it is well aligned with the needs of the Pacific DMCs. Given its wealth of experience in the Pacific, ADB with support from the cofinancers is best placed to lead a process of refocusing, expansion and increase of the value addition of the program.

In order to achieve better outcomes in PSDI, ADB needs to provide greater strategic guidance, review the management model for PSDI, put in place a fully functional M&E system that includes mapping out the results chain of subprograms, and rethink and enhance the focus area on the economic empowerment of women.

The Pacific region has experienced low economic growth for decades. From 1970 to 2000, the region's growth averaged less than 1% per capita annually. A greater contribution from the private sector could transform the region's economic development. Work by the Asian Development Bank (ADB) and the International Finance Corporation on measuring the progress of private sector development (PSD) using a range of indicators, including doing business and private sector assessments reports, has helped increase awareness of the role PSD plays in alleviating poverty. Even so, private-sector-led growth has been difficult to achieve in Pacific island countries because of their limited resources. By 2004, ADB had made PSD a major thrust of its Pacific Strategy, 2005–2009. In response to low levels of growth and the potential of the private sector to contribute to growth, other donors had also begun to fund PSD initiatives in the region.

The Pacific Private Sector Development Initiative (PSDI) was launched in 2007 as a response to this low economic growth. It was a flexible answer to the challenges identified in the 2004 ADB report *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific*, and as part of ADB's overall engagement in the region. PSDI aimed to improve the business environment in Pacific island countries by promoting effective PSD policies and practices within the context of ADB country partnership strategies.

PSDI Program Highlights

PSDI is cofinanced by ADB, the Australian Department of Foreign Affairs and Trade (DFAT) and the New Zealand Ministry of Foreign Affairs and Trade (MFAT). PSDI has had three phases: PSDI I started in 2007, PSDI II in 2009, and PSDI III in 2013, with the third phase due to be completed in May 2019. Over this period, ADB has managed PSDI's regional technical assistance (TA) projects through its Pacific Liaison and Coordination Office (PLCO) in Sydney. The TA implementation team is made up of long-term consultants, mostly based in Sydney, and short-term consultants working in the field and in ADB's larger Pacific developing member countries (Pacific DMCs), where a few in-country coordinators help implement the business environment reform agenda and coordinate initiatives by governments and the PSDI. All the consultants are supervised by ADB's technical assistance supervising unit and report to the PLCO regional director.

PSDI supports ADB's 14 Pacific developing member countries and works across six PSD focus areas. ADB Pacific member countries are: Cook Islands, Fiji, Kiribati, Federated States of Micronesia (FSM), the Republic of the Marshall Islands, Nauru, Palau, Papua New Guinea (PNG), Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu. Four focus areas were introduced by PSDI I: financing growth (access to finance), business law reform, state-owned enterprise (SOE) reforms, and public–private partnerships (PPPs). A further two areas were introduced during PSDI III: the economic empowerment of women, and competition and consumer protection. These interventions are complemented by analytical work and subprograms on cross-cutting issues. Since 2007, PSDI has had 276 subprograms across all the areas. Of these, 86 had been completed as of 30 June 2017, 147 were ongoing, 18 were on hold, and 25 were in the pipeline. The program's total available funding is $60.4 million, of which $42.2 million had been disbursed as of 30 June 2017.

Evaluation Purpose

The main objective of this independent evaluation is to inform the ADB Board and Management of the value and merits of PSDI, and to capture lessons from the mechanisms through which business environment reforms occur in Pacific DMCs. The evaluation's findings are expected to inform future project designs and further ADB efforts in the region.

Evaluation Methodology

The evaluation drew on a range of sources and methods. These included a desk review of PSDI documents and fieldwork interviews with staff of PSDI, ADB, DFAT, MFAT, Pacific DMC counterparts, and other stakeholders. The fieldwork involved site visits to the three largest recipients of PSDI funds (Papua New Guinea, Solomon Islands, and Tonga) and to Palau, one of the smaller Pacific DMCs where PSDI has provided various interventions. The evaluation included a client satisfaction survey of government counterparts. As part of the desk review, the evaluation team performed a more in-depth review of a sample of 62 outputs of subprograms that were marked as completed in the PSDI monitoring and evaluation (M&E) database. These outputs reflected both the PSDI focus areas and the 14 Pacific DMCs in which the program operates. The various sources of information were then triangulated by the evaluation team to confirm the validity of the findings.

Overall Assessment

PSDI supported the provision of several important inputs necessary for a modern, functioning private sector. This was achieved in a political economy environment that generally made private sector reforms difficult. Reforms included significant business laws, company registries, SOE reform, and secure transactions. These and other reforms provided the building blocks necessary for a vibrant private sector.

However, the evaluation found that, after a decade in operation, PSDI outputs had not fully achieved the intended outcomes. This was because the delivery of building blocks (i.e., outputs) conducive to improving the enabling business environment was not sufficient in itself. The reforms represented a step in the sequence of what was required to achieve an improved business enabling environment. Interventions were not mapped out in a proper results chain that identified the necessary steps in the reform process that would lead to achieving their uptake by the wider economy. While outputs have been delivered, the evidence of an improved business environment that would lead to increased private sector economic activity is limited and dispersed across the Pacific DMCs.

This happened in part because in managing the program and delivering the value added, ADB did not provide sufficient strategic guidance, thus missing out on opportunities to draw on its knowledge and experience to lead the program. The shortcoming in achieving the desired outcomes was compounded by the underutilization of the M&E system, which meant it was not able to measure fully how inputs led to outputs and the desired outcomes. In addition, PSAs, which could have been a building block for developing an overall strategic framework were rather weak in quality and some stakeholders have perceived them as mainly communication and advocacy tools with limited depth of analysis. Thus, there is a need to build strong analytical work clearly targeted and linked to PSDI work program. The absence of strategic and managerial guidance also led in some instances to cofinanciers perceiving PSDI as a tool of ADB to further its own investment objectives in the region rather than serving PSDI's objectives.

The demand-driven model led to a focus on shorter-term outputs rather than on the strategic longer-term outcomes and impacts that the program should have aimed to achieve. The demand-driven TA mode of operation is an efficient model for delivering a rapid response to a country's request for reform assistance. It allows for key consultants to work across a number of small states while country coordinators and short-term consultants provide ongoing support. The demand-driven model has also led to a focus on immediate issues and challenges at the cost, sometimes, of taking a more strategic view.

In part, PSDI's limited effectiveness continues to be affected by the unique barriers faced by the private sector in the Pacific region. These barriers are not easily addressed and are not found in all areas that PSDI is working in. While PSDI helped overcome some challenges, many structural obstacles lie outside the control of government policy, including the smallness of domestic markets, the remoteness of island economies, and traditional land tenure systems, making it difficult for PSDI to achieve its planned outcomes. These barriers lead to high costs for delivering results in the Pacific. The unique conditions of the Pacific region also limit the application of solutions drawn from other developing regions. Delivering effective solutions in the Pacific region requires thinking outside the box and taking higher risks.

The evaluation found that it was more difficult to sustain reforms that placed a burden on government finances. This was especially the case for smaller Pacific DMCs, with limited budgets. Reforms were more sustainable where there was significant government demand and ownership. The evaluation found that sustainability often required an ongoing program of engagement and proper resourcing by the beneficiaries. Indeed, many of the reforms that were achieved, e.g., for secured transactions, were only a stepping stone in a larger program of interlocked reforms needed for outcomes to be achieved.

The four country cases illustrate how PSDI's reforms had not fully achieved what was intended. The Solomon Islands program focused heavily on business law reform and piloted innovative projects for the economic empowerment of women. Despite the appreciation by the country counterpart of the constant engagement by the local coordinator, questions remain on how the outcomes of these programs are being measured and, in the case of the economic empowerment of women program, how it will be replicated. In PNG, the most prominent activities were those related to access to finance, SOEs, and PPPs. While these were highly regarded, the outcomes are not yet visible as the government has not proceeded with the key required actions to establish a PPP center and or to require SOEs to implement their community service obligations.

In Tonga and Palau, while progress was made, the achieved results differed across focus areas. In Tonga, the program focused on SOE reforms, business law reform, and access to finance. This has led to increases in the number of company registrations and several privatizations, but there has been limited uptake of the secured transaction framework by the financial sector.

Palau has received support for a similar framework; staff at the National Development Bank of Palau told the evaluation team that the framework made their work easier and had improved efficiency but the effect on their lending volumes had been negligible.

Notwithstanding, across the focus areas and the Pacific DMCs, the PSDI program remains relevant and in demand. PSDI programs are well aligned with national development strategies. The four country case assessments (Papua New Guinea, Solomon Islands, Tonga, and Palau) found that the priorities identified by PSDI in its private sector assessments were consistent with the country strategies. The program remained relevant and provided much needed support for improving enabling business environment required to revitalize and grow the economies of the PDMCs.

Focus Area: Access to Finance

PSDI supported reforms to improve the underlying conditions for access to finance, but uptake of the reforms was limited. The work can be categorized as a mixture of (i) delivering the building blocks for a vibrant private sector, and (ii) delivering innovative demand-driven solutions to strengthen the private sector. The implementation of a secure transactions framework across several Pacific DMCs fell into the building blocks category, while support to develop product concepts, such as the introduction of agriculture supply chain financing instruments, was an innovative solution. As the building blocks are being put in place for a functioning private sector, the focus will need to shift to how they can be used by the private sector. The examples of Solomon Islands, Palau, and Tonga illustrate this point. Having developed secure transaction frameworks for these countries, PSDI has shifted attention to the uptake of the reform to increase lending. Such efforts have been problematic and could have benefited from better mapping of the results chain.

Focus Area: Business Law Reform

PSDI fostered a series of business law reforms in Pacific DMCs. These reforms have helped strengthen and modernize legal and regulatory frameworks. They have brought process efficiency to several Pacific DMCs, particularly Samoa and Solomon Islands, where systems have been put in place to modernize business formation procedures. Business law reforms lay the foundation for reforms in other areas, especially for access to finance. During PSDI III, the program expanded the coverage of legal and regulatory reforms to pro-competitive policies, laws and institutions.

Focus Area: SOEs and PPPs

The extent to which PSDI facilitated SOE reforms and promoted PPPs varied from country to country, depending on the specific SOEs or PPPs being addressed. Nevertheless, given PSDI's continuous engagement over a decade to improve governance and service delivery, these efforts may have contributed to a gradual improvement of SOE profitability over that time. For many Pacific DMCs, their SOEs are critical government assets, and a politically sensitive reform area. However, the traditionally low return on SOE assets and the need for regular government subsidies and cash injections to maintain operations has put pressure on governments to reform them.

SOE reforms and PPPs were supported through a range of reforms. These included policy formation, preparing plans for SOE restructuring and privatization, advising on PPPs, developing community service obligations (social requirements of SOEs), and strengthening governance. The reforms have possibly contributed to the achievement of some improvements in the performance of SOEs and in the expansion of the number of PPP transactions. The PSDI publication *Finding Balance* was an effective advocacy tool and was well regarded by Pacific DMCs.

Focus Area: Women's Economic Empowerment

The results for the economic empowerment of women fell short of expectations. The economic empowerment of women was added as a focus area in the third phase of PSDI, and little attention was given to the issue in the first two phases. Some pilot projects, mandated under the TA design, performed well. For example, in the Solomon Islands, PSDI worked on a pilot to train women in solar panel maintenance. This program was well received by the participants, but little attention was given in the design as to how it would be scaled up. More work is needed to mainstream the economic empowerment of women across other focus areas.

Issues

The demand-driven PSDI model is responsive to Pacific DMCs but it lacked strategic focus. The rapid growth of PSDI without commensurate changes in the way it operated exacerbated the lack of an overall strategy and made it difficult for PSDI to prioritize its activities or to identify the outcomes and objectives the program wants to achieve. At times, it also resulted in PSDI engaging in lower impact or priority areas, which may be explained by the need to maintain dialogue and engagement with country counterparts and may not be necessarily bad, but such approach needs to be linked to longer term objectives. PSDI's focus areas worked well together because of their regular coordination. Such coordination cannot, however, replace a strategy that unites the PSDI team and provides it with a common purpose. Coordination could provide the means for implementing the strategy. An overall strategy, with details of how it will be implemented, would deepen the engagement of cofinanciers and key counterparts in Pacific DMCs.

PSDI did not identify and leverage other donors' initiatives in a systematic way. Where PSDI, ADB, and other donors worked together, they complemented each other well, especially in budget support operations in which PSDI provided design input and implementation support. In other instances, DFAT or MFAT were not fully aware of the details of PSDI work, which meant collaboration opportunities were missed.

While consultation with the private sector did occur, this was not through a systematic process of engaging of a wide range of nongovernment actors. PSDI did not seem to seek detailed insights from nongovernment stakeholders into the design and implementation of private sector initiatives. The evaluation team's discussions with key stakeholders in the four case countries confirmed that a full and systematic process of consultation with nongovernment stakeholders had not occurred. For instance, in PNG, the activity to economically empower women had not consulted with stakeholders outside the main counterparts, while in Palau the work on secure transactions had not consulted sufficiently with the five private sector banks, which would have shown that the activity was unlikely to incentivize them to increase lending.

PSDI's subprograms lacked a results chain. The design of PSDI interventions usually concentrated on how outputs would be achieved, but it often did not include a well-developed results chain, with baselines, targets and indicators. This lack of focus on a results chain led to subprograms not being adequately monitored and reported on to allow for a clear causality to emerge from the interventions. While outputs are an important step in the results chain and part of a complex process, they are not the end.

The lack of systematic evaluation was primarily a result of, but not limited to, the underutilization of the M&E tool. The M&E tool was not populated with appropriate data and insufficient resources were allocated for database maintenance. The underutilization of M&E also reflected the absence of processes and systems for delivering regular evaluations, which were frequently not available.

Changes introduced by ADB since 2016 are affecting PSDI's operations. Some lead consultants have left or have become less engaged, leading to a disruption in program activities in some Pacific DMCs. These changes were incremental in nature and still ongoing while the evaluation was being conducted. The process had not yet settled down, and this affected the stability of the program. Given these changes, coupled with the fact that the program is now a decade old, this is an opportune time to revisit how PSDI is managed. This consultant based model has largely served the program well to-date. It has led to consistent engagement and high levels of trust with counterparts in partner countries. However, it has also created risks, particularly the reliance on lead consultants external to ADB. During fieldwork, the evaluation team looked at other management models used by similar facilities in the Pacific region such as PFTAC that could help inform the choice of the most efficient and effective model for PSDI. In managing the program, ADB would benefit by putting in place backstopping arrangements to ensure quality control for work done by consultants and in general for PSDI activities.

The work stream of the economic empowerment of women focus area concentrated excessively on pilots and stand-alone programming. The requirement in the ADB TA III report that the program should focus on pilots led to a series of projects that were not well thought out. For one thing, it was not clear how they would be scaled up. In addition, the mainstreaming of the economic empowerment of women was conducted without taking full advantage of the other focus areas. These outputs were not well connected to other reform processes managed by PSDI.

Conclusions

PSDI remains a relevant program and is well aligned with the needs of the Pacific DMCs. Nevertheless, based on the experience of the first 10 years, the region remains a difficult environment for the private sector, as many of the barriers identified in the seminal work, *Swimming Against the Tide?*, the publication which led to the establishment of PSDI, remain today. Given its wealth of experience in the Pacific, ADB with support from the cofinancers is best placed to lead a process of refocusing, expansion and increase of the value addition of the program.

Several issues have emerged over the years of the program that need to be addressed. These issues are identified and elaborated on in the report. Addressing them will require leadership and a clear focus. It is important that ADB draw on its value added to provide greater strategic guidance and identify opportunities for PSDI to work more closely with key donors and other ADB departments. Further, also critical is to ensure that the private sector in Pacific DMCs be part of the demand-driven approach of the program. Enhanced partnership with the private sector includes working with chambers of commerce, banks, and civil society, among others, to establish a continuing advisory role for the program.

The challenge for ADB is to build on the accomplishments that have been made over the last decade to improve the program. The areas for improvement include establishing a clearer strategic direction with enhanced communication with stakeholders; developing an effective management model for PSDI; improving the design of interventions to map out the results chain in subprograms; operationalizing a fully functional M&E system to allow for proper measurement of ascribable outcomes; and rethinking the delivery mode of the economic empowerment of women focus area.

In addressing these challenges, an opportunity exists to build on the successful aspects of PSDI. The evaluation found that PSDI had helped to deliver a number of reforms that were well regarded by most Pacific DMCs and that provided the building blocks for a modern private sector. In the few cases where these reforms were followed up with outcome analysis, measurable improvements in the private sector were identified. These achievements could be built on in the process of addressing the identified issues.

In order to achieve better outcomes in PSDI, five recommendations are provided.

Recommendations

1. ADB should increase its value added by initiating the development of a roadmap for the remaining activities of PSDI III. Should PSDI's phase IV expansion proceed, a strategy that provides the program with clear priorities and identifies intended outcomes and objectives should be prepared. Activities under PSDI III could still be demand-driven but selected and prioritized according to a roadmap that articulates clear objectives. A more focused approach will strengthen implementation and provide principles for engaging cofinanciers and key counterparts in Pacific DMCs. Strategy development for phase IV of PSDI should benefit from consultation among the three cofinanciers, Pacific DMC governments, and other partners, including the private sector. It should include key consultants, country coordinators, and ADB staff. The process of developing a strategy should be led by ADB, in close cooperation with stakeholders. The strategy should include a theory of change and an engagement plan, and should be supported by in-depth country analytical work, such as quality PSAs, targeted and clearly linked to PSDI's work program.

For the communication aspect of the strategy, PSDI should work with other ADB departments, particularly the regional departments, the Office of Public–Private Partnerships, and the Private Sector Operations Department. Consideration should also be given to how PSDI will coordinate with DFAT and MFAT headquarters and country posts to maximize the advantages for all three cofinanciers.

2. ADB should require that all new PSDI designs include a clearly defined results chain as part of the concept note for each intervention. The concept note should include a section on mapping the result chain from inputs to outputs and outcomes. It should also articulate how the subprograms will achieve their objectives, and how they will fit within PSDI's roadmap for phase III and strategy for Phase IV. While it remains important to identify the outputs of activities, this should not be the focus of what subprograms aim to achieve—or what they report on as a success. To achieve a clearly defined results chain will require developing a template and a set of guidelines, and training staff working on PSDI design activities. Proper resourcing and procedures will be needed for quality assurance, as well as alignment with the redesigned M&E system.

3. ADB should lead the redesign of the M&E system. The revitalized M&E system should meet the needs of stakeholders and include tracking and recording of all inputs, outputs and outcomes as well as indicators with baselines and target values. ADB should review the existing M&E system and identify lessons learned. Successful components of the existing system can be retained or modified. Effective implementation of this recommendation would require ADB to oversee the process, but external expertise will be needed for the initial design and to get the system up and running.

4. ADB should review the PSDI management structure to identify an appropriate and effective model to increase its value added. The revised management structure should leverage ADB technical expertise to add value to PSDI. The current structure lacks strategic guidance from ADB, thus the revised model should, for instance, designate an ADB staff member to be directly engaged and responsible for providing the necessary value addition and leadership to the program. The member of staff should ensure interventions align with PSDI's newly developed roadmap for phase III and strategy for Phase IV, that inputs, outputs and outcomes are tracked, and that appropriate communication and coordination with relevant stakeholders are delivered. The program should not operate in isolation but in the context of other initiatives of partners working in the region, including ADB. The management of the program should ensure that the program delivers first on its intended objectives. ADB should also review the PSDI management model and the procedural processes. As ADB carries out the recommendations of this review, it is essential that PSDI does not lose its well-earned reputation, continues to make progress in its program of activities, retains key staff to deliver the program, and ensures appropriate quality control and backstopping of the consultants' work. The overall governance of PSDI can greatly benefit from more active dialogue and engagement among the partners. The new management structure should not come at the expense of agility, or country-demand linked to the strategic priorities of the program.

5. ADB should rethink and enhance the focus area on the economic empowerment of women. This should include an assessment of resource needs and could consider a two-track approach consisting of (i) a program with a specific target for stand-alone gender-focused activities and (ii) mainstreaming gender through all program activities. This will also require discussions with cofinanciers so the outcomes being targeted can be reworked.

CHAPTER 1
Introduction

A. Project Overview

1. The Pacific Private Sector Development Initiative (PSDI) is a regional technical assistance (TA) project jointly funded by the Asian Development Bank (ADB), the Australian Department of Foreign Affairs and Trade (DFAT), and the New Zealand Ministry of Foreign Affairs and Trade (MFAT). Its main objective is to contribute to poverty reduction in ADB's Pacific developing member countries (DMCs) by promoting enterprise, investment, and economic growth. More specifically, the TA project aims to improve the business environment of these countries by promoting private sector development (PSD) policies, strategies, practices, and activities in several priority areas.

2. PSDI is in its third phase of operations. The first phase (PSDI I) was approved in November 2006 and closed in July 2013. The second (PSDI II) was approved in December 2009 and closed in March 2015. The third (PSDI III) was approved in June 2013 and is scheduled to close in May 2019.

B. Evaluation Purpose

3. The main objective of this independent evaluation is to inform the ADB Board and Management of the value and merits of PSDI, and to capture lessons from the mechanisms through which business environment reforms occur in Pacific DMCs. The evaluation's findings are expected to inform future project designs and the implementation of further ADB efforts in the region. PSDI has completed its first decade of operations and this is the first time a complete independent evaluation of its activities has been carried out.

4. The evaluation approach paper prepared by the Independent Evaluation Department (IED)[1] identified the overarching question of the evaluation as: to what extent has PSDI been successful in improving the enabling business environment of the Pacific DMCs?

5. The approach paper also included four other questions related to PSDI's performance in core operational areas that are addressed in this evaluation:

(i) Has PSDI improved access to finance in Pacific DMCs?
(ii) Did PSDI foster business law reform in Pacific DMCs?
(iii) To what extent and in what ways has PSDI supported SOE reforms and public–private partnerships (PPPs) in Pacific DMCs?
(iv) How has PSDI incorporated the economic empowerment of women as a priority agenda?

[1] Independent Evaluation Department. *Evaluation Approach: Evaluation of the Pacific Private Sector Development Initiative (2007–2016).* 24 July 2017.

C. Scope, Methodology, and Limitations

6. **The evaluation covers 2007–2017, the first 10 years of PSDI operations.**[2] It is an ex-post evaluation of the focus areas in the first two completed phases—improving access to finance, business law reform, state-owned enterprise (SOE) reform, and PPPs. The evaluation also assesses PSDI III up to 30 June 2017, particularly the focus area on the economic empowerment of women, which was introduced as a cross-cutting theme in PSDI II and converted into a focus area in PSDI III. The evaluation covers all 14 of ADB's Pacific DMCs: Cook Islands, Fiji, Kiribati, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands, Nauru, Palau, Papua New Guinea (PNG), Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

7. **The evaluation covers all PSDI subprograms.**[3] As of 30 June 2017, the number of subprograms totaled 276, of which 86 had been completed, 147 were ongoing, 18 were on hold, and 25 were in the pipeline. The portfolio summary for 2007–2017 shows total committed funding of $39.35 million.[4] The average cost per subprogram was $142,572. The countries with the largest number of subprograms were Papua New Guinea (32), Tonga (31), Solomon Islands (28), Vanuatu (25), Samoa (22), and Fiji (17). Those with the fewest were the Republic of the Marshall Islands (4), the Federated States of Micronesia (4), Kiribati (3), and Tuvalu (2). PSDI also contributed to 74 multi-country regional subprograms.

8. **Program-level assessments.** The evaluation assessed ADB's performance in administering TA, the performance of its development partners and executing agencies, and PSDI benefits (both intended and unintended) for beneficiary countries. The ultimate impacts of these subprograms may not be visible until several years after project completion.

9. **The evaluation methodology includes qualitative and quantitative approaches.** This reflects the unique nature of PSDI, which features a multi-year programmatic intervention with a cluster of several thematic areas. In accordance with ADB's *Guidelines for the Evaluation of Public Sector Operations*,[5] the evaluation draws on IED's standard project and TA evaluation criteria: relevance, effectiveness, efficiency, and sustainability. The evaluation includes retrospective and forward-looking perspectives in accordance with the guidelines.

10. **The evaluation measures PSDI's performance.** The criteria were: (i) relevance—confirming the alignment of PSDI activities with national and regional strategies, and donors' and ADB's corporate strategies; (ii) effectiveness—assessing PSDI activities against the envisaged outcomes as elaborated in the approval documents; (iii) efficiency—analyzing how financial and other resources were used to achieve desired outcomes in a timely manner; and (iv) sustainability—ascertaining the likelihood of

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2 ADB. 2006. *Technical Assistance for the Pacific Private Sector Development Initiative (PSDI I).* Manila. (TA 6353-REG, closed July 2013); ADB. 2009. *Technical Assistance for the Pacific Private Sector Development Initiative Phase II (PSDI II).* Manila. (TA 7430-REG, closed March 2015); and ADB. 2013. *Technical Assistance for the Pacific Private Sector Development Initiative Phase III (PSDI III).* Manila. (TA 8378-REG, scheduled closing date May 2019).

3 Subprograms in PSDI-produced documents are called initiatives. This evaluation uses the term subprograms. Each subprogram consists of one or more projects.

4 This amount excludes expenses that are not allocated to specific subprograms or projects, such as equipment, miscellaneous TA administration, and training and seminars that are not identified with any project.

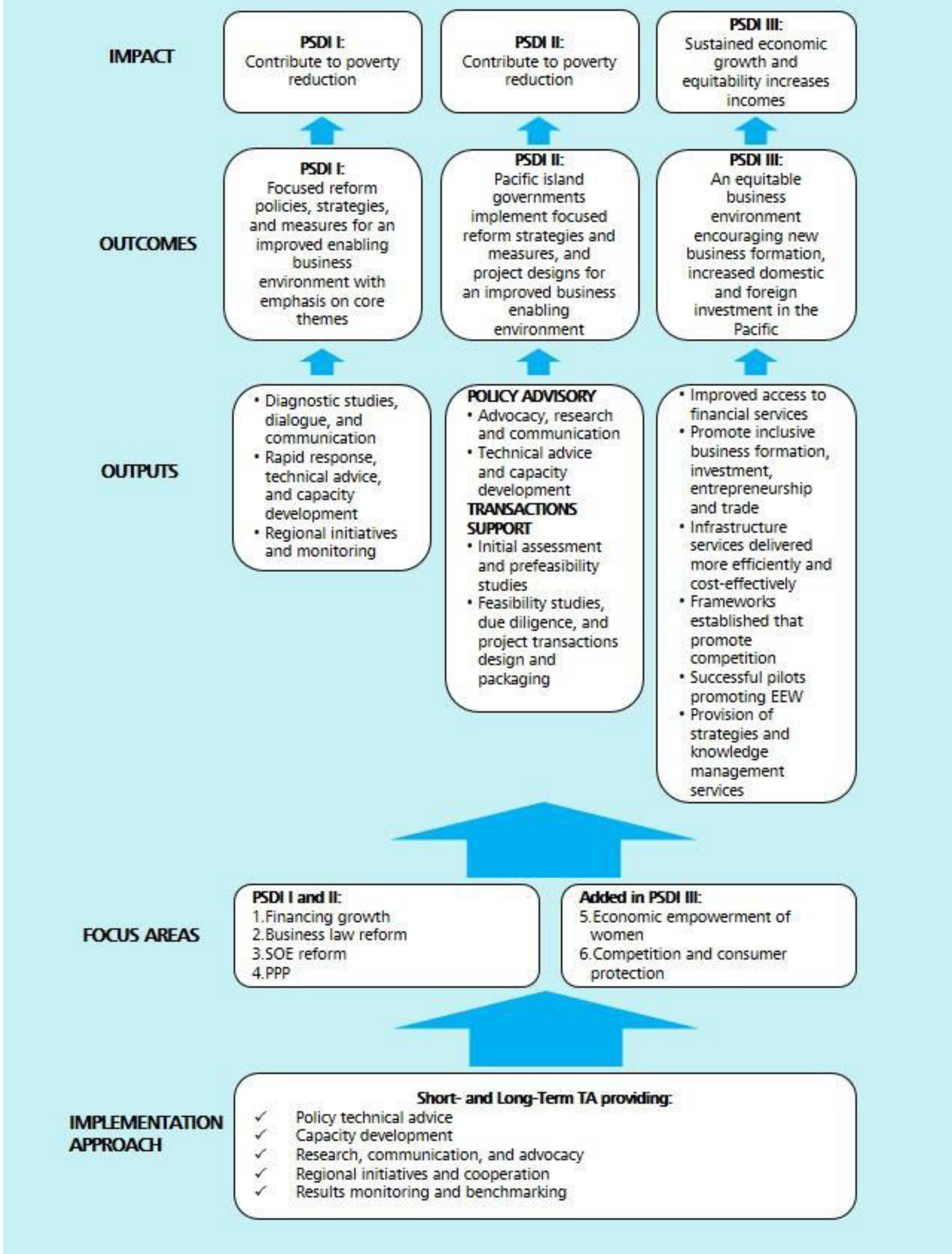
5 ADB. 2016. *Guidelines for the Evaluation of Public Sector Operations.* Manila.

outcomes becoming sustainable after PSDI's interventions. Chapter 4 covers PSDI's performance in meeting the four criteria in detail.

11. **The evaluation draws on PSDI's theory of change.** Using PSDI's TA documents,[6] the evaluation measures and assesses to what extent PSDI delivered on the various components of its theory of change. Figure 1 shows that, over the three phases, PSDI's expected impacts, outcomes and outputs, and focus areas changed, the biggest being in the shift from PSDI II to PSDI III. In response to demand, PSDI III added two new focus areas: economic empowerment of women, and competition and consumer protection.

[6] See also Appendix 2: Monitoring and Evaluation.

Figure 1: PSDI Theory of Change



EEW = economic empowerment of women, PPP = public–private partnership, PSDI = Pacific Private Sector Development Initiative, SOE = state-owned enterprise, TA = technical assistance.

12. **The methodology included a desk review of PSDI documents and fieldwork interviews with stakeholders.** Interviews were conducted with resource persons from the PSDI's three cofinanciers: ADB, DFAT, and MFAT. The evaluation team conducted interviews with project staff from ADB's Pacific Department, Pacific Liaison and Coordination Office (PLCO), PSDI in Sydney, and stakeholders in the Australian and New Zealand governments. Desk reviews were carried out on all relevant project documents (ex-ante and ex-post) and PSDI databases, including M&E reports. The evaluation team also gathered and reviewed secondary data, including reports on PSDI I and II, and, when available, PSDI III.

13. **The fieldwork was organized around four country case assessments**. The countries included the three largest recipients of PSDI funds (Papua New Guinea, Solomon Islands, Tonga), and one of the smaller Pacific DMCs (Palau) where PSDI has provided various interventions. These assessments evaluated specific subprograms in core focus areas (financing growth and access to finance, business law reform, SOEs, and PPPs) with a special emphasis on activities promoting the economic empowerment of women in each country. Appendix 4 summarizes the findings of the country assessments.[7]

14. **The methodology included a survey of client governments**. This focused on client satisfaction with the services received from PSDI. It consisted of 12 questions that were tested and administered using a web-based survey technique—10 multiple choice and two open-ended questions.[8] Several of the multiple-choice questions also allowed respondents to make additional comments. Appendix 5 includes the survey instrument and a summary of findings.

15. **The desk-based review included an in-depth analysis of selected PSDI outputs.** This consisted of analyzing a sample of 62 outputs of subprograms that were marked as completed in PSDI's monitoring and evaluation (M&E) database. These outputs reflected both the focus areas and the 14 Pacific DMCs in which the program operates. Appendix 6 provides an outline of the methodology, the project evaluation template, and the 62 selected outputs.

16. **The various sources of information used for each of the evaluation components were triangulated to confirm the validity of the findings**. This included the previously identified components of the methodology, which were analyzed in terms of the four criteria and the theory of change. Doing this provided insights that informed the evaluation of three PSDI phases.

17. **The evaluation faced a number of limitations**. Very few evaluations of the 276 subprograms it implemented were conducted by PSDI. Apart from financial and contractor data, insufficient records were kept of the subprograms in the M&E database. Difficulties were encountered in trying to attribute the extent of the contribution of subprograms to successful outcomes, because some activities included multiple donors over a significant period of time. Interviews with a range of stakeholders included subjective views, and where possible these were triangulated to confirm the information.

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[7] The focus area on finance uses both the classification "financing growth" and "access to finance," as a result of the change in terminology between PSDI I and II.

[8] SurveyMonkey was used to administer the survey instrument. Government officials who asked to participate were identified from the PSDI database and the survey was sent to them by e-mail.

D. Structure of the Report

18. **The report has five chapters.** Chapter 2 reviews the economic characteristics of Pacific countries that make fostering private sector development particularly challenging. Chapter 3 summarizes the design and implementation features of the PSDI program. Chapter 4 includes the performance assessment of PSDI while the final chapter recaps issues, provides conclusions, and offers recommendations.

CHAPTER 2

Overview of Private Sector Development in the Pacific

A. The Private Sector Development Landscape in the Pacific

19. **Pacific island economies are small and isolated, and vulnerable to natural disasters, economic shocks, and political turmoil, all of which can have a major impact on Pacific DMCs**. These characteristics have been closely analyzed in several economic, country and sector reports and studies. Efforts to engage in PSD in Pacific DMCs encounter such challenges as: (i) the pervasive role of the state in many aspects of economic activity, which exacerbates problems associated with size and geographical isolation; (ii) the failure of financial markets to intermediate efficiently and provide access to credit for the private sector; (iii) outdated business laws and regulations that are not up to the job of supporting modern business transactions; and (iv) inefficient, unreliable, and often expensive infrastructure and services, often provided by SOEs.[9]

20. **Pacific DMCs are finding it difficult to achieve private-sector-led growth.** Small populations mean low demand for goods and services, which in turn confines domestic production and international investment to the local market. Although there is export potential for manufactures, the small workforce severely limits opportunities. Furthermore, costs of production cannot easily realize economies of scale, thus limiting the capacity to be price competitive. Because of the small size of Pacific DMCs and their distance from markets, measures to support a business-enabling environment are unlikely to be enough to ensure global competitiveness in manufacturing and services. While PSD subprograms are still worth pursuing, especially the elimination of over-regulation and outdated legal structures, reforms will not be enough to offset the severe cost disadvantages of isolation.[10]

21. **Despite the difficulties, opportunities exist to improve market efficiency in Pacific DMCs**. Given their limited resources, it is particularly important that these countries efficiently allocate what resources they have, and lower transaction costs. Policies that help create more efficient markets can improve the allocation of resources. For example, SOEs are a significant feature of many Pacific DMCs and absorb significant resources. SOE reforms and PPPs can create more efficient markets that improve the return on invested assets, and result in more and better services. Where SOEs are involved in the delivery of essential services, such as water and sanitation, this can translate into benefits for people. Private sector reforms can reduce transaction costs. For example, they can help to develop more efficient financial markets through secure transaction frameworks

[9] Significant differences exist between the Pacific DMCs in terms of the size of their economies, their isolation and population size. PNG, for example, has a much larger population than many of the other Pacific countries.

[10] ADB. 2015. *ADB Support to Small Pacific Island Countries*. Manila.

that can reduce the cost of finance and more efficiently allocate resources to areas where they are most needed.[11] Private sector reforms that improve efficiency and lower transaction costs will benefit consumers regardless of the size and remoteness of the market.

B. Why Private Sector Development?

22. **Extensive analyses of business environments highlight that many of the nonstructural constraints on private sector growth are caused by a weak institutional foundation for economic development.** Countries with a limited productive base and only a few economic sectors need a supportive investment climate in which to thrive and raise productivity. Where opportunities for economic diversification are limited, removing the constraints on doing business, fostering entrepreneurship, and promoting business formalization are stepping stones that the private sector can use to try to deliver solutions to the constraints imposed by adverse operating environments.

23. ***Swimming Against the Tide?*,[12] a major analytical work published by ADB in 2004, provided an assessment of the private sector in the Pacific DMCs.** It laid out strategies for scaling up PSD activities, despite the inherent disadvantages caused by the region's isolation, which contributes to the fragility and vulnerability of individual economies. Because governments play a large role in the development of the private sector in Pacific DMCs, *Swimming Against the Tide?* argued that policy reforms were imperative for reducing bureaucratic processes. It noted, however, that these need to be accompanied by strong political will to provide the good governance needed for an enabling environment in which PSD can prosper. Similar strategies have been set out in subsequent publications. ADB recognized good governance as a core strategic intervention under its Long-Term Strategic Framework, 2001–2015.[13] Good governance was one of three pillars in ADB's enhanced Poverty Reduction Strategy in 2004,[14] and, along with capacity development, was a key driver of change under Strategy 2020.[15]

C. Review of ADB Strategies and Operations in the Pacific

24. **ADB has produced a succession of strategies that address the role of PSD in the Pacific.** ADB's Private Sector Development Strategy 2000[16] aimed to strengthen private sector participation. The Poverty Reduction Strategy in 2004 recognized that PSD was one of the approaches to be used in poverty alleviation. The Pacific Strategy, 2005–2009[17] aimed to respond to the needs of the poor by supporting a conducive environment for the private sector to operate in. The Pacific Approach, 2010–2014[18] continued this focus, while the Pacific Approach, 2016–2020[19] emphasized support for an enabling environment for private sector development and, more importantly, the key role of PSDI as one of the flagship programs to help promote economic growth and resilience in the

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[11] Note Pacific DMCs faces an additional challenge using land as collateral, since most land is communal land and cannot be used for collateral.
[12] ADB. 2004. *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific*. Manila.
[13] ADB. 2001. *Moving the Poverty Agenda Forward in Asia and the Pacific: The Long-Term Strategic Framework, 2001–2015.* Manila.
[14] ADB. 2004. *Poverty Reduction Strategy.* Manila.
[15] ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020.* Manila.
[16] ADB. 2000. *Private Sector Development Strategy.* Manila.
[17] ADB. 2004. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank 2005–2009*. Manila.
[18] ADB. 2009. *ADB's Pacific Approach 2010–2014.* Manila.
[19] ADB. 2015. *Pacific Approach, 2016–2020*. Manila.

region. Table A1.1 in Appendix 1 lists the ADB strategies on private sector development and PSDI.

25. **The Pacific Strategy, 2005–2009 highlighted the inability of the private sector to lead economic growth in the region**. It noted there was a need for Pacific DMCs and their development partners to reappraise their roles in creating the conditions for broad-based, private-sector-led economic growth. The Pacific Approach, 2010–2014 recognized that positive development outcomes had been made in some sectors, with success often achieved through improved institutions and policies. It also identified a need for private sector operations to engage in nontraditional sectors to help address social, cultural, and political binding constraints to growth and development. The Pacific Approach, 2016–2020 developed a more focused three-pronged strategy for business development through reducing costs and risks, and enabling value creation by supporting private sector growth and investment through legislative and financial reforms. These three Pacific strategies all emphasized supporting a conducive environment for the private sector.

26. **The evaluation period saw 80 ADB loan approvals for Pacific DMCs totaling $2.2 billion, and 113 grant approvals totaling $707 million** Of the loans, 44 (55%) included PSD as a theme or driver of change, the rest had no PSD components.[20] By amount, these 44 loans totaled $1.25 billion, 57% of the total. Of the 113 grant approvals, 44 (39%) were relevant to PSD, the rest had no PSD components. Grant financing that included PSD as a theme or driver of change totaled $209 million, 30% of the total.

27. **During the 2007–2016 evaluation period, ADB approved only two nonsovereign operations projects in the region.** These were both mobile telecommunications projects, totaling $74.0 million. The lack of nonsovereign approvals in the Pacific is due mainly to the weak operating and regulatory environments in the region.

D. Other ADB PSD-Related Facilities in the Pacific

28. **ADB manages or contributes to other PSD-support facilities in the Pacific.** The Pacific Business Investment Facility (Box 1) is managed by ADB from PLCO in Sydney. The facility started in 2014 and is a $12.5 million 5-year program aimed at fostering commercially successful and sustainable small and medium-sized enterprises (SMEs) in Pacific island countries by improving their access to finance and business advisory services. Operations in Fiji, the Solomon Islands, and Vanuatu began in January 2015 and were extended to include PNG in September 2015 and Tonga and the Cook Islands in November 2015. The most recent country to be added was Samoa where operations commenced in December 2016.

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[20] PSD-responsive projects are those operations which have a thematic classification relating to private sector development.

29. **The Business Investment Facility TA is implemented by a team of consultants**. Technical and administrative expertise is provided by a project management unit in the PLCO under the supervision of ADB's technical assistance supervising unit officer. The consultant team includes a facility manager and business advisors, supported when necessary by specialized short-term consultants for specific assignments.

Box 1: Pacific Business Investment Facility

The Sydney-based Pacific Business Investment Facility, established in 2014, is a regional technical assistance facility supported by the Government of Australia and the Asian Development Bank. It operates in Pacific DMCs countries. The facility works exclusively in the private sector to assist—through advice and guidance—eligible companies raise finance for their growth plans. It covers all industry sectors. From 2015 to 2016, the facility met with 450 businesses, and achieved the following:

- assisted 10 Pacific Islands businesses (two owned and managed by women) to raise $5.3 million in financing from commercial sources,
- prepared financing proposals totaling $4.7m for another 17 businesses (four owned and managed by women)
- facilitated 494 new job opportunities (219 were for women),
- assisted the on-going development of 19 proposals (seven owned and managed by women) for $10.4m with the potential for a further 366 new jobs (210 for women),
- provided advisory services to 102 businesses (42 owned and managed by women), and
- referred 14 businesses (three owned and managed by women) to other Australian Department of Foreign Affairs and Trade or ADB-related development partners.

30. **The Pacific Region Infrastructure Facility is a Sydney-based multi-agency coordination mechanism established in 2008.** It is supported by several development partners, including ADB. The facility supports infrastructure development and maintenance—both of which are crucial for PSD—in Pacific island countries. Since its establishment, several development partners have participated in the facility.[21] The facility provides a framework for countries and development partners to ensure that available funding for infrastructure is used more effectively and that better infrastructure services are delivered. It takes a country-led and sector-based approach, and seeks long-term engagement.

31. By deepening stakeholder coordination, the Pacific Region Infrastructure Facility helps countries maximise opportunities and links people to services and markets. Coordination efforts are provided by the facility's coordination office, which is hosted by the PLCO. The office's strategic priorities and operational workplan focus on three primary support services: advisory services, knowledge sharing, and coordination assistance. The office's director is charged with ensuring the effective execution of the work plan. This is done in consultation with the Pacific DMCs and other stakeholders, and includes identifying and agreeing priorities, determining strategies, and organizing resources.

[21] PRIF was launched in 2008 by the Asian Development Bank (ADB), the Australian Department of Foreign Affairs and Trade (DFAT), the New Zealand Ministry of Foreign Affairs and Trade (MFAT), and the World Bank Group, including the International Finance Corporation (IFC). The European Commission and the European Investment Bank became members in 2010, and the Japan International Cooperation Agency (JICA) in 2013.

E. Pacific PSD Operations of Other Development Partners

32. **Australia's aid policy is increasingly focusing on the private sector as the main source of economic growth, incomes, jobs, and faster and more sustainable development outcomes.** In August 2015, DFAT issued its engagement and partnership strategy for working with the private sector in aid delivery. This was followed in October 2015 by the Strategy for Australia's Aid Investments in Private Sector Development,[22] which reflected the government's priority to increase the size and inclusiveness of the private sector in partner countries to drive economic growth and reduce poverty. This strategy applies to aid investments managed by DFAT and other government agencies delivering official development assistance.

33. **Australia's aid budget for 2017–2018 is about $1 billion[23].** Australia's annual budget for PSD in the Pacific is over $100 million. Appendix 1 gives details of DFAT's investments in PSD (those in addition to supporting PSDI), which are:

- (i) $12.5 million for the Pacific Business Investment Facility, 2015–2019;
- (ii) $23 million for the International Finance Corporation Pacific Partnership, 2012– 2017;
- (iii) $3.5 million for the Pacific Readiness for Investment in Social Enterprise Program, 2016–2019;
- (iv) $19 million for the Pacific Financial Inclusion Program, 2009–2017;
- (v) $14 million for the PACER Plus Support Program, 2007–2018;
- (vi) $24 million for the Pacific Horticultural and Agricultural Market Access Program, 2009–2017; and
- (vii) an annual contribution of $1.2 million for the Pacific Islands Trade and Invest Program.

34. **The main geographic focus of New Zealand's aid program is the Pacific.** Almost 60% of New Zealand's aid goes to this region. New Zealand's Strategic Plan, 2015–2019 identifies 12 priority areas for investing its aid budget,[24] with economic governance, law and justice, tourism and trade, and labor mobility having the greatest potential for PSD. New Zealand's aid program prioritizes private-sector-led growth that supports sustainable development, and partnerships with other development agencies.

35. **New Zealand also has an extensive PSD program**. The program contributes to PSDI and several bilateral programs, such as the small business support centers in Samoa, Tonga and Niue. New Zealand's regional investments have included:

- (i) $13 million for Pacific Partnership (IFC), 2013-2022;
- (ii) $6.9 million for the Business Link Pacific, 2017-2022;
- (iii) $4.3 million for the Pacific Financial Inclusion Program (UNDP), 2014-2020:
- (iv) $6 million for the Pacific Business Mentor Program, 2009-2015;
- (v) $5.9 million for the PACER Plus Readiness package (jointly with DFAT, 2017-2019);
- (vi) $6.9 million for Toso-Vaka-O- Manū (labor mobility), 2017-2022;
- (vii) $3.4 million for Vakameasina (regional workers' training program), 2018-2023;

[22] The strategy can be found here: http://dfat.gov.au/about-us/publications/Pages/strategy-for-australias-aid-investments-in-private-sector-development.aspx.

[23] The average exchange rate for October 2017 was used for changing New Zealand and Australia dollars to US dollars. The rates were A1.00=US0.76 and NZ1.00=US0.68.

[24] NZ aid program document can be found at: https://www.mfat.govt.nz/assets/Aid-Prog-docs/New-Zealand-Aid-Programme-Strategic-Plan-2015-19.pdf.

(viii) $4 million for the Pacific Horticultural and Agricultural Market Access Program, 2009–2017;
(ix) $190,000 annually for Send Money Pacific;
(x) $2 million for PI Trade & Invest, 2017/18 -2019/20; and
(xi) $8.3 million for PFTAC, 2016-2022.

36. **Other development partners also have PSD programs in the Pacific**. These include the International Monetary Fund's (IMF) Pacific Financial Technical Assistance Centre (Box 2), which was established in 1993 to promote macro-financial stability in Pacific DMCs using TA and training.[25] The center—a partnership between the IMF, member countries in the Pacific, and bilateral donors—was the first of the IMF's regional technical assistance centers. Its goal is to strengthen the institutional capacity of Pacific countries to design and implement sound macroeconomic and financial policies that will be needed to help achieve strong and sustainable economic growth and the Sustainable Development Goals.

Box 2: Pacific Financial Technical Assistance Centre (IMF)

The Pacific Financial Technical Assistance Centre (PFTAC) focuses on capacity development. Its operations comprise technical assistance (TA) and training in five core areas: public sector financial management, revenue policy and administration, financial sector supervision, macroeconomic statistics, and macroeconomic management. PFTAC is managed by a coordinator, and capacity development is provided by seven resident advisors in the center's Suva office with substantial expertise in their sectors. The activities of the seven advisors, as well as a team of supporting short-term experts are linked to specific outcome objectives in a results-based management framework.

PFTAC staff work closely with International Monetary Fund headquarters staff in planning and implementing the work program. The PFTAC provides accountability to its members through quarterly reports on activities, finances, and performance in relation to the program objectives and an annual report. Steering committee meetings are held annually.

Of the seven advisors, two work in public sector financial management, one in revenue administration, one in financial supervision, two in macroeconomic statistics, and one in macroeconomic analysis. The advisors travel extensively throughout the region, which enables them to develop a rapport with country authorities and gain an understanding of national and regional contexts and needs. The advisors manage the short-term experts. The skills mix of the advisors reflects the priority needs of the PFTAC's member countries. Four locally engaged staff assist PFTAC's coordinator and advisors in the capacity development program, finances, preparation of the quarterly and annual reports, travel arrangements, workshops and conferences, logistics, and other center activities.

37. **Pacific Financial Technical Assistance Centre (PFTAC) assistance is provided to 16 Pacific DMCs.** These comprise 13 IMF members (Fiji, Kiribati, RMI, FSM, Nauru, Palau, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu) plus the Cook Islands, Niue, and Tokelau. PFTAC's operations are funded by contributions from various sources. In the current Phase V funding cycle, running from November 2016 to April 2022, funding is being provided by ADB, Australia, the European Union, the Republic of Korea, and New Zealand. Fiji contributes to PFTAC by providing free office space, and PFTAC member countries contribute through in-kind and financial support for training activities in the region. The IMF funds the center's coordinator and its running costs of the office.

[25] For more details see: http://www.imf.org/external/np/otm/2011/020111.pdf

38. **The World Bank Group is active in the Pacific.** Its PSD program, mostly carried out by the International Finance Corporation (IFC), aims to foster sustainable economic growth by financing private sector investment, mobilizing capital, and advising businesses and governments on projects that generate returns for investors and provide lasting benefits to communities. The IFC's work in the Pacific is guided by the Pacific Partnership (Box 3). Australia, New Zealand, and the IFC are collaborating through the partnership to promote sustainable economic development, reduce poverty, and stimulate private sector investment. The IFC currently has PSD projects in Fiji, Kiribati, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, and Vanuatu. Its advisory work provides inputs to the World Bank's Development Policy Operations when these contain PSD-related reforms. The World Bank complements its lending operations by managing the Pacific Facility IV Trust Fund funded by the governments of Australia and New Zealand.

Box 3: Pacific Partnership (International Finance Corporation)

The Pacific Partnership is a multi-year collaboration established by the International Finance Corporation (IFC), and the governments of Australia (through the Department of Foreign Affairs and Trade) and New Zealand (through the Ministry of Foreign Affairs and Trade). The partnership was established in December 2012, initially by Australia and the IFC, with New Zealand joining in mid-2013.

The Pacific Partnership focuses on fostering sustainable economic development by expanding the contribution of the private sector in Pacific island countries by promoting inclusive growth and the region's integration into the global economy. It has eight development targets.

The partnership is managed by the IFC's Sydney office with support from World Bank Global Practices for quality assurance. The IFC hires staff to work exclusively on the projects under the supervision of senior staff; short-term consultants with specialized skills and international experience are brought in to work on projects when needed. Partnership-funded projects are selected by a steering committee, consisting of senior officials from the Australian Department of Foreign Affairs and Trade and the New Zealand Ministry of Foreign Affairs and Trade, and IFC. The steering committee meets every six months. As for the Pacific Private Sector Development Initiative, Australia supplies additional funding at the country level to scale up the activities in the larger Pacific countries (Fiji and Papua New Guinea).

CHAPTER 3

Design and Implementation

A. Time, Cost of Financing, and Expenditure

39. **In November 2006, ADB approved the first Pacific Private Sector Development Initiative (PSDI I),[26] followed by PSDI II[27] in December 2009 and PSDI III[28] in June 2013.** The Government of Australia, through DFAT, cofinanced all three phases; the Government of New Zealand, through MFAT, cofinanced PSDI III. Table 1 breaks down the financing by phase and cofinancier.

Table 1: Financing of the Pacific Private Sector Development Initiative ($)

Project Title	ADB Financing	Cofinancing Australia	Cofinancing New Zealand	Total Financing	Approval Date	Closing Date
PSDI I	1,100,000	8,739,350	-	9,839,350[a]	21 Nov 2006	31 Jul 2013
PSDI II	3,000,000	9,000,000	-	12,000,000	10 Dec 2009	31 Mar 2015
PSDI III	2,000,000	32,080,000	4,500,000	38,580,000[b]	6 Jun 2013	May 2019[c]
Total	**6,100,000**	**49,819,350**	**4,500,000**	**60,419,350**		

ADB = Asian Development Bank, PSDI = Pacific Private Sector Development Initiative
[a] The original approved amount was $8,700,000 plus supplementary financing of $1,139,350 in 2008.
[b] Original financing totaled $30,500,000 plus supplementary financing of $8,080,000 in 2015.
[c] Scheduled implementation closing date.
Source: Pacific Private Sector Development Initiative.

40. **Table 2 shows the cumulative disbursements, $42.2 million, for the three phases as of 30 June 2017**. The bulk of disbursements went to consultants (91%); these included consultancy fees, software, seminars and training, and pilots. The equipment covered computers and software used by PSDI and its consultants. Training and seminars covered the annual meeting of the funders as well as regional seminars not related to projects. Miscellaneous TA administration includes ADB service fees and reserves for foreign exchange fluctuations.

Table 2: Pacific Private Sector Development Initiative Disbursements by Category, 30 June 2017 ($)

Category	Original Allocation	Contracts	Disbursed	Undisbursed
Consultants	45,519,350	42,180,923	38,191,647	3,989,276
Equipment	2,800,000	940,637	913,342	27,295
Training and Seminars	3,935,000	1,915,513	1,702,010	213,503
Studies	750,000	5,000	5,000	0
Contract negotiation	0	0	0	0
Miscellaneous TA Administration	4,360,000	8,660,289	1,351,858	7,308,431
Contingency	3,055,000	61,588	0	61,588
Pilot testing	0	0	0	0
Total	**60,419,350**	**53,763,950**	**42,163,857**	**11,600,093**

Source: Pacific Private Sector Development Initiative.

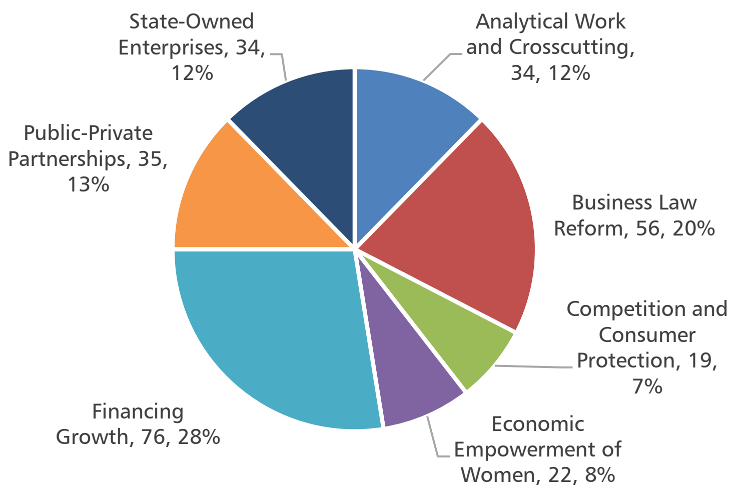
[26] ADB. 2006. *Technical Assistance for the Private Sector Development Initiative*. Manila.
[27] ADB. 2009. *Technical Assistance for the Private Sector Development Initiative Phase II*. Manila.
[28] ADB. 2013. *Technical Assistance for the Private Sector Development Initiative Phase III*. Manila.

B. Focus Areas and Geographic Coverage

41. **All three PSDI designs were organized around focus areas.** PSDI's interventions are currently implemented in six focus areas. Business law reform, financing growth (access to finance), SOE reforms, and PPPs have all been focus areas since PSDI I. The economic empowerment of women, and competition and consumer protection were introduced in PSDI III. These interventions are complemented by analytical work and subprograms on cross-cutting issues. For each focus area, PSDI identified subprograms and, under them, projects. For example, under the PPP focus area, PSDI identified the preparation of a PPP policy framework as a subprogram with the following projects: preparation of a PPP policy paper, preparation of PPP project development guidelines, and capacity building for developing PPP transactions.

42. **As of 30 June 2017, PSDI had 276 subprograms and 522 projects.** Of the 276 subprograms, 86 had been completed, 147 were ongoing, 18 were on hold, and 25 were in the pipeline (identified but no significant activity yet). As shown in Figure 2, the majority of subprograms are in the financing growth and business law reform focus areas.

Figure 2: Breakdown of Subprograms by Focus Area



Note: Captions indicate the number of subprograms and the percentage of the total number of subprograms.
Source: Pacific Private Sector Development Initiative.

43. **PSDI operates in all 14 of ADB's Pacific DMCs.** As well as supporting individual countries, PSDI conducts activities covering two or more countries or the entire region. As shown in Table 3, there were fewer PSDI subprograms and smaller commitment amounts in the smaller Pacific DMCs. The four most populated countries accounted for 45% of the total number of subprograms (excluding regional subprograms) and 60% of commitment amounts (excluding regional subprograms). Regional activities consisted mainly of analytical work and addressing crosscutting issues, including regional benchmarking for SOEs, PPPs, and, more recently, port tariffs. Regional activities also included several studies on economic empowerment of women.

Table 3: Share of Total PSDI Commitment by Country

Country	Population (2015)	Number of Subprograms	Committed Amount ($)	Percentage of Total Commitment
Regional	-	74	11,531,152	29.3
PNG	8,200,000	32	6,003,030	15.3
Timor-Leste	1,245,000	14	3,636,153	9.2
Fiji	869,000	17	1,590,902	4.0
Solomon Islands	592,900	28	5,322,057	13.5
Vanuatu	277,500	25	2,439,908	6.2
Samoa	193,500	22	2,536,767	6.4
Kiribati	109,700	3	59,545	0.2
Tonga	104,000	31	3,966,154	10.1
FSM	102,300	4	56,130	0.1
RMI	54,000	4	208,529	0.5
Cook Islands	18,800	8	793,603	2.0
Palau	17,600	7	829,691	2.1
Nauru	10,900	5	358,344	0.9
Tuvalu	10,800	2	16,449	0.0
Total	**11,806,000**	**276**	**39,348,414**	**100.0**

FSM = Federated States of Micronesia, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands
Source: Pacific Private Sector Development Initiative; ADB Key Indicators 2016.

C. Organization and Operations

44. **ADB is the executing agency for PSDI TA, implemented through the PLCO in Sydney.** Appendix 3 shows PSDI's organizational structure. In addition to the PLCO's regional director, ADB staff assigned to manage the PSDI include two country specialists who act as the technical assistance supervising unit (TASU) officer and alternate TASU officer; they report to the regional director. The rest of the PSDI team consists of long- and short-term consultants, broadly categorized into the following: (i) team leaders for each of PSDI's focus areas (although some focus areas are combined); (ii) in-country coordinators; (iii) sector specialists; (iv) a communications specialist; (v) a publications and knowledge management specialist; (vi) a monitoring and evaluation specialist; and (vii) project administration consultants.

45. **PSDI's operations manual, prepared in February 2016, was updated in May 2016.** It has sections on the focus areas; PSDI's organizational structure and management; administration procedures (on recruitment, procurement, contract management, and missions); financial management and budgeting; monitoring and evaluation; and knowledge management and communications. The manual, at only 25 pages (including 6 pages of appendixes), is not comprehensive.

46. **PSDI used to have a "distributed leadership team," which comprised the regional director, the TASU officer, the alternate TASU officer, and the team leaders.** The main task of the team was to discuss which subprograms and projects to pursue or prioritize. The team also discussed issues relating to recruitment, procurement, contract management, communications, and monitoring and evaluation. In late 2016, the distributed leadership team was replaced by a PSDI coordination team. The composition of this team is basically the same as the distributed leadership team, but the team leaders have less influence in the selection of consultants and contracting arrangements than before. Appendix 3 provides more details on organizational structures and operations.

47. **The types of outputs produced by PSDI depend on the focus area.** The outputs for analytical work and cross-cutting themes were mostly private sector assessments and other publications, as well as some technical advice. Business law reform outputs were mainly draft laws and policy advice, but they also included some software (for a company registry). Financing growth outputs included policy and technical advice, drafts laws, seminars, and software (for secured transactions registry). SOE and PPP outputs were primarily policy and technical advice, but several seminars and workshops were conducted. For the focus areas added in PSDI III (the economic empowerment of women and competition policy and consumer protection), the completed outputs were mostly policy advice plus some pilot projects for empowerment.

D. Design and Operational Changes

48. **Two changes focusing on financing were made to the PSDI design during the evaluation period**. The first, in 2008, was supplementary financing of $1.14 million for PSDI I. In 2015, PSDI III received $8.08 million in additional financing. Both changes included increases in outputs; these were additional regional workshops and action plans for PSDI I, and additional support for the Government of PNG for PSDI III.

49. **Several operational changes were introduced in late 2016.** These changes affected contracting arrangements and were also designed to strengthen work planning and coordination, and to improve knowledge management and information. Specific changes included dismantling the distributed leadership team, introducing a 2-year rolling work plan, requiring a concept note for each project over $50,000, and implementing framework agreements for shorter-term consultants. Chapter 4 analyzes these changes further.

E. Monitoring and Evaluation

50. **The TA reports for each of the three phases included a design and monitoring framework.** These are outlined in Appendix 2. The frameworks for PSDI I and PSDI II did not include baselines or specific targets in their performance indicators, and were not time-bound.

51. **In December 2012, PSDI prepared an M&E framework report in response to a request by funders for a more robust M&E system.**[29] At that time, projects were listed in an Excel file, hard copies of reports and publications were filed at PLCO, and soft copies of documents were stored in hard drives. The framework report provided a description of how the M&E function would move to a more useful database system. The framework report explained in detail the need for a robust M&E system and how it fitted with the PSDI approach. The new system would be a relational database that would contain a range of variables, including financial data and subprogram documents. The name of the electronic database was not given. For each of the different focus areas, however, a range of indictors was provided and discussed. The framework report explained in detail how the database would function, but it did not explain how PSDI itself would manage the process of implementing the framework.

52. **PSDI bought an M&E software system, FileMaker Pro*,* in 2013.** This cross-platform relational database application from Apple subsidiary FileMaker integrates a database engine with a graphical user interface and security features, allowing users to

[29] Paul Holden and Melissa Dayrit, December 2012. *The Monitoring and Evaluation Framework of the Pacific Private Sector Development Initiative: Issues and Structure*. ADB.

modify the database by dragging new elements into layouts and screens. The program is widely used by governments, industry and large organizations. The software is well suited to project administration, such as consultant and contract monitoring, cost accounting, and project tracking by country and focus area. For PSDI, it was set up to contain a range of menus. The main menu has the following sections: (i) budget—contains the titles of the focus areas; (ii) subprograms—lists all PSDI subprograms and contains submenus on financials, progress snapshots, documents, and data and evaluation; (iii) projects—lists all projects and contains submenus on budgets, milestones, snapshots, and attachments; (iv) back-to-office reports—contains a repository of reports prepared by consultants and staff; and (v) contracts—contains information on all consultants' contracts.

F. Expected Impacts, Outcomes, and Outputs

53. **The expected impact for PSDI I was to contribute to poverty reduction by promoting enterprise, investment, and economic growth.** The TA design was based on consultations with Pacific DMC governments, and private sector and development partners. The TA's expected outcome was an improved enabling business environment, with an emphasis on the core themes of SOE reform and PPPs, financial intermediation, business law and regulation, and mainstreaming PSD in priority sectors. The expected outputs were (i) diagnostic studies, dialogue, and communication; (ii) rapid response, technical advice, and capacity development; and (iii) regional subprograms and monitoring. Appendix 2 contains the M&E framework, indicators and outcomes.

54. **PSDI II's expected impact was the same as PSDI I.** The expected outcome of the TA project was to improve the business enabling environment through the implementation of focused reform strategies, measures, and project designs by Pacific island governments. This was an improvement from the earlier identified outcome, by focusing on implementation by governments. In a related development, the range of TA outputs was expanded to include policy advice and transactions support. Policy advice consisted of advocacy, research, and communication; technical advice and capacity development; and regional cooperation, results monitoring, and benchmarking. Transactions support covered initial assessments and prefeasibility studies, feasibility studies, due diligence, project and transaction design, and packaging. PSDI II also introduced two cross-cutting themes of monitoring and evaluation and the empowerment of women. No performance targets were assigned to these themes.

55. **PSDI III added two new focus areas: competition and consumer protection, and the economic empowerment of women.** In addition, the design and monitoring framework was revised to reflect the fact that PSDI III aimed to deepen and broaden critical reforms supported under PSDI I and II. The expected impact of the TA in PSDI III was sustained economic growth in Pacific DMCs in order to increase incomes. The envisioned outcome was an equitable business environment that would encourage new business formation, and increase domestic and foreign investment in Pacific DMCs. This was a refinement of PSDI II outcome by focusing on more specialized assistance to governments. TA outputs were redefined so they had a more selective and narrowed focus:

(i) businesses and households in selected Pacific DMCs would have improved access to financial services;
(ii) selected business laws in Pacific DMCs would promote inclusive business formation, investment, entrepreneurship, and trade;

(iii) the delivery of infrastructure services would be made more efficient and cost-effective;
(iv) selected Pacific DMC governments would establish a framework promoting competition;
(v) successful pilot subprograms promoting the economic empowerment of women would be implemented in selected Pacific DMCs; and
(vi) strategic and knowledge management services would be effectively provided.

CHAPTER 4

Performance Assessment

56. This chapter assesses PSDI's performance. It starts with a review of the program's relevance, effectiveness, efficiency, and sustainability, based on the evidence gathered (described in Chapter 1). The assessment attempts to answer the evaluation's overarching question: to what extent was PSDI successful in improving the enabling business environment of Pacific DMCs? The rest of the chapter covers PSDI's focus areas and addresses four other subquestions included in the evaluation approach paper:

(i) Has PSDI improved access to finance in Pacific DMCs?
(ii) Did PSDI foster business law reform in Pacific DMCs?
(iii) To what extent and in what ways has PSDI supported SOE reforms and PPPs in Pacific DMCs?
(iv) How has PSDI incorporated economic empowerment of women as a priority agenda?

57. Findings are drawn from a range of sources, including fieldwork,[30] desk reviews of PSDI documents and other publications, a client satisfaction survey, and selected PSDI output reviews. The first three chapters provided the context, the PSDI theory of change, and the management structure, and these are now used to measure PSDI's performance.

A. Improving the Enabling Business Environment

58. **During the first two phases, PSDI sought, in its impact statement, "to contribute to poverty reduction by promoting private enterprise investment, and economic growth."**[31] For PSDI III, the statement was changed to realize "sustained economic growth in Pacific DMCs that increases incomes."[32] PSDI was expected to achieve these objectives by focusing on reform policies, strategies, practices, and activities in several core thematic areas that would lead to new business formation and increase domestic and foreign investment. While the wording was slightly different in the three TA papers, the overall objective remained the same; to contribute to economic growth by improving the enabling business environment.

59. The overall finding is that PSDI supported the provision of several important inputs necessary for a modern, functioning private sector. This was achieved in a political economy environment that generally made private sector reforms difficult. Reforms included significant business laws, company registries, SOE reform, and secure transactions. These and other reforms provided the building blocks necessary for a vibrant private sector. Some focus areas and Pacific DMCs have produced better results than others, and this is discussed later in the chapter.

60. However, the evaluation found, that, after a decade in operation, PSDI outputs had not fully achieved the intended outcomes. This was because the delivery of building

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[30] Fieldwork included visits and interviews with ADB PSDI Team in Sydney, ADB staff in Manila, DFAT Posts, MFAT, and with a range of stakeholders in PNG, Solomon Islands, Tonga and Palau.

[31] ADB. 2006. *Technical Assistance for the Private Sector Development Initiative*. Manila. p. 6.

[32] ADB. 2013. *Technical Assistance for the Private Sector Development Initiative Phase III*. Manila. p. 3.

blocks (i.e., outputs) conducive to improving the enabling business environment was not sufficient in itself. The reforms represented a step in the sequence of what was required to achieve an improved business enabling environment. Interventions were not mapped out in a proper results chain that identified the necessary steps in in the reform process that would lead to achieving their uptake by the wider economy. While outputs have been delivered, the evidence of an improved business environment that would lead to increased private sector economic activity is limited and dispersed across the Pacific DMCs.

61. It is also difficult to measure the contribution PSDI made to economic growth. Almost all Pacific economies grew over the last decade, as measured by annual real gross domestic product (GDP) growth per capita.[33] Better government policies, improved investment climates as measured by the World Bank *Doing Business* indicators, and global growth all contributed to this higher growth. But to what extent PSDI's subprograms, delivered through various channels, contributed to this in a particular country is hard to identify or quantify.

1. Relevance

62. **The PSDI program remains relevant**. When measured by the outputs across the six focus areas, as described in sections B to E of this chapter, it was found that, across the six focus areas, PSDI contributed to helping governments to reform and deliver building blocks conducive to improving the business enabling environment.

63. **The PSDI program was relevant in terms of its alignment with ADB TA documents and country strategies**. The private sector assessments (PSAs) that were undertaken to analyze and identify country-level PSD strategies and reform programs are a good example of how private sector development (PSD) priorities and work programs align with the agendas of the recipient countries. These analyses were prepared through consultations with the government and private sector representatives to foster policy dialogue and ownership of the reforms. Over the 10-year evaluation period, PSDI published 17 PSAs, a few of which updated previous assessments. Not all 14 Pacific DMCs were covered by the PSAs in the period,[34] but one was produced in each of the four countries where fieldwork was carried out. The PSA for Tonga was completed in 2008 (with an update in late 2012), for PNG in 2015, for Solomon Islands in 2016, and for Palau in 2017.

64. All four PSAs included an analysis of the political economy and the country's PSD strategy and sectoral priorities. Where relevant, they drew on national strategies and identified how the PSA was aligned with them. For example, the PNG PSA began: "This private sector assessment supports the Papua New Guinea government's vision by proposing ideas to promote the private sector as the engine of growth." The PSAs also included as part of their methodology a consultative process with the private sector and government agencies. For example, the Palau PSA drew on two symposia (November 2014 and November 2015) held with stakeholders. It noted that the PSA "reflect[s] the views and perceptions of the private sector, the government, and development partners regarding key constraints and priority areas." Fieldwork confirmed that, in all four countries, the PSAs were aligned and consistent with national development strategies. Furthermore, government representatives generally agreed that the PSA findings and the reform programs articulated in them reflected a sound analysis of the constraints faced

[33] ADBI. 2015. *Pacific Opportunities: Leveraging Asia's Growth*. Manila.

[34] See http://www.adbpsdi.org/p/finding-balance-collection-on-scribd.html for a list of the 17 PSA reports and links to the full report.

by the private sector. However, other stakeholders perceived PSAs rather weak in quality, representing mainly communication and advocacy tools with limited depth of analysis thus missing out on possibly becoming a building block for developing an overall strategic framework. Hence, there is a need to build strong analytical work clearly targeted and linked to PSDI work program.

65. **The consultation process with the private sector did not appear to be systematic.** The process did not seem to seek detailed insights from nongovernment stakeholders into the design and implementation of private sector initiatives. Discussions with key stakeholders in the four countries confirmed that a full consultation with nongovernment stakeholders had not occurred in a systemic way. For instance, in PNG, the economic empowerment of women activity had not consulted with several stakeholders whom the main counterparts thought should have been consulted, while in Palau the work on secure transactions had not consulted sufficiently with the five private sector banks. If PSDI had consulted with these banks, it would have discovered that the proposed reforms would have been unlikely to incentivize them to increase lending.[35] The consulting process sometimes included task forces that PSDI was involved in setting up, including the Solomon Business Law Reform Working Group and the Tonga Business Environment Task Force.

66. **The evaluation found the TA remained relevant for PSD**. PSDI's ability to be flexible, to respond rapidly to requests, and to be demand-driven was highly valued by Pacific DMCs. This was reflected in the client satisfaction survey in which 68% of respondents said PSDI was their first point of contact when they needed assistance from donors on private sector development issues. Sections B to E below provide evidence of why the design remains relevant and why PSDI continues to have a clear comparative advantage in sourcing and delivering TA. Nevertheless, it also highlights how the focus on being demand-driven without an adequate strategic framework resulted in the design not adequately sequencing the interventions. Focusing on the delivery of outputs was not sufficient in itself because these reforms only represented a step in the sequence of what was required to achieve an improved enabling business environment.[36]

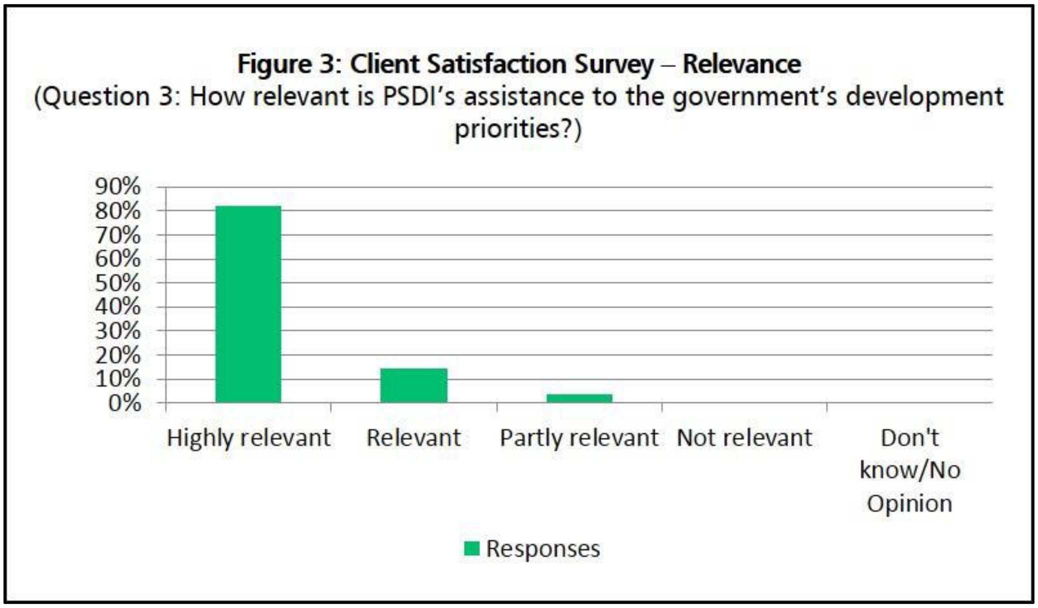
67. **The results on relevance were also backed up by the client satisfaction survey**. The survey was sent to 82 clients, most of whom were government officials who had worked with PSDI on reform programs. When asked, "How relevant is PSDI's assistance to the government's development priorities?", 96% of respondents thought it was either highly relevant or relevant (Figure 3). In comments provided on this question, officials thought PSDI's work aligned well with their government's priorities, as shown in these two comments:

> "The reform Tonga has done in terms of business law would not have been possible without the expert evaluation and analysis provided by ADB, not to mention the technical and financial assistance."

[35] Note that in Palau only state-owned financial institutions are able to conduct business using land as collateral.

[36] Sequencing refers to the order of activities that need to occur to achieve a desired outcome. This not only includes the output of a specific activity, but includes the sequence of several activities along the results chain, including working with the private sector to improve the uptake of reforms carried out with the government. For example, improving access to finance may require several subprograms that address the legal, regulatory and demand and supply side aspects. Sequencing is closely tied to mapping the results chain or theory of change and monitoring and evaluating (M&E) results. Mapping the results chain allows the identification and sequencing of steps necessary to achieve results, while M&E provides the means to track progress and make timely adjustments of activities as needed.

"The PSDI assistance in the development of the community service obligation and PPP policy and framework is relevant and consistent with the GoPNG's [Government of PNG] development priorities."



2. Effectiveness

68. **In terms of effectiveness, PSDI supported the provision of the necessary building blocks for a better business enabling environment in a number of Pacific DMCs**. The *Doing Business* indicators show that some Pacific DMCs improved over the 10-year period across a range of indicators.[37] More recently, the 2018 Doing Business reported that the Pacific DMCs included in the study improved their economy's *distance to frontier*, except for the Solomon Islands, Timor-Leste and Kiribati.[38] The evaluation found evidence that online business registration and secured transactions asset registries established by PSDI are being used in several Pacific DMCs. For example, the establishment of an electronic business registry in Samoa in 2013 means it now takes less than a day to register a business there. Similar reforms are being implemented in Cook Islands, the FSM, Palau, Solomon Islands, Tonga, and Vanuatu. The evaluation finding on the effectiveness criterion is in line with a 2015 IED study that found "PSDI has played a key role in supporting improvements in the business environment in the Pacific."[39] However, that study also indicated that "the impact of these reforms on value creation has been disappointing" and suggested that "expectations that such initiatives will have an immediate impact on growth and job creation, especially in the smaller Pacific countries, need to be kept in check".

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[37] See for example the analysis presented by the DevPolicyBlog: http://devpolicy.org/doing-business-in-2014-the-pacific-falls-behind-20141205/ The blog is run by the Development Policy Centre housed in the Crawford School of Public Policy in the ANU College of Asia and the Pacific at The Australian National University.

[38] The distance to frontier score captures the gap between an economy's current performance and the best practice across the entire sample of 41 indicators across 10 Doing Business indicator sets. The Doing Business 2018 rankings are benchmarked to June 2017. See: http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB2018-Full-Report.pdf.

[39] ADB. 2015. *Corporate Evaluation Study: ADB Support to Small Pacific Island Countries*. Manila.

69. **PSDI provided value addition when it complemented other ADB products.** There have been occasions when PSDI activities supported ADB's core operational products and helped create a multiplier effect. Examples included providing design inputs and implementation support to policy-based operations in Solomon Islands,[40] supporting TA implementation in PNG,[41] and assisting the transformation into a commercial bank of a microfinance institution established through an ADB grant in Timor-Leste.[42]

70. Because of the small absorption capacity of many Pacific DMCs, PSDI's reform work across the six focus areas was a valuable instrument (when used) to accompany budget support interventions, clearly demonstrating the advantage of cooperation and leveraging. For example, a review of ADB's policy-based loan for the Solomon Islands (April 2016) showed that, of the 10 proposed policy matrix actions, at least half were directly linked to ongoing PSDI work.[43] A similar finding emerges from ADB's policy-based loan for Tonga, where PSDI work both informed and helped implementation of the reforms in the policy matrix.

71. **The introduction of the economic empowerment of women as a focus area improved the effectiveness of PSDI III**. By making this an explicit focus area, it improved overall TA performance. It is now established that including women in private sector development initiatives enhances general growth prospects.[44] A review of the PSAs produced shows the analysis of gender and the economic empowerment of women became much more prominent after it became a focus area. A review of the other focus areas, as presented in PSDI annual reports, shows the same trend. This analysis, and a review of the shortcomings of the economic empowerment of women focus area, are picked up again in more detail in section E.

72. **The extent to which outcomes were achieved is unclear.** Chapter 3 provided a breakdown of how many of the 276 subprograms had been completed or were ongoing. The evaluation found that, while the results at the output level were often achieved and provided for legal and regulatory foundations for private sector development, outcomes and, to an even lesser extent, impact are less noticeable and often not measured. A 2014 ADB review found similar results. It noted that even though the enabling business environment in the Pacific had advanced, "substantial and spontaneous private sector growth and investment remains elusive, and countries still struggle to diversify their economies away from a reliance on the public sector."[45] The reality is that many of the limitations on developing the private sector fall beyond the control of government policy. Because external factors may affect PSDI's results, the evaluation found it difficult to isolate the ultimate impact of the subprograms. An example of this is how smaller Pacific DMCs are at a disadvantage with regard to reaching large numbers of beneficiaries (Box 4).

73. **PSDI's overall effectiveness remains limited by the unique barriers faced by the private sector in the Pacific region.** These barriers lead to high costs for delivering results

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[40] ADB. 2016. *Proposed Policy-Based Grant to Solomon Islands for the Economic Growth and Fiscal Reform Program*. Manila.

[41] ADB. 2011. *Technical Assistance to Papua New Guinea for the Facilitating Public–Private Partnerships*. Manila (TA 7782).

[42] ADB. 2001. *Proposed Grant to the Democratic Republic of Timor-Leste for the Microfinance Development Project.* Manila (Grant 8186-TIM[TF]).

[43] ADB. 2016. *Proposed Policy-Based Grant to Solomon Islands for the Economic Growth and Fiscal Reform Program.* Manila.

[44] ADB. 2015. *Empowering the Other Half: Women and Private Sector Growth in The Pacific.* Manila.

[45] ADB. 2014. *Pacific Approach 2010–2014 Implementation Review.* Manila.

in the Pacific. The unique conditions of the Pacific region also limit the application of solutions drawn from other developing regions. Delivering effective solutions in the Pacific region requires thinking outside the box and taking higher risks. PSDI work needs to be therefore contextualized as many of the barriers identified in the seminal work, *Swimming Against the Tide?*, the publication that led to the establishment of PSDI, remain today. These are not easily addressed and are not all areas that PSDI is working in. This point is also noted in the PSD Strategy of the Australian Department of Foreign Affairs and Trade (DFAT).[46] *Swimming Against the Tide?* identified the following problems faced by the private sector in the Pacific region:

(i) small domestic markets where purchasing power is low,
(ii) significant distances to major markets,
(iii) credit markets dominated by a few commercial banks,
(iv) land tenure problems, and
(v) high labor costs resulting from the crowding-out of businesses and individual investors by the public sector[47]

Box 4: Pacific Private Sector Development Initiative in Small Island States

The Pacific Private Sector Development Initiative (PSDI) has supported all 14 of the Asian Development Bank's Pacific developing member countries (Pacific DMCs). The distribution of the number of subprograms and funding is roughly correlated with the size of the countries' populations. Tonga was the exception, since 31 subprograms were undertaken there, many more than would have been usual for a country of that size. This showed Tonga's appetite for private sector reforms.

The variation among small island states partly reflects how a small change in the number of activities across these states can represent a statistically large difference. For example, the populations of Tuvalu and Nauru are approximately the same, Tuvalu received two subprograms and Nauru five, a difference of 150%. If measured by funding, the difference was more than 2,200%.

A further factor is the indivisibility of subprogram activities and how this affects the efficient allocation of resources. For example, the development of a secure transactions framework, one of the most common activities under the access to finance focus area, requires similar inputs irrespective of country size. Thus, the efficient allocation of resources to maximize impact works against smaller states.

3. Efficiency

74. **The TA's mode of delivery was efficient**. Overall resources appear to have been allocated appropriately. However, systems and delivery mechanisms have become more complex. For example, the PSA on which much of the reforms are based has become larger and more comprehensive since PSDI III, partly in response to client demands and the need to ensure that analytical work is clearly targeted and linked to PSDI's work program. There is general agreement among the governments of Pacific island countries and development partners that an exclusive fly-in–fly-out TA model does not work. What has worked well is a mixture of lead consultants working out of Pacific Liaison and Coordination Office (PLCO) in Sydney, in-country coordinators, and short-term consultants. While PSDI is an ADB-managed program, the perception by the client countries is that PSDI's advice is independent of other operational priorities and incentives. Some stakeholders believe this arrangement should be continued and become the norm.

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[46] DFAT. 2015. *Strategy for Australia's Aid Investments in Private Sector Development*. Canberra. p. 6.
[47] Paul Holden, Malcom Bale, and Sarah Holden, 2004, *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific.* ADB.

75. The client survey also offers an insight into how satisfied government officials were with the quality of the TA. When asked, "How would you rate the overall assistance provided by PSDI?" 96% of respondents rated it as either highly satisfactory (57%) or satisfactory (39%). The only respondent to give a partially satisfactory rating qualified this by saying that "there are still outstanding tasks to fully complete each of the tasks commenced." The assistance provided by PSDI included technical advice, legal inputs, capacity building, and the provision of software systems and tended to reflect the good development practices in the literature (Box 5).[48]

Box 5: Lessons from the Pacific Private Sector Development Initiative

The international literature on best practice in private sector development project management and, more broadly, on international development, contains many lessons learned, although these are often specific to the subsector and geographical location being examined. There are several elements of PSDI's modus operandi that align well with the literature on what works well in private sector development in Pacific island countries. They include:

1. **A demand-driven approach.** Development activities work best when the demand for the intervention is clear and well-articulated.
2. **Ownership.** Success and sustainability are more likely where the government counterpart has a real sense of ownership of the project and the process.
3. **Working with champions.** Identifying and working individuals and organizations who can provide political support and drive success is important.
4. **Analytical work and sequencing.** Reforms that are underpinned by solid analysis and appropriately sequenced provide the basis for success.
5. **Clear and measurable results.** A clear results framework, including identifying milestones and sharing progress with clients, helps engender ownership.
6. **Tailored solutions.** Addressing common problems affecting private sector development requires tailoring solutions to specific country situations and political economy contexts.
7. **Long-term engagement.** Trust and relationships are often identified as elements of successful international development programs.
8. **International expertise.** Government clients have a clear preference for recognized and well-regarded international expertise.
9. **On-the-ground presence**. Government clients, across a range of private sector development programs, indicated that an on-the-ground and ongoing presence of consultants is important.
10. **Achieving results.** Successes create an appetite for reform and stimulate demand for further reforms.

76. **The PSDI model is an efficient delivery mechanism but it has room for improvement.** PSDI's demand-driven approach provides a responsive mechanism for engaging Pacific DMCs. But it has also led to a focus on immediate issues and challenges at the cost, sometimes, of taking a more strategic view. For example, the focus on the immediate issue of developing pilots for women, such as the pilot project in the Solomon Islands on maintaining solar panels, was at the cost of the more strategic issue of focusing on assessing the implications of PSDI's other activities for women, including legislation, policies or programs and developing appropriate subprograms. A demand-driven approach that does not have a well-articulated framework to guide activity selection partly explains PSDI's focus on outputs rather than outcomes and longer-term impacts. The client-focused approach is also reflected in the underutilization and understaffing of the M&E framework, which does not serve the needs of many

[48] Specific references have not been provided here as they are often sector- and country-specific. But a review of the literature on best practice in PSD, project management and, more broadly, on international development would highlight many of the lessons, as well as others, that are presented in Box 5.

stakeholders. Since 2016, ADB has introduced a series of changes designed to address some of these concerns and to manage ADB's reputational risks. These are discussed later in the chapter.

4. Sustainability

77. **The sustainability of the outputs delivered by PSDI depend on an ongoing program of engagement.** The long-term viability of private sector reforms depends on a range of variables, including how effectively they address problems, how they are valued by the private sector and government, the cost and skills required to maintain them, and, more generally, the level of ownership by the government and the agency implementing the reforms. There are added complications and difficulties in sustaining reforms in small island states with limited resources, small markets, and small mobile populations (Box 6). Many of the reforms that have been achieved are part of a larger program of interlocked and sequenced reforms. For example, legal reforms are required to provide the basis for secured transactions, and this framework then requires regulatory and administrative reforms (such as how the electronic database will be managed and who has access to it). Next, using a secured transactions framework requires not only engaging with banks and other financial intermediaries to convince them to use it, but also developing products that will use the system and increase access to finance. Further work may be needed to improve consumer awareness of the existence of the framework. This example shows how reforms need continued engagement as they are just one step in the right direction, and this points to the need for providing consistency by using long-term consultants.

Box 6: Factors Inhibiting Access to Finance in Small Island States: The Case of Palau

Palau has five licensed commercial banks and the National Development Bank of Palau (NDBP). Of the five commercial banks, two are foreign banks, Bank of Guam and Bank of Hawaii, both of which are branches of offshore banks.

All banks can make consumer and business loans, but the NDBP is the only institution allowed to accept land as security. Banks in Palau seem reluctant to lend for commercial purposes, despite sitting on a lot of liquidity (the deposit to loan ratio was 761% in 2015). Against this backdrop, it is not surprising the percentage of private sector credit as a proportion of gross domestic product is less than 15%—significantly below the average of 40% for Pacific island countries. This signals a high level of disintermediating as the foreign-owned banks in particular take deposits and send them offshore, instead of lending locally. With Palauan savings being not channeled for domestic investment, secured transactions reforms may not be enough to promote increased access to finance.

There is a case to be made for the Pacific Private Sector Development Initiative to support alternative mechanisms for the delivery of financing to local businesses and individuals. One way would be to increase intermediation of liquidity through the NDBP by making it a deposit-taking institution. The Pacific Private Sector Development Initiative is currently helping to strengthen the NDBP.

78. **The sustainability of reforms is improved by (i) governments with ownership of the reforms and sufficient human, institutional, and financial capacity; (ii) successful outcomes that benefit both consumers and the private sector; and (iii) reforms that are appropriate to the Pacific context.** Achieving greater access to finance and sustaining law reforms will be more likely if there is good buy-in from the government and the private sector. For SOEs and large PPPs, the political economy of government ownership often makes sustainability more difficult. The lasting value of an intervention is affected by

whether there is a viable plan in place; for example, the pilots for the economic empowerment of women did not have a ready path for scaling up. The issue of sustainability, as it relates to PSDI's different focus areas, is discussed in sections B to E of this chapter.

5. Challenges

79. **Critical elements affecting effectiveness, efficiency, and sustainability emerged during the evaluation.** The analysis in paras. 79 to 106 does not negate the evaluation's overall findings, and it should be seen in the context of these findings. These critical elements are:

(i) lack of a well-articulated PSDI strategy;
(ii) underutilization of the M&E system, specifically for evaluations;
(iii) lack of a theory of change and the use of a results chain to identify outcomes;
(iv) ongoing management arrangements; and
(v) failure to systematically identify and leverage the initiatives of other donors.

80. **PSDI does not have a well-articulated and explicit strategy**. None of the three PSDI phases had a well-articulated strategy. The program worked on the principle of being demand-driven, within the limits of the initial four focus areas (expanded to six under PSDI III). Program activities under each area were determined by the lead consultants being client-focused and basing reform programs on the analytical work carried out through the PSA process, as well as on an ongoing dialogue with their respective clients, even if it sometimes meant engaging in lower impact or priority areas. The work was then organized using political champions and the experience of the lead consultants (Box 5).

81. Under the new management arrangements for PSDI, the focus areas moved to a 2-year rolling work plan to align with the TA implementation timeframe. The work plan was based on known and anticipated country requests, and on knowledge derived from analytical work. The life of the work plan will coincide with the end of PSDI III. Under the new operational procedures, lead consultants will be required to prepare a concept note of 2–3 pages for proposed support to Pacific DMCs. This will: (i) articulate the outcomes, outputs, and key activities for TA support; (ii) consider available budget and resource requirements; and (iii) support monitoring and evaluation by clearly defining the expected results and resource requirements upfront. These changes are a step toward better planning and developing an overall strategy.

82. **A purely demand-driven model with limited resources still requires PSDI to have an overall strategy to help allocate these resources**. The program, while it was responsive to client demands, was not purely demand-driven. As the third-party evaluation for PSDI I noted, "there clearly has been some degree of advocacy underpinning most of the activities."[49] In PSDI III, for example, the economic empowerment of women was funded with a specific mandate to identify a series of pilots that would promote this focus area and that could be implemented in selected Pacific DMCs (output 5).[50] From fieldwork discussions with government officials in the four country case assessments, it was clear that a degree of advocacy, through the PSAs and other channels, helped guide the

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[49] M. Edwards. Independent Completion Report. *Review of ADB Pacific Private Sector Development Initiative Phase I.* June 2010. p. 7.

[50] ADB. 2013. *Regional Policy Advisory and Technical Assistance for the Pacific Private Sector Development Initiative Phase III*. Manila.

demand for selected interventions that aligned with the focus areas and the expertise of the lead consultants. This finding was also supported by the client survey, where 46% of respondents said PSDI and the government jointly identified the need for assistance, and 11% said PSDI by itself identified the need for assistance.

83. **Activities could be demand-driven but be selected and prioritized based on a strategy that articulates clear objectives.** The selection process could consider whether the proposed reforms have sufficient support within the recipient government. Being demand-driven and adhering to a strategic plan are not incompatible objectives and can enhance effectiveness. PSDI has grown from its early beginnings to include a large number of focus areas and great number of activities, as shown in a stocktake in mid-2017 that identified 84 open consulting contracts. The growth in PSDI activities and the donor landscape increasingly requires activities to be better planned and prioritized against strategic objectives.

84. **A strategic plan would help PSDI to prioritize the demands of numerous development partners on how to use limited resources.** It would also improve coordination and the identification of opportunities for leveraging work with other partners, such as ADB, DFAT, and MFAT. In addition, It would help mitigate the perception registered in some instances by cofinanciers of ADB utilizing PSDI as a tool to further its own investment objectives in the region rather than serving PSDI's objectives. A strategic framework developed through a consultative process that aligns with the cofinancers' priorities would, by design, include the experience and knowledge of ADB, the consultants, and cofinancers. Greater transparency in identifying initial objectives and outcomes through a strategic plan would also enable the program's effectiveness to be measured more effectively, especially if PSDI is expanded beyond Phase III. Future phases of PSDI would need to have adequate governance arrangements that ADB and cofinancers can use to manage the performance of the program.

85. **The M&E system is underused, particularly for subprogram evaluations.** This finding is based on the description of the M&E system in Chapter 3, the PSDI M&E framework document, a review of secondary material related to the M&E system, a review of the content in the M&E tool, and interviews with staff in the PLCO. From this, it is clear that PSDI has, over the life of the program, never had an adequate M&E framework. The system it had was never properly used to provide the results required for effective decision making, informing development partners, and reporting progress.[51]

86. **ADB is making efforts to upgrade the M&E system.** This evaluation found that, while M&E had improved over the 10 years of PSDI's operation, it still did not meet the needs of stakeholders. The evaluation examined the database used for M&E reporting and the PSDI operations manual (updated May 2016), which describes the M&E system. It also examined the TA reports for the three phases, in particular their design and monitoring frameworks (Appendix 2). From these documents, and a more general review of material produced by PSDI, the following findings emerge:

(i) The design and monitoring framework provides an important starting point for developing a functional M&E system and processes, but it should

[51] Footnote 49. The end of the PSDI phase I third party review came to a similar conclusion when it noted: "An issue around M&E that did emerge very clearly in the course of this review is the need for clearer reporting of activities being conducted under the PSDI". The review recommended that PSDI should focus on better reporting and improving information flows as well as on improving advocacy by "increasingly on documenting and broadcasting the successful outcomes being realized from reforms among the Pacific DMCs" (p. 17).

be supplemented with tools and guidance commensurate with the program's size.

(ii) The operations manual (as described in Chapter 3) does not provide the details needed to guide monitoring and especially the evaluations that are necessary to inform decision makers and development partners.

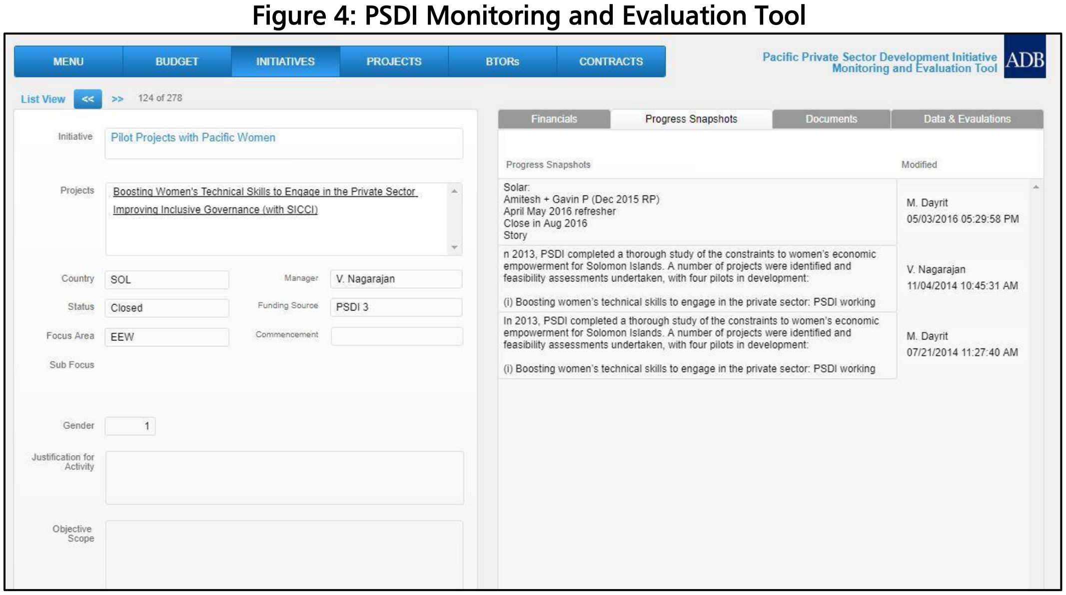
(iii) The operations manual mentions an M&E tool, but gives no information on how it is to be used, what outputs will be regularly produced, and what inputs are required, other than those for contract management.

(iv) PSDI has produced a wide range of publications that are largely aimed at engaging country partners and highlighting achievements. While these publications overlap substantially with what is needed from an M&E system, they cannot replace such a system.

87. **The evaluation did an in-depth review of PSDI's outputs.** The evaluation team took a sample of 62 outputs and used the M&E tool (FileMaker Pro) to access them. The methodology for the review (Appendix 6), required that the appraisal of the material should be recorded and found in the database.

88. The operations manual claims the M&E tool "has evolved into a strategic planning, management, and reporting tool."[52] However, of the 62 outputs reviewed, very few contained the complete data needed to evaluate the outputs. Most contained data in the "financials" field. This usually consisted of the consultant's name, the budget allocated, and funds disbursed for each consultant. A smaller number of the reviewed outputs had entries in the "progress snapshots" field. As shown in Figure 4, this usually consisted of one or two sentences describing progress. Finding material in the "documents" field varied according to the focus area examined. For the "data and evaluations" field, none of the 62 outputs had an entry. This made it difficult to evaluate them. In order to access the necessary data, the evaluating team often had to search other material, such as PSDI's annual report, its *Finding Balance* report, and program documents on PSDI's website. The lack of data in the M&E tool made it difficult to make any judgement on the effectiveness of activities, or, in this case, by the subprogram's outcomes, as elaborated in the approval documents against actual outcomes measured.

Figure 4: PSDI Monitoring and Evaluation Tool



[52] PSDI Operations Manual (August 2016), p. 18.

89. From interviews with PSDI management, lead consultants and operational staff, several factors explain why the M&E tool had not delivered on the claims made for it in the operations manual. These included: (i) lead consultants placing more emphasis on individual communication products than on M&E reporting, (ii) the M&E tool being seen more as a monitoring and management tool than an evaluation tool, and (iii) no explicit strategy or schedule for carrying out regular evaluations of programs and entering the data in the M&E tool.

90. These inadequacies existed despite the then lead consultant for analytical work and M&E writing a report in 2012 outlining the structure of PSDI M&E's framework, and PSDI buying FileMaker Pro platform for M&E in 2013. From a technical standpoint, the report was more a justification for how PSDI operated and did not provide tools or guidelines for effective M&E outputs, outcomes, and impacts. For example, a diagram in the report was supposed to provide an overview of the M&E tool, and is titled "The Monitoring and Evaluation Framework for PSDI." What it provides, however, is an explanation of how PSDI operates, rather than how it will measure and report on results.[53]

91. **The M&E function is underfunded.** The M&E tool database in PLCO was kept up-to-date by a consultant officer whose primary job was to enter contractual information, but this person left in early 2017 and, at the time of writing, had been replaced by an M&E consultant, who is in the process of refining the M&E system. However, a budget and schedule for systematically evaluating outcomes of program activities has not been developed and emphasis has been given to funding a range of communication products, such as PSDI's annual report and the *Finding Balance* report. These reports, while serving a useful role, cannot replace the need for a systematic program of monitoring progress (beyond consultants' contracts) and evaluating outcomes.

92. The failure to use the M&E tool appropriately and the lack of a systematic program for evaluating outcomes has had implications for this evaluation. In doing the output analysis, much of the information needed to make informed judgements was not available in the M&E database and had to be gathered from other sources. While the finding that PSDI remains relevant is supported by evidence, the program's value for money, and its outcomes and impacts were more difficult to evaluate, due, in part, to the shortcomings of the M&E system.

93. **PSDI lacks a theory of change or a results chain to identify outcomes.** Throughout PSDI's first 10 years of operation, it has been implicit that it is based on forming long-term relationships, being responsive to demand, publishing well informed analysis, and providing solutions that draw on international expertise and are sensitive to local culture and the political economy. Although this methodology could be elaborated on, and perhaps be cast differently by different actors, PSDI does not explicitly articulate its theory of change or, more precisely, the expected results chain for specific subprogram activities.

94. ADB TA reports provide the broad-brush strokes of a theory of change in so far that they describe the change PSDI seeks to achieve, how this will be achieved, and some of the indicators to measure this change. But this falls short of providing a fully developed theory of change or describing the results chain for individual subprograms.

[53] Paul Holden and Melissa Dayrit. 2012. *The Monitoring and Evaluation Framework of the Pacific Private Sector Development Initiative: Issues and Structure*. ADB. p. 3.

95. This failing is important[54] because the absence of a results chain has resulted in PSDI often being more focused on outputs than outcomes. As discussed in Chapter 3, PSDI has developed an array of outputs and has been able to modify them to fit specific country contexts. Some of these outputs were well designed and implemented, and, in most cases, delivered the inputs needed for a modern, functioning private sector.

96. The lack of focus on a results chain has two consequences. First, as more of the missing building blocks are put in place, the emphasis needs to shift to how these can be used to deliver the desired results. Second, this has resulted in a focus on outputs rather than outcomes. This focus matters and can be best illustrated by an example from fieldwork in Palau. PSDI helped implement a functioning secure transaction program. Officials in Palau expressed general support for secure transaction reforms. The National Development Bank of Palau took advantage of this support and used the system to register loan-pledged movable assets. Bank officials acknowledge that the system made their work easier and improved efficiency. But the envisioned reform outcome of increased lending did not materialize and loan portfolio growth remained flat after the reform.[55] From discussions with lead consultants in Sydney, a similar story emerged. They noticed that, while the secure transaction frameworks often led to improved systems, this did not necessarily increase access to finance. This led to discussions between PSDI and regional banks on why this was so and the need to develop new products that would deliver the desired results.

97. Achieving successfully implemented reforms but limited outcomes has, in part, been caused by the focus on outputs and the lack of a results chain. These shortcomings have been reinforced by the lack of a systematic program of evaluations and using such a program to identify lessons learned. This also contributed to the lack of an overall strategy for PSDI operations. Addressing these shortcomings will not guarantee these issues will immediately lead to better outcomes, because social norms, business culture, and local expectations can be powerful aspects of the business enabling environment. Nevertheless, as more of the building blocks that PSDI is working on are put in place across the Pacific, the greater will be the need to focus on how they are used to achieve outcomes and results.

98. **There are ongoing management issues at PSDI.** The changes introduced by ADB since 2016 have resulted in PSDI being in a state of flux. The changes affected effectiveness and have implications for the program's sustainability. The management-initiated reforms were intended to improve effectiveness and increase alignment with ADB programs, but these met with internal resistance within PSDI. Preliminary indications of the effect of the changes are that, while some PSDI's in-country coordinators have noticed a slowdown in-country missions, this has not been consistently observed by government counterparts and is not reflected in the number of overall missions undertaken by PSDI.[56]

99. With PSDI marking 10 years of operations, there is a good argument for revisiting the program's governance, management structure, and operational procedure. Box 7 provides possible options that could be considered. Recent changes introduced by ADB make such a review even more necessary. Prior to late 2016, ADB senior staff of PSDI focused more on administration than on utilizing their technical expertise to bring value

[54] A strong case for focusing on results chain is made by V. Thomas and X. Luo, 2012, *Multilateral Banks and the Development Process: Vital Links in the Results Chain*. Transaction Publishers.
[55] Field interview with NDBP in Palau on 22 September 2017.
[56] For example, in the Solomon Islands, there were no PSDI missions between January and June 2017, whereas in the previous 6 months there had been a series of PSDI missions coming through Honiara.

addition. While ADB senior staff did provide technical inputs and ensured coordination with ADB headquarters, a large part of the technical management was left to the lead consultants. This consultant based model has largely served the program well to-date. It has led to consistent engagement and high levels of trust with counterparts in partner countries. However, it has also created risks, particularly the reliance on lead consultants external to ADB. Changes in late 2016 included the conversion of long- and short-term consultant contracts into framework agreements, [57] which are increasingly being used by PLCO. ADB's attempt to apply this framework to the team lead consultants was resisted by PSDI's other cofinanciers. The changes also included the introduction of a concept note for proposed support in order to provide more structure in the project cycle and make ADB senior staff more involved by having the regional director approve all concept notes.

Box 7: Options for PSDI's Management Models

This evaluation puts forward two options for consideration for restructuring the Pacific Private Sector Development Initiative's (PSDI) management, based on fieldwork observation. The following is by no means an exhaustive list of options:

(i) Adopting a model similar to that used by the Pacific Financial Technical Assistance Centre. PSDI would have an ADB-appointed manager, focused on managing the facility, lead consultants, and internal and external client relationships.

(ii) Adopting a model similar to that used by the International Finance Corporation. PSDI would hire new staff or convert current consultants into project-funded staff working out of the Pacific Liaison Coordination Office with oversight by ADB. Their appointments would coincide with the length of the project.

100. PSDI has found it difficult to adjust to the changes, which have resulted in some of the focus areas no longer having a full-time lead consultant, and understaffing at the Sydney hub. Other developments took place at approximately the same time, including the leaving or relocation of experienced Sydney-based PSDI consultants. The changes have involved the arrival of a new TA supervising unit officer (TASU), the departure of the lead economist, the relocation of the lead consultant for SOEs, and a change in the status of the lead consultant for economic empowerment of women, who went part-time. At the time of writing, some administrative staff vacancies have yet to be filled.

101. ADB initiated some of these changes and it has an ongoing dialogue with cofinanciers on the transition process. The big issues for ADB are managing its reputational risks, and achieving greater leverage of PSDI work and ADB activities, as well as with those of other cofinanciers, to improve results across some of the focus areas.

102. **PSDI does not systematically identify and leverage other partners' initiatives.** There have been examples of ADB, DFAT, and MFAT building on the PSDI work program and vice-versa. In Tonga, for example, PSDI's work on law reform and financing growth has fed into work by ADB and other donors work on a common policy matrix for budget support. However, in other cases, DFAT or MFAT were not fully aware of the details of PSDI work or did not have enough advanced notice to be able either to support PSDI reforms or to build on them.[58] The issue of coordination has been made more difficult

[57] In its comments on the contractual arrangements for PSDI, ADB's Operations Services and Financial Management Department suggested the use of performance-based contracts, where 10% of remuneration is retained to be paid when and if the outputs defined in the contracts are achieved.

[58] These issues emerged during the fieldwork interviews with some of DFAT and MFAT posts.

by the frequent rotation of cofinanciers' staff and systems whereby new personnel are allocated to the posts every 2–3 years.

103. **PSDI's lack of an effective communication strategy resulted in missed opportunities to engage cofinanciers.** Communication between PSDI consultants and cofinanciers across six focus areas and 14 Pacific DMCs usually resulted in enhanced outcomes when it occured. Lead consultants and ADB regularly updated DFAT and MFAT, including through formal 6-monthly donor coordination meetings and periodic visits to coordinate and inform DFAT and MFAT staff when they were in-country. The relationship with DFAT and MFAT has been strong, with good involvement from donors. Nevertheless, DFAT was sometimes advised too late of PSDI activities for it to be able to allocate resources to them. For MFAT's more centralized model, communication needs to be closely coordinated both with headquarters and posts. The desire to cooperate on activities—and the benefits of doing so—are obvious to all involved in PSDI. But a lack of a systematic way of managing this process and sometimes poor communications between PSDI and the cofinanciers resulted in missed opportunities or in the perception of PSDI becoming a tool of ADB to further its own investment objectives in the region.

104. **DFAT is the largest cofinancier and regards PSDI as an important investment for engaging with the private sector in the Pacific region.** PSDI is a good vehicle for advancing DFAT's focus on PSD, Aid for Trade, and Asia and the Pacific (DFAT has a significant aid budget for the Pacific). DFAT funds PSDI as a regional program, and its PNG post provided substantial bilateral funding for PSDI ($8.1 million), enabling the PNG post to engage more effectively with PSDI during PSDI III. DFAT's Fiji post was also at one point considering bilateral funding, but this did not happen. The capacity and willingness of DFAT (from its various posts and from Canberra) to engage with PSDI consultants and PSDI reform programs was substantial.

105. **MFAT's engagement with PSDI reflects its view of the significance of the Pacific.** New Zealand identifies closely with Pacific countries and has close relations with them. PSD is important for MFAT but it is not a strategic focus of its aid program. The size of New Zealand's Pacific posts is generally smaller than Australia's. This has meant its approach to PSDI has been more hands-off for PNG and Timor-Leste, but more involved in Polynesia. Nevertheless, MFAT participates fully in the governance of the program through the biannual meetings and other requests. It has also sought opportunities to link its budget support programmes to PSDI reforms. PSDI remains very valuable for MFAT, when compared with the significant transaction costs of scoping, procuring and managing TA on an individual basis.

106. **Over the last decade, PSDI outputs did not fully achieve the intended outcomes.** The delivery of the building blocks (i.e., outputs) that were conducive to improving the business enabling environment was not sufficient in itself. These reforms represented a step in the sequence of what was required to achieve an improved business enabling environment. This shortcoming happened in part because, in managing the program and delivering the value added, ADB did not provide sufficient strategic guidance, thus missing out on opportunities to draw on its knowledge and experience to lead the program. Nevertheless, the work has been relevant, with the program providing much needed support for improving the business enabling environment. This is needed to revitalize and grow the economies of the PDMCs. Given its wealth of experience in the Pacific, ADB with support from the cofinancers is best placed to lead a process of refocusing, expansion and increase of the value addition of the program. The challenge for ADB is to build on the accomplishments that have been made over the last decade to improve the program. The rest of the chapter addresses the other evaluation questions

posed by the evaluation approach paper and discusses in greater detail how the different focus areas have performed.

B. Results of PSDI Operations: Access to Finance

107. This section addresses the question: has PSDI improved access to finance in Pacific DMCs?

108. **All three ADB TA reports had access to finance as a focus area.** Financial sector reforms centered on secured transactions frameworks, rural finance and microfinance, financial sector outreach, financial products and services, and partial credit guarantees. In 2009, the ADB TA report for PSDI II acknowledged the success of PSDI's work in this area, and specified that the "TA will continue to help expand access to finance through secured transactions registries, microfinance partnerships, the application of new electronic technologies to branchless banking models, and supporting regulatory reforms" (footnote 27). In 2013, the TA report for PSDI III again identified access to finance as a core area by identifying PSDI's output 1 objective as: "Businesses and households in selected Pacific developing member countries have improved access to financial services." This was to be achieved through:

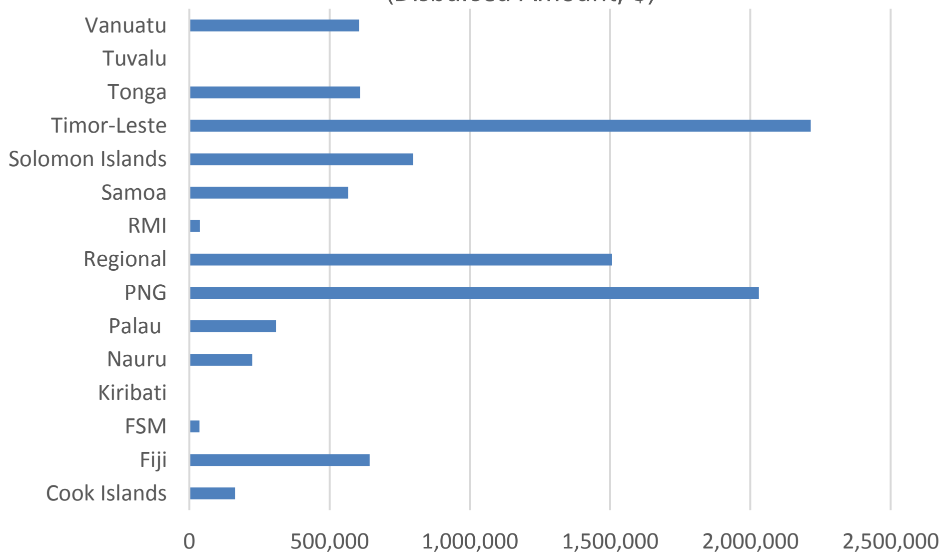
(i) further financial sector reform and implementing reforms for secured transactions and registries;
(ii) reviewing and advising on policies, laws, and regulations that were barriers to financial sector development;
(iii) strengthening financial service providers and central banks through capacity building; and
(iv) facilitating pilot testing of new financial products and delivery channels (footnote 28).

109. **The case for supporting interventions in access to finance was strengthened by several PSDI studies.** The argument for supporting secured transactions reform was articulated in the 2014 publication *Unlocking Finance for Growth: Secured Transactions Reform in Pacific Island Economies*.[59] The challenges and opportunities of mobile-phone banking in the Pacific were examined in the 2016 publication *Digital Financial Services in the Pacific: Experiences and Regulatory Issues*. In the same year, *Credit Guarantees: Challenging their Role in Improving Access to Finance in the Pacific Region* critiqued this frequently attempted approach to increasing access to finance.[60] A PSDI study examining the role of development banks in the Pacific is expected be published in 2017.

110. **The access to finance focus area accounted for 28% of PSDI's expenditure and 76 subprograms, making it the biggest focus area over the 10-year period**. In financial terms, total expenditure for the focus area accounted for just under $10 million. Figure 5 shows that expenditure on access to finance roughly reflected the size of Pacific DMC economies, with Timor-Leste and PNG being the two largest recipients, followed by regional programs. Some of the smaller Pacific DMCs had program activities in this focus area.

[59] ADB. 2014. *Unlocking Finance for Growth: Secured Transactions Reform in Pacific Island Economies*. Manila.
[60] ADB. 2016. *Digital Financial Services in the Pacific: Experiences and Regulatory Issues*. And *Credit Guarantees: Challenging their Role in Improving Access to Finance in the Pacific Region*. Manila.

Figure 5: Access to Finance Expenditure by Pacific DMCs, 2007–2017
(Disbursed Amount, $)



DMC = developing member countries, FSM = Federated States of Micronesia, PNG = Papua New Guinea, RMI = Republic of Marshall Islands.
Source: PSDI Financial Data.

111. Promoting access to finance concentrated on developing links within financial systems to deliver better intermediation between savers and borrowers with the goal of increasing the availability of loans, securities, and other financing instruments. These efforts to improve financial intermediation led PSDI to concentrate on:

(i) strengthening institutional underpinnings by developing policy frameworks and related legal and regulatory frameworks,
(ii) improving the commercial provision of finance through the introduction of new products suited to the Pacific region and the commercial transformation of government-owned financial institutions, and
(iii) building awareness of key policy issues through advocacy and analytical work.

112. Secured transactions frameworks were a common activity of this focus area (Table 4). These allow lenders to give credit against the security of movable assets and enable borrowers to use collateral other than land; for example, borrowers can use vehicles, boats, and other capital equipment as collateral. This is important in the Pacific where most land is communally-owned and cannot be used as collateral. PDSI's work has primarily involved assisting Pacific governments with drafting legislation on secured transactions, and developing and implementing online registries for the efficient registration of movable collateral and access to the registry by financial institutions.

Table 4: PSDI-Supported Secured Transactions Reforms

Jurisdiction	Relevant Act	Filing Office
Federated States of Micronesia	Secured Transactions Act, 2006	Secured Transactions Filing Office http://securedtransactions.dea.fm/Public/AboutFilingOffice.aspx
Marshall Islands	Secured Transactions Act, 2007	Republic of the Marshall Islands Secured Transactions Filing Office https://stformi.com/
Vanuatu	Personal Property Securities Act, 2008	Personal Property Securities Registry https://ppsr.vu/
Solomon Islands	Secured Transactions Act, 2008	Secured Transactions Filing Office https://stfosi.com/
Tonga	Personal Property Security Act, 2010	Personal Property Securities Registry https://ppsa.to/
Papua New Guinea	Personal Property Security Act, 2011	Registry installed in 2014, online registry commenced in May 2017.
Palau	Secured Transactions Act, 2012	Palau Secured Transactions Filing Office https://www.stforop.com/index.aspx
Samoa	Personal Property Securities Act, 2013	Registry installed in 2014.

Source: ADB. 2014. *Unlocking Finance for Growth: Secured Transactions Reform in Pacific Island Economies*. Manila and PSDI Annual Reports, various years.

113. **PSDI's work on access to finance includes an ongoing program to support several Pacific DMCs with the commercial transformation of their government-owned banks.** This work involves improving the regulatory framework for supervising banks, supporting the commercial transformation of banks, and advising on the development of new banking products. Over the evaluation period, PSDI supported the following activities:

(i) linking Tonga Development Bank to the vanilla industry,
(ii) supporting new product development and a new business model for PNG's MiBank,
(iii) strengthening Bank of Papua New Guinea's institutional framework,
(iv) supporting the commercial transformation of the National Development Bank of Palau,
(v) supporting the Reserve Bank of Fiji in capital market development,
(vi) introducing banking services to Nauru,
(vii) supporting the commercial transformation of Fiji Development Bank,
(viii) supporting the development of a strategic plan and business plan for FSM Development Bank,
(ix) supporting the transition of BNCTL and MiBank from microfinance institutions to licensed commercial banks,
(x) assisting the Bank of Cook Islands to improve its risk management policies and operations, including for operational risk, and
(xi) assisting the government to rationalize government ownership of the only two banks in Tuvalu.

114. **PSDI is placing greater emphasis on the role of superannuation and provident funds within the financial system.** These funds are integral to the stability of Pacific financial systems, and the transformation of savings into longer-term investments. PSDI is working on a benchmarking study of Pacific provident funds, similar to the *Finding*

Balance report, and investigating constraints on securities issuance.[61] PSDI has also supported subprograms in branchless banking and microinsurance.

115. In assessing results, the TA reports for PSDI I (2006) and PSDI II (2009) did not enumerate outputs or outcomes for the focus area of access to finance. However, the TA report for PSDI III (2013) included specific target indicators for each of the identified outputs and outcomes. The first outcome of that TA report (although it is listed as an output) was improved access to financial services for businesses and households in selected Pacific DMCs. The three indicators and measures used are in footnote 62, although no PSDI III baseline was established, except for target three. For the first indicator seeking a 30% increase in the number of secured loans, the target has already almost been achieved, well before the May 2019 deadline.[62] Based on IED calculations, secured loans by financial institutions increased by an average of over 27% across six Pacific DMCs[63] from 2014 to 2016, and there was an increase of more than 10% in these loans over this period in four of these countries.

116. For the second indicator targeting a 30% increase in the number of people with access to financial services, PSDI has been working with partner financial institutions, including MiBank in PNG and Banco Nacional Comércio de Timor-Leste (National Commercial Bank of Timor-Leste, NCBTL) in Timor-Leste (Box 8).[64] The proxy used by PSDI to measure the growth in access to finance was the number of Mi-Cash (a MiBank product) users in PNG. Because PSDI III was approved in 2013, this evaluation looks at 2014–2016, when growth averaged 56%. For NCBTL, PSDI looked at the number of borrowers, which grew by just 2% in 2014–2016. Combining the overall numbers of Mi-Cash users and NCBTL borrowers, the growth in the period in these two countries was about 30%.

[61] 2017 PSDI Draft Annual Report.

[62] The first indicator requires that the number of secured loans by financial institutions to increase by 30% over 4 years (disaggregated by gender), and the percentage of secured loans to rise by 10 points in at least four countries). The second indicator requires that the number of people with access to financial services (disaggregated by gender) through partner institutions rises by 30% in at least four countries since 2013. The third indicator is PNG specific, requiring the ratio of total domestic credit to GDP extended by financial corporations to the private sector increases to 40% or more.

[63] FSM, RMI, Palau, Solomon Islands, Vanuatu, Tonga.

[64] See also the MiBank Pilot's experience in the economic empowerment of women analysis.

Box 8: Transformation of the Institute of Microfinance Timor-Leste into a Commercial Bank

In Timor-Leste, the Pacific Private Sector Development Initiative (PSDI) worked on an access-to-finance stream assisting in the transformation of the Instituição de Microfinanças de Timor-Leste (Institute of Microfinance Timor-Leste, IMfTL) into a sustainable, private-sector-oriented commercial bank.

IMfTL was established in 2001 under the Microfinance Development Project, an Asian Development Bank (ADB) project.[a] It is a public institution focusing on microfinance. IMfTL is owned by the Foundation for Poverty Reduction, which was created by donors, including ADB, and the Government of Timor-Leste. The ADB project provided, through the United Nations Transitional Administration in Timor-Leste, a $4 million grant for strengthening microfinance operations. IMfTL was issued a provisional banking license in May 2002; it acquired quasi-bank status four months later.

In 2004, ADB reviewed IMfTL's operations. The review highlighted how IMfTL continued to sustain modest operating losses because of weaknesses in management capacity, operational and financial performance, and product and service delivery. Following the review, ADB provided $500,000 of technical assistance through its Japan Special Fund to help IMfTL become operationally and financially independent. While its performance had been improving, IMfTL realized that its restricted banking license was limiting its growth.

In 2009, PSDI helped IMfTL prepare for its transition into a small commercial bank by supporting its reincorporation, assisting with a strategy and business plan, and a training plan for management and staff. PSDI supported the implementation of these plans until 2011, when IMTL received an unrestricted banking license and became Banco Nacional Comércio de Timor-Leste (National Commercial Bank of Timor-Leste, BNCTL).

It is now the country's first locally owned bank, providing services mainly to the poorer sections of the population and small businesses on commercial terms. It provides the largest outreach in the country, with 13 branches across all districts and more than 150,000 deposit accounts.

BNCTL accounted for 7% of commercial bank assets and 12% of commercial bank credit at the end of 2013. While BNCTL started out mainly providing payroll loans, it diversified its portfolio with business loans to small and medium-sized enterprises, seasonal crop loans, and microfinance group loans. In 2016, BNCTL bank launched its first 18 automated teller machines in Dili and other municipal capitals, and adopted Swift codes.

ADB continues to support the modernization of BNCTL.

[a] ADB. 2001. *Proposed Grant to the Democratic Republic of Timor-Leste for the Microfinance Development Project.* Manila.

117. The second indicator also provides that those partner financial institutions should be in at least four Pacific DMCs. To date, only PNG and Timor-Leste are included, although PSDI also lists a pilot with Tonga Development Bank to launch a supply chain finance facility (Box 9).[65] Efforts are being made to achieve the target by 31 May 2019. However, the evaluation finds that this indicator was not constructed well enough to aggregate and reflect achievements along the results chain of these sometimes quite different type of interventions. The third indicator was added in May 2015 as part of the change in scope to accommodate further funding for the PNG program. Based on current progress,

[65] Since the launching of the pilot in 2015, there have been 29 loans in total being provided under the scheme which is supposed to benefit from the secured transaction framework set up in the Tonga with the help of PSDI.

this target is unlikely to be achieved by the TA end date of 31 May 2019, as the ratio of total domestic credit to gross domestic product extended by financial corporations to the private sector in PNG has been decreasing since 2013.

Box 9: Tonga Vanilla Bean Supply Chain Financing

Secured transactions reform is opening the way for innovations in agriculture value chain financing. This was demonstrated by the Pacific Private Sector Development Initiative (PSDI) pilot supporting Tonga Development Bank's (TDB) financing facility for vanilla bean growers.

Under the pilot, TDB advances loans to vanilla bean growers so they can expand production. The average loan size is $2,000–$3,000, and it is secured against the grower's vanilla bean crop and the contract with the buyer of the vanilla beans. Previously, TDB would only take land as collateral, but as most growers do not own the land they farm, they were unable to access the finance to expand production. Being able to do this will have a significant impact on communities by increasing grower incomes and employment, particularly for women in this labor-intensive industry.

This innovation was made possible with the support of PSDI for the enactment of the Tonga Personal Property Securities Act, 2010, which specifically covers farm products. The act allows lenders to register security interests over movable assets, and to have certainty as to their priority over these interests when there are competing claims.

In this type of financing, the bank controls both outward and inward cash flows, thereby mitigating repayment risks. A portion of the sale proceeds is retained by the buyer and then directed to a TDB bank account, from which loan payments are deducted. TDB staff can attend vanilla bean markets to monitor these transfers at the point of sale.

Seasonal cash flow gaps between grower receipts and payments are partially covered by intercropping cash crops between vanilla vines. The proceeds from those crops help meet interest payments, and the larger seasonal vanilla harvest payments cover loan principal repayments.

118. **PSDI's support for secured transaction frameworks in several Pacific DMCs enhanced the process of formalizing movable assets and brought more legal certainty to financial institutions willing to lend against this type of collateral.** The data in Table 5 show solid growth in the number of secured transactions, although the number of such transactions is still modest by compared with those in other countries that have undertaken similar reforms. This reflects both the smallness of Pacific island economies and that the fact that some financial institutions were not ready to embrace the higher risk of moving into this business. Fieldwork discussions with regional banks and other resource persons also pointed to other reasons: (i) it is the larger, mostly foreign-owned, banks that still make most credit decisions at their head offices overseas (Box 9); (ii) most banks focus on the top end of the market, which often provides unmovable collateral; (iii) banks are reluctant to move away from established practices and introduce new products; and (iv) there is a perception that the introduction of legal reforms for secured transactions and establishment of databases was more an issue of improving efficiency than a way of introducing new products (as banks were already lending against moveable collateral). The last point was confirmed by the leading nonbank financial institution in Solomon Islands, Credit Corporation, in a field interview.[66] The bank said that, after adopting the secured transaction framework, the time spent approving a loan was reduced to one day as preparation of agreements was made easier and the need for government approvals was eliminated.

[66] Field interview with Credit Corporation in Honiara on 15 August 2017.

Table 5: Secured Transactions (Number Registered)[67]

Countries	2010	2014	2015	2016
Marshall Islands	1,473	6,200	8,050	9,128
Federated States of Micronesia	1,538	3,750	4,000	4,311
Palau	457	–	520	663
Solomon Islands	7,388	10,100	10,200	10,553
Tonga	3,457	5,100	5,500	7,510
Vanuatu	1,873	4,200	4,800	4,998
Total	**16,186**	**29,350**	**33,070**	**37,163**

Source: PSDI data.

119. **PSDI's work on access to finance undertaken during the 2007–2017 evaluation period can be categorized as a mixture of delivering the building blocks necessary for a vibrant private sector, and delivering innovative demand-driven solutions to strengthen the private secto**r. There was a fair amount of overlap across the two, but the dichotomy is nonetheless useful for this analysis. The delivery of a secure transactions framework across the Pacific tends to fall into the building blocks category, while support to develop product concepts, such as the introduction of agriculture supply chain financing instruments, is more on the applied-innovation side. For example, PSDI has supported the development of supply chain financing solutions in Solomon Islands and Tonga. In Solomon Islands, it supported a financing facility for cocoa exporters; in Tonga, the work focused on a pilot financing facility for vanilla bean growers (Box 9)—the latter being the more well-known after being featured in a *Wall Street Journal* article.[68]

120. **It is important to recognize the dichotomy between more innovative solutions to specific private sector development problems and the more generic delivery of missing building blocks**. As the building blocks are being put in place for a functioning private sector, more focus will shift to how they can be used by the private sector. The examples of Solomon Islands and Tonga illustrate this point. Having developed secure transaction frameworks for these countries, the issue shifts to how these can be used to overcome inertia in financial systems in relation to the banks. This point is recognized by PSDI's lead consultant for access to finance. During interviews, the consultant highlighted the need for PSDI not only to support reforms in Pacific DMCs but also to do advocacy work with financial institutions on how these reforms can be used. The consultant noted that this required working on the uptake with the head offices of banks that are not headquartered in these countries.[69] Determining the balance between the delivery of more generic reforms and specific targeted solutions can be supported by using the existing M&E framework more effectively, especially by focusing on more systematic evaluations and outcomes, rather than the delivery of outputs.

121. **Reforms to increase access to finance were generally sustainable, even in smaller Pacific DMCs where resources are limited.** The focus on secured transactions frameworks, bank transformation, and related regulatory work has generally had good buy-in from governments. The reforms were well designed and adapted to local conditions, and they provided efficient solutions given the resources required to maintain them. In Palau, for instance, even though an electronic registry has been functioning since 2013, it has not yet reached financial self-sustainability; hence the public sector administrator, the Financial Institution Commission, has a yearly budget to pay for the gap between user collected fees and the cost of the license.[70] Given the interest of the financial sector and

[67] PSDI "Data Comparison" Excel document.
[68] See: https://www.wsj.com/articles/south-pacific-farmers-bet-on-beans-for-loan-collateral-1457936358 [behind paywall].
[69] Field interview in Sydney on 8 August 2017, with access to finance lead consultant.
[70] Field interview in Palau on 20 September 2017.

consumers in these reforms, it is likely that they will be sustainable in the longer term, especially where the affected stakeholders can use the secure transactions framework to develop innovative solutions, such as supply chain financing.

122. **PSDI supported reforms of the underlying conditions for improving access to finance, but outcomes were limited by the scant uptake of the results of the reforms.** This was especially the case in establishing secure transactions frameworks, where PSDI has built a solid reputation that is recognized across the Pacific. The results of the client satisfaction survey, the fieldwork conducted in the four case countries, and the output analysis reinforced the perception of the quality of the reform work performed in this area. While the evaluation could validate the outputs delivered, the performance indicators for these interventions did not allow for proper measurement of ascribable outcomes, beyond a general limited uptake of the reform work.

C. Results of PSDI Operations: Business Law Reform

123. This section addresses the question: did PSDI foster business law reforms in Pacific DMCs?

124. **Supporting business law reform has been part of PSDI's work since its inception.** It was envisioned that the TA would focus on "on reforming business law and strengthening property rights." The rationale for PSDI involving itself in these areas was a belief that economic activity was hindered by outdated business laws and regulations that compromised investment and business growth. In many Pacific DMCs, the process of starting a business was affected by high costs, long delays, and overly burdensome regulations that imposed significant costs on businesses. These constraints led to the formation of small formal sectors and large informal sectors. By improving the legal and regulatory environment in which firms operate, PSDI aimed to induce more firms entering the formal economy to improve their productivity and increase access to the financial system.

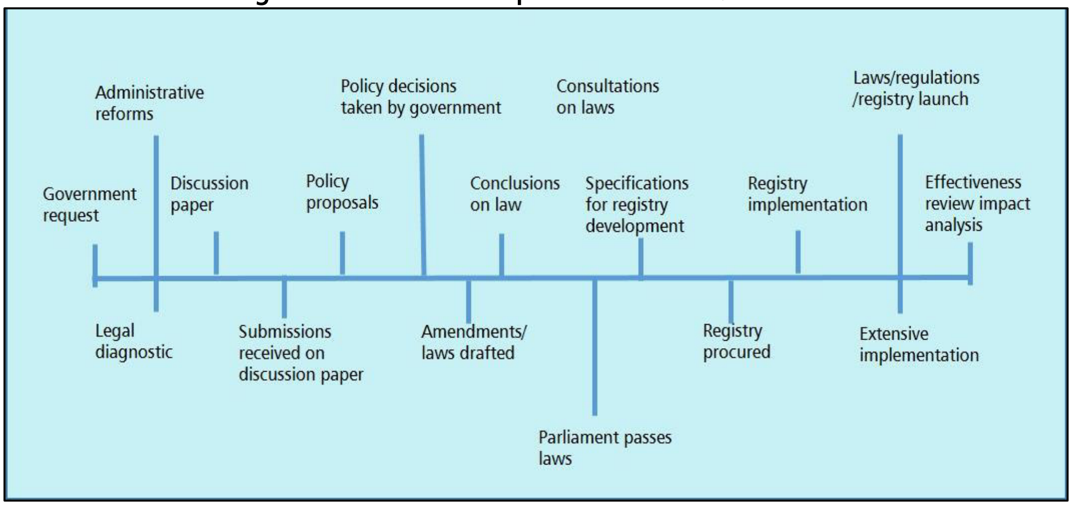
125. **The case for supporting interventions in this focus area was based on several studies before PSDI was established.**[71] These studies were strengthened by in-depth studies by PSDI, such as *Reforming Pacific Contract Law* in 2009. The PSDI-supported Pacific Business Registries Workshop gives countries the opportunity to showcase their progress and achievements in business law and registry reform. An assessment of PSDI's support for business law reform subprograms, *The Impact of Company Law Reform*, will be published as part of the PSDI Knowledge Series in 2017. The focus on business law reform over the evaluation period has remained stable, and has centered on areas promoting a modern legal and regulatory framework for business. This has included work on (i) company legislation; (ii) legal and regulatory requirements for electronic business registries; (iii) business license reforms; (iv) bankruptcy, including legal requirements for receivership and insolvency; and (v) legal reforms for foreign investment.

126. Business law reforms—for example, for business registries—require many steps and involve many actors and a good deal of time. Temporary setbacks are to be expected, whether these are caused by politics or misapprehension, as shown in Figure 6. PSDI's interventions on fostering business law reforms complement its work in other focus areas. For instance, company registration is often a prerequisite for firms to access formal

[71] ADB. 2003. *Technical Assistance for Improving the Legal Business Environment in the Pacific Region*. Manila.

finance and to be included in secure transactions frameworks. Because business law reforms are needed to provide the foundation for the other focus areas, they are highly relevant to improving business environments.

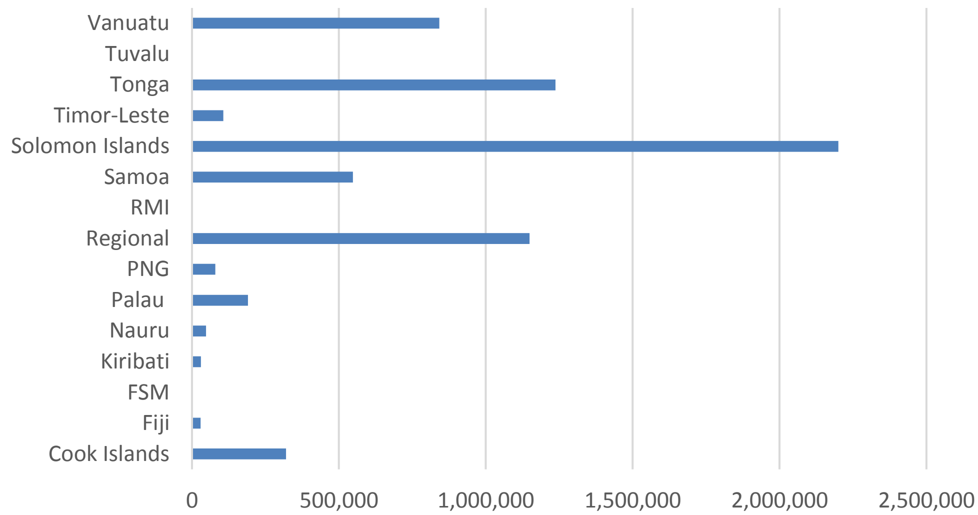
Figure 6: PSDI Road Map of Business Law Reform



PSDI = Private Sector Development Initiative.
Source: PSDI Annual Report 2015–2016, page 14.

127. **Just over $6.7 million was disbursed on fostering business law reforms over the evaluation period.** This represented 18% of PSDI's total expenditure and covered 56 subprograms, making this focus area PSDI's third largest. Figure 7 shows that expenditure was not correlated with the size of countries (either by population or GDP), as the largest recipients were Solomon Islands and Tonga, followed by the 12 regional subprograms. The three largest economies (Fiji, PNG, Timor-Leste) were not significant recipients, accounting for a little over 3% of disbursements. In contrast, some of the smaller states (e.g., Cook Islands, Palau) received support that was disproportionate to their size. The fact that the larger countries received relatively low levels of support does not necessarily reflect their lack of involvement in legal and regulatory reforms. Rather, it shows these countries did not depend heavily on PSDI for legal expertise and that they drew instead on expertise from domestic sources or from donors to underpin their work in the business law reform. Levels of involvement may also reflect political issues that discouraged engagement.

Figure 7: Business Law Reform Expenditure by Pacific DMCs, 2007–2017
(Disbursed Amount, $)



DMC = developing member countries, FSM = Federated States of Micronesia, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands.
Source: PSDI Financial data.

128. **PSDI was effective in delivering support for legislative and regulatory legal instruments**. Sometimes these reforms were achieved by working in partnership with ADB; e.g., in Solomon Islands, a budget support program in 2016 supported PSDI's work on a Business Names Act to improve business formalization.[72] In most cases, these activities were carried out with the support of recipient governments, especially those keen to be at the forefront of reforms (Box 10). In a few instances, the new or amended legislation either took longer than expected to be enacted or was stalled by political factors. Delays were not necessarily due to political resistance to new legislation but, in many cases, resulted from inertia or long drawn out processes. In Vanuatu, the passage of new laws was delayed for several years by changes in the government and irregular sittings of Parliament. Nevertheless, the evaluation was able identify a notable list of new business laws supported by PSDI, including:

(i) **Cook Islands.** PSDI helped draft companies and personal property securities bills, both of which are scheduled to be debated in Parliament in late 2017.

(ii) **Kiribati.** PSDI is working with the government to review company laws and to conduct an analysis of the company and business names registry to support a new legislative framework in 2017.

(iii) **Nauru.** PSDI provided legal assistance in 2015 and 2016 to support the establishment of the Intergenerational Trust Fund.

(iv) **Palau.** PSDI ssupported the preparation of a corporations bill in 2016.

[72] ADB. 2016. *Proposed Policy-Based Grant to Solomon Islands: Economic Growth and Fiscal Reform Program*. Manila.

Box 10: Business Law Reforms in Vanuatu

The Pacific Private Sector Development Initiative (PSDI) began working on business law reforms in Vanuatu in 2006, when the political environment—which saw 12 changes in government leadership in 10 years—was highly unstable. Nevertheless, in 2015 Vanuatu carried out the most extensive law and registry reform program in the Pacific to date.

PSDI was able to engage Vanuatu's authorities in a comprehensive reform plan that culminated in a new Companies Act, passed by Parliament in September 2012, a Companies (Insolvency and Receiverships) Act, and an Insolvency (Cross Border) Act, both passed in 2013.

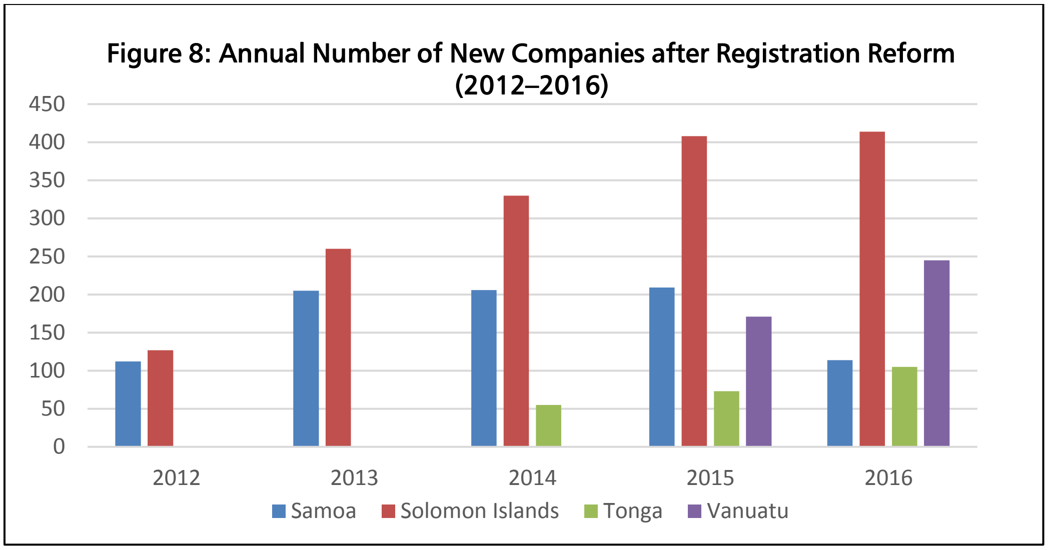
PSDI support for these acts culminated in the launch of an online registry for companies, business names, and charitable associations in August 2015. These reforms were carried out in partnership with the Vanuatu Financial Services Commission and the State Law Office.

129. **Of the three TA Reports, only PSDI III included actual targets for measuring the results of business law reforms.** However, as for access to finance, only a limited number of baselines were established. The identified outputs and targets in the design and monitoring framework were (i) increasing the number of new companies registered by 15% after the registration reform (in four Pacific DMCs); (ii) reducing the time needed to register a new company to less than 2 days (in at least four Pacific DMCs); and (iii) increasing the number of women to at least 20% of directors and shareholders (in four Pacific DMCs).

130. Although this evaluation finds that PSDI included outputs that were really outcomes, the performance of this focus area in meeting the targets set in PSDI III seems to be on track. On the basis of data provided by PSDI, some of which were confirmed during fieldwork, the first target has already been achieved in Samoa, Solomon Islands, Tonga and Vanuatu in a cumulative way, although yearly numbers fluctuate by country (Figure 8). The second[73] target was achieved in Samoa, Solomon Islands and Tonga, but not yet in Vanuatu where data collection started only in 2016. The third target has been achieved in Samoa and Solomon Islands, while in Tonga, Tuvalu and Vanuatu, data are now being collected. Nevertheless, this evaluation finds the indicator for the third target was not overly ambitious.[74] It is highly likely that these targets will be achieved by the targeted date of May 2019. For the first two target indicators, there is a high correlation between the outputs and outcomes delivered with the reforms supported by PSDI, but correlation for the third target is weak.

[73] As of 30 June 2016, Samoa reduced the time from 21 days to 1 day, Solomon Islands from 45 days to 1 day, and Tonga from 5 days to 1.5 days.

[74] PSDI has reported that, as of June 30, 2014 (PSDI III started in 2013), the number of women shareholders was 32% and women directors was 38% in Samoa. In Solomon Islands the figures were 22% for women shareholders and 26% for women directors.



Note: Registry launches: Samoa (2012), Solomon Islands (2012), Tonga (2014), Vanuatu (2015); 2013 data for Solomon Islands were estimated from the PSDI 2012–2013 Annual Progress Report; 2013 data for Samoa were estimated from the PSDI 2013–2014 Annual Progress Report.

131. **PSDI's interventions in business law reforms could stall if conditions on the ground change during the reform process**. The review of PSAs and PSDI's annual reports showed that, where legislative work has not progressed, the flexible nature of the TA allowed the program to either reduce support and reallocate resources to other subprograms or to place the work on hold (and to monitor progress in the reform process). This requires PSDI to stay engaged over the long term, especially in business law reform, where there are very few quick wins. Once legislative reforms are achieved, they are almost certainly sustainable, given the nature of legal reforms and because they lay the foundation for reforms in other areas.

132. **PSDI fostered business law reforms that helped strengthen legal and regulatory frameworks.** This brought process efficiency in several Pacific DMCs, and particularly Samoa and Solomon Islands, where systems have been put in place to modernize business formation procedures.

133. **Competition and consumer protection was added as a focus area under PSDI III**. While this area was not covered by a specific question to be answered in the evaluation, it is briefly addressed here because it forms an integral part of PSDI's key focus areas and is managed by the same PSDI team responsible for the work on business law reform. Many Pacific DMCs have competition frameworks that are not strong enough to regulate monopolies and provide poor consumer protection. This reduces private sector growth. As a result, Pacific DMCs requested that competition and consumer protection become a PSDI focus area. The TA report for PSDI III stated that, under this new focus area, PSDI would assist selected governments to establish a framework promoting competition and consumer protection. It reasoned that the small market size of Pacific DMCs had led to a small number of providers of products and services that were often inefficient and anticompetitive. The TA report charged PSDI with establishing a framework for this focus area that would include preparing competition laws, establishing regulatory offices, and capacity building of regulators.

134. The objective of establishing a competition framework is to ensure market efficiency, encourage entrepreneurship and innovation, and support good governance by restricting opportunities for rent seeking behaviour. In supporting competition, PSDI

aims to improve allocation of resources, make production more efficient, and encourage innovation. The indicator to measure results targeted is "Competition commissions in place and issuing judgments in at least two Pacific DMCs by 2018."

135. **PSDI started work on competition before it was formally included as a focus area.** Under PSDI II, the program helped Cook Islands, PNG, and Samoa with competition policy-related issues. Since then and under PSDI III, PSDI has widened this support to Fiji, where a competition law has been in place since 2010 to strengthen competition laws, build capacity, and increase the impact of the government to ensure competition and protect consumers. In Solomon Islands, Timor-Leste, Tonga, and Vanuatu, PSDI is doing diagnostic work and carrying out consultations to support the development of pro-competitive policies ahead of possible law reform. In Samoa, support is being provided for the establishment of a competition and consumer commission to administer the Competition and Consumer Act, 2016. Work in PNG has expanded after the Government of Australia allocated additional resources for that country's program (see Chapter 3, section 4).[75] It is now the most significant subprogram in the competition policy and law area.

136. Overall activities in this focus area accounted for 33 subprograms and disbursements of just under $2.5 million, making up 6% of subprograms and expenditure.

D. Results of PSDI Operations: State-Owned Enterprise Reforms and Public–Private Partnerships

137. SOE reform and PPPs were part of the initial PSDI design and have been a focus throughout the first 10 years of PSDI's operations. This section addresses the question: to what extent and in what ways has PSDI supported SOE reforms and PPPs in Pacific DMCs?

138. In the TA report for PSDI I, the program was to focus on "government policies on SOEs (relating to ownership, performance, and divestment), economic regulation, legal framework and opportunities for public–private partnerships, privatization, and SOE corporate governance." SOE reform is crucial for PSD in Pacific DMCs, because these countries' private sectors are often monopolized by SOEs. Reforming and improving SOE performance remains a key objective for improving service delivery. SOEs in the Pacific are often the largest commercial entities, yet their contribution to economic growth is comparatively small. Pacific SOEs control 7%–21% of total fixed capital in their countries, but they contribute only 0.3%–12% of GDP.[76] While some SOEs provide essential public services, many others are simply commercial ventures that crowd out the private sector. SOE reform and private sector solutions through PPPs are expected to bring down the costs of doing business and improve basic services by introducing private-sector discipline and market principles to SOEs.

[75] Additionally, according to PSDI, in mid-2015 DFAT requested it to manage Australia's financial support to the Independent Competition and Consumer Commission (ICCC). PSDI has agreed to do so for 3 years. PSDI anticipates this will lead to: recommendations to Treasury for legislative reforms, capacity building within the ICCC, and changes in administrative and regulatory practice. At DFAT's request, PSDI will support the ICCC in its ongoing competition, consumer protection, regulatory, price control and productivity review functions, and in capacity building, including to investigate violations and prosecute enforcement actions.

[76] ADB. 2016. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila.

139. **PSDI advocated for SOE reform through its flagship *Finding Balance* publication.**[77] This publication provided in-depth, country-level analysis of the performance of SOEs, and set out the challenges, achievements, and best practices of SOE reform in the region. Five editions have been published since 2009. *Finding Balance* seeks to strike a balance between the roles of the public and private sectors in Pacific DMCs. It also offers cross-country comparisons, and provides a benchmark to measure progress and stimulate reform initiatives. The countries participating (Fiji, Kiribati, the Marshall Islands, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu) were selected for their comparability and SOE reform experience. Additionally, PSDI produced a series of case studies in 2016 examining private sector participation in water, wastewater and sewage, solid waste management, and franchise shipping services.

140. A review of PSDI's database and other material that it has produced identified seven areas in which the program has supported SOEs and PPPs:

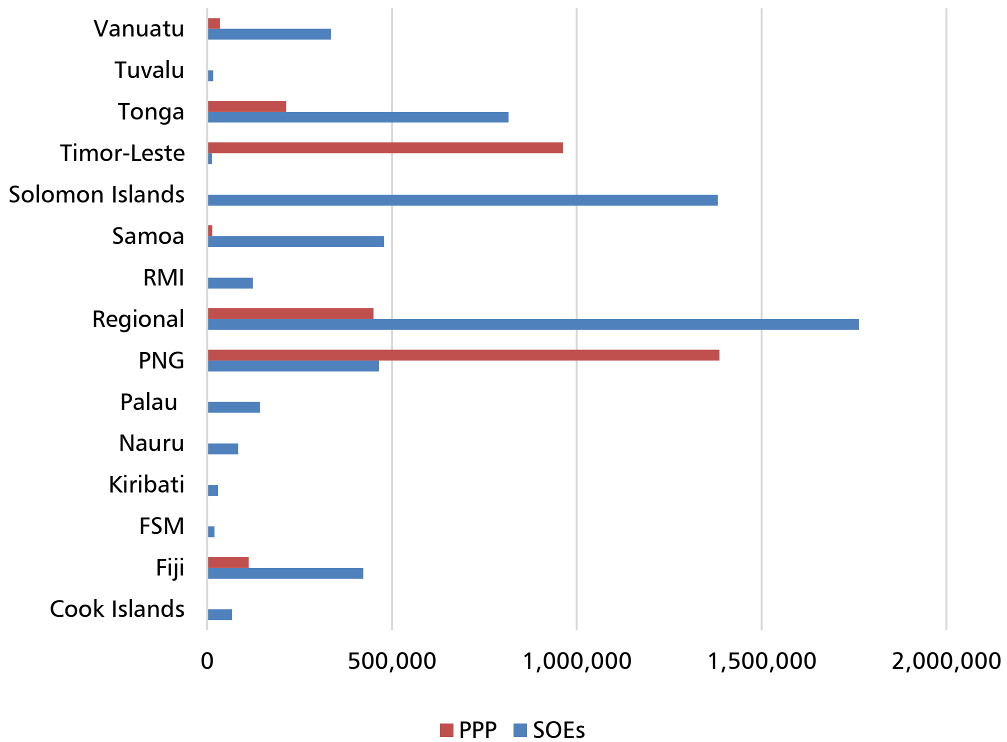
(i) legislation, regulations, and policies for SOEs and PPPs,
(ii) SOE divestment or privatization,
(iii) SOE restructuring and outsourcing,
(iv) development of community service obligations,[78]
(v) regional comparative reviews (through *Finding Balance*),
(vi) improving SOE corporate governance; and
(vii) PPP advisory work.

141. The total disbursement across the seven areas totaled just over $9.3 million in the 2007–2016 evaluation period, with SOEs accounting for $6.1 million and PPPs for $3.2 million. Together, they accounted for the program's second largest disbursement. However, if the items are taken separately, SOEs accounted for the fourth largest disbursement and PPPs the fifth. Figure 9 breaks down these disbursements in Pacific DMCs for SOE and PPP.

142. Across the focus areas, there were 34 SOE subprograms and 35 PPPs subprograms. Of these, the largest number by far have been regional, accounting for 20 subprograms (11 for SOEs and nine for PPPs). Across the 14 Pacific DMCs, the spread of SOE subprograms has been fairly even, with every country having at least one subprogram. Solomon Islands with four and PNG with three had the most. The spread of PPP initiatives was uneven, with several smaller countries having no initiatives (Cook Islands, Narau, Palau, the RMI, and Tuvalu), reflecting fewer opportunities for PPPs in smaller island states. By contrast, the relatively larger countries had the most subprograms: PNG (7), Tonga (5), and Fiji (4).

[77] Finding Balance can be found at https://www.scribd.com/lists/4292864/State-owned-Enterprise-Reform
[78] Community service obligations (CSOs) are noncommercial requirements of state-owned enterprises (SOEs) for identified social purposes.

Figure 9: SOE and PPP Expenditure by Pacific DMCs, 2007–2017
(Disbursed Amount)



DMC = developing member countries, FSM = Federated States of Micronesia, PNG = Papua New Guinea, PPP = public–private partnerships, RMI = Republic of the Marshall Islands, SOE = state-owned enterprises.
Source: PSDI financial data.

143. The extent to which PSDI achieved SOE reforms and prompted PPPs varies from country to country, and also depends on the specific SOEs or PPP being addressed. For many Pacific DMCs, their SOEs are the government's most significant assets and are a politically sensitive reform area. Even so, budget pressures and demand by consumers for better services have help bring about calls for SOE reform. Here, the benchmarking of SOEs by the *Finding Balance* series was found to be an effective advocacy tool. In all four assessed countries (PNG, Solomon Island, Tonga, and Palau), the officials interviewed by the evaluation team said this publication was a useful tool for comparing performance and that it provided a basis for discussions on how to initiate reforms to enable SOEs to perform better.

144. In many Pacific DMCs, the return on SOE assets has been low. Because of this, SOEs often require regular government subsidies and cash injections to maintain operations. The low return on assets is a drain on government funds and reduces the ability of SOEs to provide the services that they were created for. These are usually essential public services, and the provision is often poor and expensive. This affects the private sector by squeezing out competition, increasing costs, and impairing the quality of public services.

145. The gradual improvement in returns on SOE assets over the decade that PSDI has worked in this area indicates the results the program may have contributed to.[79] However, the improvement has been uneven across Pacific DMCs (Table 6). In Solomon Islands, where PSDI supported core provisions for SOEs to operate commercially and transparently, the TA helped put the country's SOEs on a sustainable financial footing, leading to an impressive turnaround of returns on equity and assets.[80] But in the Marshall Islands,[81] where PSDI's engagement in SOE reforms started in 2012, progress has been slow on implementing legislation to improve efficiency by, among other things, delineating community service obligations and reducing government subsidies.[82] That PSDI and ADB[83] are still supporting the Marshall Islands in this effort shows the long-term nature of SOEs reforms and need for continuous engagement. In this focus area, the timing of results is directly linked to the political commitment to reform SOEs, as reforms can have short-term political costs.

Table: 6: State-Owned Enterprise Portfolio Performance Indicators
(%)

Country	Average ROA	Average ROA	Average ROE	Average ROE	GDP Contribution
	FY2002–2009	FY2010–2014	FY2002–2009	FY2010–2014	2014
Solomon Islands	-4.3	6.7	-13.0	10	3.6
Marshall Islands	-5.8	-3.7	-13.0	-8.1	5.3
Kiribati[1]	…	2.8	…	3.8	11.9
Tonga	3.8	2.5	6.4	3.9	7.1
Fiji	0.5	1.5	1.0	3.3	4.3
Papua New Guinea	3.9	1.3	6.7	2.4	1.8
Vanuatu (FY2010–2013)	…	0.8	…	3.7	1.8
Samoa	0.1	-0.3	0.2	-0.6	3

ROA = return on assets, ROE = return on equity, FY = fiscal year, GDP = gross domestic product, … = not available
[1] The financial results of the Kiribati state-owned enterprise portfolio must be treated with some caution, as few of the state-owned enterprises received unqualified audit reports.
Sources: ADB, Finding Balance 2016 and World Bank. World Bank Development Indicators. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators

146. **PSDI interventions helped improve service delivery.** Within the 69 SOE and PPP subprograms, there was a range of projects (Box 11). Significantly more activities were carried out than those listed in the box, but many are ongoing and have not led to

[79] *PSDI Annual Progress Report, 2015–2016* (p. 31), draws a direct link between return on assets and the PSDI program of SOE reforms.
[80] PSDI supported the SOE monitoring unit in implementing a CSO framework and drafting CSO contracts for selected SOEs throughout 2011–2015. These measures have been instrumental in improving the financial performance of the SOEs.
[81] In 2012, PSDI advised on the preparation the SOE Policy, which Cabinet endorsed in April 2012. Based on the policy, PSDI drafted an SOE Bill, which was designed to strengthen SOE governance and commercial orientation, and to support government efforts to improve SOE performance. The SOE Act was passed by Parliament in 2015, and PSDI has continued to support its implementation since 2016.
[82] Annual transfers to SOEs during FY2010–2014 averaged 4.8% of gross domestic product, among the highest in the Pacific, and exceeded capital expenditures each year. However, the government is not in a position to determine whether the subsidies to SOEs are funding CSOs or SOE inefficiencies.
[83] ADB. 2017. *Republic of the Marshall Islands: Public Financial Management Project.* Manila.

outputs. Because of the nature of the interventions, several activities were carried out together with other ADB programs. A review of PSDI annual reports and the *Finding Balance* reports show that many interventions were carried on for several years, with reports frequently mentioning that results would be achieved in the following year, suggesting that they would continue to need support until results were finally achieved. As support for the Marshall Islands confirmed, continued support is needed for this focus area, including raising awareness with government, helping to identify options, working with stakeholders, modifying options and regulations to address political sensitivities, and, eventually, achieving the desired outcome or monitoring the reform situation until the political economy dynamics change or opportunity arises to move ahead. The same is true for access to finance and business law reform, although it is more pronounced for SOEs, given the large vested interests of the government.[84] One area where PSDI is achieving some success is its support for the costing of community service obligations. This allows SOEs to make informed decisions, although their sustainability still depends on the willingness of governments to commit financial and nonfinancial resources (Box 12).

Box 11: Sample of State-Owned Enterprise and Public–Private Partnership Subprograms Supporting Improved Service Delivery

Fiji. The Pacific Private Sector Development Initiative (PSDI) supported the Ministry of Public Enterprises in its assessment of partial divestment options for several state-owned enterprises (SOEs), including Fiji Electricity Authority and Airports Fiji. PSDI also supported the development of an SOE policy framework, and reviews of the Public Enterprise Act and Public–Private Partnership Act.

Federated States of Micronesia. PSDI analyzed Pohnpei Utilities Corporation’s options to outsource its power, water, and wastewater operations. Implementation assistance is being considered by ADB as part of its broader country partnership.

Kiribati. PSDI supported ADB’s program for SOE reforms by peer reviewing the government’s SOE reform program and helping develop an SOE bill that was passed in 2013.

Samoa. PSDI trained SOE managers in developing corporate plans. It helped draft guidelines for implementation of community service obligations and develop an SOE reform pipeline for 2008–2012, and supported reforms to SOE boards to remove government officials (in 2010 about 50% of SOE directors were either ministers or public servants; this was reduced to 11% by 2013). PSDI also supported privatization of the Agriculture Stores Corporation.

147. PSDI III provided more precise indicators for SOEs. Those for the previous two phases concerned delivery of outputs rather than a measurement of results (Appendix 2). However, this evaluation considers the output “delivery of infrastructure services will be made more efficient and cost-effective” to be an outcome. The *Finding Balance* reports and PSDI’s annual reports show that two out of the four indicators have already achieved targets set for May 2019.[85] The other two will probably be achieved by the end of PSDI III, according to current progress. It is not possible to establish a direct link

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[84] See previous section Figure 6: PSDI Road Map for Business Law Reform for a typical process for achieving results.

[85] The four performance indicators were: (i) 15% increase in the rate of return on infrastructure SOE assets as a result of PSDI reforms in at least three countries compared with 2010 baseline, (ii) government officials and politicians replaced on 20 infrastructure SOE boards by 2017 in at least three countries, (iii) number of women on SOE boards increases by 20% by 2017, compared with 2010, in at least three countries, and (iv) at least four privatizations under way or completed by 2017 in the region.

between PSDI and the achievement of the performance indicators, but it appears that some governance reforms may have contributed to these improvements.

Box 12: Community Service Obligations in Papua New Guinea

The Pacific Private Sector Development Initiative (PSDI) supported the Government of Papua New Guinea in preparing a community service obligation (CSO) policy for state-owned enterprises (SOEs). This was approved by the National Executive Council in December 2013.

The policy requires full transparency in identifying, costing, contracting, and financing CSOs. PSDI assisted the council in collaborating with an interdepartmental working group to develop three CSO pilots with SOEs. Only one of these, the National Airports Corporation, has been able to provide the data to develop detailed CSO cost estimates; a CSO contract was prepared in the fourth quarter of 2015. This contract and the contractual template and process that was developed can now be used for other SOEs. While a budget submission was prepared to fund the council's CSO costs in 2016, no funding from the government budget was received to sustain the effort.

148. **PSDI's collaboration with ADB in SOE reform has been efficient**. It is clear from the review of outputs, project documents, and PSDI annual reports that there has been considerable cooperation between ADB and PSDI. This includes PSDI progressing SOE reforms started under ADB TA projects, and ADB and PSDI deciding on a division of labor. Examples of such coordination include ADB TA projects in Fiji, Kiribati, and Vanuatu, and the budget support operation in Solomon Islands, where PSDI advisory work on SOE policy was included in the list of policy actions.[86]

149. **PSDI's work on PPPs requires closer cooperation with ADB.** The PSDI II performance indicator "at least two public sector projects and two private sector projects designed with ADB support. PPP pipelines established for at least three countries, and at least two PPPs designed" was achieved. The need to coordinate PSDI support for PPPs with ADB became more pressing when ADB's Office of Public–Private Partnership (OPPP) was established in 2014.[87] The PSDI and OPPP mandates for PPP advisory support appear to overlap, as in PNG (para. 150), although there seems to have been a good division of labor so far in the instances encountered by this evaluation.

150. **The results of PSDI and OPPP working together in PNG show how this cooperation can work**. PSDI and OPPP both supported PNG's PPP Centre, which included assistance from PSDI in developing an implementation strategy, a PPP project pipeline, a business plan for the center, position descriptions, and a project development facility concept note. PSDI updated Port Moresby and Lae Airport's PPP assessments for the National Airports Corporation in November 2013, and completed a detailed PPP options study for Lae's new port in May 2014. OPPP worked on supporting the PPP process and developing prefeasibility assessments for PPPs, including for Lae Port Phase 1, Lae Port

[86] ADB. 2008. *Technical Assistance to Kiribati for the Economic Management and Public-Sector Reform.* Manila; ADB. 2012. *Capacity Development Technical Assistance (CDTA) to the Republic of Fiji for Implementing Reforms of State-Owned Enterprises*. Manila; and ADB. 2010. *Policy and Advisory Technical Assistance (PATA) to the Republic of Vanuatu for the State-Owned Enterprise Rationalization Program*. Manila.

[87] OPPP provides transaction advisory services to clients so they can deliver bankable PPP projects. It also coordinates and supports PPP-related activities in ADB, and manages a bank-wide project preparation facility.

Phase 2, Jackson's Airport,[88] and Nadzab Airport.[89] From interviews with stakeholders, it appears the cooperation worked much better for Jackson's Airport than for Lae Port. A fundamental difference between the two activities was the timing of the initial coordination and the fact that PSDI and OPPP had to work through different government agencies. Coordination worked best when PSDI and OPPP coordinated before working with government counterparts. In future, more early coordination between PSDI and ADB—taking advantage of ADB's expertise, such as that provided by the SOE advisor in the Sustainable Development and Climate Change Department (SDCC)—could help to ensure greater cohesion in ADB's policy approach and deliver better value for money for the Pacific DMCs.

151. **PSDI III's outputs focused on advice on the feasibility of PPPs (Table 7).** In Timor-Leste, PSDI financed a PPP prefeasibility analysis for the Dili Water Supply System. This concluded that a PPP could be structured to improve service delivery.[90] In Tonga, PSDI advised on privatization options for the SOE, Tonga Forest Products, which was used by the government to turn the company into a 50-year concession contract which private interests could invest in and which could manage, harvest, and replant forestry assets. Other PPP advisory transactions are underway, making the attainment of the goals under this indicator by the close of PSDI III in 2019 likely.

Table 7: PSDI III: Output Indicators for Public–Private Partnerships

Key Indicator	FY 2016–2017 Results	Overall Assessment of whether Target will be met by 31 May 2019
At least five PPP transactions under way or completed by 2019 in region	One PPP transaction completed (Tonga); eight PPPs underway	Target likely to be achieved by 31 May 2019

152. **Despite the politically sensitive nature of SOE reforms and PPPs, the client satisfaction survey revealed an appreciation of PSDI's support for SOE reforms.** To the question "How relevant is PSDI's assistance to the government's development priorities?" over 80% of respondents said, "highly relevant." To the question "How do you rate PSDI's contributions to promoting private sector development?" over 95% answered that these contributions had been either substantial or significant. One respondent said, "PSDI contributions in the SOE/PPP policy agenda remains significant with the potential to further extend." And in response to the question "Is PSDI your first point of contact when you need assistance from donors on private sector development issues?" one respondent answered: "for PPP and CSO."

153. **The evaluation found SOE and PPP reforms helped some Pacific DMC governments to improve service delivery.** This occurred in different ways, including legal and regulatory reforms, privatization, community service obligations, advocacy through the *Finding Balance* report and PPP advisory work. The extent to which PSDI contributed to achieving SOE reforms and promoting PPPs varied across Pacific DMCs and existing indicators do not always allow a direct link to be drawn. For instance, the *Finding Balance* reports show that, despite government ownership of these economic assets, there was

[88] In February 2017, ADB and the PNG National Airports Corporation signed a transaction advisory services agreement to develop a new international passenger terminal at Port Moresby's Jackson International Airport, through a PPP. The new terminal will allow the airport to meet traffic demands over the next 30 years.
[89] ADB. 2016. *Technical Assistance to Papua New Guinea for Facilitating Public–Private Partnerships*. Manila.
[90] This work is being undertaken in parallel with ADB's Urban Water Supply and Sanitation Enhancement Sector Project and the Directorate of Water and Sanitation's ongoing system upgrade planning.

a gradual improvement in SOE performance. PSDI's SOE governance and other reforms have possibly contributed to the achievement of some of these improvements, alongside the work of other donors and over a significant time period.

E. Results of PSDI Operations: Economic Empowerment of Women

154. This section addresses the question: how has PSDI incorporated economic empowerment of women as a priority agenda?

155. **The evaluation draws on the guidance and recommendations provided by an IED evaluation on gender and development in 2017**.[91] First, it is necessary to go back to the PSDI I TA report in 2006 which did not mention of the economic empowerment of women. The PSDI II TA report in 2009 did, however, identify gender as a cross-cutting issue.

> The TA will seek to establish a better understanding and analytical depth of gender issues in doing business in the Pacific DMCs, and seek to promote gender as an integral part of the PSD portfolio, in particular the TA will seek to establish a better understanding and analytical depth of gender issues in doing business in the Pacific DMCs, and seek to promote gender as an integral part of the PSD portfolio, in particular.[92]

156. The PSDI II report said the gender impact of this phase was expected to come from the program's work on reforms to business legislation and access to finance. For example, it was expected that company law reform would allow women to incorporate companies quickly and inexpensively, and that it would improve their access to commercial activities by simplifying procedures. This has in fact occurred through many of the new laws introduced under the focus area of business law reform. Reforms have removed, as a matter of policy, existing discriminatory measures.

157. **In the PSDI III TA report in 2013, gender became a focus area.** Output 5 of PSDI III was "Successful pilot initiatives promoting the economic empowerment of women are implemented in selected Pacific developing member countries." PSDI III recognized that gender was being mainstreamed across the other focus areas, but also stated that the new focus area should "carry out more specific gender-targeted research and pilot initiatives that contribute to the economic empowerment of women." The pilots under PSDI III were to test alternative modalities and were to be scaled up with their lessons learned produced as knowledge products.[93]

158. **The economic empowerment of women as a focus area reflects its treatment in ADB TA reports**. A review of PSDI's annual reports from 2007 to 2017 shows the program closely followed the design of the TA reports for this focus area. From 2007 to 2009, only the 2008 annual report made a brief mention of women in the private sector. Corresponding to PSDI II, where ADB identified gender as a cross-cutting issue, the 2010 and 2011 annual reports included a section within a chapter on gender as a cross-cutting

[91] IED. 2017. Thematic Evaluation Study: *Asian Development Bank Support for Gender and Development (2005–2015)*. Manila.

[92] ADB. 2009. *Regional Policy and Advisory Technical Assistance (R-PATA) for the Pacific Private Sector Development Initiative Phase II (Co-financed by the Government of Australia)*. Manila. p 4.

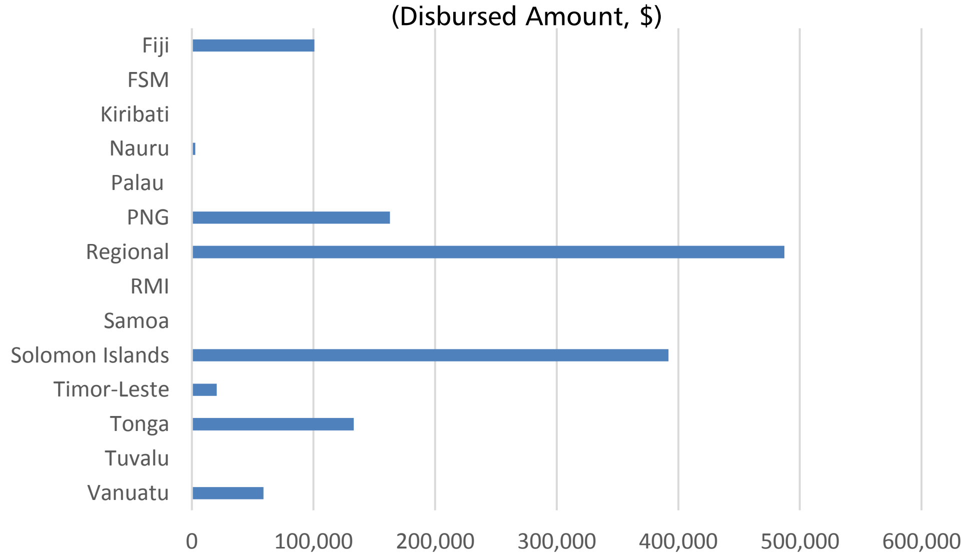
[93] ADB. 2013. *Regional–Policy Advisory and Technical Assistance (R-PATA) for the Pacific Private Sector Development Initiative, Phase III*. Manila. p. 4.

issue. However, it was only from 2013 that the economic empowerment of women was covered by the annual reports as a separate focus area. The gradual shift from the total exclusion of women to making empowerment a focus is also reflected in the PSAs. For example, Palau's 2007 PSA makes no mention of women, but its 2017 assessment had a whole chapter on the economic empowerment of women.[94]

159. **The number and value of gender subprograms is a reflection of the fact that economic empowerment of women did not become a focus area until PSDI III.** As shown in Figure 10, disbursements over the 10 years of PSDI have totaled just over $1.3 million across 30 subprograms. The identification and analysis of key areas of intervention was done through an ADB project financed by the Gender and Development Cooperation Fund (administered by SDCC).[95] Over the evaluation period and across the six focus areas, the economic empowerment of women had the least subprograms and lowest value of disbursed funds, accounting for just 4% of disbursed funds and 6% of all initiatives. Almost $500,000 was disbursed for regional activities, including for analytical reports.[96] Across Pacific DMCs, Solomon Islands was by far the largest recipient ($391,870), followed by Tonga, PNG, Fiji, and Vanuatu, with roughly equal amounts. The distribution of funds reflects where pilot initiatives were implemented. Although the focus area "competition and consumer protection" also started in PSDI III, it has had a more subprograms and expenditure.

160. **The economic empowerment of women did not become a focus area until PSDI III, so the evaluation looks to the future as well as the past.** This section focuses on activities during PSDI III and their implications, especially in light of changes and fact that the lead consultant for this focus area went part-time in 2017.

Figure 10: Economic Empowerment of Women Expenditure by Pacific DMCs, 2007–2017
(Disbursed Amount, $)



[94] ADB. 2007. *Palau: Policies for Sustainable Growth, A Private Sector Assessment*. Manila and ADB. 2017. *Private Sector Assessment for Palau: Policies for Sustainable Growth Revisited*. Manila. p. 40.
[95] ADB. 2015. *Promoting Gender Equality and Women's Empowerment*. ADB Manila.
[96] This included ADB. 2015. *Empowering the Other Half: Women and Private Sector Growth in The Pacific*. Manila and chapters on the economic empowerment of women in six different PSAs.

DMC = developing member countries, FSM = Federated States of Micronesia, PNG = Papua New Guinea, RMI = Republic of Marshall Islands.
Source: PSDI financial data.

161. **The focus area on the economic empowerment of women has been carried out by pilots and gender mainstreaming activities.** The pilot projects were specifically in response to the design of PSDI III, which identified them as an output. PSDI activities developed and carried out over the evaluation period included the following:

(i) The Corporate Governance Pilot Program was designed and implemented in Solomon Islands and replicated in Vanuatu. The Solomon Islands' program was implemented by the country's chamber of commerce, using PSDI-trained trainers.

(i) The Women's Business Leadership Program was designed and implemented in Tonga, and replicated in Fiji. In Tonga, 16 women took the course, supported by 24 mentors. The program led to the formation of an informal women's network to help support women in business. The Fiji program had 30 participants from 20 companies and government departments.

(ii) A PNG pilot, in partnership with MiBank and the National Fisheries Authority, aimed to provide financing, skills training, business mentoring, and access to markets to over 200 women in the informal fishing sector.

(iii) In Solomon Islands, PSDI worked with the West Are'Are Rokotanikeni Association and the Ministry of Mines, Energy and Rural Electrification on a pilot to train women in solar panel maintenance in South West Malaita; the pilot created three women-owned community companies.[97]

(iv) Also in Solomon Islands, PSDI collaborated with Guadalcanal Plains Palm Oil to help female family members of the company's male employees to set up small, sustainable, formal businesses. Participants created a successful clothing and uniform manufacturing business, which is now turning a profit. The aim of the pilot was to demonstrate an approach for creating small businesses on the margins of larger ones, and for the inclusion of women currently dependent on men in the formal economy.

162. **The relevance and effectiveness of the pilots fell short of expectations.** From fieldwork discussions with government and nongovernment stakeholders, it appears that PSDI went in search of projects that could become pilots.[98] This was not necessarily a negative, but most of the pilots themselves were not fully thought through. For example, PSDI asked PNG's MiBank if it had any activities that could be considered for a pilot. This resulted in a pilot with the bank for business opportunities for women in the informal fisheries sector, as discussed in example (ii) of para. 160. According to MiBank interviewees, the pilot was poorly planned and executed. Criticism of the program included the lack of local staff to help facilitate the program, although the local PSDI coordinator was praised for his support. Importantly, when it became apparent that there was demand by participants in the pilot for financial services, the design had not included a provision enabling it to be scaled up or to be linked with other parts of PSDI or similar programs to facilitate access to finance. MiBank was left frustrated. In an

[97] https://www.adb.org/news/videos/women-solomon-islands-train-maintain-grid-solar-power-schemes

[98] The search for pilots also included other consultations, including with: PNG Women in Business on the possibility of expanding access to credit facilities, Women in Mining and Petroleum Program on the possibility of working of partnering on increasing women's businesses, UN Women on the potential for providing support to increase women's access to Gerehu markets; Kagora Women's Association on the governance of cooperatives, and Business Coalition of Women on strengthening supply chains.

interview, one employee said more thought should have gone into "how the demand created for access to finance linked to financial systems for women."[99]

163. The criticism of the MiBank pilot could just be the opinion of a few interviewees. However, a similar assessment was made from those associated with the solar panel maintenance pilot in Solomon Islands, suggesting there is some basis for the criticism. In the Solomon Islands, interviewees said no clear path had been identified on how the program might be scaled up beyond the small number of participants in the pilot or how the project could become sustainable after the withdrawal of PSDI support.[100] Better design, including a well-developed results chain, and better use of the M&E tool for evaluating results and recording them in the M&E database could have shed more light on the outcomes of this pilot, and provided clearer lessons learned.

164. The focus area on the economic empowerment of women has already met its targets as set out in the PSDI III TA document. The target of at least seven pilot initiatives to be completed by 2019 has already been achieved, as listed in para. 160. It is harder to evaluate whether the target that the findings of pilot initiatives should be mainstreamed into gender and PSD policies by 2017 in at least four Pacific DMCs has been achieved, but it could be argued that it was. ADB has also indicated that it intends to incorporate the solar panel maintenance pilot into an ADB solar power initiative. The indicator was also achieved through a partnership with the United Nations Entity for Gender Equality and the Empowerment of Women on a corporate governance pilot in Vanuatu.

165. As this discussion shows, it is not always clear what impact the focus area of the economic empowerment of women has had. It needs to be recognized that much of the Pacific is still rooted in traditional patriarchal cultures, with deeply ingrained values, making progress on the economic empowerment of women, and gender and development generally, difficult. A 2017 IED evaluation of ADB's support for gender and development recognized the difficulties of achieving results in this area. It recommended that, at the project level, the focus should be on designs that use gender diagnostics built on lessons learned across regions, results need to be rigorously monitored, and pilots should be linked to policy research and gender mainstreaming rather than being seen as standalone activities.[101]

166. **PSDI is focusing on mainstreaming gender.**[102] Examples of this include PSAs in 2015 on Cook Islands and Samoa, each of which had a chapter on the economic empowerment of women.[103] The PSAs are funded under analytical focus areas, but these two chapters on the economic empowerment of women, as well as four similar gender-related PSA chapters, were funded by this particular focus area. The chapters analysed the constraints faced by women in the private sector. The recommendations of the PSAs for both countries included reforming discriminatory laws, strengthening institutional

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[99] MiBank interview 17th August 2017.

[100] The project was replicated in Choiseul Province and PSDI noted in its *Annual Progress Report 2014–2015* that ADB had proposed to replicate the program in its forthcoming $15.8 million Solar Power Development Project. However, the Project Administration Manual for the ADB Solar Power Development Project (RRP SOL 48346) does not make it clear that such a replication will occur.

[101] ADB. 2017. *Thematic Evaluation Study: Asian Development Bank Support for Gender and Development (2005–2015)*. Manila.

[102] Gender mainstreaming means assessing the different implications for women and men of any planned policy action. Mainstreaming gender offers a pluralistic approach that values the diversity among both men and women. The concept of gender mainstreaming was first proposed at the 1985 Third World Conference on Women in Nairobi.

[103] In April 2016, the economic empowerment of women focus area also had a soft launch at the Forum Economic Ministers' Meeting (FEMM) for the *Women in Business* book, which its lead consultant considered a significant output.

capacity, improving access to finance, and developing partnerships that will enable women-owned businesses to become sustainable.

167. **Good progress has been made on treating gender as a cross-cutting issue**. This includes collecting gender disaggregated data and reporting on how regulations and conditions affect women, and on how proposed reforms may impact differently on men and women. The PSDI annual report and the PSAs are good examples of this; both frequently discuss how programs and activities affect men and women differently. However, it is less clear whether the economic empowerment of women has been mainstreamed in the design of activities in other focus areas, and how those areas include gender considerations in their designs. Although the lack of a well-maintained M&E database makes this assertion a little tenuous, a review of outputs shows that very few activities designed under the other focus areas have as outputs specific components on the economic empowerment of women. The 2016 edition of *Finding Balance* shows how the incorporation of this focus area still has some way to go. The report mentions women only once, when it says, "Women continue to play a minority role in SOE boards and management although there are positive developments in some Pacific island countries."[104] This issue was not revisited in the final chapter of *Finding Balance* (2016) titled "Good Practices and the Way Forward," nor is there any mention of how to improve the economic empowerment of women in future.

168. In answering the question of how has PSDI incorporated economic empowerment of women as a priority agenda, the evaluation found that PSDI had done this mainly through pilots and mainstreaming the economic empowerment of women. The pilots, while somewhat successful, generally did not have a clear path indicating how they would be scaled up. Mainstreaming the cross-cutting issue of gender and the economic empowerment of women has made a good start, but it is still early days. Despite the pilots being identified as an output for PSDI III, the way forward that is most likely to have the greatest impact will be for PSDI to focus on mainstreaming the economic empowerment of women into the design of interventions, instead of just measuring the gender results of the work being done by the other focus areas once the output is delivered.

[104] ADB. 2016. *Finding Balance 2016: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila.

CHAPTER 5

Issues, Conclusions, and Recommendations

169. This chapter summarizes the key issues raised in the evaluation, provides conclusions, and offers recommendations for addressing them and actions that could be taken to implement the recommendations.

A. Issues

170. **The demand-driven PSDI model is responsive to Pacific DMCs but it lacks strategic focus.** The rapid growth of PSDI without commensurate changes in the way it operated, exacerbated the lack of an overall strategy and made it difficult for PSDI to prioritize its activities, or to identify the outcomes and objectives the program wants to achieve. At times, it also resulted in PSDI engaging in lower impact or priority areas, which may be explained by the need to maintain dialogue and engagement with country counterparts and may not be necessarily bad, but such approach needs to be linked to longer term objectives. PSDI's focus areas worked well together because of regular coordination. Such coordination cannot, however, replace a strategy that unites the PSDI team and provides it with a common purpose. Coordination could provide the means for implementing the strategy. An overall strategy, with details of how it will be implemented, would deepen the engagement of cofinanciers and key counterparts in Pacific DMCs. Such a strategy would need to engage key stakeholders and communicate a range of findings and decision points to allow ownership and full engagement. This is especially critical for managing relationships with the key cofinanciers. In drawing up an overall strategy, the following two elements would help focus PSDI on results: (i) a clearly articulated theory of how change will be achieved; and (ii) a communication and engagement strategy to work systematically with cofinanciers.

171. **PSDI does not identify and leverage other donors' initiatives in a systematic way**. Where PSDI, ADB, and other donors worked together, they complemented each other well, especially in budget support operations in which PSDI provided design input and implementation support. In other instances, DFAT or MFAT were not fully aware of the details of PSDI work, which meant collaboration opportunities were missed.

172. **While consultation with the private sector did occur, this was not through a systematic process of engaging a wide range of nongovernment actors.** PSDI did not seem to seek detailed insights from nongovernment stakeholders into the design and implementation of private sector initiatives. The evaluation team's discussions with key stakeholders in the four case countries confirmed that a full and systematic process of consultation with nongovernment stakeholders had not occurred. For instance, in PNG, the activity to economically empower women had not consulted with stakeholders outside the main counterparts, while in Palau the work on secure transactions had not consulted sufficiently with the five private sector banks, which would have shown that the activity was unlikely to incentivize them to increase lending.

173. **PSDI's subprograms lacked a results chain.** The design of PSDI interventions usually concentrated on how outputs would be achieved, but it often did not include a well-developed results chain, with baselines, targets and indicators. The lack of focus on a results chain led to subprograms not being adequately monitored and reported on to allow for clear causality to emerge from the interventions. While outputs are an important step in the results chain, and part of a complex process, they are not the end.

174. **The lack of systematic evaluations was primarily a result of, but not limited to, the poor utilization of the M&E tool**. The M&E tool was not populated with appropriate data and insufficient resources were allocated for database maintenance. The underutilization of M&E also reflected the absence of processes and systems for delivering regular evaluations, which were frequently not available. Evaluations are important to understanding whether objectives were achieved and to learn what worked and what did not, and why, so that these lessons can be applied in the future.

175. The 2012 report on the structure of PSDI's M&E framework did not deliver on what it promised; it did not outline the basic tools and processes needed to operationalize the M&E system. PSDI's purchase of FileMaker Pro software in 2013 was an important step in the right direction, but the tool was never fully utilized and, by itself, was not sufficient without the required processes established for regular reviews and the development of complementary tools.

176. The issue of mapping results chains and operationalizing a fully functional M&E system are closely linked, but they are not the same. Both need to be addressed, preferably concurrently. The results chain focuses on how programs are designed, whereas the M&E system focuses on how and what can be measured and reported on.

177. **Changes introduced by management since 2016 are affecting PSDI's operations**. Some lead consultants have left or have become less engaged, leading to a disruption in program activities in some Pacific DMCs. These changes were incremental in nature and still ongoing while the evaluation was being conducted. The process had not yet settled down, and this affected the stability of the program. Given these changes, coupled with the fact that the program is now a decade old, this is an opportune time to revisit how PSDI is managed. The consultant based model has largely served the program well to-date. It has led to consistent engagement and high levels of trust with counterparts in partner countries. However, it has also created risks, particularly the reliance on lead consultants external to ADB. During fieldwork, the evaluation team looked at other management models used by similar facilities in the Pacific region such as PFTAC that could help inform the choice of the most efficient and effective model for PSDI. In managing the program, ADB would benefit by putting in place backstopping arrangements to ensure quality control for work done by consultants and in general for PSDI activities.

178. **The focus area on the economic empowerment of women concentrated excessively on pilots and stand-alone programming.** The requirement by the ADB TA III report to focus on pilots led to a series of projects that were not well thought out. For one thing, it was not clear how they would be scaled up. Furthermore, the focus on pilots, while reflecting the TA III report, did not fit well with PSDI's other work, which focused on policy and providing building blocks for PSD. These outputs were not well connected to other reform processes managed by PSDI. Moreover, there were limited attempts to integrate the pilot experience into ensuing lending operations. The desire for quick wins would be better served by integrating the focus area on the economic empowerment of women into the design and implementation of other focus areas.

179. The mainstreaming of the economic empowerment of women was conducted without taking full advantage of the other focus areas. Economic empowerment of women activities could have been enhanced if there had been closer coordination with other areas, and if opportunities to leverage this focus area had been sought, either in the initial design or by leveraging results achieved by the other focus areas.

180. The emphasis on gender as a cross-cutting theme was partially successful. On the plus side, it resulted in disaggregated data being collected across the program and analytical work that paid explicit attention to gender issues. However, the opportunity to integrate gender more fully into the design, and the expected outcomes and impact of the other focus areas, has yet to be achieved.

B. Conclusions

181. **PSDI remains a relevant program and is well aligned with the needs of the Pacific DMCs.** Nevertheless, based on the experience of the first 10 years, the region remains a difficult environment for the private sector, as many of the barriers identified in the seminal work, *Swimming Against the Tide?*, the publication which led to the establishment of PSDI, remain today. Given its wealth of experience in the Pacific, ADB with support from the cofinancers is best placed to lead a process of refocusing, expansion and increase of the value addition of the program.

182. **Several issues have emerged over the years of the program that need to be addressed.** These issues are identified and elaborated on in the report. Addressing them will require leadership and a clear focus. It is important that ADB draw on its value added to provide greater strategic guidance and identify opportunities for PSDI to work more closely with key donors and other ADB departments. Further, also critical is to ensure that the private sector in Pacific DMCs be part of the demand-driven approach of the program. Enhanced partnership with the private sector includes working with chambers of commerce, banks, and civil society, among others, to establish a continuing advisory role for the program.

183. **The challenge for ADB is to build on the accomplishments that have been made over the last decade to improve the program**. The areas for improvement include establishing a clearer strategic direction with better communication with stakeholders; developing an effective management model for PSDI; improving the design of interventions and mapping out the results chain in subprograms; operationalizing a fully functional M&E system to allow for proper measurement of ascribable outcomes; and rethinking the delivery mode of the economic empowerment of women focus area.

184. In addressing these challenges, an opportunity exists to build on the successful aspects of PSDI. The evaluation found that PSDI had helped to deliver a number of reforms that were well regarded by most Pacific DMCs and that provided the building blocks for a modern private sector. In the few cases where these reforms were followed up with outcome analysis, measurable improvements in the private sector were identified. These achievements could be built on in the process of addressing the identified issues. In order to achieve better outcomes in PSDI, five recommendations are provided.

C. Recommendations

185. **ADB should increase its value added by initiating the development of a roadmap for the remaining activities of PSDI III. Should PSDI's phase IV expansion proceed, a**

strategy that provides the program with clear priorities and identifies intended outcomes and objectives should be prepared. Activities under PSDI III could still be demand-driven but selected and prioritized according to a roadmap that articulates clear objectives. A more focused approach will strengthen implementation and provide principles for engaging cofinanciers and key counterparts in Pacific DMCs. Strategy development for phase IV of PSDI should benefit from consultation among the three cofinanciers, Pacific DMC governments, and other partners, including the private sector. It should include key consultants, country coordinators, and ADB staff. The process of developing a strategy should be led by ADB, in close cooperation with stakeholders. The strategy should include a theory of change and an engagement plan, and should be supported by in-depth country analytical work, such as quality PSAs, targeted and clearly linked to PSDI's work program.

186. For the communication aspect of the strategy, PSDI should work with other ADB departments, particularly the regional departments, the Office of Public–Private Partnerships, and the Private Sector Operations Department. Consideration should also be given to how PSDI will coordinate with DFAT and MFAT headquarters and country posts to maximize the advantages for all three cofinanciers.

187. **ADB should require that all new PSDI designs include a clearly defined results chain as part of the concept note for each intervention**. The concept note should include a section on mapping the result chain from inputs to outputs and outcomes. It should also articulate how the subprograms will achieve their objectives, and how they will fit within PSDI's roadmap for phase III and strategy for Phase IV. While it remains important to identify the outputs of activities, this should not be the focus of what subprograms aim to achieve—or what they report on as a success. To achieve a clearly defined results chain will require developing a template and a set of guidelines, and training staff working on PSDI design activities. Proper resourcing and procedures will be needed for quality assurance, as well as alignment with the redesigned M&E system.

188. **ADB should lead the redesign of the M&E system**. The revitalized M&E system should meet the needs of stakeholders and include tracking and recording of all inputs, outputs and outcomes as well as indicators with baselines and target values. ADB should review the existing M&E system and identify lessons learned. Successful components of the existing system can be retained or modified. Effective implementation of this recommendation would require ADB to oversee the process, but external expertise will be needed for the initial design and to get the system up and running. The following steps need to be taken for the redesign of a successful M&E system:

(i) design the system through a consultative process;
(ii) allocate appropriate resources to the system to make it functional;
(iii) develop management procedures to ensure periodic but systematic evaluations are carried out to determine outcome achievements, conduct ongoing monitoring of outputs and outcomes, and check whether staff are following procedures;
(iv) train staff and consultants to use the system systematically;
(v) regularly record inputs, outputs, outcomes, and impacts.

189. **ADB should review the PSDI management structure to identify an appropriate and effective model to increase its value added**. The revised management structure should leverage ADB technical expertise to add value to PSDI. The current structure lacks strategic guidance from ADB, thus the revised model should, for instance, designate an ADB staff member to be directly engaged and responsible for providing the necessary value addition and leadership to the program. The member of staff should ensure

interventions align with PSDI's newly developed roadmap for phase III and strategy for Phase IV, that inputs, outputs and outcomes are tracked, and that appropriate communication and coordination with relevant stakeholders are delivered. The program should not operate in isolation but in the context of other initiatives of partners working in the region, including ADB. The management of the program should ensure that the program delivers first on its intended objectives. ADB should also review the PSDI management model and the procedural processes. As ADB carries out the recommendations of this review, it is essential that PSDI does not lose its well-earned reputation, continues to make progress in its program of activities, retains key staff to deliver the program, and ensures appropriate quality control and backstopping of the consultants' work. The overall governance of PSDI can greatly benefit from more active dialogue and engagement among the partners. The new management structure should not come at the expense of agility, or country-demand linked to the strategic priorities of the program.

190. **ADB should rethink and enhance the focus area on the economic empowerment of women.** This should include an assessment of resource needs and could consider a two-track approach consisting of (i) a program with a specific target for stand-alone gender-focused activities and (ii) mainstreaming gender through all program activities. This will also require discussions with cofinanciers so the outcomes being targeted can be reworked. This effort should also include

(i) more fully integrating gender into the design of activities of other focus areas, including identifying outcomes;
(ii) where possible, identifying and building activities on the economic empowerment of women into the successful outcomes of other focus areas; and
(iii) ensuring that gender disaggregated data collection and analysis continue across the program.

Findings, Issues and References	Recommendations
I. PSDI does not have a well-articulated and explicit strategy (para. 80). II. A purely demand-driven model with limited resources still requires PSDI to have an overall strategy to help allocate these resources (para. 82). III. The demand-driven PSDI model is responsive to Pacific DMCs but it lacks strategic focus. The rapid growth of PSDI without commensurate changes in the way it operated, exacerbated the lack of an overall strategy and made it difficult for PSDI to prioritize its activities, or to identify the outcomes and objectives the program wants to achieve. (para. 170). IV. PSDI does not systematically identify and leverage other partners' initiatives (paras. 102 and 171). V. PSDI's lack of an effective communication strategy resulted in missed opportunities to engage cofinanciers (para. 103). VI. The consultation process with the private sector appeared not to be systematic (paras. 65 & 172).	**Recommendation 1:** ADB should increase its value added by initiating the development of a roadmap for the remaining activities of PSDI III. Should PSDI's phase IV expansion proceed, a strategy that provides the program with clear priorities and identifies intended outcomes and objectives should be prepared.
VII. PSDI outputs had not fully achieved the intended outcomes (para. 60). VIII. PSDI lacks a theory of change or a results chain to identify outcomes (paras. 93-97). IX. PSDI's subprograms lacked a results chain. The design of PSDI interventions usually concentrated on how outputs would be achieved, but they often did not include a well-developed results chain, inclusive of baselines, targets and indicators (para 173).	**Recommendation 2:** ADB should require that all new PSDI designs include a clearly defined results chain as part of the concept note for each intervention.
X. The M&E system is underused, particularly for subprogram evaluations (para. 85). XI. The M&E function is underfunded (para. 91). XII. The lack of systematic evaluations was primarily a result of the poor utilization of the M&E tool (para. 174).	**Recommendation 3:** ADB should lead the redesign of the M&E system.
XIII. There are ongoing management issues at PSDI (paras. 98-100). XIV. Changes introduced by management since 2016 are affecting PSDI's operations. ADB initiated some of these changes and it has an ongoing dialogue with cofinanciers on the transition process (paras. 101 and 177).	**Recommendation 4:** ADB should review the PSDI management structure to identify an appropriate and effective model to increase its value added.
XV. The relevance and effectiveness of the economic empowerment of women pilots fell short of expectations (para. 162). XVI. The focus area on the economic empowerment of women concentrated excessively on pilots and stand-alone programming (para. 178). XVII. The mainstreaming of the economic empowerment of women was conducted without taking full advantage of the other focus areas (para. 179).	**Recommendation 5:** ADB should rethink and enhance the focus area of the economic empowerment of women.

Appendixes

APPENDIX 1: STRATEGIES AND PROGRAMS OF ADB AND OTHER DEVELOPMENT PARTNERS RELATED TO PRIVATE SECTOR DEVELOPMENT IN THE PACIFIC

A. ADB Strategies and Programs Related to Private Sector Development

1. **General strategies.** Asian Development Bank (ADB) strategies within the Asia and Pacific region come in various forms and cover several themes. During the early 2000s, ADB recognized the private sector's role in development in the Pacific and sought closer collaboration between its public and private sector operations. ADB's long-term strategy for 2001-2015 envisaged country strategies and programs that would link its public and private operations, and signaled a focus on creating an enabling environment for the creation of public–private partnerships (PPPs).[1] The ADB Poverty Reduction Strategy in 2004 made private sector development (PSD) one of its five thematic priorities.[2] ADB's Strategy 2020 provided an overarching general strategy, including an objective to work more closely with the private sector to increase economic growth. Strategy 2020 set a target for nonsovereign operations to account for 50% of bank operations by 2020.[3]

2. **Pacific strategies.** The three Pacific strategies coinciding with the study period made PSD a focus, including supporting a conducive environment for the private sector and providing appropriate interventions, including policy changes and PPPs for feasible projects.[4]

3. Asian Development Bank strategies, approaches and programs that promote private sector development are described in Table A1.1.

Table A1.1 ADB Strategies Related to Private Sector Development

Strategy or Program Title	Program Objectives	Strategy
Private Sector Development Strategy	The strategy aimed to help expand and strengthen private sector participation in the development of the Pacific DMCs. The strategy is designed to provide a systematic and coherent framework within which ADB would seek to promote the private sector to support growth and reduce poverty.	ADB would utilize its public and private sector operations to deliver solutions to problems that were impeding private sector growth in Pacific DMCs. It would work to increase the contribution of the private sector to poverty reduction. In public sector operations, the strategy had two thrusts: (i) to support DMC governments in creating enabling conditions for business, and (ii) to generate business opportunities in ADB-financed public sector projects. For private sector operations, the aim was to catalyze private investments through direct financing, credit enhancements, and risk mitigation.
Long-term Strategic Framework (2001−2015)	The framework defined ADB's three core strategic areas as sustainable economic growth, inclusive social development, and governance for effective policies and institutions	Envisaged country strategies and programs that would act as the link between the public and private sector operations of ADB. Aimed to focus efforts to build on opportunities and enhance the enabling

[1] ADB. 2001. *Moving the Poverty Reduction Agenda Forward: The Long-Term Strategic Framework of the Asian Development Bank (2001–2015).* Manila.
[2] ADB. 2004. *Enhancing The Fight Against Poverty In Asia And The Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.
[3] ADB. 2008. *Strategy 2020: Working for an Asia and Pacific Free of Poverty.* Manila.
[4] ADB. 2004. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank, 2005-2009*. Manila; ADB. 2009. *ADB's Pacific Approach, 2010−2014.* Manila; ADB. 2016. *Pacific Approach, 2016−2020.* Manila.

Strategy or Program Title	Program Objectives	Strategy
	Identified three crosscutting themes: private sector development, regional cooperation, and environmental sustainability. Envisaged implementation through three medium-term strategies, each lasting for 5 years.	environment for PPPs and the private sector in general.
Poverty Reduction Strategy	The strategy was in line with a reorganization of ADB operations to align its structure and business processes with its overarching goal of poverty reduction. The strategy recognized that an effective strategy for poverty reduction was imperative to facilitate pro-poor, sustainable economic growth; inclusive social development; and good governance. The three pillars constituted the framework of the strategy and were closely linked and mutually reinforcing.	PSD was one of five thematic priorities of the strategy. The strategy stated that development of a strong and dynamic private sector was crucial to long-term rapid economic growth and was necessary for poverty reduction. ADB aimed to help DMCs to create an enabling environment for private sector participation in development and to generate business opportunities through public sector operations. The contribution of the private sector to poverty reduction was to be further enhanced by developing enterprises, expanding infrastructure and other public services, and improving the quality and terms of employment by strengthening corporate governance and responsibility.
Pacific Strategy, 2005–2009	The strategy aimed to respond to the priorities of the poor of the Pacific, as expressed through ADB's participatory poverty assessments. Objectives were to (i) increase opportunities to earn cash income and (ii) provide better access to basic social services.	The strategy aimed to support a conducive environment for the private sector through: (i) an effective institutional, legal, and regulatory environment; (ii) improved financial services; (iii) better state-owned enterprise ownership arrangements, accountability, and performance; (iv) improved provision, operation, and maintenance of physical infrastructure; and (v) an effective institutional framework for developing skills in response to labor market demands.
Pacific Approach, 2010−2014	The document aimed to achieve sustained and resilient improvements to standards of living in support of the overall vision of the Pacific Plan—to create a region of peace, harmony, security, and economic prosperity, so that all its people could lead free and worthwhile lives.	Continue the focus on helping the region to strengthen the environment for private sector development. ADB would intensify its efforts to improve the private sector environment in the Pacific, while noting the need to change the way it did business, working with interested parties to build a consensus for socially and politically difficult decision making.
Pacific Approach, 2016−2020	The document outlined a three-pronged strategy for achieving more inclusive economic growth, job creation, and improved human development outcomes in the 11 smaller Pacific island countries. ADB's operations would focus on (i) reducing the costs of doing business and providing social services by improving connectivity through land, sea, and air links; (ii) managing risks from economic shocks,	ADB reemphasized its support for creating a more enabling environment for the private sector through its flagship regional TA programs—the PSDI, the Pacific Business Investment Facility, and the Pacific Economic Management Program. The Pacific Approach implementation period would also see greater direct ADB engagement in promoting the establishment and growth of Pacific region businesses through the expanded Trade Finance Program, a

Strategy or Program Title	Program Objectives	Strategy
	natural disasters, and climate change impacts by strengthening institutional capacities and promoting sound public sector management; and (iii) enabling value creation by supporting private sector growth and investment through legislative and financial reforms, private sector operations, promoting financial inclusion, raising the performance of the public sector, investing in urban infrastructure, and building human capacities through education and skills development.	stepped-up partnership between ADB's Pacific Department and its Private Sector Operations Department that would facilitate larger infrastructure development opportunities, and provide greater assistance for identifying and structuring PPPs.
Regional Operations Business Plan Pacific, 2014–2016	The business plan aimed to enhance and stimulate economic growth, sustainable development, good governance, and security for the Pacific countries through regionalism. The strategic objectives of the plan were (i) economic growth, (ii) sustainable development, (iii) good governance, and (iv) improved political and social conditions for stability and safety.	Increased private sector participation in, and contribution to, development, through trade and transport facilitation in the Pacific.
Strategy 2020	ADB would refocus its operations into five core specializations that best support its agenda, reflect DMCs' needs and ADB's comparative strengths, and complement efforts by development partners: (i) infrastructure; (ii) environment, including climate change; (iii) regional cooperation and integration; (iv) financial sector development; and (v) education.	ADB would expand its work with the private sector to generate greater economic growth in the Asia and Pacific region. ADB would assume greater—but thoroughly assessed—risks and act as a catalyst for investments that the private sector might not otherwise be willing to make. In particular, ADB aimed to scale up private sector development and private sector operations in all operational areas. A target of private sector operations representing 50% of annual operations by 2020 was set.

ADB = Asian Development Bank, DMC = developing member country, PPP = public–private partnerships (PPPs)
Source: Asian Development Bank.

B. Private Sector Development Programs of Other Private Sector Development Initiative Funders

4. The programs of other development partners related to private sector development in the Pacific are presented in Table A1.2.

Table A1.2 Other Private Sector Programs of PSDI funders

Development Partner and Program Title	Description
Australia Department of Foreign Affairs and Trade (DFAT)	
Pacific Business Investment Facility: up to $15 million (2015–2019)	The facility provides technical assistance to help Pacific businesses access commercial finance for growth, diversification or consolidation. It is co-financed by Australia and ADB and operates in the 14 ADB Pacific member countries. The facility's team works with eligible businesses to provide: • tailored business advisory services;

Development Partner and Program Title	Description
	• guidance and assistance in securing commercial finance; • access to experts with industry experience to assess and refine business plans; • marketing and financial management support; and • specialized technical skills for product development, certification, and exports.
International Finance Corporation (IFC) Pacific Partnership: up to $29 million (2012–2017)	The IFC's Pacific Partnership, cofunded by New Zealand, combines advisory services with investments to generate private sector activity and economic growth in Pacific island countries. IFC's work is aimed at improving domestic business opportunities, and accessing and creating new markets. IFC's focus is to improve policies, provide build sustainable business environments, reform the regulatory environment, eliminate discrimination, provide alternative dispute resolution and improve access to finance will increase opportunities for trade and improve economic prosperity in the Pacific.
Pacific Readiness for Investment in Social Enterprise: up to $4.7 million (2016–2019)	In 2015, DFAT began an innovative pilot to test impact investment business development models in the Pacific, with the aim of developing "investment ready" enterprises that could attract private capital. The trial helped a Samoan coconut oil factory secure equity financing from interested social investors to expand its operations, benefiting the factory and over 200 coconut farmers. Following on from the pilot, a new initiative, the Pacific Readiness for Investing in Social Enterprises Facility (PacificRISE) began in mid-2016 to support increased impact investment in the region. The facility funds technical assistance for enterprises based in or serving Pacific island countries. It also works closely with impact investors to promote investment that improves economic and social outcomes. The facility aims to secure up to 20 investment deals, attracting $5 million in private capital to the Pacific. It aims to ensure that at least 50% of the enterprises assisted are led by women or focus on sectors where women's employment and participation are high. The program is also pioneering a "gender lens investing" approach that incorporates gender analysis into financial analysis and investment decisions.
Pacific Financial Inclusion Program (PFIP): up to $24.15 million (2009–2017)	The PFIP aims to increase access to financial services among low-income and rural households through by designing financial literacy programs, developing the capacity of financial service providers and regulatory bodies, and giving performance-based grants to financial service providers to develop and implement pro-poor financial services. The PFIP is funded by the EU, UNDP, UNCDF, DFAT (Australia), and NZAid and is jointly implemented by United Nations Development Program (UNDP) and the United Nations Capital Development Fund (UNCDF). Australia provided around $10 million or 68% of total funding for phase 1 which ended in June 2014. Phase 2 of PFIP commenced in July 2014 with total DFAT funding of $14.15 million (50% contribution).
PACER Plus Support: up to $17.7 million (2007–2018)	Australia has provided support to the Pacific island countries to negotiate the Pacific Agreement on Closer Economic Relations (PACER) Plus trade agreement, including providing high-quality technical advice on trade negotiations. Good progress has been made on the negotiations for the proposed trade agreement. Australia's primary objective in the negotiations is to enhance the economic growth of Forum Island Countries (FICs) through integration. Because of the negotiating capacity

Development Partner and Program Title	Description
	constraints faced by FICs, Australia has committed to providing them with appropriate capacity building and support. This has included funding for: • the Office of the Chief Trade Adviser to provide independent support and advice to FICs during the negotiations, • independent research on PACER Plus for each FIC, • training of FIC trade officials to participate more effectively in the negotiations, and • attendance of FIC officials at the officials' meetings and intersessional meetings.
Pacific Horticultural and Agricultural Market Access (PHAMA): up to $31.5 million (2009–2017)	Australia established and is supporting the Pacific Horticultural and Agricultural Market Access Program (PHAMA) from 2009 to 2017. New Zealand is co-funding selected activities. PHAMA is designed to provide practical and targeted assistance to help Pacific island countries manage regulatory aspects associated with exporting primary products, including fresh and processed plant and animal products. This includes gaining access for their products, such as fresh coconuts and chilies, in new markets, and helping to manage issues associated with maintaining and improving existing trade. Australia and New Zealand are markets of major interest, along with export markets beyond the Pacific. Countries assisted through PHAMA include Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu. PHAMA also provides assistance to other Pacific island countries through the Secretariat of the Pacific Community (SPC) Land Resources Division.
Send Money Pacific (SMP)	Remittances represent a source of income for millions of families and businesses globally, and are an important avenue to greater financial inclusion. Remittances are particularly important in the Pacific, where they help reduce poverty and can cushion the effects of shocks such as economic downturns and natural disasters. As of November 2016, the average cost of transferring remittances from Australia to the Pacific was 12.93%, compared with a global average cost of 7.4%. The Send Money Pacific initiative is a remittance price comparison website that allows users to compare the cost of sending remittances from Australia and New Zealand to eight Pacific countries (Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu). SMP also allows users to compare the cost of sending remittances from the US to Fiji, Samoa and Tonga. Since the launch of the website in 2009, the average total cost of sending $200 through a money transfer operator from Australia to a Pacific Island country has decreased by 20.57%.
Pacific Islands Trade and Invest (PT&I): $1.5 million per annum	PT&I is the international trade and investment promotion agency of the Pacific Islands Forum Secretariat and has offices in Auckland, Beijing, Sydney, Tokyo and Geneva. The network's role is to develop, grow and promote businesses in the region with the aim of improving livelihoods of people in the Pacific by working with the private sector to build a better future through more sustainable communities and greater prosperity. PT&I's areas of focus are exports, investment, tourism promotion and creative arts. Australia's support for PT&I funds the operation of the Sydney office.
Labour Mobility Assistance Programme (LMAP)	LMAP helps seasonal workers from the Pacific islands and Timor-Leste benefit from Australia's Seasonal Worker Programme (SWP). The SWP was made a permanent program on 1 July 2012, following a successful 3-year pilot. Its objective is to contribute to the economic development of participating Pacific island countries and Timor-Leste while addressing

Development Partner and Program Title	Description
	labor shortages in Australia. Outcomes are driven by employer demand for seasonal labor and workers' employment experience, skills acquired and remittances.
New Zealand Ministry of Foreign Affairs and Trade (MFAT)	
New Zealand Strategic Plan 2015−2019	The strategic plan identified 12 priority areas for investing its aid budget. Of these, the programs on economic governance, law and justice, tourism, trade, and labor mobility have the greatest elements of PSD. The New Zealand aid program includes the following: • focusing on the Pacific, $1 billion (almost 60%) of New Zealand aid will be invested in the Pacific; • emphasizing sustainable economic development; about $600 million (45%) of New Zealand's investment by sector is forecast to be in economic development, focusing on agriculture, renewable energy, and information and communications technology connectivity; • increasing aid to Melanesia, including scaling up significantly in Papua New Guinea and Fiji; • targeting resources to support resilience to climate change and other risks; and • enhancing Pacific countries' ability to respond to humanitarian crises.
International Finance Corporation (IFC) Pacific Partnership: $13 million for 2013-2022	Co-funded with Australia – see above.
Business Link Pacific: $6.9 million for 2017-2022	Business Link Pacific takes a systems approach to Pacific SME development by strengthening the capability of in-country business advisory service providers and promoting the support networks available to SMEs. These networks will enable SMEs to access the affordable, appropriate and quality services they need to grow and improve their businesses, while building the market for local business advisory service providers. The program also aims to improve SME access to market opportunities and finance through partnering with larger domestic and international firms and financial institutions.
Pacific Financial Inclusion Program (UNDP): $4.3 million for 2014-2020	Cofunded with Australia – see above.
Pacific Business Mentor Program: $6 million for 2009-2015	The Pacific Business Mentoring Programme was first established in the Cook Islands and has since been established in Tonga, Samoa, Solomon Islands, Papua New Guinea, Vanuatu, Fiji, Kiribati and Tuvalu. The program is based in the Business Mentors New Zealand office in Auckland and utilizes a very similar mode of operation to that used in New Zealand. Business mentors are selected from a pool of over 1800 such volunteers from throughout New Zealand. A team of five experienced volunteer business mentors travels to each country for 1 week every 6 months to meet with participating businesses. These mentoring discussions result in an action plan being produced for each business which details the actions the business owner will undertake.
PACER Plus Readiness package: $5.9 million funded jointly with DFAT, 2017-2019	Cofunded with Australia – see above.
Toso-Vaka-O- Manū (labor mobility): $6.9 million for 2017-2022	Implemented by the Ministry of Foreign Affairs and Trade and the Ministry of Business, Innovation and Employment (MBIE). The programme provides capacity building for Pacific governments to manage their participation in New Zealand's labor mobility schemes, supporting anticipated growth in the Recognised Seasonal Employer (RSE) scheme

Development Partner and Program Title	Description
	and in new schemes. Under this program, MBIE is developing and piloting new labor mobility schemes in construction, fisheries and possibly tourism. A focus for the period will be increasing employment opportunities for women.
Vakameasina (regional workers training program): $3.4 million for 2018-2023	Vakameasina provides training for Pacific RSE workers while in New Zealand on basic life skills, English language, financial literacy, basic trades, leadership and small business. Increased funding for the second phase, commencing in 2018, will deliver training to more workers each year; pilot new courses, such as leadership for women and youth; and will develop an e-learning platform to extend resources and reach beyond the classroom.
Pacific Horticultural and Agricultural Market Access Program (PHAMA): $4 million for 2009–2017	Cofunded with Australia – see above.
Send Money Pacific: $190,000 annually	Cofunded with Australia – see above.
Pacific Islands Trade & Invest (PTI NZ): $2 million for FY2018–FY2020	PTI NZ is one of four trade and export offices of the Pacific Islands Forum Secretariat. PTI NZ is the only Pacific Islands agency tasked by the Forum Islands leaders to develop, grow, and promote industry and businesses in the 16 Pacific Islands Forum member countries in export, investment and tourism promotion across international markets. It focuses on international promotion and support for exporters in the Pacific Island countries.
International Monetary Fund	
Pacific Financial Technical Assistance Centre (PFTAC)	PFTAC was established by the IMF in 1993 to promote macro-financial stability in Pacific island countries through a focused program of technical assistance and training. PFTAC was the first of the International Monetary Fund (IMF) regional technical assistance centers and is a collaborative venture between the IMF, member countries, and bilateral donor partners. It is now in its phase V funding cycle (November 2016 to the end of April 2022); with funding provided by ADB, Australia, the European Union (EU), Republic of Korea, and New Zealand. Fiji contributes through the provision of free office space; member countries also contribute through in-kind and financial support for training activities in the region. The IMF contribution finances the center coordinator and the running costs of the office, including local support employees. The goal of PFTAC is to strengthen the institutional capacity of Pacific countries to design and implement sound macroeconomic and financial policies. Macroeconomic and financial stability, in turn, are essential underpinnings for sustainable economic growth and the achievement of the Sustainable Development Goals.

ADB = Asian Development Bank, DFAT = Australia Department of Foreign Affairs and Trade, EU = European Union, IFC = International Finance Corporation, IMF = International Monetary Fund, LMAP = Labour Mobility Assistance Programme, MFAT = New Zealand Ministry of Foreign Affairs and Trade, PFIP = Pacific Financial Inclusion Program, PFTC = Pacific Financial Technical Assistance Centre, PHAMA = Pacific Horticultural and Agricultural Market Access Program, PSD = Private Sector Development, PTI NZ = Pacific Islands Trade & Invest, SME = small and medium-sized enterprise, UNDP = UN Development Program
Source: Australian Department of Foreign Affairs and Trade website; New Zealand Ministry of Foreign Affairs and Trade website; International Monetary Fund website.

APPENDIX 2: MONITORING AND EVALUATION

A. Monitoring and Evaluation Framework

1. The technical assistance (TA) report for PSDI stated that a performance-monitoring system in support of pursuing development effectiveness would be established under the TA. The plan was to engage monitoring and evaluation (M&E) experts to: (i) assist in the design and implementation of a monitoring and reporting system covering TA inputs, outputs, outcomes, and financial management, with links to existing ADB systems and databases; (ii) design and establish an evaluation system, including performance indicators; (iii) help monitor performance and assess development impact; and (iv) assist in developing a reporting format. A consultant was hired to perform M&E tasks but she was not an M&E expert and, as a result, an effective evaluation system was not established during the first phase of the Private Sector Development Initiative (PSDI I).

2. The TA report for PSDI II promised the development of a more in-depth monitoring and evaluation framework. Toward the end of PSDI II in December 2012, the PSDI team prepared a monitoring and evaluation framework. The framework was quite comprehensive and aimed to integrate: (i) financial planning and budgeting, (ii) identification of focus areas for reform, (iii) planning and implementation of reform initiatives, and (iv) evaluation of outputs, outcomes and impacts. It incorporated a feedback mechanism that identified problems as they arose in order to focus initiatives on accomplishing goals. In addition, the M&E framework aimed to build institutional memory by storing the documents associated with each initiative. Although the M&E framework was impressive on paper, its implementation was another matter.

B. Design and Monitoring Framework

3. The three phases of the Pacific Private Sector Development Initiative (PSDI) all had design and monitoring frameworks. However, as shown in Table A2, PSDI I and PSDI II did not have appropriate performance indicators. The indicators did not have (i) targets and timelines for the outputs; and (ii) baselines, targets, and timelines for the outcomes. For example, an output performance indicator could have read "five private sector assessments (or updates) published by December 2013."

4. PSDI III, on the other hand, had some specific targets, these were time-bound but still did not have baselines. Also, most of the indicated outputs and their corresponding performance indicators are actually outcomes. If the outputs are elevated to outcomes, the replacement outputs should be policy advice and transactions support and the performance indicators would be as described in the example in the previous paragraph. The "actual result" presented in the column 3 of Table A2 was sourced from the TA documents and other reports produced by PSDI. It is taken as given and no evaluation is made here. The re-evaluation of results where PSDI had targets and some corresponding performance indicators (mainly in PSDI III) is done in Chapter 4 of the main report.

Table A2: Design and Monitoring Frameworks of the Three Phases of the Pacific Private Sector Development Initiative

Design Summary	Performance Indicators	Actual Results
TA 6353 (PSDI I)		
Impact To contribute to poverty reduction by promoting enterprise, investment, and economic growth.	• Improved trends in economic growth rates in Pacific DMCs. • Increased private sector share of GDP in Pacific DMCs.	No assessment in the TA completion report.

Design Summary	Performance Indicators	Actual Results
	• Increased private sector investment rates in Pacific DMCs.	
Outcome Improved enabling business environment (focusing on reform policies, strategies, and measures) with emphasis on core themes of: (i) SOE reform and public–private partnerships; (ii) financial intermediation; (iii) business law and regulation; and (iv) mainstreaming of PSD in priority sectors.	• Improved ratings in selected "Doing Business" indicators. • Improved qualitative ratings in ADB PSAs. • Increased number and improved quality of public–private dialogues and partnerships.	The TA is rated *highly successful*. It has positively impacted Pacific DMCs by improving the climate for growth, increasing access to finance, and improving the performance of SOEs. Secured transactions reforms implemented under PSDI have resulted in 8,518 new loans in the Solomon Islands and Vanuatu (as at 31 December 2009). Assistance to SOEs undertaken under PSDI has resulted in a decline in the drain on state budgets. PSDI-supported microfinance initiatives have increased the availability of financial services, especially in rural areas. As a result of PSDI reforms, Solomon Islands and Tonga were among the most improved performers in the World Bank Doing Business Indicators.
Outputs (i) Diagnostic studies, dialogue, and communication.	• PSAs (or updates) and road maps. • Analysis of selected PSD issues. • Policy issues papers. • Public consultations. • Leadership retreats. • Media workshops.	The TA funded the preparation, finalization, launch, and dissemination, of five private sector assessments and updates for Fiji, Papua New Guinea (PNG), Samoa, Tonga, and Vanuatu. It also funded analytical work on PSD issues, including the performance of SOEs in the Pacific, a diagnostic review of contract law in four Pacific DMCs, a microfinance and microinsurance assessment in Fiji, and separate studies on the potential for branchless banking in PNG and Timor-Leste. The 2011 PSDI impact stories, an analytical summary of the business survey by PNG's Institute of National Affairs, and four Pacific private sector policy briefs were also published under the TA.
(ii) Rapid response, technical advice, and capacity development.	• Well designed, locally owned activities underway in core TA themes. • ADB's response time to government requests significantly reduced.	The TA reduced the time for ADB to respond to government requests significantly compared with assistance provided through country-specific TA. The TA helped draft and secure the passage and adoption of the 2009 Vanuatu Stamp Duties (Amendment) Act and Bills of Sale (Amendment) Regulation Act and prepare a

Design Summary	Performance Indicators	Actual Results
		number of bills to be considered by Parliament in four Pacific DMCs. The TA also helped privatize a total of five SOEs in Samoa, Solomon Islands, and Tonga; developed new SOE policies or legislation in three countries; undertook director training in Fiji, Samoa, and Tonga; prepared robust performance improvement plans for SOEs in three countries; and drafted or enhanced community service obligation frameworks in Fiji, PNG, Samoa, and Tonga. It also led the restructuring of the largest microfinance institution in Timor-Leste so it could become a commercially sustainable banking institution.
(iii) Regional initiatives and monitoring.	• Regional pilot projects, workshops. • Private–public sector cooperation and communication. • Regional benchmarking and reporting (e.g., through FEMM). • Support to regional initiatives. • Monitoring systems developed and in place.	The TA funded regional reform initiatives on secured transactions and company law, including the design and installation of three registries. It produced the first comparative analysis of SOE performance and reform experiences in the Pacific, which has catalyzed a number of SOE reforms in the region. The potential for branchless banking was also explored in PNG, Timor-Leste, Tonga and Vanuatu. A number of regional and in-country workshops were organized for various PSD-related topics. A monitoring and evaluation system was developed and in place.
TA 7430 (PSDI II)		
Impact To contribute to poverty reduction by promoting private enterprise, investment, and economic growth.	• Improved business environment in participating Pacific DMCs as demonstrated by improved trends in economic growth rates, increased private sector share of gross domestic product, and increased foreign and domestic private sector investment rates.	No assessment in the TA completion report.
Outcome Improved business enabling environment, through implementation of focused reform strategies and measures, and project designs by the concerned Pacific island governments.	• Measurable improvement in the business environment as demonstrated by selected indicators for SOE reform and PPPs, access to finance, and business law and regulation. • Memoranda of understanding between project sponsors and financiers.	The TA completion report indicated: (i) an increase in the cumulative security interests registered from 766 in 2006 to 31,961 in 2014 for six countries (FSM, Marshall Islands, Palau, Solomon Islands, Tonga and Vanuatu); (ii) an increase in the number of new company incorporations in

Design Summary	Performance Indicators	Actual Results
		Samoa from 76 in 2008 to 217 in 2014; and (iii) an increase in the number of new company incorporations in Solomon Islands from 108 in 2004 to 354 in 2014; and (iv) an improvement in the return on assets of SOEs in four Pacific DMCs.
Outputs (i) policy advice: (a) advocacy, research, and communication; (b) technical advice, and capacity development; (c) regional cooperation and results monitoring and benchmarking.	• Number of policy papers, seminars, and frequent media coverage. • Number of reform measures (subprojects) in priority areas implemented. • Average response time to relevant reform opportunities (based on government requests) of not more than 2 months. • At least 30 regional capacity development events, at least 10 subregional cooperation events in law reform, business registries and SOE reform (selected areas and regional), and regional PSD monitoring and benchmarking report updated annually.	• Four annual progress reports; nine research publications; two videos; five issues of Private Sector Development quarterly; a paper on the analytical basis for private-sector-led growth in the Pacific; over 150 seminars, including in-country reform-related seminars. • 31 projects with Phase II funding only. 139 projects jointly funded by phases I and III. • 100% of all requests entered the PSDI workflow pipeline within 60 days • 22 regional events and 29 subregional events.
(ii) Transactions support, comprising: (a) initial assessments and prefeasibility studies, and (b) feasibility studies, due diligence, and project and transactions design and packaging.	• At least two public sector projects and two private sector projects designed with ADB support. PPP pipelines established for at least three countries, and at least two PPPs designed.	• Eight public sector and private sector projects designed with ADB support. PPP pipelines established for two countries (TIM and PNG) and designed nine PPPs.
TA 8378 (PSDI III)		
Impact Sustained economic growth in Pacific DMCs equitably increases incomes.	By 2022: An increase in per capita GDP of 8% in at least four Pacific DMCs.	Not yet due.
Outcome An equitable business environment encouraging new business formation, increased domestic and foreign investment in Pacific DMCs.	By May 2019: • Improvement in at least four countries of at least two components of the World Bank Doing Business indicators	No progress updates.

Design Summary	Performance Indicators	Actual Results
	• Increase in investment of 10% compared with 2012 in six Pacific DMCs.	
Outputs (i) Businesses and households in selected Pacific DMCs have improved access to financial services.	By May 2019: • Number of secured loans by financial institutions increases by 30% over 4 years (disaggregated by gender) and percentage of secured loans rises by 10 points in at least four countries. • No. of people with access to financial services (disaggregated by gender) through partner institutions rises by 30% in at least four countries. • The ratio of total domestic credit to GDP extended by financial corporations to the private sector in PNG increases to 40% or more (2013: 34.6%).	As of 30 June 2017: • The number of secured loans increased by an average of 223% in six countries from 2010 to 2017: Palau (88%), RMI (628%), FSM (210%), Solomon Islands (46%), Tonga (137%), and Vanuatu (230%). • PNG 110%, Timor-Leste 140%. • 2013 (35%), 2014 (31%) [No recent update]
(ii) Selected business laws in Pacific DMCs promote inclusive business formation, investment, entrepreneurship, and trade.	By May 2019: • Number of new companies registered increases by 15% after the registration reform (four countries). • Time to register a new company declines to less than 2 days in at least four assisted countries. • No. of female shareholders and directors increases to at least 20% of directors and shareholders in PSDI reformed countries by 2019 (four countries).	As of 2016: • Samoa (112 in 2012 to 114 in 2016 – 2%), Solomon Islands (127 in 2009 to 414 in 2016 – 226%), Tonga (55 in 2014 to 245 in 2016 – 91%), Vanuatu (171 in 2015 to 245 in 2016 – 43%). • The number of days to register a new company declined from 45 days in Solomon Islands, 21 days in Samoa, and 5 days in Tonga to less than 2 days. As of 30 June 2017: • The number of female directors and shareholders in Samoa and Solomon Islands increased to more than 20%, partly achieved in Vanuatu (21% female directors, 18% female shareholders), but not achieved in Tonga (11% female directors, 11% female shareholders).
(iii) The delivery of infrastructure services will be made more efficient and cost-effective.	By May 2019: • A 15% increase rate of return on infrastructure SOE assets as a result of PSDI reforms in at least three countries compared with 2010 baseline.	As of 2015: • Average increase in return on assets (ROA) on infrastructure SOE assets from 2010 to 2015 were over 15% in six Pacific DMCs.

Design Summary	Performance Indicators	Actual Results
	• Government officials and politicians replaced on 20 infrastructure SOE boards by 2017 in at least three countries. . • No. of women on SOE boards increases by 20% by 2017 compared with 2010 in at least three countries. • At least four privatizations under way or completed by 2017 in the region. • At least five PPP transactions under way or completed by 2017 in region.	As of 30 June 2017: • 13 government officials and politicians replaced on SOE boards in four countries. • The number of women on SOE boards increased by more than 20% in two countries from 2010 to 2017 (Fiji, 67% and RMI, 143%) but declined in four countries. • Four privatizations completed from 2013-2016 and seven underway in 2017. • One completed PPP transaction and eight under way as of 30 June 2017.
(iv) Selected Pacific DMC governments establish a framework that promotes competition.	By May 2019: • Competition commissions in place and issuing judgments in at least two Pacific DMCs by 2018.	As of 30 June 2017: • One ongoing (PNG) and two planned (Fiji and Samoa) as of 30 June 2017.
(v) Successful pilot initiatives promoting the economic empowerment of women are implemented in selected Pacific DMCs.	By May 2019: • At least four EEOW pilot initiatives completed by 2019. • Findings of pilot initiatives mainstreamed into gender and/or PSD policies by 2017 in at least four Pacific DMCs.	As of 30 June 2017: • Three pilot initiatives completed and four ongoing. • Findings of pilot initiatives mainstreamed into gender and/or PSD policies in five Pacific DMCs.
(vi) Strategic and knowledge Management services are effectively provided.	• PSDI analytical work is used by ADB and development partners for country programming (at least six times). • At least 80% of the recommendations of the private sector assessments are adopted and acted on by the respective Pacific DMCs.	• PSDI analytical work used for country programming in seven countries; two PSAs are under way. • As of 30 June 2016, percentage of progress against recommendations was 80% or more in two countries and 29% to 75% in five countries.

ADB = Asian Development Bank, DMC = developing member country, EEOW = economic empowerment of women, GDP = gross domestic product, PNG = Papua New Guinea, PPP = public–private partnership, PSA = private sector assessment, PSDI = Pacific Private Sector Development Initiative, SOE = state-owned enterprise, TA = technical assistance
Note:
Source: ADB technical assistance reports, ADB TA completion reports, Pacific Private Sector Development Initiative *Annual Progress Report*.

C. Monitoring and Evaluation Tool

5. PSDI did not have an M&E software system until 2013. The projects were listed in an Excel file, hard copies of reports and publications were filed in the office, and soft copies of various documents were stored in hard drives. In 2013, PSDI purchased an M&E tool using the *Filemaker Pro* platform. The main menu consists of: (i) budget—contains the titles of the focus areas but at present does contain any other information; (ii) initiatives—lists all PSDI initiatives and contains submenus on financials, progress

snapshots, documents, and data and evaluation; (iii) projects—list all projects and contains submenus on the budget, milestones, snapshots, and attachments; (iv) back-to-office reports—repository of reports prepared by consultants and staff; and (v) contracts—information on all consultants contracts (including important dates and status).

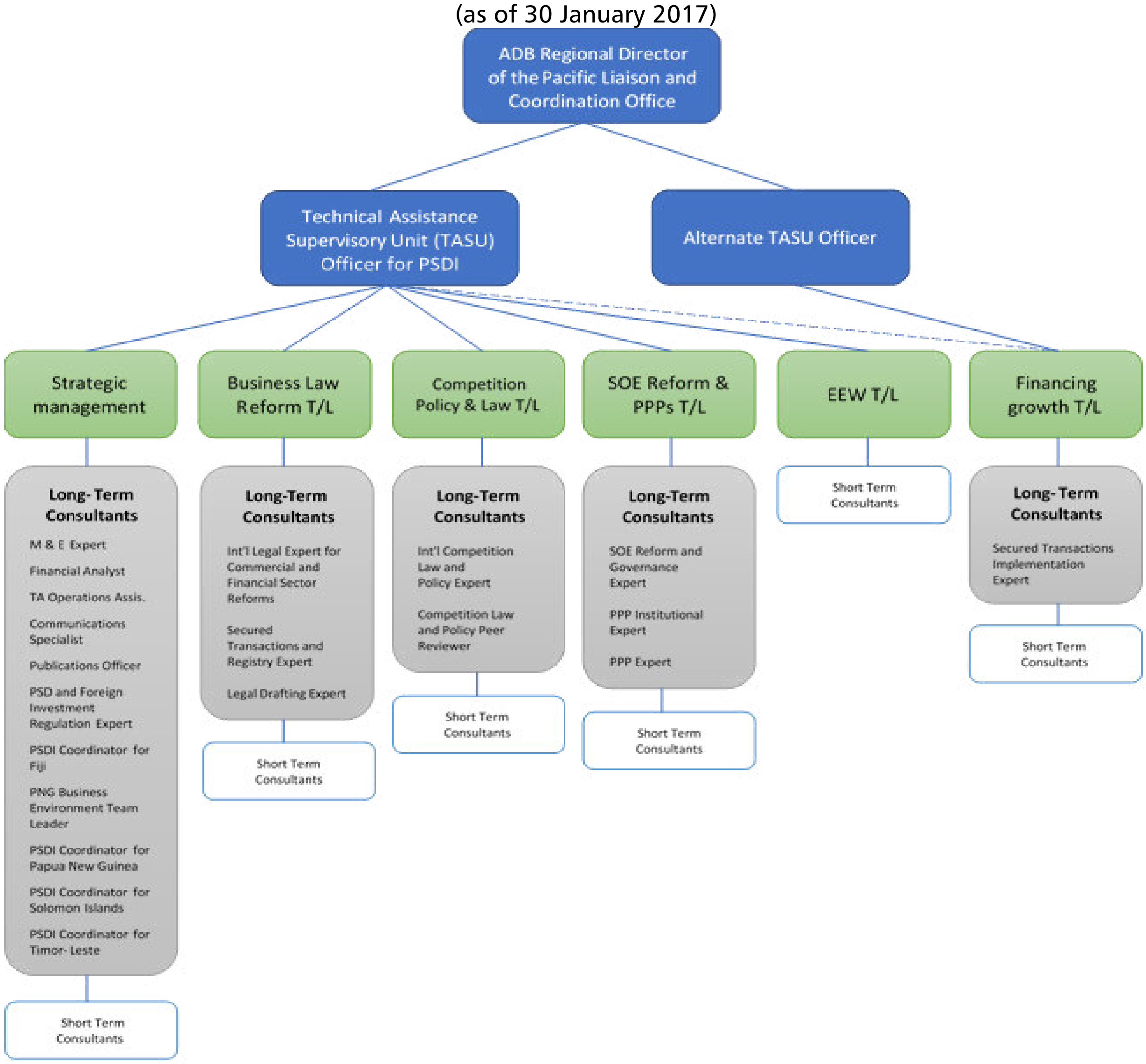
6. The software is good for project administration, such as consultant and contract monitoring, cost accounting, and project tracking by country and by focus area. However, it is underutilized as an M&E tool. It has a data and evaluations menu but this does not contain any documents or updates. Even outputs such as private sector assessments, publications, reports, and draft laws are not all stored in the system and the milestones and progress snapshots for initiatives and projects are not regularly updated and are missing important details. For instance, when a PSDI consultant prepares a draft law, the M&E tool does not state whether the consultant drafted the entire law or just portions of it or whether the government accepted the entire draft or some of its provisions.

APPENDIX 3: ORGANIZATION AND OPERATIONS OF THE PACIFIC PRIVATE SECTOR DEVELOPMENT INITIATIVE

A. Organizational Structure

1. The Asian Development Bank (ADB) is the executing agency for the technical assistance (TA) supporting the Pacific Private Sector Development Initiative (PSDI). The PSDI is being implemented through the ADB Pacific Liaison and Coordination Office (PLCO) in Sydney, Australia. In addition to the regional director of PLCO, ADB has two country specialists assigned to manage PSDI: the TA supervisory unit (TASU) officer and the alternate TASU officer. The rest of the PSDI team comprises long-term and short-term consultants who can be broadly categorized into: (i) team leaders for each of PSDI's focus areas (although some focus areas are sometimes combined); (ii) in-country coordinators; (iii) sector specialists; (iv) a communications specialist; (v) a publications and knowledge management specialist; (vi) a monitoring and evaluation specialist; and (vii) project administration consultants.

Figure A3: Pacific Private Sector Development Initiative Team Structure
(as of 30 January 2017)



EWW = economic empowerment of women, M&E = monitoring and evaluation, PSDI = Private Sector Development Initiative, SOE = state-owned enterprise, T/L = team leader.

2. PSDI used to have a "distributed leadership team" (DLT) which comprised the regional director, the TASU officer and the alternate, and team leaders. DLT's main task was to discuss which initiatives and projects to pursue or prioritize as well as issues relating to recruitment, procurement, contract management, communications, and monitoring and evaluation. In late 2016, the DLT was replaced by a PSDI coordination team (PCT). The composition of the PCT is basically the same as the DLT but team leaders have less influence in consultant selection and contracting arrangements.

B. Operations

3. PSDI did not prepare an operations manual until February 2016 (updated in May 2016). The manual includes sections on focus areas, organizational structure and management, administration procedures (on recruitment, procurement, contract management and missions), financial management and budgeting, monitoring and evaluation, and knowledge management and communications. The manual is only 25 pages long, including 6 pages of appendixes.

4. PSDI's portfolio is mainly demand-driven. However, responses to requests for assistance are based on underlying analytical work that either has already been completed or is initiated following a request. Resources are only allocated if there is a strong commitment to reform in the Pacific developing member countries that have asked for PSDI assistance. Requests for assistance from outside ADB are usually received from the minister or secretary of finance in a Pacific DMC. In some cases, requests may be considered from attorneys general, governors of reserve banks, or other ministers or secretaries, such as those with responsibility for commerce or SOEs. However, the normal procedure would for a request to be endorsed by the minister or secretary of finance. Within ADB, requests are received from the Pacific Department (PARD) and, on occasion, from other ADB departments. In addition, requests for work on analytical issues are received from time to time from the Australia Department of Foreign Affairs and Trade (DFAT) and the New Zealand Ministry of Foreign Affairs and Trade (MFAT).

5. The PSDI management team considers all requests and makes recommendations to the regional director of PLCO, who confirms the PSDI assistance. This is then incorporated into the work program and frequently also becomes part of ADB's country partnership strategy for the particular country. For each focus area, PSDI identifies initiatives and projects under those initiatives. For example, under the public–private partnership (PPP) focus area, PSDI would identify the preparation of a PPP policy framework as an initiative and the projects under as (i) preparation of a PPP policy paper, (ii) preparation of PPP project development guidelines, and (iii) capacity building for the development of PPP transactions.

6. For missions, team leaders seek approval from the PSDI management team. Following approval, PSDI seeks mission clearance from the country government counterpart before every mission. The TA operations assistant prepares the mission clearance request, including the mission terms of reference, with input from the team leader and the consultant. The request is sent to the government counterpart, usually through the resident mission or development coordination office, copied to the TASU officer, relevant ADB country director, country team leader, and other relevant parties. Regional director PLCO then receives the country government counterpart's response.

7. For each project, the assistance provided by PSDI ranged from a few months to several years. The types of outputs produced by PSDI varied by focus areas. The outputs for analytical work and crosscutting themes were mostly private sector assessments and other publications, and some technical advice. Business law reform outputs were mainly draft laws and policy advice but also included some software (for a company registry). Access to finance outputs included policy and technical advice, drafts laws, seminars, and software (for a secured transactions registry). State-owned enterprise (SOE) and PPP outputs were primarily policy and technical advice but several seminars and workshops were also

conducted. For the focus areas added in PSDI III (economic empowerment of women and competition policy and consumer protection), the completed outputs were mostly policy advice plus a couple of pilot projects for economic empowerment of women.

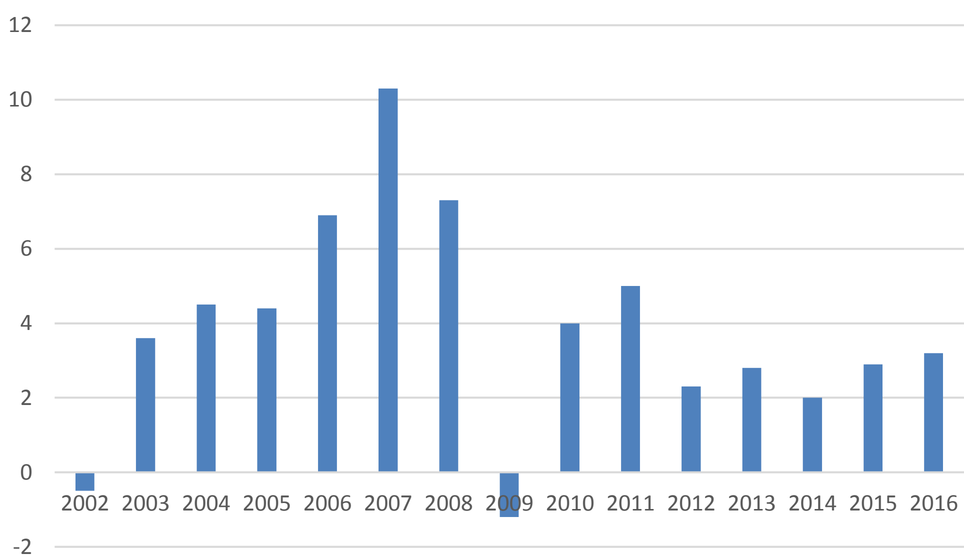
APPENDIX 4: SUMMARIES OF COUNTRY CASE ASSESSMENTS

A. Solomon Islands

1. Solomon Islands is an archipelago consisting of six major islands and over 900 smaller islands covering a land area of 28,400 square kilometers. The country's capital, Honiara, is located on the island of Guadalcanal. The estimated population of Solomon Islands is 642,000 (2015) and it is growing at an average rate of 2.3% per annum. Most people live in small, rural, and geographically spread communities. The country is located to the east of Papua New Guinea and northwest of Vanuatu. In 2011, GDP (nominal) was estimated by the IMF to be $840 million. Between 2000 and 2012 gross national income per capita increased by 50%—from $1,010 to $1,480.

2. Between 1998 and 2003 the country experienced a period of unrest and civil conflict. The conflict brought the government to a standstill, and economic output dropped dramatically. A regional response to the crisis helped restore law and order, and supported the government in rebuilding the state. Since then the economy has experienced an upward trend in growth. However, the country's formal economy remains small, its economic and social indicators are still relatively low, and the population is growing quickly. Almost 80% of the country's employed population aged 15 years and above is still employed in informal or subsistence activities, and lives in scattered rural communities. Solomon Islands' Human Development Index value (a measure assessing long-term progress in terms of population health and longevity, access to knowledge, and standard of living) was 0.491 in 2013, well below the average of countries in the East Asia and Pacific region (0.703).

Figure A4.1: Solomon Islands Annual GDP Growth
(%)



Source: Asian Development Outlook, various years.

3. A good indicator of a country's long-term economic prosperity is its investment ratio (the amount it invests in fixed capital divided by gross domestic product). Solomon Islands investment levels have been below what is needed to put it on a growth path capable of substantially improving the livelihoods of its expanding population. Over the period 2007–2012, its investment ratio averaged 18% per annum—

below the global average (20%–22%) and well below that achieved by higher-growth neighbors such as Vanuatu (32%).

1. Private Sector Development Issues

4. The 2016 PSDI private sector assessment for the Solomon Islands credited the government with having made good progress but identified a number of areas where further improvements could be made. The government was credited with:

(i) opening the country to increased foreign investment by streamlining the process for foreign investment entry and reducing the number of reserved activities;
(ii) modernizing company and business name legislation, and introducing a fully electronic company registry;
(iii) establishing a robust framework for commercially managing SOEs, divesting four poorly performing and nonstrategic SOEs from the portfolio, and restructuring three others to place them on a more sustainable footing; and
(iv) liberalizing the telecommunication sector, resulting in increased mobile telephone penetration and tariff reductions.

5. Despite these reforms, the assessment identified a series of initiatives and reforms that were still needed to improve the private sector investment climate and to increase economic activity. They included:

i. Policy Dialogue

a. Enhance the quality of policy development to achieve effective investment climate reforms, specifically: (i) improve communication between the policy unit in the Prime Minister's Office and line ministries; and (ii) establish a formal high-level public–private sector dialogue mechanism for agreeing on reform priorities and solutions.

ii. Infrastructure

a. Use a systematic, rational, and strategic approach to planning and implementing publicly funded infrastructure.
b. Continue to build institutional capacity to implement policies and plans effectively.
c. Ensure that adequate annual maintenance expenditures for publicly funded infrastructure are built into recurrent budgets.
d. Encourage greater private sector involvement in infrastructure provision.

iii. State-Owned Enterprises

a. Strengthen the capacity to implement the existing SOE legislative, governance, and monitoring framework.
b. Develop a new policy on SOE ownership, divestiture, and PPP to guide further SOE privatization, restructuring, and capitalization.

iv. Competition

a. Take a pragmatic approach by reviewing the regulatory environment to remove unnecessary business entry requirements and build capacity in consumer protection.
b. Ensure that any review of the reserved business activity list that restricts foreign investment in the country is consistent with the requirements of the Foreign Investment Act and its objective of encouraging open and competitive markets.
c. Modernize foreign investment registration processes through an online registry.

v. Tax System

a. Enact the Customs and Excise Bill.

b. Undertake a comprehensive review of the tax system to bring it more in line with good international practices and ensure a fair, simple, and broad-based tax system that encourages local businesses and is attractive to foreign investors.
c. Focus on improving the country's overall investment environment, rather than limiting interventions to special economic zones.

vi. **Skilled Labor**
a. Strengthen technical and vocational education by developing a national qualifications framework and shifting to demand-based training that is industry-focused.
b. Review existing policies and legislation for the issuance of work permits and residence visas to foreign workers, including consolidating the entire process within one agency.

vii. **Financial System**
a. Improve access to credit through greater use of the secured transaction registry.
b. Broker greater cooperation between commercial banks and the Solomon Islands National Provident Fund to meet the debt and equity needs of larger private sector projects.
c. Support efforts for branchless banking to improve efficiency and promote competition.
d. Introduce a national payment system law and effectively implement the real-time gross settlement system, and encourage interbank interoperability.

viii. **Gender**
a. Develop legislation for equal employment opportunities and sexual harassment protections that applies to the public and private sectors.
b. Amend labor legislation to increase maternity leave pay provisions with stipulated enforcement procedures.
c. Amend the National Provident Fund (NPF) legislation to provide social protections for the spouses of NPF members.
d. Undertake legislative reforms to support gender equality in access to resources in line with recommendations from the Committee on the Elimination of Discrimination against Women (CEDAW) Committee, including revising the Married Women's Property Act 1882, Islander Divorce Act 1960, and Citizenship Act 1978.

2. Pacific Private Sector Development Initiative response

6. Solomon Islands has received the second largest share of PSDI funding. Over the 10-year period (2006–2017). PSDI activities in the Solomon Islands accounted for $5.3 million in expenditure. The country has also been one of the leading reformers in the Pacific region. Business law reform activities accounted for 44% of PSDI's spending. This initially funded customs and company law reform, including an online companies' registry. Subprograms supporting SOE reform account for 25% of overall spending and have led to the installation of a community service obligation framework, the development of shared accounting services, and the successful privatization of three SOEs. Access to finance subprograms, which account for 15% of overall spending, have underpinned secured transactions reform and a review of the regulatory framework for microfinance and mobile banking. Work on economic empowerment of women has accounted for a little under 8% of overall spending and was delivered through pilots for solar panel maintenance and the partnership with Guadalcanal Plains Palm Oil. PSDI analytical work has accounted for 5% of overall spending and led to the May 2016 private sector assessment (PSA) publication.

7. In September 2013, PSDI appointed a Honiara-based coordinator to support implementation of and advocacy for PSDI projects in Solomon Islands. Based in the ADB development coordination office, the coordinator works closely with the Ministry of Commerce, the Ministry of Finance and Treasury, the Central Bank of Solomon Islands, and the Attorney General's Chambers to progress legal reforms.

8. Analytical work on the Solomon Islands' private sector has included several studies:
   (i) A 2014 case study *Unlocking Finance for Growth: Secured Transactions Reform in Pacific Island Economies* was published.
   (ii) Two PSDI case studies, one on secured transactions reform and one on business law and registration, were included in *Enhancing SME Access to Finance: Case Studies on Solomon Islands*, a book published by the Global Partnership for Financial Inclusion in June 2015.
   (iii) In May 2016, a private sector assessment for Solomon Islands, *Continuing Reforms to Stimulate Private Sector Investment*, was published.
   (iv) In June 2016, a regional benchmarking study on port tariffs and productivity was published with a view to informing a national debate on port commercialization.

9. Under the focus area on access to finance, PSDI supported the passage of the Secured Transactions Act in 2008, which led to the launching of an electronic registry in 2009. PSDI is also working to increase lenders' uptake of the secured transactions framework, with a particular focus on agriculture supply chain financing. In 2015, PSDI supported the development of a pre-shipment financing facility for cocoa exporters.

10. In the period 2014–2016, PSDI supported the Central Bank of Solomon Islands and the Ministry of Finance and Treasury to undertake public consultations and develop a credit union policy, in preparation for new credit union legislation. PSDI also worked closely with the bank and the ministry to provide drafting instructions for legislation to reform the Solomon Islands National Provident Fund. Both pieces of work have been submitted for cabinet approval.

11. With regard to business law reform, PSDI assisted with the drafting of the Companies Act that was passed in 2010 and an online company registry, Company Haus, launched as a result of the act. PSDI also simplified the business names registration system by supporting the drafting of the Business Names Act, 2014. Other support included:
   (i) advice and support on the inclusion of business names within the online registry in 2016;
   (ii) a study on building an online foreign investment registry; and
   (iii) modernization of the customs and excise regime.

12. The focus area state-owned enterprise reform and public–private partnerships included the participation of the Solomon Islands in the *Finding Balance* publication in 2011, 2012, 2014 and 2016, comparing the performance of SOEs across the Pacific. From 2011 to 2015, PSDI also supported the Solomon Islands' SOE monitoring unit in implementing a community service obligation (CSO) framework and drafting CSO contracts for selected SOEs, as well as in drafting statements of corporate objectives by several SOEs, arranging shared accounting services for smaller SOEs, and several privatizations (Solomon Island Printers in 2012, Sasape Marina in 2010, and Home Finance in 2008).

13. In 2014 the focus area economic empowerment of women initiated a number of pilots:
   (i) Women were trained on solar panel maintenance. The program leveraged an existing program on solar power panels and worked closely with the West Are'Are Rokotanikeni Association, the Ministry of Mines, Energy and Rural Electrification, community organizations, and government agencies.
   (ii) In July and October 2014 and again in February 2015, PSDI delivered 2-day gender-sensitive training program on corporate governance in collaboration with the Solomon

Islands Chamber of Commerce and Industry. The program targeted women to equip them with skills for senior management positions and to participate on SOE boards.

(iii) In 2015, PSDI collaborated with Guadalcanal Plains Palm Oil company to assist female family members of the company's male employees to develop small, sustainable, formal businesses.

14. PSDI has also: (i) partnered with UN Women to carry out a review of how business law reforms have affected women, and of the effectiveness of women's business associations; (ii) worked with the Solomon Islands company registry to create women-friendly business support materials; and (iii) proposed amendments to Solomon Islands National Provident Fund legislation and Business Names legislation to remove discriminatory provisions.

15. Within the focus area on competition and consumer protection, in 2015, PSDI undertook a review of the country's competition policy and law and produced an issues paper for the government's consideration.

3. Assessment of the Pacific Private Sector Development Initiative in Solomon Islands

16. The program in Solomon Islands was the second largest in dollar volume and the third largest in number of subprograms as of 30 June 2017. The Ministry of Industry and Commerce and the Ministry of Finance are the main counterparts. The program focused heavily on business law reform and piloted innovative projects for the economic empowerment of women. There is high appreciation of the role of PSDI, especially the constant engagement by a local coordinator and the specialized attention provided over the years by the Sydney-based lead consultants.

17. The economic empowerment of women focus area consisted of two pilots, which delivered business models with potential for scaling-up and replication. The sewing pilot empowered the wives of the largest palm oil company in the Solomon Islands to create extra income streams for low-income households to increase their standards of living. The solar panel maintenance pilot project provided practical skills for women to enable them to troubleshoot and keep their household solar panels operational, which is fundamental to sustaining the advances in access to basic services, including children's education. Questions remain on how the outcomes of these programs are being measured and how will they be replicated.

18. The work on company law reform modernized and simplified the process of registering a business with documented and monitored improvements in the efficiency of the whole process in terms of both time and cost. The work laid the legal foundations for further reforms, such as the introduction of a secure transaction legal and institutional framework to facilitate the use of movable property as collateral for both business and consumer credit. While these are stepping stones for increasing business activities, there is limited evidence that they have significantly increased economic activities.

B. Papua New Guinea

19. Papua New Guinea (PNG) occupies the eastern half of the island of New Guinea and is located in a region of the southwestern Pacific Ocean north of Australia. Its capital, Port Moresby, is on its southeastern coast. The western half of New Guinea forms the Indonesian provinces of Papua and West Papua. From 1884 to 1975 Papua New Guinea was ruled by other nations, including nearly 60 years of Australian administration. In 1975 PNG became independent and a member of the British Commonwealth.

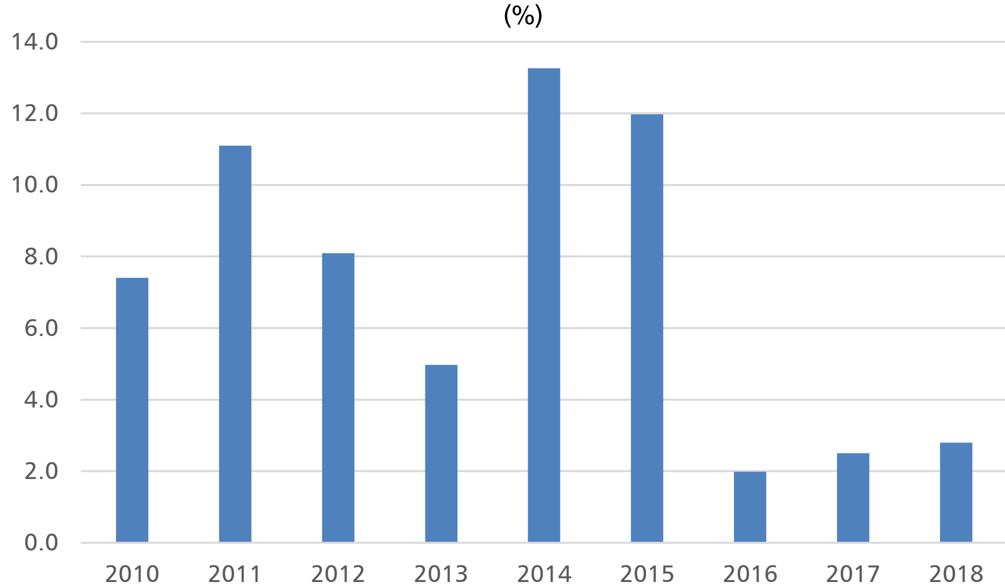
20. Papua New Guinea is one of the most culturally diverse countries in the world. There are over 800 known languages and most of the population of more than 7 million people lives in rural customary

communities, with only 18% living in urban centers. The country covers an area of some 462,840 square kilometers and in 2017 GDP per capita was estimated to be $2,613.

21. In 2011, strong growth in Papua New Guinea's mining and resource sector led to it becoming the sixth fastest-growing economy in the world (Figure A4.2). However, rapid growth has had little impact on poverty. Between 2005 and 2013, the economy grew at an annual average rate of 6.4%, and in 2013 income per capita reached $2,010. Mining, including oil, copper, and gold, accounts for 72% of export earnings. Macroeconomic stability has helped economic growth and reduced output volatility.

22. Foreign investment declined rapidly in 2016, with net foreign assets falling by 11.5%, largely because construction on a liquefied natural gas (LNG) project reached completion. Other factors included a poor investment environment outside mining, a ban on imports of some agricultural products, and the introduction of foreign exchange controls in 2016.

Figure A4.2: PNG Annual GDP Growth
(%)



Source: Bank of Papua New Guinea, Papua New Guinea 2016 National Budget; ADB estimates.

23. Despite growth fueled by the mining sector, agriculture continues to provide a subsistence livelihood for most of the population. Subsistence food production accounts for an estimated 83% of food energy and 76% of protein consumed. Cash income is provided by sales of Arabica coffee, fresh food, cocoa, betel nut, copra, oil palm, firewood, tobacco, and fish. Other products include vanilla, rubber, balsa, and tea. The use of fertilizers and herbicides in PNG agriculture continues to be negligible, with most villagers using few or no inputs in production other than their land and labor. Increases in exports of marine products, mainly tuna, round logs and palm oil is the outcome of higher global demand and goods are exported mainly to the People’s Republic of China and other emerging economies in Asia.

1. Private Sector Development Issues

24. PNG has one of the more difficult environments in the world for doing business. A business environment survey in 2012[1] showed that business security (law and order) was a major constraint, with low confidence in law enforcement and the judiciary. Government–business relations were weak, leading to opportunities for corruption. Other constraints included poor infrastructure and services; government regulations and policies; legal frameworks; and the functioning of key public bodies such as the competition authorities, the company register, and the securities commission.[2]

25. As international experience has shown and the PSDI private sector assessments of PNG have pointed out, the "resource curse"[3] usually has a detrimental impact on other sectors of the economy and often requires strong private sector development policies to be in place. Specifically, the PSDI private sector assessments of PNG identified the following initiatives and reforms that are still needed:

i. Policy Dialogue

a. Expand the current tax review to consider the role of land taxes in redefining land use for commercial purposes.
b. Examine the relationship between the Independent Consumer and Competition Commission (ICCC) and SOEs, and review the current regulatory contract format against best practice SOE performance-based indicators.

ii. Finance and Banking

a. Strengthen risk management policies, and establish a secondary debt market to free up government securities during times of market stress.
b. Define the structure and operations of the sovereign wealth fund, and communicate intent with the private sector through ongoing dialogue and information dissemination.
c. Encourage more entrants into the foreign exchange trading market.
d. Reform the government debt market by lowering issuance costs for both the government and private sector.
e. Reduce minimum bid size, develop the Central Bank bill tap facility, and lengthen the duration of issues.
f. Strengthen the Central Bank's repurchase facility.
g. Conduct a financial sector review to investigate key issues surrounding market reform.

iii. State-Owned Enterprises and Public–Private Partnerships

a. Allow private companies to bid for community service obligation contracts.
b. Develop an overall privatization strategy which incorporates a greater focus on PPPs.
c. Progress the policy framework to support PPPs and clarify the nature of the concessions law.
d. Remove government SOE asset ownership limitations to increase private sector participation in service delivery and asset maintenance.
e. Utilize PPPs to increase opportunities in infrastructure services delivery.

iv. Business Law

a. Progress the secured transactions framework by implementing the Personal Property Securities Act, 2011. Appoint a secured transactions registrar to advance the new registry (when operational), allowing it to record security interests.
b. Strengthen implementation of the Companies Act, 1997 and ensure that the Companies Office has the capacity to manage the registry effectively.
c. Simplify the land disputes management system to allow greater efficiency in land use.

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[1] Institute of National Affairs. 2013. *The Business and Investment Environment in Papua New Guinea in 2012: Private Sector Perspective—A Private Sector Survey*. Discussion Paper No. 94. Port Moresby; and ADB. 2014. *The Challenges of Doing Business in Papua New Guinea: An Analytical Summary of the 2012 Business Environment Survey by the Institute of National Affairs*. Port Moresby.

[2] ADB. 2015. *Building a Dynamic Pacific Economy: Strengthening the Private Sector in Papua New Guinea*. Manila.

[3] For a discussion of the "resource curse" see: https://resourcegovernance.org/sites/default/files/nrgi_Resource-Curse.pdf.

a. Reform the communal ownership and registration system, and strengthen the private sector's ability to legally enforce acquired land rights.
b. Reform the tax expenditures regime and remove the current range of concessions and exemptions (including tax holidays).

v. Competition and Consumer Protection

a. Carry out a comprehensive review of competition policy, and focus on methods to reduce multisector legal, regulatory, and administrative barriers to competition.
b. Make the Independent Consumer and Competition Commission (ICCC) Act, 2002 provisions more accessible and easily understood in simple terms, through an appropriate knowledge and dissemination strategy; clearly outline the existing range of recourse actions following infringement; and consider expanding the range of recourse actions available within the act's existing parameters.
c. Discourage increasing local content rules and labor restrictions.
d. Encourage competition in retail banking markets by investigating the potential options for existing financial institutions which meet the regulatory tests and standards.
e. Increase competition by stopping the practice of licensing operators in trading and exports, and implement licensing reforms to encourage entrepreneurial activity.
f. Modernize competition and regulation policies to allow the private sector to deliver critical infrastructure and manage asset maintenance services.

2. Pacific Private Sector Development Initiative Response

26. Since 2007, total expenditure by PSDI in PNG amounted to $6 million, making it the largest recipient of PSDI funds. In June 2015, the Government of Australia granted an additional $8 million for PNG activities. The distribution of the $6 million grant was as follows:

a. access to finance, including initiatives to improve the stability of PNG's financial system and the implementation of a secured transactions framework (36%);
b. support for competition reform (19%);
c. support for PPPs (15%);
d. support for SOE reform (8%);
e. analytical work, including two private sector assessments (10%); and
f. economic empowerment of women (2%).

27. Since January 2010, two PSDI private sector development coordinators have been recruited and they are located at the Asian Development Bank (ADB) resident mission in Port Moresby. The coordinator's role is to promote effective private sector development policies and practices through:

(i) dialogue with the government and other stakeholders,
(ii) supporting the implementation of PSDI subprograms,
(iii) identifying opportunities to develop ADB's private sector operations in PNG, and
(iv) policy dialogue

28. Analytical work in PNG started in 2007 with a private sector assessment that was presented to the new government in early December 2007, and disseminated to the public through a joint seminar with the Institute of National Affairs and the Port Moresby Chamber of Commerce and Industry. In the same year, PSDI supported a business survey in 2007 by the Institute of National Affairs. In 2008, the assessment was published, and this was followed in 2011 by an analytical summary, identifying key constraints on business. In 2011 PSDI also provided funds for a private sector development seminar organized with the Institute of National Affairs and the Port Moresby Chamber of Commerce and Industry. Later that year, PSDI initiated a program of support to enable the Institute of National Affairs to conduct a business environment survey in 2012. The results of the survey, which took longer than expected to complete because of sampling issues, were published early in 2014. In February 2014, PSDI used these survey results to produce a publication and presented this to the Prime Minister, the Minister of Finance, the Minister of State-Owned Enterprises, and a large business audience. In April 2015, PSDI

published an updated assessment titled: *Building a Dynamic Pacific Economy: Strengthening the Private Sector in Papua New Guinea*.

i. Competition and Consumer Protection

29. While the competition and consumer protection focus area officially started in 2013, PSDI had already provided support in this area through its other focus areas. In 2007, it provided technical expertise to the Independent Competition and Consumer Commission (ICCC) for trade practice investigations, telecommunications code development, on-the-job training, and the provision of reference materials.[4] In 2009, the PSDI helped the ICCC to produce a telecommunications industry code. In 2012, PSDI work was complemented by additional support to the ICCC from Australia in the form of full-time resident technical advisors. In 2014, PSDI began a review of PNG's competition policy at the request of the Department of Treasury. This is ongoing. In mid-2015, the Government of Australia asked PSDI to manage its financial support to the ICCC and PSDI agreed to do so for an initial 3-year period. It is currently supporting ICCC in the following areas: competition, consumer protection, price controls, and productivity review functions. It is helping to build capacity in ICCC so it can investigate violations and prosecute enforcement actions.

ii. Access to Finance

30. Between 2011 and 2013, PSDI provided technical assistance to MiBank (formerly Nationwide Microbank) to develop a mobile-telephone-linked bank account, MiCash. This work was supported through several subprograms:

(i) April 2012: PSDI completed support for audit and risk management processes for MiCash;
(ii) June 2012: PSDI completed a review of the MiCash pilot in West New Britain Province;
(iii) March 2013: PSDI completed a MiCash training program for staff and agents; and
(iv) 2015–2016: PSDI supported MiBank to develop a business model with potential to increase its regional presence.

31. Starting in 2011, PSDI also funded the design of the Microfinance Expansion Project, a $24 million sector-wide project co-financed by ADB and the governments of Australia and PNG.[5] The project focused on:

(i) strengthening institutions;
(ii) financial literacy and business development skills training;
(iii) development of appropriate regulation for supervision of the microfinance sector; and
(iv) establishing a risk share facility for partner institutions to promote credit expansion to micro- and small enterprises.

iii. Economic Empowerment of Women

32. PSDI is working with local organizations to promote the participation of rural women in agricultural production by providing training in agricultural production methods, helping women access finance through the secured transactions framework, assisting with access to markets, and supporting accountable governance of local organizations. PSDI aims to improve the lives of more than 6,000 rural women, assisting their transition from subsistence activities to active participants in the private sector.

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[4] For details of the industry code, see: http://www.commsalliance.com.au/__data/assets/pdf_file/0017/33128/TCP-C628_2012_May2012-Corrected-July12.pdf

[5] ADB. 2010. *Microfinance Expansion Project*. Manila. ADB's loan, from its concessional Asian Development Fund, covers 54% of the project cost of $24.06 million. The loan has a 32-year term, including a grace period of 8 years. Interest is charged at 1% per annum during the grace period and 1.5% per year for the rest of the term.

33. A PSDI pilot project is helping informal fisherwomen formalize their businesses. This is primarily providing finance and training. In July 2014, a memorandum of understanding was signed with MiBank for PSDI to provide finance and financial skills training to women in the informal sector.

34. PSDI supported a competition and consumer review which produced an issues paper on consumer protection and the economic empowerment of women. This paper assessed how competition and consumer laws affect women. It included recommendations for how legal reforms could economically empower women and facilitate their role in the private sector.

iv. State-Owned Enterprises and Public–Private Partnerships

35. PNG participated in the *Finding Balance* SOE benchmarking studies in 2012, 2014, and 2016. The 2014 study was launched in Port Moresby in October that year.

36. In 2008 PSDI supported the development of the national PPP policy in PNG, including the PPP Act, which was passed in September 2014. The act prescribes how PPPs are to be prepared and aims to improve transparency. To support the act, PSDI has helped to operationalize it through an implementation strategy, a PPP project pipeline, a business plan for a PPP center, a project development facility concept note, and support for the development of regulations.

37. In November 2013, PSDI presented updated Port Moresby and Lae Airport PPP assessments to the National Airports Corporation, and in May 2014 it completed a detailed PPP options study for the new Lae Port. Since the Lae Port analysis was completed, ADB's Office of Public–Private Partnership has been in discussions with the government to offer transaction support.

38. In December 2013, the PSDI supported the preparation of a community service obligation (CSO) policy for SOEs, which was approved by the National Executive Council (NEC). The policy requires full transparency in identifying, costing, contracting, and financing CSOs. PSDI has also supported the NEC-directed policy of piloting the CSO in three SOEs.

39. Since January 2016, PSDI has been collaborating with PNG Power to introduce renewable energy in isolated diesel centers on a PPP basis. This work builds upon a call for expressions of interest launched by PNG Power in early 2015 and aims to conclude PPP agreements using solar energy at selected sites.

3. Assessment of the Pacific Private Sector Development Initiative in PNG

40. The program in PNG was the largest in terms of volume and the second largest in number of subprograms as of 30 June 2017. It has enjoyed increased attention from DFAT, which has dedicated bilateral funding directly from the country post, bringing increased expectations and resources to bear. Given that PSDI has two full-time coordinators, it is well placed to respond to DFAT's additional expectations, although DFAT still expects to be more engaged in the overall programming.

41. The main counterpart of PSDI is the PNG Treasury Department, which has signaled overall satisfaction with the technical advice provided and the attention and responsiveness of PSDI at the country level and from the lead consultants in Sydney. The key areas of engagement were SOEs and PPPs. While generally ADB delivered highly regarded technical assistance in these two areas, the outcomes have not yet been achieved, largely because the government has not proceeded with the key required actions (establishment of the PPP center and implementation of CSOs with some SOEs). Hence, questions arise about the sustainability of these subprograms without more political commitment.

42. The women empowerment pilots involving microfinance and women fishers are close to being finalized. However, MiBank, one of the implementing partners, felt that the pilots were not well managed. It indicated that it had gone ahead with its component because the women groups were ready

and waiting for the training. However, MiBank was not clear on next steps. MiBank was keen to continue with the program and expand it to other areas, but was waiting for PSDI, as the project lead, to provide guidance.

C. Tonga

43. Tonga's economy is characterized by a large nonmonetary sector and a heavy dependence on remittances from the half of the country's population that lives abroad, chiefly in Australia, New Zealand, and the United States. Much of the monetary sector of the economy is dominated, if not owned, by the royal family and nobles. Most small businesses, particularly retailing on Tongatapu, is now dominated by recent Chinese immigrants who arrived under a cash-for-passports scheme that ended in 1998.

44. The manufacturing sector consists of handicrafts and a few other very small-scale industries, all of which contribute only about 3% of GDP. Commercial business activities are inconspicuous and, to a large extent, are dominated by large trading companies found throughout the South Pacific. In September 1974, the country's first commercial trading bank, the Bank of Tonga, opened.

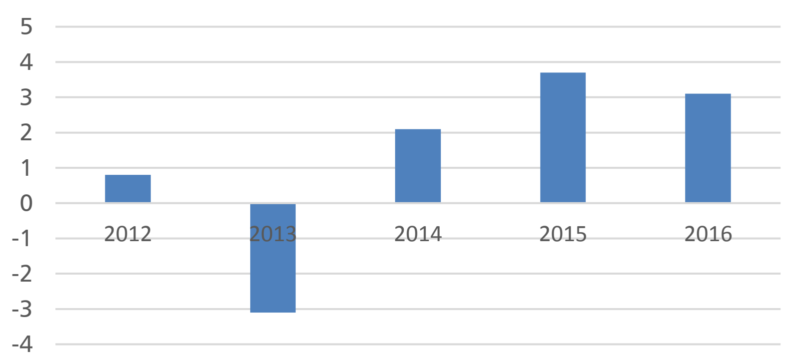
45. Rural Tongans rely on plantation and subsistence agriculture. Coconuts, vanilla beans, and bananas are the main cash crops. The processing of coconuts into copra and desiccated coconut is the only significant industry. Pigs and poultry are the major types of livestock. Horses are kept for draft purposes, primarily by farmers working their local homesteads. More cattle are being raised, and beef imports are declining.

46. Tonga's development plans emphasize a growing private sector, upgrading agricultural productivity, revitalizing the squash and vanilla bean industries, developing tourism, and improving the island's communications and transportation systems. Substantial progress has been made, but much work remains to be done. A small but growing construction sector is developing in response to the inflow of aid monies and remittances from Tongans abroad. The copra industry is plagued by world prices that have been depressed for years.

47. Efforts are being made to diversify the economy. Hope has been placed on fisheries, in particular skipjack tuna. Another potential development activity is exploitation of forests, which cover 35% of the kingdom's land area but are decreasing as land is cleared. Coconut trees past their prime bearing years also provide a potential source of lumber.

48. The tourism industry is relatively undeveloped, but the government recognizes that tourism can play a major role in economic development, and efforts are being made to increase this source of revenue. Cruise ships often stop in Nuku'alofa and Vava'u.

Figure A4.3: Tonga Annual GDP Growth (%)



Source: https://www.adb.org/countries/tonga/economy.

a. Private Sector Development Issues

49. Tonga has implemented a number of important reforms, but it has faced particular challenges. Identifying the constraints to growth is only a first step; doing something about them usually requires building a consensus for change and establishing a process that often extends over several years.

50. Notable reform efforts include reform of the telecommunications sector and, most recently, incremental improvements to business licensing arrangements. In the case of telecommunications, at least five key factors can be identified that enabled telecommunications reform which led to mobile phone competition in 2002. These include: the identification of a specific reform agenda, reflected in clear policies; strong government commitment, reflected in the establishment of an independent regulator under law; the strong commitment of the King of Tonga to telecommunications liberalization, including divestment of his personal interests in TONFON; the importance of Tonga's World Trade Organization membership in underwriting the reform process; and the role of Tonga's diaspora with interests in cheap mobile telecommunications, which formed a strong public constituency for reform.

51. Access to finance remains an important issue. Paradoxically, greater banking competition has meant there is an abundance of liquidity in Tonga but small and medium-sized firms struggle to access finance. There are a number of reasons for this, including inadequate collateral (including land), difficulty preparing credible business cases, and SMEs' generally poor reputation for repaying credit. The government has recently provided subsidies to the Tongan Development Bank so it can support low-cost loans but business requires more broadly-based support for it to be able to access finance.

52. Improving the quality of Tonga's infrastructure is a major issue. Tonga energy costs are higher than those of its neighbors and its reliance on imported diesel to generate electricity imposes a major financial burden. National plans to improve diesel importation efficiencies, such as by investing in adequate storage facilities, have struggled to progress despite being on the policy agenda for many years. Tonga is committed to increase the proportion of energy derived from renewable sources by 50% by 2020, but current investments in renewable energy have yet to realize the anticipated benefits due to capacity and regulatory impediments. Tonga has developed a strategic plan to inform energy sector reform, the Tonga energy road map, but the political economy of energy reform has impeded progress.

53. Tonga has benefited from telecommunications and competition reform undertaken over the last decade, which has resulted in it having some of the cheapest mobile telecommunications charges in the Pacific. However, internet charges are high and impede development of the s sector. Tonga requires significant investments in port, air and road infrastructure to reduce local production costs, increase exports, and encourage tourism.

54. Tonga has implemented reforms to business licensing through the Business Licensing (Amendment) Act which passed Parliament in late 2012. These will go some way toward reducing licensing costs and timeframes, and will provide for electronic business registration. But licensing arrangements remain an impediment to private sector investment, in particular the requirement for annual license renewals and a high discretionary element within the licensing process.

55. Gaps in commercial law mean the contracting framework in Tonga is very problematic. Tonga does not have a valid Sale of Goods Act or Insolvency Act, which is a significant impediment for businesses seeking to obtain business credit. The Ministry of Labour, Commerce and Industry has developed a business reform road map to inform the business reform agenda.

56. Declining productivity in crop yields, workforce, and acreage under cultivation are the key challenges facing the agricultural sector. Lack of appropriate skills to engage in good agricultural practice and limited extension and technical support services are also issues. Land tenure is skewed toward ownership and control by the monarchy and nobles and land ownership by women is not allowed. Non-

tariff barriers inhibit market access in traditional destinations (New Zealand, Australia, Japan and USA). There is a lack of finance to invest in training, quality improvements and standards certification and vital inputs, e.g. fertilizers, chemicals, good variety seeds and equipment. Costs of transport, fuel and inputs, airfreight and shipping are rising. Low productivity escalates this problem by increasing unit costs due to diseconomies of scale.

57. Trading licenses are also problematic for the private sector. These are issued by the Ministry of Commerce, Tourism and Labour while other licenses are issued by different departments. The multiplicity of issuing authorities is a major concern to the business community as it causes delays, creates confusion and increases costs of doing business. In 2013, out of the 3,810 businesses, only 117 were registered members of the Tonga Chamber of Commerce and Industries. The key constraints on private sector development are the small number of business operators; limited advocacy representation, as only 5% of businesses belong to private sector associations; and a slow process of business registration and the issuance of licenses and permits.

b. Pacific Private Sector Development Initiative Response

58. Since 2007, Tonga has received $3.9 million in support from PSDI. One-third of this has been allocated to business law reform subprograms, including development of the Pacific's first multiple-entity registry and numerous legislative reforms. In-country advice for private sector reform opportunities and two private sector assessments accounted for 23% of overall funding, while a broad state-owned enterprise (SOE) reform and public–private partnerships program received 18%.

59. In fiscal year (FY) 2017, business law reform support for the new foreign investment and contract laws attracted the largest proportion of funding—44%. Access to finance support for the Tonga Development Bank, Retirement Fund Board, and National Retirement Benefits Fund accounted for 24% while economic empowerment of women subprograms received 7% for a gender assessment of the revised contracting laws. This was down from the previous year (FY2016) when it received 27% of allocated funding for the women's business leadership pilot project.

60. Analytical work in Tonga started in 2008 when PSDI published *Transforming Tonga: A Private Sector Assessment*, triggering a significant range of reform measures, including company law reform, secured transactions reform, microfinance engagement, and various subprograms supporting private sector growth. In 2011, PSDI published an update to the 2008 assessment which was presented and discussed at a Central Bank sponsored summit in March 2012. A final report, *Continuing Reform to Promote Growth: An Update of the Private Sector Assessment for Tonga*, was published in December 2012.

1. Access to Finance

61. The Personal Property Securities Act was enacted in September 2010 and an online registry went live in April 2011. PSDI also supported amendments to the act, passed in December 2012, and a registry upgrade.

62. While the secured transactions framework is being used, it is not yet fulfilling its potential. PSDI continues to engage with Tongan lenders to increase their uptake of the framework, and, since mid-2014, PSDI has been working closely with Tonga Development Bank and key actors in the vanilla industry to develop a supply chain financing product for the industry. The objective is to launch a pilot financing facility, which could be extended to a wider range of borrowers in the vanilla industry and other agricultural sectors at a later stage.

63. Since mid-2014, PSDI has also been working to strengthen Tonga's pension fund industry. A review of the policies of the Retirement Fund Board was undertaken in late 2015 and was followed by

support for a statement of investment beliefs and improvements to investment due process for each asset class. The National Reserve Bank of Tonga has requested PSDI assistance to reform the legal and regulatory framework for pension funds. This assistance was provided in 2016.

2. Business Law Reform

64. In 2009, PSDI helped prepare the Companies (Amendment) Act. Approved by cabinet and the legislative assembly in September 2009, the act streamlines the Companies Act, 1995 and provides for an electronic registry.

65. A hybrid paper and electronic registry went live in December 2009. In 2012, the government asked PSDI undertake design and implementation of a fully electronic company registry. Procurement began in 2014 and in December 2014 Tonga's innovative online registry went live, allowing users to file and access company records, business names and business licenses all from one integrated source, a first in the Pacific Islands.

66. PSDI's private sector assessment in 2012 identified business licensing laws as one of the private sector's most significant constraints. PSDI subsequently assisted the government with business licensing reform, completing an analysis and drafting amendments to the Business License Act. Parliament passed the amendments in late 2012, simplifying the entire licensing regime and reducing transaction costs for businesses. PSDI also drafted regulations and assisted with advocacy. PSDI supported policy design and drafting of a Receiverships Bill, which was passed by Parliament in 2015 but is yet to come into effect.

3. State-Owned Enterprise Reform and Public–Private Partnerships

67. PSDI has supported a broad-based SOE reform program affecting all of Tonga's SOEs. This has included:

- (i) preparing an amended SOE Act and providing governance training;
- (ii) developing a director performance appraisal system and a skills-based director selection process;
- (iii) developing and implementing community service obligation guidelines; and
- (iv) providing training to assist with implementing the amended SOE Act.

68. Tonga is the first Pacific DMC to publish SOE financial and operational performance information in the local press.

69. PSDI supported the partial liquidation of Tonga Print Limited in October 2013. It also assisted with the corporatization and commercialization process of the Small Industries Centre, which was commercialized in September 2012, and TEQM Limited. PSDI made restructuring recommendations for Tonga Communications Corporation; these were endorsed by cabinet in August 2013 but have not been implemented. In the first quarter of 2014, at the request of the Tonga Water Board, PSDI undertook an outsourcing scoping study, the implementation of which was completed in 2015.

70. PSDI funded the placement of an SOE expert within the Ministry of Public Enterprises for 3 months at the end of 2014 to advise on Tonga Forest Products Limited's financial restructuring and privatization options, and to assist Tonga Broadcasting Commission to identify and cost CSOs. With PSDI's assistance, Tonga has become the first country in the Pacific to develop SOE-specific financial targets based on the ministry's assessment of risk and required return.

71. PSDI also supported the development of an SOE ownership, divestment, and reform policy that was endorsed by cabinet in 2014. Tonga has participated in all five Finding Balance studies.

72. PSDI has worked closely with the Asian Development Bank and donor partners to design SOE reform policy actions for inclusion in joint donor program based grants. Through ongoing policy dialogue with PSDI, Tonga agreed in 2015 to undertake further SOE restructuring and governance reforms. PSDI drafted an SOE ownership and divestment policy that identifies seven high priority divestments and includes reform plans for the balance of the SOEs. Cabinet endorsed the policy in the third quarter of 2015.

73. PSDI has also supported the government's governance reforms and provided policy advice on the development of shared SOE boards.

74. Throughout 2015–2016, PSDI provided advice on privatization options for Tonga Forest Products Limited, culminating in the government's agreement in May 2016 to enter into a 50-year concession contract with private sector interests to invest in, manage, harvest, and replant the SOE's forestry assets.

4. Competition

75. PSDI began a review of Tonga's competition framework in 2013. In 2014, the government asked that priority be given to the establishment of a multisector regulator, which PSDI agreed to support. Issues and options for a multisector regulator have been discussed with the government and PSDI presented a proposal for a coordinated approach to regulatory and competition reform to the government in the latter half of 2015.

5. Economic Empowerment of Women

76. PSDI designed and implemented the women's business leadership pilot project, which was designed to move women towards leadership positions by:

(i) providing training on leadership and management, including corporate governance, media management, and business networking;
(ii) obtaining commitments from Tongan businesses to increase the participation and promotion of women employees, thereby instituting a change in the business culture and demonstrating a commitment to the professional advancement of women; and
(iii) establishing links between Australian and Tongan businesswomen for their mutual development and to benefit their businesses.

77. The project was embraced by leading Tongan companies and government organizations. Three two-day training sessions were held: in August and November 2015, and February 2016.

78. Another pilot project initiated by PSDI in 2016 aimed to increase women vanilla farmers' access to supply chain financing, raise their awareness of business law reforms, and evaluate ways for them to access concessional financing.

c. Assessment of Pacific Private Sector Development Initiative in Tonga

79. The program in Tonga was PSDI's third largest in amount and the largest in number of subprograms as of 30 June 2017. The Ministry of Commerce and the Ministry of Public Enterprises are PSDI's main counterparts and the program focused heavily on reforms to business law and state-owned enterprises. While Tonga does not have a local coordinator, key counterparts believe they receive valuable support from lead consultants based in Sydney and from the ADB–World Bank Tonga Development Coordination Office, which provides a contact point for the government and other development partners in Tonga. These coordination efforts are reflected in the way PSDI operates in Tonga; it has been heavily involved in supporting reform areas identified in budget support operations by donor community. Tonga's budget support operations are coordinated through a joint policy reform matrix process that brings together key ministries and development partners, maps out critical development constraints,

designs policy and technical assistance solutions, and monitors their implementation. PSDI's work both informs the design of these operations and supports the implementation of the policy actions, in particular in the areas of public enterprise and business law reforms, including foreign investment.

80. PSDI's work on creating a fully electronic company registry, business licenses, and secured transactions has helped to modernize Tonga's business regulatory framework, making processes smoother and faster. Nevertheless, the outputs did not fully achieve the outcome intended, with increases in companies' registration and business licenses, but limited uptake by the financial sector of the secured transaction framework. There is also no clear measure of the impact of these reforms on economic activities.

81. Tonga's public enterprise portfolio is composed of 14 entities which together hold an estimated T$454m in assets. PSDI support for SOE reform has been broad-based, impacting all of Tonga's SOEs. It has included technical advice to remove ministers from SOE boards, the adoption of objective performance targets supported by improved transparency and accountability, the establishment of CSO frameworks, the contracting out of non-core activities, and the merging of small nonprofitable SOEs to achieve economies of scale. While it is difficult to attribute improvements in SOE performance directly to these, it is possible that they have contributed to the SOEs' improved performances from a 0% return in 2009 to 6% in 2016.

D. Palau

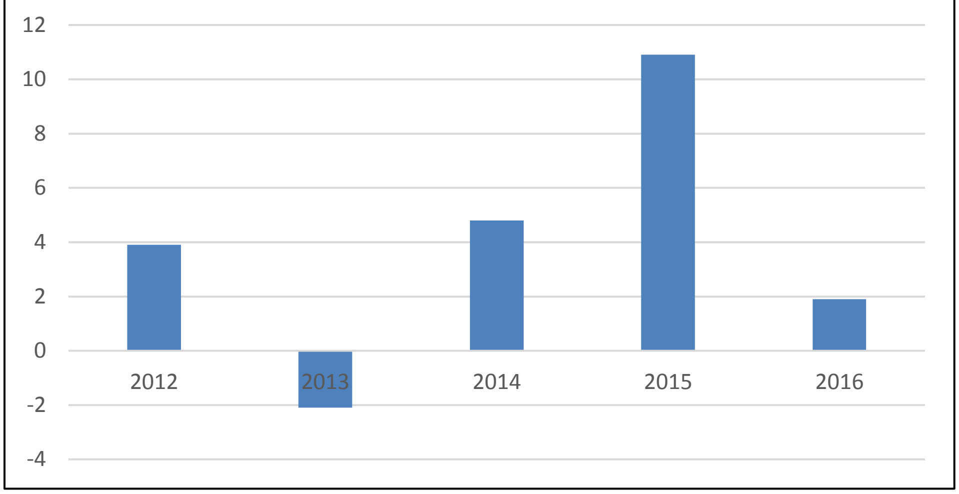
82. In recent years, Palau's economy has expanded strongly, with real gross domestic product (GDP) rising by 5.3% in 2014 and 8.2% in 2015. The country's per capita GDP also increased and, by the FY2015, it was in excess of $16,000—the highest of ADB developing member countries in the Pacific region. The government projects a fiscal surplus of 4.0% of GDP in FY2017, down from the 4.7% surplus realized in FY2016, largely because of declining tourism receipts. The economy of Palau is dominated by tourism and public administration. In 2015, tourism accounted for close to 25% of Palau's total output.

83. The fiscal surplus is expected to hit 5.0% of GDP in FY2018 with an expected recovery in visitor arrivals and a planned increase in the departure tax to be implemented in 2018. The current account deficit is expected to widen marginally in FY2017, partly because of lower tourism receipts, but by slightly less than anticipated in the *Asian Development Outlook 2017,* with a smaller increase in imports of project construction materials and stable fuel imports.[6]

84. This strong performance, however, masks some urgent issues that could threaten the sustainability of Palau's economy and compromise its long-term prosperity. The country's economy is founded upon tourism, and the exceptional growth of the past 2 years is primarily due to an explosion in visitor numbers. The rapid expansion has placed a significant strain on the carrying capacity of Palau's pristine natural sites, and is threatening to overwhelm the country's infrastructure.

[6] ADB. 2017. *Asian Development Outlook 2017*. Manila.

Figure A4.4: Palau Annual GDP Growth (%)



Source: https://www.adb.org/countries/palau/economy

1. Private Sector Development Issues

85. Development issues are most evident in the tourism industry, but are also present in the efficiency of state-owned enterprises (SOEs), access to finance, and the business law framework. It is important that these are addressed to ensure that Palau’s recent growth continues and is sustainable, without compromising the country’s pristine environment.

86. Agriculture has the potential to reduce Palau’s dependence on food imports, which have been growing rapidly as tourism has expanded. However, the sector is very underdeveloped and steps need to be taken to encourage agriculture, including implementing a land-use planning policy to ensure that infrastructure is not overwhelmed.

87. Reforms to several of Palau’s laws governing business activity are needed. In particular, the Corporations Act does not contribute to business formation and fails to assist in the development of a viable tourism industry. Reforming the Corporations Act and installing a modern electronic corporation registry will promote private sector development and improve Palau’s tourism policy. PSDI has recommended that the government should consider enacting a US-style limited liability companies act in order to formalize small, locally owned businesses. Bankruptcy legislation is also needed.

88. The financial system is not intermediating effectively between savers and lenders. The international banks are sending a large percentage of their excess reserves outside the country. Part of the motivation for doing so is that local lending is risky, with the banks not prepared to finance local business activity. A major contributor to this reluctance to lend is a ceiling for interest rates on loans to businesses—a ceiling that does not reflect the riskiness of lending. The National Development Bank of Palau (NDBP) is a potential lender, particularly to agriculture, but currently its systems are outdated, and it has a liquidity shortage. Improving the NDBP’s operating efficiency, and tapping into savings, will provide Palauan businesses with an additional source of financing.

89. Palau’s SOEs are inefficient and are a drain on the government’s budget. Requiring them to operate under a commercial mandate is a first step in improving productivity. Further steps to outsource the provision of government services, including those provided by SOEs, will reduce costs and generate employment.

90. A PSDI private sector assessment of Palau was published in 2017.[7] It provided a comprehensive analysis of the economy and specifically of the private sector. It identified the following series of subprograms and reforms that are still needed:

a. Tourism

a. Develop a national tourism policy without delay.
b. Focus policy on ensuring that new tourism facilities do not overstrain the water and sewage infrastructure, and provide high-end accommodation consistent with Palau's long-term tourism strategy.
c. Assess the impact of the new departure tax, and investigate the feasibility of a daily head tax.
d. Use market mechanisms to auction landing rights for airlines.
e. Use peak load pricing to spread tourist visits to popular sites over the day.
f. Improve coordination of tourism policies between state and national governments.
g. Improve and enforce licensing requirements, and sharply increase penalties for infractions of tourism licensing and regulations.

b. Land

a. Introduce a 90-day window for clan members to file any objection to leases signed on behalf of the clan.[8]
b. Make more government land available for leasing.
c. Ensure that the structure of leases does not penalize future generations.
d. Develop a land-use planning system.

c. Access to Finance

a. Abolish the usury ceiling on commercial loans made by foreign-owned lenders.
b. The Financial Institutions Commission should consider recognizing loans secured by movable assets as secured loans under its regulatory framework.
c. Widen the discussion of the transition of the National Development Bank of Palau (NDBP) to a deposit-taking institution into a comprehensive strategic review of the overall funding of the NDBP.
d. Build the capacity of the NDBP to improve its systems for granting and monitoring loans.
e. Abolish the requirement that the NDBP can only lend to companies that are majority Palauan-owned.
f. Establish a credit bureau that is also linked to US credit bureaus.

d. Agriculture

a. Develop a national agriculture policy.
b. Implement the policy through a joint venture between the Bureau of Agriculture and the Growers Association.
c. Establish a permanent market for the sale of organic produce.
d. Abolish quarantine rules to lower costs and reduce Palau's vulnerability to supply disruption.

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[7] ADB. 2017. *Private Sector Assessment for Palau: Policies for Sustainable Growth Revisited.* Manila.
[8] Palauan villages are organized around 10 clans. A council of chiefs from the 10 ranking clans govern the villages, and a parallel council of their female counterparts have a significant advisory role in the division and control of land and money.

e. Commercial Legal Framework

a. Pass a new Corporations Act, establish an electronic registry, and use this framework to deal with the issue of "businesses nominally owned by Palauans, but in reality, are controlled by a non-Palauan front(s)."[9]

b. Develop a modern business licensing system and integrate it with the electronic corporation registry.

c. Draft new bankruptcy legislation to better protect individuals.

d. Amend the November 2016 Foreign Investment Act so that it is consistent with any laws on new corporations; place foreign corporations under the jurisdiction of the registrar of corporations; integrate foreign investment registration into the electronic registry to be deployed for all corporations.

f. Economic Empowerment of Women

a. Develop legislation to protect women from sexual harassment in the workplace.

b. Through the Palau Chamber of Commerce, provide business training specifically designed for women entrepreneurs.

c. Provide training on the secured transactions framework to assist women in obtaining finance.

d. Increase awareness of the damaging impact of domestic violence and its economic implications.

g. Tax Policy

a. Reform the gross receipts tax by replacing it with a value-added tax.

h. State-Owned Enterprises

a. Insist that state-owned enterprises operate under strict commercial principles.

b. Explore opportunities to contract out or privatize services that are currently supplied by the government and government-owned entities.

c. Search for additional telecommunication service providers.

2. Pacific Private Sector Development Initiative Response in Palau

91. Palau has been the recipient of the following subprograms: two for business reform, two for access to finance, and one each for PPP and SOEs. More than 40% of the $643,000 committed by PSDI to Palau since 2007 supported secured transactions reform, which culminated in the launch of an online registry in 2013. In FY2017, the $186,000 allocated to Palau went mostly toward the access to finance work area. A third of the spending funded initial reforms to Palau's corporation registry, while the remainder was used for the production and launch of the private sector assessment for Palau.

92. In the area of business law reform, PSDI completed an analysis of the Corporations Act and the existing corporation registry in late 2013. It found the private sector in Palau to be severely constrained by an outdated corporate law and an almost dysfunctional paper-based registry. PSDI has provided input for the new Corporations Bill but the new government does not see corporate law reform as a priority.

93. Regarding access to finance, following PSDI-supported secured transactions reform, the Secured Transactions Act was passed in May 2012 and an electronic registry was launched in January 2013. Although the number of secured loans per capita is still quite small, Palau's secured transactions filings are still in the top half of those in use in the Pacific. PSDI is providing ongoing support to lenders so they can increase their uptake of the secured transactions framework.

[9] ADB. 2017. Private Sector Assessment for Palau: Policies for Sustainable Growth Revisited. Manila.

94. PSDI is supporting the commercial strengthening of the National Development Bank of Palau in line with the regulatory requirements of the Palau Financial Institutions Commission. A review of bank policies has commenced, and operational assistance may follow this review.

95. In the area of state-owned enterprise reform and public–private partnerships, PSDI continues to support implementation of an SOE policy. The first public consultation on the draft SOE policy was held in November 2013 and the second in April 2014, and the policy was endorsed by the President in late 2014. It calls for the commercial operation of all three of Palau's SOEs, the establishment of a contracting framework for community service obligations, and the removal of elected officials from SOE boards.

96. In 2016, PSDI provided technical support to review options for private investment and operation of Koror airport through a public–private partnership mechanism.

97. With the Palau Chamber of Commerce, PSDI began a corporate governance strengthening program in April 2014, which is ongoing. PSDI also assisted the newly merged power and water utility with its articles of incorporation and the selection process for the chief executive officer.

3. Assessment of Pacific Private Sector Development Initiative in Palau

98. Small states such as Palau have not necessarily received proportionate funding to their size, either as measured by GDP or population. If measured by population, Palau makes up only 0.15% of the total population of the 14 Pacific DMCs. However, the total committed funds it received accounted for 2.1% of total PSDI disbursement.

99. This is partly a reflection of the indivisibility of subprogram activities. For example, the development of a secure transactions framework, one of the most common activities under the access to finance focus area, requires approximately the same inputs irrespective of the size of the country. An efficient allocation of resources to maximize impact would dictate against smaller states.

100. Among the small island states, the program in Palau was the largest in dollar volume and the second largest in number of subprograms as of 30 June 2017. The Ministry of Finance and the Financial Institutions Commission were the main counterparts. The program focused on business law reform and access to finance. PSDI's policy dialogue has been driven by a private sector assessment in 2007, updated in 2017. The update, while recognizing that the private sector still faces significant challenges before the economy can fulfill its long-term growth potential, praised Palau's advancements, especially in the strengthening of financial sector regulation and in establishing a secured transactions framework.

101. In 2012, PSDI supported the drafting of the Secured Transactions Act, which was passed by Parliament in 2012. PSDI also supported the development of an electronic registry, which became functional in 2013 and is administered by the Financial Institutions Commission serving as the registrar. As with other Pacific countries, the uptake on the regulatory framework has fallen short of achieving what was intended. By the end of 2016, only 663 security interests had been registered. The underutilization of the secured transactions framework seemed to depend on a variety of issues, including the fact that: (i) business lending is limited as financial institutions tend to focus on retail loans, often providing them unsecured; and (ii) some lenders have not incorporated the provisions of the Secured Transactions Act into their lending practices. The latter is especially relevant to foreign banks, which often have their credit decisions made by headquarters outside the country. There are six banks operating in Palau: five licensed commercial banks and the National Development Bank of Palau, which is the largest user of the secured transaction framework.

102. Palau's legal system is based on its constitution, customary law, and common law as applied in the United States, a common pattern in north Pacific island states. Hence, most commercial laws are based on common law. In 2013, PSDI reviewed Palau's Corporations Act and concluded that the law was

not suited to support modern company formation. In addition, PSDI regarded the paper-based company registry as dysfunctional, as confirmed by the evaluation mission with the representatives of the local Chamber of Commerce. As part of the policy dialogue with the authorities, PSDI provided input to a revised Corporations Act, which included, after its passage, the establishment of an electronic registry. However, PSDI's efforts came to a halt when the new act was not pursued further by the new government. These reforms will need high-level political commitment if they are to be pursued further.

APPENDIX 5: SUMMARY OF SURVEY FINDINGS

A. Introduction

1. As part of the evaluation of the Pacific Private Sector Development Initiative (PSDI), the Independent Evaluation Department (IED) conducted a survey among government agencies that received assistance from PSDI. The main objective of the survey was to receive the opinions, perceptions, and observations of government officials on the relevance and effectiveness of PSDI and the quality of PSDI's assistance. Table A5.1 lists the questions asked in the survey.

Table A5.1: Breakdown of Response Rates by Country

Question	PSDI Client & Stakeholder Survey Questionnaire
0	Your Country
1	Under which of the following focus areas of PSDI was the assistance provided? Please tick all that apply
2	Who identified the need for the assistance? Please tick one of the following
3	How relevant is PSDI's assistance to the government's development priorities? Please tick one of the following
4	How would you rate the overall assistance provided by PSDI? Please tick one of the following
5	How would you rate the responsiveness of PSDI's assistance? Please tick one of the following
6	How would you rate the quality of the support received from PSDI? Please tick one of the following
7	How do you rate PSDI's contributions to promoting private sector development? Please tick one of the following
8	How likely do you think it is that the reforms achieved under the PSDI assistance will be sustained
9	How would you rate PSDI's coordination with other development partners working on private sector development in your country? Please tick one of the following
10	On a scale of 1 (lowest) to 10 (highest), how would you rate each of the PSDI's perceived strengths
11	Is PSDI your first point of contact when you need assistance from donors on private sector development issues
12	Other comments and suggestions

B. Methodology

2. IED asked PSDI to provide the names and email addresses of the main contact persons for each PSDI project. In most cases, there was only one main contact person for several projects in the same initiative or focus area. There were also instances, particularly for older projects, where the focal persons were no longer with the government agency and could not be located. Hence, out of a total of 522 projects, contact details were provided for only 88 individuals. Of these six were not considered valid target respondents because:

(i) three had email delivery failures,
(ii) one no longer works for the government and did not answer the survey,
(iii) one did not answer because a colleague had already answered, and
(iv) one was not able to answer because of inability to access to survey.

3. The surveys were sent to the contact persons in the government agencies from 22 August to 27 September 2017 using Survey Monkey. A total of 48 people participated in the survey, an overall response rate of 59%. The breakdown of the response rates by country is shown in Table A5.2.

Table A5.2: Breakdown of Response Rates by Country

Country	Sent	Responded	Response Rate (%)
Cook Islands	3	2	67
Fiji	8	3	38
Federated States of Micronesia	2	1	50
Kiribati	2	2	100
Nauru	1	0	0
Papua New Guinea	5	3	60
Republic of the Marshall Islands	18	12	67
Samoa	4	4	100
Solomon Islands	9	7	78
Timor-Leste	6	2	33
Tonga	16	9	56
Tuvalu	2	1	50
Vanuatu	6	2	33
Total	**82**	**48**	**59**

Source: Independent Evaluation Department survey.

4. For most respondents, PSDI assisted them in more than one focus area. Those with most responses were in state-owned enterprises (44%), business law reform (40%), and access to finance (38%).

C. Findings

5. When asked who identified the assistance, most of the respondents said PSDI and the government jointly (50%) followed by "others" (18%) and "government primarily" (17%). Regardless of who identified the assistance, an overwhelming majority of the respondents thought that PSDI's assistance to the government's development priorities was highly relevant (75%) while another 21% said it was relevant. Two of the respondents, however, commented that, while the assistance provided by PSDI was relevant, they did not think the government acted on the PSDI report.

6. When asked to rate the overall assistance provided by PSDI, 51% of the respondents said that it was highly satisfactory while 45% said it was satisfactory. Only two respondents rated PSDI assistance partly satisfactory—one because there were still tasks to be completed, the other because his/her employer had been told by PSDI that it had to accept the PSDI recommendation for commercialization or else it would not get any further assistance. One of the main reasons nearly all the respondents found PSDI assistance to be satisfactory or highly satisfactory was that PSDI was highly responsive (53%) or responsive (43%). Some of the comments were: (i) "Better than ADB or IMF"; (ii) "Best ever"; and (iii) "Always at our doorstep when requested/needed". Most of the respondents also found the quality of support received from PSDI to be highly satisfactory (40%) or satisfactory (43%) and some of them attributed this to experienced consultants with realistic solutions to their challenges.

7. The respondents thought that PSDI's contribution to private sector development was significant (52%) or substantial (35%). One of them commented that PSDI's identification of impediments and targeting key blockages was critical to its success. A clear majority of the respondents thought that the reforms achieved under the PSDI assistance would be highly likely to be sustained (46%) or likely to be sustained (42%). Many respondents thought that PSDI's coordination with other development partners was generally satisfactory (51%) or highly satisfactory (30%).

8. The respondents were also asked to rate the perceived strengths of PSDI. On a scale of 1 to 10 with 10 being the highest, the perceived strengths with the highest average scores were (i) quality of consultants (8.23), (ii) responsiveness (8.08), (iii) long-term engagement (7.77), (iv) demonstration effect (7.64), and (v) flexibility (7.33). Some respondents added sound research and assessment of local context, approachability, and culturally sensitivity as additional strengths of PSDI.

9. Finally, when asked whether PSDI was their first point of contact when they needed assistance from donors on private sector development issues, 69% said “yes”. Those who answered “no” mentioned other donors and the government as their first points of contact.

APPENDIX 6: METHODOLOGY FOR THE REVIEW OF PSDI OUTPUTS

1. Out of the 522 PSDI projects, 238 had been completed as of 3O June 2017. Of those completed projects only 161 had substantial information on the PSDI monitoring and evaluation (M&E) tool. A total of 182 completed outputs were produced by these projects; the evaluation took a sample of 30% of these (62 outputs). The sample covered:

(i) a mixture of large and small projects,
(ii) all 14 Pacific countries,
(iii) all focus areas, and
(iv) different types of outputs.

Table A6.1: Project Evaluation Template

Name of Project		
Focus area		
Country		
Start / Finish dates		
Value		
Relevance	Selection	• Is it consistent with the ADB TA document? • Is it a priority as outlined in the PSA and the country's national strategy? • Does it complement ADB's other programs, including TA and PBL?
	Objective	• What was the objective (in 1 or 2 dot points)? • Is the approach an appropriate response to the identified problem?
	Implementation	• Has PSDI ensured strong country ownership and established proper governance?
	Outputs	• Was the output in line with the objective?
Effectiveness	Outputs	• Are results defined in terms of outputs or outcomes? • Were tangible and/or lasting results achieved? • What was the quality of the outputs?
	Objective	• Did the project deliver the intended objective in the design?
	Implementation	• Were there any unintended outcomes, either positive or negative? • What was the quality of the outputs? • What were major factors that spelled success or failure in achieving intended outputs and outcomes?
Efficiency	Outputs	• Were adjustments required in the course of project implementation? • Did PSDI leverage its assistance with other TA (e.g., from ADB, MFAT, or DFAT)?
	Implementation	• Was there adequate reporting (e.g., of implementation or lessons learned)?
Sustainability	Outputs	• Does the recipient government have the capacity to deliver and maintain the project? • How strong is the ownership and political will of government to continue the reform?

ADB = Asian Development Bank, DFAT = Australian Department of Foreign Affairs and Trade, MFAT = New Zealand Ministry of Foreign Affairs and Trade, PBL = policy-based loan, PSA = private sector assessment, PSDI = Private Sector Development Initiative, TA = technical assistance.

Appendix A6.2: Completed Outputs by Country and Focus Area

Countries	Access to Finance	Analytical or Crosscutting	Business Law Reform	Competition and Consumer Protection	Economic Empowerment of Women	SOE or PPP	Total
Cook Islands	1	1	0	2	0	2	**6**
Federated States of Micronesia	1	0	0	0	0	1	**2**
Fiji	3	2	0	0	0	3	**8**
Kiribati	0	0	0	0	0	1	**1**
Marshall Islands	1	0	0	0	0	3	**4**
Nauru	2	0	0	0	1	2	**5**
Palau	2	1	0	0	0	4	**7**
Papua New Guinea	6	4	0	0	0	3	**13**
Regional	11	11	4	1	4	14	**45**
Samoa	2	3	1	1	0	1	**8**
Solomon Islands	9	2	4	0	3	5	**23**
Timor-Leste	15	2	1	0	2	4	**24**
Tonga	4	2	6	0	0	5	**17**
Tuvalu	0	0	0	0	0	2	**2**
Vanuatu	8	1	4	1	0	3	**17**
Total	**65**	**29**	**20**	**5**	**10**	**53**	**182**

Appendix A6.3: Selection of Outputs to Evaluate

Focus Area	Country	Initiative Name	Committed	Outputs	Project Name	Output Types
Access to Finance	COO	Support for the Commercial Transformation of Bank Of The Cook Islands	15,017.00	1	Development of a Liquidity Management Policy	Policy and Technical Advice
Access to Finance	FSM	Secured Transactions Reform	31,265.00	1	Registry Application Upgrades	Software
Access to Finance	FIJ	Microfinance and Microinsurance Assessments	126,518.00	1	Microfinance and Microinsurance Assessments	Policy and Technical Advice
Access to Finance	RMI	Secured Transactions Reform	32,557.00	1	Registry Application Upgrades	Software
Access to Finance	NAU	Introduction of Banking Services to Nauru	71,500.00	1	Assessment of Banking Models	Policy and Technical Advice
Access to Finance	NAU	Introduction of Banking Services to Nauru	73,862.00	1	Drafting of Information Memorandum	Policy and Technical Advice
Access to Finance	PAL	Secured Transactions Reform	75,623.00	1	Drafting and Passage of the Secured Transactions Law	Draft Law
Access to Finance	PAL	Secured Transactions Reform	125,276.00	1	Registry Design and Implementation	Software
Access to Finance	PNG	Secured Transactions Reform	378,229.00	1	Drafting and Passage of a Secured Transactions Law	Draft Law
Access to Finance	PNG	Support for the Microfinance Expansion Project	234,076.00	1	Project Preparation of the Microfinance Expansion Project	Policy and Technical Advice
Access to Finance	REG	Market Assessment for Partial Risk and Term Financing	49,660.00	1	Market Assessment for Partial Risk and Term Financing	Policy and Technical Advice
Access to Finance	REG	Support for ADB Workshops on Risk Management for Small and Medium-Sized Enterprises Lending	17,201.00	1	Workshop with ORM (July/August 2014)	Seminar, Training, etc

Focus Area	Country	Initiative Name	Committed	Outputs	Project Name	Output Types
Access to Finance	SAM	Secured Transactions Reform	309,114.00	1	Drafting and Passage of the Secured Transactions Law	Draft Law
Access to Finance	SOL	Finance Sector Regulation	95,181.00	1	Microfinance and Mobile Banking Regulatory Review	Policy and Technical Advice
Access to Finance	SOL	Secured Transactions Reform	142,900.00	1	Drafting and Passage of the Law	Draft Law
Access to Finance	TIM	Support to The National Commercial Bank of Timor-Leste (BNCTL)	232,903.00	2	Strengthening the Banco Nacional de Comércio de Timor-Leste (BNCTL)	Seminar, Training / Policy and Technical Advice
Access to Finance	TIM	Support to the National Commercial Bank Of Timor-Leste (BNCTL)	345,499.00	1	Strengthening the Financial Sector in Timor-Leste	Policy and Technical Advice
Access to Finance	TON	Secured Transactions Reform	250,072.00	2	Filing Registry Design and Implementation	Seminar, Training / Policy and Technical Advice
Access to Finance	VAN	Secured Transactions Reform	65,484.00	2	Implementation of the Law and Registry	Seminar, Training / Policy and Technical Advice
Analytical/ Crosscutting	COO	Private Sector Assessment	121,162.00	1	Publication and Launch of the Cook Islands PSA (2015)	PSA
Analytical/ Crosscutting	FIJ	Private Sector Assessment For Fiji (FIJ PSA)	144,793.00	1	Publication of the Fiji PSA (2013)	PSA
Analytical/ Crosscutting	PAL	Private Sector Assessment	135,403.00	1	Publication of the Palau PSA (2016)	PSA
Analytical/ Crosscutting	PNG	Institute of National Affairs (INA) Private Sector Survey	121,019.00	1	Publication of Challenges to Doing Business in Papua New Guinea (2014)	Other Publications
Analytical/ Crosscutting	REG	Pacific Aviation and Shipping	180,829.00	1	Pacific Aviation and Shipping	Policy and Technical Advice
Analytical/ Crosscutting	SAM	Creating Jobs in Samoa Through PPPs	-	1	Publication of Case Study	Other Publications
Analytical/ Crosscutting	SOL	Evaluation of the Solomon Islands Companies Act	34,690.00	1	Companies Act Evaluation Report	Policy and Technical Advice
Analytical/ Crosscutting	TIM	Private Sector Assessment for Timor-Leste	115,929.00	1	Publication of the Timor-Leste PSA (2015)	PSA
Analytical/ Crosscutting	TON	Private Sector Assessment for Tonga	151,916.00	1	Publication of the Tonga PSA Update (2012)	PSA
Analytical/ Crosscutting	VAN	Private Sector Assessment For Vanuatu	131,860.00	1	Publication of the Vanuatu PSA (2009)	PSA
Business Law Reform	REG	Business Registries Study Tour and Workshop and Corporate Registers Forum (March 2013)	202,846.00	1	Business Registries Study Tour and Workshop and Corporate Registers Forum 2013	Seminar, Training, etc.
Business Law Reform	SAM	Support for the Establishment of the Customary Land Advisory Commission (CLAC)	22,643.00	1	Support for the Establishment of the CLAC	Policy and Technical Advice
Business Law Reform	SOL	Registration of Business Names Act	85,072.00	1	Review of Act and Drafting of New Bill	Draft Law
Business Law Reform	TIM	Company Law Reform	53,368.00	1	Legal and Registry dDiagnostic	Policy and Technical Advice

Focus Area	Country	Initiative Name	Committed	Outputs	Project Name	Output Types
Business Law Reform	TON	Multiple Business Entity Registry (Companies, Business Licenses, And Business Names)	578,538.00	1	Design and Implementation of the Registry	Policy and Technical Advice
Business Law Reform	VAN	Company Law Reform	185,028.00	1	Drafting and Passage of the Companies Act	Draft Law
Business Law Reform	VAN	Reform of Business Names and Charitable Associations	43,621.00	1	Review of Law and Drafting of Regulations	Draft Law
Competition	COO	Strengthening Competition and Consumer Protection	49,402.00	1	Strengthening Competition and Consumer Protection	Policy and Technical Advisor
Competition	SAM	Competition Reform	371,104.00	1	Preparation of Competition Policy and new Legislation	Policy and Technical Advisor
Economic Empowerment of Women	NAU	Support for Gender Issues	2,767.00	1	Peer Review of Gender Plan	Policy and Technical Advice
Economic Empowerment of Women	REG	Diagnostics on Discriminatory Legal Provisions In The Pacific	23,061.00	1	Diagnostics on Discriminatory Legal Provisions in the Pacific	Policy and Technical Advice
Economic Empowerment of Women	REG	Gender Strategy for The Pacific Private Sector Development Initiative	24,562.00	1	Gender Strategy for PSDI 3 - Empowering the Other Half	Other Publications
Economic Empowerment of Women	SOL	Pilot Projects with Pacific Women	163,659.00	1	Boosting women's technical skills to engage in the private sector (solar panel maintenance)	Policy and Technical Advice
SOE or PPP	COO	SOE Reform	44,655.00	1	SOE Reform Gap Analysis	Policy and Technical Advice
SOE or PPP	COO	SOE Reform	22,502.00	1	SOE Reform Gap Analysis - Review of Holding Company Structure	Policy and Technical Advice
SOE or PPP	FSM	SOE Reform	19,694.00	1	Review and Report of Outsourcing Options for Pohnpei Utilities Corp.	Policy and Technical Advice
SOE or PPP	FIJ	SOE Reform	18,942.00	1	Preparation of an SOE Policy	Policy and Technical Advice
SOE or PPP	KIR	SOE Reform	20,071.00	1	Peer Review for SOE Act	Policy and Technical Advice
SOE or PPP	RMI	SOE Reform	64,235.00	1	Drafting and Passage of the SOE Act	Draft Law
SOE or PPP	NAU	SOE Reform	68,858.00	1	Organizational Strengthening of RONPHOS and Nauru Utilities Corp.	Policy and Technical Advice
SOE or PPP	PAL	SOE Reform	57,091.00	1	Corporate Governance Strengthening Program	Seminars and Training
SOE or PPP	PNG	Jacksons and Nadzab Airport PPP	103,644.00	1	Assessment and Feasibility	Policy and Technical Advice
SOE or PPP	PNG	PPP Assessment of Angau Hospital	172,900.00	1	PPP Assessment of Angau Hospital	Policy and Technical Advice
SOE or PPP	REG	Finding Balance 2011	310,018.00	1	Fiji, RMI, Samoa, Solomon Islands, and Tonga	Other Publications
SOE or PPP	REG	Finding Balance 2011	55,496.00	1	SOE Benchmarking Study for PNG	Other Publications

Focus Area	Country	Initiative Name	Committed	Outputs	Project Name	Output Types
SOE or PPP	SAM	Samoa Shipping Services (SSS) Restructuring	104,186.00	1	SSS Restructuring	Policy and Technical Advice
SOE or PPP	SOL	Privatization of Sasape Marina	322,145.00	1	Privatization of Sasape Marina	Policy and Technical Advice
SOE or PPP	TIM	PPP Framework	163,811.00	1	PPP Policy and Guidelines	Policy and Technical Advice
SOE or PPP	TON	Review and Implementation of Outsourcing Opportunities	22,878.00	1	Tonga Water Board Outsourcing	Policy and Technical Advice
SOE or PPP	TUV	SOE Reform	-	1	Tuvalu Philatelic Bureau, Tuvalu Post Office, and Tuvalu Ticketing Office Merger	Policy and Technical Advice
SOE or PPP	TUV	SOE Reform	16,449.00	1	Vaiaku Lagi Hotel Privatization	Policy and Technical Advice
SOE or PPP	VAN	SOE Reform	5,045.00	1	PPP Opportunities in the Power Sector	Policy and Technical Advice

COO = Cook Islands, FSM = Federated States of Micronesia, FIJ = Republic of Fiji, RMI = Republic of the Marshall Islands, NAU = Nauru, PAL = Republic of Palau, PNG = Papua New Guinea, REG = regional, SAM = Independent State of Samoa, SOL = Solomon Islands, TIM = Democratic Republic of Timor-Leste, TON = Kingdom of Tonga, VAN = Republic of Vanuatu.

Note: Committed figures were derived from PSDI database, Filemaker Pro. For Tuvalu Philatelic Bureau, Tuvalu Post Office, and Tuvalu Ticketing Office Merger there was no commitment figure provided in Filemaker Pro.