



Implementation Review

November 2014

Pacific Approach, 2010–2014 Implementation Review

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
COBP	–	country operations business plan
CPS	–	country partnership strategy
CSO	–	civil society organization
DCO	–	development coordination officer
DMC	–	developing member country
FCAS	–	fragile and conflict-affected situation
GDP	–	gross domestic product
GACAP II	–	Second Governance and Anticorruption Action Plan
ICT	–	information and communication technology
MDG	–	Millennium Development Goal
MFF	–	multitranche financing facility
PARD	–	Pacific Department
PFM	–	public financial management
PIFS	–	Pacific Islands Forum Secretariat
PNG	–	Papua New Guinea
PPP	–	public–private partnership
PSDI	–	Private Sector Development Initiative
PSM	–	public sector management
RCI	–	regional cooperation and integration
SPC	–	Secretariat of the Pacific Community
TA	–	technical assistance
USP	–	University of the South Pacific

NOTE

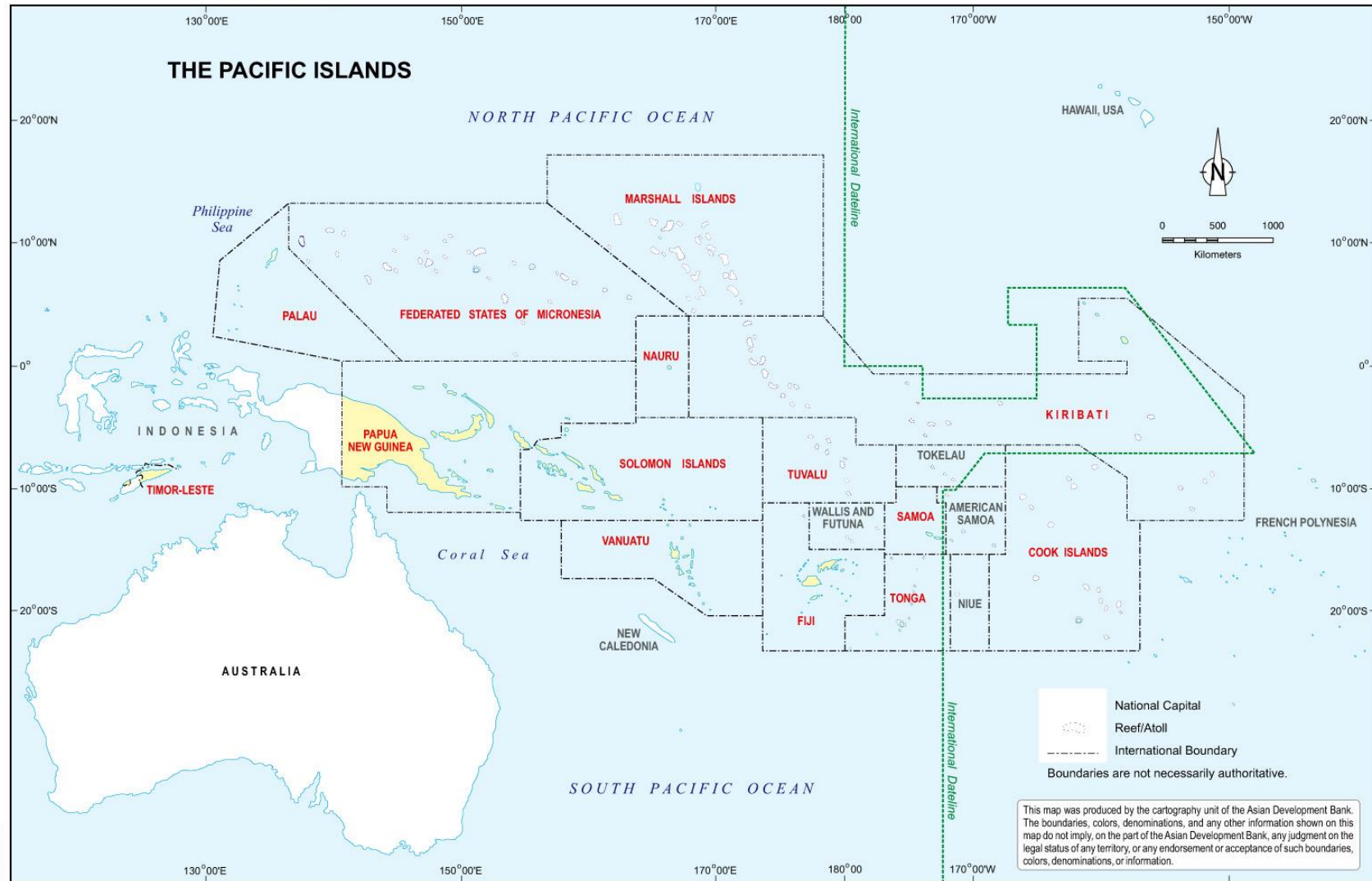
In this report, “\$” refers to US dollars.

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EXECUTIVE SUMMARY

1. The Pacific Approach, 2010–2014 has guided the Pacific operations of the Asian Development Bank (ADB) since 2010 and ADB's country operations in the 10 smallest Pacific developing member countries (DMCs) since mid-2011 (Table). This self-assessment (i) reviews the changes in the Pacific development context and operating environment; (ii) assesses ADB's performance in implementing the Pacific Approach agenda, priorities, and drivers of change; and (iii) draws lessons to increase the effectiveness of ADB's operations in the region. The results of this assessment will also inform the successor document to the Pacific Approach Framework, which will guide ADB's operations in the region during 2015–2019.

Pacific Approach Framework, 2010–2014

Goal:	Sustained and resilient, improved 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.

A. The Changing Development Context and Operational Environment

1. Development Progress and Challenges

2. Volatility in economic performance remained a notable feature of Pacific DMCs. In 2010, when the implementation of the Pacific Approach commenced, the immediate impacts of the global economic crisis were beginning to recede and the Pacific economies were bouncing back after contracting in 2008–2009. The resource-exporting countries—Papua New Guinea (PNG) and Timor-Leste—continued to grow strongly across this period, buoyed by high commodity prices. However, countries that rely on trust fund earnings and remittances experienced persistent macroeconomic challenges.

3. The crisis significantly set back poverty reduction and slowed progress toward other Millennium Development Goals (MDGs). Half of the countries in the Pacific were off track on at least two MDGs. Conflict and fragility have also been fundamental obstacles to MDG achievement in several Pacific DMCs. The difficulties are compounded by continued weak performance of public sector management and institutions, and weak capacity and budget constraints in ministries responsible for social welfare support.

4. Population growth and migration are profoundly changing the development environment. The rapidly growing number of young adults, in particular, holds major implications for job creation and social services provision. The needed private sector growth has been sporadic and investment has been elusive. Outmigration and the associated loss of skilled workers is a concern, although the increases in remittance flows are welcomed. Internal migration and

natural population increase are straining the provision of services in urban areas and eroding the livability of the urban environment.

5. The region, including its growing coastal cities, is increasingly suffering from the effects of climate change and natural disasters. Pacific DMCs view climate change as an immediate and growing threat to their development, and are seeking to better integrate climate change concerns into their national planning and budgeting processes.

6. Pacific DMCs have struggled to improve the quality of public administration and increase transparency and accountability in the public sector. While there have been considerable gains in public financial management in recent years, more remains to be done to establish well-functioning systems in all Pacific DMCs.

7. The enabling environment for business has advanced as a result of legislative reforms. However, the limited natural resource base and extreme distances from markets that typify small island settings have meant that value creation has proved difficult. Resource-rich countries continued to struggle to diversify their economies away from reliance on the public sector.

8. Connectivity and integration within and between Pacific DMCs and with Asia and the Pacific have improved with the implementation of port- and road-upgrading projects, and a focus on greater intermodal connectivity and infrastructure sustainability. Energy access has broadened and sources of supply are diversifying into renewables. Submarine cables and the spread of mobile telephony have dramatically improved connectivity for some countries, and are creating new opportunities for business.

2. Regionalism, Cooperation, and Partnerships

9. Regional cooperation and integration in the Pacific has moved slowly since the endorsement of the Pacific Plan in 2005. There have been some improvements in regional architecture, information sharing, and coordination, but results have been mixed in shared services provision and joint procurement. Trade integration—the centerpiece of Pacific regionalism—has progressed slowly. The endorsement of the new Framework for Pacific Regionalism in 2014 provides an opportunity for greater direct engagement by development partners in identifying regional priorities and aligning their support closely with regional needs.

10. Government-led coordination is strengthening development partners' alignment with national priorities. Eight Pacific DMCs have introduced regular government–development partner coordination meetings since 2010. Partnership among development partners has also deepened through more frequent coordination among the so-called “heptagon” meetings.

11. The importance of stronger partnerships to respond to the pressing development needs of countries classified as fragile and conflict-affected situations (FCAS) is an emerging focus. The g7+ group of 19 FCAS countries, including 3 from the Pacific, drove the New Deal for Engagement in Fragile States, which puts country leadership and ownership principles into practice, and will determine the next phase of the aid effectiveness agenda.

B. Pacific Approach Implementation Achievements and Challenges

1. Strategic Alignment

12. ADB's country strategic objectives expressed through country partnership strategies (CPSs) and country operations business plans (COBPs) were aligned with the strategic priorities of the Pacific Approach. To ensure that its country strategy responds to the needs of the 10 smallest Pacific DMCs without CPSs, ADB has adopted a process for preparing regular country diagnostic studies to underpin its operational focus. Programming has been responsive and flexible, and tailored to country needs.

2. Progress in Achieving the Pacific Approach Agenda

13. **Inclusive and environmentally sustainable growth.** ADB promoted this agenda by extending infrastructure services, which in turn fosters job creation through private sector development and expands access to markets and social services. ADB also supported job readiness, gender mainstreaming, and social safety nets to advance this agenda. ADB promote environmentally sustainable growth through (i) improving planning to mitigate the impacts of natural disasters and climate change, (ii) climate-proofing infrastructure, (iii) accessing climate financing, (iv) strengthening coastal and marine resource management, (v) investing in cleaner and more efficient energy, and (vi) ensuring compliance with environmental management plans.

14. **Good governance.** ADB support for good governance focused on strengthening public financial management and national procurement systems through policy-based operations and technical assistance (TA) projects. ADB has expanded its contribution to sector governance by paying greater attention to the political economy and using longer-term and more flexible programmatic approaches, such as multitranches financing facilities (MFFs).

15. **Regional cooperation and integration.** ADB facilitated regional cooperation and integration (RCI) through its growing regional TA portfolio and a small but growing pipeline of loan and grant projects supporting RCI. Projects focused on border crossings, information and communication technology (ICT) infrastructure, and education. TA for RCI supported the provision of pooled services (such as audit, public finance capacity building, and statistics), business environment harmonization, and regional links (including economic, trade, finance, and labor links).

3. Operational Performance

16. **Increasing assistance.** The scale of ADB assistance increased substantially during the Pacific Approach period, mirroring the rise in ADB-wide sovereign approvals. Total approvals to Pacific DMCs rose from \$559 million in 2006–2009 to \$998 million in 2010–2013, and at the end of 2013 the portfolio stood at almost \$1.8 billion, including cofinancing.

17. The share of Asian Development Fund grants has increased to 9% since their introduction in 2005, and more Pacific DMCs are benefiting from them. TA funding from ADB's Technical Assistance Special Fund fell by almost one-third during 2010–2014, but was more than offset by a rapid increase in cofinancing for non-project-preparatory TA. As a result, TA provision expanded overall. While the Pacific Approach advocated larger and longer-term TA projects, this has only been achieved in a few areas, such as private sector development, economic management, infrastructure, and development coordination.

18. **Sector focus.** While the bulk of ADB investment in the priority sectors of the Pacific Approach was in transport, there was considerable growth in the volume of investment in water and other municipal infrastructure and services, and in energy. The level of assistance for education remained low. Outside the priority sectors, most investments supported disaster response, focusing mainly on infrastructure reconstruction.

19. **Attention to results.** Closer attention to project design, faster project start-up, stronger implementation oversight, and greater in-country support for implementation led to stronger project performance. The success rates of completed projects rose from 25% in 2007–2008 to 42% in 2009–2010, and to 78% in 2011–2012. TA project success rates rose from 86% in 2012 to 92% in 2013. The percentage of ongoing operations achieving a satisfactory rating rose from 83% in 2012 to 98% in 2013. Despite high success rates, Pacific projects encountered longer time overruns compared with ADB as a whole.

4. Implementation of Operational Priorities

20. ADB deepened and broadened its engagement in transport and energy projects in the Pacific. Transport infrastructure operations boosted integration within and beyond the region, and improved inter-island connectivity and market access in rural areas. ADB has become a major energy project financier, and is leading the shift to renewable energy in the Pacific. The provision of adequate support for infrastructure maintenance is a common theme across the sector.

21. ADB's growing support for ICT has focused mainly on laying submarine fiber-optic cables. In addition, ADB has commenced support for the application of ICT to health and education provision. In urban development, while the water subsector has been the traditional focus of ADB support, ADB has been promoting a more integrated approach to respond to the rapid pace of urbanization in the Pacific.

22. The public sector management portfolio, focusing on public financial reform, has seen robust growth, aided by strong development partner coordination and ADB's considerable in-house expertise. To sustain the benefits of public financial reform and improve public service delivery, ADB needs to emphasize the importance of public administration reform.

23. Outside the priority sectors, two ADB-supported projects in health and social protection were administratively complex. This, together with the executing agencies' lack of familiarity with ADB systems, posed implementation challenges.

5. Implementation Performance of Drivers of Change

24. ADB has promoted the six Pacific Approach drivers of change across its Pacific operations. The scaling-up of the multidonor-supported Private Sector Development Initiative has allowed ADB to responsively and flexibly improve the environment for the private sector. Several approaches to capacity development have been tried, and some have proved effective. Sustained engagement and availability of local facilitators are among the key success factors. ADB has mainstreamed climate proofing in all of its infrastructure activities, and increased its support for disaster risk management. Climate change mitigation has been promoted through renewable energy use and supply- and demand-side energy efficiency measures. ADB has incorporated gender mainstreaming features into a larger proportion of projects.

6. Adherence to Pacific Approach Operating Principles

25. **Understand the local context.** Since 2010, country-specific political economy analyses, country diagnostic studies, and regular dialogue with governments have ensured that CPSs and COBPs are grounded in a sound understanding of local context. The practicality and ease of implementation of investment projects has been aided by recruitment of staff with Pacific expertise, strengthening of field presence, use of local project facilitators, and the in-depth local knowledge of development coordination officers (DCOs).

26. **Demonstrate flexibility in operations.** ADB has increased the use of longer-term, more flexible programmatic approaches to enable it to engage over the longer term and build sector capacity in the Pacific. Policy-based operations have facilitated structural and regulatory reforms and improvements in the policy environment, thereby improving the implementation environment for sector investment projects. ADB has responded flexibly to post-disaster needs.

27. **Promote participation and ownership.** ADB has promoted government ownership by aligning its assistance closely with national development plans; ensuring active government participation in project identification, design, and implementation; and providing appropriate capacity development support. ADB began piloting the use of alternative service delivery mechanisms, such as church groups and the private sector. Close consultation with the private sector has become a regular feature of ADB's assistance for private sector assessment and business environment reforms.

28. **Share knowledge.** Knowledge generated through ADB projects is captured and applied to improve the results of future operations. Examples include successful experiences with inter-island shipping schemes, and labor-based road-building and maintenance. ADB's published knowledge program focused on four thematic areas: improved connectivity, broadened access to quality services, expanded resilience, and widening scope for private sector investment. Country knowledge programs have focused on policy topics closely related to ADB's operational priorities, while the sector program focused on topics common to groups of DMCs.

29. ADB has become more effective at sharing the results of country and regional assistance through impact stories, videos, and the social media. Implementation of the Pacific Department's knowledge-for-development framework, adopted in 2014, is expected to strengthen this outreach and ensure knowledge work is in sync with staff resources.

30. **Strengthen coordination.** 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.

7. Adequacy of Pacific Department Resources

31. Operations in the Pacific are more resource-intensive than the ADB average. The high country-staff ratio is exacerbated by the fact that 8 of the 14 Pacific DMCs are classified as Asian Development Fund-only countries and 9 are FCAS countries, indicating a significantly lower country capacity to oversee projects. Operations in Pacific DMCs are also more demanding of ADB staff resources because of the greater time required for mission travel to remote countries, the coordination needs of the high level of cofinancing, and the increasing frequency of emergency assistance.

32. During 2009–2013, a significant increase in the staff headcount—by 14% for international staff and 26% for all staff—was eclipsed by an almost doubling of the portfolio. A

range of efficiency measures, such as optimizing functional arrangements and staff positioning, has therefore played an indispensable role in portfolio management.

C. Lessons

33. The review of development progress in the Pacific and ADB's experience in implementing the Pacific Approach revealed the following lessons for strengthening ADB's work in the region.

1. Operational Priorities and Drivers of Change

- (i) Maintain focus while sharpening ADB's expertise to support the continued scaling-up of quality assistance and leadership in key sectors, reinforcing staff strength to manage the larger portfolio and wider range of partnerships effectively.
- (ii) Program holistically to leverage greater benefits from mutually reinforcing activities within and across sectors.
- (iii) Plan support for low-uptake sectors, such as basic education and health, in a strategic manner, working closely with other development partners active in these sectors to ensure complementarity.
- (iv) Emphasize disaster risk reduction in the Pacific Approach, given the severity and frequency of natural disasters in the Pacific and the focus on mainstreaming disaster risk management in ADB operations.
- (v) Step up private sector engagement by harnessing the synergies between public and private sector operations to take advantage of the more enabling business environment.

2. Operating Principles

- (i) Strengthen country strategic analysis to better understand the unique political and economic context of each Pacific DMC and serve as a basis for effective country programming.
- (ii) Facilitate longer-term, flexible engagement through the use of MFFs; multipartner, multiyear policy-based operations; long-term flagship regional TA projects; and a programmatic approach to TA operations.
- (iii) Align project design and implementation arrangements with government absorptive capacity, and supplement this with capacity support and adequate supervision.
- (iv) Expand field presence and client responsiveness by increasing staffing in field offices, delegating more responsibilities to DCOs, and exploring ways to further empower DCOs.
- (v) Provide sufficient operational resources by implementing increased Asian Development Fund allocations to small Pacific DMCs and expanding financing partnerships.
- (vi) Expand regional cooperation and integration initiatives, including through reinvigorating partnerships with the Pacific Islands Forum Secretariat and the Secretariat of the Pacific Community to advance the RCI agenda in the Pacific.
- (vii) Help ensure appropriate civil society organization (CSO) participation in project design and implementation, and adequate stakeholder consultations, including with CSOs, in defining and implementing reforms.

D. Looking Forward

34. ADB's goal of supporting the Pacific DMCs in achieving sustained and resilient improvements in their standard of living remains unchanged. ADB's future strategic direction will consider the changes in the operating environment of the region, ADB's experience in implementing the Pacific Approach, as well as the recommendations of the Midterm Review of Strategy 2020. Key considerations that need to be reflected as ADB updates its Pacific Approach are as follows:

1. Strategic Direction

35. **Reducing costs.** The high costs associated with small size, isolation, and dispersed populations remain the biggest hindrance to sustained growth in Pacific DMCs. ADB must continue to focus on expanding connectivity within and across Pacific DMCs, including physical connections (transport and ICT) and nonphysical connections (trade facilitation) to promote trade in goods and services and labor and capital flows. ADB's role in creating a supportive business environment will remain important to reduce the cost of doing business in the Pacific, as will ADB's continued leadership in expanding renewable energy and energy efficiency to help countries curb the growth of fuel imports.

36. **Managing risks.** To protect development gains, ADB should continue to help countries increase their resilience to shocks by (i) supporting robust public sector management reforms to protect people from greater hardship during financial and economic shocks; (ii) reducing the vulnerability of communities to the impacts of natural hazards and climate extremes to complement disaster response efforts; and (iii) building government capacity to respond to the environmental, social, and gender issues arising from development investments.

37. **Creating value.** To overcome the high costs inherent to small island economies, Pacific DMCs need to develop niche, high-value, low-bulk products to compete globally. ADB should leverage its comparative advantage in creating a business environment in which the private sector can identify and respond to opportunities to develop such products and services. ADB's support for infrastructure and skills development, legislative and financial reforms, and knowledge sharing would help reduce the constraints facing Pacific businesses.

2. Working More Effectively

38. Efficiency improvements will be essential to ensure aid effectiveness is not compromised by portfolio expansion, limited growth in staffing, greater coordination demands, and more frequent need to respond to emergencies. The principles of the Pacific Approach, which are consistent with the Midterm Review of Strategy 2020, will continue to guide ADB's operations. They include (i) leveraging additional resources and knowledge through effective partnerships; (ii) delivering value for money through greater attention to project readiness and implementation, process efficiency, and client responsiveness; (iii) increasing ADB's institutional capacity by improving staff expertise and managing human resources better; and (iv) delegating more authority to field offices.

39. In addition, ADB will emphasize (i) promoting country capacity and ownership of development assistance through innovative financing modalities, such as MFFs; (ii) strengthening country diagnostics to maximize complementarity among different types of operations supported by ADB, other development partners, and governments; (iii) expanding partnerships, for example with CSOs as service providers, to improve project performance and

results; (iv) engaging more directly with the private sector, including seeking opportunities for public–private partnerships, and showcasing successes; and (v) adding staff and administrative resources, including by empowering DCOs, to cope with the growing portfolio.

3. Updating the Pacific Approach

40. The Pacific Approach has provided the overall direction for a relevant, client-responsive, and results-focused program of assistance. As the CPS for the 10 smaller Pacific DMCs the Pacific Approach has also played a critical strategic role. ADB will prepare an updated Pacific Approach to replace the current one, which expires at the end of 2014. The document will continue to be both an approach to regional assistance and a hybrid multicountry strategy.

41. The updated Pacific Approach will reflect (i) the lessons from this review; (ii) the recommendations of the ongoing Independent Evaluation Department's Thematic Evaluation Study on ADB Support to the Pacific and Its Microstates; and (iii) consultations with governments, development partners, and other stakeholders. The sector focus, drivers of change, and operating principles of the current Pacific Approach framework will remain relevant during 2015–2019. The updated Pacific Approach will include some minor refinements for added clarity and will succinctly restate these principles. The overarching goal will be to raise living standards in the Pacific while protecting its unique environment and cultures, highlighting the role that improved connectivity plays in its achievement.

I. INTRODUCTION

1. The Pacific Approach, 2010–2014 has guided the Pacific operations of the Asian Development Bank (ADB) since 2010 and ADB's country operations in the 10 smallest Pacific developing member countries (DMCs) since mid-2011 (Table 1).¹ The Pacific Approach is aligned with ADB's Strategy 2020 and the Pacific Plan.²

Table 1: Pacific Approach Framework, 2010–2014

Goal:	Sustained and resilient, improved 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.

2. This self-assessment (i) considers the changes in the Pacific development context and operating environment to assess the continued relevance of the Pacific Approach; (ii) reviews ADB's performance in implementing the Pacific Approach agenda, priorities, and drivers of change to gauge ADB's responsiveness to client needs; and (iii) draws lessons to increase the effectiveness of ADB's operations in the region and strengthen ADB's results orientation. The findings will also inform the successor document to the Pacific Approach Framework, which will guide ADB's operations in the region during 2015–2019.

3. The review involved consultations with national governments, regional organizations, development partners, and other stakeholders in the region.³ The purpose of the consultations was to (i) share the thrust of ADB's Pacific Approach, (ii) evaluate the stakeholders' understanding of ADB operations and lending and nonlending modalities, (iii) gather

¹ ADB. 2009. *ADB's Pacific Approach 2010–2014*. Manila. The Pacific Approach has served as the country partnership strategy (CPS) for the 10 smallest Pacific DMCs—the Cook Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia (FSM), Nauru, Palau, Samoa, Tonga, Tuvalu, and Vanuatu—since July 2011. ADB's four other Pacific DMCs are Fiji, Papua New Guinea (PNG), Solomon Islands, and Timor-Leste.

² ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila; Pacific Islands Forum. 2005. *A Pacific Plan for Strengthening Regional Cooperation and Integration*. Suva. The Pacific Plan was reviewed in 2013 (Pacific Islands Forum Secretariat. 2013. *Pacific Plan Review 2013. Report to Leaders*. Suva.). In July 2014 the Pacific Island Forum leaders adopted the new Framework for Pacific Regionalism (Pacific Islands Forum. 2014. *Framework for Pacific Regionalism*. Koror), which replaced the Pacific Plan.

³ An issues paper was prepared for stakeholders that set out the background to, and objectives of, the implementation review. A structured set of questions was applied by the team leader, country team leaders, and some sector specialists to various stakeholder groups—Pacific DMC government representatives, development partners and regional organizations, civil society organizations, private sector representatives, and ADB Pacific Department staff during December 2012–April 2013. Consultations with development partners and regional organizations were held in Canberra and Sydney, Australia, and Suva, Fiji in September 2012 and April 2013. Preliminary findings were presentation at the meeting of Pacific DMC governors at ADB's Annual Meeting in New Delhi, India, in May 2013, and subsequently an initial draft was provided to government and development partners for comment. Pacific stakeholders' inputs to the Strategy 2020 Midterm Review were also drawn upon.

stakeholders' views on the strengths and weaknesses of ADB's Pacific operations in responding to national and regional priority needs and to new and emerging challenges, and (iv) solicit stakeholders' suggestions for change in ADB's future Pacific operations.

II. THE CHANGING DEVELOPMENT CONTEXT AND OPERATIONAL ENVIRONMENT IN THE PACIFIC

4. This section reviews recent changes in the development context of the Pacific and highlights emerging challenges. It also briefly describes the evolving approach to addressing development challenges through Pacific regionalism and coordinated development partner action, as well as the increasing focus on issues of fragility.

A. Development Progress and Challenges

5. **Volatility in economic performance remained a notable feature.** In 2010, when the Pacific Approach commenced implementation, the immediate impacts of the global economic crisis were beginning to recede, and the Pacific economies were bouncing back after contractions in 2008 and 2009 (Appendix 1, Table A1.1). Nonetheless, the depth of the impact and the lengthy global downturn posed macroeconomic challenges, particularly for countries that rely on remittances and trust fund earnings. Debt levels broadly increased, constraining public expenditure choices (Appendix 1, Table A1.2). Closely coordinated budget support from development partners partially filled budgetary gaps and appears to have become a long-term feature of fiscal management in several Pacific DMCs.

6. **The exceptions are the resource-exporting economies, which have been protected by high commodity prices.** Papua New Guinea (PNG), where mining accounts for about 18% of gross domestic product (GDP), has recorded more than a decade of positive economic growth; while in Timor-Leste, where petroleum accounts for about 80% of GDP, government revenues from offshore petroleum operations have fueled large increases in public expenditure, which in turn have buoyed the nonpetroleum economy's average double-digit rate of annual expansion since 2007.

7. **The global economic crisis significantly set back poverty reduction.** Data suggest that real per capita incomes in the Pacific are, on average, below the levels found in most of developing Asia, and among the Millennium Development Goal (MDG) indicators, progress has been slowest on eliminating extreme poverty and hunger (Box 1).⁴ A comparison of estimates of gross national income per capita from before the Pacific Approach and in the first years of its implementation reveals that the smallest and most remittance-dependent economies suffered a short-term shock to gross national income per capita, although it has subsequently rebounded.

8. **Population growth and migration are profoundly changing the development environment.** Between 2011 and 2030, the population of 13 Pacific DMCs (excluding Timor-Leste) is projected to increase by 38%.⁵ The number of working-age young adults is forecast to rise steeply (from just over 2 million in 2013 to up to 2.8 million by 2030), with major implications for job creation and demands on infrastructure and social services. Currently, there are relatively few medium-sized firms to meet the growing need for jobs. While fertility rates in the region have declined substantially in recent decades, it will take decades to slow the resulting

⁴ Sound poverty analysis is hampered by limited data availability, so income per capita is often used as a proxy indicator for poverty. The data account for the high cost structure and the resulting high price levels. ADB. 2010. *Income—Who Scores Highest? Pacific Economic Monitor*. July. Manila.

⁵ Secretariat of the Pacific Community. 2011. Pacific's population tops 10 million. *Islands Business*. June. pp. 22–23.

population momentum and for Pacific DMCs to gain the economic growth benefits from demographic transition.⁶ Falling fertility rates will enable more women to enter the paid labor force and allow more investment in each child's education, so increasing human capital.

Box 1: Progress toward the Millennium Development Goals in Pacific Developing Member Countries

The 2013 Pacific Regional Millennium Development Goals (MDG) Tracking Report found that Tonga, Tuvalu, and Vanuatu had successfully adopted the United Nations Development Programme's MDG Acceleration Framework and joined the Cook Islands, Fiji, Palau, and Samoa as the Pacific developing member countries (DMCs) that are off track on less than two MDGs (Table). Most countries were on track to reduce child mortality by the targeted amount and achieve universal education. The MDGs for which the most Pacific DMCs are off track are the poverty reduction goal (seven countries), followed by improving environmental sustainability (six countries), and combatting HIV/AIDS and other diseases (three countries). The Dili Consensus, endorsed in February 2013, emphasized that conflict and fragility have been fundamental obstacles to MDG achievement, including in the Pacific DMCs classified as fragile and conflict-affected situations (Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Solomon Islands, Timor-Leste, and Tuvalu, in 2014).

Country	MDG1 Eliminate extreme poverty and hunger	MDG2 Achieve universal primary education	MDG3 Promote gender equality and empower women	MDG4 Reduce child mortality	MDG5 Improve maternal health	MDG6 Combat HIV/AIDS and other diseases	MDG7 Ensure environmental sustainability
Cook Islands	►	►	►	►	►	►	►
Fiji	●	►	●	►	►	●	►
Kiribati	■	■	●	●	●	■	■
RMI	■	●	●	►	►	■	●
FSM	■	●	●	►	■	●	►
Nauru	■	►	●	●	●	►	■
Palau	●	►	►	►	►	►	►
PNG	■	■	■	■	■	■	■
Samoa	●	►	●	►	●	●	►
Solomon Islands	●	●	■	●	●	●	■
Timor-Leste	■	■	●	●	●	●	■
Tonga	●	►	●	►	►	►	►
Tuvalu	■	►	●	►	►	●	●
Vanuatu	●	●	●	►	●	►	■

► on track, ● mixed, ■ off track.

FSM = Federated States of Micronesia, PNG = Papua New Guinea, MDG = Millennium Development Goal, RMI = Marshall Islands.

Sources: Pacific Islands Forum Secretariat. 2014. *2013 Pacific Regional MDGs Tracking Report*. Suva; and Government of Timor-Leste. 2014. *The Millennium Development Goals Report 2014*. Dili.

9. Out-migration is a notable trend in several countries, including Fiji and Samoa. The resultant loss of skilled workers undermines capacity development efforts. Remittance inflows are the positive side of migration. Personal remittances to Fiji, PNG, Samoa, Tonga, and Vanuatu exceeded \$403 million in 2009, and by 2012 had risen to almost \$575 million.⁷ While remittance flows to Samoa and Tonga were impacted by weak global economic conditions

⁶ Some countries are further along this transition path. The Cook Islands and Samoa have an average population growth rate of 0.3% because of low fertility and out-migration.

⁷ World Bank. 2014. World Development Indicators. <http://data.worldbank.org/data-catalog/world-development-indicators> (accessed 12 September 2014).

during 2009–2010, the other countries fared better, reflecting differences in source markets and labor market segments for remittances.

10. **The livability of many urban areas is declining.** Internal migration and natural increase are projected to lead to a doubling of the Pacific's urban population within 25 years.⁸ The pace of change in urban areas already exceeds the capacity of these small island nations to manage the expansion. Services, such as water supply, sanitation, and solid waste management, have not kept up with demand, and expanding informal settlements have become a permanent feature of the Pacific urban landscape. Compounding these problems, the coastal location of many cities makes them particularly prone to flooding and other natural disasters. Poorly planned urbanization is therefore heightening the vulnerability of increasing numbers of citizens, particularly the poor, and fuelling urban crime and insecurity (footnote 8).

11. **Climate change is an immediate and growing threat to sustainable development.** Pacific DMCs are increasingly experiencing the negative effects of climate change as more variable rainfall patterns cause severe droughts and floods, rising ocean temperatures bleach coral and destroy natural coastal defenses, and sea-level rise leads to inundation and coastal erosion. These changes are increasing countries' exposure to storm surges and cyclones, which are inflicting significant losses on fragile economies.⁹

12. Climate change has attracted a great deal of development partner assistance. International agencies, such as ADB, the United Nations, and the World Bank; together with bilateral partners including Australia, the European Union, Germany, Japan, and New Zealand, are working alongside regional organizations including the Pacific Islands Forum Secretariat (PIFS), the Secretariat of the Pacific Regional Environment Programme, and the Secretariat of the Pacific Community (SPC) on a range of adaptation and mitigation activities. Yet countries report that external funding for, and implementation of, practical climate change responses has been slow.

13. In response ADB provided technical assistance (TA) to a working group of Pacific Finance Ministers focused on accessing greater levels of climate change financing.¹⁰ The significant country interest in accessing more of the grant funds set aside for climate change activities was discussed during the 2013 Forum Economic Ministers meeting, as were the results of the working-group-guided examination of the issue.¹¹ The TA report highlighted sources of funding, and identified weaknesses on the part of both funds and country applications that hampered access. Pacific DMCs are also seeking to better integrate climate change financing needs into national planning and budgeting processes so they are better placed to access available funds.

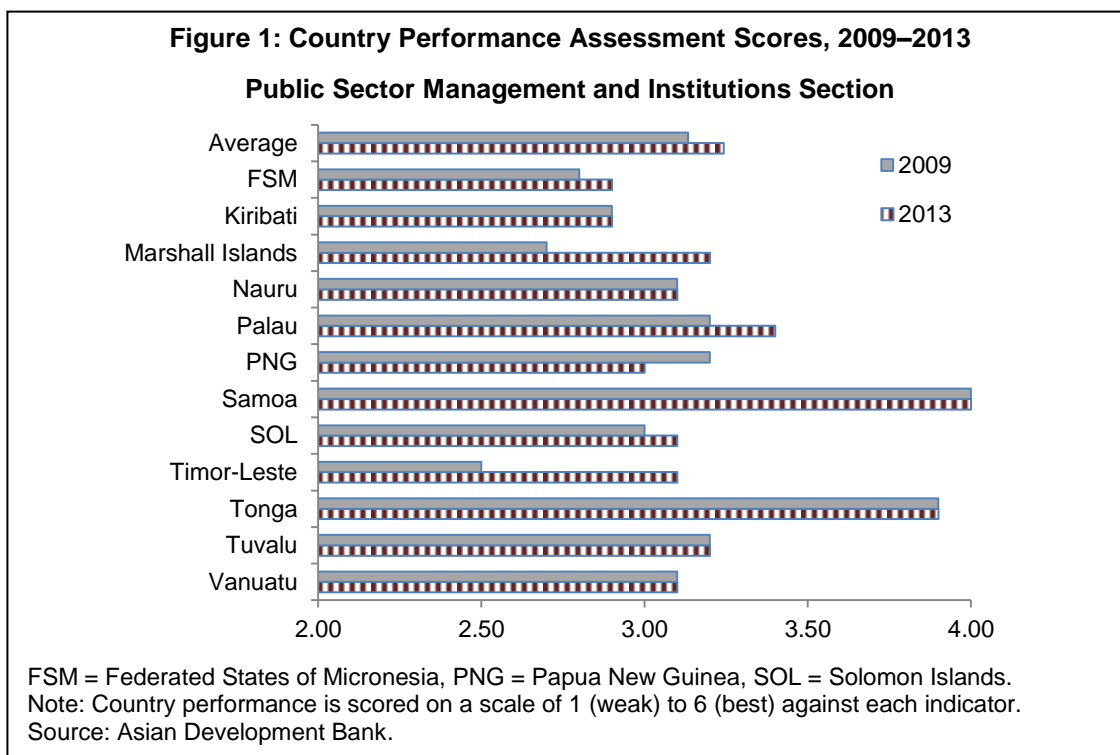
⁸ ADB. 2012. *The State of Pacific Towns and Cities: Urbanization in ADB's Pacific Developing Member Countries*. Manila.

⁹ In January 2014, for instance, the most powerful cyclone ever recorded in Tonga's waters caused extensive damage to infrastructure and losses equivalent to 12% of GDP on the island nation. In April 2014, heavy rainfall associated with a tropical cyclone destroyed infrastructure and caused widespread disruption in Solomon Islands. Losses were estimated at 9% of GDP, and a 1% contraction is now projected for 2014.

¹⁰ ADB. 2012. *Technical Assistance for Supporting the Pacific DMCs in Financing Their Climate Change Response*. Manila.

¹¹ Pacific Islands Forum Secretariat. 2013. *Forum Economic Ministers Action Plan*. Nuku'alofa.

14. **The quality of public sector management and institutions remains weak.** Pacific DMCs have struggled to improve the quality of public administration and promote greater transparency and accountability in the public sector.¹² Although 5 of 12 Pacific DMCs showed an improvement in this area in country performance assessments undertaken during 2009–2013, only Timor-Leste made significant advances (Figure 1 and Appendix 1, Table A1.3). While there have been considerable gains in public financial management (PFM) in recent years, more remains to be done to establish well-functioning PFM systems in all Pacific DMCs.¹³ Increasing alignment with country systems, improved country-level development partner coordination, and the endorsement of the 2011 PFM Roadmap for Forum Island Countries by the Forum Economic Ministers reflect renewed attention to PFM.¹⁴



15. Social welfare and social protection is a relatively new and growing area of government responsibility in the Pacific. There has been widespread engagement in policy dialogue on these issues by Pacific governments. Yet, while there may be political willingness to better respond to the needs of the vulnerable, extremely weak capacity in most ministries responsible for social welfare and significant budget constraints hamper greater social welfare support.

16. **The enabling environment for business has advanced, but value creation has proved difficult.** Legislative reforms in several countries have seen the implementation of

¹² ADB. 2011. *Special Evaluation Study on Asian Development Bank's Support for Promoting Good Governance in Pacific Developing Member Countries*. Manila.

¹³ Public expenditure and financial accountability assessments—a standard global mechanism for assessing the quality of PFM systems—have been undertaken as a formal exercise or a self-assessment in all Pacific DMCs, and seven have undertaken a repeat assessment to measure changes over time. (Public Expenditure and Financial Accountability. Assessment Portal Data. http://www.pefa.org/en/assessment_search [accessed 16 September 2014]). National PFM reform plans (or road maps) have been endorsed by the governments of the Cook Islands, Kiribati, Nauru, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, and Tuvalu; and are in draft form for the Marshall Islands and the FSM.

¹⁴ Pacific Islands Forum Secretariat. 2011. *2011 Forum Economic Ministers Meeting Action Plan*. Apia.

secured transactions systems that facilitate expanded access to finance, simplification of business registration, and enabling of women to run businesses without a male business partner. However, the limited natural resources and extreme distances that typify small island settings have meant that exports remain relatively undiversified and are low on the value chain. Examples include fish, copra, and root crops. The discrete instances of private sector growth have occurred in tourism in the Cook Islands and Palau; fisheries across the Micronesian countries; and primary resources in PNG, Solomon Islands, and Timor-Leste. Overall, 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.

17. Connectivity and integration within and between Pacific developing member countries and with the wider region have improved. Since the implementation of the Pacific Approach, port and road upgrading projects have substantially improved physical connectivity in PNG, Solomon Islands, and Vanuatu, and some progress has been made elsewhere. New approaches to transport provision are also helping increase physical connectivity in the Pacific. The focus has shifted from stand-alone transport infrastructure projects to improving multimodal, integrated network connectivity for improved access to domestic and international markets and social services. Routine maintenance is recognized as a policy priority, and there is support for user charges to finance asset maintenance, which will help ensure transport network integrity.

18. Energy access has broadened, helped by grid expansion and the use of pay-as-you-go power metering systems that have enabled low-income households to obtain connections.¹⁵ The quality of supply has also improved, as has its reliability and the performance of energy utilities.¹⁶ However, costs remain high because of the heavy reliance on imported fossil fuels for generation.¹⁷ Pacific DMCs are addressing this issue by diversifying their energy sources. The rapid implementation of cost-competitive renewable energy technologies, complemented by supply- and demand-side efficiency improvements, has become a notable and growing trend in the region.

19. The expansion of submarine cable, O3b satellite, and mobile telephone networks has dramatically improved connectivity across the Pacific. Development assistance is focusing on the quality of regulatory regimes, as well as complementary investments in broadband-based improvements that will help reduce business costs and allow remote populations to access information and communication technology (ICT)-based banking, education, and health services. The ICT revolution is opening new private sector opportunities, such as for back-office functions and online sales of handicrafts.

¹⁵ For example, in PNG the electrification rate (percentage of households connected to the grid) increased from 12.0% in 2006 to 16.8% in 2010 (National Minimum Development Indicator Database. <http://www.spc.int/nmdi/> [accessed 15 September 2014]), and in Fiji the number of customers increased by 10.3% during 2009–2013. (Fiji Electricity Authority. 2014. *Annual Report 2013*. Suva; Fiji Electricity Authority. 2011. *Annual Report 2010*. Suva).

¹⁶ The average number of interruptions per customer per year decreased from 19 across the 20 power utilities benchmarked in 2000 to 10 in the 21 utilities benchmarked in 2011 (Pacific Power Association. 2013. *Pacific Power Utilities Benchmarking Report 2012*. Suva). Examination of the rate of return on assets for six energy utilities during 2002–2012 shows that in Fiji, Samoa, and Tonga (here data covered 2010–2013) utility performance has improved. In the Marshall Islands and Solomon Islands, data from 2010 to 2012 reflected significant restructuring work that has improved the rate of return on assets compared with earlier years. Only PNG saw a steady and consistent decline in the rate of return on assets.

¹⁷ Pacific residential electricity tariff rates are often more than \$0.30/kilowatt-hour (ADB. Energy Efficiency in the Pacific, Phase 2. Manila)—well above Meralco's (Philippines) weighted average retail tariff of \$0.20/kilowatt-hour, putting them in the top quintile of 44 Asia and Pacific markets (International Energy Consultants. 2012. Regional Comparison of Retail Electricity Tariffs. http://www.meralco.com.ph/pdf/newsandupdates/2012/NW04812a_link.pdf

B. Regionalism, Coordination, and Partnerships

20. **Regional cooperation and integration in the Pacific has moved slowly.** There have been some significant successes, but not to the depth that might have been expected from 50 years of cooperation (Box 2). Pacific regionalism was reinvigorated with the endorsement of the Pacific Plan in 2005. The Pacific leaders adopted five themes for 2010–2012: economic development, livelihoods, climate change, governance, and security.¹⁸ Development partners, including ADB, were to align their regional activities with the plan and implement them through regional organizations or directly with participating countries.

21. The succeeding years have seen some improvements in the regional architecture, as well as advances in information sharing and coordination. Success has been mixed in pooled services provision and joint procurement. The active participation of countries has been a driver of success. For example, the regional audit initiative has benefited from strong country buy-in and development partner funding, while sustainable financing plagues the Pacific Aviation Safety Office, and technical issues have held back plans for bulk fuel procurement. Trade integration has been a centerpiece for regionalism in the Pacific, but has progressed slowly, despite the efforts of key regional organizations and development partners.

22. The review of the Pacific Plan, completed in 2013, called for building regional consensus on the future direction of the plan, and providing a platform for prioritizing regional cooperation and integration (RCI) efforts over the next decade. The review noted that RCI has been constrained by a reliance on development partner funding, the extensive priority list, weak capacity, fragile situations, and limited country commitment and ownership. In addition, the progress of regionalism was slowed further by the suspension of Fiji from the Pacific Islands Forum in May 2009, which meant that the hub country in the south Pacific was not participating in key discussions on regional issues or joining resultant cooperative initiatives. In May 2014, the Pacific Forum Leaders agreed to recast the Pacific Plan as the Framework for Pacific Regionalism and a new framework was subsequently endorsed.¹⁹ For development partners, this provides an opportunity for greater direct engagement in the identification of regional priorities, and an improved ability to align support with regional needs.

23. **Government-led development partner coordination is strengthening development partners' alignment with national priorities.** Governments have advocated stronger development assistance governance through their leadership of annual development partner coordination meetings. Coordination meetings commenced in Kiribati and the Marshall Islands in 2010, the Cook Islands in 2011, and the Federated States of Micronesia in 2012. Samoa, Solomon Islands, Tonga, and Tuvalu all now have regular government–development partner meetings focusing on policy issues set out in joint policy matrixes.

24. Regional and country coordination by development partners has improved, both through more frequent meetings and the involvement of more partners. Regular “quadrilateral” Pacific donor coordination meetings, which initially involved ADB, Australia, New Zealand, and the World Bank, have been joined since 2011 by the European Union, the International Monetary Fund, and the Japan International Cooperation Agency. The seven parties now meet under the “heptagon” banner.

¹⁸ Pacific Islands Forum. 2009. *Communiqué*. Cairns, Australia.

¹⁹ Pacific Islands Forum. 2014. *Framework for Pacific Regionalism*. Koror.

Box 2: Examples of Pacific Regionalism

The history of Pacific regionalism contains the following strong examples of beneficial regional cooperation, each with different means of initiation and varying country participation:

The University of the South Pacific. Created in 1968, the University of the South Pacific is owned by the governments of 12 Pacific island countries. It remains one of only two regional universities in the world (the other is in the Caribbean). The main campus is in Suva, Fiji, and there are campuses in all member countries. The university services the equivalent of more than 11,000 full-time students, and in 2011 operating revenue (predominantly from member country contributions and student fees) totaled \$76 million.

Air Pacific. The former Air Pacific was established as a multilateral regional airline in the early 1970s with seven shareholding governments and some private shareholders. However, over time, some of the governments relinquished or reduced ownership, and the Government of Fiji is now the only remaining government shareholder (owning 51%). The airline, known as Fiji Airways since 2013, continues to service several Pacific countries (Fiji, Kiribati, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu), thus its initial objective continues to be met, albeit with a very different ownership structure than initially envisioned. In addition to the Government of Fiji, Qantas owns 46%, and Air New Zealand and the governments of Kiribati, Nauru, Samoa, and Tonga each hold minor stakes. In 2013, Fiji Airways flew more than 550,000 passengers and recorded an operating profit.

The Nauru Agreement. The Nauru Agreement Concerning Cooperation in the Management of Fisheries of Common Interest provides a cooperative framework for the members (Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea [PNG], Solomon Islands, and Tuvalu) to maximize economic benefits from the use of tuna in their exclusive economic zones. (These areas are contiguous between members and total 14.9 million square kilometers.) Since 1982, the Nauru Agreement has implemented unified access arrangements; systems for exchange of information on catch and fishing effort; and monitoring, control, and surveillance activities. The adoption of the vessel day scheme in 2007 allowed the members to raise their revenue from \$80 million in 2007 to \$167 million in 2012. This was enabled by the use of a regional benchmark price and rationing vessel days for each state to allocate to their bilateral fishing partners.

The Melanesian Spearhead Group. The Melanesian Spearhead Group came into being as a result of an informal meeting of heads of government of PNG, Solomon Islands, and Vanuatu, and a representative of the Kanak Socialist National Liberation Front in 1986. In 1988, the prime ministers of PNG and Vanuatu, and the Minister of Foreign Affairs of Solomon Islands signed the six-point "Agreed Principles of Cooperation among the Independent States in Melanesia." The Kanak Socialist National Liberation Front formally joined in 1989 and Fiji became a member in 1996. The group has developed into a regional block with its own trade agreement (revised in 2005), and its own headquarters, located in Vanuatu.

Pacific Aviation Safety Office. The Pacific Aviation Safety Office (PASO) was established in Port Vila, Vanuatu in 2005 with support from an ADB loan guaranteed by four PASO member governments. Participation has expanded from the original 6 member countries to 11, and PASO now provides valuable services to help the region's smaller civil aviation authorities monitor, regulate, and certify their aviation operations. It is also undertaking training and capacity building. The initial financing plan envisaged the transfer of member overflight fee revenue to PASO; however, this underwriting by revenue transfer has not eventuated. PASO still requires a secure funding base (in addition to payment for services) to ensure its long-term sustainability. The World Bank provided grant financing in 2013 as an interim measure. Without certain longer-term counterpart support, short-term funding crises dominate operations and threaten the institution's ability to offer services.

Sources: University of the South Pacific. *Strategic Plan 2013–2018: Towards Excellence in learning and Knowledge Creation*. Suva. www.fiji-airways.com/about-fiji-airways/our-history <http://www.msgsec.info/index.php/members/brief-about-msg>; J. Tamate. 2013. *Balancing the Scales: The Experiences of the Parties to the Nauru Agreement*. Doctorate of Philosophy thesis. University of Wollongong. <http://ro.uow.edu.au/theses/4078>

25. **Strengthening partnerships to support countries with fragile and conflict-affected situations is an emerging focus.** The g7+, established in 2010 in Dili, Timor-Leste, has grown to be viewed as the voice representing fragile states on the world stage.²⁰ The g7+ members recognize that conflict and fragility pose major obstacles to achieving the MDGs, and need to be remediated through peace-building and state-building goals. The g7+ drove the New Deal for Engagement in Fragile States at the Fourth High Level Forum on Aid Effectiveness held in Busan, Republic of Korea in November 2011. The New Deal stresses the importance of country leadership and ownership.

III. PACIFIC APPROACH IMPLEMENTATION ACHIEVEMENTS AND CHALLENGES

26. This section examines whether the Pacific Approach has helped ADB develop a relevant program of assistance for Pacific DMCs. It also considers ADB's responsiveness to client needs by reviewing the type of assistance provided, the areas supported, and how the assistance is implemented. While the Pacific Approach's 5-year span is relatively short and is still in the final year, some early results of its implementation are considered.

A. Strategic Alignment

27. **Tight alignment.** The country strategic objectives embraced through the country partnership strategy (CPS) and the country operations business plans (COBPs) for the 10 smallest DMCs without CPSs are closely aligned with the operational priorities and drivers of change of the Pacific Approach (especially transport, ICT, energy, and water and other municipal infrastructure and services, and private sector development and public sector management [PSM]).²¹ The Pacific Approach has promoted the delivery of outcomes that are aligned with priority country development needs and consider ADB's comparative advantages and the programs of other development partners.

28. **Need for regular reassessment of focus.** Selecting between one and three of the most appropriate sectors to support in each of the 10 smallest Pacific DMCs requires a strong understanding of the countries' development context. However, initially there had been no formalized procedure for undertaking the broad country analysis required to confirm or adjust the sector focus. In 2011, ADB adopted a process for preparing regular country diagnostics to guide its operational focus.²² This analysis has been institutionalized as a linked document to the COBP following the release of a national development strategy. The template to guide the preparation of the strategic analysis is in Appendix 2.²³

29. **Flexibility in practice.** Annual programming missions provide an opportunity to make operational adjustments to the pipeline as conditions change. Frequent changes in the Pacific pipeline set out in COBPs and regional operations business plans demonstrate some flexibility,

²⁰ The g7+ is a group of 19 FCAS countries, including PNG, Solomon Islands, and Timor-Leste (chair) from the Pacific.

²¹ To assess how the Pacific Approach's operational priorities and drivers of change meet the country-specific needs of the 10 smallest Pacific DMCs, they were mapped against both the strategic objectives identified in country results frameworks and the assistance program during 2010–2013.

²² The memo on this matter was approved by Vice-President-in-Charge, Operations 2, on 8 July 2011 (para. 2b). The memo directed that "the COBP following the release of a new national strategy will include linked documents providing a country analysis and outlining the strategic approach for the country."

²³ New national strategies have been released for the Cook Islands (2011), Kiribati (2012), Samoa (2012), and Tonga (2011). The COBPs prepared for these countries in 2013 were underpinned by country strategic analysis, excluding Kiribati and Palau where this analysis will take place the end of the current CPS period (2015 for Kiribati and 2014 for Palau). Strategic analysis was also undertaken in 2013 for and the Marshall Islands the Federated States of Micronesia, given that neither has a CPS and their national planning periods are lengthy.

and governments noted the importance of maintaining the ability to adjust the pipeline to the changing context. Pacific DMCs also reported that the assistance ADB offered for priority government activities and programs was increasingly tailored to country needs, rather than merely reflecting ADB's institutional priorities. Importantly, governments felt that their role as a partner in programming had strengthened in recent years. Several instances of ADB's flexibility in responding to changes in priorities were also identified.

B. Progress in Achieving the Pacific Approach's Agenda

30. **Inclusive and environmentally sustainable growth.** The Pacific Approach promotes inclusive growth by emphasizing higher Pacific DMC growth rates. It aims to achieve higher growth by stimulating private sector development to create jobs, and addressing inequalities through engaging disadvantaged and vulnerable people as valuable contributors to growth and development.²⁴

31. In the Pacific, ADB's strength lies in extending the reach of infrastructure services (electricity, roads, water, and ICT). The resultant job creation, and improved access to markets and education and health services, provides opportunities for women and young people, rural and outer-island dwellers, and other vulnerable groups.²⁵ The approach is backed up by the findings of a study of inclusive growth in 22 countries in Asia and the Pacific, including 7 Pacific DMCs—Kiribati, the Marshall Islands, Nauru, Samoa, Solomon Islands, Timor-Leste, and Tuvalu (Box 3).

32. The private sector is widely recognized as a driver of growth, yet in many Pacific countries the public sector has dominated the economy. The Private Sector Development Initiative (PSDI), cofinanced by the governments of Australia and New Zealand, is ADB's flagship effort to promote private sector development through

Box 3: Inclusive Growth in the Pacific

A staff study of inclusive growth found that inequality of opportunity is generally lower in Pacific developing member countries than in the Asian countries studied, but the key challenge is to achieve a high, sustainable rate of economic growth. While the Pacific had a relatively good record in achieving equality of opportunity in health and education, its record in infrastructure was not as strong.

Another study found that in Timor-Leste, infrastructure is a lagging sector that has the potential to become a drag on improvements in other sectors and the economy. Timor-Leste performs weakly in improving the equity of distribution of opportunity, but leads in reducing income inequality.

C. Sugden. 2012. Is growth in Asia and the Pacific inclusive? *ADB Economics Working Paper Series*. No. 317. December. Manila: Asian Development Bank; C. Sugden. 2012. Is Timor-Leste's Growth Inclusive? *Economics Working Paper Series*. No. 315. Manila: Asian Development Bank.

²⁴ ADB's Strategy 2020 defines inclusive economic growth as high, sustainable growth that creates and expands economic opportunities, and provides broader access to these opportunities so all members of society can participate in and benefit from growth.

²⁵ For example, ADB. 2010. *Completion Report: Road Sector Improvement Project in Timor-Leste*. Manila, noted "some contributions to improvements in production and incomes and greater use of social services." A seminal work demonstrating the poverty alleviation role of infrastructure investment in the Pacific is J. Gibson. 2003. Poverty and Access to Roads in Papua New Guinea. *Economic Development and Cultural Change*. 52(1). Other studies include: J. Allen, R. Bourke, and J. Gibson. 2005. Poor Rural Places in Papua New Guinea. *Asia Pacific Viewpoint*. 46(2). pp. 201–217; and C. Rogers, R. Bleakley, and W. Ola. 2010. Rural Poverty in Remote Papua New Guinea: Case Study of Obura-Wonenara District. *Development Policy Center Working Paper*. Australian National University, Canberra. An ADB-financed study examines the links between infrastructure and poverty alleviation more generally: S. Jones. 2004. *Contribution of Infrastructure to Growth and Poverty Reduction in East Asia and the Pacific*. Oxford Policy Management. Background Paper: Oxford.

improving the business environment.²⁶ The PSDI has promoted the private sector's role in advancing inclusive development through a focus on (i) improved access to financial services (e.g., the PSDI helped identify and develop branchless and mobile phone banking opportunities in PNG and Timor-Leste), (ii) inclusive business formation (e.g., communal companies are recognized by the Solomon Islands Companies Act), and (iii) economic empowerment of women (e.g., banking reforms allow women to open bank accounts without a male signatory).

33. Other examples of how ADB has promoted inclusive growth in the Pacific include
- (i) building human resources for job-readiness through technical and vocational education and training, and increasing the outreach of the University of the South Pacific (USP) to students in the region;²⁷
 - (ii) promoting effective gender mainstreaming in Pacific Department (PARD) operations;²⁸
 - (iii) supporting the development of effective social safety nets to mitigate risks and respond to vulnerabilities;²⁹ and
 - (iv) facilitating the development of competitive value chains, such as the processing of local agricultural and marine products for use in the tourism industry, thereby expanding opportunities for employment and encouraging resource reallocation to more productive activities such as light manufacturing and services.³⁰

34. The Pacific Approach recognized the close relationship the Pacific DMCs have with their environment and noted the particular development challenges posed by natural disasters, climate change, and environmental degradation given the Pacific's economic reliance on agriculture, natural resource development, and tourism. The proportion of approved loan and grant operations supporting the environment rose sharply from 17% in 2006–2009 to 40% in 2010–2013. To promote environmentally sustainable growth, ADB has

- (i) facilitated planning to mitigate the impacts of natural disasters and climate change in the Pacific;³¹
- (ii) invested in the climate-proofing of infrastructure, which promotes long-term economic growth by increasing countries' resilience to climate change and natural disasters;³²

²⁶ 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.

²⁷ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to Timor-Leste for the Mid-level Skills Training Project*. Manila; ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Loan to Higher Education in the Pacific Investment Program*. Manila.

²⁸ The proportion of Pacific projects with gender mainstreaming was 38% in 2010 (3 of 8 projects), 73% in 2011 (8 of 11 projects), 50% in 2012 (4 of 8 projects), and 75% in 2013 (8 of 12 projects). Under the PSDI there has been a focus on enhancing the economic empowerment of women and other inhabitants of remote areas, including through improving access to finance.

²⁹ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Grant Assistance for Social Protection of the Vulnerable in the Pacific (Cook Islands, the Marshall Islands, and Tonga)*. Manila. (Financed by the Japan Fund for Poverty Reduction)

³⁰ For an example of support for value chain development, see ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to Samoa for the Agribusiness Support Project*. Manila.

³¹ ADB. 2012. *Technical Assistance for Strengthening Disaster and Climate Risk Resilience in Urban Development in the Pacific*. Manila.

³² Examples include the redesign of bridge and river crossings in response to the increased risk of flood events, (e.g., ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Additional Financing to Solomon Islands for the Second Road Improvement (Sector) Project*. Manila), and raising the level of Avatiu wharf to mitigate sea level rise (ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Additional Financing to the Cook Islands for the Avatiu Port Development Project*. Manila. [Including \$4.5 million from the Global Environment Fund]).

- (iii) accessed Strategic Climate Fund financing totaling \$23.44 million to support mainstreaming climate change adaptation regionally and within Tonga, as well as to set up a climate change trust fund in Tonga—the first in the Pacific;³³
- (iv) supported the strengthening of coastal and marine resource management to adapt to environmental change, so safeguarding food security;³⁴
- (v) invested in cleaner and more energy-efficient technologies, which lower energy costs, reduce dependence on nonrenewable fossil fuels, and curb greenhouse gas emissions;³⁵ and
- (vi) emphasized monitoring of ADB project compliance with environmental management plans, recognizing the role that ADB's environmental safeguards play in managing the environmental impacts of projects.³⁶

35. **Good governance.** ADB's Second Governance and Anticorruption Action Plan (GACAP II) identifies three governance themes: public financial management (PFM), procurement, and combating corruption.³⁷ ADB's attention to strengthening PFM and economic management more broadly, in concert with other development partners, has supported good governance in the Pacific. ADB has encouraged increasing transparency in public sector performance information, especially in national budgets. Policy-based operations have strengthened national procurement systems through legislative and regulatory improvements. Training has been provided in ADB procurement processes.

36. ADB's attention to good governance in the Pacific goes beyond GACAP II. Good governance—accountability, transparency, participation, and improved policy and institutional settings—has been promoted through a better understanding of the political economy (para. 80). Longer-term, programmatic approaches, such as the multitranche financing facilities (MFFs) supporting the Highlands road investments, town electrification, and civil aviation in PNG,³⁸ are supporting good governance through providing sustained support to capacity development of institutions critical to the provision of infrastructure services.

37. PARD's commitment to good governance is reflected in the proportion of operations that focus on this objective. During 2010–2013, 36% of loan and grant projects approved and 39% of technical assistance (TA) projects had good governance as a theme. These activities included

³³ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to Tonga for the Climate Resilience Sector Project*. Manila; ADB. 2013. *Technical Assistance Implementation of the Strategic Program for Climate Resilience: Pacific Region*. Manila.

³⁴ Examples include ADB. 2010 *Technical Assistance for Strengthening Coastal and Marine Resources Management in the Coral Triangle of the Pacific (Phase 2)*. Manila; and ADB. 2011. *Technical Assistance for Strengthening Climate Risk and Resilience Capacity of Developing Member Countries (Phase 1)*. Manila.

³⁵ For an example of support for cleaner energy technologies, see ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant to the Kingdom of Tonga for the Outer Island Renewable Energy Project*. Manila. An example of support for improved energy efficiency is ADB. 2011. *Technical Assistance for Promoting Energy Efficiency in the Pacific, Phase 2*. Manila.

³⁶ For example, see ADB. 2013. *Technical Assistance to Kiribati for Strengthening Safeguards Capacity in the Urban Sector*. Manila. and ADB. 2012. *Technical Assistance to Solomon Islands for Strengthening Country Safeguard Systems in the Transport Sector*. Manila.

³⁷ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

³⁸ ADB. 2008 *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to Papua New Guinea for the Highlands Region Roads Investment Program*. Manila; ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to Papua New Guinea for the Town Electrification Investment Program*. Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Papua New Guinea for the Civil Aviation Development Investment Program, Tranche 1*. Manila.

policy-based operations,³⁹ MFFs (footnote 41), and sector programs,⁴⁰ and were across a broad range of sectors. When activities with related sector classifications are included, the shares rise to 52% for projects and 54% for TA.

38. **Regional cooperation and integration.** ADB has supported regional cooperation and integration (RCI) primarily through its regional TA portfolio. There is also a small but growing number of loan and grant projects that contribute to regional integration. During 2010–2013, only 8% of loan and grant operations approved and 31% of non-project-preparatory TA had RCI as a theme.

39. Regional projects supported by ADB since 2010 focus on border crossings, ICT infrastructure, and education. For example, in PNG, the Pilot Border Trade and Investment Development Project is promoting cross-border trade through building infrastructure to support trade, immigration, and quarantine operations.⁴¹ ADB-supported submarine cable projects in Solomon Islands and Tonga will provide high-speed internet services at affordable prices, boosting international connectivity and allowing the development of new business opportunities, both domestically and regionally.⁴² ADB is also providing regional Asian Development Fund (ADF) financing to support the implementation of the University of the USP's strategic plan through an MFF that will improve the USP's regional campuses (footnote 27).

40. ADB's TA program supported RCI in the following ways:

- (i) **Provision of pooled services.** Notable successes include the operations of a subregional audit team, which are enabling Kiribati, Nauru, and Tuvalu to conduct timely government audits, while building the capacity of national auditors.⁴³ ADB has provided recurrent core funding to the International Monetary Fund's Pacific Financial Technical Assistance Center—a pooled service that has been well received in the Pacific and is the model for similar service provision in other regions.⁴⁴ ADB is also providing support through the Secretariat of the Pacific Community (SPC) to strengthen regional statistics, including undertaking household income and expenditure surveys.⁴⁵
- (ii) **Harmonization of the business environment.** The PSDI has played an important role in harmonizing the regional legislative and regulatory environment. Harmonization makes it easier for Pacific companies to invest in other Pacific DMCs, and makes the region more attractive to foreign investors by providing a larger total market.
- (iii) **Supporting economic links.** ADB is also helping Pacific DMCs develop partnerships outside the Pacific region. ADB is providing TA to help Timor-Leste develop its economic links with members of the Association of Southeast Asian

³⁹ Since 2010, ADB has undertaken policy-based operations in seven countries for a total of \$82.6 million to help them implement economic and financial reform programs.

⁴⁰ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Palau for the Water Sector Improvement Program*. Manila.

⁴¹ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Papua New Guinea for the Pilot Border Trade and Investment Development Project*. Manila.

⁴² ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to Solomon Islands for the Broadband for Development Project*. Manila; ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Kingdom of Tonga for the Tonga–Fiji Submarine Cable Project*. Manila.

⁴³ ADB. 2011. *Technical Assistance for Implementing the Pacific Regional Audit Initiative*. Manila.

⁴⁴ ADB. 2011. *Technical Assistance for Support of the Pacific Financial Technical Assistance Centre in the Pacific Island Countries*. Manila.

⁴⁵ ADB 2011. *Technical Assistance for Building Capacity for Statistics in the Pacific*. Manila.

Nations.⁴⁶ The analysis of the Pacific's economic links (trade, finance, and labor) will also inform governments' policy decisions to maximize the benefits of the relationship.

41. Regional organizations have played a limited and variable role in ADB's support for RCI in the Pacific. ADB has provided some direct support for the activities of the SPC and the Pacific Islands Forum Secretariat (PIFS) since 2010 (footnotes 43 and 45), but most regional assistance is being administered by ADB rather than by regional organizations even though they hold mandates in the relevant areas—climate change, education, energy, and gender. Collaboration and consultation with regional organizations does occur, however. For example, the PIFS is on the Pacific Economic Management TA steering committee.⁴⁷

42. Reinvigorating high-level consultation with the PIFS and the SPC, with ADB's Pacific Subregional Office acting as the local interlocutor, may help build a partnership in which financing of activities through regional organizations meets ADB's need for accountability and adequate capacity for oversight. It may also support the implementation of the new Pacific Framework for Regionalism with strengthened country ownership.

C. Operational Performance

1. Increasing Assistance Level

43. The scale of approved ADB assistance has increased substantially during the Pacific Approach period, mirroring the rise in ADB-wide sovereign approvals over the same period. Loan and grant approvals during 2010–2013 totaled \$998 million, significantly higher than the approvals of 2006–2009 (\$559 million), and the upward trend is expected to continue (Appendix 3, Table A3.1). At the end of December 2013, ADB's Pacific portfolio was valued at \$1.8 billion, including cofinancing. Appendix 3 lists ADB's ongoing loans and grants (Table A.3.2), ongoing TA projects (Table A3.3), and sector breakdown of loans and grants approved during 2009–2013 (Table A3.4).

44. There are several factors behind this growth in approvals. Demand for ordinary capital resources has almost tripled. Cofinancing has also increased and, while it varies annually, ranges from 15% to 30% of approvals. The ADF set-aside for the Pacific has continued, with the proportion provided as grants having risen since their introduction in 2005. ADF grants now comprise 9% of Pacific lending operations and reach more countries.⁴⁸ The ADB Board approval in July 2014 of a minimum annual ADF allocation of \$3 million for ADF countries from 2015 will stop the real decline in allocation to the smallest Pacific DMCs.⁴⁹ Ensuring the effective use of these additional funds will be a priority for ADB.

⁴⁶ ADB. 2012. *Technical Assistance for Preparing for Regional Economic Integration*. Manila.

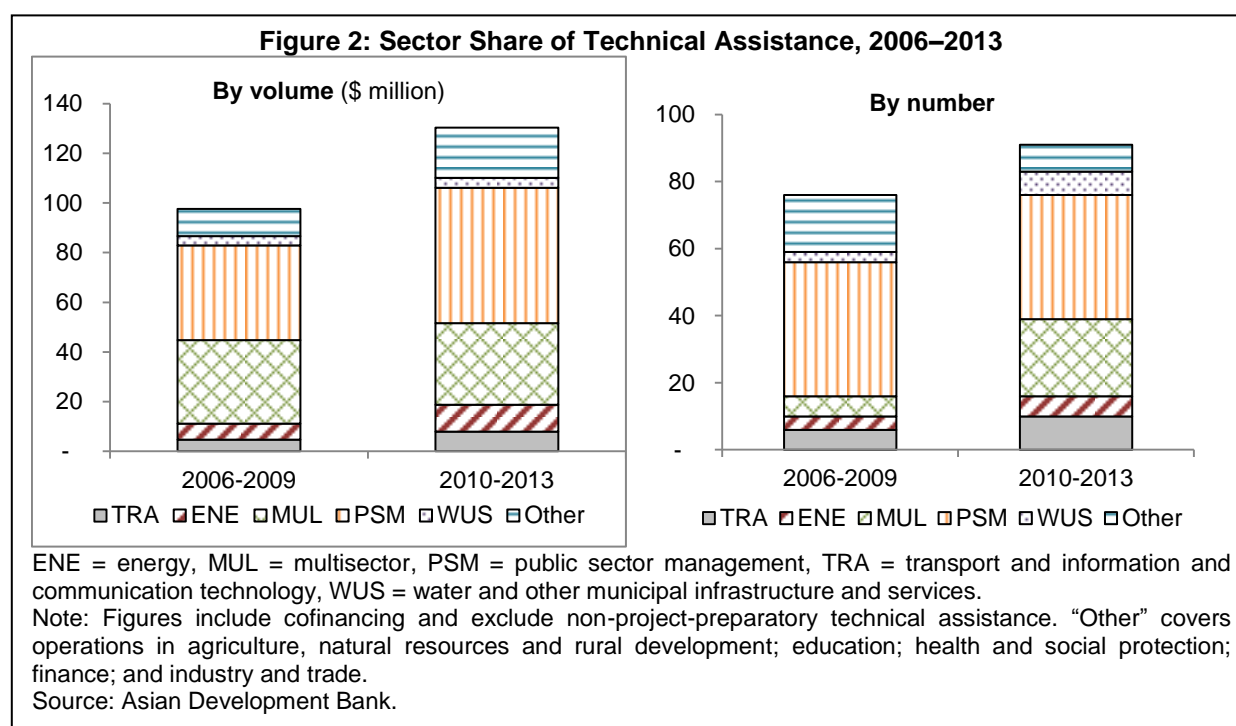
⁴⁷ ADB. 2009. *Technical Assistance for Pacific Economic Management-Response to the Global Crisis (Subproject 1)*. Manila; ADB. 2010. *Technical Assistance for Pacific Economic Management-Enhanced Economic Management (Subproject 2)*. Manila. ADB. 2013. *Technical Assistance for Pacific Economic Management Phase 2*. Manila.

⁴⁸ Before 2010, five countries (Nauru, Solomon Islands, Timor-Leste, Tonga, and Tuvalu) were eligible for ADF grants; by the end of 2013, seven countries were eligible (Kiribati, the Marshall Islands, Nauru, Samoa, Solomon Islands, Tonga, and Tuvalu).

⁴⁹ During implementation of the Pacific Approach, the availability ADF resources for some of the smallest countries has been limited, and in the case of Kiribati has even declined. The limited ADB support available to these countries constrained ADB's ability to support their governments in implementing policies that would improve performances in critical areas measured by ADB's performance-based assessment ratings. Slower ratings improvement relative to other Pacific countries then reduced subsequent ADF allocations, and so on. The World

45. TA is particularly important in the Pacific because it provides a continuous form of engagement with the smallest countries that may not borrow from ADB on a regular basis. TA is critical to build their capacity to plan and management significant development investments. However, funding from ADB's Technical Assistance Special Fund resources fell by almost one-third during the Pacific Approach period. Cofinancing for non-project-preparatory TA has become even more important, and has more than doubled over the Pacific Approach period, enabling an overall expansion in TA provision, particularly regional TA.⁵⁰

46. Sector coverage of the TA program has seen a growth in the volume of support for PSM, transport, and energy sector activities (Figure 2 and Appendix 3, Table A3.4). Multisector TA projects increased substantially in number, driven partly by an increase in support for infrastructure planning and implementation (8 of 23) and climate resilience (4 of 23).



47. While the Pacific Approach advocated larger and longer-term TA projects, this has not always been achieved. At the regional level, some areas, such as private sector development (footnote 26), economic management (footnote 47), infrastructure, and development coordination are benefiting from long-term commitment through TA financing.⁵¹ There are also ongoing and long-term commitments at the country level, such as to PFM in Tonga, improving

Bank has a similar system of base allocation, which is currently set at about \$6 million annually, with the performance-based allocation (albeit limited for small islands) coming on top of this. International Development Association's Performance-Based Allocation System for IDA16. http://www.worldbank.org/ida/papers/Annex_2_IDA16.pdf

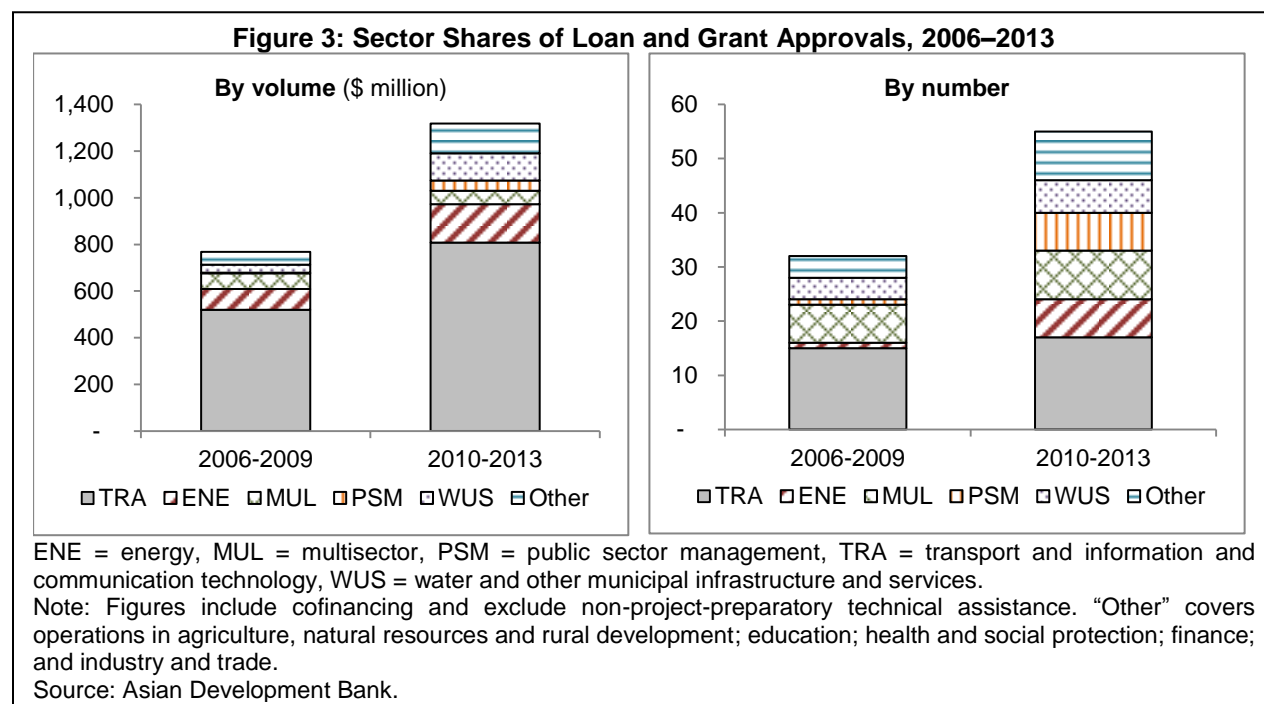
⁵⁰ At the end of 2013, regional operations comprised 40% of ADB's Pacific TA portfolio by number and 68% by volume.

⁵¹ Examples include infrastructure support through the Pacific Infrastructure Advisory Center and the Pacific Region Infrastructure Facility (ADB. 2009. *Technical Assistance for Establishment of the Pacific Infrastructure Advisory Center*. Manila; ADB. 2013. *Technical Assistance for Establishment of the Pacific Regional Infrastructure Facility Coordination Office*. Manila), and support for development coordination officers (DCOs) (ADB. 2008. *Technical Assistance for Enhancing Engagement with Pacific Developing Member Countries*. Manila; ADB. 2012. *Technical Assistance for Enhancing Engagement with Pacific Developing Member Countries, Phase 2*. Manila).

access to land in Samoa, and state-owned enterprise reform and PFM in Kiribati.⁵² The reduced availability of Technical Assistance Special Fund resources, however, has meant the hoped for larger-value TA has been the exception rather than the rule. The average value of non-project-preparatory TA approved in 2010–2012 was unchanged compared with 2006–2008, at \$1.2 million, but in 2013 climbed to more than \$2.0 million due to substantial cofinancing of the third phase of the PSDI.

2. Sector Focus

48. The sector distribution of loans and grants approved during 2006–2013 shows the continued importance of investments in transport as the foundation of ADB assistance in the Pacific (Figure 3 and Appendix 3, Table A3.5). There has been significant growth in the volume of investment in transport, and water and other municipal infrastructure and services, and in the volume and number of energy sector operations approved. PSM operations increased substantially with the onset of policy-based lending operations as a response to the global financial crisis in 2008–2009. In addition to the significant increase in approval volume, the loan and grant composition has become more diverse with a substantial number of projects across priority sectors. The volume of these projects is often low, reflective of the operating



⁵² Examples of TA for strengthening PFM in Tonga include ADB. 2005. *Technical Assistance to the Kingdom of Tonga for Integrated Strategic Planning, Medium-Term Fiscal Framework and Budgeting*. Manila; ADB. 2009. *Technical Assistance to Tonga for Support for Economic and Strategic Management (Financed by the Japan Special Fund)*. Manila; and ADB. 2011. *Technical Assistance to Tonga for Implementing Strategic Economic Management*. Manila. Examples of TA for improving access to land in Samoa include ADB. 2005. *Technical Assistance to Samoa for Promoting Economic Use of Customary Land*. Manila; ADB. 2009. *Technical Assistance to Samoa for Promoting Economic Use of Customary Land, Phase 2*. Manila; and ADB. 2013. *Technical Assistance to Samoa for Customary Land Reform, Phase 3*. Manila. Examples of TA for state-owned enterprise reform and PFM in Kiribati include ADB. 2008. *Technical Assistance to Kiribati for Economic Management and Public Sector Reform*. Manila; ADB. 2011. *Technical Assistance to Kiribati for Strengthened Public Financial Management*. Manila; and ADB. 2013. *Technical Assistance for Kiribati Enhancing Economic Competitiveness through State-Owned Enterprise Reform*. Manila.

environment in small Pacific DMCs.

49. Outside the five operational priorities of the Pacific Approach, most of the activities supported were disaster response operations, predominantly focusing on the reconstruction of infrastructure. Limited levels of assistance have also been provided for activities in health and social protection, finance, and agriculture and natural resources. Cofinancing is important in the finance and health and social protection activities supported because of government preference for grant financing in these areas, and bilateral development partner interest in ADB's engagement.

3. Attention to Results

50. Project performance at completion had historically been weaker in ADB's operations in the Pacific than in other regions. In addition to sharpening its focus, ADB has implemented several measures to improve the effectiveness of its Pacific operations since the adoption of the Pacific Approach (Box 4).

Box 4: Improving Project Performance in the Pacific

The Pacific Department (PARD) of the Asian Development Bank (ADB) has introduced the following quality and performance measures to strengthen the effectiveness of its operations in the Pacific region:

- **Faster project start-up.** PARD is using project readiness checklists designed for the Pacific region. These cover ADB processes and government requirements for project approval. In 2013, 50% of projects had achieved full design readiness by project approval compared to the ADB-wide 2016 target of 60%.
- **Stronger implementation oversight.** Quarterly project administration meetings are being held to identify, track, and remedy implementation problems. Country portfolio review missions have been held for Papua New Guinea and Timor-Leste.
- **Greater in-country support for implementation.** Delegation of project administration to field offices and the number of staff assigned to field offices have both expanded. In 2012, 58% of PARD's loans and Asian Development Fund grant projects were delegated to field offices, compared with 53% at the end of 2009. Staffing in the field increased by 13 posts (29%) during 2010–2012. Including outposted staff, 56% of PARD staff were in the field at the end of 2013. The seconding of a series of officers from the Australian aid program, and the financing by Australia of long-term international consultant positions in the Pacific Subregional Office and the Papua New Guinea Resident Mission helped enhance PARD's skills base. Since 2010, PARD's field presence has been expanded with the opening of additional development coordination offices in the Cook Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia, and Palau; and the addition of an infrastructure specialist in the Solomon Islands Development Coordination Office (all cofinanced by Australia).

Source: Asian Development Bank.

51. Greater attention to project design and implementation quality has led to improved project performance throughout the project cycle, including higher success rates (Table 2).⁵³ Projects that were approved more recently (during 2005–2009) show higher levels of success at completion.

⁵³ PARD results demonstrate some variability, which may reflect small sample size rather than significant changes in performance.

Table 2: Project Completion Report Ratings

Approval Year (number) ^a	Highly Successful		Successful		Partly Successful		Unsuccessful	
	Number	%	Number	%	Number	%	Number	%
1995–1999 (23)	1	4.3	11	47.8	7	30.4	4	17.4
2000–2004 (21)	0	0.0	8	38.1	10	47.6	3	14.3
2005–2009 (9)	0	0.0	8	88.9	0	0.0	1	11.1

Notes: Includes Asian Development Fund and ordinary capital resources loans, and Asian Development Fund grants. Percentages may not total 100% because of rounding.

^a Two projects approved during 2000–2004 and 10 projects approved during 2005–2009 are active, resulting in a smaller sample size.

Source: Asian Development Bank.

52. Key highlights are as follows:

- (i) The share of PARD sovereign operations rated *successful* at completion increased steadily from 25% in 2007–2008, to 42% in 2009–2010, and to 78% in 2011–2012.
- (ii) The performance of completed TA projects was strong: 86% were rated *successful* in 2012, and 92% achieved the same rating in 2013.
- (iii) The performance of ongoing operations improved, with 83% achieving a satisfactory rating in the project performance reporting system in 2012 and 98% achieved the same rating in 2013.
- (iv) The quality at entry of project design and monitoring frameworks decreased from 88% in 2012 to 84% in 2013.

53. These findings are supported by anecdotal evidence of improved results. Governments and cofinanciers note a greater willingness by ADB to consult more widely on implementation decisions and to make changes during implementation. The difficulty of implementing projects in the Pacific context was frequently noted by stakeholders. Greater use of national consultants was identified by government stakeholders as providing better support for implementation on account of their understanding of the local context.

54. One area of concern is the larger time overruns incurred by PARD projects compared with ADB as a whole. Only 17% of Pacific projects with project completion reports circulated in 2010–2012 were completed with a delay of 6 months or less, compared with 30% for ADB as a whole; while 50% experienced delays of at least 2 years, compared with 30% for ADB overall. Tackling this 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. The adequacy of supervision may also need to be reviewed.

D. Implementation of Operational Priorities

55. This section describes the successes and challenges in implementing ADB's operational priorities in the Pacific region—transport and information and communication technology (ICT); energy; urban development, water, and sanitation; and education. It also includes a discussion of the implementation of public sector management (PSM), which while defined as a driver of change in the Pacific approach is recognized as a sector by ADB and so its consideration sits more comfortably among other sector engagements.

56. **Demonstrated success in traditional areas of ADB assistance.** ADB has deepened and widened its engagement in the traditional base of transport and energy investment projects in the Pacific, engaging across more subsectors. This trend reflects the centrality of these operational priorities to Pacific development needs.

57. ADB has emphasized the financing of essential connective transport infrastructure across road, sea, and air subsectors. Strategic planning in transport to foster intermodal connectivity and improved access to markets for rural areas and outer islands is increasingly important at the country level. ADB's investments in ports in PNG and potentially Samoa and Tuvalu are part of a growing area of support that is critical to improved integration, both within the Pacific and with Asia.

58. ADB has become a major energy project financier in the Pacific and a leader in the shift to renewable energy. ADB's renewable energy portfolio for the Pacific grew from less than \$10 million (one project) in 2009 to \$177 million (seven projects) in 2013, and covers, the Marshall Islands, the Federated States of Micronesia, PNG, Samoa, Solomon Islands, and Tonga. During 2014–2017, ADB expects to add another \$130 million (eight projects and three more countries—Cook Islands, Fiji, and Vanuatu) to the portfolio. There has also been an enhanced focus on energy efficiency by households and businesses, as well as through the rehabilitation of generation capacity. This is benefitting both consumers and governments by delaying the expansion of generating capacity.

59. **Going beyond building infrastructure.** The provision of adequate support for infrastructure maintenance has been a common theme across the infrastructure sectors. Sustainable financing mechanisms for transport asset maintenance, particularly roads, are being emphasized in PNG and Solomon Islands, and could be adapted and replicated elsewhere. Promoting labor-based approaches to construction and maintenance has enabled community ownership and participation in infrastructure projects. This will also be critical for community upkeep of renewable energy systems. ADB-supported operations are focusing on the competitive provision of infrastructure services. For instance, in the domestic shipping schemes under implementation in Solomon Islands and Vanuatu, user charges and payments for community services are being put in place, and opportunities for private sector involvement in water supply are under discussion.

60. The need to maximize the benefits of physical infrastructure connections has become apparent during the implementation of the Pacific Approach. Seizing network integration opportunities and becoming involved in trade facilitation are two ways in which ADB can ensure the development benefits of key connective investments are realized.

61. **Growth of the information and communication technology portfolio.** ICT became an active area for ADB with its prioritization in the Pacific Approach. Most of ADB's recent support has centered on providing the connective backbone of submarine fiber-optic cable. Some assistance has also focused on improving the regulatory environment. A partnership with the World Bank in the Tonga–Fiji Submarine Cable Project combined the World Bank's technical expertise in the subsector with ADB's strong country relations (footnote 42). Subsequently, ADB began to develop staff technical expertise, and became the sole multilateral development bank in the Solomon Islands Broadband for Development Project (footnote 42) before partnering again in the north Pacific and Samoa. In addition to ICT infrastructure development, ADB has commenced support for the application of ICT to public service (education and health) provision in the Pacific.⁵⁴ Developing integrated ICT support offers potential for substantial future portfolio growth.

⁵⁴ ADB. 2013. *Technical Assistance to Solomon Islands for Information and Communication Technology for Better Education Services*. Manila; ADB. 2013 *Technical Assistance for Pacific ICT Investment Planning and Capacity Development Facility*. Manila.

62. **Need to respond to urban growth.** Most of the water supply and other municipal infrastructure and services portfolio (largely water and sanitation activities) was approved before the implementation of the Pacific Approach. Projects in five countries were later approved, but planned investments in two other countries did not proceed because governments pursued grant financing opportunities instead. As of September 2014, the 2015–2017 water sector pipeline contained seven projects in five countries. PARD has strong staff capacity in this area, and regional statistics on the prevalence of waterborne diseases underline the need for more attention to this operational priority.

63. While the water subsector has been the traditional focus of ADB's support for urban development, a more integrated approach is being taken in response to the rapid urbanization in the Pacific (footnote 8). Urban projects underway in Tonga and Vanuatu (i) incorporate improvements in the policy environment for, and provision of, urban water and sanitation services, storm water drainage, and solid waste services; (ii) upgrade roads; (iii) promote direct community participation; and (iv) support hygiene and health education and awareness for community organizations.⁵⁵ There is wider scope for such projects, particularly in Fiji, Kiribati, the Marshall Islands, and PNG.

64. **Limited support for education.** Although it is an operational priority of the Pacific Approach, education has been a minor area of ADB's work in the Pacific. Anecdotal evidence suggests that a preference for grant financing and competition for limited financial resources from the more established infrastructure sectors have combined to keep the share low. Support for education at the country level has been approved only for Timor-Leste. Limited education sector assistance has been provided through regional activities, largely as TA and through the multitranche financing facility (MFF) for the University of the South Pacific (USP). The assistance is spread across education subsectors, and future assistance to the sector would benefit from either a coherent strategy supporting this broad focus or a sharper focus.

65. **Strong growth in the public sector management portfolio.** Support for public financial management (PFM), public administration, and structural reforms through policy-based operations and TA resulted in about \$39.5 million in approvals during 2010–2012. The classification of a further \$43 million of policy-based operations as multisector underestimates the support to PSM. Staff with expertise in economics, PFM, and private sector development, have cooperated in designing and implementing these activities. Coordination has been strong, and ADB's expertise has been complemented by Australian Aid, the International Monetary Fund, the New Zealand Aid Programme, the Pacific Financial Technical Assistance Centre, and the World Bank.

66. There has been limited interest in public administration reform, even though many Pacific DMCs are struggling to control the growth of salaries as a share of budget expenditure. If these issues are not tackled, the benefits of PFM reform will be limited and even undermined. Similarly, development will achieve suboptimal outcomes without better human resources planning capacity. Policy-based operations present one means by which to raise these issues.

67. At the outset of the Pacific Approach, policy-based operations were formulated in response to the global economic crisis. Pacific DMCs have appreciated this modality, and six of them have policy-based operations in their pipelines. The challenge is now to redirect this

⁵⁵ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant to Tonga for the Nuku'alofa Urban Sector Development Project*. Manila; ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grants to Vanuatu for the Port Vila Urban Development Project*. Manila.

coordinated development partner response to external shocks toward building resilient, growing economies.

68. **Challenging contexts for operations in nonpriority sectors.** ADB has continued to work in nonpriority sectors. ADB is leading the Rural Primary Health Delivery Project in PNG, working alongside several experienced partners—an approach suggested in Strategy 2020.⁵⁶ Project implementation has been challenging. A paucity of health sector expertise within PARD, while compensated for by consultant input and a large project implementation unit, has been compounded by complex project implementation in remote locations across several provinces and the implementing agency's lack of experience in working with ADB systems.

69. Similarly, the Social Protection of the Vulnerable in the Pacific Project has proved administratively complex and involves working with implementing agencies and nongovernment organizations that are unfamiliar with ADB systems and processes.⁵⁷ The assistance was designed to complement ADB's global economic crisis response policy-based operations; however, delayed approval of financing meant that it began implementation well after the initial crisis impact. On the positive side, there are good indications that the project benefits will be sustainable.

E. Implementation of Drivers of Change

70. Attention to the Pacific Approach's six drivers of change—improved private sector environment, PSM, capacity development, climate change adaptation and mitigation, development partnerships, and gender mainstreaming—has increased the effectiveness of ADB's Pacific operations.

71. **Private sector environment improved.** During 2010–2013, 26% of all new loan and grant operations supported private sector development, increasing slightly from 22% in 2006–2009. ADB's TA program has played a critical role in expanding its contribution to private sector development in the region. Scaling-up the Private Sector Development Initiative (PSDI) TA has allowed ADB to responsively and flexibly improve the private sector environment, promote state-owned enterprise reform, and widen access to finance.⁵⁸ The scope of assistance was expanded in 2013 to include competition law and the economic empowerment of women. The significant ADB assistance through the PSDI for improving the private sector environment in Solomon Islands and Tonga has translated into improved performance in the World Bank Group's annual Cost of Doing Business ranking.⁵⁹ The areas of support provided through the PSDI have been expanded upon through some country-specific TA projects,⁶⁰ while progress in the reform priorities identified has been leveraged through policy-based operations (footnote 39).

⁵⁶ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant and Loan to Papua New Guinea for the Rural Primary Health Services Delivery Project*. Manila.

⁵⁷ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Grant Assistance to the Cook Islands, the Republic of the Marshall Islands, and the Kingdom of Tonga for Social Protection of the Vulnerable in the Pacific*. Manila. (Financed by the Japan Fund for Poverty Reduction).

⁵⁸ 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.

⁵⁹ World Bank. *Doing Business: Economy Rankings*. <http://www.doingbusiness.org/rankings>

⁶⁰ For example, ADB. 2013. *Technical Assistance for Kiribati Enhancing Economic Competitiveness through State-Owned Enterprise Reform*. Manila; and ADB. 2010. *Technical Assistance to Vanuatu for State-Owned Enterprise Rationalization Program*. Manila.

72. Two areas that need that need further emphasis are ensuring private sector development supports sustained private sector growth, and engaging the private sector as a development partner and financier. ADB's private sector operations in the Pacific remained confined to PNG during 2010–2013, with support planned for the Solomon Islands Broadband for Development Project. There is significant opportunity for public–private partnerships (PPPs) in the Pacific. Supporting legislation is in place in several countries, but to date only a few small PPPs have been established (e.g., Sasape Marina in Solomon Islands), and the potential for private management of public infrastructure remains untouched.

73. **Capacity development remains a challenge.** During 2010–2013, 43% of all loan and grant operations (by number) supported capacity development. At the end of 2013, capacity development TA formed about 56% of the TA portfolio by number, and has covered all operational priorities and drivers of change. Particular emphasis has been given to building capacity in public financial management and in infrastructure planning and management. Success has been varied, with efforts to build capacity in the smallest DMCs proving difficult given limited counterpart staff and frequent turnover. Here, capacity supplementation has proved most effective—the sharing of national human resources, such as through the subregional approach to audit in Kiribati, Nauru, and Tuvalu, is an innovative example. Even in larger DMCs, building capacity requires sustained intervention. Limited TA resources constrain the ability to maintain this engagement at the needed level, and governments have tended to be unwilling to use significant levels of loan funds (or indeed Asian Development Fund [ADF] grant funds) to build capacity. Furthermore, such support may not be consistently provided in a particular sector. MFFs, however, seem to be more successful in building and sustaining capacity within the implementing agencies, being longer-term, and enabling strong ownership.

74. Approaches to capacity development that have proved effective include (i) funding local facilitators to improve ownership of capacity building activities, (ii) engaging development coordination officers (DCOs), (iii) mentoring by respected regional consultants, and (iv) using intermittent international experts. The sustained and integrated approach by development partners to building capacity in Tonga's Ministry of Finance and National Planning is proving effective.⁶¹ In this case, intermittent international consultants, a full-time local facilitator under capacity development TA, and regional experts sourced through regional TA worked together under the close engagement and mentoring by the DCO in Tonga to successfully build capacity in revenue forecasting, budget development processes, and corporate planning.

75. **Steady growth in climate change adaptation and mitigation operations.** During 2010–2013, 52% of all loan and grant operations supported climate change adaptation or mitigation.⁶² ADB has mainstreamed climate proofing in all its infrastructure activities, and has made efforts to better support disaster risk management. Regional interventions are working with communities on adaptation efforts and capacity building, as well as identifying bottlenecks to implementation and financing of prioritized climate change activities at the country level.⁶³ ADB's mitigation efforts through renewable energy use and energy efficiency promotion are well known. There remains significant country interest in accessing more grant funds for climate change adaptation and mitigation activities, as evidenced by the request for ADB to support

⁶¹ ADB. 2013. *Technical Assistance Completion Report: Support for Economic and Strategic Management in Tonga*. Manila.

⁶² Climate change figures have only been available since 2009, when 33% of loan and grant operations supported climate change adaptation or mitigation.

⁶³ See, for example, ADB. 2011. *Technical Assistance for Strengthening Climate Risk and Resilience Capacity of Pacific DMCs (Phase 1)*. Manila; and ADB. 2012. *Technical Assistance for Supporting the Pacific DMCs in Financing their Climate Change Response*. Manila.

Pacific governors in their investigation of available climate change funds and the discussion at the 2013 and 2014 forum economic ministers meetings.⁶⁴

76. **Systematic attention to gender mainstreaming.** Since 2010, efforts to incorporate gender-specific features into project design have resulted in an increase in the proportion of projects with gender mainstreaming. During 2010–2013, 44% of all approved loan and grant operations supported gender mainstreaming, compared with just 5% in 2006–2009. The constraints to women entering business have been lessened through the PSDI. The challenge of achieving gender equity in the Pacific is well known and requires continued emphasis on gender mainstreaming.

77. **Development partnerships expanded.** ADB has a good record for leveraging additional resources from development partners for interventions in the Pacific. Coordination among partners is stronger and occurs regularly, guided by high-level meetings (para. 24). There is also strong sector coordination in infrastructure supported by the Pacific Region Infrastructure Facility, which convenes strategic meetings and sector-focused technical working groups. In the area of PFM at the country level, joint government–development partner working groups plan reforms and coordinate support. ADB has also expanded its outreach to nontraditional partners such as the People’s Republic of China, participating in a consultation mission and continuing in-country dialogue.

78. Partnerships are only measurable in ADB’s project monitoring system through the cofinancing they provide. However, in the broader context of coordination and collaboration, development partnerships sit more comfortably with the operating principles of ADB operations than with the drivers of change. For example, nonmonetary partnerships involving joint dialogue and coordination have been integral to successful implementation of policy-based operations across the Pacific. As such, development partnerships should be removed from the Pacific Approach framework’s drivers of change.

F. Operating Principles

79. The Pacific Approach recognizes that Pacific DMCs exhibit conditions of fragility that contribute to a complex development environment requiring a carefully considered approach to development. Table 3 lists the principles derived from the Pacific Approach that guide how ADB does business in the Pacific. This section discusses the extent to which these principles were applied, and whether they were sufficient and remain so.

Table 3: Principles Underpinning ADB’s Pacific Operations

Principles	Actions
Ensure an understanding of the local context	<ul style="list-style-type: none"> • Undertake continued studies on political economy issues. • Conduct capacity assessments when designing operations. • Expand ADB presence in Pacific developing member countries, and strengthen field offices to work closely with executing agencies. • Employ strong communication appropriate to local circumstances (newspapers, radio, television, town hall meetings, and other public presentations). • Provide resources for pre-implementation activities during project preparation.

⁶⁴ ADB. 2012. *Technical Assistance for Supporting the Pacific DMCs in Financing Their Climate Change Response*. Manila; Pacific Islands Forum Secretariat. 2013. *Forum Economic Ministers Action Plan*. Nuku’alofa; Pacific Islands Forum Secretariat. 2014. *Forum Economic Ministers Action Plan*. Honiara.

Demonstrate flexibility in operations	<ul style="list-style-type: none"> • Adopt a longer-term, flexible, and more programmatic approach to support Pacific developing member countries' development more effectively. • Be more selective in choosing lending modalities.
Promote participation and ownership	<ul style="list-style-type: none"> • Work with stakeholders from government departments and nongovernment agencies that are committed to change. • Work through a country-specific change management process accounting for the political economy, and designing and flexibly implementing a risk mitigation strategy. • Strengthen consultation and participation in support of building demand and local ownership while enhancing good governance (i.e., accountable, transparent, and participatory approaches). • Undertake demand-side formulation of plans and programs to raise ownership and effective demand for growth and development.
Share knowledge	<ul style="list-style-type: none"> • Strengthen knowledge management.
Strengthen coordination with development partners	<ul style="list-style-type: none"> • Assist Paris Declaration and Cairns Compact implementation. • Engage closely with development partners.

ADB = Asian Development Bank.

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

1. Understanding the Local Context

80. Analysis of political economy factors is especially important as a basis for understanding the local context in countries classified as fragile and conflict-affected situations (FCAS).⁶⁵ Since 2010, country-specific political economy analysis has guided the country partnership strategies (CPSs) developed for PNG, Solomon Islands, and Timor-Leste.⁶⁶ Issues of political economy are reflected in country strategy papers associated with country operations business plans (COBPs) (para. 25). Regular dialogue with governments has also helped to promote an understanding of the local context. ADB has undertaken country diagnostic studies for Fiji (ongoing) and PNG; political economy analysis of urban development issues in Fiji and Kiribati;⁶⁷ and has begun a second round of private sector assessments (with Fiji and Tonga completed). Continuation of such analyses is essential to inform the design of ADB assistance.

81. ADB's response to the global economic crisis exemplified an understanding of context. Initial contextual analysis highlighted the need to emphasize information sharing by governments on their response plans.⁶⁸ Such elements were included in government action matrixes by the Cook Islands, Samoa, Solomon Islands, and Tonga, and were reflected in development partner programs. Subsequently, the project completion report for the economic recovery program in Solomon Islands noted "the important role improving public access to up-

⁶⁵ At the start of the Pacific Approach period, ADB published two reports: *State Performance and Capacity in the Pacific*, which reviews literature and analysis of the state's role in the development of Pacific DMCs, and suggests priorities for future support by ADB and its development partners; and *Political Economy of Economic Reform in the Pacific*, which uses case studies to discuss success factors behind economic reform. See R. Duncan, ed. 2010. *The Political Economy of Economic Reform in the Pacific*. Manila; ADB. 2010. *State Performance and Capacity in the Pacific*. Manila.

⁶⁶ ADB. 2010. *Papua New Guinea: Country Partnership Strategy, 2011–2015*. Manila; ADB. 2012. *Solomon Islands: Country Partnership Strategy, 2012–2016*. Manila; ADB. 2011. *Timor-Leste: Country Partnership Strategy, 2011–2015*. Manila.

⁶⁷ ADB. 2013. *Pilot Fragility Assessment of an Informal Urban Settlement in Fiji*. Manila. ADB. 2013. *Pilot Fragility Assessment of an Informal Urban Settlement in Kiribati*. Manila.

⁶⁸ ADB. 2009. *Taking the Helm: A Policy Brief on a Response to the Global Economic Crisis*. Manila.

to-date information on the financial and economic situation had in...ensuring bipartisan political support for the reform agenda.”⁶⁹

82. The recruitment of staff with Pacific expertise and the empowerment of national officers at field offices to lead project processing, administration, and country programming have improved the practicality and ease of implementation of investment projects and TA because of their better understanding of the Pacific context. The upgrading the Special Office in Timor-Leste to a resident mission, and the expansion of development coordination offices to a total of nine, have allowed closer day-to-day engagement with government and development partners on a broader range of issues. ADB needs to ensure that its field offices are adequately staffed and equipped to manage its expanding portfolio effectively. An increase in staffing has so far lagged the rapid portfolio growth for PNG and Timor-Leste. Ensuring the continuation of such specialized local knowledge requires retaining the DCOs, and where appropriate transitioning from consultancies to staff positions. At the project level, local project facilitators have been proactive in generating local ownership of project activities through well-targeted communication.

83. An understanding of country context could be better applied during project design to address government capacity constraints and the limited extent of pre-implementation activities. Weak capacity is always problematic, so a more detailed assessment of capacity-supplementation and capacity-building needs at the design stage could lead to smoother implementation. Similarly, pre-implementation activities during project preparation have not gone far beyond advance procurement of consulting services; therefore, advancing design activities would speed implementation. While Pacific DMCs have not yet used the project design facility,⁷⁰ multitranche financing facilities (MFFs) are enabling better sequencing of pre-implementation activities.

2. Flexibility in Operations

84. ADB is increasingly using longer-term, flexible, and more programmatic approaches in the Pacific. Programming has been responsive, adjusting pipelines to meet pressing needs, and drawing on regional ADF allocations to support priority projects with additional resources. MFFs are proving successful for enabling longer-term sector engagement and sector planning capacity development in road and civil aviation projects in PNG. The most recent MFF approval is for the University of the South Pacific (USP).⁷¹ The first Pacific results-based operation is being prepared for Solomon Islands and will support the transport sector. While ADB's business processes and modalities are applicable to operations in all DMCs, Pacific Department (PARD) staff find sufficient flexibility in these to allow assistance to reflect the country context and specific needs in design and implementation arrangements.

85. Policy-based operations have been requested by a number of governments as they provide greater flexibility in use of funds, are more reliant on country systems, and facilitate coordination with other development partners. They have facilitated structural and regulatory reform and an improved policy environment, strengthening the implementation environment for

⁶⁹ ADB. 2012. *Completion Report: Economic Recovery Support Program Subprograms 1 and 2 in Solomon Islands*. Manila.

⁷⁰ ADB established this facility to allow funding of detailed engineering design through financial advances before project approval. See ADB. 2011. *Establishing the Project Design Facility*. Manila.

⁷¹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors for Proposed Multitranchise Financing Facility Higher Education in the Pacific Investment Program*. Manila.

sector investment projects.⁷² The greater use of single-tranche operations situated in a multiyear policy framework supported by several development partners also overcomes problems experienced in achieving second tranche conditions.

86. ADB now has more options for responding to post-disaster needs, and therefore more flexibility in its response in the Pacific. The Asia Pacific Disaster Response Fund has enabled PARD to respond quickly and flexibly to natural disasters through grants. Since the fund's creation in 2009, grants have been provided to Samoa (in 2009 and 2012), Fiji (twice in 2012), the Marshall Islands (twice in 2013), Palau (in 2013), and Solomon Islands (in 2014).⁷³ The Disaster Response Facility⁷⁴ under the ADF provided financing to Samoa and Tonga in response to cyclone damage, and to Solomon Islands following flooding.⁷⁵

87. PARD's flagship regional TA program, comprising the Private Sector Development Initiative (PSDI) (footnote 58), the Pacific Region Infrastructure Facility Coordination Office,⁷⁶ and the Pacific Economic Management TA (footnote 47), demonstrates the benefits of responsive, flexible, and timely TA support. All TA projects allow the rapid provision of expertise to address urgent country needs, and the allocation of resources where there is reform commitment. Although all of the TA projects were initiated before 2010, they continue to be refined and strengthened.

3. Ownership and Participation

88. Feedback from governments noted the important role ADB staff operating methods play in enhancing ownership. They recognize staff efforts to listen to government views and be responsive to these, ensure appropriate capacity building with counterparts to enable them to take ownership, and to appropriately reflect local contextual constraints and drivers in design, all of which strengthen government ownership.

89. The Pacific Approach set out to support government engagement with civil society organizations (CSOs), both through consultation and participation to build demand for, and ownership of, reforms, and to outsource noncore government functions. 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.⁷⁷ There has been some success in ADB support for outsourcing of government functions to CSOs, but limited engagement by ADB in building a constituency for reform among CSOs. Rather than working directly with CSOs, which is not considered a realistic role for ADB, an emphasis on supporting governments in their CSO consultation and participation is more appropriate.

⁷² Since 2008, 10 policy-based loans or grants (including 4 cluster programs) have been provided to seven countries. Of the three program completion reports prepared so far, one was rated *highly successful* (Solomon Islands) and two were rated *successful* (Tonga and Tuvalu).

⁷³ These grants ranged in size between \$200,000 and \$1 million, and could be dispersed within days of the disaster in many cases.

⁷⁴ ADB. 2012 *Piloting a Disaster Response Facility*. Manila.

⁷⁵ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant to Samoa for Renewable Energy Development and Power Sector Rehabilitation Project*. Manila. ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant to the Kingdom of Tonga for Cyclone Ian Recovery Project*. Manila.

⁷⁶ ADB. 2009. *Technical Assistance for Establishment of the Pacific Infrastructure Advisory Center*. Manila; ADB. 2013. *Technical Assistance for Establishment of the Pacific Regional Infrastructure Facility Coordination Office*. Manila.

⁷⁷ ADB. 2014. *ADB Cooperation with Civil Society Biennial Report 2011–2012*. Manila. ADB. 2012. *ADB Cooperation with Civil Society Annual Report 2010*. Manila.

90. Many countries, particularly those with limited implementation capacity, are seeking new mechanisms to rationalize their governance responsibilities through the use of alternative service delivery mechanisms such as church groups and the private sector. ADB is piloting this approach in the Cook Islands, the Marshall Islands, and Tonga.⁷⁸ In the Cook Islands, community organizations have been contracted to provide home care services for disabled and elderly people. While outcomes may be good, ADB needs to carefully consider how to better manage the potential administrative burden of this way of working with governments and CSOs.

91. Preparation of private sector assessments for Pacific DMCs has involved considerable consultation with the private sector.⁷⁹ All assessments have recognized the importance of policy dialogue between governments and the private sector in informing government policy decisions and reforms that aim to improve the business environment. The PSDI is supporting greater government–private sector engagement by facilitating consultations on business environment reform. PARD has also achieved success in building local private sector capacity in the roads subsector in PNG and Solomon Islands. However, experience shows that it is difficult to sustainably build private sector capacity in countries with smaller portfolios where sector engagement may be infrequent.

4. Sharing Knowledge

92. The knowledge is generated through ADB's Pacific operations is captured and applied to improve the results of future operations. For example, ADB has supported interisland shipping schemes in PNG, Solomon Islands, and Vanuatu, and the knowledge generated has been important in addressing challenges in different locations. Other examples include the application of labor-based road building and maintenance to projects in the same three countries, and outsourcing of social welfare program implementation in the Cook Islands.

93. ADB's published knowledge program has focused on four thematic areas: improved connectivity, broadened access to quality services, expanded resilience, and greater private sector development. Its purpose is to engage in regional policy dialogue on development priorities, promote cross-country learning on development experience, and support business development and operational planning. Country knowledge programs have focused on policy topics closely related to ADB's operational areas, such as managing sovereign wealth funds (PNG) and strengthening external links (Timor-Leste). The sector program focuses on topics common to groups of Pacific DMCs, seeking to distill and disseminate development practices and lessons from ADB-financed operations.

94. ADB has become more effective at sharing the results of country and regional assistance. Impact stories are being prepared to highlight the changes in the lives of individuals and communities as a result of ADB assistance. ADB has developed videos that communicate not only the achievements in a range of development areas in the Pacific (including land reform, management of road assets, and small business development), but also the challenges overcome during implementation.⁸⁰ New modes of communication are being used to reach target audiences, including blogging and social media (such as Twitter). Government officials,

⁷⁸ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Grant for Social Protection of the Vulnerable in the Pacific (the Cook Islands, the Marshall Islands, and Tonga)*. Manila. (Financed by the Japan Fund for Poverty Reduction for \$3 million).

⁷⁹ Examples include ADB. 2013. *Re-invigorating Private Sector Investment: A Private Sector Assessment for Fiji*. Manila; and ADB. 2012. *Continuing Reform to Promote Growth: Update of the Private Sector Assessment for Tonga*. Manila.

⁸⁰ These videos form part of an FCAS e-learning package.

development partners, academics, and other stakeholders attend regular *Pacific Economic Monitor* launches and *Asian Development Outlook* roadshows.

95. To plan its knowledge program more strategically, PARD adopted in 2014 a knowledge-for-development framework. Implementation of the framework is expected to sharpen the focus on outreach of ADB's key messages from the knowledge program, and ensure that the annual number of publications generated and disseminated is in sync with available staff resources.

5. Coordination with Development Partners

96. ADB's coordination with other development partners has improved at the regional and country levels. This has been achieved by convening more frequent meetings with more partners. ADB participates in the Pacific donor coordination meeting, which has expanded from a "quadrilateral" gathering of four members in 2009 to a "heptagon" involving seven partners (para. 24). ADB also holds biannual meetings with Australian Aid on Pacific operations. Country-level development partner meetings are typically well attended, with both traditional and nontraditional partners participating.

97. Deepened regional and country coordination is reflected in higher levels of cofinancing (para. 45), which is also driving harmonization efforts. In multidonor supported policy-based operations, and in the planned results-based operation in Solomon Islands, there is a clear focus on results and mutual accountability with clearly stated responsibilities for both development partners and governments.

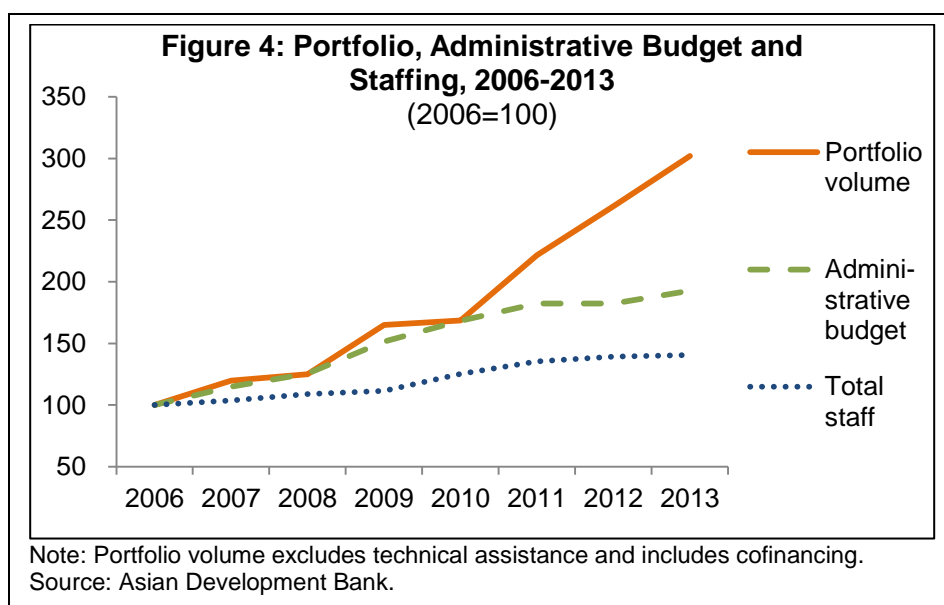
G. Pacific Department Resources

98. The human and administrative resources available to PARD enable ADB's operations in the Pacific. ADB recognizes that its operations in this region are more resource-intensive than the ADB average. However, the high country-staff ratio is further exacerbated by the fact that 8 of the 14 Pacific DMCs are classified as ADF-only countries and 9 are FCAS countries, indicating a significantly lower capacity to oversee projects. Other compounding factors include (i) Pacific DMCs' remoteness and dispersed geography, which requires more time for mission travel; (ii) the high levels of cofinancing they attract, requiring more time for partner coordination; and (iii) the increasing frequency of emergency assistance needs (up from one operation during 2009–2010 to six during 2013–2014), and associated staffing implications for managing the unpredictable workload. Data on staff positions and administrative budget are in Figure 4 and Appendix 4, and PARD's organization structure is in Appendix 5.

99. The staff headcount (and with it the administrative budget) increased by 14% for international staff and 26% for all staff during 2009–2013. However, against a background of a doubling of loan and grant projects in the portfolio, efficiency measures adopted—such as optimizing functional arrangements, and staff positioning and use—remain vital for ensuring the effectiveness of the department's operations. Measures include

- (i) allocating 56% of staff positions to field offices, supplemented by outposting sector specialists to field offices (4 of 40 PARD international staff in 2014);
- (ii) using regional hubs (Manila, Suva, and Sydney) to serve multiple countries;
- (iii) borrowing staff with other ADB departments to provide additional mission leaders;
- (iv) empowering national staff by deploying them as country team leaders and project team leaders;

- (v) placing DCO consultants in the nine countries without field offices (four managed jointly with the World Bank); and
- (vi) promoting teamwork and cross-team development (e.g., the financial management team comprises four certified accountants across ADB headquarters and field offices).



IV. LESSONS

100. The review of the development progress in the Pacific and ADB's experience in implementing the Pacific Approach revealed a number of achievements and challenges that provide lessons to improve ADB's responsiveness, the results of ADB's future Pacific operations, and the development of the Pacific Approach's successor document. They can be broadly divided into lessons relating to operational priorities and drivers of change, and operating principles.

A. Operational Priorities and Drivers of Change

101. **Maintain focus while sharpening expertise and leadership.** The Pacific Approach has helped ADB focus its limited resources on the core operational areas, and broaden and deepen support in transport, energy, and urban water. ADB is providing support across the road, air, and maritime subsectors, and has become the leading development partner in the financing of renewable energy and energy efficiency projects in the Pacific. ADB's support for these sectors is continuing to expand. ICT projects (broadband cable-laying) and public sector management (PSM) policy-based operations are newer areas in which assistance is being scaled-up.

102. ADB has adopted innovative approaches to ensure the needed human resources are available to support its growing program, including boosting its field presence (Box 4), empowering its local staff, and sharing staff between PARD and other regional departments. However, as the portfolio is projected to continue growing, ADB will need to reinforce its staff

resources dedicated to the Pacific operations—particularly in its field offices—to ensure the quality of its expanding portfolio and to promote continued development partner coordination. This reinforcement could be done through an increase in staff numbers (including through sharing, secondment, and external financing of staff), building the skills of existing staff, and/or using available staff more flexibly.

103. Program holistically to leverage greater benefits. Recent experience in the Pacific has shown that rather than providing small pieces of unrelated support, greater benefits can be achieved when elements of the country program reinforce each other. For example, a focus on technical skills development can be complemented by investment projects that provide job opportunities for newly skilled workers. Other examples include using broadband internet to deliver essential government services, and strengthening the focus on urban development to bring together diverse sector interventions for essential urban improvements. Approaching programming holistically with a strong understanding of the local context will support such outcomes.

104. Plan support for low-uptake sectors strategically. ADB has struggled to develop projects, build country ownership, and/or generate cofinancing in the areas of basic education and health. These sectors receive extensive development partner grant assistance, and Pacific DMC governments give them low priority for ADB support. These realities call for a rethinking of ADB assistance in these areas. One possible approach is to work with other partners to link their support for education and health with ADB's expertise in infrastructure and PSM to achieve better social outcomes.

105. Emphasize disaster risk reduction in the Pacific Approach. ADB has typically treated disaster management as a post-disaster activity, focusing on relief and rehabilitation; but climate change has provided greater impetus to mainstream disaster risk reduction into ADB operations. ADB should continue to systematically incorporate disaster risk management concerns into its activities, building on best practices available within the region and elsewhere.

106. Step up private sector engagement. ADB has progressed considerably in creating a more enabling environment for the private sector in many Pacific DMCs through TA. Nonetheless, the true test of success is the additional private sector investment and jobs created. This requires better harnessing of the synergies between public and private sector operations. There have been some small successes in developing public–private partnerships (PPPs) in the region, but more opportunities need to be pursued. Further expanding PPPs would add capacity in the areas in which they operate, while reducing demands on public finances.

107. Greater private sector involvement in projects is another way of bringing additional resources and knowledge to development priorities. This will require heightened ADB engagement with private sector representatives, including through direct financial assistance to private sector projects to leverage commercial sources of financing for projects that have clear development impacts. At the regional level, the limited capacity of the Pacific Islands Private Sector Organisation constrains ADB's ability to engage. The relatively small scale of the private sector in the Pacific also requires ADB's standard private sector operations approaches to be reconsidered, for example by changing the incentive structures of the Private Sector Operations Department to encourage it to become involved in small projects.

B. Operating Principles

108. **Strengthen country strategic analysis.** Robust country strategic analysis is necessary to understand the unique political and economic conditions of each Pacific DMC, and to underpin effective country programs. This allows assistance to be well targeted and coordinated, and helps to ensure that finite resources are used effectively. ADB committed itself to continuing with such country-specific analysis when the Pacific Approach took on the country partnership strategy (CPS) function for the 10 smaller Pacific DMCs in 2011 (footnote 1). Continued attention to such analysis is important to effectively guide ADB's operational strategy in these countries.

109. **Facilitate longer-term and flexible engagement.** Reform and change in the Pacific takes time, and staying engaged with governments in the medium term is essential to effectively support development. ADB has sought to provide continuity in its Pacific operations through the use of MFFs; multipartner, multiyear policy-based operations; and substantial long-term funding supporting continuing availability of human resource expertise for flagship regional TA projects, such as the Pacific Region Infrastructure Facility and the PSDI. Consideration could be given to extending a similar long-term and programmatic approach to TA operations in the smaller Pacific DMCs, where TA projects offer the most regular form of engagement.

110. **Align project design and implementation arrangement with government absorptive capacity.** The larger implementation task load is placing demands on government resources and capacity. Improving portfolio performance will require project design and implementation arrangement that fits the available local capacity, supplemented with capacity support and adequate project supervision. The sharing of a project management unit between several projects, as is being done in Timor-Leste, Tonga, and Vanuatu, is an example of an efficiency gain in implementing a growing portfolio.⁸¹ Continued attention to project readiness will also remain priority, including through applying project readiness checklists consistently, and completing detailed engineering design before project approvals by using the project design facility, MFFs, and/or other funding mechanisms.

111. **Expand field presence.** ADB has come a long way in enhancing its representation in the Pacific and strengthening staff understanding of the Pacific operating environment. This has led to improved project implementation, and closer government and development partner relationships. To adequately respond to rapidly growing needs, ADB needs to continue reinforcing its staffing in strategic positions, particularly in its field offices. Client feedback confirmed that the development coordination officers (DCOs) contributed significantly to increased country ownership, greater knowledge sharing, and more effective development partner coordination. But to be most effective, more responsibilities need to be delegated to them, such as leading country programming and managing project implementation. ADB should explore ways to empower DCOs further, including covering these consultant positions to staff positions as requested by governments and development partners.

⁸¹ In Timor-Leste, an ADB-assisted project implementation unit within the Ministry of Public Works is managing multiple road projects funded by ADB and other development partners. In Tonga, an emergency project is being implemented through preexisting project management units (ADB. 2014. *Report and Recommendation of the President to the Board of Directors for Cyclone Ian Recovery Project*. Manila). Similarly, in Vanuatu, the Port Vila Urban Development Project and the Interisland Shipping Support Project are being implemented by the same project management unit (ADB. 2009. *Report and Recommendation of the President to the Board of Directors for Port Vila Urban Development Project*. Manila; ADB. 2009. *Report and Recommendation of the President to the Board of Directors for Interisland Shipping Support Project*. Manila).

112. **Provide sufficient operational resources.** The approval of an ADF minimum allocation provides an opportunity to bring additional financial resources to key development challenges in the smallest Pacific DMCs. Effective implementation of activities supported by these additional resources is important. Cofinancing has always been significant in Pacific operations, and has become increasingly so. ADB will need to continue to seek new cofinancing partners to maintain levels of support to Pacific DMCs.

113. **Reinvigorate regional partnerships.** Regional programming requires greater attention, particularly as a complement to country programming. The Pacific Forum leaders' endorsement of a new Framework for Pacific Regionalism in May 2014 marked a renewed opportunity for identifying and supporting regional cooperation priorities (para. 22). ADB should consider reinvigorating high-level consultation with the PIFS and the Secretariat of the Pacific Community (SPC), with a view to developing stronger operational partnerships with these organizations within the new Framework for Pacific Regionalism.

114. **Appropriate civil society organization participation in projects.** The Pacific Approach set out to support government engagement with CSOs, both through consultation and participation to build demand for, and ownership of, reforms and to outsource noncore government functions. In practice, there has been some success in ADB support for outsourcing government functions to CSOs, but limited engagement by ADB in building a constituency for reform among CSOs. It is considered that working directly with CSOs is not a realistic role for ADB, and governments have not prioritized ADB support for their engagement with CSOs. ADB should continue to emphasize CSO consultation and participation in project design and implementation given their role as important stakeholders in many Pacific issues.

V. LOOKING FORWARD

115. In partnership with governments, and building on ADB's extensive experience in Asia and the Pacific, the Pacific Approach set a vision of supporting Pacific DMCs in achieving sustained and resilient improvements in their standard of living. This broad objective remains, and tangible support has been provided under the Pacific Approach toward achieving this goal. ADB has made reasonable progress in implementing the approach, and its operations have become more focused and results-oriented, and are built on stronger partnerships. At the same time, the review identified emerging development issues in the region, achievements and challenges in implementing the approach, and useful lessons that can be drawn from ADB's experience since 2010. This section discusses key considerations that ADB needs to reflect in updating the Pacific Approach.

A. Strategic Direction

116. The operating environment in the Pacific, and within ADB, has undergone some changes since the Pacific Approach was adopted. Across the Pacific, efforts have been made to reduce costs arising from smallness, limited natural resources, and extreme distances. Clear gains have been made in information and communication technology (ICT) connectivity, access to key infrastructure services, and improving the business environment. At the same time, the risks of small island living have become ever more apparent with both natural and economic forces battering the region. Though limited, some successes in creating high-value, niche products confirm the potential of the islands' resources to create sufficient value to overcome costs and stimulate growth. It will be essential to further support Pacific DMCs around the operational themes of reducing costs, managing risks, and creating value.

117. ADB's future direction will also be built on the Midterm Review of Strategy 2020, which was completed in 2014. The midterm review analyzed lessons from the implementation of Strategy 2020, and assessed the existing and emerging challenges of ADB DMCs. Particularly relevant to the operational direction in the Pacific are the midterm review's call for sharpening operational focus on inclusive growth, environment and climate change, regional cooperation and integration, and infrastructure, and its emphasis on private sector development. Appendix 6 provides a summary of the midterm review's recommendations.

118. While the Pacific Approach strategic framework remains largely relevant, external and internal changes will inform the updating of the approach to better reflect current operational realities. In particular, the following considerations should be encompassed:

1. Reducing Costs

119. **Greater connectivity.** High costs associated with small size, isolation (from each other and the world), and dispersed populations remain the biggest hindrance to sustained growth in the Pacific DMCs. ADB needs to continue to focus on greater connectivity within and across Pacific DMCs to support growth and create jobs. Connectivity encompasses physical connections (transport and ICT) and nonphysical connections (trade facilitation) to promote trade in goods and services (including tourism), and labor and capital flows. Strategic transport and ICT networks can provide regional benefits over and above the benefits they bring to individual countries. ADB's ongoing research into the nature of the economic links will develop a better understanding of the factors promoting trade, finance, and labor links, and through this will support more efficient and effective connectivity.⁸² ADB is well-placed to share Asia's experiences in these areas with the Pacific.

120. **A more supportive business environment.** A vibrant private sector is necessary to capture the potential development benefits of improved connectivity. ADB needs to continue to help governments create a supportive business environment by developing appropriate laws and regulations, sustaining a sound macroeconomic environment, providing efficient infrastructure services, and developing essential workforce skills. Governments can make it easier for the private sector to conduct business, grow, and create jobs, and so make greater use of available connections.

121. **Curbing fuel import costs.** Continuing to expand renewable energy development and curbing energy demand through supply- and demand-side efficiencies will slow the growth in fuel import costs.

2. Managing Risks

122. **Public sector management.** In addition to cost-reduction measures, increasing resilience against financial, economic, and climate change related shocks remains a high priority among the Pacific DMCs. ADB has expanded its support for developing robust PSM that can protect populations from greater hardship during financial and economic shocks, and establish fiscal buffers to manage future volatility. ADB's PSM operations will need to support the longer-term need to build fiscal buffers through a range of revenue measures, budget process improvements, expenditure controls, and efficiency gains in public administration.

⁸² Such research is being initiated under ADB. 2012. *Technical Assistance for Preparing for Regional Economic Integration*. Manila. ADB. 2013. *Technical Assistance for Evolving Linkages of the Pacific Economies*. Manila.

123. **Climate and disasters.** Measures to reduce the vulnerability of communities to the impacts of natural hazards and climate extremes complement disaster response efforts to help countries cope in the aftermath of disasters.

124. **Environment, social, and gender.** The capacity of Pacific governments to respond to the environmental, social, and gender issues arising from development investments is limited; yet these countries are critically reliant on their environment, and social connections are at the heart of Pacific life. Further opportunities should be sought to build these capacities. ADB is assisting Kiribati and Solomon Islands in building safeguards capacity, while there is a region-wide approach to building capacity to support gender mainstreaming.⁸³

3. Creating Value

125. **Niche, high-value products.** With few countries having the conditions to become globally competitive in the conventional manufacturing and service sectors, Pacific DMC need to develop niche, high-value, low-bulk products for export, and expand service provision, capitalizing on the comparative advantages of a pure, unspoiled natural environment and geographical location. Identifying commercial opportunities is clearly a private sector task; however, governments can assist by, for example, supporting facilities to meet quarantine and health requirements and developing joint marketing approaches.

126. ADB's comparative advantage is in supporting the building of an environment in which the private sector can identify and respond to opportunities for niche markets. This includes providing infrastructure, developing human resources, and promoting legislative and financial reforms that reduce the constraints facing Pacific businesses.

B. Working More Effectively

127. The expansion of the portfolio and the greater coordination needs has increased the demands of portfolio management. This growing workload has occurred in an environment of limited growth in staffing. Efficiency improvements remain critical to ensuring effectiveness does not suffer. The principles in the Pacific Approach provide guidance for future operations. These principles are consistent with the Midterm Review of Strategy 2020 that emphasizes the importance of (i) leveraging additional resources and knowledge through effective partnerships; (ii) delivering value for money through greater attention to project implementation, process efficiency, and client responsiveness; and (iii) increasing ADB's institutional capacity through improved staff expertise, better human resources management, and greater delegation of authority to field offices.

128. Particular attention should be paid to the following:

- (i) **Supporting country ownership.** While the smaller Pacific DMCs may remain aid dependent in the long term, the nature of this dependency has the potential to evolve to a point where aid seamlessly supports budget implementation. Promoting coordination among development partners can support assistance that is owned by countries. Modalities such as MFFs (e.g., in roads and aviation in PNG) and

⁸³ ADB. 2013. *Technical Assistance for Strengthening Safeguards Capacity in the Urban Sector in Kiribati*. Manila. ADB. 2012. *Technical Assistance for Solomon Islands. Strengthening Country Safeguard Systems in the Transport Sector*. Manila. ADB. 2010. *Technical Assistance for Promoting Evidence-Based Policy Making for Gender Equity in the Pacific*. Manila

results-based operations (e.g., in roads in Solomon Islands) allow long-term ADB engagement to develop capacity and country ownership.

- (ii) **Improving country diagnostics.** Stronger country programs can be developed that maximize the interrelationships among the sector lending operations and TA, and more fully integrate regional assistance. The country strategic analysis required for the 10 smaller Pacific DMCs that use the Pacific Approach as their CPS facilitates such strategic thinking around the forward assistance pipeline.
- (iii) **Expanding partnerships.** There are opportunities to work more closely with CSOs, particularly as service providers. Beyond partnerships with governments and development partners, bringing other stakeholders, including CSOs, into development projects makes greater use of the available capacity and expertise of human resources in the Pacific to support improved project performance.
- (iv) **Engaging directly with the private sector.** More financial resources can be brought to the Pacific, particularly through private sector financing, which has been relatively weak.⁸⁴ Seeking opportunities for public–private partnerships (PPPs) and showcasing the lessons from these should be a future focus.
- (v) **Bringing additional staff and administrative resources to the Pacific.** Increases in staff numbers have been outstripped by portfolio growth in the Pacific, placing pressures on implementation and achievement of outcomes. Reinforcing staffing, particularly in field offices, and empowering the DCO role across the Pacific are critical for expanding the effectiveness of ADB's Pacific engagement and results achievement.

C. Updating the Pacific Approach

129. This review has established the benefits of the Pacific Approach in providing the overall direction for a relevant, client-responsive, and results-focused program of assistance for the region. As the CPS for the 10 smaller Pacific DMCs, the Pacific Approach plays a critical strategic role. ADB will prepare an updated Pacific Approach to replace the current one, which expires at the end of 2014. The updated document will continue to provide strategic direction for ADB's engagement in the Pacific and act as the CPS for the 10 smaller Pacific DMCs. It will therefore remain a unique document for ADB, functioning both as an approach to assistance at the regional level⁸⁵ and as a hybrid multicountry strategy.

130. The updated the Pacific Approach will incorporate the lessons from this review as well as the findings of the Thematic Evaluation Study on ADB Support to the Pacific and Its Microstates, which is being prepared by the Independent Evaluation Department. Governments, development partners, and other stakeholders will also be consulted.

⁸⁴ In addition, the ADF minimum allocation of \$3 million annually (commencing in January 2015) will benefit six Pacific islands (Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, and Tuvalu), raising their allocation by more than 300% in the case of the smallest of these countries.

⁸⁵ The regional approach would continue to focus on clarifying ADB's region-wide priorities to guide country strategies and specific regional cooperation and integration initiatives that ADB will pursue within the existing architecture of Pacific regional organizations. The existence of distinct Pacific regional organizations with various mandates makes for a very different context to the tightly coordinated regional operating environment presented by the Greater Mekong Subregion Secretariat, Central Asia Regional Economic Cooperation, the South Asian Association for Regional Cooperation, or the Association of Southeast Asian Nations, for example.

131. Much of the current Pacific Approach framework is likely to remain relevant during 2015–2019. In developing the updated framework, attention will be paid to reflecting an overarching goal that recognizes the importance of raising the standards of living in the Pacific while protecting the unique environment and cultures of the region, and highlighting the role that improved connectivity plays in its achievement. This review has demonstrated the continued relevance of the sector focus and drivers of change. It has also proved that ADB’s operating principles in the Pacific are effective. The updated Pacific Approach will provide an opportunity to succinctly restate these principles to reinforce their continuing importance.

132. Some minor refinements to the framework should be considered for added clarity. These include (i) framing the goal as an impact statement and rephrasing the agenda and an outcome statement; (ii) using the new sector titles for sectors of operations;⁸⁶ (iii) recognizing disaster risk management as a driver of change alongside climate change adaptation and mitigation to reflect their interrelated nature; (iv) reclassifying good governance (formerly an agenda element) as a driver of change; and (v) removing development partnerships (formerly a driver of change) from the framework, instead including it as a component of a succinct set of principles underpinning how ADB operates in the Pacific.

⁸⁶ ADB. 2014. *Project Classification System: Final Report*. Manila.

ECONOMIC AND DEVELOPMENT INDICATORS

Table A1.1: Gross Domestic Product Growth

Pacific DMC	Annual change in real gross domestic product (%)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014p	2015p
Cook Islands	5.0	(0.2)	(3.5)	1.0	(3.0)	1.0	4.4	3.2	2.2	2.5
Fiji	1.9	(0.9)	1.0	(1.4)	3.0	2.7	1.8	4.6	2.8	3.0
Kiribati	(4.5)	7.5	2.8	(0.7)	(0.5)	2.7	2.8	2.9	3.0	2.7
RMI	1.9	3.8	(2.0)	(1.8)	5.8	0.6	3.2	3.5	3.0	1.5
FSM	(0.2)	(2.2)	(2.4)	0.9	3.2	1.8	0.1	(4.0)	0.5	0.5
Nauru	(20.3)	(10.8)	95.6	(18.2)	(11.3)	3.8	4.9	4.5	10.0	8.0
Palau	(1.3)	1.0	(5.3)	(10.7)	3.2	5.2	5.5	(0.2)	2.0	2.0
PNG	2.3	7.2	6.6	6.1	7.6	11.3	7.7	5.1	6.0	21.0
Samoa	0.5	1.5	4.8	(5.6)	0.5	1.4	2.7	(0.5)	2.0	2.5
Solomon Islands	6.1	10.9	7.2	(1.0)	7.9	10.6	4.8	2.9	(1.0)	3.0
Timor-Leste	(5.7)	11.4	14.2	13.0	9.6	14.4	7.8	8.0	8.0	8.0
Tonga	(1.1)	(4.5)	1.9	3.2	3.3	2.9	0.8	0.3	1.5	2.5
Tuvalu	3.3	4.9	11.6	(2.3)	(2.7)	8.5	0.2	1.3	2.0	2.0
Vanuatu	8.5	5.2	6.5	3.3	1.6	1.2	1.8	3.2	3.5	4.0

... = not available, () = negative, DMC = developing member country, FSM = Federated States of Micronesia, p = projection, PNG = Papua New Guinea, RMI = Marshall Islands.

Source: Asian Development Outlook database.

Table A1.2: Economic Indicators

Pacific DMC	GDP per capita (\$, 2013)	External Government Debt ^a		Ratio of Trade in Goods and Services to GDP (%) ^b		Agriculture, Forestry, and Fishing Shares ^c	
		Debt to GDP (%)	NPV of Debt to GDP (%)	Exports	Imports	GDP (%)	Emp. (%)
Cook Islands	23,538.9	27.8	20.4	1.0	37.4	5.5	4.3
Fiji	4,673.2	25.0	...	28.7	65.9	11.7	1.3
Kiribati	1,560.1	8.6	5.4	10.5	110.3	22.9	2.8
Marshall Islands	3,241.7	55.0	43.7	41.7	103.7	14.1	12.0
FSM	3,054.4	26.3	...	28.4	80.8	27.3	52.2
Nauru	7,616.3	95.8	...	49.4	89.6	6.0	...
Palau	11,760.2	26.4	...	63.1	74.9	6.7	7.8
PNG	2,235.9	8.1	5.7	41.3	59.8	28.0	72.3
Samoa	3,696.9	61.8	50.5	4.2	51.4	8.7	35.4
Solomon Islands	2,013.4	11.6	...	49.8	61.7	33.6	26.0
Timor-Leste	1,179.8	0.7	0.5	8.9	133.9	16.2	50.8
Tonga	4,578.0	41.4	28.9	16.6	46.0	19.0	27.9
Tuvalu	3,496.7	35.3	34.5	62.7	126.2	19.6	38.5
Vanuatu	3,117.0	12.7	13.1	48.1	59.0	22.4	60.5

... = not available, DMC = developing member country, FSM = Federated States of Micronesia, NPV = net present value, PNG = Papua New Guinea.

a Estimates are for 2013, with the exception of Nauru (2010 data).

b Data are as of 2013, with the exception of the Cook Islands (2012 data), the FSM (2012 data), Nauru (2009 data). For the Cook Islands, Fiji, and Samoa, data only cover exports and imports of goods.

c For GDP shares, data are for 2013, with the exception of the Cook Islands, the Marshall Islands, the FSM, Timor-Leste, and Vanuatu (whose data are for 2012), Kiribati (2011 data), Nauru, Palau, Solomon Islands, and Tuvalu (whose data are for 2009); Employment shares are for the latest available year.

Sources: ADB. 2013. Key Indicators for Asia and the Pacific. Asian Development Outlook database; International Monetary Fund Article IV Staff Reports; Pacific Economic Monitor database; and Sugden and Taniguchi. 2007. Structural Change versus Economic Inertia. Pacific Economic Bulletin. Volume 22. No. 2.

Table A1.3: ADB Pacific Developing Member Country Performance Assessment Ratings

Criterion	Kiribati		Marshall Islands		FSM		Nauru		Palau		PNG	
	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013
A. Economic Management	2.5	3.0	2.0	2.8	2.3	2.7	2.3	2.8	2.8	3.3	3.8	4.0
1. Macroeconomic Management	2.0	3.0	2.0	3.0	2.5	3.0	3.0	3.0	3.0	3.5	4.0	4.0
2. Fiscal Policy	2.0	3.0	2.0	2.5	2.0	2.5	2.5	3.5	2.0	2.5	3.5	3.5
3. Debt Policy	3.5	3.0	2.0	3.0	2.5	2.7	1.5	2.0	3.5	4.0	4.0	4.5
B. Structural Policies	2.7	2.8	2.8	2.8	3.3	3.2	2.3	2.2	3.0	3.3	3.3	3.7
1. Trade	2.5	3.0	3.0	3.0	4.0	4.0	4.0	3.5	4.0	4.0	4.0	4.5
2. Financial Sector	3.0	3.0	3.0	3.0	3.5	3.0	1.0	1.0	2.5	3.5	3.0	3.5
3. Business Regulatory Environment	2.5	2.5	2.5	2.5	2.5	2.5	2.0	2.0	2.5	2.5	3.0	3.0
C. Policies for Social Inclusion/Equity	3.0	3.2	2.9	3.0	2.5	2.8	3.0	3.0	3.3	3.7	2.7	2.9
1. Gender Equality	3.0	3.5	3.0	3.0	3.0	3.0	3.0	3.5	3.0	3.0	2.5	2.5
2. Equity of Public Resource Use	3.0	3.0	2.5	2.0	2.0	2.5	3.5	2.5	3.0	3.5	3.5	3.5
3. Building Human Resources	3.0	3.0	3.0	3.0	2.5	2.5	2.5	3.0	4.0	4.0	2.5	3.0
4. Social Protection and Labor	3.0	3.5	3.0	3.0	2.5	3.0	3.0	3.5	3.5	4.0	3.0	3.0
5. Policies and Institutions for Environmental Sustainability	3.0	3.0	3.0	4.0	2.5	3.0	3.0	2.5	3.0	4.0	2.0	2.5
D. Public Sector Management and Institutions	2.9	2.9	2.7	3.2	2.8	2.9	3.1	3.1	3.2	3.4	3.2	3.0
1. Property Rights and Rules-based Governance	3.0	3.5	3.5	4.0	3.5	3.0	2.5	2.5	3.5	4.0	3.0	2.5
2. Quality of Budgetary and Financial Management	2.5	2.0	2.5	3.0	2.5	3.0	4.0	4.0	4.0	3.5	3.5	3.5
3. Efficiency of Revenue Mobilization	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.5	3.5	4.0	4.0
4. Quality of Public Administration	3.0	3.0	2.0	2.5	2.0	2.5	3.0	3.0	3.0	3.0	2.5	2.0
5. Transparency, Accountability and Corruption in the Public Sector	3.0	2.9	2.5	3.5	3.0	3.0	3.0	3.5	3.0	3.0	3.0	3.0
E. Portfolio Performance	3.5	2.5	3.5	3.5	3.5	3.5	3.5	3.0	3.5	3.5	4.0	3.5
Composite Rating	8.5	8.3	7.6	9.8	8.2	8.9	9.0	8.9	10.2	11.8	11.2	10.5

(continued)

Criterion	Samoa		SOL		Timor-Leste		Tonga		Tuvalu		Vanuatu	
	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013
A. Economic Management	3.2	3.7	3.5	3.8	3.5	4.0	3.2	3.3	3.2	2.8	3.8	3.8
1. Macroeconomic Management	3.0	4.0	3.5	3.5	3.5	3.5	3.0	3.5	3.5	3.5	4.0	4.0
2. Fiscal Policy	3.0	3.5	3.0	3.5	3.0	4.0	3.5	3.5	3.0	3.0	3.5	3.0
3. Debt Policy	3.5	3.5	4.0	4.5	4.0	4.5	3.0	3.0	3.0	2.0	4.0	4.5
B. Structural Policies	4.0	4.2	3.3	3.5	2.8	3.2	3.8	3.7	2.8	2.7	3.3	3.2
1. Trade	4.5	5.0	4.0	3.5	4.5	4.5	4.0	4.5	3.5	3.0	3.0	3.5
2. Financial Sector	4.0	4.0	3.5	3.5	2.5	2.5	4.0	3.5	2.5	2.5	4.0	3.5
3. Business Regulatory Environment	3.5	3.5	2.5	3.5	1.5	2.5	3.5	3.0	2.5	2.5	3.0	3.0
C. Policies for Social Inclusion/Equity	3.5	4.0	2.9	2.8	3.0	3.0	3.1	3.6	3.2	3.5	2.8	2.9
1. Gender Equality	3.5	3.5	3.0	3.0	3.0	3.5	3.0	3.0	3.0	3.0	3.0	3.0
2. Equity of Public Resource Use	4.0	4.5	3.5	3.0	4.0	3.0	3.5	4.0	3.5	3.5	3.0	3.0
3. Building Human Resources	4.0	4.5	2.5	3.0	3.0	3.0	3.5	4.0	3.5	4.0	2.5	3.0
4. Social Protection and Labor	3.0	3.5	2.5	2.5	2.5	3.0	2.5	3.0	3.0	3.5	3.0	3.0
5. Policies and Institutions for Environmental Sustainability	3.0	4.0	3.0	2.5	2.5	2.5	3.0	4.0	3.0	3.5	2.5	2.5
D. Public Sector Management and Institutions	4.0	4.0	3.0	3.1	2.5	3.1	3.9	3.9	3.2	3.2	3.1	3.1
1. Property Rights and Rules-based Governance	4.0	4.0	3.0	3.5	1.5	2.5	4.0	3.5	4.0	4.0	3.5	3.0
2. Quality of Budgetary and Financial Management	3.5	3.5	3.5	3.5	3.0	3.0	3.5	4.0	3.0	3.0	3.0	3.5
3. Efficiency of Revenue Mobilization	4.5	4.5	3.0	3.0	3.0	4.0	4.5	4.5	3.0	3.0	3.0	2.5
4. Quality of Public Administration	4.0	4.0	2.5	2.5	2.5	3.0	4.0	4.0	3.0	3.0	3.0	3.5
5. Transparency, Accountability and Corruption in the Public Sector	4.0	4.0	3.0	3.0	2.5	3.0	3.5	3.5	3.0	3.0	3.0	3.0
E. Portfolio Performance	3.5	2.5	3.5	4.5	3.5	3.0	3.5	3.5	4.5	3.5	3.5	4.5
Composite Rating	14.2	13.8	10.0	11.4	8.1	10.1	13.3	13.7	11.0	10.1	10.5	11.4

ADB = Asian Development Bank, DMC = developing member country, FSM = Federated States of Micronesia, PNG = Papua New Guinea, SOL = Solomon Islands.

Source: Asian Development Bank, Pacific Department.

COUNTRY OPERATIONS BUSINESS PLAN STRATEGIC ANALYSIS LINKED DOCUMENT TEMPLATE

Notes on template use:

1. The preparation of a strategic analysis is timed to align with new national plan—about every 5 years—or if there is a major political or other event.
2. The bold headings are mandatory. Their descriptions are a guide to the kind of material that should be included, as appropriate to the country and program context.
3. The annexes are mandatory. The material in annexes should not be repeated in the text to keep the page limit down.
4. Maximum page limit is 5 pages. Additional appendixes can be added, but do not add existing documents that are available on the web.

I. DEVELOPMENT TRENDS AND ISSUES

A. Country Background

1. Summary description and discussion of (in no particular order):
 - The poverty issues (economic, social, and gender) with references to any available analyses were possible
 - Progress toward the Millennium Development Goals
 - Key environmental issues
 - Economic topics directly relevant to the strategy, and cross-reference relevant analyses (e.g., Asian Development Outlook, International Monetary Fund, private sector assessment, or Pacific Islands Economic Reports),
 - Political economy considerations
 - Any other development constraints, including binding constraints and fragile and conflict-affected situations
2. Cross-reference Appendix tables on Millennium Development Goal progress, poverty and social indicators, environment indicators, and country economic indicators, as appropriate.

B. Highlights of Previous Programming Approach

3. Provide comment on progress toward, or the outcome of, the results framework of the previous program. Draw lessons to strengthen future performance.

II. THE COUNTRY STRATEGIC PRIORITIES

A. Developing the ADB Country Strategic Priorities

4. Summarize the goals and objectives of the government's national development plan.
5. Discuss where the corporate priorities of the Asian Development Bank (ADB), set out in Strategy 2020 and the Pacific Approach, intersect with the government's development priorities in which it would like ADB involvement. Articulate strategic objective statements for engagement by ADB's Pacific Department in the country. Justify the choice of sectors and the main elements of the strategic thrust, considering how the priorities and implementation issues come together to recommend an overall country strategy and sector strategies. Reference the sector assessment or assessments in appendixes.

6. Describe how development partners are supporting the implementation of the government's programs in the sector or sectors of common engagement. Refer to the development coordination matrix appendix.

B. Implementation Issues

7. Highlight efforts to build ownership, capacity, coordinate with other development partners, use development coordination officers, etc. Show response to lessons and recommendations from relevant sources and in-country experience.

8. Identify the major risks that could affect implementation of the program, as well as the mitigating measures. Describe the extent of fiduciary risks to budget support by policy-based lending, if applicable. Refer to the risk assessment and risk management plan as an appendix.

9. Reference cost-sharing appendix.

APPENDIXES TO LINKED DOCUMENT

1. Data Tables: Millennium Development Goals, Poverty and Social Indicators, Environment Indicators, Country Economic Indicators, Country Performance Assessment Ratings, Country and Portfolio Indicators
2. Final Review of Country Programming Document (where relevant)
3. Development Coordination Matrix
4. Sector Assessment: {Insert Sector Name} {one for each priority sector}. No sector results frameworks are necessary as this will be reflected in country operations business plan's results framework which is an appendix to the country operations business plan itself
5. Risk Assessment and Risk Management Plan
6. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters

PORTFOLIO INDICATORS

Table A3.1: Pacific Department Loan and Grant Operation Approvals, 2006–2013

Item	2006–2007		2008–2009		2010–2011		2012–2013	
	Volume	Number	Volume	Number	Volume	Number	Volume	Number
OCR Loans	95.00	2	120.29	6	183.20	5	344.13	8
ADF Loans	84.61	3	204.66	5	178.62	13	174.01	11
ADF Grants	47.59	6	101.76	7	60.76	7	57.56	9
Total	132.20	11	426.71	18	422.58	25	575.7	28

ADF = Asian Development Fund, OCR = ordinary capital resources.

Notes: Figures exclude cofinancing. Each loan or grant for projects with combined OCR loan and/or ADF grant and/or ADF loan financing is counted separately.

Source: Asian Development Bank.

Table A3.2: Pacific Department Ongoing Loans and Grants (as of 31 December 2013)

Country	Loan/Grant Number	Loan or Grant Name	Milestone Dates		Amount (\$ million)
			Approval	Closing	
Fiji					
	2514	Third Road Upgrading (Sector) Project (additional financing)	23 Mar 09	31 Dec 13	26.80
	2603	Suva-Nausori Water Supply and Sewerage Project (additional financing)	15 Dec 09	30 Jun 14	23.00
	2541	Emergency Flood Recovery (Sector) Project	27 Aug 09	28 Oct 14	17.56
	0286	Fiji Flooding Rehabilitation Project	16 Apr 12	28 Jul 14	1.00
Federated States of Micronesia					
	2099/2100	Omnibus Infrastructure Development Project	5 Nov 04	30 Jun 15	19.84
	3004/3005	Yap Renewable Energy Development Project	20 Jun 13	31 Dec 17	9.04
Kiribati					
	0263/2795	South Tarawa Sanitation Improvement Sector Project	17 Oct 11	31 Dec 19	21.20
	2718	Road Rehabilitation Project	10 Dec 10	30 Jun 2015	11.77
Nauru					
	0300	Public Financial Management Reform Program	9 Aug 12	30 Sep 14	4.00

Country	Loan/Grant Number	Loan or Grant Name	Milestone Dates		Amount (\$ million)
			Approval	Closing	
Palau					
	2691/2692	Water Sector Improvement Program	9 Nov 10	28 Feb 15	16.07
	3060/3061	Koror-Airai Sanitation Project	19 Nov 13	31 Aug 22	28.80
	0381	Super Typhoon Haiyan Response Project	18 Dec 13	20 Jun 14	0.20
Papua New Guinea					
	0042	HIV/AIDS Prevention and Control in Rural Development	25 Apr 06	31 Dec 14	22.00
	0102/2398/2399/8237	Lae Port Development Project	18 Dec 07	30 Jun 14	105.59
	2803/2804	Lae Port Development Project (additional financing)	10 Nov 11	31 Dec 14	89.09
	9113	Lae Port Livelihood and Social Improvement Project	18 Dec 07	11 Jun 14	1.21
	2496-2497	Highlands Region Road Improvement Investment Program	22 Dec 08	29 Jun 15	103.59
	2713/2714	Town Electrification Investment Program – Tranche 1	6 Dec 10	1 Jun 16	57.20
	0288/9163	Improved Energy Access for Rural Communities	19 Apr 12	30 Jun 15	5.00
	0259/2785	Rural Primary Health Services Delivery Project	30 Sep 11	30 Apr 20	59.17
	2591	Pilot Border Trade and Investment Development Project	27 Nov 09	30 Jun 18	24.10
	2588/2589/2590	Civil Aviation Development Investment Program – Tranche 1	1 Dec 09	31 Dec 15	92.97
	2783/2784	Bridge Replacement for Improved Rural Access Sector Project	28 Sep 11	30 Jun 17	87.81
	0226/2686	Microfinance Expansion Project	28 Oct 10	30 Jun 18	18.97
	2978	Maritime and Waterways Safety Project	18 Dec 12	30 Sep 18	41.61
	3069/3070	Civil Aviation Development Investment Program – Tranche 2	25 Nov 13	30 Sep 17	130.00
	3076/3077	Highlands Region Road Improvement Investment Program – Tranche 2	4 Dec 13	30 Jun 18	109.00
	2998/2999	Port Moresby Power Grid Development Project	26 Apr 13	31 Jul 17	66.70
Republic of the Marshall Islands					
	2950	Public Sector Program – Subprogram 2	26 Nov 12	31 Mar 14	5.00
	9148	Improved Energy Supply for Poor Households	6 Aug 10	9 Jun 14	1.76
	0351	Second Drought Disaster Response Project	10 Jul 13	18 Jan 14	0.20
Samoa					
	0031/0032/2220	Education Sector Project II	16 Dec 05	31 Dec 14	25.94
	0097	Schoolnet and Community Access Project	14 Dec 07	31 Dec 14	5.90
	0087/0101/2368	Power Sector Expansion Project	21 Nov 07	31 Dec 16	49.94
	8232	Power Sector Expansion Project	4 Oct 07	14 Nov 17	55.41
	9166	Community Sanitation Project	31 Jul 12	31 Jan 17	2.00
	0370/0371/0373	Renewable Energy Development and Power Sector Rehabilitation Project	15 Nov 13	30 Jun 19	19.21
	0360	Public Sector Financial Management Program	24 Sep 13	31 Dec 15	14.00
Solomon Islands					
	0127	Domestic Maritime Support (Sector) Project	25 Nov 08	30 Jun 19	18.65

Country	Loan/Grant Number	Loan or Grant Name	Milestone Dates		Amount (\$ million)
			Approval	Closing	
Timor-Leste	0292/0293	Domestic Maritime Support (Sector) Project (additional financing)	23 May 12	31 Dec 14	6.80
	0243	Transport Sector Development Project	15 Dec 10	31 Jul 16	12.00
	0304/2897	Broadband for Development Project	25 Sep 12	30 Apr 18	18.29
	0385	Solomon Islands Flood Disaster Response Project	16 Apr 14	22 Oct 14	0.20
	0100	Dili Urban Water Supply Sector Project	18 Dec 07	31 Dec 14	6.00
	0180	Road Network Development Sector Project	20 Nov 09	31 May 16	46.00
	9142	Our Roads Our Future – Supporting Local Governance and Communications	20 Nov 09	12 Mar 15	3.00
	0258	District Capitals Water Supply Project	23 Sep 11	30 Jun 17	11.00
	2857/2858	Road Network Upgrading Project	30 Mar 12	30 Jun 17	39.96
	0274	Mid-level Skills Training Project	7 Dec 11	30 Jun 17	12.00
Tonga	3020/3021	Road Network Upgrading (Sector) Project	19 Sep 13	30 Jun 20	50.00
	0264/0265	Nuku'alofa Urban Development Sector Project	17 Oct 11	31 Jan 19	12.50
	0256	Tonga-Fiji Submarine Cable Project	23 Aug 11	31 Dec 16	9.70
	0347/0348	Outer Island Renewable Energy Project	27 Jun 13	30 Jun 20	6.50
	0378	Climate Resilience Sector Project	9 Dec 13	30 Jun 19	19.25
Vanuatu	0275/0276/2832	Port Vila Urban Development Project	13 Dec 11	31 Dec 17	35.90
	0273	Interisland Shipping Support Project	30 Nov 11	31 Dec 16	22.95
Regional	2870/3128	Higher Education in the Pacific Investment Program – Tranche 1	15 Jun 12	30 Jun 16	2.61
	9151	Social Protection of the Vulnerable in the Pacific	13 Sep 10	31 Dec 14	3.00

Source: Asian Development Bank.

Table A3.3: Pacific Department Ongoing Technical Assistance
(as of 31 December 2013)

Country	TA No.	TA Title	Milestone Dates		Amount (\$'000)
			Approval	Completion	
Cook Islands					
	8439	Preparing the Renewable Energy Project	4 Sep 2013	30 Apr 2014	500
	8416	Asset Management for Sustainable and Improved Infrastructure Services Delivery	2 Aug 2013	31 Mar 2015	225
Fiji					
	8514	Transport Sector Planning and Management	25 Nov 2013	25 May 2015	800
	8526	Urban Development Planning and Institutional Capacity Building	4 Dec 2013	30 Sep 2015	1,150
Kiribati					
	7995	Strengthened Public Financial Management	14 Dec 2011	30 Apr 2014	1,800
	8428	Strengthening Safeguards Capacity in the Urban Sector in Kiribati	9 Aug 2013	31 Dec 2014	220
	8478	Enhancing Economic Competitiveness through State-Owned Enterprise Reform	8 Oct 2013	31 Mar 2017	800
Marshall Islands					
	7578	Supporting the Public Sector Program	17 Aug 2010	31 Aug 2014	900
	8061	Strengthening Economic Policy and Planning: Supporting the Implementation of the National Development Plan, 2012–2015	20 Mar 2012	31 Mar 2015	225
	8306	Ebeye Water Supply and Sanitation Project	20 Dec 2012	15 Sep 2014	1,000
Federated States of Micronesia					
	7213	Strengthening Public Sector Performance	11 Dec 2008	28 Feb 2014	750
	7927	Strengthening Infrastructure Planning and Implementation	23 Nov 2011	30 Nov 2014	700
	8230	Strengthening the Energy Sector Regulatory Framework	03 Dec 2012	31 Aug 2014	500
	8494	National Tourism Sector Development Framework and State Government Tourism Investment Plans	25 Oct 2013	31 Oct 2015	225
Nauru					
	8524	Preparing the Electricity Supply Security and Sustainability	28 Nov 2013	31 Oct 2014	500
Papua New Guinea					
	7393	Trade and Investment Institutional Strengthening	27 Nov 2009	31 Dec 2014	900
	7782	Facilitating Public–Private Partnerships	23 Feb 2011	30 Apr 2014	800
	7874	Major Bridges Study	28 Sep 2011	30 Jun 2014	800
	8213	Supporting Public Financial Management, Phase 2	12 Nov 2012	31 Oct 2014	1,000
	8264	Implementation of the Electricity Industry Policy	10 Dec 2012	24 Dec 2015	1,000
	8362	Strategic Program for Climate Resilience Implementation Project	2 May 2013	19 Jun 2015	750
	8515	Supporting Anti-Money Laundering and Combatting the Financing of Terrorism	14 Nov 2013	30 Jun 2015	225
Samoa					
	8231	Preparing the Private Sector Development Project	04 Dec 2012	30 May 2014	600

Country	TA No.	TA Title	Milestone Dates		Amount (\$'000)	46
			Approval	Completion		
Solomon Islands	8481	Customary Land Reform, Phase 3	10 Oct 2013	31 Dec 2016	400	Appendix 3
	7715	Supporting the Transport Sector Development Project	15 Dec 2010	21 Mar 2014	800	
	7944	Supporting the Implementation of the National Development Strategy	02 Dec 2011	31 Jan 2014	600	
	8130	Outer Island Renewable Energy Project	10 Aug 2012	31 Jan 2014	1,000	
	8217	Strengthening Country Safeguard Systems in the Transport Sector	16 Nov 2012	30 Sep 2014	600	
	8596	Sustainable Transport Infrastructure Improvement Program	16 Dec 2013	11 Jul 2014	400	
Timor-Leste	8487	Information and Communication Technology for Better Education Services	21 Oct 2013	31 Mar 2016	500	
	4942	Infrastructure Project Management	21 Jun 2007	31 Dec 2014	15,000	
	7712	Strengthening Major Public Investments	15 Dec 2010	30 Jun 2014	250	
	7981	Strengthening Water Sector Management and Service Delivery	14 Dec 2011	28 Feb 2015	1,312	
	8064	Second District Capitals Water Supply Project	26 Mar 2012	31 May 2015	750	
	8256	Preparing for Regional Economic Integration	10 Dec 2012	31 Dec 2014	850	
Tonga	8278	Infrastructure Management	11 Dec 2012	30 Jun 2016	2,500	
	7959	Implementing Strategic Economic Management	09 Dec 2011	14 Feb 2014	2,000	
	8307	Project to Implement the Strategic Program for Climate Resilience	19 Dec 2012	31 Mar 2014	750	
Tuvalu						
	8100	Institutional Strengthening of the Ministry of Finance and Economic Development	29 Jun 2012	30 Apr 2016	510	
Vanuatu						
	7345	Port Vila Urban Development Project	10 Sep 2009	31 Mar 2015	2,210	
	7588	State-Owned Enterprise Rationalization Program	01 Sep 2010	31 Dec 2014	500	
	7938	Establishment of the Maritime Safety Administration	30 Nov 2011	30 Sep 2016	1,500	
	8285	Energy Access Project	18 Dec 2012	3 Jun 2014	750	
Regional	8336	Expansion of Rural Financial Services	15 Feb 2013	30 Sep 2014	225	
	6507	Strengthening PFM in Pacific Developing Member Countries	11 Dec 2008	31 Dec 2014	1,500	
	7329	Promoting Access to Renewable Energy in the Pacific	11 Aug 2009	31 Mar 2015	3,100	
	7399	Information and Communication Technology-Based Inclusive Growth and Poverty Reduction in the Pacific	03 Dec 2009	30 Sep 2014	570	
	7430	Pacific Private Sector Development Initiative Phase 2	10 Dec 2009	31 Dec 2014	12,000	
	7656	Promoting Evidence-Based Policy Making for Gender Equity in the Pacific	25 Nov 2010	30 Jun 2015	1,450	
	7684	Institutional Strengthening for Aviation Regulation	09 Dec 2010	31 Jan 2014	900	
	7753	Strengthening Coastal and Marine Resources Management in the Coral Triangle of the Pacific Phase 2	14 Dec 2010	30 Oct 2015	15,068	

Country	TA No.	TA Title	Milestone Dates		Amount (\$'000)
			Approval	Completion	
	7787	Pacific Regional Information and Communication Technology Connectivity Project, Phase 2	14 Mar 2011	30Jun 2014	900
	7798	Promoting Energy Efficiency in the Pacific, Phase 2	31 Mar 2011	31 Mar 2015	8,754
	7800	Building Capacity for Statistics in the Pacific	30 Mar 2011	31 Mar 2015	1,000
	7832	Pacific Financial Technical Assistance Centre 2011–2014	12 Jul 2011	31 Aug 2014	1,000
	7901	Strengthening Regulatory Capacity for Information and Communication Technology Development in the Pacific	31 Oct 2011	31 May 2014	750
	7910	Solid Waste Management in the Pacific	15 Nov 2011	28 Feb 2014	450
	8065	Enhancing ADB's Engagement In Fragile and Conflict-Affected Situations	29 Mar 2012	31 Dec 2015	921
	8066	Quality Primary Education In the North Pacific	29 Mar 2012	30 Apr 2015	1,350
	8088	Enhancing Engagement With Pacific Developing Member Countries, Phase 2	31 May 2012	30 Jun 2015	2,216
	8238	Strengthening Disaster and Climate Risk Resilience in Urban Development in the Pacific	05 Dec 2012	25 May 2015	650
	8257	Results-Based Strategy and Sector Planning in the Pacific	12 Dec 2012	31 Dec 2014	785
	8384	Evolving Linkages of the Pacific Economies	17 Jun 2013	31 Aug 2015	500
	8565	Pacific Economic Management, Phase 2	13 Dec 2013	31 Dec 2016	975
	8345	Establishment of the Pacific Regional Infrastructure Facility Coordination Office	27 Mar 2013	30 Apr 2016	11,800
	8599	Assessing Trade Facilitation and Transport Logistic Performance in the Pacific	19 Dec 2013	15 Jan 2015	225
	8360	Implementation of the Strategic Program for Climate Resilience: Pacific Region	25 Apr 2013	1 Jun 2016	3,691
	8511	Higher Education Assessment	15 Nov 2013	15 Dec 2014	225
	8581	Strengthening Public Sector Management in the North Pacific	16 Dec 2013	31 Dec 2016	1,500
	8540	Pacific Information and Communication Technology Investment Planning and Capacity Development Facility	9 Dec 2013	13 Jan 2018	1,100
	8552	National Education Planning and Management	12 Dec 2013	31 Jan 2018	700
	8517	Implementing the Pacific Regional Audit Initiative in Pacific Island Countries, Ph. 2	25 Nov 2013	30 Jun 2016	1,300
	8378	Pacific Private Sector Development Initiative, Phase 3	6 Jun 2013	31 May 2019	30,500

ADB = Asian Development Bank, PFM = public financial management, TA = technical assistance.

Source: Asian Development Bank.

Table A3.4: Technical Assistance Approvals by Sector, 2009-2013

Sector	2006–2009				2010–2013			
	Amount (\$)	%	Number	%	Amount (\$)	%	Number	%
Agriculture, Natural Resources and Rural Development	2,480,000	2.5	3	3.9%	15,068,183	11.6	2	2.2%
Education	1,495,000	1.5	3	3.9%	2,275,000	1.7	3	3.3%
Energy	6,550,000	6.7	4	5.3%	10,755,000	8.2	6	6.6%
Finance	1,785,000	1.8	4	5.3%	225,000	0.2	1	1.1%
Health and Social Protection	4,302,523	4.4	6	7.9%	-	0.0	-	0.0%
Industry and Trade	900,000	0.9	1	1.3%	2,725,000	2.1	2	2.2%
Multisector	33,565,000	34.4	6	7.9%	32,919,000	25.3	23	25.3%
Public Sector Management	38,168,750	39.1	40	52.6%	54,517,441	41.8	37	40.7%
Transport and Information and Communication Technology	4,602,000	4.7	6	7.9%	7,900,000	6.1	10	11.0%
Water and Other Municipal Infrastructure and Services	3,700,000	3.8	3	3.9%	3,987,000	3.1	7	7.7%
Total	97,548,273	100.0	76	100%	130,371,624	100.0	91	100%

Note:

1. Figures do not necessarily add up to total due to rounding.
2. The table excludes project preparatory technical assistance.

Source: Asian Development Bank.

Table A3.5: Pacific Department Loan and Grant Approvals by Sector, 2009–2013

Sector	2006–2009				2010–2013			
	Amount (\$ million)	%	Number	%	Amount (\$ million)	%	Number	%
Agriculture, natural resources and rural development	0	0.0	0	0.0	19,250,000	1.5	1	1.8
Education	5,900,000	0.8	1	3.1	14,600,000	1.1	2	3.6
Energy	88,000,000	11.4	1	3.1	165,616,503	12.6	7	12.7
Finance	0	0.0	0	0.0	19,000,000	1.4	1	1.8
Health and social protection	24,000,000	3.1	2	6.3	74,700,000	5.7	5	9.1
Industry and trade	25,000,000	3.3	1	3.1	0	0.0		0.0
Multisector	67,310,000	8.8	7	21.9	56,320,000	4.3	9	16.4
Public sector management	3,240,000	0.4	1	3.1	44,350,000	3.4	7	12.7
Transport and information and communication Technology	520,239,881	67.7	15	46.9	807,548,230	61.3	17	30.9
Water and other municipal infrastructure and services	34,980,000	4.6	4	12.5	116,840,841	8.9	6	10.9
Total	768,669,881	100.0	32	100.0	1,318,225,574	100.0	55	100.0

Note: Figures may not sum precisely because of rounding.

Source: Asian Development Bank.

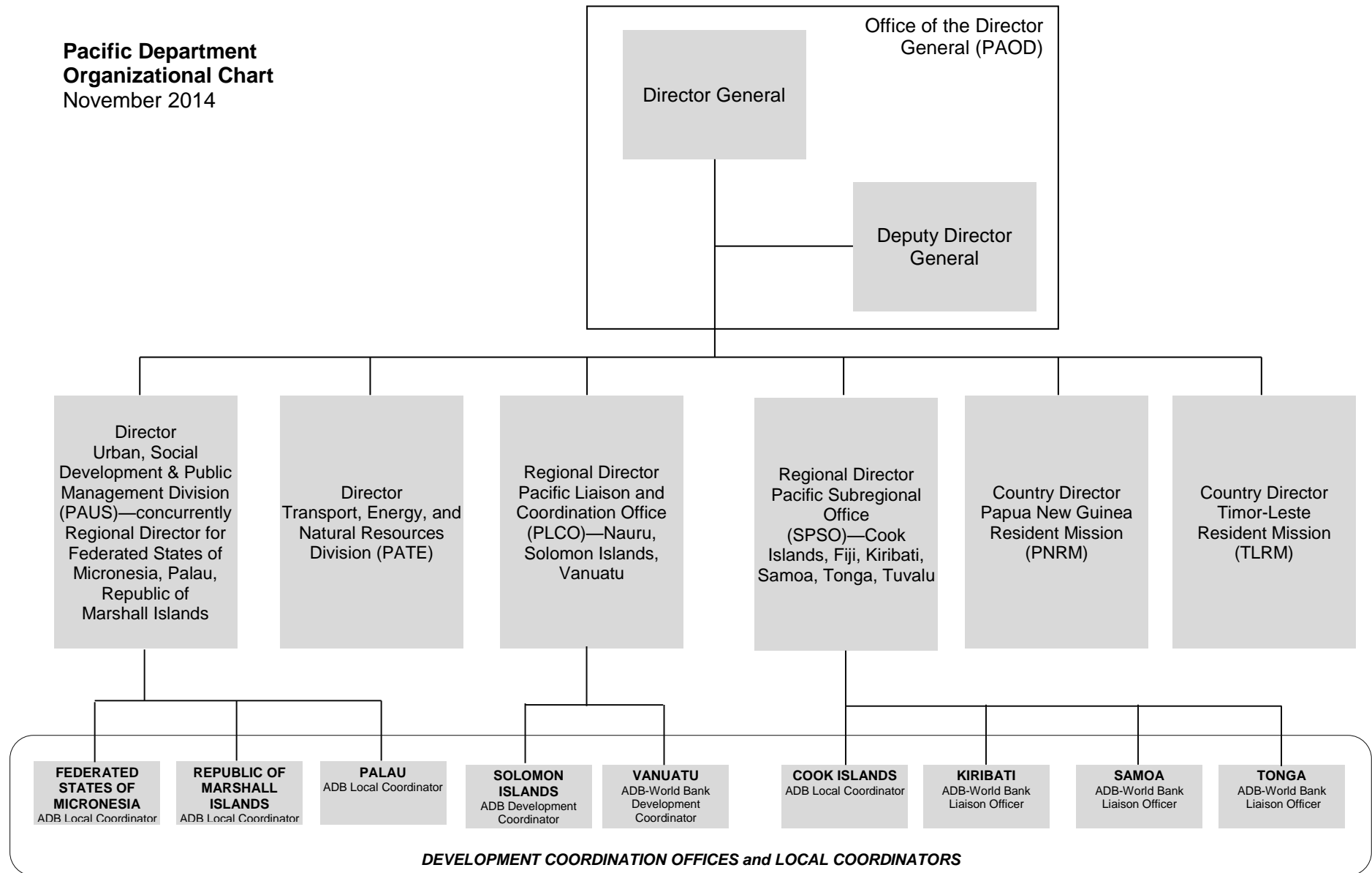
Loan and Grant Portfolio Volume, Operating Budget, and Staffing, 2006–2013

Item	2006	2007	2008	2009	2010	2011	2012	2013
Portfolio volume (\$ million)	565.7	677.5	707.4	933.6	953.4	1,253.4	1,477.4	1,709.0
Disbursement (\$ million)	50.2	58.1	52.9	49.9	138.3	126.9	185.6	295.6
Operating budget (\$ million)	2.0	2.2	2.5	3.0	3.3	3.6	3.6	3.8
Staffing (number)								
International staff	31	32	34	35	38	39	40	40
National staff	14	17	19	19	22	26	27	27
Administrative staff	34	33	33	34	39	42	43	44
Total staff	79	82	86	88	99	107	110	111

Note: Portfolio volume excludes technical assistance and includes cofinancing.

Source: Asian Development Bank.

**Pacific Department
Organizational Chart**
November 2014



ADB'S STRATEGIC PRIORITIES FOR 2014–2020

Sharpening ADB's Operational Focus

1. **Poverty reduction and inclusive growth.** The Asian Development Bank (ADB) will expand support for achieving rapid and inclusive economic growth by (i) supporting infrastructure projects that benefit lagging areas; (ii) expanding education and health operations; (iii) emphasizing support for social protection, financial inclusion, and inclusive business; (iv) strengthening governance systems and institutional capacity; and (v) providing more resources to low-income and fragile and conflict-affected developing member countries.¹
2. **Environment and climate change.** To respond to environmental challenges, ADB will (i) scale up support for climate change adaptation, while maintaining assistance for mitigation; (ii) further mainstream adaptation and climate resilience in development planning and projects; (iii) strengthen integrated disaster risk management; (iv) promote natural resource management; and (v) help developing member countries access global and regional environment and climate change funds.
3. **Regional cooperation and integration.** ADB will expand regional connectivity and extend value chains by supporting cross-border infrastructure investments and connecting economic hubs, complementing these investments with measures to promote second-generation regional cooperation and integration, financial and monetary integration, and regional public goods.
4. **Infrastructure.** Infrastructure will remain the main focus of ADB operations, with outcomes strengthened through greater emphasis on design and implementation, sustainability, larger scale, and reforms to strengthen infrastructure management.

Responding to the New Business Environment

5. **Middle-income countries.** ADB will sharpen its strategic approach to respond to the needs of middle-income countries, supporting inclusive growth, infrastructure development, and governance in lower middle-income countries; and providing catalytic solutions, finance, and knowledge and innovation for upper middle-income countries.
6. **The private sector.** ADB will expand assistance for private sector development and operations to 50% of annual operations by 2020 by (i) strengthening the business environment to promote private sector investment, (ii) supporting public–private partnership projects, (iii) providing innovative project financing, and (iv) streamlining business processes.
7. **Knowledge solutions.** ADB will adopt a “One ADB” approach involving ADB departments, communities of practice, and field offices to provide knowledge solutions that are innovative and operationally relevant.

Strengthening ADB's Capacity and Effectiveness

8. **Financial resources and partnerships.** ADB will enhance its lending capacity and will partner with multilateral and bilateral institutions, the private sector, and civil society organizations to leverage additional resources and share knowledge and expertise.

¹ The information in this appendix is from ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

9. **Delivering value for money.** ADB will seek to increase its efficiency, effectiveness, and institutional economy by reforming and rationalizing its business processes, considering performance of ongoing operations when allocating resources, strengthening internal information and communication technology systems, and monitoring performance more systematically.

10. **Organizing to meet new challenges.** ADB will (i) strengthen staff skills, incentives, and institutional arrangements; (ii) recruit strategically to address staff shortages; (iii) reemphasize long-term sector engagement and technical expertise; (iv) share skills across departments; (v) give greater authority and mandate to field offices; and (vi) empower national staff to play a greater role.