

Corporate
Evaluation Study

ADB Support to Small Pacific Island Countries



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Corporate Evaluation
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ADB Support to Small Pacific Island Countries

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NOTE

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Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPS	–	country partnership strategy
DCO	–	development coordination officer
DMC	–	developing member country
FCAS	–	fragile and conflict-affected situation
FSM	–	Federated States of Micronesia
GDP	–	gross domestic product
IED	–	Independent Evaluation Department
km	–	kilometer
OCR	–	ordinary capital resources
PARD	–	Pacific Department
PCR	–	project completion report
PFM	–	public financial management
PIC-10	–	10 Pacific island countries
PIFS	–	Pacific Islands Forum Secretariat
PNG	–	Papua New Guinea
PRIF	–	Pacific Regional Infrastructure Facility
PSDI	–	Private Sector Development Initiative
PSOD	–	Private Sector Operations Department
PSM	–	public sector management
PVR	–	project completion report validation report
RMI	–	Republic of the Marshall Islands
SPC	–	South Pacific Commission
TA	–	technical assistance

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Executive Summary

This evaluation assesses the Asian Development Bank's (ADB's) strategy and development operations in 10 Pacific island countries: Cook Islands, Federated States of Micronesia (FSM), Kiribati, Nauru, Palau, Republic of the Marshall Islands (RMI), Samoa, Tonga, Tuvalu, and Vanuatu (PIC-10). These are among the world's smallest and most remote countries on earth with a combined population of less than one million (see map).

In 2011, the *Pacific Approach 2010–2014*, ADB's regional strategy for the Pacific, which includes all 14 Pacific developing member countries, the PIC-10 plus Fiji, Papua New Guinea (PNG), Solomon Islands, and Timor-Leste, also became the country partnership strategy to guide its operations in the PIC-10. The smallest Pacific countries therefore share a common strategic approach.

The focus of the evaluation is the relevance of the Pacific Approach for meeting the development needs of the PIC-10, the extent to which it was implemented over the evaluation period and whether it has made a difference to results. Operations in ADB's larger Pacific country members, Fiji, PNG, Solomon Islands, and Timor-Leste, are not assessed as part of this report. Findings in the study are supported by field missions in Cook Islands, FSM, Kiribati, Samoa, Tonga, Tuvalu, and RMI, a review of Pacific literature, ADB project completion reports (PCRs) and their independent validations, Pacific evaluation reports, and consultations with ADB staff and other stakeholders.

Vulnerable Islands

Small Pacific countries face a set of development challenges that are very different to those faced by ADB's other developing member countries and other countries generally. This is recognized by ADB's Charter which calls for special regard to the needs of small states.

The PIC-10 nations are not endowed with the natural attributes of physical resources, size, location, and population to make sustained growth possible without external support. High production costs severely limit private sector development, potential for export-led growth, and job creation, while also increasing the cost of public administration and service delivery. Small states also suffer from endemic shortages of skilled labor and do not have sufficient resources to produce a wide range of public services. Whether as a cause or an effect of this, in all these countries, the national government is a major actor in the economy.

The central challenge in the PIC-10 is bringing about sustained and inclusive economic growth and job creation. The growth paths that the PIC-10 can follow are likely to be different from those taken in many other developing countries, particularly those followed in larger Asian countries. External support and the transfer of human resources play a much bigger role in these economies than in other ADB developing member countries. The PIC-10 rely on official development assistance to supplement their tax revenue and to provide a level of public services that would not be possible otherwise, and in the smaller and more remote countries this is unlikely to change. Donor spending is therefore an important source of employment and demand for goods and services from private businesses and changes in it can have a large impact

on economic activity and welfare outcomes. While Pacific countries receive the highest levels of aid per capita in the world, this is not sufficient to overcome their development constraints and, over the last two decades, cumulative growth in the PIC-10 has, on average, grown by far less than any other region.

Pacific economies are highly exposed to external shocks. Natural disasters (mainly cyclones) and movements in the prices of food, fuel, and other commodities, have a disproportionate impact on small economies and their capacity to withstand them is limited. The spike in prices during the 2008–2009 global food and fuel price crisis was well above the increases seen in East Asia, and other developing countries, and led to a rapid deterioration in current account balances in nearly all Pacific countries, particularly the smallest.

Pacific islanders have responded to the lack of job opportunities by migrating. As a result, PIC-10 countries are now far more reliant on remittances for their well-being but at the same time vulnerable to economic downturns in neighboring countries. Remittances are a significant contributor to living standards in several of the PIC-10 and overtime greater labor mobility and remittances may contribute to economic growth through higher consumption and investment in human capital.

Climate change is a threat to Pacific countries and increased storm surges and droughts already cause significant problems, including fresh water shortages. Pacific countries are highly vulnerable to climate change because of their high levels of exposure to sea level rise and extreme events, their susceptibility to damage from those events, and their limited adaptive capacity. Coastal communities and atoll islands are particularly vulnerable to even small changes in climate variables especially rainfall and tropical storm patterns. Vulnerability results from high population densities and growth rates, and scarce natural resources, particularly land and water and the reliance on natural resources for the majority of livelihoods.

The Pacific portfolio contains the highest number of countries affected by fragile and conflict-affected situations (FCAS) among ADB's regional departments. FSM, Kiribati, Nauru, RMI, and Tuvalu were all classified as FCAS over the evaluation period, while Vanuatu and Palau moved in and out of the fragility classification. Yet these are also lower and upper-middle income countries where the incidence of extreme deprivation and hunger is low. Nevertheless, the state's capacity to perform its functions, provide basic social services to the majority of its people, including the poor, is limited and most Pacific countries have struggled to meet the Millennium Development Goals.

ADB's Strategy 2020 recognizes that special approaches are needed to achieve results in FCAS countries, and this was re-emphasized in its 2014 midterm review. ADB's commitments to FCAS include an increase in financial resources, additional support for project implementation, better understanding of the operational context, and flexibility in modalities and instruments, which were also adopted by the Pacific Approach. An assessment of ADB's support for the PIC-10 is therefore also an assessment of how far ADB has gone in implementing a fragile states approach in the Pacific.

The Pacific Approach calls for a different way of working and engaging in the Pacific. It responds to project success rates, which at an average of around 50% have consistently lagged behind the ADB average. Lack of attention to country capacity, insufficient analysis, lack of consultation, and limited monitoring and supervision, are

recurring lessons in ADB self-evaluation reports for the PIC-10. In recognizing these, the Pacific Approach called for increased country presence, better understanding of the local context and the political economy, flexibility in project design and implementation processes, capacity assessments for all projects, participatory policy dialogue, and collaboration with development partners for greater development effectiveness.

Findings

ADB has made notable progress in improving its field presence and increasing its collaboration with other development partners over the evaluation period. The level of engagement between ADB and the PIC-10 has improved and a more collaborative approach is developing with respect to new initiatives because of greater field presence. With the support of Australia, ADB has opened Pacific development coordination offices in countries that do not have a formal ADB presence. These operate as a small national ADB office (or joint ADB-World Bank Liaison Office) and have contributed to better communication between ADB and partner governments.

ADB recognizes that meeting the needs of FCAS countries has financial resource and staffing implications. With limited capacity for project implementation, Pacific small and FCAS countries need more staff per operation than non-FCAS operations. But the average number of officers per intervention for total operations in the Pacific is smaller than most regional departments, though staff per million invested is much higher due to the small size of most PIC-10 operations. There is also less staff contact time in the PIC-10 than other Pacific countries and regional departments. Moreover, Pacific Department (PARD) senior management staff had the highest turnover among regional departments in 5 out of the last 10 years. This was especially evident during 2008–2010 when PARD experienced a 67% turnover each year. There was no continuity in the type of leadership that might be expected to lead a program of change. This has changed more recently, however, through greater stability at director general level and through the appointment of a Pacific deputy director general.

Financial resources for the Pacific increased over the evaluation period partly meeting ADB's commitment to expand resources to FCAS countries. The increase was driven by a rapid scaling up of support for PNG, Solomon Islands, and Timor-Leste, the largest FCAS countries in the PARD. While resources also increased for the PIC-10, their share in ADB's portfolio remained static at 0.5%, and net disbursements were negative for Nauru, RMI, and Vanuatu. Moreover, technical assistance (TA), an important instrument in low capacity countries, increased marginally. The increase in the Asian Development Fund (ADF) minimum allocation from \$1.5 million to \$3 million from January 2015 should help restore positive net flows.

While ADB is a small development partner in the PIC-10, it is a significant creditor. However, most countries have limited capacity to service debt, and it can quickly become unmanageable. Kiribati, RMI, Nauru, Samoa, and Tuvalu are all assessed at *high risk* of debt distress, and Tonga at *moderate risk*. Grants for project financing have therefore become an important part of operational financing in the PIC-10.

Total investment in the PIC-10 amounted to nearly \$512 million over the 10-year period, divided into loans (\$228 million), grants (\$230 million), and TA (\$53 million). Around 60% by value was investment in infrastructure: water and municipal services (28%), energy (19%), and transport and information and communications technology (13%). By project count, infrastructure accounted for 40%. While public

sector management (PSM) and multisector account for 32% by value, it is 44% by number. While identified as a priority in the Pacific Approach, education accounted for 7% by value and number.

PSM operations have grown to dominate the number of ADB interventions in the PIC-10 accounting for nearly one-third of total approvals, mainly TA. Since 2008, ADB has used policy based operations combined with TA to support capacity building objectives in Nauru, RMI, Tonga, and Tuvalu. These are focused on the core functions of government, e.g., public financial management (PFM), and the reform of public sector institutions, including state-owned enterprises responsible for service delivery in water, energy, transport, and telecommunications. Policy based operations help build state resiliency in the PIC-10 to withstand external shocks, and are highly relevant to Pacific well-being and economic sustainability.

Success rates for PSM operations are low but improving. For projects approved in the decade to 2010, success rates were 33%. However, of the seven most recent PCRs for projects approved from 2008–2013, five are for completed PSM programs in Tuvalu, Tonga, and RMI, and two were multisector projects in Samoa (economic recovery) and Cook Islands (cyclone response). All were *successful* except for RMI, which was rated *less than successful* because the policy reforms that ADB supported were overambitious and the government had struggled to implement them.

Governments in Tuvalu and Tonga were leading a highly consultative process, underpinned by a single policy matrix, around which development partners had designed their support. When government takes the lead; where policy reforms are simple, supported by several donors with field capacity for ongoing participatory policy dialogue; and where ADB provides a single tranche modality embedded in a multi-year program, then better results have been achieved. The inclusion of more recent PCR brings success rates in PSM to 54% for the period 2004–2014. However, a transformative impact on the capacity of the state will take many years to achieve and results could easily reverse in future operations.

ADB has supported the scaling up of activities to promote climate change adaptation and disaster risk reduction at both country and regional levels. While this is a work in progress, there is a reasonably good appreciation among Pacific countries and development partners of the possibilities for adaptation and the measures necessary to adapt to climate and disaster risks. But the Pacific also faces environmental problems; mainly pressures from rapid population growth, unsustainable patterns of consumption and production, and coastal development, which, combined with climate change impacts, pose major threats to the region's food, water, and livelihood security. Strong traditions of local governance, communal resource tenure, and traditional and local ecological knowledge present fertile conditions for community-based adaptation in small Pacific islands. A participatory approach, centered on local communities, has been identified as one of the best ways to address climate change vulnerability and identify, prioritize, plan, and implement adaptation and resilience building.

Recommendations

The Pacific Approach recognises the challenges of working in the Pacific. It calls for a better understanding of state fragility, and vulnerability, and a different development approach. ADB has made good progress with some aspects of the Pacific Approach agenda. It has built field presence and deepened its collaboration with other

Pacific development partners and promoted innovative regional approaches which respond to country demand.

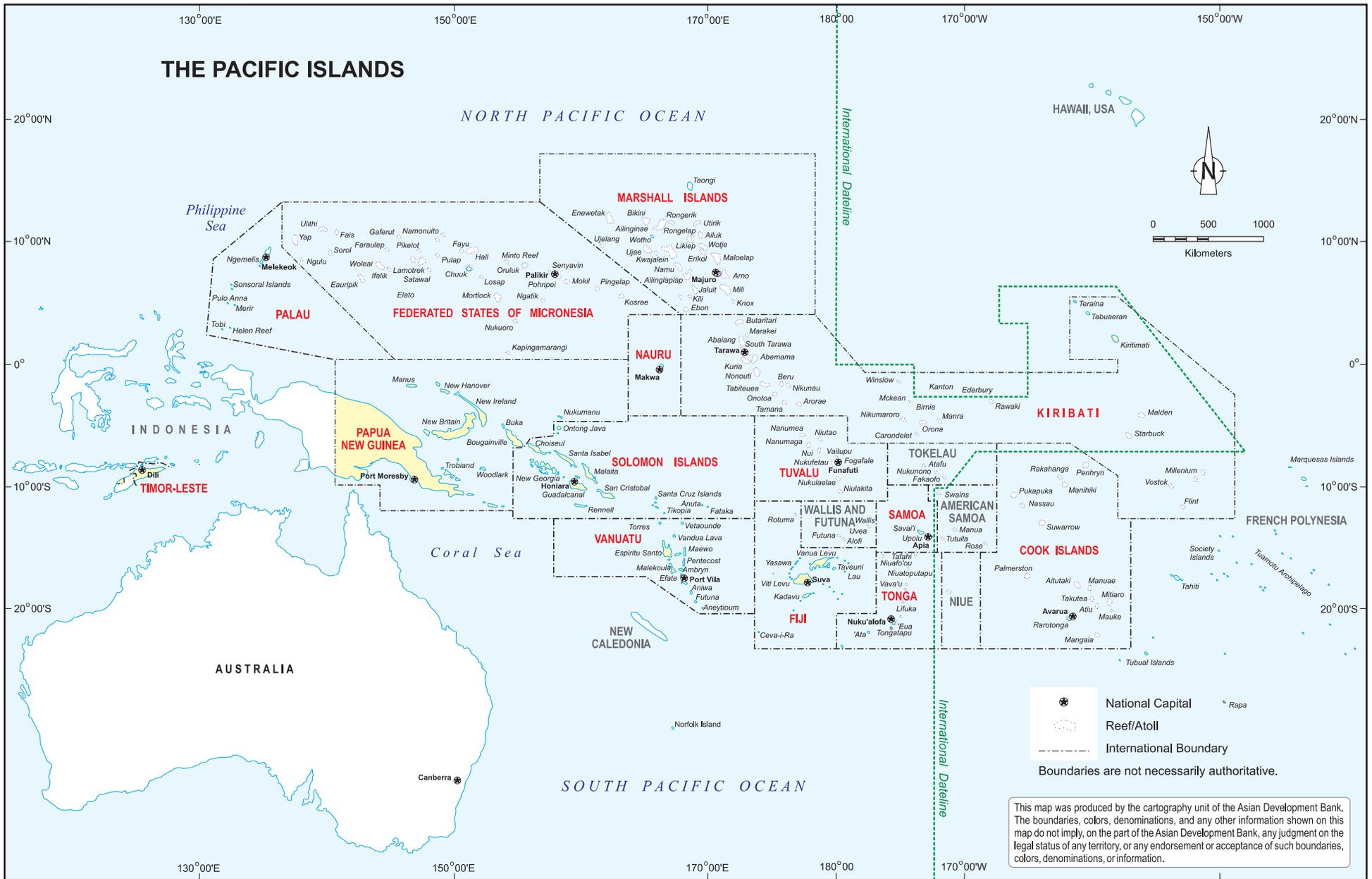
The Pacific Approach also expects greater use of political economy analysis, wider stakeholder consultation and participation, especially with women, youth, outer-islanders, and disadvantaged groups, capacity assessments for all projects, and additional monitoring and supervision. These are resource intense activities that are important for country ownership and better results. Transforming small Pacific countries from fragility into effective states, however, will take many years to achieve and it is important to set realistic objectives for measuring success in the short-term. Scaled up funding, working in partnership with others, and greater understanding of the context are beginning to influence ADB operations but there are opportunities to go further. There are real challenges with sustainability in small Pacific countries and progress can easily be reversed. While more funding will help, because of their size and vulnerability, this may not be sufficient to overcome fragility in some PIC-10 countries, and financial and human resource transfers will need to continue into the long term.

Based on the findings of this report, the following recommendations are put forward to strengthen ADB's development effectiveness in the Pacific.

1. The new Pacific Approach 2015–2020 should have a sharper focus on how ADB engages in the smaller island countries and those affected by FCAS. This would respond to the unique challenges they face and improve the limited and declining effectiveness of support provided to them so far. A stronger emphasis for the PIC-10 complies with ADB's Charter to pay special regard to the needs of small states. PARD would elaborate its PIC-10 programs through annual country operations business plans underpinned by country diagnostics and political economy analysis. The new Pacific approach would continue to provide overall direction for Pacific regional priorities as well as support for regional cooperation and integration.
2. For stronger and sustained development effectiveness in the Pacific, ADB needs to better resource PARD. Achieving success in fragile states and low capacity settings is human resource intensive requiring hands on support and extra allowance for monitoring and supervision. The Pacific Approach and the FCAS approach both need higher than usual staffing per operation and amount financed, yet the average number of officers per operation is lower than most other regional departments. As the Pacific Approach requires strong and steady support for changes in business processes and practices, there is also value in ensuring better continuity of PARD senior management teams. In the 2015 Work Force Audit and Workforce Analysis, ADB should pay special attention to PARD staffing both in Manila and in the field, as well as the expertise and skills needed for working in FCAS countries. The work force analysis should also look at how consultants can be provided ADB staff status through fixed-term contracts, so that they can be given more authority and accountability to act on behalf of ADB in the field.
3. ADB would want to support a broader approach to climate change and disaster risk management in small Pacific islands. ADB has scaled up its support for climate change adaptation and mitigation in the Pacific and has supported country efforts to attract global climate change funds. But ADB can do more given the extreme threat of climate change, natural disasters,

and sea level rise. ADB should further scale up its support for adaptation that could include ecosystem-based approaches and tighter integration with disaster risk management. These issues would need to be pursued in collaboration with other development partners and could be financed with Green Climate Funds in addition to ADF and ordinary capital resources. ADB's plan for scaling up support for climate change needs to be set out in the new Pacific Approach.

4. To improve project preparation and readiness in Pacific island countries, ADB has to expand use of its project design facility. Time spent on detailed project preparation and pre-project implementation activities pay off in terms of more efficient implementation and better results. Since projects in Pacific countries have lower than average success rates, ADB needs to intensify efforts to convince Pacific countries that the design facility could improve project readiness, build ownership, reduce project costs, and improve development effectiveness.
5. ADB must further strengthen its approach for capacity building in PSM operations in the PIC-10. While PSM operations dominate the portfolio in Pacific countries, and have recently had more success, this could easily be reversed. These countries are known to suffer from a lack of capacity, and weak infrastructure and service delivery, which impede sustainable development outcomes. ADB should expand its support for PFM, and private sector development, through a mix of sustained policy-based operations, investment projects, and TA to better support public sector capacity. Given low capacity in small and FCAS countries, special attention ought to be paid to increasing resources for Pacific TA.



Introduction

1. This evaluation report presents the findings of an evaluation of Asian Development Bank (ADB) support for 10 Pacific island countries: Cook Islands, Federated States of Micronesia (FSM), Kiribati, Nauru, Palau, Republic of the Marshall Islands (RMI), Samoa, Tonga, Tuvalu, and Vanuatu (PIC-10). These are ADB's smallest developing member countries (DMCs) and among the smallest countries in the world.

A. Evaluation Focus and Rationale

2. ADB's *Pacific Approach to Assisting the Pacific 2010–2014*¹, the Pacific Approach, contains a development approach that applies to all 14 Pacific countries—the PIC-10 plus Fiji, Papua New Guinea (PNG), Solomon Islands, and Timor-Leste—while also guiding its regional operations.

3. In July 2011, ADB mandated that the Pacific Approach should also serve as the country partnership strategy (CPS) for the PIC-10.² This was a response to the 2007 ADB document *Achieving Development Effectiveness in Weakly Performing Countries* (now known as fragile and conflict-affected situations or FCAS), which allowed ADB to “relax expectations for CPS and selectively accept other, less extensive programming documents.”³

4. This evaluation is therefore of ADB support for the PIC-10 and the application of the Pacific Approach, and the principles underpinning it, in these countries. The principles include better understanding of the local context, flexibility in operations, participation and ownership, knowledge sharing, and development partner coordination and collaboration. The evaluation does not include an assessment of ADB's support for Fiji, PNG, Solomon Islands, and Timor-Leste as programs in these countries are evaluated independently through country assistance program evaluations or CPS validation reviews.⁴ In contrast, the PIC-10 share a single strategy document that has so far not been subject to regular or systematic evaluation.

5. The evaluation assesses (i) the relevance of the Pacific Approach to Pacific small country development given climate change, natural disasters, economic shocks, and the needs of vulnerable groups, particularly women; (ii) the extent to which ADB has responded to the objectives of the Pacific Approach and the results that have been achieved; and (iii) whether support for regional cooperation and integration is a more relevant, efficient and effective approach for PIC-10 development than a country-

¹ ADB. 2009. *ADB's Approach to Assisting the Pacific: 2010–2014*. Manila.

² K. Sakai and R. Wihtol. Memorandum on the Treatment of Pacific Developing Member Countries Preparation of the Country Partnership Strategy. 1 July 2011.

³ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank's Approach to Engaging with Weakly Performing Countries*. Manila. para. 41.

⁴ Independent Evaluation Department. 2015. *Country Assistance Program Evaluation: Papua New Guinea*. Manila: ADB; and IED. 2015. *Country Assistance Validation: Timor-Leste*. Manila: ADB.

focused approach, and whether the Pacific Approach has improved Pacific development effectiveness.

6. The evaluation will be used to inform ADB's Board of Directors, Management, and other stakeholders on the special needs and development challenges facing small island countries. Its findings and recommendations will help inform the new Pacific Approach.

B. Evaluation Methodology

7. The evaluation's findings are supported by a number of methods and data sources. The methods are set out in the evaluation framework in Appendix 1. Recent literature on the economic performance of Pacific countries, constraints on growth, and vulnerability to external shocks, especially natural disasters and price changes, was reviewed. Literature on climate change was also assessed, as well as recent reports on regionalism. The study drew on existing evaluations of Pacific transport, energy, and governance, and policy reforms by the Independent Evaluation Department (IED) of ADB and on the findings of other evaluations that included the Pacific as a case study, e.g., of ADB's initiatives to support access to climate finance.⁵ Country consultations were undertaken to assess the extent to which ADB had implemented the principles of the Pacific Approach 2010–2014. These were conducted in Australia, Cook Islands, FSM, Fiji, Kiribati, RMI, Samoa, Tonga, and Tuvalu. All PIC-10 project completion reports (PCRs) and project completion report validation reports (PVRs) of projects approved from 1969–2010 were reviewed to assess factors that contributed to project performance and to see whether it had improved over time. More recent PCRs and PVRs for projects approved during 2008–2013 were also reviewed, though the sample size (seven) is small.

C. Structure of the Report

8. The report is organized as follows. Chapter 2 sets out the economic features and characteristics of Pacific countries that make their development challenges distinct among ADB's member countries. Chapter 3 assesses how ADB has responded to these development challenges and whether different approaches have made a difference to overall performance. Chapter 4 reviews ADB's own assessment of the Pacific Approach⁶ and the final chapter draws conclusions for developing a new Pacific Approach.

⁵ IED. 2013. *Real Time Evaluation of ADB's Initiatives to Support Access to Climate Finance*. Manila: ADB.

⁶ ADB. 2014. *Pacific Approach 2010–2014 Implementation Review*. Manila.

Pacific Development Challenges

9. ADB's Pacific member countries include some of the smallest and most isolated countries in the world. Far from major markets, highly exposed to economic and physical shocks, these small Pacific nations are among the world's most vulnerable countries. This chapter sets out the economic features that are associated with the PIC-10 and why their development challenges are unique among ADB's member countries.

A. Island Characteristics

10. **Small.** Except for PNG, all ADB Pacific member countries are defined as small states. While there are a number of ways to define small, the generally accepted definition is countries with populations below 1.5 million.⁷ The countries that make up the PIC-10 are much smaller than this, most having populations well below 250,000; for instance, four countries have populations below 20,000.

11. **Remote.** In addition to being small, Pacific countries are also the world's most isolated, distinguishing them from other small countries and small island developing states. They are more isolated and more remote than any other island groupings, including those in the Caribbean. The combination of smallness and extreme isolation produces a set of development challenges that are unique.⁸

12. **Fragile.** Of the PIC-10, seven were classified by ADB as FCAS at different times over the evaluation period 2004–2013.⁹ ADB defines fragility in terms of a state's capacity to perform its functions effectively, including the provision of basic social services, security, the rule of law, and failure to provide sustainable sources of income to enable the population to climb out of poverty. Achieving development outcomes is particularly challenging when a state is functionally and institutionally weak and unable to extend its authority effectively, and when its political legitimacy is challenged by conflicting interests and values.¹⁰

13. From 2007 to 2013, an FCAS assessment was made if a country was either (i) ranked in the fourth or fifth quintiles of country performance assessments (CPAs) for 2 of the most recent 3 years, or (ii) considered to be in conflict or in a post-conflict situation. In 2014, following a harmonized approach with other multilateral development banks, nine ADB countries were assessed to have annual CPA results below the FCAS cutoff: Afghanistan, FSM, Kiribati, Nauru, Nepal, RMI, Solomon Islands,

⁷ Commonwealth Secretariat. 2012. *Small States: Economic Review and Basic Statistics*. Volume 16. London.

⁸ World Bank. 2014. Enhancing Competitiveness in an Uncertain World. *East Asia and Pacific Economic Update*. October. Washington, DC.

⁹ FSM, Kiribati, Nauru, Palau, RMI, Tuvalu, and Vanuatu.

¹⁰ ADB. 2014. *Engagement in Fragile and Conflict-Affected Situations: Fragility Index for a Differentiated Approach*. Manila.

Timor-Leste, and Tuvalu. It is also recognized that other countries experience some characteristics of FCAS or subnational situations of fragility and conflict.

14. The fragility classification is not intended to impair a country's position as a member of ADB but to draw attention to the challenges it faces and to improve the effectiveness of ADB support.¹¹ Moreover, the nature of Pacific fragility should not be confused with conflict. Except for Solomon Islands, Timor-Leste, and the Bougainville conflict in PNG, most Pacific countries are not emerging from civil conflict, although minor outbreaks of civil unrest occur from time to time. Understanding the nature and dynamics of fragility is important since some development strategies risk worsening or triggering more fragility (footnote 10).

15. **Vulnerable.** While not all Pacific countries are classified as FCAS, most are considered to be vulnerable and some highly vulnerable. This means they face a high probability of a reduction in their development and well-being.¹² All Pacific countries are highly exposed to exogenous shocks associated with natural disasters and changes in world market prices, with some more exposed than others. Six Pacific countries, including Fiji and Tonga (both non-FCAS), are included in the top 15 global disaster hotspots, i.e., countries where high exposure to natural disasters and climate change, coincides with very vulnerable societies. Vanuatu, Tonga, and the Philippines, in that order, are in positions 1–3.¹³ Hence, Pacific countries are vulnerable although not all are identified as FCAS, because this relates to their country performance assessment rating. However, because of vulnerability, even those Pacific countries now classified as non-FCAS remain very close to the cutoff.

B. Small Economies

16. The 14 Pacific countries represent nearly one-third of all ADB DMCs. They are also the smallest, both in population and land size. Populations range from well over 7 million people in PNG, by far the largest country in the Pacific, to 11,300 in Tuvalu and 10,500 in Nauru, the smallest ADB member and among the smallest countries in the world. PNG, Timor-Leste, Fiji, and Solomon Islands account for 92% of the region's population. The five next largest countries—Vanuatu, Samoa, Kiribati, Tonga, and FSM—account for 7%, while the remaining five countries account for 1%.

17. As well as differences in population size, there are also wide disparities in land area, particularly arable land and access to natural resources. Some countries have little or no arable land and are highly dependent on food imports (Kiribati, Nauru, RMI, and Tuvalu) and, while the larger Pacific countries are commodity exporters, they are also significant food importers, particularly of rice. The total combined land area of the 14 Pacific countries is about the same size as Thailand, but 85% of that is in PNG, and 14% is in Fiji, Solomon Islands, Timor-Leste, and Vanuatu.¹⁴ The remaining nine countries average only 700 square kilometers (km²) each, but Nauru and Tuvalu have less than 25 km² each. In addition to being small, populations are dispersed across numerous islands, ranging from four in Samoa to over a hundred in Solomon Islands, which limits economies of scale and severely impedes service delivery.

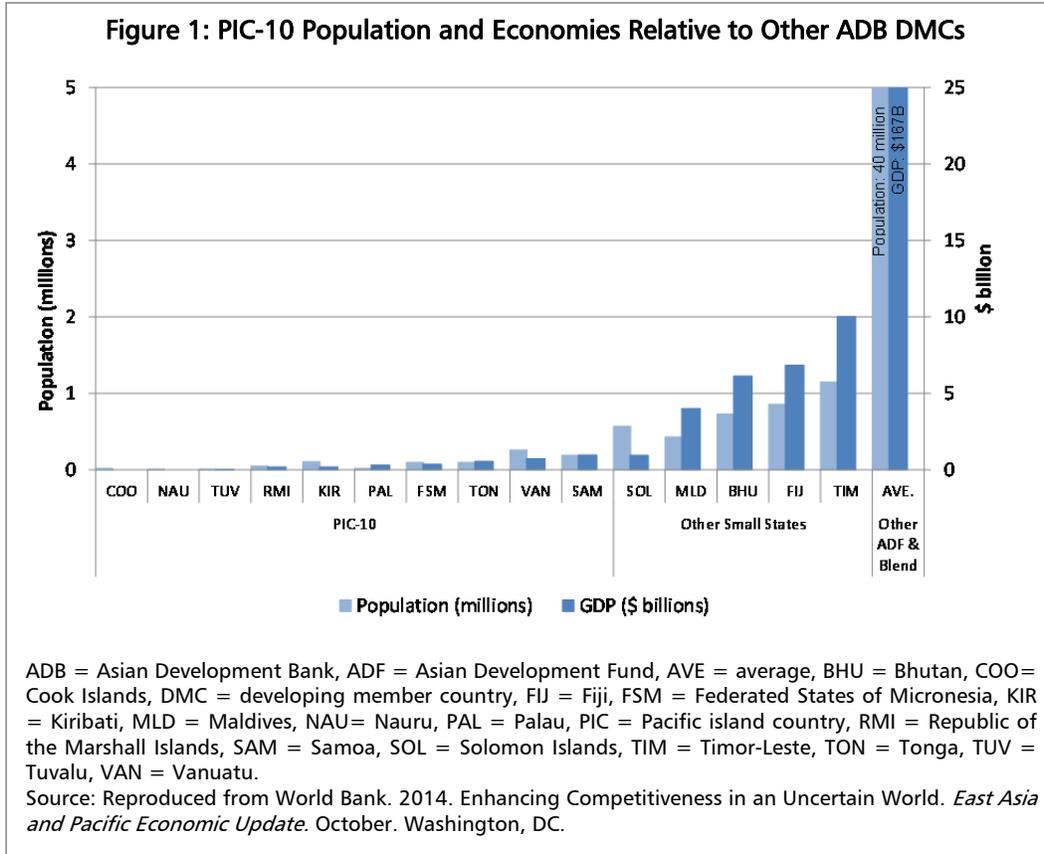
¹¹ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank's Approach to Engaging in Weakly Performing Countries*. Manila.

¹² World Bank. 2014. *Hardship and Vulnerability in Pacific Island Countries. A Regional Companion to the World Development Report*. Washington, DC.

¹³ United Nations University. 2012. *World Risk Report 2012*. Berlin: Alliance Development Works.

¹⁴ Tony Hughes. 1998. *A Different Kind of Voyage*. Development and Dependence in the Pacific Islands. Manila: ADB.

18. The economies of Pacific island countries are also small with the average gross domestic product (GDP) of the PIC-10 just a quarter of a percentage point of the average GDP of other Asian Development Fund (ADF) only and blend (ADF and ordinary capital resources [OCR]) countries (Figure 1), or just over half a percentage point of ADF only countries.



19. While countries are small, the physical size of the Pacific Ocean is enormous; 10,000 kilometers (km) from west to east, and 5,000 km from north to south, three times the size of Europe, and the social, political, and economic conditions across countries within it differ vastly—embracing the diverse cultures of Melanesia, Micronesia, and Polynesia (footnote 14).

20. Despite the physical distance between islands, they share common characteristics, particularly in history, traditions and geography (footnote 1). However, there is such a high degree of ethnic, cultural, and linguistic diversity among them that it would be a mistake to view these countries as a collective social or economic identity (Box 1). Nor does the geographic and cultural nature of the region encourage collective action. While regional cooperation in the Pacific has been a longstanding objective for over 60 years, progress toward it has been remarkably slow. Moreover, throughout history, small Pacific countries have pursued bilateral partnerships with much larger countries that bring potentially greater economic benefits than joining forces with each other (footnote 14).

Box 1: Small Island Diversity^a

Cook Islands (population 18,600) is in free association with New Zealand, which gives citizens access to work and residency. Despite its small population, it is nevertheless one of the leading Pacific economies, largely because Cook Islands nationals are also citizens of New Zealand, and it is a thriving holiday destination. It is not considered to be a fragile state although in 2005 it was hit by five cyclones.

Nauru (population 10,500) and **Tuvalu** (population 11,300) are among the smallest nations in the world. They share the same range of development constraints as the Republic of the Marshall Islands and the Federated States of Micronesia as a result of their isolation, very limited economic bases, and difficult physical contexts. Given their size and very limited economic prospects, both are dependent on external resources to maintain existing levels of well-being.

The Republic of the Marshall Islands (population 53,600) and the **Federated States of Micronesia** (population 104,600), both United States Compact of Association members, rely most heavily on government expenditure and, in turn, foreign grants, mostly from the United States. Both countries exhibit the characteristics of fragile states. Development management capacity is limited, and governance systems are underdeveloped.

Kiribati (population 109,900) is spread across a region roughly equivalent to half that of the continental United States or Australia. It consists of 33 coral atolls. Its economy is based on fisheries and subsistence agriculture and its development prospects are constrained by its geographic isolation, limited human and financial resources, and narrow economic base and undeveloped markets. Added to this is the challenge of managing a country that covers so much of the Earth's surface with so few people and resources. It exhibits fragile state characteristics.

Palau (population 17,300) is a United States Compact of Association member. Its population is spread across 250 islands. Nevertheless, it has the highest gross domestic product (GDP) per capita of the developing Pacific island countries due to its booming tourism industry. It has the highest human development indicators of all small island developing states globally. It has close links to Asia and a large Filipino workforce in its tourism sector. It moves on and off the list of fragile states. It has a net outflow of people migrating to the United States.

Tonga (population 103,800) is the highest ranking country in the Pacific (100) in the 2013 human development index of 187 United Nations member states, and is classified as a medium level country with high levels of literacy. Tonga has the best Millennium Development Goal (MDG) track record in the region, being on track for MDGs 2, 4, 5, 6, and 7, although it has mixed results for MDG 1 (eradicate extreme poverty and hunger) due to continuing levels of rural hardship and MDG 3 (promote gender equality and empower women) due to low parliamentary participation by women.

Vanuatu (population 264,300). As in other Melanesian countries, Vanuatu has a diverse ethnic population with 113 indigenous languages and access to significantly more land and natural resources than the largely ethnically homogenous Polynesian and Micronesian countries. It is not generally regarded as a fragile state, although it moves on and off the list. In terms of natural disasters, cyclones, earthquakes and volcanic activity, Vanuatu is considered to be one of the world's most vulnerable countries.

Samoa (population 190,700). A comprehensive economic reform process was initiated by the government in 1995 and the World Bank 2013 International Development Association Resource Allocation Index indicates that Samoa has above average scores for economic management, structural policies, social inclusion and equity, public sector management, and institutions. However, the country has experienced recurring natural disasters in the last 5 years, deterioration in its fiscal balance and prospects for growth.

^a Listed by GDP size.

Source: Asian Development Bank.

21. A culture of community and family sharing means the incidence of extreme deprivation and hunger in most Pacific countries is low (footnote 12). However, measuring inequality in and among the PIC-10 is not straightforward and poverty is not a widely used, understood, or accepted term among policy makers. Reliable data on poverty, including through household income and expenditure surveys are also scarce and seldom inform policy decisions (footnote 12).

22. Urban poverty is a relatively new but growing issue in some Pacific countries. A study by ADB in 2002 found that those suffering hardship are likely to be jobless, disabled, single mothers, landless, homeless, and unskilled.¹⁵ Increased urbanization and monetization of the economy are also creating new forms of hardship. Over 20% of people in most Pacific countries live in hardship, meaning they are unable to meet their basic food and non-food needs (footnote 12). With traditional systems of community care eroding and little access to formal social protection, these people are vulnerable to falling deeper into hardship in the event of external shocks. Most Pacific countries have struggled to meet the Millennium Development Goals (MDGs).¹⁶

23. The significant gap between male and female participation in economic activity and labor markets across the Pacific persists with men outnumbering women in paid employment outside the agricultural sector by approximately two to one.¹⁷ Women's economic activity in most countries is primarily in the informal sector. Yet despite this important role, they are often not involved in local authority decision-making in the management of markets, nor do they control land and other assets. Another significant indicator of gender disparity is the low participation (or exclusion) of women from political decision making at local and national levels of government. In some countries, violence against women is prevalent.¹⁸

C. Facing the Facts

24. In order for small states to provide a range of public services, long term development support is needed to supplement domestic revenues, together with long term capacity transfers (footnote 8).

25. Long term income growth rates show that most Pacific countries are increasingly lagging behind the rest of the world. In the 30 years to 2000, per capita income in the PIC-10 grew by less than 1% a year and in some islands it declined, as population growth outstripped economic growth.¹⁹ Over the last 20 years, growth in PIC-10 has been lower than in any other regional group or grouping of small states (footnote 8). In the 10 years to 2009, growth averaged 2% a year (Table 1), much lower than averages for Asian low-income countries, which grew by 6% annually and for other small states (4.5%).²⁰ Reducing poverty for many Pacific countries is therefore a major challenge with only the Cook Islands on track to achieve MDG 1.²¹

¹⁵ D. Abbott and S. Pollard. 2002. *Hardship and Poverty in the Pacific*. Manila: ADB.

¹⁶ IED. 2013. *Thematic Evaluation Study: ADB's Support for Achieving the Millennium Development Goals*. Manila: ADB.

¹⁷ AusAID. 2012. *Delivery Strategy: Pacific Women Shaping Pacific Development*. Canberra.

¹⁸ UNFPA. 2012. *A Deeper Silence: The Unheard Experiences of Women with Disabilities—Sexual and Reproductive Health and Violence Against Women in Kiribati, Solomon Islands and Tonga*. New York.

¹⁹ H. Hughes. 2003. *Aid has failed the Pacific*. Sydney: The Centre of Independent Studies.

²⁰ Y. Yang and H. Chen. 2012. *The Pacific Speed of Growth: How Fast Can It Be and What Determines It?* Apia, Samoa: International Monetary Fund and University of the South Pacific.

²¹ Pacific Island Forum Secretariat. 2013. *Pacific Regional MDGs Tracking Report, August 2013*.

Table 1: Pacific Growth Indicators^a

Country	Surface Area ('000 km ²)	Population, 2013 ('000)	Annual Population Growth (%) 2001–2013 ^a	GDP Annual Growth (%) 2001–2013 ^b	Per Capita GNI, Atlas Method, 2012 (\$)
Cook Islands	0.2	18.6	0.5 ^c	1.8	—
Kiribati	0.8	109.9	1.6	1.7	2,520
Marshall Islands	0.2	53.6	0.1	2.5	4,040
Micronesia, Federated States of	0.7	104.6	-0.3	0.5	3,230
Nauru	0.0	10.5	—	—	—
Palau	0.5	17.3	0.7	0.1	9,860
Samoa	2.8	190.7	0.8	1.8	3,260
Tonga	0.8	103.8	0.2	1.6	4,220
Tuvalu	0.0	11.3	0.4	3.3	5,650
Vanuatu	12.2	264.3	2.4	2.9	3,000

— = not available, GDP = gross domestic product, GNI = gross national income, km² = square kilometers.

^a World Bank data except where otherwise stated.

^b Asian Development Bank Key Economic Indicators.

^c 2010–2015.

Source: Asian Development Bank, United Nations, and World Bank data.

26. It is not size itself which constrains growth because small countries close to larger countries can still increase production by trading with them. But very small country size combined with extreme remoteness pushes up costs in both private production and public administration. For a remote state with a population of around 12,000, production costs are estimated to be 35% higher for garment manufacturing and 60% higher for tourism services than production in a medium-sized state with a population of 10 million (footnote 8). This implies that even if remuneration of labor and capital were zero, production in a remote state would not be competitive with that in a medium-sized state.

27. To be competitive in global markets, firms in remote Pacific countries need to understand not only where their comparative advantage lies, i.e., what economic activities can they engage in most effectively and efficiently among the physically practical options available to them, but also to build on specific competitive advantages that would allow higher-than-cost returns to be earned from their outputs without losing market share. Firms must be able to secure a premium price from global markets in order to cover their higher production costs. This may be possible for niche products that can capitalize on geographic uniqueness and sophisticated branding and marketing (footnote 8). But even areas where Pacific countries have a comparative advantage i.e., in tourism, agriculture, fisheries, and minerals, these activities are not unique to the Pacific, and less isolated suppliers can usually deliver products to market more efficiently.²²

28. Furthermore, regulatory reforms may not necessarily be appropriate or sufficient for generating substantial private sector-led economic growth in the PIC-10 for two reasons: first, because of the countries' small size and distance from markets, measures to support a business-enabling environment are unlikely to be enough to ensure global competitiveness in manufacturing and services; and second, implementing the full range of complex policy and regulatory reforms is likely to be beyond the reach or needs of most of the PIC-10 and certainly of the smallest. Private

²² P. Colmer and R. Wood. 2012. *Major Economic Shocks and Pacific Island Countries*. Canberra, Australia: Australian Treasury.

sector development initiatives are still worth pursuing, and sound macroeconomic management is relevant—over-regulated and outdated legal structures also impose costs on domestic businesses—but taken alone these reform measures will not be sufficient to offset the severe cost disadvantages of isolation.²³ As a result, the growth paths that the PIC-10 can follow are likely to be different from those taken in many other developing countries, particularly those in larger Asian countries (footnote 8).

29. Pacific islanders have responded to their limited economic and job prospects by migrating. FSM, RMI, and Palau have substantial emigrant presence in the United States, made possible by access under their Compacts of Free Association. Cook Islands, Samoa, and Tonga also have large emigrant populations in Australia and New Zealand. As a result, Pacific countries are now far more reliant than in the past on remittances for their well-being but at the same time they are vulnerable to economic downturns in neighboring countries. However, remittances are a significant contributor to living standards in several Pacific countries. Over time, greater labor mobility and remittances may contribute to economic growth by allowing higher consumption and investment in human capital (footnote 8).

30. The PIC-10 also face disadvantages in the provision of public services and infrastructure because of their inability to realize economies of scale, with fixed costs of administration and service delivery that have to be borne by a small number of taxpayers. Providing a wide range of public services in small, remote states with highly dispersed and small populations is particularly challenging and expensive. If it is to be achieved, domestic revenues will have to be supplemented on a long-term basis and capacity transfers will be needed to supplement local resources (footnote 8).

31. Inflows of development support, although higher in per capita terms than in sub-Saharan Africa, are not able to fully offset these disadvantages, and sustainable economic growth remains elusive. Whether as a cause or an effect of this, in all Pacific countries the national government is a major actor in economic development.

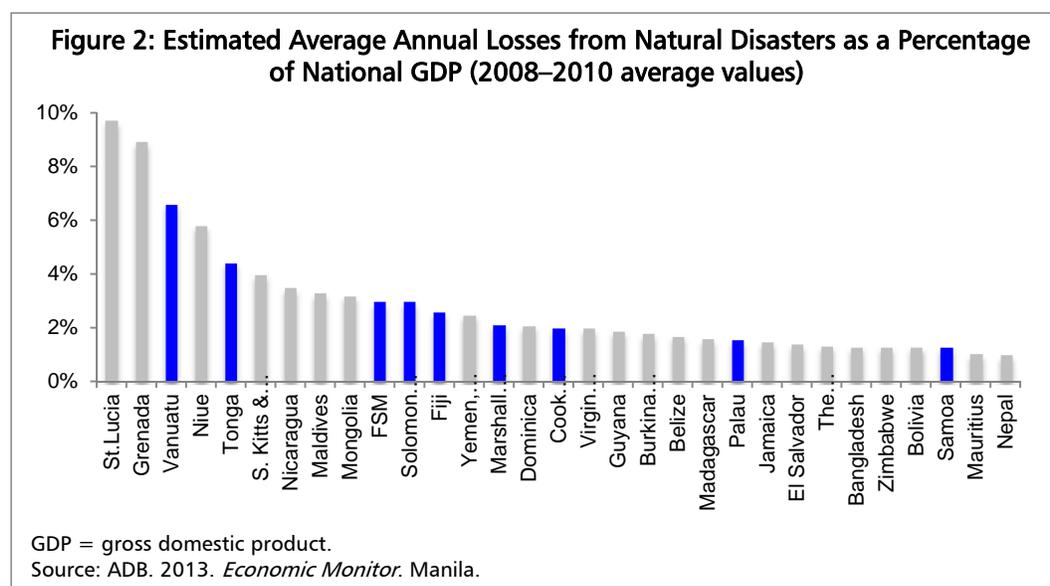
D. Natural Disasters, Economic Shocks, and Climate Change

32. Economic activity in the Pacific is also set back by frequent and violent natural disasters and other external shocks, which have a negative impact on growth. Countries are exposed to a disproportionate number of natural disasters, cyclones being the most common. Between 1980 and 2009, 2.3% of the world's reported natural disasters occurred in the Pacific, which accounts for only 0.1% of the world's population.²⁴

33. Frequent physical shocks can have large impacts on small economies (Appendix 2, Linked Document A). Since 1950, extreme natural events have affected more than 9.2 million people in the Pacific region and caused damage in excess of \$3.2 billion, with tropical cyclones being the major cause of this loss and damage (footnote 24). Of the top 30 countries experiencing losses from natural disasters (as a percent of GDP), 10 are Pacific countries (Figure 2), seven of which are PIC-10.

²³ L. A. Winters and P. M. G. Martins. 2004. *When Comparative Advantage is Not Enough: Business Costs in Small Remote Economies*. Washington, DC: World Bank.

²⁴ M. Bonte and S. Cook. 2013. Regional Disaster Risk Assessment and Pooling. *Pacific Economic Monitor*. December. Manila: ADB.



34. As well as short-term losses from the damage caused, a recent study suggests that post-cyclone incomes do not recover for 20 years, effectively pushing the GDP trajectory downwards.²⁵ The paper argues that a 90th percentile event (e.g., wind speeds of up to 19.5 meters per second) can effectively undo 3.7 years of average development. Hence, the long term social costs of cyclones are larger than just the estimated cost of asset destruction.

35. Small islands are also highly vulnerable to climate change because of their exposure to rising sea levels, unprecedented temperature extremes, and heavy precipitation which are already being felt. Kiribati and Tuvalu have both suffered from climatic events and in 2011 Australia and New Zealand provided fresh water and desalination units to respond to severe drought conditions in Tuvalu. There are indications that food insecurity may increase in the future and that warming and acidifying seawater threatens food sources.

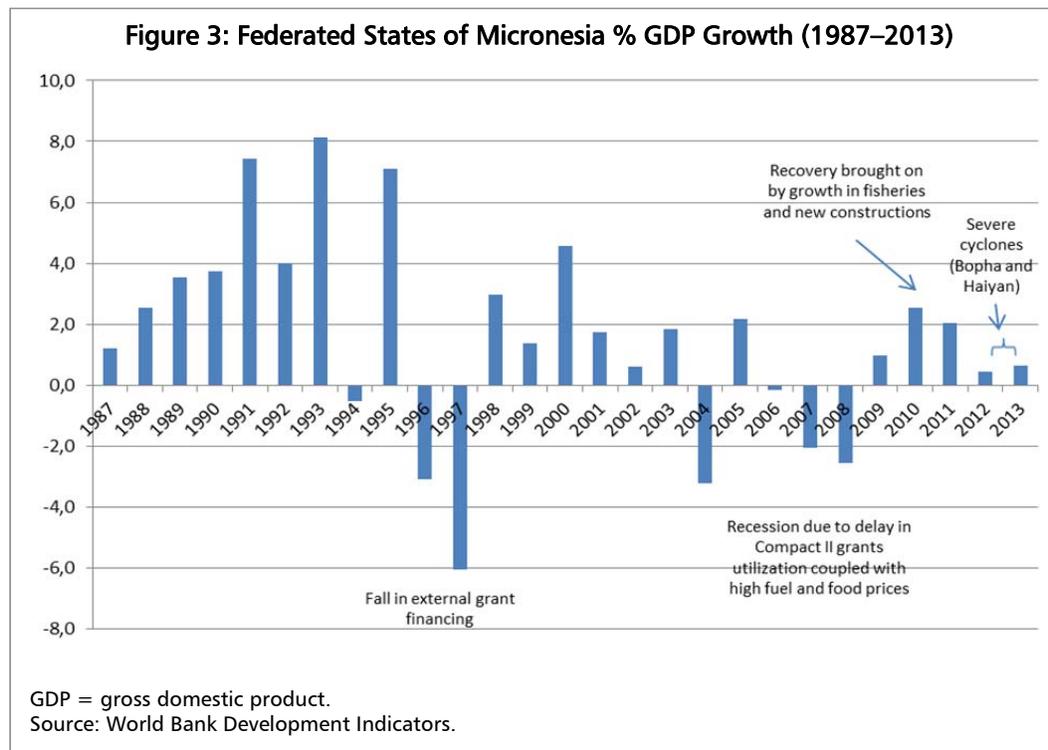
36. Changes in the global prices of food and fuel also have a disproportionate impact on PIC-10 economies. The spike in prices during the 2008–2009 global food and fuel price crisis was well above that seen in East Asia and other developing countries and led to a rapid deterioration in current account balances in nearly all Pacific countries (footnote 12). This vulnerability is most pronounced in the atoll islands, Kiribati, RMI, and Tuvalu, where limited arable land results in a particularly high dependency on imported food. In these countries, the ratio of food imports to GDP is three to five times the global average for developing countries (footnote 12).

37. Although there are data on how price changes affect macroeconomic indicators in Pacific island countries, less is known about the impact at the household level where access to social protection is minimal (footnote 12).

²⁵ S. M. Hsiang and A. S. Jina. 2014. The Causal Effect of Environmental Catastrophe on Long-Run Economic Growth: Evidence from 6,700 Cyclones. NBER Working Paper. No. 20352. July. Cambridge, MA.

E. Official Development Assistance

38. Small Pacific island countries are highly reliant on official development assistance to supplement their tax revenue and to provide a level of public services that would not be possible otherwise. In 2012, for example, donor grants were equal to 50.5% of GDP in Kiribati. Donor spending is an important source of employment and demand for goods and services from private businesses, but changes in aid flows can also have large impacts on economic activity and welfare as Figure 3 shows.



39. According to the Organisation for Economic Co-operation and Development Assistance Committee,²⁶ the region received \$237 per person in development support in 2011, making it the highest recipient of aid per capita in the world. Nevertheless, in most bilateral and multilateral institutions, including ADB, the Pacific accounts for a small share of aid budgets, except in Australia and New Zealand where the Pacific is a higher priority and attracts a significant share of bilateral aid support.

40. The largest development partners in the Pacific are Australia, the United States, New Zealand, Japan, the European Union, and the World Bank, in that order, accounting for 93% of total Pacific official development assistance in 2011. However, the United States contribution is largely focused on FSM, RMI, and Palau under their Compacts of Free Association. Under their 20-year compact agreement, FSM will receive almost \$100 million a year until 2023. Palau received \$15 million in 2010, and in RMI, payments from the United States are \$70 million annually accounting for over

²⁶ OECD Development Assistance Committee. 2013. *Development Aid at a Glance: Statistics by Region—Oceania*. 2013 ed. Paris. Available: <http://www.oecd.org/dac/stats/Oceania%20-%20Development%20Aid%20at%20a%20Glance%202013.pdf> (accessed on 24 October 2013).

60% of their budget in fiscal year 2011.²⁷ ADB is therefore a relatively small player in these three countries.

41. At the same time, nontraditional sources of aid have emerged, including from the People's Republic of China (PRC), India, Indonesia, and the United Arab Emirates. While official data on aid from these countries are not currently available, estimates suggest that the PRC would be in the top six development partners. Estimates suggest that the PRC's concessionary loans to the region increased from \$25 million in 2005 to over \$183 million in 2009, which would have made it the third largest donor in that year behind Australia and the United States (footnote 27).

F. Main Points

- **Fragility.** FSM, Kiribati, Nauru, RMI, and Tuvalu are all FCAS countries. This is not intended to impair these countries' positions as members of ADB but to draw attention to the challenges they face to improve the effectiveness of ADB support.
- **Vulnerability.** Pacific countries are highly exposed to exogenous shocks, hence vulnerable to slipping into fragility.
- **Small economies.** The PIC-10's main challenge is economic growth. They are the smallest and most remote countries on earth and geographically at the margins of globalization.
- **Lagging behind.** The PIC-10 have not experienced strong and sustained growth in recent decades. Most are highly reliant on development assistance and remittances.
- **Alternative pathways to growth.** The small size of the PIC-10 and their distance from markets (resulting in high production costs) mean that the economic policies and strategies which have successfully supported export-led economic growth in much larger Asian countries are unlikely to be effective in the PIC-10. While business enabling measures are necessary they may not be sufficient to generate the kind of private sector growth necessary for job creation.
- **Labor mobility and remittances.** Pacific islanders have responded to limited economic prospects by migrating. Labor mobility in the region is increasingly important for expanding job opportunities.
- **Climate Change.** Pacific island countries are threatened by climate change and an increasing number of extreme weather events. Climate change and disaster risk management are increasing priorities in the PIC-10.
- **Aid per capita** in the Pacific is the highest in the world, although as a share of multilateral and bilateral aid budgets, it is small.
- **Role of aid.** To enable countries to provide a range of public services, long term development support is needed to supplement domestic revenues, together with long term capacity transfers.

²⁷ A. O'Keefe. Bilateral donors in the Pacific: Is it more than development? Unpublished.

CHAPTER 3

Resources for Small Pacific Countries

42. The Pacific Department (PARD) contains the highest number of countries classified by ADB as FCAS. This chapter examines how ADB has responded to its commitments to increase and strengthen financial and human resources for Pacific FCAS countries, particularly the smallest, and whether it has improved its incentives in order to attract the best development practitioners to work in the hardest countries.

A. Fragile and Conflict-Affected Situations

43. ADB's approach for working in fragile states was launched in 2007 (Box 2). Of the 11 countries then identified as weakly performing states, 6 were Pacific countries. This increased to 9 out of 12 in 2008, and to 10 out of 11 in 2009. While the number of Pacific countries identified as FCAS has since fallen, the majority of ADB's FCAS countries are Pacific countries (Table 2). Small island countries are over represented among the ADF fragile states group.

Table 2: Identification of Fragile and Conflict-Affected Situation (FCAS) Countries

2014																
2013																
2012																
2011																
2010																
2009																
2008																
2007																
	Myanmar ^a	Lao PDR	Nepal	Uzbekistan	Azerbaijan ^b	Palau	Vanuatu	PNG	Nauru ^a	FSM	Tuvalu	Kiribati	RMI	Timor-Leste	Solomon Islands	Afghanistan

FSM= Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands.

^a Under its 2013 FCAS operational plan, the Asian Development Bank (ADB) will adopt a harmonized country policy and institutional assessment (CPIA), i.e., the average of the World Bank CPIA and the ADB country performance assessment (CPA) quantitative cutoff of 3.2 or less, or the presence of a United Nations and/or regional peace-keeping or peace-building mission during the past 3 years, for determining an FCAS country. PNG (CPIA=3.3) and Vanuatu (CPIA=3.4) are therefore not in the harmonized list of fragile situations of the World Bank. Nauru is not eligible for International Development Association funding, therefore, it is not in the harmonized list. Myanmar is listed without a score in 2013.

^b ADB no longer conducts CPAs on Azerbaijan.

Sources: ADB Country Performance Exercise Annual Reports 2007–2012. Available: www.adb.org/ADF/PBA/annualreport.asp.

44. An FCAS operational plan was released in 2013 (Box 2) to reflect the New Deal advocated by the G7+ in 2011.²⁸ This commits its signatories, including ADB, to find new ways of engaging with FCAS countries to achieve peacebuilding and state building goals to (i) foster inclusive political settlements and conflict resolution; (ii) establish and strengthen people's security; (iii) address injustices and increase access to justice; (iv) generate employment and improve livelihoods; and (v) manage revenue and build capacity for accountable and fair service delivery. It also emphasizes building and delivering through using country systems, strengthening capacities and timely and predictable aid through simplified, faster and better tailored mechanisms.

Box 2: ADB Approaches for Enhancing Effectiveness in Fragile and Conflict-Affected Situations (FCAS)

To address the needs of what were then called weakly performing countries, in 2007^a the Asian Development Bank (ADB) published a document that aimed to (i) develop more appropriate and feasible country strategies; (ii) expand the use of project implementation units; (iii) increase the use of grants; (iv) streamline its procurement policies; (v) increase the role for beneficiaries in the absence of an adequately performing government; (vi) expand the use of multi-year, longer-term technical assistance; and (vii) and apply nonaccrual status^c to some developing member countries eligible for the Asian Development Fund (ADF).

Since the adoption of its FCAS operational plan^b in 2013, ADB has adopted the multilateral development banks' harmonized score to determine which of its members are countries affected by FCAS. This is based on the average score of the World Bank's country policy and institutional assessments and ADB's country performance assessment scores.^d Countries are considered to be in FCAS if their performance assessment is 3.2 or less, or if there have been United Nations and/or regional peace-keeping or peace-building missions in the country in the previous 3 years.

The 2013 operational plan identifies further actions to mainstream fragility- and conflict-sensitive approaches in ADB's country strategies, and to adopt FCAS-sensitive internal processes that better address the unique challenges that these countries face in its operations. Measures include (i) ensuring country strategies and plans are fragility- and conflict-sensitive; (ii) strengthening human resources for FCAS operations by addressing staff resource constraints and improving staff skills and incentives; (iii) augmenting financial resources for FCAS operations, including a proposal to strengthen the ADF resource allocation framework; (iv) adopting differentiated business processes for FCAS operations and a more appropriate risk framework; (v) developing an institutional strengthening framework for FCAS countries to help them better identify capacity needs and design long-term institutional building support; and (vi) refining the approach to identify FCAS countries and harmonize ADB's FCAS classification methodology with that used by other multilateral development banks.

^a ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries*. Manila.

^b ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila.

^c Under current ADF policy, arrears would preclude resuming ADF financing. Management and the Board of Directors may need to consider ways to maintain ADB's engagement with the countries concerned.

^d CPA scores a country's economic management and structural policies, social inclusion and equity, environmental sustainability, and public sector management and institutions.

Source: Asian Development Bank.

²⁸ 2011. A New Deal for Engagement in Fragile States. 4th High Level Forum on Aid Effectiveness 2011. Busan, Republic of Korea.

45. In Strategy 2020,²⁹ ADB committed itself to longer periods of support in FCAS countries, alignment with other funding agencies at strategic and project levels, and deeper, more flexible, and longer term engagement in capacity enhancement and institutional development. This was reemphasized in the 2014 mid-term review,³⁰ which also stressed that support for FCAS countries needed to be based on a close understanding of the local context, long-term engagement and broader ownership of its operations by government and civil society.

B. Pacific Approach

46. ADB's strategy for its Pacific operations, the Pacific Approach 2010–2014, is the fourth in a series of 5-year Pacific strategies that started in 1995. The current approach builds on the premise that Pacific island countries exhibit conditions of fragility and vulnerability that contribute to a complex development environment and lead to poor results. Defining fragility, particularly Pacific fragility, is difficult, however, because it goes beyond the concept of conflict and war. The definition used in the Pacific Approach is set out in Box 3. Although much larger ADB member countries may experience similar issues, they are felt much more acutely in fragile and small island states.

Box 3: Pacific Fragility

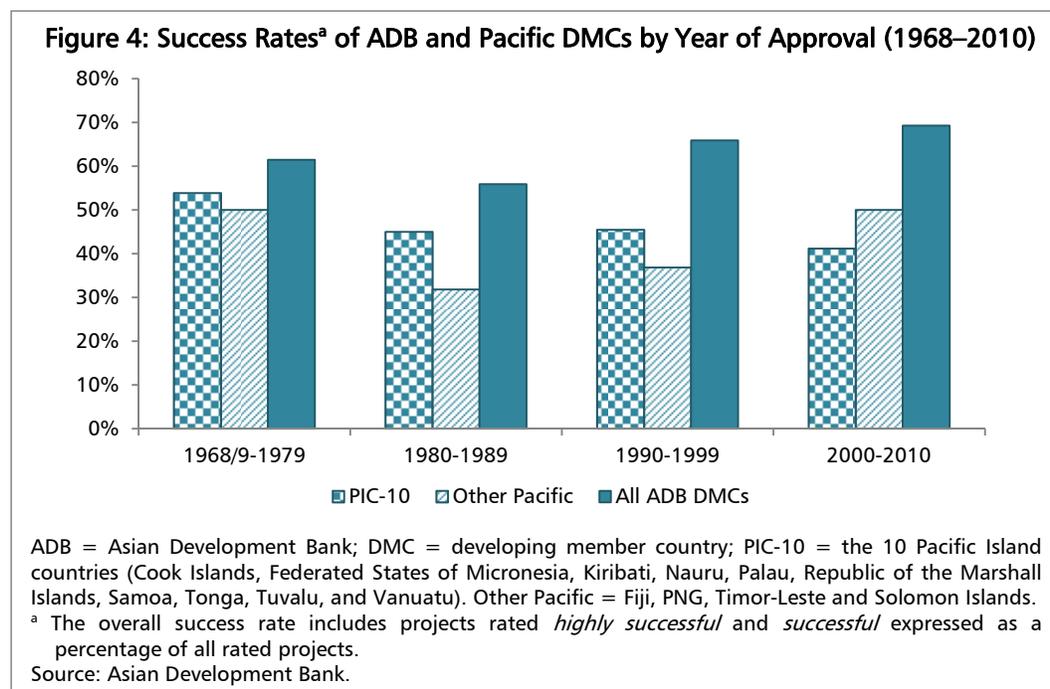
Fragility and vulnerability in the Pacific include (i) isolation (both geographical and in knowledge sharing); small, sometimes dispersed populations and markets leading to limited economies of scale; a lack of consensus in the islands to risk limited resource endowments and develop private markets; limited human resources and a lack of capacity; limited natural resources for most Pacific developing member countries; rapid population growth in some countries that outstrips job creation and welfare services; and a shortage of infrastructure with poor maintenance; (ii) weak core state functions of policy formulation, resource accumulation, and weak public sector management capacity constrained by underdeveloped political and social systems leading to weakening governance; (iii) weak social, political, and security systems affecting delivery of essential services; and (iv) volatility and unpredictability of international assistance, and high vulnerability to climate change and the risks of natural disaster. Such fragility helps explain the weak development effectiveness despite years of comparatively high levels of international assistance. The development challenge of the Pacific therefore requires a carefully considered approach.

Source: ADB. 2009. *ADB's Pacific Approach 2010–2014*. p. 3. Manila.

47. In identifying lessons, the Pacific Approach states that “the region has suffered from investment in projects, including infrastructure projects without adequate institutional and human capacity development efforts and with a weak policy environment” (footnote 1) and that while ADB's support to the region was relevant, there had often been weaknesses in implementation. Weakness in implementation is also found in ADB PCRs and PVRs and is a key reason why Pacific project success rates have consistently lagged behind the ADB average (Figure 4). Higher ratings have been achieved in energy, transport, water, and multisector projects but, by number, these have not been sufficient to increase the overall success rate.

²⁹ ADB. 2008. *Strategy 2020: Working for an Asia and Pacific Free of Poverty*. Manila.

³⁰ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.



48. Lessons from PIC-10 PVRs, and PCRs from 1969 to 2010 were assessed to identify the factors that had contributed to lower than average ADB success rates. The key lessons are listed in Appendix 2, Linked Document B and include (i) greater attention needs to be paid to capacity and organizational weaknesses; (ii) socioeconomic and policy analysis must be informed by policy dialogue, wide consultation, participation and understanding of the local culture; (iii) more time should be spent on project preparation, detailed design and procurement, capacity development and analytical work; and (iv) monitoring and supervision needs to improve. Lessons also identified the need for pre-project support and extensive technical assistance (TA).

49. The Pacific Approach recognized these lessons and put forward new approaches for improving development effectiveness. These include the need to better understand the local context, demonstrate flexibility in operations, promote participation and ownership, share knowledge, and strengthen coordination with development partners. It also took into account lessons from ADB's earlier Pacific evaluations.³¹ In particular, it identifies a need for building ownership or commitment to economic and policy reform, to develop capacity for and understanding of reform, and to provide longer term support for it. This adds two more important elements needed for ADB country engagement: (i) capacity assessment for all projects, and (ii) participatory policy dialogue and building consensus for change.

50. It also identifies approaches to two priority cross-cutting issues which play fundamental roles in the Pacific development context: (i) scaling up support for Pacific countries to enable them to address climate change, especially regarding precautionary measures, warning systems, damage prevention, and mitigation; and (ii) mainstreaming gender by making it a core aspect of central policy planning and implementation.

³¹ IED. 2009. *Special Evaluation Study: ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity and Continuity*. Manila: ADB.

51. The goal of the Pacific Approach is a sustained and resilient improvement in standards of living. The inputs to achieve the goal are summarized in Table 3.

Table 3: Pacific Approach Framework, 2010–2014

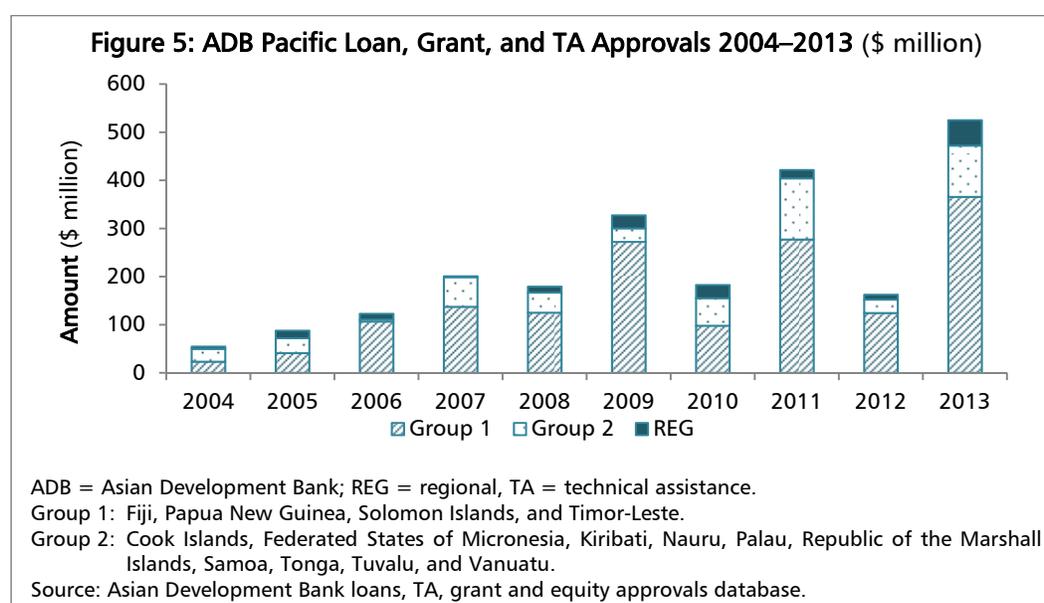
Goal	Sustained and resilient improvement to standards of living	
Agenda	To foster connectivity, consensus, and a greater community through: 1. Inclusive and environmentally sustainable growth 2. Good governance 3. Regional cooperation and integration	
Operational Priorities	<ul style="list-style-type: none"> • Transport and information and communication technology • Energy • Urban development, water, sanitation • Education 	
Drivers of Change	<ul style="list-style-type: none"> • Improved private sector environment • Public sector management • Capacity development 	<ul style="list-style-type: none"> • Climate change adaptation and mitigation • Development partnerships • Gender mainstreaming

Source: ADB. 2009. *ADB's Pacific Approach 2010–2014*. Manila.

C. Increasing Financial Resources

52. ADB has committed itself to providing greater financial and human resources for its FCAS countries, the majority of which are Pacific island states.

53. In terms of approvals, ADB financing for the Pacific as a whole grew nearly ten-fold over the evaluation period climbing from \$54.5 million approved in 2004 to \$525 million in 2013 (Figure 5). Pacific approvals grew more quickly than the increase in total ADB approvals, but much of this was driven by the rapid scaling up of ADB's support for PNG from 2006 to 2011, which resulted in the Pacific's share in total ADB approvals expanding from 1.9% in 2004–2008 to 2.9% in 2009–2013.



54. ADB invested nearly \$2.3 billion in the 14 Pacific member countries over the 10-year evaluation period to end-2013. This included 63 loans (\$1.43 billion), 80 grants (\$540 million), and 293 TA (\$291million). Of this, nearly \$119 million was provided as emergency response to shocks caused by natural disasters (\$57 million), the global food and financial crisis (\$53 million), and to damage caused by civil unrest. Emergency response was funded mainly by OCR and ADF resources. In 2013, however, an additional \$8.2 million, from ADB's Asia Pacific Disaster Response Fund, responded to cyclone damage in Samoa.³² About \$366 million was attracted as cofinancing for ADB managed grant and TA.

55. Investment in the PIC-10 is a much smaller amount of the total Pacific portfolio. It amounted to nearly \$512 million over the 10-year evaluation period to end-2013. This included 26 loans (\$228 million), 35 grants (\$230 million), and 104 TA (\$53 million). ADF financed 56% of loans and grants combined, and OCR accounted for 44% of loans. However, the share of the 10 smallest countries in total ADB approvals grew only marginally from 0.5% in the first half to 0.6% in the second, and their share in Pacific operations declined from one-quarter to just over one-fifth reflecting the dominance of PNG in the PARD's operational portfolio. Overall, the PIC-10 account for 0.5% of total ADB operations.

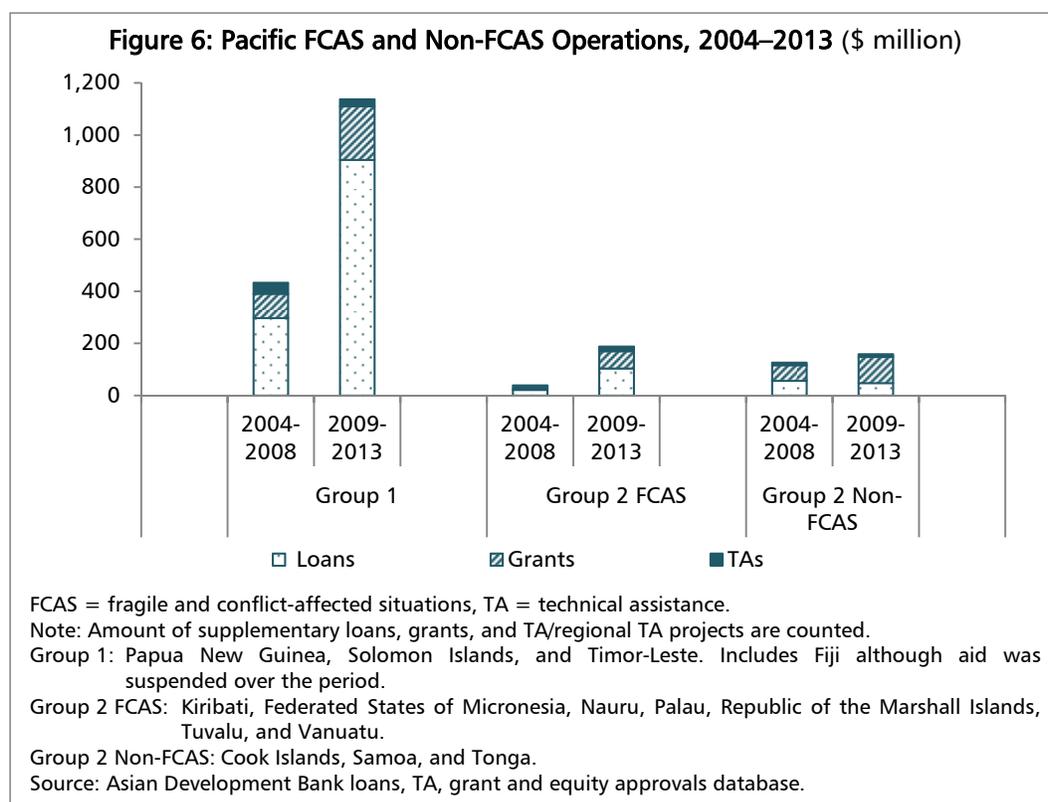
56. In terms of the Pacific portfolio, Fiji, PNG, Solomon Islands, and Timor-Leste are the main beneficiaries of Pacific financing, receiving around 70% of total Pacific support and accounting for nearly 84% of the loan portfolio which reflects the much larger populations in these countries. PNG alone accounted for 70% of loans and nearly half of Pacific total approvals by value. In contrast, the 10 smallest countries shared less than 23% of the Pacific's total portfolio. Regional projects accounted for nearly 8%.

57. Resources for Pacific FCAS also increased over the evaluation period (Figure 6) relative to those for non-fragile states, which met ADB's commitments to expand resources to these countries. However, not all FCAS countries benefited; approvals in FSM and Tuvalu both decreased in the second half of the period (Appendix 2, Linked Document C). The application of a revised minimum allocation of \$3 million per annum for ADF countries starting from January 2015, however, is expected to triple the annual allocation for Nauru and Tuvalu, and to increase allocations to Kiribati (11%), RMI (114%), and FSM (26%). This would bring ADB's minimum allocation to half that of the World Bank's \$6 million base allocation for all countries.

58. The replenishment of the ADF in 2004 (ADF IX) introduced grant project financing to take into account the debt burden of development finance in the poorest countries, including those most vulnerable to external shocks, natural disasters, conflicts, and commodity price changes. This was regarded as an important effort by ADB to be more responsive to countries with high levels of poverty and debt vulnerability.³³

³² ADB. 2012. *Piloting a Disaster Response Facility*. Manila. This facility will be reviewed as part of the 2015 ADF evaluation.

³³ ADB. 2004. Eighth Replenishment of the Asian Development Fund (ADF IX). *ADF IX Donors' Report: Development Effectiveness for Poverty Reduction*. June. Manila.



59. Eligibility for grant financing is limited to ADF-only countries and grant shares are based on a country's risk of debt distress. In 2013, six of the PIC-10 countries, Kiribati, Nauru, RMI, Samoa, Tonga, and Tuvalu were considered to be at *high risk*, although Tonga was reduced to *moderate risk* in 2014. While Samoa and Tonga are not FCAS countries, their high levels of debt distress are partly related to recent natural disasters, demonstrating how quickly Pacific islands can shift from moderate to high risk of debt distress. Outstanding debt in the PIC-10 is due to loan disbursements from multilateral and bilateral development partners (Table 4).

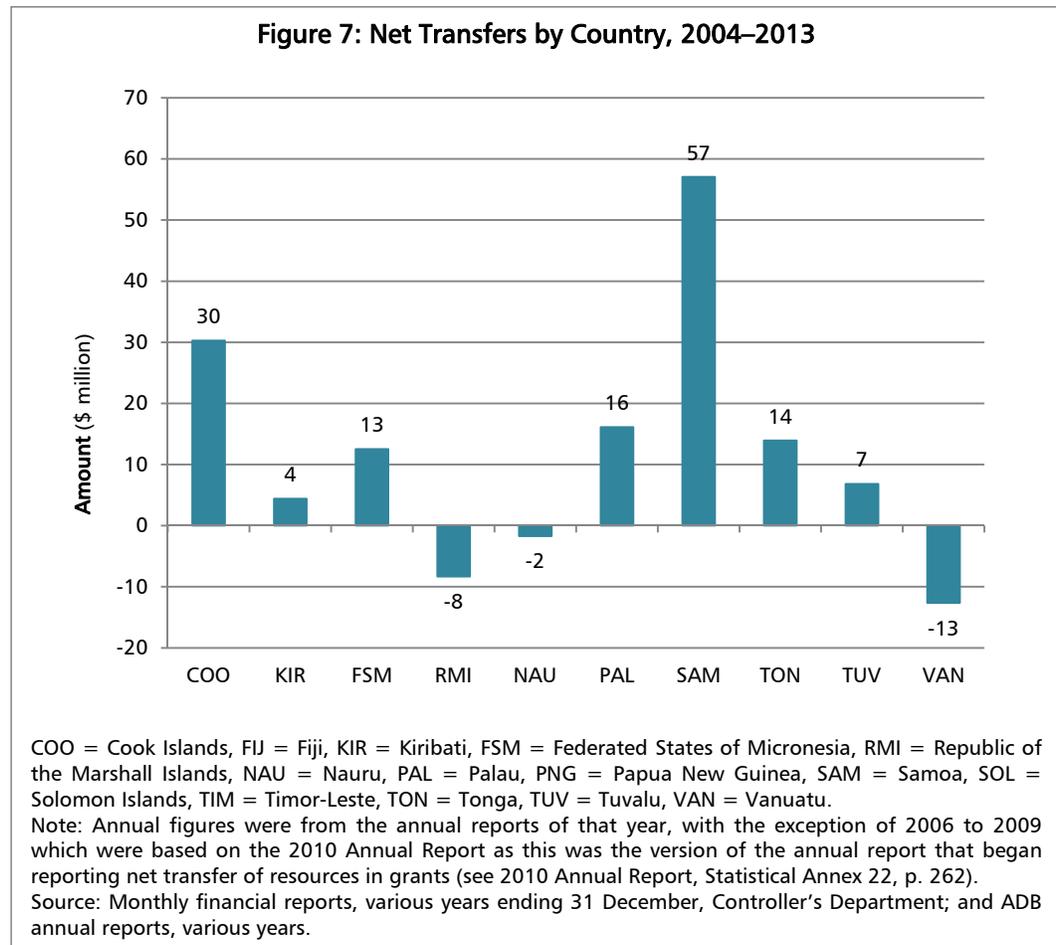
Table 4: ADB Loans Outstanding as a Share of Total External Debt

Country/Borrower	2008			2013		
	ADB Loans Outstanding (1)	Total External Debt Outstanding (2)	ADB Share (%)	ADB Loans Outstanding (1)	Total External Debt Outstanding (2)	ADB Share (%)
Cook Islands	25.9	57.0	45.4	56.6	79.0	71.7
Kiribati		14.5		16.5	19.0	86.8
Marshall Islands, Republic of	67.2	99.8	67.3	68.6	96.4	71.2
Micronesia, Federal states of	47.1	68.1	69.2	55.0	87.6	62.8
Palau		66.8		16.0	64.9	24.7
Samoa	82.8	190.7	43.4	126.8	427.0	29.7
Tonga	43.5	77.0	56.5	35.0	183.0	19.1
Tuvalu		14.6		6.1	9.0	67.8
Vanuatu	51.2	69.1	74.1	43.5	105.0	41.4

ADB = Asian Development Bank.

Sources: International Monetary Fund Article IV Consultation Reports; ADB. 2014. *Asian Development Outlook 2014*. Manila.

60. In 2013, ADB accounted for around 70% of the external debt stock of RMI³⁴ and net transfers over the evaluation period were negative for RMI, Nauru, and Vanuatu (Figure 7).

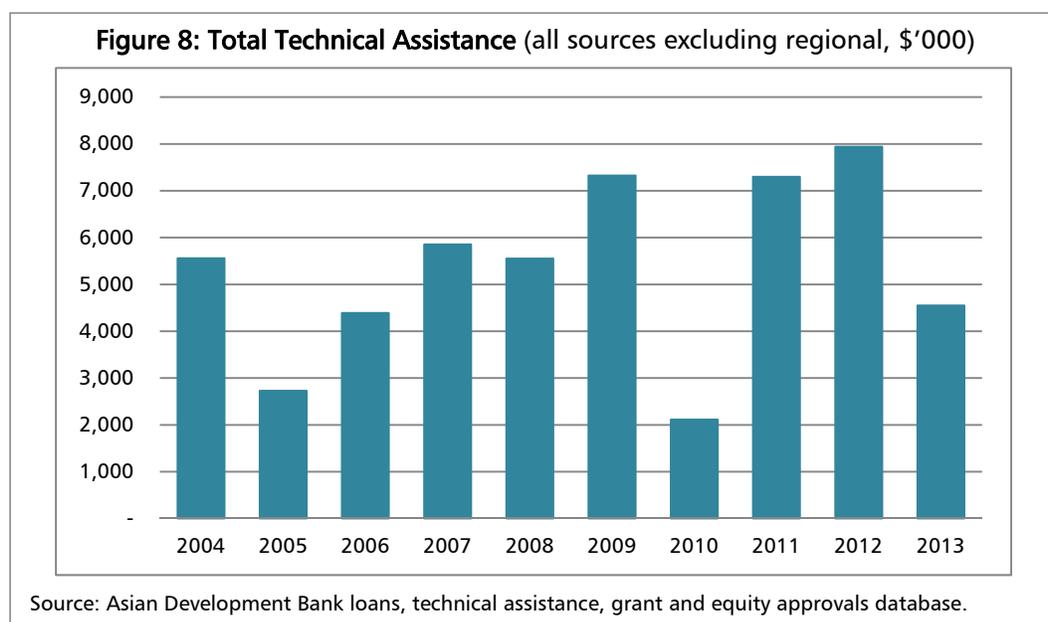


61. Grant financing and TA are important for the PIC-10 accounting for just over 55% of approvals over the evaluation period by value. Some countries, including Nauru and Tonga, had no loans over the evaluation period. Except for Cook Islands, no country received more than five loans over the period and, by number, TA was the most frequent intervention.

62. ADB's TA policy gives special recognition to FCAS countries and committed to increasing TA to them from 2008.³⁵ However, TA operations to FCAS did not expand as envisioned and as a result, the allocation of TA to the PIC-10 grew marginally (Figure 8).

³⁴ ADB Annual Reports, various years.

³⁵ IED. 2014. *Corporate Evaluation Study: Role of Technical Assistance in ADB Operations*. Manila: ADB.



63. The ability to attract cofinancing for grant financed projects and TA appears to be an important element of ADB Pacific operations for all Pacific countries regardless of size and fragility. Cofinancing accounted for nearly 44% of all grant and TA funding combined. It was particularly important in Vanuatu, where grant financing accounted for 69% of the program, and in Kiribati, 44%. Moreover, more than 50% of the regional program, which is predominately TA, was cofinanced. In Vanuatu, cofinancing was used in 2011 to support inter-island shipping and urban development projects along with funding from Australia and New Zealand. However, until this point, there had been no new ADB loans to Vanuatu in over 10 years. The partnership between ADB, Australia, and New Zealand in the Pacific is therefore significant to ADB operations in the region.

64. Australia and New Zealand accounted for nearly 80% of all cofinancing over the evaluation period. While this reflects the importance of the Pacific in their bilateral aid allocations, it could leave ADB exposed to changes in budget allocations for official development assistance in these countries.³⁶ Consultations with ADB staff suggest that attracting cofinancing from other development partners had been less straightforward although efforts have been made. ADB had not been able to grasp the opportunities for new partnerships, especially in those areas that fall outside Strategy 2020 core priorities, e.g., an opportunity to partner with the International Fund for Agricultural Development to implement rural development programs in the Pacific was not taken up.

D. Increased Country Presence

65. ADB's work on FCAS and the findings of the 2011 fragile states evaluation³⁷ recognize that improved field presence and supervision contribute to greater effectiveness. Improving field presence is also a key objective in the Pacific Approach.

³⁶ S. Howes and J. Pryke. 2014. Biggest aid cuts ever produce our least generous aid budget. *DevPolicyBlog*. Canberra: Development Policy Centre, Australia National University.

³⁷ IED. 2010. *Special Evaluation Study: Asian Development Bank's Support to Fragile and Conflict-Affected Situations*. Manila: ADB.

66. With support from Australia, ADB invested in building field presence over the evaluation period by opening Pacific development coordination offices. These operate as a small national ADB office (or joint ADB-World Bank Liaison Office). They combine a strategic role in policy dialogue and advising governments on ADB processes with an operational support role for missions and portfolio management. The offices are operated by a development coordination officer (DCO) who is generally a country national or regional specialist. Some DCOs are supported by an administrative assistant depending on portfolio size. For ADB-only offices, the DCOs are appointed on a consultancy basis, so they cannot officially represent ADB. This undermines a long-term commitment to build official ADB in-country presence. In contrast, World Bank-supported DCOs are appointed as World Bank staff members attached to their Sydney office. All DCOs in the ADB and World Bank are funded by Australia.

67. ADB staff and country stakeholders were universally positive about the role of the DCO, which has contributed to improved communication between ADB and partner governments. For example, country presence in RMI and FSM has enabled greater coordination and improved ADB responsiveness. The level of engagement between ADB and the respective countries has improved over recent years and there appears to be a more collaborative approach developing with respect to new initiatives. Nevertheless, the DCOs' lack of official status means they cannot perform official functions. This can cause inefficiencies, e.g., where they do not officially have authority to sign grant or loan agreements or accept withdrawal applications on behalf of ADB. While the Office of the General Counsel and Controller's Department have allowed DCOs to take on this role on a case-by-case basis for emergency disaster grants, their lack of authority has caused delays in having grants declared effective and disbursing funds.

68. In the case of Nauru and Tuvalu, however, there is no local presence. Given the relative smallness of ADB's programs in each country, a standalone presence may not be efficient although a joint presence with another donor may be a feasible option. This would provide an on-the-ground reference point for TA and in-country advisers and ensure that ADB's relationship with key stakeholders is maintained in periods between headquarter country missions.

69. A midterm review,³⁸ commissioned by ADB, found that the DCO had improved ADB's credibility and contribution to development effectiveness. However, it also found that the full potential of the DCO model had not yet been optimized, and that their role could be strengthened to make better use of the local knowledge and skills of the DCO, including their role in local research.

70. A key issue is that DCOs operate with an uncertain tenure. In contrast, the World Bank has found a mechanism to operate the DCOs as formal entities within the World Bank structure, with associated benefits of credibility, identity, and assurance of country-level commitment. Although most Pacific countries are too small to warrant a full-scale ADB representative office, the countries are full members of ADB and as such there is a strong case for ADB establishing a formal country presence. The midterm review of the DCO role (footnote 38), recommended that ADB should consider the institutional options that would allow a longer term country level commitment across the Pacific region.

71. All other ADB borrowing members (except the Maldives) have a resident

³⁸ ADB. 2014. *Mid-Term Review of Enhancing Engagement with Pacific Developing Member Countries, Phase 2*. TA 8088-REG. Manila.

mission. There are three resident missions serving 14 Pacific countries, although their responsibilities are divided across five locations (Table 5). Where best to locate experienced and technical staff is not straightforward with some Timor-Leste based resident mission staff also expected to cover Fiji and PIC-10 countries. Nine countries out of the 14 Pacific member countries have DCOs, leaving the smallest countries, Tuvalu and Nauru, with no field presence. In addition, the DCO position in Kiribati has been vacant since May 2013.

Table 5: Pacific Office Locations

Country	Status	Country Responsibility
PNG	Resident Mission	PNG
Timor-Leste		Timor-Leste
Fiji	Regional Office	Fiji, Kiribati, Samoa, Tonga, Tuvalu
Australia	Liaison and Coordination Office	Cook Islands, Nauru, Solomon Islands, Vanuatu
Philippines	Headquarters	FSM, Palau, RMI, Regional

FSM = Federated States of Micronesia, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands.
Source: Asian Development Bank.

E. Staffing and Career Incentives

72. ADB recognizes that a sustained and potentially increasing engagement with FCAS countries has organizational and professional staffing implications. As a result, it has committed to (i) strengthening human resources for FCAS operations, (ii) addressing staff resource constraints, and (iii) improving the skills and incentives needed to make projects work in challenging environments.³⁹

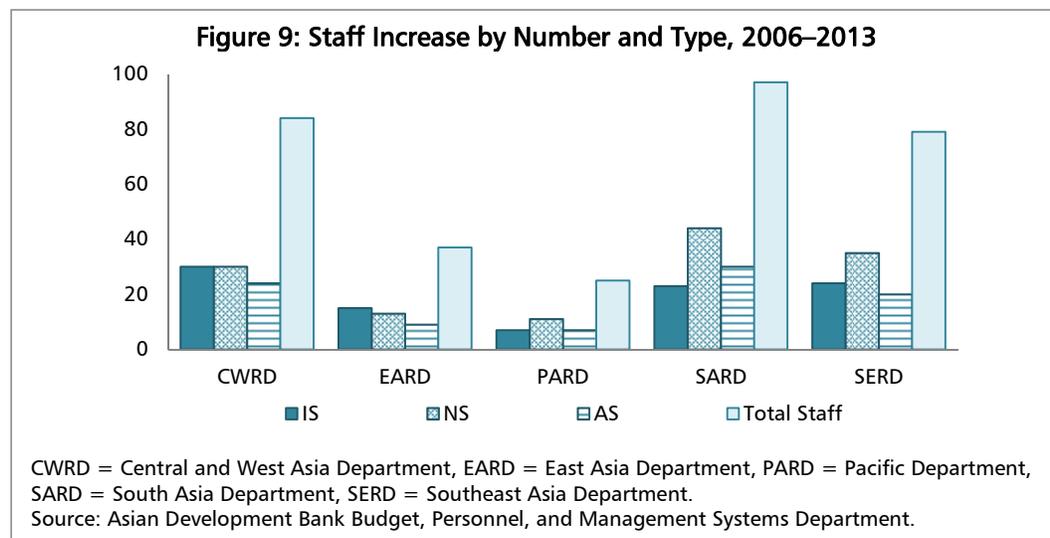
73. A number of indicators suggest that in terms of staff, PARD was not adequately resourced over the evaluation period to implement its Pacific Approach or the approach to fragility that it contains.

74. First, turnover in Manila based senior management positions, i.e., at director general and director levels was high (Appendix 2, Linked Document D). There were five directors general and nine directors over the evaluation period. Only one team (consisting of the director general and two directors) worked together for two consecutive years but no team has worked together longer than this without a change in at least one team member. There was a change in a senior management position every year except for two over the 11-year period from 2004 to 2014. This implies that there has been no consistent leadership of ADB's program in the Pacific region, although it contains the highest number of fragile countries where ADB results have been the poorest. Moreover, PARD Manila-based senior management staff had the highest turnover among regional departments in 5 out of the last 10 years. This was especially evident over the period 2008–2010 when PARD experienced a 67% turnover each year with two senior management staff leaving per year. While the turnover in other regional departments also appears high, the composition of teams is significantly larger. This is not the type of continuity in management that might be expected to lead a program of change in FCAS countries. This has changed more recently, however, through greater stability at director general level and through the appointment of a Pacific deputy director general.

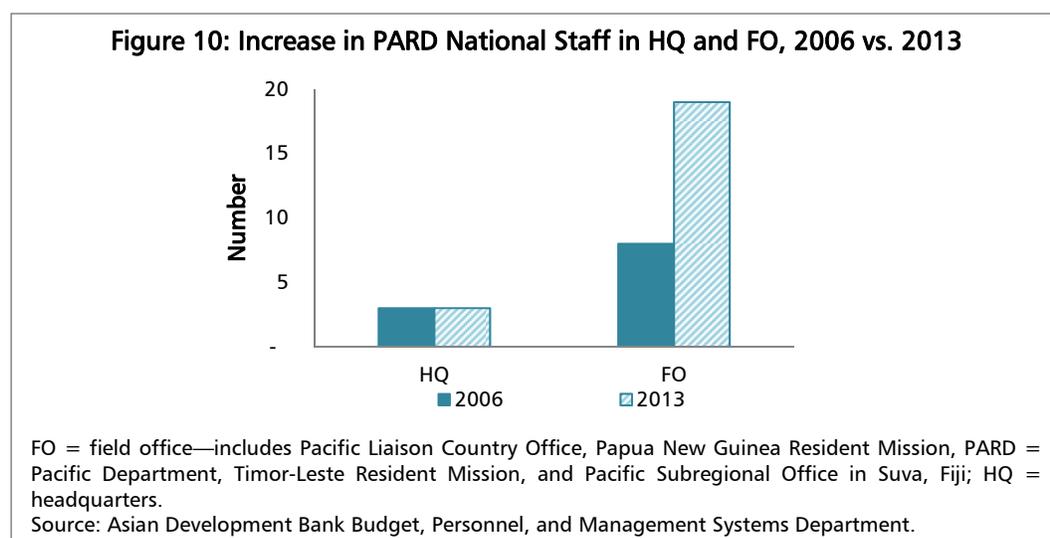
75. Second, while PARD's staffing increased in line with other regional divisions, it did not explicitly respond to the higher number of FCAS countries in the Pacific region.

³⁹ ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila.

Total staff numbers in ADB increased considerably from 2006 to 2013. There has been a 32% increase in total staff with above average increases in the Central and West Asia Department (37%); South Asia Department (35%); and PARD (34%), but below average in Southeast Asia Department (28%) and East Asia Department (25%). However, this resulted in a smaller absolute increase in PARD staff (Figure 9).

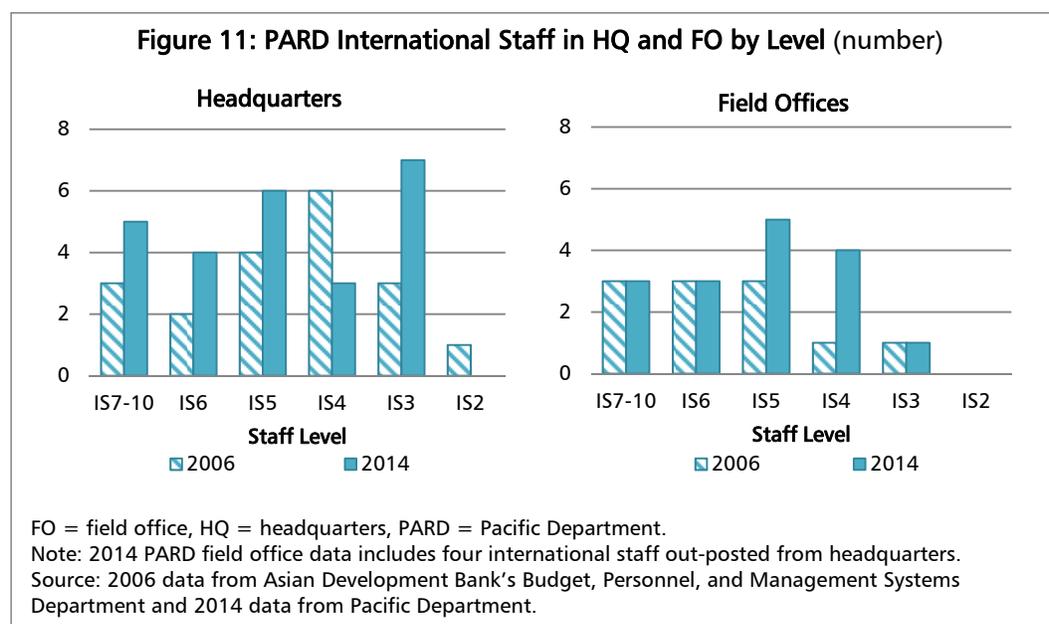


76. Third, the increase in staffing was used to grow resident mission support staff, which reflects ADB's strategy to lift its field presence, diversify the skills base, and ensure adequate local knowledge and understanding in FCAS countries (Figure 10). By contrast, growth in international staff has been more moderate.



77. While lifting field presence is important, so is getting the right type of experienced technical capacity in the field. As the current portfolio is driven by investments in energy, transport, and urban water, which require implementation support and coordination, more field based technical expertise is needed to bolster support staff in implementing and supervising these programs. PARD is beginning to post sector specialists to the field but this has been slow (Figure 11). Nevertheless, PARD should explore the institutional flexibility it has to quicken this process, including

offering packages sufficiently attractive to attract the right people to country based positions, joint hiring with other partners, as well as secondments or attachments from other donor partners.



78. Fourth, the estimated average number of project officers per project intervention (loan, grant and TA) in the Pacific is lower than most other regional departments (Table 6) though similar to East Asia Department. This suggests that ADB has not provided additional human resources for responding to the difficulties associated with operations in FCAS countries.

Table 6: Estimated Staff per Project^a by ADB Regional Department, 2006–2013

Year	PARD	CWRD	EARD	SARD	SERD
2006	2.8	3.5	3.1	4.2	3.1
2007	2.7	4.0	3.0	4.2	3.6
2008	2.6	4.0	2.5	3.4	2.9
2009	2.2	4.9	2.1	2.5	3.1
2010	3.1	6.1	2.3	2.6	3.0
2011	2.3	6.6	3.2	3.3	3.6
2012	2.3	5.6	2.5	3.4	2.8
2013	2.2	4.0	2.5	3.9	3.2
Average	2.5	4.9	2.6	3.4	3.2

ADB = Asian Development Bank, CWRD = Central and West Asia Department, EARD = East Asia Department, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.

^a Including loans, grants, and technical assistance.

Source: Budget, Personnel, and Management Systems Department staff data and Asian Development Bank loans, technical assistance, grant and equity approvals database.

79. To overcome its staffing constraints, PARD occasionally draws on the expertise of other regional departments. Nevertheless, the average number of project officers per project suggests that Pacific FCAS country projects may not be getting the attention and oversight that they need, especially by technical level staff. Moreover, data on headquarters mission days show that there have been fewer mission days in the PIC-10 than in the larger Pacific countries and in ADB as a whole (Table 7). This is significant

since the PIC-10 do not have resident missions that can readily support executing agencies.

Table 7: Staff Mission Days per Project

Year	ADB	PIC-4	PIC-10
2003	25.4	23.3	20.7
2004	27.0	24.7	19.3
2005	24.4	29.2	17.3
2006	25.6	34.7	19.1
2007	26.1	20.0	15.2
2008	27.2	22.8	19.9
2009	29.0	19.7	27.1
2010	28.4	41.1	17.9
2011	23.6	23.9	14.6
2012	23.4	33.3	18.3
2013	21.8	24.3	12.7

ADB = Asian Development Bank, PIC = Pacific island country.

Notes:

1. PIC-4 consists of Fiji, Papua New Guinea, Solomon Islands, and Timor-Leste.

2. PIC-10 consists of Cook Islands, Kiribati, Marshall Islands, Micronesia, Nauru, Palau, Samoa, Tonga, Tuvalu, and Vanuatu.

Source: Asian Development Bank Operations Services and Financial Management Department.

F. Main Points

- **PARD has not been sufficiently resourced to implement its Pacific Approach, particularly in the PIC-10.** There has been no consistent leadership, and mission days in the PIC-10 are low. This is a particular problem given there are no local resident missions.
- **Grant financing and TA** are important financial instruments for supporting capacity development in the PIC-10. However, TA resources increased marginally over the evaluation period.
- **Cofinancing** for project grants and TA mainly comes from Australia and New Zealand. This increases the chances of good coordination but also means ADB's relevance in the region is at risk if there are cuts in development support in these two countries.
- **Field presence.** There is overwhelming support for the new development coordination offices, which have improved ADB's relationships in some of the smaller more remote countries. There would be advantages to employing development coordination offices as national staff rather than as consultants.
- **National staff.** PARD has successfully grown its country based national staff but much more needs to be done to ensure there are sufficient field based human resources to improve effectiveness in Pacific FCAS operations.

Implementing the Pacific Approach

80. The Pacific Approach aims to achieve economic growth, good governance, and regional cooperation and integration as key intermediary outcomes toward the overall long term goal of sustained, improved, and resilient standards of living. This chapter is focused on ADB's Pacific Approach Implementation Review 2014, and independently assesses the extent to which the Pacific Approach has been implemented in the PIC-10 and the preliminary results achieved.

A. Pacific Approach Implementation Review

81. A key argument of the Pacific Approach is that, given past poor performance, it is not just "what is required in the form of development assistance, but also how this assistance can be provided better" (footnote 1). It recognizes that achieving development effectiveness in the Pacific is a resource intensive process that requires more country presence, better understanding of the local context and the political economy, flexibility in project design and implementation processes, capacity assessments for all projects, participatory policy dialogue, and partnerships. Lessons from PIC-10 PCRs and PVRs also recognized the need for better project preparation, additional guidance and supervision, greater consultation and policy analysis, longer term implementation periods, and stronger participation of project beneficiaries (Appendix 2, Linked Document B). These are also important elements of a fragile states approach that add up to a different way of working in the Pacific.

82. ADB's own assessment of its performance is set out in the Pacific Approach, 2010–2014 Implementation Review (footnote 6). This review assesses performance in all 14 Pacific countries but it does not make a separate assessment of progress in the PIC-10. Nor is it possible to separate the PIC-10 from overall findings and statements in the review. The Implementation Review covers all aspects of the Pacific Approach including an assessment of ADB's performance against the key objectives of inclusive and sustainable growth, good governance, and regional cooperation and intervention. It also reviews implementation of the drivers of change, and the principles underpinning the Pacific Approach. The focus of this evaluation, however, was more closely centered on the drivers of change and whether the principles underpinning the Pacific Approach were put into practice, i.e., the extent to which ADB was working differently. This followed the logic of the Pacific Approach, which emphasized that *how* ADB worked in the Pacific was important for effectiveness.

1. Inclusive and Environmentally Sustainable Growth

83. The Implementation Review states that ADB aims to reach the objective of inclusive and environmentally sustainable growth by (i) stimulating private sector investment to create jobs and (ii) extending the reach of infrastructure services

(electricity, roads, water, and information and communications technology). It proposes that the results of this approach will be seen in areas of job creation and improved access to markets, education, and health services, and increased opportunities for women, young people, rural and outer-island dwellers, and other vulnerable groups.

84. In its assessment, however, the Implementation Review also finds that in many Pacific countries the public sector continues to dominate the economy and that substantial and spontaneous private sector growth and investment remains elusive, with countries still struggling to diversify their economies away from a reliance on the public sector.

85. The current evaluation agrees with this finding. The potential for economic growth and job creation is limited in the PIC-10 by binding constraints related to geographic and demographic size, isolation and scarcity of resources. While ADB has made progress in creating an enabling environment for private sector development in some Pacific countries, e.g., Samoa, Tonga, and Solomon Islands, much less progress has been made in the smallest.

86. The new Pacific Approach needs to be more realistic about the potential for private sector development and its impact on jobs, particularly in the short run. While investments in connectivity, better transport systems and information and communication technology may reduce the costs that would otherwise prevent Pacific countries taking advantage of new opportunities, it does not fundamentally change the constraints imposed by small size and remoteness (footnote 8).

2. Good Governance

87. On good governance, the Implementation Review focuses on ADB's second governance and anti-corruption action plan (GACAP II), political economy analysis, and the increase in the proportion of operations that have good governance as a theme, but there is less said on results.

88. ADB's support for governance is provided mostly through public sector management (PSM) operations and through projects in other sectors that have governance as a thematic classification. An evaluation of Pacific governance⁴⁰ over 2000–2010, covering 10 loans and grants and 96 advisory TA projects classified under PSM, found ADB's overall performance to be *partly successful*. However, a small sample of more recent PVRs for projects approved after 2010 in Tonga and Tuvalu indicates improved performance especially where ADB has supported a government-led reform program in cooperation with other development partners. Why recent performance in this area has been more successful is discussed in detail in item 4 of Section C below.

3. Regional Cooperation and Integration

89. The Implementation Review notes that ADB has supported regional cooperation and integration primarily through its regional TA portfolio.

90. Its findings are validated by the current evaluation. ADB has supported successful regional approaches to public regulation and service provision, e.g., in audit capacity, aviation safety, and public financial management (PFM) reform but ongoing

⁴⁰ IED. 2011. *Special Evaluation Study: Asian Development Bank's Support for Promoting Good Governance in Pacific Developing Member Countries*. Manila: ADB.

support is required if these gains are to be sustainable. The Private Sector Development Initiative (PSDI) and the Pacific Regional Infrastructure Facility (PRIF) are well-designed regional programs that respond to common issues and promote knowledge sharing and learning across the region. ADB would need to continue its support for innovative regional approaches for public service delivery and capacity building to find efficient effective delivery mechanisms for service delivery across the region.

91. ADB's support for the Pacific's formal regional architecture was limited over the evaluation period. It provided some direct support for the activities of the South Pacific Commission (SPC) and the Pacific Islands Forum Secretariat (PIFS), but most regional support was administered by ADB. The Implementation Review suggests that a reinvigoration of high-level consultation with the PIFS and the SPC may help build a partnership for financing projects. However, the evidence suggests that ADB's regional support has worked well where it is directed at regional initiatives that address common problems or that share information across countries, and where these programs are jointly funded with other development partners. While ADB should continue to pursue potential opportunities with the PIFS and the SPC, the way forward is likely to be a combination of both approaches in an effort to find innovative approaches to regional cooperation and integration that work.

B. Operational Priorities

1. Transport and Information and Communications Technology

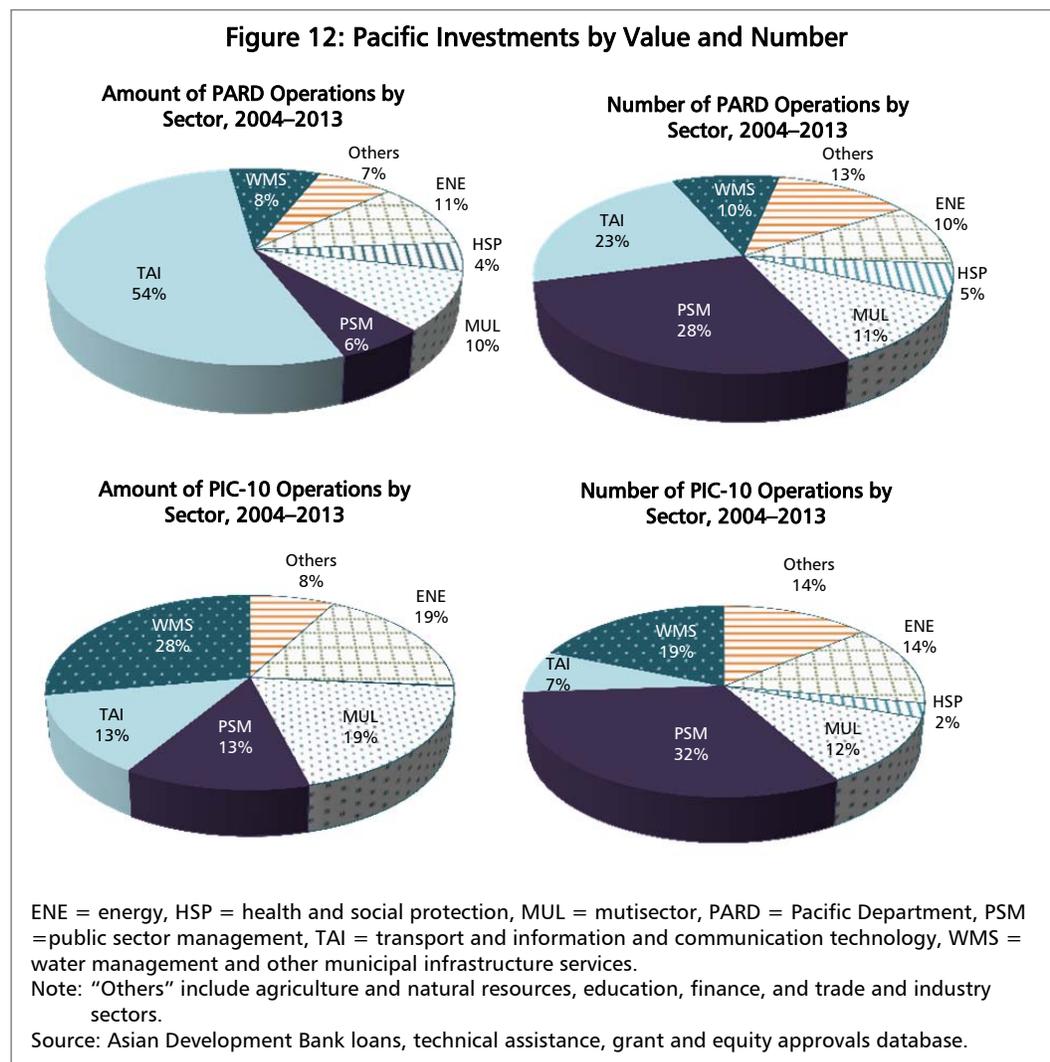
92. Given the remoteness and dispersion of populations in the Pacific, transportation and connectivity have to be important components of any strategy aimed at achieving inclusive growth. As well as roads, the Pacific also requires the development of inter-island shipping, ports, wharves, and aviation to better connect to the rest of the region and to major trading partners. During the evaluation period, ADB provided loan and grant support to two water transport projects, the Avatiu port and shipping infrastructure project in Cook Islands and to interisland shipping in Vanuatu (with New Zealand), and provided TA for Pohnpei port development in FSM. In Kiribati, ADB is rehabilitating 32.5 km of main road and 10 km of feeder roads on the atoll of South Tarawa jointly with the World Bank.

93. Investment in transport and information and communications technology (T&ICT) is regarded by the Implementation Review as the foundation of ADB's Pacific support and as central to achieving inclusive growth through greater connectivity within and between countries. While T&ICT accounted for almost 54% of total Pacific investment by value and 23% by number of projects over the evaluation period (Figure 12), over 90% of this was in the larger Pacific countries of Fiji, PNG, Solomon Islands, and Timor-Leste. Of the PIC-10, only Cook Islands, Kiribati, and Vanuatu had transport related projects over the evaluation period. Support has also been provided for the introduction of high speed internet access in Samoa and Tonga.

94. An evaluation of ADB's Pacific transport interventions in 1995–2010⁴¹ found overall support to be *successful*. However, this only included an assessment of transport interventions in Fiji, PNG, Solomon Islands, and Timor-Leste. There were no transport interventions funded by ADB during the evaluation period in FSM, Nauru,

⁴¹ IED. 2011. *Sector Assistance Program Evaluation: Transport Sector in the Developing Member Countries (1995–2010)*. Manila: ADB.

Palau, RMI, and Tuvalu and no transport projects in the PIC-10 were completed over the evaluation period that would allow an assessment of results.



2. Energy

95. The Implementation Review reports that energy access has broadened and sources of supply are diversifying into renewables. While ADB funded projects may have contributed to an expansion of services, energy poverty remains widespread in the Pacific. Widening access to rural communities is particularly slow and geographic isolation and highly dispersed populations make it difficult and uneconomic to build or expand integrated energy grid systems.

96. ADB's Pacific energy sector support expanded over the evaluation period to 20% of total Pacific investments in 2013. Approvals over the evaluation period were concentrated in PNG (55% of total energy investment) and Samoa (30%) although ADB has ongoing energy investments in 11 Pacific countries. Substantial additional support to the energy sector is also provided through regional TA projects for renewable energy and efficiency.

97. Over the period, ADB's has supported the use of renewable energy in Yap Renewable Energy Development Project in FSM, Outer Island Renewable Energy Project in Tonga, and Renewable Energy Development and Power Sector Expansion Project in Samoa. A power sector expansion project in Samoa is expected to improve the quality, reliability, and cost-effectiveness of power supply.

98. A Pacific energy sector assessment in 2013⁴² focused on the PIC-10 found that ADB has been more successful since the Pacific Approach in designing energy projects. Nevertheless, the overall rating for ADB's support for energy from 2000 to 2012 was *less than successful*. Project designs since 2009 emphasize renewables and clean energy and incorporate lessons learned. These lessons include recognition of the need for longer project implementation periods to ensure successful results; a firm understanding of the importance of regional cooperation and coordination among donors and other sector partners; an understanding of the need to continue to address limited capacity to facilitate improvements in the sector; and solid knowledge of restructuring prerequisites for sustainable energy utility financial viability, autonomy, and private sector partnerships, which may suggest better energy outcomes moving forward.

3. Urban Development, Water, and Sanitation

99. The Implementation Review notes that ADB's response to urban growth has largely been through support to water supply and sanitation services. Approvals in this sector have expanded over the evaluation period, particularly in Kiribati and Vanuatu through cofinanced initiatives with Australia and New Zealand. ADB is supporting two sanitation-focused projects: Palau's Koror-Airai Sanitation Project, and the South Tarawa Sanitation Improvement Sector Project cofinanced with Australia. ADB also supported water in urban development projects in Tonga and Vanuatu.

4. Other Sectors

100. While education is an operational priority in the Pacific Approach, the Implementation Review observes that it has been a minor area of ADB's work in the Pacific.⁴³ There were two loans over the period, one in Samoa and another in Tuvalu and limited grant and TA support. Projects identified as health and social protection were largely responses to crisis situations, e.g., drought in RMI and cyclone damage in Palau. There was no direct support to health in any of the countries over the evaluation period.

C. Drivers of Change

101. ADB has promoted six drivers of change across its Pacific operations. These are examined below, though capacity and partnerships are covered in Section D.⁴⁴

1. Climate Change Mainstreamed

102. In 2011, the Pacific Climate Change Science Program produced a summary report: *Climate Change in the Pacific: Scientific Assessment and New Research*.⁴⁵ The

⁴² IED. 2014. *Regional Sector Assessment Energy in the Pacific*. Manila: ADB.

⁴³ The evaluation did not include an assessment of education and water management and other municipal infrastructure services.

⁴⁴ The evaluation assessed partnership as part of cofinancing and donor collaboration.

summary indicated that climate variability had been primarily associated with changes in the intensity and frequency of the El Niño-Southern Oscillation.⁴⁶ The report describes future climate change in terms of increases in sea-surface temperatures, changes in rainfall patterns, and sea level rise. Risks arise though the potential for drought or floods (with flow on effects, for example on food security), potential increase in intensity and shift in location of tropical cyclones, and sea level-rise (affecting coastal and low-lying settlements and infrastructure). High atmospheric carbon dioxide concentrations will raise the acidity of seawater (ocean acidification) potentially threatening fragile reef systems on which many Pacific islands depend (Appendix 2, Linked Document E).

103. The Implementation Review notes that climate change is an immediate threat to sustainable development in the Pacific and points to the proportion of approved loan and grant operations supporting the environment which rose sharply from 17% in 2006–2009 to 40% in 2010–2013. ADB's approach is to provide increased financial and technical support to Pacific countries for measures that will ensure continued economic growth in the face of climate change, and to facilitate access to financing for building climate resiliency and promoting clean energy development.

104. A real-time evaluation which included the Pacific as a case study found that as of mid-2013, ADB had aimed to scale up activities promoting climate change adaptation and disaster risk reduction at both country and regional levels over 2010–2014.⁴⁷ ADB's Climate Change Implementation Plan (CCIP)⁴⁸ for the Pacific proposed a scaling up of climate change adaptation efforts along with coordinated and harmonized responses with many partners in the region. It also proposed capacity development to enable Pacific countries respond to climate change.

105. The CCIP was followed by ADB's Pacific Climate Change Program (PCCP) 2010⁴⁹ which aimed to improve countries' resilience to climate change by mainstreaming adaptation in policies, plans, programs, and projects as well as by improving access to affordable financing for climate-proofed development initiatives.

106. TA is used by ADB to support capacity development for many Pacific countries to prepare projects and regional plans and programs; support mainstreaming of climate change and disaster risk management into national, sector, and urban plans; and to focus resources on capacity development to support energy efficiency and renewable energy development (mitigation) and sustainable coastal and marine resources and resilient coastal ecosystems to support food security (adaptation). However, ADB's climate change-related TA in the Pacific for 2009–2012 focused on five countries (PNG, Samoa, Solomon Islands, Tonga, and Vanuatu), although three of eight regional TA operations during this period were designed to expand nationwide coverage.

107. Mainstreaming and integration of climate change adaptation, including mainstreaming of assessment and planning tools, continues to be a work in progress

⁴⁵ Australian Bureau of Meteorology and CSIRO, 2011. *Climate Change in the Pacific: Scientific Assessment and New Research*. Volume 1: Regional Overview. Volume 2: Country Reports.

⁴⁶ The "Southern Oscillation" refers to variations in the temperature of the surface of the tropical eastern Pacific Ocean, with warming known as *El Niño* and cooling known as *La Niña*, and in air surface pressure in the tropical western Pacific.

⁴⁷ IED. 2013. *Real-Time Evaluation of ADB's Initiatives to Support Access to Climate Finance*. Manila: ADB.

⁴⁸ ADB. 2009. *Mainstreaming Climate Change in ADB Operations: Climate Change Implementation Plan for the Pacific (2009–2015)*. Manila.

⁴⁹ ADB. 2010. *Responding to Climate Change in the Pacific: Moving from Strategy to Action*. Manila.

at all levels of planning, budgeting, and implementation, as are efforts to develop capacity to translate such plans and programs into viable climate change interventions.

108. The work in progress in the region indicates that Pacific countries and their development partners have a good appreciation of the potential for adaptation and the measures necessary to adapt to climate and disaster risks. However, the ability to take action, which is the real essence of adaptive capacity, continues to be constrained by various funding, implementation, institutional, and human resource capacity issues.

109. An example of ADB support for climate change mainstreaming is the Avatiu Port Project in the Cook Islands. Design for climate change was incorporated into the project by supporting the raising of the port in the event of future sea-level rise and more extreme events. During the project, alternative funding was sought and granted under the climate change fund for the adaptation elements. Extensive investigations of the impact of climate change on wave conditions and sea level were undertaken. From a strategic perspective, climate change and disaster risk management were also key considerations in the National Infrastructure Investment Plan recently prepared in the Cook Islands, facilitated by the PRIF.

110. Since most of the projects leave the determination of climate change-related measures and requirements to the detailed design or preconstruction stages, however, economic analysis for with and without climate change intervention is not usually possible. For instance in Palau, consultations with staff suggested that while some considerations of sea level rise were considered in the Koror-Airai Sanitation project, there was no holistic assessment of opportunities for climate change or disaster risk mitigation. The risk assessment and sector assessment for both the water and sanitation sector programs make limited reference to climate change adaptation or disaster risk management. In reviewing the project design documents, there is limited reference to climate change or disaster risk mitigation, which are critical risks considering the water and sanitation focus of the project. This suggests that ADB should consistently place a greater focus on climate change and disaster risk during project preparation and design.

111. ADB is supporting measures to improve climate resilience in Tonga's outer islands using an innovative trust fund model which will encourage and support community initiatives.⁵⁰ Tonga was the first Pacific island country to develop a multi-sector strategy noting that the cross-cutting nature of work in climate change adaptation in small island states like Tonga poses considerable challenges for institutional and development partner coordination. The project will address constraints to develop institutional capacity to identify, design and implement climate adaptation practices and will finance a range of least cost, locally appropriate solutions for climate resilience, while engaging civil society and local communities in the identification and implementation of climate resilient investments.

112. Nevertheless, project preparatory TA resources often do not appear to be specifically budgeted to support detailed climate change impact, vulnerability, risk, adaptation assessments or to sufficiently define climate change indicators for monitoring and evaluation. It also appears that most of the ADB interventions related to climate change in the Pacific will be difficult to evaluate in terms of process criteria such as degree of ownership, not just because most of the projects are still at the early stage of implementation, but primarily because the details of the project components

⁵⁰ ADB. 2013. *Tonga Climate Resilience Sector Project*. Manila.

and measures addressing climate change mitigation and adaptation are mostly left to the detailed design stage. As a result, consultations and other participatory processes that are supposed to allow stakeholders to engage in project design and implementation issues related to climate change are hindered by the lack of details on ADB's intentions. However, with respect to infrastructure, there is a notable difference in project documentation indicating that climate change issues are taken into account compared with early project documentation.

113. Project readiness for climate change-related interventions in the Pacific would benefit from more specificity during the project preparation, approval, and design stages. ADB should clearly articulate the following:

- (i) the climate change impact and/or vulnerability context, the intent to address climate change impacts and risks via adaptation measures, and specific project activities designed to achieve climate resilience;
- (ii) cost estimates of adaptation measures;
- (iii) the form of climate change-related assessment undertaken and the additional associated costs for undertaking such assessments, regardless of whether the adaptation measures are eventually adopted or implemented (at least two costs of climate change need to be articulated here: the cost of climate change assessment especially when it is significant and regardless of the eventual recommendation, and the cost of implementing adaptation measures);
- (iv) whether a more detailed climate risk assessment is intended or expected during the detailed design and implementation that may significantly impact upon project costs or the scope of work, including probable cost implications and the likelihood of project cost contingencies sufficiently covering such additional costs;
- (v) whether existing design standards and considerations (whether national design standards or basic good engineering design) already address probable climate change impacts;
- (vi) climate-change-related indicators to be monitored in the design and monitoring framework; and
- (vii) stakeholder participation envisioned in project design and implementation (crucial for adaptation projects).

114. In addition to climate change, there are several other environmental issues that small Pacific countries increasingly face. These include coastal resources management, fish stock depletion, loss of mangrove forests and coral reefs, water shortages, salt water intrusion and water lenses contamination, and solid waste management. In the Pacific islands, rural communities are highly dependent on locally harvested fish, crops, livestock, and timber. Fresh water is usually obtained from local sources, with the availability of water closely linked to local catchment health. Mangroves and coral reefs play a vital shoreline protection role, regulating coastal erosion and reducing the impacts of cyclones and storm surges. They are also crucial for fisheries and food security.

115. Environmental problems are caused by several factors including pressures from rapid population growth, unsustainable patterns of consumption and production, and coastal development, which combined with climate change impacts pose major threats to the region's food, water and livelihood security. Ecosystem-based adaptation and community-based natural resource management are mutually supportive approaches. Strong traditions of local governance, communal resource tenure, and traditional and

local ecological knowledge present fertile conditions for community-based adaptation in the small Pacific Islands. A participatory approach, centered on local communities, has been identified in several climate change meetings held in the Pacific,⁵¹ as one of the best ways to address climate change vulnerability and identify, prioritize, plan, and implement adaptation and resilience building.

2. Gender Mainstreamed

116. The Implementation Review notes that that the proportion of projects across the Pacific as a whole with gender mainstreaming had increased to 44% of all approved loan and grant operations in 2010–2013 compared with just 5% in 2006–2009.

117. In recognizing gender mainstreaming as a key driver of change, the Pacific Approach asserts that ADB will help to introduce gender as a key policy concern in the core functioning of governments, supporting the incorporation of gender-responsive inputs into central policy planning, gender budgeting, government decision making, PFM, and PSM as core government concerns.

118. There is some evidence of increased attention to gender mainstreaming in projects across the PIC-10. One example where gender equality was targeted was in the design of the Koror-Airai Sanitation Project in Palau.⁵² The project's gender action plan included targets of at least 50% female participation in project design and in awareness workshops on the importance of functional drainage systems, 20% female participation in maintenance and construction, and training of female technical and operations staff. In RMI, female headed households were targeted for preferential access to electricity use and safety training.⁵³

119. The regional ADB project Promoting Evidence-Based Policy Making for Gender Equity in Pacific Island Countries has not yet included Samoa, Tonga, or Vanuatu, although it is likely to do so in the future. ADB has also supported microfinance programs for women in Samoa, Tonga, and, most recently, in Vanuatu.

120. ADB has incorporated gender-specific considerations in its financial reform programs in Nauru and Tuvalu. In Nauru, ADB has also supported the development of a National Women's Policy. This was an important milestone for the country as previously, there had been no national women's policy cutting across such areas as health, education, employment, and justice. The final policy was completed and approved by Nauru's Cabinet in April 2014 and is consistent with the National Sustainable Development Strategy. Also in Nauru, efforts have been made to ensure more women are on the boards of state-owned enterprises. However, while gender consideration appears to have been better incorporated into the reform programs in Nauru and there has been support for an important policy benchmark, the National Women's Policy, it seems to be absent from the PFM program in Tuvalu.

121. Although most of the gender action plan provisions in projects are well considered, there are instances where they were not supported by social and gender analysis. For example, the Vanuatu Interisland Shipping Support Project presents

⁵¹ SPREP Secretariat of the Pacific Regional Environment Programme <http://www.sprep.org/biodiversity-ecosystems-management/pacific-islands-hailed-as-leaders-by-ceo-of-largest-environment-donor-partnership>.

⁵² ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Republic of Republic of Palau: Koror-Airai Sanitation Project* (Loans 3060/3061-PAL). Manila.

⁵³ ADB. 2010. *Improved Energy Supply for Small Households*. Manila.

evidence that women will welcome safe and sanitary conditions at ports and on ferries, and will benefit from the project by trading opportunities around ports, but it does not include gender analysis of employment opportunities in construction. Yet, among other provisions, it specifies that “30% of labor-based workers will be women” even though there is no evidence in project preparation documentation of consultation with women on this provision, or gender analysis demonstrating how potential risks to women from such employment in terms of their safety and social status, would be mitigated. Similarly, the project preparatory TA study for the Samoa Agribusiness Development project demonstrated that most post-harvest processing work is done by women, yet ADB required, subsequent to this study, that a target of 30% female employment be added to the gender action plan, which seemed inadequate given the high degree of probability that this target would be exceeded.

122. Most gender issues in Pacific countries are related to conservative cultural and religious attitudes which are gradually changing. Nevertheless, the most significant indicator of gender disparity is the low participation (or exclusion) of women from political decision making at local and national levels of government. Samoa, Tonga, and Vanuatu, for instance, are among the lowest ranked in the world for women’s representation in parliament. Another major gender concern is the high levels of violence against women. Because ADB’s Pacific Approach is more oriented towards gender mainstreaming, there seems to be less opportunity for ADB to engage with these important gender issues, although other development partners are doing so. Given explicit gender concerns in the Pacific, and the objectives of the Pacific Approach, there appears to be an opportunity to do more, especially through working alongside those donors that provide direct support to women. Through its policy consultations for instance, ADB could ensure gender issues are consistently raised or that women are given a voice in policy dialogue and policy reform issues.

3. Private Sector Development

123. The Pacific Approach emphasizes private sector development as a key strategy for achieving inclusive growth and it features as part of ADB’s response to fragility in the region. The PSDI, cofinanced by Australia and New Zealand and implemented by ADB, is a long-term, multi-year, regional TA project that supports private sector development through the removal of legal and domestic policy constraints, business law reform, state-owned enterprise reform, competition policy, consumer protection, and the empowering of women in business. The project is based in ADB’s Pacific Liaison and Coordination Office in Sydney, Australia.

124. A favourable business environment in which companies can thrive is particularly important for jobs in fragile states and in small, isolated countries. A recent report shows that the regulatory environment in the g7+ countries,⁵⁴ which include PNG, Solomon Islands, and Timor-Leste, is improving.⁵⁵ In particular, the average time to start a business has been cut by more than half since 2005, and the cost (as a percentage of income per capita) by two-thirds. But business regulations in the g7+ countries still lag behind international best practices. The same report notes that the Solomon Islands has established a legal framework for secured transactions that provides rights and protections for borrowers and lenders similar to those in Denmark.

⁵⁴ The g7+ describes itself as “a voluntary association of 20 countries that are or have been affected by conflict and are now in transition to the next stage of development.”

⁵⁵ World Bank. 2013. *Doing Business in the g7+ 2013 Smarter Regulations for Small and Medium-Size Enterprises*. Washington, DC.

125. PSDI has played a key role in supporting improvements in the business environment in the Pacific and two reviews, conducted by Australia, recommended ongoing support.⁵⁶ The initiative has successfully removed legal and regulatory constraints on business start-ups and has introduced a secured transactions framework aimed at improving access to finance across several countries. There is also evidence that online business registration and secured transactions asset registries established by the initiative are being used.⁵⁷ The installation of a modern, electronic business registry in Samoa in 2013 means that it now takes less than one-day to register a business.⁵⁸ Cook Islands, FSM, Palau, Tonga, and Vanuatu are carrying out similar reforms.

126. However, the Implementation Review notes that the impact of these reforms on value creation has been disappointing and states that “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” (footnote 6). This suggests that other factors, some of them beyond the control of government policy, also have an impact on private sector development. 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.

127. PSDI-supported reforms have expanded to include PSM since the success of firms depends not just on private sector capabilities but also on the capacity of the state to provide such services as energy, transport, regulation, and other public goods. Long-term support for state-owned enterprises is also important for sustaining and expanding the benefits of ADB investments in water, energy, transport, and telecommunications, and provides a critical link between shorter term infrastructure investment and the longer term management and sustainability of their operations. The opportunities for private-public partnerships in these areas are recognized in the Pacific Approach though in practice, these can take a long time to develop.

128. Outside the PSDI, ADB’s attempts to contribute to private sector development through non-sovereign operations have been too limited to achieve improvements in private sector growth and, with the exception of Samoa, have not covered PIC-10 countries, where the potential for and size of such operations is small (Table 8).

Table 8: ADB Pacific Nonsovereign Operations

Company	Amount (\$ million)				Date		Sector	Status
	ADF	OCR	Investment	Total	Approved			
REG Kula Fund	0.0	0.0	3.00	3.0	1997		Finance	Closed
SAM Venture Capital Fund	0.0	0.0	0.40	0.4	2000		Finance	Closed
REG Kula Fund II Ltd	0.0	0.0	5.00	5.0	2006		Finance	Active
PNG DIGICEL (PNG) Ltd	0.0	25.0	0.00	25.0	2009		T&ICT	Closed
PNG BEMOBILE Ltd	0.0	40.0	9.00	49.0	2011		T&ICT	Active

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources, PNG = Papua New Guinea, REG = Regional, SAM = Samoa, T&ICT = transport and information and communications technology.

Source: Asian Development Bank loans, TA, grant and equity approvals database.

⁵⁶ ADB. 2013. *Evaluation Report on Pacific Private Sector Development Initiative Phase 2*. Consultant’s Report. Manila, commissioned on behalf of AusAID; and AusAID. 2010. *Review of ADB Pacific PSDI Phase 1*. Canberra.

⁵⁷ IED. 2014. *Performance Evaluation Report: Federated States of Micronesia: Private Sector Development Program*. Manila: ADB.

⁵⁸ ADB. 2014. *Pacific Private Sector Development Initiative: Progress Report 2013–2014*. Manila.

129. While finding projects ready for private sector investment has proved challenging, ADB's Private Sector Operations Department (PSOD) has made efforts to begin projects in Pacific countries, including in PIC-10 countries. It maintains dialogue with several private sector institutions and has conducted due diligence in some cases. However, this has not led to nonsovereign investments, with PSOD citing significant challenges and constraints imposed by the operating contexts, including high country risk and low risk-adjusted returns.

130. In 2014, ADB's Trade Finance Program (TFP) carried out a workshop organized by ADB's Office of Risk Management targeting financial institutions in the Pacific region under a TA project focusing on risk management associated with small- and medium-sized enterprise (SME) lending, attended by 31 participants from 26 institutions across 11 Pacific countries. The TFP has also conducted a preliminary assessment of a possible expansion to the Pacific which is expected to be executed in 2015–2018 subject to available resources. On this basis, PSOD has actively tried to source projects in Pacific countries that fit their investment criteria.

131. Nevertheless, ADB's requirements for nonsovereign investments, while relevant to larger Asian markets, do not seem relevant to supporting private sector development in the Pacific, as the results in Table 8 show. Efforts to find Pacific private sector institutions that meet ADB requirements are therefore likely to be unsuccessful, as the product is not designed to meet Pacific needs.

132. The approval of the Pacific Business Investment Facility in September 2014 may mark the beginning of a more appropriate approach. The facility is managed by PARD, through Pacific Liaison and Coordination Office in Sydney, Australia and provides business advisory services to SMEs to enable them to attract commercial finance, including trade and supply chain finance from ADB's PSOD. The facility will provide concessional loans from a trust fund that it manages to selected SMEs and will operate alongside commercial finance.

4. Public Sector Management

133. Policy-based operations accompanied by TA have been the main instruments of PSM support in the PIC-10, together with complementary and standalone TA. The public sector plays a major role in the economies of small island states and successive ADB Pacific strategies have paid increasing attention to state-building, and to the core functions of government. Interventions focus on strengthening PFM and the reform of public sector institutions, including state-owned enterprises responsible for service delivery. These areas are increasingly supported in the smallest countries by grant financed policy-based operations and TA, jointly funded by other development partners.

134. PSM operations have grown to dominate ADB interventions in the 10 smaller Pacific countries, particularly FCAS countries. By number, they account for 32% of interventions (mostly TA) and by value 13%. This compares with 28% for the Pacific as a whole by number, 6% by value. IED has conducted evaluations that examined support for Pacific policy reforms (footnote 31), and PSM and governance (footnote 40), and findings from these, as well as more recent PCRs and PVRs are used to inform the discussion below.

135. The most effective PSM interventions were those that were supported over an extended period of time, were not complex, and incorporated in their design nuances

of the cultural and political economy context. The achievement of objectives was facilitated by thematic or sector diagnostics, dissemination of information, and two or more TA projects that built on earlier efforts, i.e., a programmatic approach. Nevertheless, PSM interventions were rated *less effective* because in many interventions important outputs and outcomes were not achieved, which ultimately limited their effectiveness in strengthening institutions, building capacity, and in meeting other stated objectives (footnote 40).

136. The less effective interventions attempted overly ambitious objectives and provided weak counterpart support. Too many policy actions were included in policy matrices with inadequate time for their implementation. Some were focused on civil service reform and public sector downsizing. The 2002 Tonga Economic and Public Sector Reform Program,⁵⁹ for example, included the establishment of performance contracts and merit based systems, which were difficult to measure and depended on other reforms being introduced, such as appropriate budget allocations. Other reforms under the program were not sustained, including public sector downsizing. Performance-based budgeting was introduced in the 2001 policy programs in FSM and RMI, but the objective of transforming weak budget systems into outcome-oriented multi-year budget processes was over ambitious given the limited capacity for PFM in these countries. Given the initial poor performance experienced during 1996–2002, there was no support for policy based operations until the global economic and financial crisis in 2008–2009.

137. Recent PSM interventions using policy-based operations have been more successful. Of the seven PCRs of projects approved from 2008 to 2013, five were of completed PSM programs in Tuvalu (2), Tonga (2), and RMI (1), and two were disaster response and economic recovery programs in Cook Islands and Samoa. All appear to have incorporated lessons from previous evaluations. All were rated *successful* except for that in RMI which was *less than successful*. In this case, the *outcome* of achieving fiscal sustainability was overambitious given the historically slow pace of reforms in RMI and should have been set at the *impact* level. The project had also overestimated the time needed for parliamentary approval of enabling legislation and had not anticipated wider opposition to reforms. Moreover, policy dialogue needed on-the-ground support, but the coordinated dialogue with government that had been used successfully in other Pacific programs was missing. In other programs, some lessons also reoccurred including the need to understand a country's political economy, engage with stakeholders, and take care during project design to ensure there would be adequate implementation capacity for policy reforms.

138. PCRs, PVRs, and technical assistance completion reports (TCRs) reported diminished effectiveness when too much was tried in too short a time period, particularly given weak local capacity, and where commitment to reform was lacking. In Tonga, for example, the 2009 Economic Support Program⁶⁰ provided relevant support at the time of the global crisis. While the program was rated *successful* it was *less than efficient*, but continued assistance through a follow on PFM program has improved the prospects for improved effectiveness and sustainability.⁶¹ This suggests that support for reform objectives need to be sustained. In Tuvalu, a

⁵⁹ ADB. 2005. *Completion Report: Economic and Public Sector Reform Program in Tonga*. Manila (Loan 1904-TON).

⁶⁰ IED. 2012. *Validation Report: Economic Support Program in Tonga*. Manila: ADB (Grant 0185-TON).

⁶¹ IED. 2014. *Validation Report: Strengthening Public Financial Management Program in Tonga*. Manila: ADB.

program for improved financial management⁶² including improved fiscal governance, debt management, and oversight of public enterprises, was rated *relevant*. However, the design included overly optimistic assumptions on what could be achieved in the time available, given the known weaknesses in capacity.

139. The 2010 Economic Recovery Support Program in Samoa, which provided support for post-tsunami recovery was rated in the 2014 PCR⁶³ as successful, relevant, effective and efficient, with few delays, reflecting greater institutional capacity in Samoa compared with other Pacific countries. However, Samoa's capacity for fiscal and economic policy analysis and formulation was overestimated. While demand-side, short-term price stabilization policies may be readily implemented, other reforms such as longer-term changes to land tenure and state-owned enterprises, and efforts to liberalize trade and investment regimes, confronted a very difficult political economy environment.

140. The 2005 Cyclone Emergency Assistance Project in the Cook Islands⁶⁴ also provided recovery support, which was rated *successful, relevant* and *effective*, but *less than efficient* due to implementation delays. The TCR⁶⁵ for the 2010 Public Finance Management and Public Sector Performance Review in the Cook Islands, while rating the TA successful, also referred to implementation delays partly due to consultant recruitment, but also due to the sensitivity of public service reforms and the need for a slower paced approach. The TCR⁶⁶ for the 2011 TA Implementing Public Sector Reforms also refers to this sensitivity and reluctance to implement reforms that relate to public sector employment.

141. Despite recent *successful* ratings, policy reform and governance outcomes in fragile countries and small states remain constrained by a lack of capacity which weakens PSM outcomes. To be effective, ADB support for PSM and state-capacity building needs to be supported over the longer term through policy-based operations and TA implemented with other donors. More recent support in Tuvalu and Tonga suggests that this approach in PSM is now emerging and beginning to deliver improved results. However, developing the capacity of the state in PSM and PFM will take many years, and given the fragility context, short term setbacks should be expected.

5. Capacity Assessments

142. Limited capacity for project implementation is a key reason for poor development results in Pacific countries (Appendix 2, Linked Document B). This is also recognized in the Pacific Approach, which commits ADB to undertake detailed capacity assessments in all Pacific projects documents. While the Implementation Review recognizes the need for a more detailed capacity assessment at the design stage, it does not report on where and how this has been undertaken in practice. Capacity assessments are also not part of ADB's standard project documentation, nor do they appear as linked documents. The Implementation Review does suggest that pre-

⁶² IED. 2014. *Validation Report: Improved Financial Management Program in Tuvalu*. Manila: ADB (Grant 0139-TUV).

⁶³ IED. 2014. *Validation Report: Economic Recovery Support Program (Subprograms 1 and 2) in Samoa*. Manila: ADB (Loans 2625-SAM and 2801-SAM).

⁶⁴ IED. 2010. *Validation Report: Cyclone Emergency Assistance Project in Cook Islands*. Manila: ADB (Loan 2174-COO).

⁶⁵ ADB. 2013. *TA Completion Report: Implementing Public Sector Reforms in Cook Islands*. Manila (TA 7958-COO).

⁶⁶ ADB. 2012. *TA Completion Report: Public Finance Management and Public Sector Performance Review in Cook Islands*. Manila (TA 7646-COO).

implementation activities could support capacity issues, but so far project preparation has not gone far beyond advance procurement of consulting services.

143. Country consultations suggested there had been some improvements in the ongoing effort to support capacity. However, in Tuvalu, a notable lesson from ADB's support to the Tuvalu Maritime Training Institute was that ADB failed to correctly assess the full extent of the deficiencies of country implementation capacity and to anticipate and prepare for the problems that arose as a result. The high turnover of government and project staff compounded the weak capacity and the poor standard of accountability and governance was not appreciated well enough. In contrast, the Asset Management for Sustainable and Improved Infrastructure Services Delivery TA in the Cook Islands⁶⁷ included a strong focus on capacity building. Initiatives included regular workshops throughout the various stages of project delivery. All stakeholders interviewed on this project were very positive about the ongoing capacity building in asset management.

144. A continuing difficulty for ADB and other development partners in small countries, however, is turnover in local staff which makes it difficult to entrench the benefits of the capacity strengthening. Political tensions and changes within the government in Nauru, for instance, resulted in high staff turnover including of TA advisers that was not conducive to maintaining a steady pace of reform in the ADB supported public financial reform program.

145. In capacity building, donors face a choice between building the capacity of government systems and getting things done in the short term. To carry out a project, development partners create project implementation units and use long-term advisers to supplement government systems. While this delivers project outputs in the short term, it does not guarantee sustainable service delivery over the longer term (Box 4) unless ongoing longer-term institutional support is provided.

⁶⁷ ADB. 2013. *Technical Assistance Report: Asset Management for Sustainable and Improved Infrastructure Services Delivery*. Manila.

Box 4: Build-Neglect-Rebuild Access to Clean Water and Sanitation Services in South Tarawa, Kiribati

Rapid population growth, poor hygiene practices, and inadequate sanitation infrastructure have contributed to a high prevalence of waterborne disease in South Tarawa, the country's political and economic center with a population of about 50,000. Infant mortality is among the highest in the world, which is partly attributed to inadequate sanitation and poor hygiene. Attempts at solving this problem have proved unsustainable.

Following earlier attempts by the United Kingdom, in the early 1980s, Australia supported the construction of a sewerage system. However, lack of maintenance meant that, by the late 1990s, it was severely dilapidated and served only 38% of the South Tarawa population.

In November 1998, the Asian Development Bank (ADB) approved a \$10.2 million Asian Development Fund (ADF) loan to (i) improve the quality and availability of safe drinking water, (ii) rehabilitate sewerage and sanitation systems, and (iii) reform the management of public utilities. Technical assistance would be used to restructure the Public Utilities Board, support community development, and improve public health practices.

In September 2011, ADB approved a \$7.5 million ADF loan as part of a larger \$22.5 million project, cofinanced with Australia, to support (i) enhanced community engagement in, and public awareness of, hygiene and sanitation; (ii) rehabilitation and upgrading of sanitation infrastructure; (iii) capacity development in sector planning, and operation and maintenance of urban water supply and sanitation services; and (iv) the creation of a sanitation maintenance fund to ensure adequate financing for sanitation infrastructure maintenance.

Efforts to improve sanitation services in Kiribati have not been sustained because of limited institutional and human capacity to manage and maintain service delivery. This is a perennial issue in small countries where the supply of technical and professional human resources is scarce. This means that ADB, or another partner, would need to provide ongoing support to Kiribati to sustain service delivery over the longer term. Private Sector Development Initiative and Pacific Regional Infrastructure Facility support for state-owned enterprises, including public-private partnerships, might lead to a sustainable solution in this area, but this would take time to develop. Alternatively, ADB could provide longer-term support through sector development programs and ongoing institutional support through technical assistance.

Source: Asian Development Bank.

146. Achieving sustainable development outcomes in the PIC-10 requires longer term support. An example of this is New Zealand's support for the Kiribati Maritime Training College. New Zealand (with other partners) has provided support for the college for over 30 years and remains committed to a long term program of investment. Seafarers contribute 8% of Kiribati's annual income, and there is potential for the college to develop into a regional institution. By contrast, ADB provided support to the Maritime Training College in Tuvalu, but this was short-lived, and unsuccessful in achieving its objectives.⁶⁸ The extent to which ADB is relevant to providing long term institutional support of this type is highly dependent on the availability of TA, project grant funding, and cofinancing opportunities. It also suggests once ADB engages in a sector (e.g., Kiribati water and sanitation) that it should remain engaged over the longer term.

147. Kiribati is currently receiving exceptional levels of infrastructure investment which it does not have the capacity to manage. The central executing agency is

⁶⁸ IED. 2013. *Validation Report: Maritime Training Project in Tuvalu*. Manila: ADB (Loan 1921-TUV).

financed and supported by development partners, which appears appropriate during a period of exceptionally intense capital investment in a small country, but this appears to have been established post project design and approval. Moreover, documentation for the South Tarawa Sanitation Improvement Project, and the Road Rehabilitation Project, do not include detailed assessments of capacity, although capacity constraints are identified as risks.

148. Self-evaluations frequently find weaknesses in the project administration capacity of executing agencies, including the time taken to fill vacant positions, compounded by high staff turnover, and unfamiliarity with international financial institution procedures. The lack of capacity is therefore a risk to project implementation and inputs for dealing with this risk need to be included in project design and supervision, especially to meet specific ADB reporting and other requirements. World Bank financial and procurement advisers based in the region are able to provide specific support through extended missions to ensure international financial institution (World Bank and ADB) loan procedures and specific reporting requirements are met because these appear beyond the capacity of the executing agency to manage (Box 5). In effect, projects need to bring their own administrative capacity with them, especially where this capacity is needed for meeting development partner's own reporting and administrative requirements, and where ADB does not have a strong country presence.

Box 5: Supporting Kiribati Infrastructure Development

Despite its small population (109,900), Kiribati is experiencing a burst of infrastructure investment. Twenty-four infrastructure projects with a value of \$240 million are being implemented with financing from 10 development partners, five of which account for 80% of the total program cost. Projects cover road rehabilitation, water, sanitation and solid waste management, telecommunications, aviation, coastal resilience, climate change and natural hazards, energy and solar power, support to the outer islands, organizational reform of the public utilities board, and broader capacity development. However, the program as a whole exceeds existing country capacity and additional support for program coordination, financial management, procurement, and reporting is also being provided.

The Asian Development Bank (ADB) Road Rehabilitation Project was approved in 2010 and South Tarawa Sanitation Improvement Sector Project in September 2011.

In 2012, a National Infrastructure Development Steering Committee (NIDSC) was established to coordinate and oversee the infrastructure program, provide policy directives, and put in place a central monitoring mechanism.

In the same year, the Kiribati Fiduciary Services Unit (KFSU) was established in the Ministry of Finance and Economic Development (MFED) but began operating effectively in October 2013 with the appointment of a manager and key staff. Its purposes are (i) to provide overall management and coordination of the development-partner-funded infrastructure program, (ii) undertake procurement and financial management support on World Bank and ADB financed projects, and (iii) provide secretariat support to the NIDSC. The KFSU is currently providing direct support to seven infrastructure projects and this is likely to grow as other donors look to use its services, e.g., the International Fund for Agricultural Development. This capacity to manage and oversee projects will require substantial and continuing support to function effectively.

KFSU currently has eight staff including an international procurement specialist and an international financial adviser who have been appointed to help the KFSU put in place appropriate operating procedures, establish manuals, and provide guidance to staff on fiduciary processes. The international advisers provide long-term intermittent support, including four to six in-country visits per year plus long-range support. KFSU operations and individual positions are funded directly by various projects. There is no MFED or pooled operating budget for the KFSU at this stage. The operations and scope of the KFSU are evolving and an operational manual has been prepared based on the fiduciary requirements of the World Bank and ADB.

Source: Pacific Regional Infrastructure Facility Kiribati Infrastructure Investment Program Implementation Status Report June 2014.

D. Adherence to Pacific Approach Operating Principles

149. The Pacific Approach set out operating principles for improving development effectiveness in the Pacific. ADB's own implementation review and the evaluation's findings are summarized in Appendix 2, Linked Document F. More detail is presented below.

1. Understand the Local Context

150. A fundamental factor underpinning an effective development contribution in fragile countries is an understanding of the local context and the role that informal social, political, and cultural norms play in program and project design. A review of PCRs and PVRs suggested that this aspect has been neglected in the past (Appendix 2,

Linked Document B). As noted in ADB's own FCAS documents, analyzing the political economy and understanding the specific operating environment—economically, politically, and socially—is a critical step toward developing a program.

151. The Implementation Review found that, since 2010, country-specific political economy analyses and country diagnostic studies have been undertaken to inform CPSs and country operations business plans. However, the evaluation found that very few analyses of the political economy had been prepared to inform project interventions. A possible reason for this could be the lack of guidance which was not issued until 2013.⁶⁹ The exceptions are a pilot fragility assessment of an informal urban settlement in Kiribati and the proceedings of the 2013 high level forum, Building Resilience to Fragility in Asia and the Pacific, which included presentations by FSM, Kiribati, RMI, Nauru, Tuvalu, and Vanuatu.⁷⁰ More recently, political economy assessments have been prepared for FSM and Vanuatu.

152. An area of concern for the Implementation Review is the larger proportion of projects with time overruns, e.g., 50% of Pacific projects experienced delays of at least 2 years, compared with 30% for ADB overall. The Implementation Review notes that the problem will require a more realistic assessment of implementation time in situations that are often fragile, and a much greater emphasis on project readiness at approval. It also notes that the adequacy of supervision may need to be reviewed. All of this suggests that there are still gaps in the implementation of the Pacific Approach.

2. Demonstrate Flexibility in Operations

153. The Implementation Review found that more use of longer-term, more flexible programmatic approaches had enabled ADB to engage over the longer term and to build sector capacity. Policy-based operations had facilitated structural and regulatory reforms and improvements in the policy environment, improving the implementation environment for sector investment projects.

154. The evaluation's understanding of flexibility was taken to mean the following: (i) promote timely, responsive, and demand-driven initiatives and adopt more flexible approaches; (ii) modify ADB's processes to suit the special circumstances of fragile situations, and use innovative modalities; (iii) expand the use of grants and cofinancing; and be more selective in choosing lending modalities, i.e., flexible utilization of multitranches finance facility, and cluster TA.⁷¹

155. There was some evidence that ADB support in Cook Islands had become more programmatic in approach, which had received strong support from stakeholders. As part of the Economic Recovery Support Program (ERSP), a grant from the Japanese Fund for Poverty Reduction for the Social Protection of the Vulnerable⁷² had initially involved a review of the Cook Islands social welfare system. The review was then used to inform a program of short-term support to identify vulnerable groups and develop capacity in non-governmental organizations, civil society and relevant government agencies to implement effective safety net programs. The success of this program is in part attributable to the flexibility provided by the programmatic approach of the ERSP

⁶⁹ ADB. 2013. *Guidance Note: Use of Political Economy Analysis for ADB Operations*. Manila.

⁷⁰ ADB. 2013. *Forum on Building Resilience to Fragility in Asia and the Pacific Proceedings*. Manila.

⁷¹ As suggested in ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank's Approach to Engaging in Weakly Performing Countries*. Manila.

⁷² ADB. 2012. *Proposed Policy-Based Loan for Subprogram 2 Cook Islands: Economic Recovery Support Program*. Manila.

and coordination with the Japanese Government. While the support was deemed to be effective, the future sustainability of the program is uncertain.

156. Flexibility is important for efficiency in Pacific operations and it is a recurring finding in PVRs and PCRs. The need for greater flexibility in ADB's administration features consistently in Pacific literature dating from 1974. After limited experience in just five Pacific countries, the first working paper on ADB Pacific operations noted that "the special needs of these DMCs may need special approaches" and that "some adjustment" and "flexibility" would be required in ADB's processes to suit their "specific requirements."⁷³ Recommendations for improving ADB's support at that time included (i) the need for simplified procedures in project processing and procurement, (ii) greater emphasis on TA for project preparation and advisory services, (iii) making operations as least burdensome as possible for both the PICs and ADB, (iv) sending missions whenever necessary to cope with Pacific countries' special needs, and (v) support for regional projects and greater donor coordination.

157. But what flexibility means in practice for operational design and implementation is not fully described in the Pacific Approach and there are no guidelines for staff to follow. Consultations in the field suggested there is a gap between the FCAS agenda, which requires flexibility to meet the needs of varying contexts, and ADB's mandatory procedures, particularly in procurement. Feedback from ADB staff, government and other development partners suggested that ADB's institution-wide requirements do not always match the limited capacity of Pacific institutions and their ability to access the kind of skills needed for project implementation, i.e., qualified audit and accounting staff. While flexibility in Pacific operations is important, PARD is mandated to follow the same business procedures as other ADB regional divisions.

158. ADB's business operation procedures do allow for flexible approaches but finding how these are used in practice is not straightforward. Apart from the need for flexibility in procurement, consultations with ADB staff suggested that flexible approaches were not being fully used, for example, in disbursement, project appraisal requirements, and project processing.⁷⁴ In procurement, ADB responds to weak country capacity by allowing the procurement of goods and services to be undertaken by project support consultants, or by ADB staff in headquarters. While procurement is a recurrent issue in Pacific operations is beyond the scope of this evaluation. Nevertheless, consultations with staff suggest that it is not well adapted to FCAS, isolated and small country settings. The attachment of an ADB procurement specialist in PARD has helped provide the expertise required.

3. Strengthen Coordination

159. The Implementation Review states that ADB's coordination with other development partners has improved at regional and country levels. This has been achieved both through more frequent meetings and the involvement of more partners. Consultations with ADB staff suggested that PARD invests more time undertaking donor coordination than other regional departments.

160. There is evidence of greater coordination at a strategic level, e.g., through the

⁷³ ADB. 1974. *Bank Operations in the Developing Member Countries of the South Pacific*. Manila: ADB.

⁷⁴ Further details on flexibilities are set out in para. 49 of ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries*. Manila.

Cairns Compact agreement⁷⁵ and the so-called “heptagon” meetings,⁷⁶ and at the policy level through joint donor-government results frameworks.

161. The country consultations also suggested that ADB has been consistent in its efforts to coordinate with other development partners. For example, in keeping with the multi-donor approach adopted by the multi-donor Program Monitoring Advisory Group in Nauru, ADB is coordinating with other development partners, to focus on areas where it has a comparative strength and identifying where it can leverage its relatively small funding allocation through cofinancing. ADB has also taken the leading role in reform policy discussion in Tuvalu working with the country’s other main development partners—Australia, New Zealand, and the World Bank—to leverage its funding for budget support and advance the reform agenda.

162. In the Cook Islands and Palau, there are also examples of ADB working in partnership with other development agencies in program development and associated cofinancing. Good examples included cooperation with Australia and New Zealand for the PSDI and cooperation with a range of development partners for the PRIF; and, more recently, the Cook Islands Renewable Energy Project in collaboration with New Zealand and the European Investment Bank. A challenge that will continue to be experienced in the development of cofinancing and partnering arrangements is the potential conflicts in procurement requirements between organizations and the transaction costs involved.

4. Promote Participation and Ownership

163. The Pacific Approach made a call for much greater attention to be paid to how ADB works in the Pacific. The approach advocated greater use of participatory processes and more emphasis on developing consensus for change. The intent of the approach was for ADB to use participatory processes in most if not all of its design work, whether CPSs, sector reviews, policy reforms or projects. The review of PCRs and PVRs showed that these were important aspects of working in the Pacific and that ADB had not paid enough attention to them in the past.

164. The Implementation Review pointed out that ADB has promoted government ownership by aligning its support closely with national development plans; ensuring active government participation in project identification, design, and implementation; and providing appropriate capacity development support. It also refers to ADB’s work with civil society organizations (CSOs) noting that the proportion of sovereign loan and grant projects with CSO participation rose from 90% in 2006–2009 to 97% in 2010–2013, exceeding the ADB average. This suggests either that the call for greater participation was not warranted, or that the Pacific Approach had something other than CSO participation in mind.

165. The evaluation’s approach to participation and ownership was to assess the extent to which ADB had invested in building wider support for change, particularly through broad-based policy dialogue, the use of media, and other mechanisms for increased participation, all of which feature in the Pacific Approach. The need to build ownership of policy reform was also a key finding of an evaluation of Pacific public sector reforms (footnote 31). The focus on participation is not just about involving government officials and CSOs in consultation during project design, but about finding

⁷⁵ The Cairns Compact on Strengthening Development Coordination in the Pacific was agreed by Pacific Island Forum leaders at the 40th Pacific Islands Forum in Australia in 2009.

⁷⁶ ADB, Australia, European Union, International Monetary Fund, Japan, New Zealand, and, World Bank.

space for ongoing dialogue and safe interaction between the people and the state.⁷⁷ This is a nation building activity because it is about tying the responsibilities of the state to the needs of its local communities and building responsive and accountable government. However, while there has been some support, for example, through donor-government roundtables, there was little evidence of participation being used for nation building purposes.

166. There was evidence of using participation as a tool to drive behavior change. For example, in the Kiribati sanitation project, outreach activities are attempting to change hygiene behaviors and the need for tariff reform. These activities are likely to require ongoing support beyond the period of infrastructure building.⁷⁸ Nevertheless, participation and ownership can help to deliver change, and should be significant components in all Pacific interventions with outputs that can be quantitatively assessed.

E. Main Points

- **Regional interventions.** ADB has found innovative ways to support public service provision through regional initiatives.
- **Private sector development.** The jointly funded Australia, New Zealand, and ADB PSDI has made good progress in building an enabling environment for private sector investment in the larger Pacific countries including Samoa, Tonga and Vanuatu
- **Nonsovereign investments.** Finding nonsovereign investments is challenging. The Pacific Business Investment Facility approved in September 2014 may be an appropriate approach. The facility aims to provide concessional loans from a trust fund that it manages to selected small and medium-sized enterprises alongside commercial finance.
- **Public sector management.** Recent support for PSM through single tranche policy based operations, implemented jointly with other donors and with government in the lead, has been more successful than past operations. Policy based operations are arguably better suited to PIC-10, given capacity constraints. These operations have the potential to build state resilience to external economic shocks, natural disasters, and climate change through their focus on the management of public resources.
- **Operating principles.** While PARD has made some progress in implementing its drivers of change and operating principles, gaps remain in political economy analysis, capacity assessments and participation informing project interventions.
- **Performance.** ADB's performance in the PIC-10 is difficult to separate from performance in the larger Pacific countries. A revised Pacific Approach with special focus on the PIC-10, which do not have CPSs would allow ADB to better monitor its performance in these countries.

⁷⁷ M. Smith and R. Shrimpton. 2011. Nation-Building Interventions and National Security: An Australian Perspective. *Global Dialogue*. Volume 13, Number 1, Winter/Spring. Cyprus.

⁷⁸ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant Republic of Kiribati: South Tarawa Sanitation Improvement Sector Project*. Manila.

Defining a New Pacific Approach

167. This chapter brings together the main points from previous chapters, forms conclusions, and discusses a way forward for a new Pacific Approach. It is structured around the key evaluation questions from the evaluation framework in Appendix 1.

A. How Relevant is ADB to the Smallest Pacific Island Countries?

168. The evaluation set out to assess the relevance of ADB to the smallest Pacific island countries, how ADB has responded to the objectives of the Pacific Approach, and whether a regional approach better serves their development needs.

169. The PIC-10 face constraints on economic growth and development, which are not only very different from those of other ADB DMCs, but also unique in the world. This clearly makes them a distinctive group in ADB. The PIC-10 are not endowed with the natural attributes of physical resources, size, location, and population that would enable them to make sustained growth possible, and high levels of aid per capita have not been able to overcome these disadvantages. While countries in the region are not poor by international standards, their cumulative growth over the last 20 years is lagging behind that of the rest of the world. There is now a slowly growing acceptance among development partners that the smallest, isolated, and least endowed countries in the Pacific will probably need long term resource transfers if they are to maintain existing standards of welfare.

170. ADB's relevance to the region will also be measured by its response to climate change. Pacific countries are highly vulnerable to climate change because of their high levels of exposure to sea level rise and extreme events, their susceptibility to damage from those events, and their limited adaptive capacity. Coastal communities and atoll islands are particularly vulnerable to even small changes in climate variables especially rainfall and tropical storm patterns, which will impact on future well-being. Vulnerability results from high population densities and growth rates, and scarce natural resources, particularly land and water and the reliance on natural resources for the majority of livelihoods.

171. ADB's relevance in the smallest PIC-10 is highly dependent on the ability to increase grant project financing and TA, especially given countries' high risk of debt distress. Low and negative net transfers to some of the PIC-10 over the evaluation period reduced ADB's relevance in these small states. The increase in the ADF annual minimum allocation to \$3 million from 2015 will go part way to ensuring positive flows, and to ensure ADB can continue to play a meaningful role in small Pacific countries.

172. ADB has successfully used cofinancing to bolster its presence in the PIC-10. Australia and New Zealand are the main sources and this has helped to support new ways of operating. However, cofinancing and partnerships can also bring new transaction costs and additional demands with them, and they are not a panacea for operational efficiency, at least not in the short-term. But these partnerships need to continue and, by doing so, find innovative and effective approaches for greater collaboration especially in the smaller Pacific states. Larger cofinanced projects, such as the water and sanitation project in Kiribati, should build in additional resources for field based expertise or allowances for greater monitoring and supervision.

173. Increasing financial resources for the PIC-10 is only one aspect of relevance. Project implementation in FCAS countries also needs additional staff resources, extra allowance for supervision and monitoring, and effective field presence. Finding the optimal allocation of limited human resources for PARD is not straightforward. PARD covers 14 countries plus the Pacific regional program and has international and national staff spread across three regional offices in Manila, Sydney and Fiji, plus country resident missions in PNG and Timor-Leste. PARD is out-posting international staff across its resident mission offices to ensure a more optimal balance between Manila and field locations but other solutions to field based staffing are also needed.

174. PIC-10 operations require a better understanding of state fragility and vulnerability and a different approach to development. The Pacific Approach recognises the challenges of working in the Pacific and advocates a different way of engaging, which largely reflects the FCAS agenda. ADB's relevance is therefore linked to implementation of the FCAS approach and its capacity to do things differently. While projects in the PIC-10 require additional support for their implementation including, political economy analysis, wider stakeholder consultation and participation, additional monitoring and supervision, and capacity assessments, these activities also need resources. While adding to operational costs, greater attention to these aspects of project design and engagement leads to better results.

175. ADB recognizes the importance of greater collaboration and development partner coordination in the Pacific and the importance of working together for results. The use of jointly financed policy based operations, backed by TA, to support reform efforts, and state-building (not just short-term crisis support) is increasingly relevant as a medium- to longer-term development instrument in the PIC-10. Such operations have worked well in recent years where donors have jointly supported a government-led policy matrix, and shared capacity to undertake country based policy dialogue.

176. Lessons learned through the use of these instruments, particularly in Tonga and Tuvalu need to be extended to other countries in the PIC-10, where the design of policy based operations has been less successful so far. By sharing resources and working together, all Pacific partners have an opportunity to achieve greater efficiency and effectiveness. There is more that can be done to find innovative ways of collaborating, sharing resources, knowledge, staff and technical expertise especially in the smaller Pacific countries.

177. The 2015 Work Force Audit and Workforce Analysis needs to pay special attention to PARD staffing, particularly given the geographic dispersion of its countries, their low capacity for project implementation and results, and the challenges of operating in FCAS contexts. It should assess how other multilateral organizations allocate human resources to serve the region and consider how ADB could collaborate more closely with them and other Pacific partners to ensure greater field presence. The

work force audit and workforce analysis should also examine the use of national staff and how ADB compares with other development partners in terms of their roles and responsibilities in ADB. Greater flexibility in hiring would also allow regional and country offices to offer incentives to attract the type of national staff they need.

178. PARD is a small regional department that faces high fixed costs in its operations and services. The due diligence that applies to larger ADB projects also applies to its smallest. ADB has attempted to solve this issue through collaboration with other donors, e.g., through knowledge sharing, joint diagnostics, jointly funded projects, jointly supported executing and implementing agencies, and co-financing. These initiatives clearly need to continue and, at the same time, new initiatives also need to be found.

B. Response to Pacific Approach and Results Achieved?

179. The Pacific Approach calls for a different way of operating in the Pacific suggesting that *how* things are done is just as important as *what* gets done. Among its operating principles is the need for greater participation, political economy analysis, partnerships, and collaboration. There is some evidence of progress in all these areas although implementation of these principles and the FCAS approach has not been systematic or consistently applied.

180. The need for greater flexibility in ADB's project administration processes is a recurring issue throughout ADB's history of engagement in the Pacific. But this continues to be applied on a project-by-project basis as with other regional departments. One way to work differently would be to make greater use of the Project Design Facility as suggested in the Pacific Approach. This could help ensure greater attention to political economy, participation and capacity issues as part of project design and address detailed costing and procurement issues before project approval.

181. ADB has achieved better results in recent years through the use of policy based operations in Tonga and Tuvalu. These are part of longer term state building objectives, which help to build resilience to external shocks. Measuring results in the PIC-10 is not straightforward, however, as these achievements can easily be undone due to poor capacity, changes in the political context, and external factors. All Pacific countries face a high probability of a reduction in their future well-being, against which they have little resilience. For instance, while Samoa is regarded as a relatively high performer in terms of its country performance assessment it has been knocked back in recent years by a series of natural disasters.

182. Transforming small Pacific countries from fragility into effective states will take many years to achieve and it is important to set realistic objectives for measuring success in the short term. Scaled up funding, working in partnership with others, and greater understanding of the context are beginning to influence ADB operations. However, there are real challenges with sustainability in small Pacific countries and progress can easily be reversed. While more funding will help, because of their size and vulnerability to external shocks, this may not be sufficient to overcome fragility in some PIC-10 countries, and financial and human resource transfers would need to continue into the longer term.

C. Is a Regional Approach More Efficient?

183. Regional approaches can provide a more efficient approach to problem solving in the Pacific. They increase economies of scale, and help to promote cross country learning, e.g., in the management of public utilities. They are also a mechanism through which donor resources can be mobilized for joined-up support, e.g., through the International Monetary Fund's regional public finance TA and the ADB managed PRIF, which are regional responses to common development issues.

184. Since independence, donors have looked to support Pacific development through the region's formal structures, i.e., the SPC and the PIFS, but progress toward Pacific regionalism has been slow. Nevertheless, ADB should continue to seek to implement projects at the country level and to find innovative solutions for public service provision by supporting regional organizations, but this is unlikely to be a panacea for reducing the high fixed costs of serving Pacific country needs.

D. A New Pacific Approach

185. ADB's Pacific Approach, 2010-2014, was a useful first step in identifying a strategy for its smallest country members. The relevance of the new approach could be increased through more attention for the PIC-10, while retaining the main purpose of the document, which is to describe a way of working which better reflects Pacific country needs. The new Pacific Approach should set out how ADB intends to work differently to achieve its FCAS objectives and what specific flexibilities it needs in ADB's procedures to allow it to operate more efficiently. The new approach should focus on building state resilience to external shocks, supporting core government functions, institutions, and human capacity development, including through regional approaches. It should describe how ADB will work collaboratively with other development partners including to strengthen ADB field capacity.

Appendixes

APPENDIX 1: EVALUATION FRAMEWORK

Overarching Questions and Subquestions	Information Required	Information Sources	Data Collection Methods	Data Analysis	Strengths and Limitations
<p>Is ADB's approach relevant to the development needs of the Pacific small island states given climate change, natural disasters, economic shocks, and the needs of vulnerable groups particularly women?</p> <p>What impact is climate change having/expected to have on the Pacific region?</p> <p>What impact do natural disasters have on the economic development of the Pacific islands?</p> <p>How are the Pacific islands affected by external economic shocks?</p> <p>What is known about vulnerable groups in the Pacific, particularly women, youth and outer-islanders and the support they need to participate in the economy?</p>	<p>Pacific climate change forecasts, sea level rises and likely consequences on migration, agriculture, health, and water</p> <p>Estimates of economic costs of natural disasters; disaster management and preparedness approaches in the Pacific</p> <p>Impacts of external economic shocks on growth</p> <p>Information on position of women in Pacific societies</p>	<p>Literature</p> <p>Country case studies</p> <p>Interviews</p>	<p>Literature review</p>	<p>Cost of ADB's response to natural disasters and economic shocks</p>	<p>Context only</p>
<p>How has ADB responded to the objectives of the Pacific Approach 2010–2014 and what results have been achieved or are likely to be achieved moving forward?</p> <p>Have climate change and gender issues been effectively mainstreamed and what have been the results?</p> <p>Has quality at entry improved, what has contributed to this and has it improved results?</p> <p>To what extent are non-lending modalities more appropriate than loans to support Pacific development?</p> <p>Is policy based lending an effective instrument in the Pacific for supporting policy reform?</p> <p>Does working in partnership with other donors</p>	<p>Evidence in project design (RRPs)</p> <p>ADB's quality-at-entry analysis</p> <p>Portfolio review</p> <p>Review of TA interventions and ADB project capacity assessments.</p> <p>Review of joint financing</p> <p>Review of Pacific knowledge work</p> <p>Review of relevant ADB FCAS literature</p> <p>Pacific financial allocations (ADF, OCR)</p>	<p>RRPs, knowledge products, PA MTR, PARD staff, IED reports, PCR, PVR</p> <p>Country Performance Assessments</p> <p>PARD portfolio review data</p>	<p>Synthesis of IED evaluation reports</p> <p>Staff interviews</p> <p>Country Case studies</p> <p>ADB's QAE report</p>	<p>Climate change in the portfolio</p> <p>Analysis of gender in the portfolio</p> <p>Partnership and joint financing in the portfolio</p> <p>Number of specialist staff in PARD</p> <p>PARD staff turnover</p>	<p>Limited by the extent to which the evaluation can interview beneficiaries directly</p> <p>Data on ADB costs per intervention</p> <p>Data on FCAS vs non-FCAS countries</p>

Overarching Questions and Subquestions	Information Required	Information Sources	Data Collection Methods	Data Analysis	Strengths and Limitations
<p>produce better results and does it mobilize more aid for the Pacific?</p> <p>Has ADB used political economy analysis to inform program design and if so what difference has this made to operational inputs and program objectives?</p> <p>How does FCAS status make a difference to the way ADB works in the Pacific?</p>				FCAS vs non-FCAS support	
<p>To what extent is a multi-country approach, including support for regional cooperation and integration more relevant, efficient and effective for Pacific small island state development than a country focused approach?</p> <p>To what extent has regionalism been successful in the Pacific?</p> <p>What types of interventions are best supported at a regional level?</p> <p>Are regional interventions a more efficient approach for producing results than a country specific interventions following individual country strategies?</p>	<p>Literature review; findings from the evaluation of the region's Pacific Plan</p> <p>Review of PSDI and other regional interventions in the smallest states</p>	PARD RCI Portfolio	PARD Interviews	How much of the RCI portfolio is spent by country?	Country visits will not include Fiji, PNG, Solomon Islands, and Timor-Leste

ADB = Asian Development Bank, ADF = Asian Development Fund, FCAS = fragile and conflict-affected situation, IED = Independent Evaluation Department, MTR = midterm review, OCR = ordinary capital resources, PARD = Pacific Department, PCR = project completion report, PNG = Papua New Guinea, PVR = PCR validation report, QAE = quality-at-entry, RCI = regional cooperation and integration, RRP = report and recommendation of the President.

Source: Independent Evaluation Department.

APPENDIX 2: LIST OF LINKED DOCUMENTS

- A. **Pacific Gross Domestic Product Growth Charts, 1990–2014**
<http://www.adb.org/sites/default/files/linked-documents/A-Pacific-GDP-Charts.pdf>
- B. **Lessons from Self-Evaluations (Selected Interventions, 1969–2010)**
<http://www.adb.org/sites/default/files/linked-documents/B-Lessons-Self-Evaluations.pdf>
- C. **Approved Loans, Grants, and Technical Assistance Project in the Pacific (2004–2013)**
<http://www.adb.org/sites/default/files/linked-documents/C-Approved-Loans-Grants-TA-Pacific.pdf>
- D. **Headquarters Staff Turnover in ADB Regional Departments, 2004–2014**
<http://www.adb.org/sites/default/files/linked-documents/D-HQ-Staff-Turnover.pdf>
- E. **Pacific Risks, Vulnerabilities, and Key Impacts of Climate Change and Natural Disasters**
<http://www.adb.org/sites/default/files/linked-documents/E-Pacific-Risks-Vulnerabilities-Climate-Change.pdf>
- F. **Principles Underpinning ADB’s Pacific Operations**
<http://www.adb.org/sites/default/files/linked-documents/F-Principles-ADB-Pacific-Operations.pdf>