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Pacific Approach 2016–2020

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
COL	–	concessional OCR lending
CPS	–	country partnership strategy
CSO	–	civil society organization
DMC	–	developing member country
DRM	–	disaster risk management
EU	–	European Union
FCAS	–	fragile and conflict-affected situation
FSM	–	Federated States of Micronesia
GDP	–	gross domestic product
ICT	–	information and communication technology
IMF	–	International Monetary Fund
JICA	–	Japan International Cooperation Agency
MDG	–	Millennium Development Goal
NCD	–	noncommunicable disease
OCR	–	ordinary capital resources
PARD	–	Pacific Department
PIC-11	–	11 smaller Pacific island countries
PIF	–	Pacific Islands Forum
PPP	–	public–private partnership
PSDI	–	Private Sector Development Initiative
PSM	–	public sector management
RCI	–	regional cooperation and integration
SDG	–	Sustainable Development Goal
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars unless otherwise stated.

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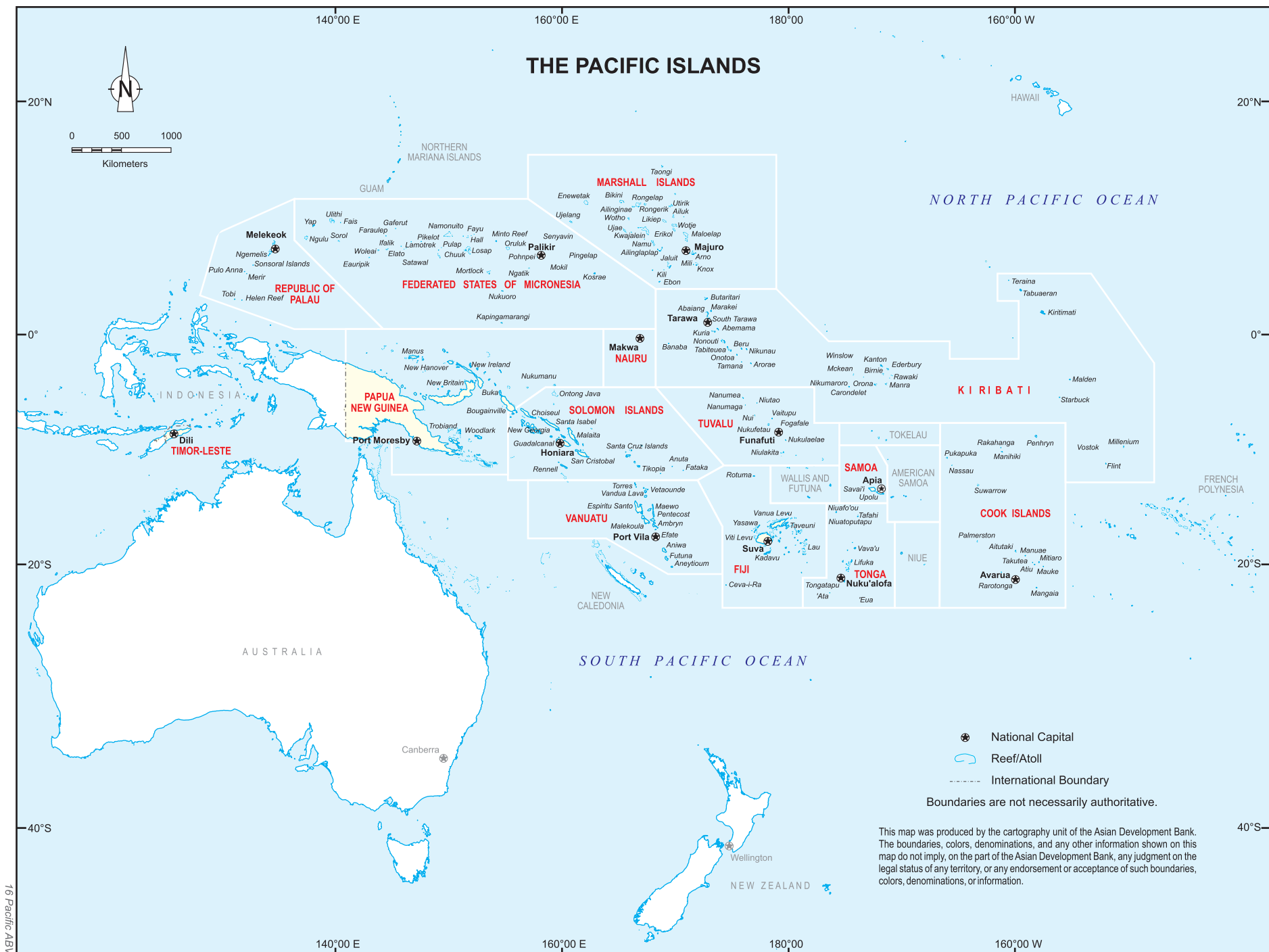
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PACIFIC APPROACH SNAPSHOT

The Pacific Approach, 2016–2020 serves as the operational framework of the Asian Development Bank (ADB) for the Pacific region and the overall country partnership strategy for the 11 smaller Pacific island countries (PIC-11)—the Cook Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

Small, remote, and fragile, the PIC-11 face many natural constraints and external shocks that make achieving sustainable and inclusive growth challenging. Their small size and isolation increase the costs of providing services and doing business. Their high exposure to climate change and natural disasters, and their small size and narrow economic base, make them extremely vulnerable to shocks. High costs and risks further constrain these countries from realizing their potential for greater growth. Six of the PIC-11 are classified as fragile, and all countries in the region exhibit multiple vulnerabilities.

After the approval of the previous Pacific Approach, it was agreed that the document could serve as a guide for ADB's work in the smaller Pacific countries. The new Pacific Approach is specifically designed as a strategic framework to guide ADB's assistance in the PIC-11 and it outlines a three-pronged strategy that focuses on reducing costs, managing risks, and enabling value creation. These three strategic priorities are applicable to all Pacific island countries and are especially relevant for the PIC-11.

Costs. ADB's mainstay infrastructure program will focus on transport, information and communication technology, and renewable energy to reduce the costs of connectivity and energy. Improving the business environment, reforming state-owned enterprises, and creating public–private partnerships will also assist in reducing the costs of doing business and delivering services, and promote growth led by the private sector.

Risks. ADB's public sector management operations will continue to support country efforts to manage financial and economic risks. ADB will expand its work in climate change and disaster risk management to mobilize more financing for the Pacific region and to introduce innovative solutions to strengthen disaster preparedness, address vulnerability, and build resilience. Country resilience will also be enhanced by strengthening health and social protection systems.

Value. To help create conditions that enable the private sector to grow, strengthen links with growing economies, and create value, ADB will continue to support legislative and financial reforms to improve the business environment. It will assist in structuring and financing private sector transactions, and will support greater financial inclusion and public sector reform to expand opportunities for the private sector. Investments in urban economic development and education and training programs will build resilience and support inclusive and sustainable development.

ADB is stepping up its program in the Pacific region. Countries will receive greater support through higher overall levels of financial assistance and an increased minimum country allocation. ADB's strong partnerships with multilateral and bilateral agencies—a prominent feature in the Pacific region—will facilitate the development and implementation of more transformative investments. These operations, together with policy advice and capacity development, will benefit from ADB's growing wealth of experience and knowledge. New opportunities, more resources, stronger partnerships, and the knowledge from lessons learned promise a stronger, better, and faster program of support to the PIC-11 during 2016–2020.

I. INTRODUCTION

1. The Pacific region developing member countries (DMCs) of the Asian Development Bank (ADB) are highly diverse but also face many shared challenges and opportunities. The high costs of doing business and delivering services in remote island locations, an elevated exposure to external shocks and natural disasters, and limited opportunities for value creation are shared challenges that call for a carefully considered approach. These commonalities also invite a more regional approach that provides opportunities for cross-country learning and operational efficiencies. The Pacific Approach, 2016–2020, therefore, provides a strategic framework to guide ADB’s assistance for all countries in this uniquely challenging region. It also serves as the country partnership strategy (CPS) for the 11 smaller Pacific island countries (PIC-11) that have similar binding constraints—the Cook Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

2. The Pacific Approach is intended to be read in conjunction with the PIC-11 country operations business plans and associated country strategic analyses, as well as the regional operations business plan for the Pacific region.¹ The three largest Pacific DMCs—Fiji, Papua New Guinea, and Timor-Leste—have their own CPSs to guide their country operations and therefore are not the primary focus of this paper.² The CPSs for these three countries also provide a useful reference for understanding the development context of the entire Pacific region.

3. The preparation of this document benefitted from a number of inputs, including the Pacific Approach Implementation Review, the corporate evaluation study on ADB’s Support to Small Pacific Island Countries by the Independent Evaluation Department, the Strategy 2020 midterm review action plan, and consultations with PIC-11 governments and development partners.³ The insights of these documents and discussions, together with the experience gained from implementing the Pacific Approach, 2010–2014, provided many lessons that are integrated into the new Pacific Approach 2016–2020.⁴

II. DEVELOPMENT CONTEXT

4. The small, remote, and fragile island countries in the Pacific region face a combination of natural constraints, external shocks, and internal bottlenecks that makes achieving and maintaining inclusive growth a constant challenge.⁵ The smallness, remoteness, and geographic dispersion—aggravated by one of the world’s highest exposures to climate change and natural disasters—increase the costs and risk of doing business and delivering services. The resultant narrow economic base, linked to reliance on a few, often volatile, revenue

¹ The country operations business plan is prepared annually for each of the PIC-11 and is supported by a country strategic analysis that considers individual country challenges and detailed sector assessments. This analysis has been institutionalized as a linked document to the country operations business plan following the release of a national development strategy. These analyses are supplemented by political economy analyses as needed. The process for preparing regular country diagnostic studies was adopted in 2011 to guide ADB’s operational focus in the 10 smaller Pacific island countries (the Cook Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Samoa, Tonga, Tuvalu, and Vanuatu).

² See linked document 3 for brief summaries of the CPSs of the three largest Pacific DMCs.

³ See linked documents 8 and 9. ADB. 2014. *Pacific Approach, 2010–2014 Implementation Review*. Manila; ADB. 2015. *Corporate Evaluation Study: ADB Support to Small Pacific Island Countries*. Manila; ADB. 2014. *Midterm Review of Strategy 2020 Action Plan*. Manila.

⁴ See linked document 4 for a summary of progress and lessons from implementing the Pacific Approach, 2010–2014.

⁵ See linked document 1 for a more in-depth analysis of the PIC-11 development context.

sources, and a high degree of trade openness magnifies the effects of economic shocks.⁶ Thinly stretched public administrations—in relatively young, independent states—are affected by capacity volatility that can pose risks to and place constraints on strong economic governance and public service delivery. In combination with external factors, this can lead to a cycle of low revenue potential, limited private investment and job creation, and outward migration of skilled labor. Consequently, many of the PIC-11 exhibit characteristics of political, economic, social, and/or environmental fragility or vulnerability.

5. Given this context, many of the PIC-11 have achieved remarkable levels of development. Most of them exhibit some of the highest human development indicators relative to their per capita incomes globally.⁷ Relatively high social spending, supported by significant development assistance, and the prevalence of informal social safety nets (supported by remittances in some of the PIC-11) have enabled extensive access to education, health, and water and sanitation services in many of the PIC-11. As a result, extreme poverty is rare in most of the PIC-11 and average life expectancies and literacy levels are relatively high. Public and private sector reforms have yielded substantial improvements in public policy, institutional performance, and the business environment across the region.

6. The achievements described cannot mask the fact that hardship is widespread across the Pacific region, especially for disadvantaged groups and populations in rural areas, fast-growing urban settlements, and outer islands. Despite the middle-income status of all but one of the PIC-11, per capita income is on average significantly lower than that of other small states, and is below the average for middle-income countries. Gross domestic product growth has been low and extremely volatile, with countries highly exposed to economic and climatic shocks. Employment opportunities are limited, especially for women and young people, which results in large segments of the population being extremely vulnerable to price shocks and reliant on volatile remittances.

7. Looking ahead, the challenge for the PIC-11 is twofold: achieving and sustaining higher levels of growth in light of development constraints, and distributing the benefits of this growth more equitably. Potential exists to increase the value addition of agriculture (which today is mostly subsistence), fisheries, and tourism. Targeted business development support can contribute to sustained production of higher-value commodities, increasing local employment and reducing dependencies on imports. Development aid and remittances will remain critical sources of financing for most of the PIC-11. The challenge is to enhance the development effectiveness of this financing. Equally important is the need to ensure that the PIC-11 reap the benefits from better connectivity and increasingly complex global networks of trade and aid flows. Continued investments in economic and social infrastructure and services, and reforms of the business environment and the public sector, are necessary to drive economic growth and, ultimately, achieve improved development outcomes. Better public financial management, more efficient and effective service delivery, and a growing and more diversified economic base will increase macroeconomic resilience and serve as a buffer against frequent external shocks.

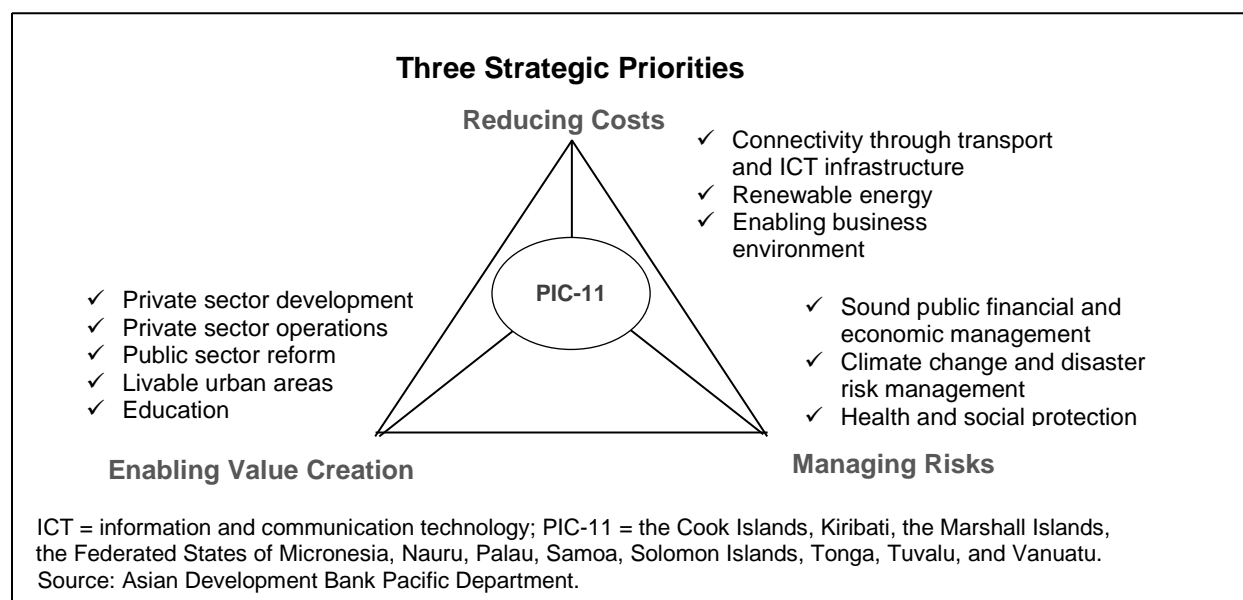
⁶ While the PIC-11 are highly open by conventional measures of openness, such as trade–gross domestic product ratios, their openness is largely due to high import dependency.

⁷ United Nations Development Programme. 2015 Human Development Report. <http://hdr.undp.org/en/country-reports/wait>

III. THREE STRATEGIC PRIORITIES

8. To address the challenges of the Pacific region development context, the Pacific Approach outlines a three-pronged strategy for achieving more inclusive economic growth, job creation, and improved human development outcomes in the PIC-11. ADB's operations will focus on the following:

- (i) **Reducing costs** of doing business and providing social services by improving connectivity through land, sea, and air links; increasing access to information and communication technology (ICT); lowering energy costs and creating a more enabling business environment.
- (ii) **Managing risks** from economic shocks, natural disasters, and climate change impacts by strengthening institutional capacities and promoting sound public sector management; building resilience to climate change and natural disasters; safeguarding sensitive natural resources; and improving health and social protection services.
- (iii) **Enabling value creation** by supporting private sector growth and investment through legislative and financial reforms, private sector operations, promoting financial inclusion, raising the performance of the public sector, investing in urban infrastructure, and building human capacities through education and skills development (figure).⁸



9. The Pacific Approach is closely aligned with the strategic priorities of ADB's Strategy 2020 midterm review.⁹ Consistent with global initiatives, the Pacific Approach will support national efforts toward the Sustainable Development Goals (SDGs) and the achievement of the 2030 Agenda for Sustainable Development.¹⁰ New SDGs to which ADB is well-placed to

⁸ ADB's activities in the three areas are mutually reinforcing and sometimes cut across two or more areas; for example, upgraded roads that are climate and disaster proofed both reduce costs by improving connectivity and help manage risks by being better able to withstand natural disasters.

⁹ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and the Pacific*. Manila.

¹⁰ United Nations Department of Economic and Social Affairs, 2015, *Transforming our world: the 2030 Agenda for Sustainable Development*, <https://sustainabledevelopment.un.org/post2015/transformingourworld/publication>

contribute include climate change action (SDG 13) and conservation and sustainable use of oceans and marine resources (SDG 14)—goals that the Small Island Developing States group was instrumental in forging.¹¹ Inclusive economic growth (SDG 8) and building capable, responsive institutions (SDG 16) are also central to ADB's Pacific Approach. ADB's core operations support progress toward ending poverty in all its forms (SDG 1); achieving gender equality and empowering women and girls (SDG 5); providing universal access to water and sanitation (SDG 6) and modern energy (SDG 7); building resilient infrastructure (SDG 9); and promoting sustained and inclusive economic growth, full productive employment, and decent work (SDG 8).

A. Reducing Costs

10. **Improve domestic and regional connectivity through transport infrastructure.**

Better physical connectivity by land, sea, and air is critical for moving goods to international markets and stimulating and capitalizing on trade and tourism opportunities in the region to generate jobs, improve service delivery, and increase market access. ADB will further deepen and broaden its engagement in transport with an emphasis on improving multimodal, integrated network connectivity to strengthen connectivity both within the Pacific region and with the larger markets in and beyond Asia and the Pacific. Physical investments will be complemented by support for capacity development and institutional reform. Asset maintenance, including the provision of sustainable financing mechanisms, will continue to be prioritized to help ensure sustainability.

11. **Expand information and communication technology infrastructure to diminish geographic isolation.** Wider availability of affordable, reliable, high-speed broadband internet makes it cheaper and easier for businesses to function. Financing this kind of connectivity is expensive for small-island countries and is typically not financially viable for the private sector. However, ICT connectivity in the Pacific region is possible when development partners pool their resources and expertise. ADB will sustain its support to financing undersea cable systems with development partners, building on substantial progress made during 2010–2015. ADB will complement this work by continuing to strengthen the institutional and regulatory environment for ICT and further exploring potential applications in e-health, e-education, and e-governance to realize the full benefits of ICT investments.

12. **Harness renewable energy to drive down the cost of electricity and reduce fossil fuel imports.** The rapidly falling cost of power generation from renewable sources has provided a viable alternative to the PIC-11's almost exclusive reliance on imported diesel. Reducing this dependence will insulate these countries from fluctuations in oil prices and exchange rates, and strengthen the fiscal position of governments. As a major energy project financier in the Pacific region, ADB will continue to lead the shift to renewable energy in the region and help countries improve energy security, transition to low-carbon economies, and expand energy access.¹² ADB will also introduce supply- and demand-side efficiency measures to lower costs for consumers and governments alike. Regulatory frameworks and energy agencies will be strengthened, and beneficiary communities trained in the safe and productive use of electricity.

13. **Reduce the costs of doing business.** ADB will continue to help governments reduce the costs of doing business by undertaking business environment reforms, modernizing taxation

¹¹ United Nations Development Programme. A New Sustainable Development Agenda. <http://www.undp.org/content/undp/en/home/sdgoverview/>

¹² ADB-supported projects are investing in cost-competitive solar energy, wind power, small hydro, and coconut oil–diesel blends.

systems, improving government service delivery (including by state-owned enterprises [SOEs]), facilitating access to credit, and widening access to finance.¹³ These will be achieved through regional technical assistance (TA) programs and other operations.¹⁴ Encouraging collaboration between the public and private sectors in the delivery of services—such as in education, health, power, transport, and water—helps reduce the high costs of providing services to dispersed island populations. ADB will also collaborate with governments to create policy and institutional frameworks for public–private partnerships (PPPs), and will help identify and structure potential PPP opportunities.

B. Managing Risks

14. **Strengthen economic and public financial management.** Building greater resilience to protect populations from hardship during financial and economic shocks is a high priority among all Pacific region DMCs. ADB will sustain its support for countries strengthening their capacity to withstand financial and economic risks. Pacific DMCs will do this by building fiscal buffers through a range of revenue measures, budget process improvements, expenditure controls, and efficiency gains in public administration. Some countries have sovereign wealth funds that play an important role in smoothing volatile revenue performance while also providing a means to distribute the revenues of nonrenewable natural resource flows over future generations. ADB will continue to contribute to strengthening public finance and macroeconomic management, including designing, reviewing, and improving the governance of existing and new sovereign wealth funds. Policy-based lending programs and TA will support the reforms and augment the funds.

15. **Scale up climate change adaptation and mitigation and disaster risk management.** Elevated exposure to climate change and natural hazards brings significant risks across the PIC-11. These risks often translate into frequent shocks, pushing countries into debt distress, businesses into insolvency, and individuals into hardship. Developing capacities to manage risks and increase resiliencies is essential for all the PIC-11.

16. ADB will build capacity to strengthen the knowledge, skills, and practices of sector agencies in climate change and disaster risk management so that these considerations can be integrated into the development plans and programs of the PIC-11. ADB recognizes that addressing climate change and vulnerability, and identifying, prioritizing, planning, and implementing adaptation and resilience building, requires long-term partnerships with local communities and civil society organizations.

17. ADB will continue to identify, assess, and manage climate and disaster risks during the project cycle to strengthen the climate and disaster risk resilience of infrastructure investments. Projects involving clean energy development and energy efficiency improvements will also be prioritized to support climate change mitigation. In coordination with development partners, ADB will help Pacific region DMCs access climate financing mechanisms, structure complex financing arrangements, and pursue a more programmatic and regional approach to financing climate change and disaster risk management in the Pacific region.¹⁵

¹³ See linked document 7 for a more detailed assessment of the private sector.

¹⁴ These comprise the Pacific Region Infrastructure Facility, the Private Sector Development Initiative (PSDI), and the Pacific Economic Management program.

¹⁵ ADB was one of the first organizations to leverage assistance for a DMC from the Green Climate Fund for a water project in Fiji in 2015. See linked document 5 for a more detailed assessment of climate change and disaster risk management in the Pacific region.

18. **Safeguard the environment.** Recognizing the extreme fragility of island and remote environments, ADB will work closely with relevant government partners to strengthen country systems for environmental safeguards. This includes (i) further developing national environmental policy and strengthening the regulatory framework in Pacific countries; and (ii) providing ongoing technical support to build in-country public and private sector capacity to identify and manage environmental risks.

19. **Support improved health outcomes and social protection programs.** Noncommunicable diseases, infectious diseases, and the destruction of health facilities by extreme weather events present a triple health burden for the PIC-11. ADB will help Pacific region DMCs meet these challenges by (i) developing integrated, climate-proofed health projects in partnership with technical agencies; (ii) optimizing the health outcomes of infrastructure investments (transport, ICT, energy, urban development, and water and sanitation); and (iii) selectively supporting regional public health initiatives to secure economies of scale in areas such as vaccination and health insurance. All ADB-supported health projects will mainstream gender to improve women's access to health services and prevent and respond to gender-based violence, and strengthen country capacity for gender-sensitive planning and project development.

20. Emigration, growing elderly populations, climate hazards, and economic crises all call for well-designed social protection policies and programs to help individuals and society build resilience; access jobs; and cope with illness, disability, and old age. ADB's support for social protection in the Pacific region will focus on reducing vulnerability and inequality.¹⁶

C. Enabling Value Creation

21. Value creation in the PIC-11 fundamentally requires a vibrant private sector and a supportive public sector. ADB's comparative advantage in enabling value creation lies in helping to establish the conditions that enable the private sector to identify and respond to opportunities. The potential for value creation in the Pacific region includes niche, high-value, low-bulk products and services that capitalize on the remote locations and pristine environments of the islands.¹⁷

22. **Expand efforts to create a more enabling environment for the private sector.** The Private Sector Development Initiative (PSDI)¹⁸ will continue to support improvements in the private sector environment, promote SOE reform, support secured transactions systems to widen access to finance, modernize business laws, and improve frameworks for competition. In recognition of the huge potential benefits of empowering women to become more active in the formal economy, the PSDI will support the training of women in technical and business development skills, facilitating their access to finance and markets and providing entrepreneurship mentoring. The PSDI is complemented by ADB's country-level engagement,

¹⁶ See linked document 6 for a more detailed assessment of education, health, social protection, and gender in the Pacific region.

¹⁷ Demand for such products and services is expanding in parallel with the growth of Asia's middle class. The PIC-11 can tap this potential if they are able to build on their comparative advantages. ADB and Asian Development Bank Institute. 2015. *Pacific Opportunities: Leveraging Asia's Growth*. Manila.

¹⁸ ADB. 2006. *Technical Assistance for Private Sector Development Initiative*. Manila; ADB. 2009. *Technical Assistance for Pacific Private Sector Development Initiative Phase II*. Manila; ADB. 2013. *Technical Assistance for Pacific Private Sector Development Initiative Phase III*. Manila; ADB. 2015. *Major Change in Technical Assistance for Pacific Private Sector Development Initiative, Phase III*. Manila.

which allows for deeper support for activities such as SOE reforms through TAs and policy-based operations, enabling governments to enact the most difficult reforms.

23. Engage directly with the private sector to support more investment. The private sector in the Pacific region is constrained by a critical shortage of commercial finance that affects businesses of all sizes, and small and medium-sized enterprises in particular. ADB will extend its business advisory services to selected small and medium-sized enterprises in the Pacific region through regional TA for the Pacific Business Investment Facility to help access commercial finance, including trade and supply-chain finance provided by ADB's Trade Finance Program.¹⁹ The Trade Finance Program is being expanded to the Pacific region to help close market gaps in trade finance by providing guarantees and loans to banks to support trade, thereby supporting growth, job creation, and poverty reduction.²⁰

24. For relatively large infrastructure investment opportunities involving the private sector, ADB will explore combining sovereign and nonsovereign resources and financing instruments to reduce the high cost of financing and improve the bankability and value for money of projects. Opportunities will also be pursued to develop bankable PPPs with assistance from ADB's Office of Public–Private Partnership. The multipartner-funded Asia–Pacific Project Preparation Facility, which is managed by this office, will be used to prepare and structure PPP projects, and enhance enabling reforms and government capacities.

25. Support public sector reform. In many Pacific DMCs, the government provides essential goods and services through the operation of government business enterprises. These have been in diverse areas including telecommunications services, power supply, hotels, airlines, fishing companies, and hardware stores. As a result, the per capita cost of government in the Pacific region is relatively high and many of these services are provided inefficiently. ADB will continue to support public sector reforms to ensure Pacific region governments focus on core service provision, manage their public workforce more efficiently, and open new opportunities for competitive private sector operation.

26. Promote livable, economically vibrant urban areas. Urban areas of the PIC-11 are experiencing rapid and often poorly planned growth as a result of internal migration and natural population increase.²¹ Squatter settlements are proliferating, natural resources are becoming overexploited, and increasing numbers of citizens are vulnerable to flooding and natural disasters. Reversing the deterioration in living conditions in the Pacific region's growing towns and cities is essential if they are to become livable and economically vibrant environments. ADB will continue to favor an integrated approach to the provision of water and other urban infrastructure and services that promotes inclusive and equitable access to water supply, sanitation, solid-waste disposal systems, transport, and electricity; environmental sustainability, including resilience to natural disasters and climate change; and competitiveness and economic growth. ADB-supported projects will help governments with long-term urban planning to ensure that services can be sustained, and encourage private sector and civil society organization (CSO) involvement in the provision of urban infrastructure and services.

27. Support education and skills training to develop human capital. Value creation requires quality education and skills development to support entrepreneurship and the

¹⁹ ADB. 2014. *Technical Assistance for the Establishment of the Pacific Business Investment Trust Fund and Technical Assistance for the Pacific Business Investment Facility*. Manila.

²⁰ As of May 2016, four of the Trade Finance Program's more than 200 confirming banks are in the Pacific (in Fiji, Papua New Guinea, Samoa, and Timor-Leste).

²¹ These pressures are leading to particularly rapid urban growth in Kiribati, Tonga, and Vanuatu.

development of skills-intensive niche products and services, strengthen women's economic and political empowerment, improve the quality of public administration, and enable labor mobility opportunities as a household resilience strategy. ADB will substantially increase financial and technical support to education, building on its track record of investments in basic education and distance education in the Pacific region.²² ADB will expand the use of ICT to improve the quality, management, and cost efficiency of education service delivery in widely dispersed and isolated areas. Ensuring women can access educational opportunities is a vital precursor to the economic empowerment of women in the Pacific region.

IV. PACIFIC APPROACH IMPLEMENTATION

28. The development challenges in the Pacific region demand support across multiple sectors, efficient use of financial resources, capacity building and knowledge transfer, and close coordination with government counterparts and development partners. ADB also acknowledges that some of the PIC-11 will need external assistance for the foreseeable future. ADB is better resourced and has a strengthened knowledge base, deeper and wider partnerships, and a more extensive presence in the Pacific region than ever before. With these comparative advantages, ADB commits to a stronger, better, and faster program of development assistance in the region.

A. Stronger, Better, and Faster Program Delivery

1. Stronger Support through Higher Levels of Financial Assistance

29. The ADB Board of Governors' endorsement of the merger of ADB's Asian Development Fund (ADF) equity and lending operations with its ordinary capital resources (OCR) balance sheet will provide the financial resources to increase ADB's sovereign assistance to its DMCs in the coming years by up to 50%.²³ These additional resources also strengthen ADB's risk-bearing capacity to support more private sector operations, as well as its capacity to respond to future economic crises and natural disasters. To better respond to the special needs of small and fragile countries, the minimum allocation for concessional-assistance-only countries will increase from the current level of \$3 million per year to \$6 million per year beginning in 2017.²⁴

30. In the Pacific, the ADF allocation will double for six countries based on the increase in the minimum allocation while three OCR countries will be eligible for increased assistance as a result of the merger of OCR and ADF resources. Many Pacific countries will also be eligible for additional resources through the newly available disaster risk reduction funds. In total the

²² ADB is providing regional Asian Development Fund (ADF) financing through a multitranchise financing facility to improve the University of the South Pacific's regional campuses. This is supporting the implementation of the university's strategic plan to increase outreach to students in the region. ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility for the Higher Education in the Pacific Investment Program (Tranche 1)*. Manila.

²³ From 1 January 2017, the ADF will be a grants-only operation, while concessional lending operations will be financed from ADB's OCR and will be known as concessional OCR lending (COL). Regular OCR lending will also be provided from the OCR balance sheet. The term "ADF countries" will be replaced with "concessional assistance" countries (defined as countries that have access only to ADF grants and/or COL). Concessional-assistance-only DMCs (previously referred to as ADF-only DMCs) in the Pacific region will include four grants-only countries (Kiribati, the Marshall Islands, Nauru, and Tuvalu) and four ADF blend countries, with access to the ADF and COL (Samoa, Solomon Islands, Tonga, and Vanuatu). The Federated States of Micronesia, Palau, Papua New Guinea, and Timor-Leste will have access to COL and regular OCR lending. The Cook Islands and Fiji will only have access to regular OCR lending.

²⁴ Under this measure, all DMCs receiving concessional resources will be provided with a base allocation of \$6 million per year. The final allocation is adjusted for grant share and volume discount under the ADF grant framework (ADB. 2016. *Concessional Assistance Policy*. Manila).

sovereign allocation for the PIC-11 will almost double from approximately \$140 million for 2015-2016 to almost \$280 million for 2017-2018. Private sector operations will also shift from taking an "opportunistic" approach to more structured approach to increase business development in the Pacific.

2. Better Responsiveness in a Uniquely Challenging Development Context

31. **Pursue a fragility-sensitive approach to address unique challenges.** The scaling up of ADB's assistance to the PIC-11 gives added impetus to ensuring that the operations supported are as efficient as possible and their impacts are transformative and long lasting. ADB acknowledges that reducing vulnerability and hardship in the fragile setting of the PIC-11 is complex, and development outcomes are even harder to achieve than in other subregions.²⁵ The circumstances therefore necessitate a carefully tailored, fragility-sensitive approach that thoroughly considers the operating context and operations' interaction with it, avoids negative effects, and maximizes positive development and resilience-building impacts.²⁶

32. ADB will draw on its understanding of the unique socioeconomic and political context of each country to develop project and program designs that are sensitive to fragility and contribute to building more resilient, inclusive, and sustainable societies. Where necessary, ADB will undertake sector and/or thematic assessments to inform design, and will promote a greater awareness of fragility in the PIC-11. Inclusive participation, including through CSOs, will support this understanding and underpin effective project design.

33. ADB will also seek to engage in longer-term, programmatic interventions that provide sustained support for capacity development. Multitranches financing facilities, multipartner and multiyear policy-based operations, long-term flagship regional TA, and programmatic TA operations cater to this need. Opportunities for reducing capacity needs by using less complex solutions, smart technology solutions, or centralization or pooling of functions will be considered. Flexibility in processes, project duration, and approach will ensure new developments and unforeseen difficulties can be accommodated.

34. **Expand the use of regional approaches.** Greater collaboration at the regional and subregional levels holds considerable potential to mitigate the constraints of lack of scale economies and the extreme remoteness of the PIC-11. The Framework for Pacific Regionalism, endorsed by the Pacific Islands Forum (PIF) leaders in 2014, provides an opportunity for ADB to expand its RCI assistance and more fully integrate the region's priorities into its work.²⁷ In 2015, the PIF leaders specified key priorities for RCI under the Framework for Pacific Regionalism.

²⁵ Six of the PIC-11 are classified as fragile and conflict-affected situations (FCASs) in 2016 based on the harmonized multilateral development bank score for determining such situations in DMCs: Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Solomon Islands, and Tuvalu (ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila). Whether or not a country is classified as an FCAS country, all of the PIC-11 share a common vulnerability.

²⁶ ADB's differentiated approach to FCAS countries, tailored to the individual country's fragility characteristics and national priorities, is described in ADB's 2007 Approach to Engaging with Weakly Performing Countries and 2013 Operational Plan (ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank's Approach to Engaging with Weakly Performing Countries*. Manila; ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila). ADB's Strategy 2020 midterm review highlights support for fragile and FCASs and stresses the importance of understanding the local context, making long-term commitments, and ensuring country ownership in FCAS DMCs.

²⁷ The PIF is an intergovernment organization to which all of the PIC-11 belong. It aims to enhance cooperation between the countries of the region. The PIF leaders endorsed the Pacific Plan in 2005 to strengthen RCI in the Pacific region. This was recast as the Framework for Pacific Regionalism in 2014 (Pacific Islands Forum. 2014. *Framework for Pacific Regionalism*. Koror).

ADB sees scope to deepen or develop its support for four of the RCI priorities—ICT connectivity, climate change, fisheries, and cervical cancer—as a complement to country programming. ADB will continue efforts to improve regional connectivity in the Pacific region through submarine cable systems, and apply regional approaches to climate change and natural disasters. ADB will also explore opportunities to improve fisheries management and work with partners to strengthen vaccination programs—including for cervical cancer—for a fully immunized Pacific region.

35. Complementing its support for the PIF priorities, ADB will more fully integrate regional assistance in its engagement with the PIC-11, leveraging regional funds to solve common challenges and responding flexibly to evolving needs. This will include interventions with clear RCI outcomes that promote regional transport or communications connectivity or support the provision of regional public goods, such as higher education. Regional approaches will also be used to provide assistance to several countries in an area of common interest, such as in education, finance, trade finance and logistics, maritime transport, and risk pooling. Processing these interventions together can be more efficient and cost-effective than the use of country-by-country approaches.

36. **Enhance focus on private sector development and facilitate private sector operations.** ADB will reemphasize support for creating a more enabling environment for the private sector through its flagship regional TA programs—the PSDI, the Pacific Business Investment Facility, and the Pacific Economic Management program. The Pacific Approach implementation period will also see greater direct ADB engagement in promoting the establishment and growth of Pacific region businesses through the expanded Trade Finance Program, a stepped-up partnership between ADB’s Pacific Department and its Private Sector Operations Department in larger infrastructure development opportunities, and greater assistance for identifying and structuring PPPs.

37. **Pursue effective and efficient development partner coordination to leverage assistance.** Many of the PIC-11 are heavily dependent on development assistance and this reliance is likely to persist given their vulnerability. The role of development partners is therefore greater in the PIC-11 than in many other DMCs, and coordination among development partners is critically important to ensure alignment with national strategies and plans, avoid duplication, minimize the burden on counterpart agencies, and ensure efficient use of limited development finance.

38. Cofinancing partnerships have been an important source of finance and expertise for ADB’s operations in the Pacific region, and have helped finance larger interventions than would otherwise be possible. ADB has worked closely with established development partners in the region, particularly Australia and New Zealand, to deliver additional and more innovative assistance.²⁸ ADB has also taken development coordination to a new level in the Pacific region by sharing country offices and administrative and consultant costs with the World Bank in several of the PIC-11, and cofinancing larger, more transformative projects jointly rather than in parallel. ADB will continue to explore and deepen collaboration along these lines, developing approaches that minimize additional transaction costs and other demands these partnerships

²⁸ In May 2016, ADB worked with Australia to approve the first results-based loan in the Pacific for Solomon Islands to finance transportation upgrades designed to deliver safer and more climate-resilient infrastructure and to improve access to markets and services for rural communities.

usually entail. ADB will work with partners to promote more joint cofinancing and pursue harmonized strategic partnerships for greater efficiency.²⁹

3. Faster Delivery through the Pacific Project Improvement Action Plan

39. The Pacific Project Improvement Action Plan, developed in 2015, is a milestone in strengthening project performance to deliver better results for the people of the Pacific region. It proposes practical measures in three key areas of project preparation and implementation: (i) improving project readiness by following the renewed project readiness filter and using the project design advance, (ii) making procurement and contracting more efficient by considering the unique procurement environment in the Pacific region, and (iii) strengthening governments' project management capacity throughout implementation.

40. Under the renewed project readiness scheme, project teams plan the degree of project readiness to be reached by project approval, identify potential project implementation problems, and start to solve these problems in parallel with project preparation.³⁰ Project teams are encouraged to use the project design advance or other facilities to carry out detailed design, which is time consuming but critically needed to initiate procurement, in parallel with or immediately after project preparation to improve the accuracy of project cost estimates and reduce the need for additional financing. They are also encouraged to use a "one consultant, one project" approach, whereby a single consultant is responsible for the project from preparation to implementation. This will provide continuity, reduce the number of lengthy consultant selections, and shorten the time needed for consultants to learn about local conditions.

41. The plan includes a project implementation and procurement support team under new regional capacity development TA for Building Project Implementation Capacities in the Pacific. The team will organize a series of capacity building programs in the regional centers on aspects of project management and will provide on-the-job training in problem solving for executing agencies that face particular implementation problems.³¹

42. While procurement is often a major project management constraint in Asia, the Pacific region procurement environment is even more challenging because the number of suppliers in the region is limited and the distance from major industrial cities makes goods more expensive and time consuming to transport. The Pacific Department (PARD) will implement measures in close coordination with the Operations Services and Financial Management Department to achieve procurement efficiencies by applying higher procurement thresholds, expanding single-source selection of consultants, and using direct selection where there is demonstrated capacity.

²⁹ See linked document 2 for more details on development partnerships and coordination.

³⁰ These include political economy considerations, the government's institutional set-up for the project, land acquisition, detailed engineering design, procurement strategy, and safeguard measures.

³¹ Areas include procurement, consultant selection, social and environmental safeguards, and financial management. ADB. 2016. *Technical Assistance for Building Project Implementation Capacities in the Pacific*. Manila.

B. Generating and Sharing Knowledge

43. PARD's knowledge program will seek to (i) deepen ADB's understanding of the development challenges of the Pacific region, (ii) engage in policy dialogue, (iii) support ADB's engagement at the country and regional levels, and (iv) facilitate learning and knowledge sharing from experience in the Pacific and other regions. The guiding principles will include an emphasis on quality, operational relevance, innovation, and responsiveness to needs and demands at the country and regional levels. The sector knowledge program will be coordinated with ADB's Pacific region flagship regional TA programs—the Pacific Region Infrastructure Facility, the PSDI, and the Pacific Economic Management program—and will distill and disseminate lessons from ADB-financed investments. Knowledge work at the regional level will support engagement in regional dialogue on development priorities, cross-country learning on development experiences, and business development and operational planning (Appendix 2).

44. ADB will leverage its full knowledge resources and expertise by emphasizing a “one ADB” culture to strengthen its knowledge work. ADB will also collaborate with other development partners, academia, and think tanks in preparing and implementing knowledge solutions. Guiding principles will include an emphasis on quality, operational relevance, and responsiveness to needs and demands at the country and regional levels.

C. Monitoring Results and Mitigating Risks

45. **Results monitoring.** The Pacific Approach results framework will be used to monitor the aggregate performance of ADB operations in the PIC-11 (Appendix 1). This will be complemented by country-level results monitoring through country programming missions and country portfolio review missions, which provide opportunities for ADB and government counterparts to assess portfolio performance and agree on actions for improvement. Three-year rolling operational plans for each country will be prepared annually through country operations business plans, and country-level strategic analyses will be conducted following the release of a national development strategy to update development trends, indicators, and priorities. For sector and thematic areas, building stronger national databases through projects and programs will also contribute to the monitoring and reporting of results. ADB's annual development effectiveness review will also be used to monitor results at the country and regional levels.

46. **Mitigating external risks through a focused and flexible approach to programming, design, and implementation.** Major exogenous risks for the Pacific region include deteriorating global economic conditions and extreme events related to climate change. The Pacific Approach makes addressing such risks one of its three strategic priorities. As such, ADB's country and regional operations will integrate risk mitigation. Policy-based lending, for example, drives policy changes that improve growth prospects and economic efficiency of DMCs, thereby reducing the impact of external shocks. Disaster risk management, disaster response, and climate change adaptation work aims to strengthen the resilience of countries to natural hazards and other climate change impacts. Climate change impacts and other natural disasters may still pose direct risks to ADB investments by adversely affecting project implementation and sustainability. Political instability in Pacific region DMCs and weak government commitment also have the potential to introduce risk at all stages of the project cycle.

47. **Implementing a credible staffing management plan to support the Pacific Approach.** The Pacific Approach, 2016–2020 outlines an ambitious strategy for delivering higher levels of assistance to the PIC-11. Designing and implementing successful operations in a context in which more than half of the countries are classified as FCAS countries, and all are

vulnerable, isolated, and lack adequate capacity, is unusually challenging and resource intensive. In response to this, ADB has

- (i) modified its business practices by formulating its Pacific Approach as the CPS for the PIC-11;
- (ii) introduced procurement efficiencies and will continue to seek opportunities to streamline business processes for Pacific region operations;
- (iii) utilized large regional TA rather than individual project preparatory TA to manage project development;
- (iv) established development coordination offices and extended missions, some in partnership with and funded by the World Bank;
- (v) posted staff to resident missions;
- (vi) pursued a “one ADB” approach to supporting Pacific region operations; and
- (vii) made greater use of the project design advance to enhance project readiness.

48. However, more needs to be done. With the small number of international staff exclusively focused on the 14 Pacific region DMCs, staff resources are likely to become the greatest constraint on implementing the Pacific Approach. PARD is responsible for managing operations in more DMCs than any other regional department. Despite the significant growth in PARD’s operations and portfolio in recent years, staff growth has been moderate. Compared to other regional departments, the number of active projects per staff member is highest in PARD. The department will continue to engage other ADB staff on development assignments and seek opportunities for partner-funded fixed-term positions. However, increasing the Pacific region portfolio will require additional sector specialists.

49. Based on the operational framework and strategic priorities outlined in the Pacific Approach, PARD will prepare a staffing assessment and management plan to identify staff resources required across the sectors and themes to effectively deliver an expanded program. This plan will also propose increased coordination with other departments to secure the necessary staff support in key areas. Furthermore, ADB will continue to expand its field presence to ensure that it has staff based in all of the PIC-11 during the implementation period of the Pacific Approach.

PACIFIC APPROACH RESULTS FRAMEWORK, 2016–2020

Sustainable Development Goal Impact Indicators with which the Pacific Approach is Aligned 1. Increase substantially the share of renewable energy in the global energy mix (SDG 7.2) Indicator: By 2020, share of renewable energy in the total energy mix substantially increased. 2. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries (SDG 13.1). Indicator: By 2020, losses from natural disasters by climate- and nonclimate-related events reduced (dollars and lives lost). 3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation, and encourage the formation and growth of small and medium-sized enterprises, including through access to financial services (SDG 8.3). Indicator: By 2020, the proportion of youth not in employment, education, or training substantially reduced.				
Objectives	Priority Areas	Key Outcomes to which ADB Contributes	Outcome Indicators	PIC-11 Resources
Costs reduced	Renewable energy Connectivity Enabling business environment	Greater availability, reliability, and affordability of energy supply from renewable sources Greater availability and affordability of ICT connectivity Enhanced transport connectivity and efficiency A more conducive environment for business	Share of electricity generated from renewable sources increased (i) ICT coverage extended (number of people using the internet increased) (ii) ICT cost reduced (average percentage decrease in price of broadband internet access) (unit cost in Megabit/sec) Reduced cost of imports to and exports from the Pacific region (i) Increased financial efficiency of SOEs: average return on assets, average return on equity (ii) Ease of starting and doing business improved	Ongoing portfolio Ongoing sovereign projects (as of 30 June 2016): Number: 38 OCR: \$61.91 million ADF: \$330.08 million Planned operations and contribution: Sovereign Regular OCR: \$51.80 million COL: \$211.70 million ADF: \$263.71 million TASF: \$43.15 million (2016–2019, as of June 2016)
Risks managed	Sound macroeconomic management Climate change and disaster risk management	Greater resilience to external economic and financial shocks Greater resilience to climate change and disaster risks	Public expenditure and financial assessment performance improved Proportion of loans and grants supporting (i) climate change mitigation and/or adaptation, and/or (ii) disaster risk management in the PIC-11 increased (2013–2015 baseline: [i] 53%, [ii] 72%)	
Value creation enabled	Private sector development	Better environment for business and finance sector development More people in urban areas	Increase in number of new businesses registered	

Objectives	Priority Areas	Key Outcomes to which ADB Contributes	Outcome Indicators	PIC-11 Resources
	Livable urban areas	enjoy access to reliable water supply services	Percentage of urban population with access to water supply coverage increased and continuity of supply improved (hours per day)	
	Investment in people	A more educated population	Students benefiting from new and improved educational facilities	
Efficient ADB operational and organizational management	Greater operational effectiveness in the PIC-11	<p>Lending and grant projects successfully completed</p> <p>Greater use of regional and subregional approaches</p> <p>Higher project readiness at approval</p> <p>Timely project processing and implementation</p> <p>Business process efficiency and client orientation improved</p> <p>Development finance mobilized and transferred</p>	<p>Completed sovereign operations rated <i>successful</i> (2013–2015 baseline 70%; 2020 target TBD)</p> <p>Proportion of operations supporting RCI increased (2015 baseline: 18%. 2020 target: 30%)</p> <p>Time from approval to first major works and/or goods contract award reduced (2015 baseline: 29.6 months; 2020 target: 18 months)</p> <p>Average time from ADB approval to first contract award reduced (2015 baseline: 9.6 months; 2020 target 8.0 months)</p> <p>(i) Average processing time for procurement from bid invitation to contract signing reduced (2015 baseline 252 days; 2020 target 180 days.)</p> <p>(ii) Sovereign operations administered with substantial resident mission involvement (2015 baseline: 73%; 2020 target TBD)</p> <p>(iii) All PIC-11 have field offices and at least one ADB staff member by 2020</p> <p>Project development transactions for public–private partnership facilitated (Total number from 2016. 2015 baseline 0; 2020 target TBD)</p>	

ADB = Asian Development Bank, ADF = Asian Development Fund, COL = concessional OCR lending, ICT = information and communication technology, OCR = ordinary capital resources, PIC-11 = 11 smaller Pacific island countries, RCI = regional cooperation and integration, SDG = Sustainable Development Goal, TASF = technical assistance special fund, TBD = to be determined in late 2016.

Source: ADB Pacific Department.

PACIFIC APPROACH KNOWLEDGE PLAN

1. The Pacific Department's knowledge program seeks to (i) deepen the Asian Development Bank (ADB) understanding of the development challenges common to the Pacific region developing member countries, (ii) underpin ADB's engagement in policy dialogue on development priorities, (iii) support ADB's business development at the country and regional levels, and (iv) facilitate the cross-country learning and knowledge sharing from development experiences in other regions.
2. The Pacific Approach knowledge plan serves as a country knowledge plan for each of the 11 smaller Pacific island countries, given the broad similarity of their challenges and opportunities, and for the region as a whole. It is supplemented by the detailed country partnership strategy knowledge plans prepared for Fiji, Papua New Guinea, and Timor-Leste.
3. The principles guiding the knowledge plan include an emphasis on quality, operational relevance, innovation, and responsiveness to needs and demands at the country and regional levels. In implementing these principles, the Pacific Department will seek to promote operational relevance and responsiveness by leveraging the full knowledge resources of ADB, including the specialized local knowledge, skills, and research of development coordination officers in ADB's Pacific region field offices. It will be important to capture knowledge generated through ADB projects (including those from outside the Pacific region) and apply this to improve the results of future operations. Collaboration with other development partners, academia, and think tanks will promote innovation and quality.
4. The knowledge program will also be coordinated with the policy and advisory services provided through ADB's flagship regional technical assistance programs—the Pacific Region Infrastructure Facility,¹ the Pacific Private Sector Development Initiative,² and the Pacific Economic Management program.³
5. Knowledge development and sharing will focus on building an understanding of reducing costs, managing risks, and enabling value creation.

A. Reducing Costs

6. ADB will continue to provide operationally relevant assessments analyzing opportunities to reduce costs. Core infrastructure operations in renewable energy, transport, and information and communication technology will provide a valuable knowledge resource. To date, interisland shipping schemes and labor-based road building and maintenance have been assessed, and there is a solid library of work on the costs faced by businesses. Future priority subjects include the use of e-commerce in the Pacific region, a strengthened understanding of information management systems, business environment reform, and public–private partnerships.

¹ ADB. 2013. *Technical Assistance for Establishment of the Pacific Regional Infrastructure Facility Coordination Office*. Manila.

² ADB. 2006. *Technical Assistance for Private Sector Development Initiative*. Manila; ADB. 2009. *Technical Assistance for Pacific Private Sector Development Initiative Phase 2*. Manila; ADB. 2013. *Technical Assistance for Pacific Private Sector Development Initiative Phase 3*. Manila.

³ ADB. 2009. *Technical Assistance for Pacific Economic Management-Response to the Global Crisis (Subproject 1)*. Manila; ADB. 2010. *Technical Assistance for Pacific Economic Management-Enhanced Economic Management (Subproject 2)*. Manila. ADB. 2013. *Technical Assistance for Pacific Economic Management Phase 2*. Manila.

B. Managing Risks

7. In building economic resilience, the biannual Asian Development Outlook and Pacific Economic Monitor will continue to be the mainstays of ADB's understanding of the Pacific region economies. Cooperation with the International Monetary Fund and other partners in the area of economic resilience to natural disasters is being strengthened to provide research and events relevant to country policy makers. The sustainable management of sovereign wealth funds is a growing area of knowledge development for the Pacific Department. Understanding the impacts of climate change and the means by which communities proactively build resilience to natural disasters and climate change is the second broad area of research and outreach under the managing risks banner. The third area of knowledge development focuses on health and social protection. Lessons are being drawn from ADB's health interventions to date, while work on Pacific region pension schemes aims to guide these toward financial sustainability.

C. Enabling Value Creation

8. The annual Pacific Development Update Conference, which has been cosponsored with the Asian Development Bank Institute, the Australian National University, and the University of the South Pacific, provides an important forum for discussing value creation in the Pacific region economies and highlighting ADB's work in this area. The 2015 work on Pacific Opportunities will continue and is contributing to a better understanding of value creation through the development of economic linkages within the region and with neighboring countries. This work will provide a wealth of case studies of the various ways Pacific region developing member countries are adding value to their economies and will draw lessons from these. Industry-specific assessments focusing on common agricultural products and on services, including finance and tourism, will also form part of the knowledge pipeline. The value-creation opportunities provided by urbanization in the Pacific region and from enhanced educational outcomes will also be highlighted.

9. The Pacific Department will continue to share knowledge from country and regional assistance through impact stories, videos, brochures, policy briefs, research reports, conferences and seminars, and social media. Implementation of the knowledge plan will strengthen this outreach and dissemination and ensure knowledge work is presented in multiple formats to ensure it can be easily accessed and applied by stakeholders.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=Pacific-2016>

1. Inclusive and Sustainable Growth Assessment
2. Development Partnerships and Coordination

Supplementary Documents

3. Country Partnership Strategy Summaries: Fiji, Papua New Guinea, and Timor-Leste
4. Progress and Lessons Learned
5. Climate Change and Disaster Risk Management Assessment
6. Social Development Assessment
7. Private Sector Assessment
8. Pacific Approach, 2010–2014, Implementation Review
9. Independent Evaluation Department Corporate Evaluation Study: ADB Support to Small Pacific Island Countries