

Pacific Private Sector Development Initiative
Annual Progress Report 2008



CONTENTS

	Page
FOREWORD	iii
EXECUTIVE SUMMARY	iv
I. INTRODUCTION	1
II. ABOUT THE PRIVATE SECTOR DEVELOPMENT INITIATIVE	1
A. Overall Objectives	1
B. Technical Approach and Management Structure	3
C. Partnership for Development Results	3
III. FINANCIAL OVERVIEW	4
IV. PORTFOLIO OF ACTIVITIES	5
A. Overview	5
B. Reform Support in Key Results Areas	6
C. Diagnostic Studies, Advocacy, and Outreach	12
V. LINKAGES AND PARTNERSHIPS	14
A. Mainstreaming Private Sector Development in ADB Operations	14
B. Fostering External Partnerships	15
VI. RESULTS MANAGEMENT	15
A. Results Framework	15
B. Portfolio Performance	18
C. Client Feedback	19
VII. OUTLOOK	21
APPENDIXES	
1. PSDI Activities: Country Portfolios	23
2. PSDI Project List	46
3. PSDI Portfolio Performance Summary	57
4. PSDI-Supported Seminars and Workshops in 2008	59
5. PSD(I) Indicators (Indicative)	60

NOTES

- (i) In this report, "\$" refers to US dollars unless otherwise stated.
- (ii) This report was prepared by the Asian Development Bank Pacific Liaison and Coordination Office (PLCO), Sydney, Australia.
- (iii) This report has not been formally edited.

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
COO	–	Cook Islands
CPA	–	Country Performance Assessment (ADB)
CPIA	–	Country Policy and Institutional Assessment (World Bank)
CSO	–	community service obligation
FIAS	–	Foreign Investment Advisory Services
FIJ	–	Fiji Islands
GDP	–	gross domestic product
HFL	–	Home Finance Limited
ICCC	–	Independent Consumer and Competition Commission
IFC	–	International Finance Corporation
IMfTL	–	Instituição De Microfinanças De Timor–Leste
INA	–	Institute of National Affairs
MfDR	–	management for development results
MPEI	–	Ministry of Public Enterprises and Information (Tonga)
NEC	–	the Cabinet (Papua New Guinea)
NZAID	–	New Zealand Agency for International Development
NZCO	–	New Zealand Companies Office
PAL	–	Palau
PARD	–	Pacific Department
PDMC	–	Pacific developing member country
PIAC	–	Pacific Infrastructure Advisory Center
PIER	–	Pacific Islands Economic Report
PLCO	–	Pacific Liaison and Coordination Office
PNG	–	Papua New Guinea
PNRM	–	Papua New Guinea Resident Mission
PPP	–	public–private partnership
PPS	–	personal property securities
PRIF	–	Pacific Region Infrastructure Facility
PSA	–	private sector assessment
PSD	–	private sector development
PSDI	–	Private Sector Development Initiative
REG	–	regional
RMI	–	Republic of the Marshall Islands
SAM	–	Samoa
SBC	–	Samoa Broadcasting Corporation
SCB	–	Samoa Commercial Bank
SCI	–	statement of corporate intent
SDS	–	Strategy for the Development of Samoa
SIOD	–	Samoa Institute of Directors
SML	–	Sasape Marina Limited
SOE	–	state-owned enterprise
SOEMD	–	State-Owned Enterprise Monitoring Division (Samoa)
SOL	–	Solomon Islands
SOTL	–	Special Office in Timor–Leste
SPSO	–	South Pacific Subregional Office
SSS	–	Samoa Shipping Services
TA	–	technical assistance
TIM	–	Timor–Leste
TON	–	Tonga
UNDP	–	United Nations Development Programme
VAN	–	Vanuatu
VFSC	–	Vanuatu Financial Services Commission

FOREWORD

Pacific island countries are increasingly recognizing the importance of a vibrant private sector to fuel sustained economic growth and eliminating the core constraints to private sector development (PSD) that many of the countries in the region share. The Private Sector Development Initiative (PSDI), a regional technical assistance project of the Asian Development Bank (ADB), cofinanced with the Australian Agency for International Development (AusAID), was established to help Pacific countries address these core constraints to PSD.

This is the second annual progress report of the PSDI. It provides an overview of the rapidly growing portfolio of reform projects supported by PSDI in 2008, as well as the expected impacts and outcomes of this initiative. The report demonstrates that PSDI is unique in the region, both in the way it identifies projects for assistance and implements crosscutting private sector-oriented initiatives to promote sustainable economic growth throughout the Pacific region.

The fallout from the worldwide financial and economic crisis will negatively impact the economies of the region. The turmoil in financial markets, the economic downturn, and the collapse of commodity prices will all contribute to a slowdown in Pacific economies. While, so far, the financial systems in most countries in the region have not come under pressure, there will be negative real economic effects in many countries. ADB and other development partners are moving to assist countries that are experiencing severe difficulties. While PSDI was not originally designed to address the impact of the crisis, the reform measures that it supports will contribute substantially to the greater flexibility of the economies of the region. While this will not eliminate all problems, the greater productivity resulting from PSDI-supported reform will help them to adjust to negative external events.

While PSDI provides a unique rapid response capability to implement reform in the region, its final success will be determined by the long-term impact on growth and poverty alleviation of the reform measures it has funded. In many cases, it is still too early for the initiatives underway to have measurable impact on the ultimate goals. Policy reforms often take several years to be implemented fully and translated into a measurable effect on growth. Nevertheless, careful measurement and benchmarking of progress is underway. Performance indicators are being developed that will allow for the specific assessment of the success of what is being achieved, and thereby serve to inform future directions.

I am especially pleased about the overwhelmingly positive feedback we have received from clients—this speaks for itself. I would like to take this opportunity to extend my appreciation to, and congratulate, Pacific member countries and their government officials, as well as the private sector representatives that have been working with our team to make change happen. I would like to acknowledge and sincerely thank AusAID for the special partnership and support in relation to PSDI. Last but not least, I would like to commend the PSDI team for a job well done. My best wishes for another productive and successful year for PSDI in 2009.



S. Hafeez Rahman
Director General
Pacific Department

EXECUTIVE SUMMARY

1. **About PSDI.** This is the second annual progress report of the Private Sector Development Initiative (PSDI), a regional technical assistance (TA) project of the Asian Development Bank (ADB), cofinanced by the Australian Agency for International Development (AusAID). Its main objective is to promote private sector-led, sustainable economic growth in ADB's Pacific developing member countries (PDMCs). PSDI leverages existing ADB country partnership strategies by providing a rapid-response capability for private sector development (PSD) reform as well as necessary resources for core analytical work and advocacy. Specifically, PSDI addresses the binding constraints to private sector-led economic growth in the Pacific by supporting: (i) state-owned enterprise (SOE) reform and public–private partnerships (PPPs); (ii) access to finance; and (iii) reform of the legal and regulatory business environment. PSDI activities are implemented using a mix of country-specific and regional initiatives that cover analytical work, technical assistance, capacity development, and advocacy.

2. **PSDI Goals.** PSDI activities are designed to translate into measurable contributions to economic growth in the Pacific region by: (i) increasing the quantum of private investment; (ii) improving access to finance and financial services to the private sector; (iii) increasing the number of private businesses created and registered, and reducing the associated costs; (iv) improving access and reducing the costs of using the commercial legal framework; (v) improving the quality and accessibility of infrastructure services; (vi) encouraging competition and creating opportunities for private sector participation in markets currently dominated by SOEs and government departments; and (vii) strengthening the overall financial performance of SOEs, thereby reducing their drain on public funds and improving their performance.

3. **During** the first full year of PSDI's implementation (2007), efforts were focused on establishing the foundations for future successful implementation. The core specialist team was put in place, and management systems were developed. There were initiatives to engage senior policymakers and stakeholders in the region on a broad PSD reform agenda. In 2008, efforts were focused on capitalizing and broadening the reform momentum.

4. **Operational Highlights.** The response of Pacific island governments to both the analysis and the technical reforms financed through PSDI has been strongly positive. To date, 52 reform projects, worth about US\$7.5 million, have been initiated through PSDI, the majority of which were launched in 2008. Highlights of outputs and achievements in 2008 for PSDI's key results areas as follows (see Chapter IV for details).

State-Owned Enterprise Reform and Public–Private Partnerships

- A **PPP policy** was prepared and endorsed by Cabinet in Papua New Guinea (PNG), paving the way for implementation in 2009.
- A number of **privatization transactions** are progressing in the Solomon Islands and Tonga.
- A **comparative analysis of SOE performance** and reform experiences in the Fiji Islands (Fiji), Samoa, and Tonga was finalized (for publication in early 2009) and has created strong interest throughout the region in SOE reform issues and solutions, providing a basis for policy dialogue in 2009.

- An **SOE reform pipeline** for 2008–2012 was prepared for the Ministry of Finance in Samoa, and support was given to implement its newly-issued policy on community service obligations (CSOs).
- In Tonga, a strategy and implementation plan for **outsourcing road maintenance** activities to the private sector was developed, and is now being implemented with PSDI support.
- **Eleven workshops/seminars** have been conducted on SOE reform/PPP/CSOs on both the country and regional levels, with about 300 participants in total.

Access to Finance

- Options for piloting **branchless banking technologies** have been developed in PNG, Timor–Leste, Tonga, and Vanuatu, including the integration of remittance inflows with domestic transfers and payments. PSDI helped prepare the pilot of a branchless banking program with the National Bank of Vanuatu, which is now ongoing under separate TA funding. Follow-on work to support the implementation of branchless banking in PNG, Timor–Leste, and Tonga is programmed for 2009.
- Major workshops and conferences were held on **financial literacy** and **mobile banking**, in cooperation with other agencies such as the International Monetary Fund, United Nations Development Program, and the World Bank. Rural and microfinance activities have, to date, absorbed approximately 10% of the PSDI budget, and are expected to increase further in 2009–2011.
- PSDI funded an assessment of financial sector issues in Timor–Leste, and prepared the **restructuring of a local microfinance institution into a small commercial bank**. Implementation is expected in 2009.
- Reform of the **personal property securities framework** is underway in five countries in the region—Palau, Samoa, Solomon Islands, Tonga, and Vanuatu. To date, PSDI has supported the drafting and passing of new Personal Property Securities Acts in Vanuatu (April 2008) and Solomon Islands (August 2008). Legal drafting and consultation on the laws and design of the associated registries is ongoing in Palau, Samoa, and Tonga.

Legal and Regulatory Business Environment

- **Innovative new Companies Acts** have been drafted for the Solomon Islands (expected to be considered by Parliament in February 2009) and Vanuatu (mid-2009).
- In Tonga, a **Companies Amendment Act** (2009) is being drafted in cooperation with the International Finance Corporation to modernize the company registry.
- Diagnostic studies and associated consultations for **company registry reforms** have been carried out in Samoa, Solomon Islands, and Vanuatu. The recommendations are scheduled for implementation in 2009–2010.
- New **insolvency legislation** is being drafted for the Solomon Islands (expected to be considered by Parliament in February 2009) and Vanuatu (mid-2009). These new Acts will support straightforward insolvency procedures and make it easier for bankruptcy receivers to carry out their obligations more quickly and at lower cost.

- A **reform roadmap for the contracting framework** in the Pacific Islands has been prepared, which simplifies contracting and dispute resolution. Chief Justices and other senior legal stakeholders in the study countries (PNG, Solomon Islands, Tonga, and Vanuatu) have embraced the recommendation to codify Pacific Islands' contract law.
- PSDI is funding capacity strengthening in the Cook Islands, Fiji, and PNG in the areas of **competition policy, consumer protection, and sector regulation**. In PNG, PSDI's support to the Independent Consumer and Competition Commission was crucial in establishing the parameters for private sector entry into PNG's mobile telecommunications sector, which in turn contributed to the exceptional growth in mobile coverage and an estimated 1% increase in PNG's gross domestic product.

5. **Diagnostic Studies, Advocacy, and Outreach.** Initiatives funded by PSDI are based on a solid foundation of analytical and advocacy work. In 2008, these included the following:

- A **private sector assessment (PSA) for Tonga** was completed and publicly launched jointly with the Prime Minister and the Chamber of Commerce. A **PSA for PNG** was completed and launched jointly with the **PNG Business Survey**. Moreover, a **draft PSA for Vanuatu** was presented to the new government as a potential platform for economic reform. Key PSA reform recommendations are being prepared and implemented in all study countries.
- **PSD policy and coordination advisers** have been assigned to PNG and Tonga.
- Numerous PSD-related **articles, op-ed pieces, and interviews** have been published in regional and local media.
- Analytical work commenced on such issues as the development of more effective **contracting frameworks** and promoting **competition and consumer protection** in Pacific island economies, focusing on the development of regional approaches.
- **High-level public-private dialogue** was facilitated in PNG, Samoa, and Tonga.
- **Twenty-two PSD advocacy seminars and training workshops** were conducted in the region, **attended by over 700 key stakeholders**, including policymakers, the media, academia, the private sector, and civil society.

6. **Impact Analysis, Monitoring, and Evaluation.** Measuring the impact of PSDI-supported technical assistance is crucial to understanding its effectiveness, and to this end, PSDI is developing a comprehensive performance measurement framework. This framework seeks to measure the effectiveness of PSDI-supported technical assistance, as well as more broadly, the impact of policy and legal reforms and donor investments in PSD in the Pacific. The framework is based on: (i) country-level analysis of constraints to PSD; (ii) measurement of progress along an agreed set of PSD indicators in each country; and (iii) on the project level, measurement of progress and achievements of individual PSDI-financed technical interventions. Benchmarking options are built into the framework on all levels.

7. **Partnerships.** Under PSDI, ADB has been able to foster partnerships with other PSD donors and promote interagency coordination and collaboration, with a view to harmonizing PSD analysis, dialogue, solution design, and reform implementation. In particular, the partnership with AusAID has deepened substantially through regular dialogue

and collaboration on PSD issues, sharing the results of analyses, discussions on country strategies and programs, and specific reform initiatives. Likewise, PSDI's activities have been closely coordinated with the World Bank Group, including the implementation of collaborative initiatives both in operations and monitoring and evaluation. Going forward, we anticipate significant leverage and benefit from PSDI's collaboration with the Pacific Infrastructure Advisory Center, taking into account PSDI's substantial expertise, experience, and relationships in the area of private sector participation in infrastructure, PPPs, and CSOs.

8. **Outlook.** In the year ahead, PSDI will enable ongoing programs to be maintained and expanded. We will remain highly responsive to reform opportunities. The following initiatives will comprise the core of the PSDI program over the next 1–2 years:

- Expanding access to finance through microfinance partnerships, the application of new electronic technologies and branchless models, and supporting regulatory reforms;
- Continued implementation of the new business law framework, especially in the areas of company law, personal property securities laws, and their associated institutions—particularly registries and filing archives;
- Establishment or modernization of business registries;
- Development of a multi-country contracting code with regional application;
- Continuing to encourage the opening of Pacific region economies to competition—both in goods and services. Apart from encouraging greater trade, PSDI-funded initiatives will assist in the promotion of competition in the region through the strengthening of competition policy and by supporting legal and institutional frameworks; and
- Support to SOE-reform initiatives and implementation of PPP transactions.

9. We will increasingly seek to capitalize on existing policy reform and related policy dialogue to catalyze investment opportunities, thereby ensuring that our focus on improving the business environment will translate into increased investment flows.

10. In conclusion, this annual progress report documents the significant number of successful PSD-related reforms underway in Pacific island economies, reflecting the positive response to PSDI-funded assistance. Over the past few years, the tenor of the discussion in the region regarding the feasibility of private sector-led growth has changed from one in which governments were debating whether to embark on reform to deciding which reforms should be given priority. Furthermore, the demonstration effects arising from PSDI-funded initiatives seem to be growing. Leaders in the region are increasingly aware of ongoing reforms in other countries and are responding with requests of their own—the reform momentum is rising. In this regard, PSDI offers a unique service in terms of its ability to quickly fund requests for assistance, provide the highest quality of analysis and reform implementation, and simultaneously learn from crosscutting experience gained from undertaking similar reforms in several countries. If resource funding allows, we will build on the achievements to date by deepening reform efforts in existing priority countries, seeing through implementation of ongoing reforms, and extending existing key focus areas to other countries in the region.

I. INTRODUCTION

1. The awareness of the importance of private sector development (PSD) for sustainable economic growth has increased substantially in the Pacific region in recent years. Governments have increasingly realized that the private sector has a central role in creating prosperity, and are concerned about policy choices and implementation of associated reforms that remove impediments to private investment and entrepreneurship. To support this focus and amplify its efforts in promoting PSD in the Pacific,¹ the Asian Development Bank (ADB) initiated the Private Sector Development Initiative (PSDI),² a regional technical assistance (TA) project cofinanced by the Australian Agency for International Development (AusAID), with the main goal of promoting sustainable economic growth in ADB's Pacific developing member countries (PDMCs).

2. This second annual progress report for PSDI presents a summary of major activities and achievements in 2008. It describes the positive reform momentum created in the region, and discusses plans and options for capitalizing on this momentum going forward. It provides a preview of planned initiatives over the next 1–3 years, based on the assumption that PSDI will maintain current resource levels over the medium term.

3. Section II briefly describes PSDI's objectives, approach, and management structure. Section III provides an overview of PSDI's financial status in terms of disbursements and commitments. Section IV summarizes PSDI's portfolio of activities, specifically in terms of major achievements in its key focus (results) areas, as well as highlights of its analytical and advocacy work. Section V highlights PSDI's linkages to other ADB activities and its crucial role in fostering external partnerships. The PSD results framework is covered in Section VI, and the report concludes with the outlook on PSDI activities going forward (Section VII). The Appendices contain detailed information on PSDI activities in each of the priority countries (Appendix 1); the PSDI project list (Appendix 2); a summary of PSDI portfolio performance (Appendix 3); a list of PSDI-supported seminars and workshops in 2008 (Appendix 4); and a list of PSD(I) performance indicators developed in 2008 (Appendix 5).

II. ABOUT THE PRIVATE SECTOR DEVELOPMENT INITIATIVE

A. Overall Objectives

4. The objective of PSDI is to promote sustainable and equitable economic growth in PDMCs by helping create an enabling environment for the private sector. PSDI seeks to address the core constraints to PSD that have been identified through in-depth assessments undertaken by ADB in the Pacific over the past 5 years.³ PSDI augments and leverages

¹ Private sector development is a core pillar of ADB's Pacific Strategy 2005–2009.

² Private Sector Development Initiative (TA No. 6353–REG), approved on 21 November 2006 for US\$8.7 million, cofinanced by AusAID with US\$7.6 million. The TA budget was increased in 2008 by additional cofinancing from AusAID in the amount of US\$0.3 million, thereby bringing the total TA amount to US\$9.0 million.

³ ADB has carried out private sector assessments (PSAs) for the Fiji Islands, Republic of the Marshall Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu, as well as a regional PSA, published in 2005 as *Swimming Against the Tide: An Assessment of the Private Sector in the Pacific*. All ADB PSAs are available at www.adb.org/PrivateSector/development/assessments.asp.

existing ADB country partnership strategies by providing a rapid-response capability for PSD reform, as well as necessary resources for core analytical work and advocacy.

5. Based on comprehensive analytical work, and as reflected in ADB's Pacific Strategy, the PSDI key results areas are:

- state-owned enterprise (SOE) reform and public–private partnerships (PPPs)—focusing on the ownership, performance, and divestment of SOEs; economic regulation; the policy, legal, and institutional framework, and relevant opportunities for PPPs;
- promoting access to finance through financial sector reform—focusing on secured transactions frameworks, advancing rural and microfinance outreach, and piloting and promoting innovative approaches to gain access to finance, including branchless banking;
- strengthening the institutional, legal, and business regulatory environment—focusing on reforming business law, strengthening property rights, and promoting competition; and
- sectoral mainstreaming of PSD.

6. PSDI activities are designed to translate into measurable contributions to economic growth in the Pacific region by: (i) increasing the quantum of private investment; (ii) improving access to finance and financial services to the private sector; (iii) increasing the number of private businesses created and registered, and reducing the associated costs; (iv) improving access and reducing the costs of using the commercial legal framework; (v) improving the quality and accessibility of infrastructure services; (vi) encouraging competition and creating opportunities for private sector participation in markets currently dominated by SOEs and government departments; and (vii) strengthening the overall financial performance of SOEs, thereby reducing their drain on public funds and improving their performance.

Impact of the Global Financial and Economic Crisis

The fallout from the worldwide financial and economic crisis will negatively impact the economies of the region. The turmoil in financial markets, the economic downturn, and the collapse of commodity prices will all contribute to a slowdown in Pacific island economies. So far, financial systems in most countries in the region have not come under pressure. Relatively well managed Australian banks, combined with strong prudential regulation in most of the Pacific region economies could help to limit the direct financial impact.

However, there will be negative real economic effects in many countries. A slowdown in tourism is likely, which could have wide-ranging effects on those economies in the region that depend heavily on tourism revenues. Since tourism is a labor-intensive sector, the poverty impact could be substantial. In addition, a number of countries in the region have anticipated substantial revenues from commodity exports and have based their budgets on high commodity prices. These will also be adversely impacted by the current crisis. A downturn in remittances is also likely, as economic growth rates decline in Australia and New Zealand. Some countries are already being adversely affected, and their balance of payments and exchange rates are coming under pressure.

ADB and other development partners are moving to assist countries that are experiencing severe difficulties. The reform measures that PSDI supports will contribute substantially to greater flexibility of the economies of the region. While this will not eliminate all problems, the greater productivity resulting from PSDI-supported reform will help them adjust to negative external events.

7. PSDI has been instrumental in transforming the nascent acceptance of the need for PSD in Pacific island economies into a full-fledged demand for reform in a number of areas. It has introduced innovative approaches to reforms that contribute to sustainable economic growth. Participating governments and private sector stakeholders are now keen to sign up for reform in PSDI's core practice areas, highlighting both the relevance of PSDI and the commitment of its clients.

8. PSDI provides a critical mass for the promotion and implementation of country specific and regional PSD reform, and its rapid response capacity is unique in the Pacific region. PSDI has helped increase the breadth, depth, responsiveness, and effectiveness of ADB's PSD operations in the Pacific. Representing about a third of ADB's PSD-related operations in terms of value, PSDI's catalytic capacity has resulted in a dramatic, almost fivefold increase of the number of ADB's PSD interventions in the Pacific region.

B. Technical Approach and Management Structure

9. Our technical approach usually commences with a private sector assessment (PSA) and other relevant analytical work for the country concerned to provide a solid diagnostic of core PSD constraints. The analysis is then disseminated widely and becomes the basis for in-depth policy dialogue and advocacy. It informs ADB's country strategies and programs, and translates into specific reform interventions. PSDI-funded activities are implemented using a mix of country-focused and regional (mostly multi-country) approaches. We have found the multi-country approach highly beneficial in terms of economies of scale and scope, and regional learning and cooperation. Moreover, we regard multi-country benchmarking a powerful tool to instigate a sense of competition in terms of reform achievements among regional neighbors.

10. PSDI is managed by ADB's Pacific Liaison and Coordination Office (PLCO), Sydney, Australia. The regional management team of ADB's Pacific Department (PARD), led by the Director General, based in the ADB Headquarters, Manila, Philippines, provides strategic guidance. A team of highly experienced PSD experts has been assembled to drive PSDI-supported reform processes in the specific PSDI focus areas.

11. The implementation of TA activities is closely coordinated with all ADB offices in the region. In particular, PSDI operations are being programmed, designed, and implemented in collaboration with ADB's South Pacific Subregional Office (SPSO) in Suva, Fiji Islands (Fiji) for operations in the Cook Islands, Fiji, Samoa, and Tonga; ADB's Special Office in Timor-Leste (SOTL); and ADB's Papua New Guinea Resident Mission (PNRM) in Port Moresby.

C. Partnership for Development Results

12. Given the depth and the breadth of PSDI's scope, key challenges are to measure success and how quickly results can be expected. To address these issues, PSDI has developed a results framework involving the three layers of country-level impact analysis, PSD indicators, and a (sub)project-level system to manage for development results (see Section VI for details). In terms of time horizons over which results can be expected, many of the PSDI-supported policy reforms involve complex government processes, need to overcome issues related to the political economy, and often just take time to be delivered in the process. Key to successful reform are the rapid response to seize reform opportunities, sound design and swift implementation, and an effective monitoring and evaluation

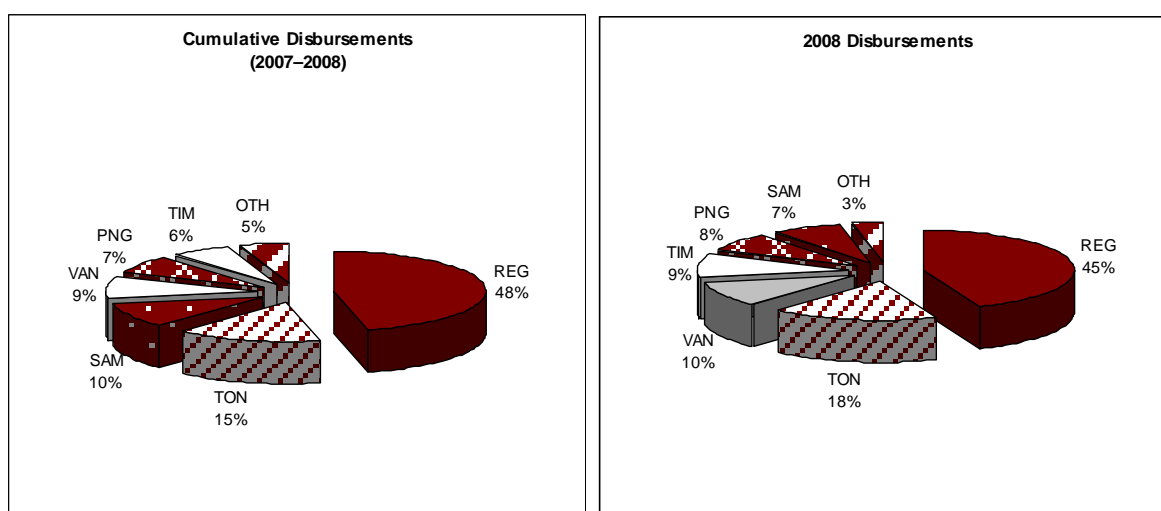
framework. PSDI is evolving into a longer term partnership between ADB, AusAID, Pacific governments, and the private sector toward an improved business environment necessary for sustainable economic growth and prosperity. The partnership also closely involves other development partners active in the area, including multilateral agencies such as the European Investment Bank, Pacific Islands Forum Secretariat, United Nations Development Program (UNDP), and the World Bank Group, as well as bilateral agencies such as the New Zealand Agency for International Development (NZAID).

III. FINANCIAL OVERVIEW

13. PSDI was approved on 21 November 2006 for US\$8.7 million, cofinanced by AusAID with US\$7.6 million. The TA budget was increased in 2008 by additional cofinancing from AusAID in the amount of US\$0.3 million, thereby bringing the total budget amount to US\$9.0 million.⁴

14. As of 31 December 2008, there were 21 completed, 27 ongoing, and 4 pipeline PSDI subprojects. This represents an approximate doubling in size compared to 31 December 2007. In 2008, a total of \$3.4 million was disbursed and an additional \$3.9 million was committed (i.e., contracted). Disbursements were 69% higher than in 2007, and the amount committed during the year was 52% higher. Cumulative disbursements as of 31 December 2008 were \$4.9 million and total commitments were \$7.5 million or 83% of the total PSDI budget.

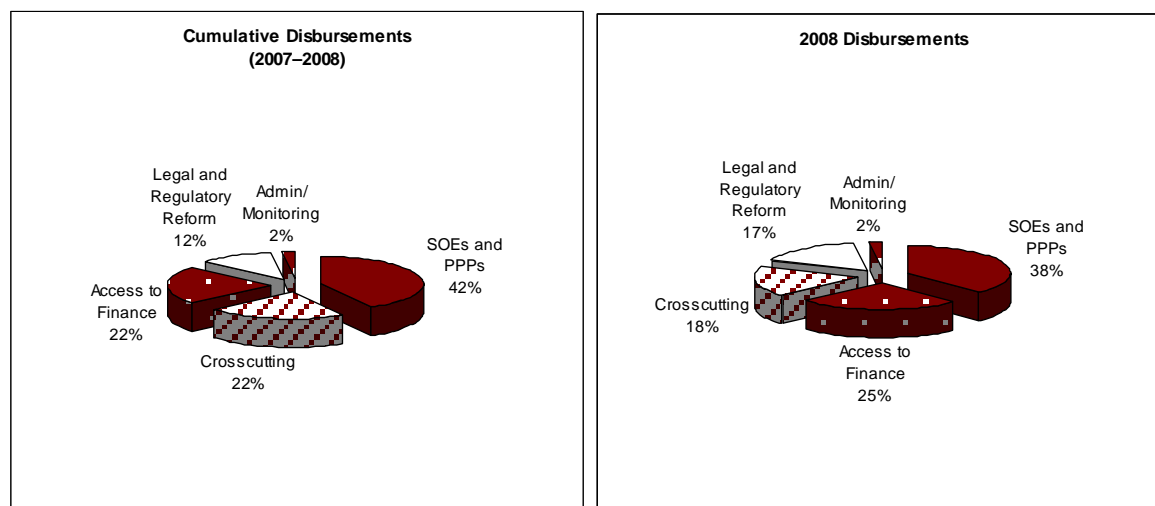
FIGURE 1: DISBURSEMENTS BY COUNTRY



OTH = Cook Islands, Republic of the Marshall Islands, Palau, and Solomon Islands, PNG = Papua New Guinea, SAM = Samoa, TIM = Timor-Leste, TON = Tonga, VAN = Vanuatu.

⁴ The additional funding was provided to support a conference on private sector participation in transport infrastructure in the Pacific, held in Cairns in October 2008.

FIGURE 2: DISBURSEMENTS BY KEY RESULTS AREA



PPP = public-private partnership, SOE = state-owned enterprise.

15. The majority of PSDI projects in 2008 were regional or multi-country initiatives (Figure 1). Similarly, the country distribution of projects continued to reflect the countries' demand for initiatives in support of PSD. Of the nine Pacific countries that received PSDI support in 2008, Tonga had the largest share at 18%, reflecting the commitment of senior policymakers from government, led by the Prime Minister, to implement key PSD reforms. PSDI also continued to extend its reach throughout the Pacific by introducing new initiatives in the Cook Islands, Palau, and Timor-Leste.⁵

16. SOE reform and PPPs continued to receive the bulk of PSDI resources by key results area, comprising 38% and 42% of 2008 and cumulative disbursements, respectively. Initiatives in support of access to finance and crosscutting work each received 22% of cumulative PSDI disbursements since 2007. Projects in support of legal and regulatory reforms absorbed a total of 12% of cumulative PSDI disbursements since 2007. These results show a balanced portfolio of activities, with increasing momentum in the areas of access to finance and legal/regulatory reforms in 2008.

IV. PORTFOLIO OF ACTIVITIES

A. Overview

17. This chapter describes the achievements and activities supported by PSDI in 2008. Section B covers the three PSDI key results areas (i.e., SOE reform and PPPs, access to finance, and the legal and regulatory business environment). Section C describes PSDI's analytical work, advocacy, and outreach efforts in 2008. An overview of PSDI's activities in each priority country is included in Appendix 1.

⁵ In some countries, PSDI work is significantly leveraged by other ADB TA. For instance, in 2008, a total of \$285,000 was disbursed in PNG via ADB TA in addition to the \$275,000 disbursed through PSDI.

B. Reform Support in Key Results Areas

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

18. **Issues.** The analytical work supported by PSDI has assessed the degree to which SOEs crowd out the private sector and serve as a drag on economic growth in the Pacific. Reforming these SOEs and opening up their markets to competition, including those that can be served through PPPs, is a core focus area for PSDI. During the course of 2008, PSDI has made substantial progress in implementing SOE reforms and preparing the groundwork for increased private sector participation in the delivery of infrastructure and public services. Our work at the country and regional level has raised awareness of the benefits of SOE reform and PPPs, leading to increased demand for technical assistance, which we will pursue going forward.

a. State-Owned Enterprise Reform

19. A **comparative analysis of SOE performance and reform experiences** in Fiji, Samoa, and Tonga was finalized in 2008 (and will be published in early 2009). The analysis demonstrates the negative impact on economic growth that results from the very low productivity of the SOEs in the study countries, and the rapid reform progress that can be made if there is political will and commitment. The study suggests policy actions to promote growth in the SOE sector through a combination of improved governance arrangements, PPPs, and outright privatization. While the analysis focused on three countries with similar SOE portfolios and legislative frameworks, the findings and recommendations for effective SOE reform are applicable throughout the Pacific. The study has generated significant regional interest, most notably in PNG and Vanuatu, suggesting that the study could be regularly updated and expanded to include a broader range of participating countries. A high level seminar involving the top leadership of Samoa and Tonga, and senior officials from Fiji, is scheduled for February 2009 and will consider the report and discuss reform strategies.

20. At the regional level, PSDI-supported seminars on **best practices for delivering CSOs** in Fiji, PNG, Samoa, and Tonga have led to the development and refinement of CSO guidelines for Fiji, Samoa, and Tonga. Where CSOs are delivered by SOEs, these guidelines represent an essential element in placing the SOEs on a commercial footing, requiring them to operate efficiently and increasing the transparency with which CSOs are defined, mandated, delivered, and financed. In all three countries, it is expected that full implementation of new CSO guidelines will require further technical assistance, and we anticipate that this will result in substantial cost savings and improved performance of the SOEs. Meanwhile, in late 2008, as a result of related PSDI-supported advocacy and capacity building seminars, PNG has also requested technical assistance to develop a CSO policy and guidelines in 2009.

21. In the Solomon Islands, two **privatization transactions** were further progressed, with the government formally endorsing the sale process and taking steps to settle outstanding liabilities. While political opposition to one of the transactions had initially slowed progress, it is believed that there is now sufficient momentum to complete both transactions in 2009.

22. In Samoa, PSDI supported the fielding of a full-time advisor to work with the State-Owned Enterprise Monitoring Division (SOEMD) for several months in late 2007 and early 2008, during which time an **SOE-reform pipeline for 2008–2012** was prepared, and support

was given to implement the government's newly-issued **policy on CSOs**. The advisor also helped SOEMD to review and comment on **SOE corporate plans** (on an ongoing basis). Ongoing support has also been provided to the **Samoa Institute of Directors** to deliver training courses to SOE directors and to develop a business plan for financial sustainability.

23. In Tonga, ADB is providing technical assistance to the Ministry of Public Enterprises to implement its **SOE rationalization program**, under which six SOEs will be partially or fully privatized. PSDI has supplemented this technical assistance with a full-time PSD advisor to the Prime Minister, support on CSOs, as well as planning for the next phase of the rationalization program, to be implemented in 2009–2010.

b. Public–Private Partnerships

24. As cofinanced between PSDI and separate ADB TA (4722–PNG), a **PPP policy** was developed for and endorsed by the government of PNG in 2008. The policy, drafted in close collaboration with a multi-agency task force, is only the second such policy to be drafted in the Pacific (following Fiji in 2006, also with ADB support [4704–FIJ]), and represents the first step in the development of a comprehensive PPP framework for PNG. The policy outlines the principles underlying PPPs and the process by which future PPP projects will be presented, processed, and tendered by the government. The PPP framework will be completed in 2009 with the establishment of a PPP center, the enactment of necessary implementing laws and regulations, and the development of a preliminary PPP project pipeline. While it is expected that the PPP process will be most suited to large infrastructure projects in the transport and energy sectors, a wide range of government departments have expressed an interest in working with the future PPP center to process projects, including in health and education, and public works. It is anticipated that once the laws and regulations are promulgated in 2009 and the PPP center is established (2009–2010), further assistance will be needed (in 2010–2011) to support the preparation and processing of the first set of pilot transactions.

25. In Tonga, significant progress was made in **outsourcing the road maintenance** functions of the Ministry of Works. A detailed diagnostic was conducted to assess the feasibility and impact of the outsourcing as well as to establish a work program—all of which was endorsed for implementation by Cabinet in 2008. The program will be implemented in 2009 and is expected to result in a 3-year performance-based contract for an international firm, which will work in collaboration with local contractors.

26. On a regional basis, PSDI co-funded two one-week **PPP training courses**, both in conjunction with Bond University, Queensland. One of the workshops was undertaken in collaboration with the Commonwealth Secretariat, and one with the ADB Institute. The training courses were designed to provide a practical overview of the concepts and core parameters of PPPs, including their application potential in the Pacific region. The courses were attended by over 50 senior officials from SOEs, line ministries, and Ministries of Finance from the Cook Islands, Fiji, Kiribati, PNG, Samoa, Solomon Islands, Tonga, Timor–Leste, and Vanuatu.

2. Access to Finance

27. **Issues.** The Pacific region has one of the most underdeveloped financial sectors in the world, with a very narrow range of financial services available, high costs, and low levels

of credit to the private sector. Without access to finance, businesses cannot start or grow. Expanding access to finance is, therefore, a core focus area for PSDI, and one which we are addressing through partnerships with microfinance institutions, leveraging new technologies to lower the costs of rural access, and supporting collateral reform. Indeed, PSDI's approach to expanding access to finance in the Pacific recognizes the need to consider the broader context of financial sector development, and address core constraints in the enabling environment for finance. In 2008, rural and microfinance activities represented approximately 25% of total PSDI disbursements and are expected to increase further in 2009–2011.

28. Work to improve the enabling environment has included reform of the **personal property securities frameworks and registries** in five countries, paving the way for a much wider range of collateral to be used to secure loans. To date, PSDI has supported the drafting and passing of new Personal Property Securities Acts in Vanuatu (April 2008) and Solomon Islands (August 2008). Legal drafting and consultation on the laws and design of the associated asset registries is ongoing in Palau, Samoa, and Tonga. Work on the implementation of the existing asset registry in the Federated States of Micronesia, previously implemented under a separate ADB loan (1873–FSM), is supported, and lessons learned, shared across the region.

29. The opening up of the mobile telecommunications markets in Fiji, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu has led to sharp reductions in telecommunications costs and a corresponding increase in mobile phone coverage and usage. This presents unique opportunities to use technology to facilitate **branchless banking**—thereby dramatically reducing the costs of expanding financial services to rural areas. PSDI-funded assessments of the potential for branchless banking in PNG, Timor–Leste, and Tonga has been done in close collaboration with a separately-funded ADB TA (7023–VAN) to pilot a branchless banking program with the National Bank of Vanuatu. Findings in PNG point to significant potential for branchless banking models and planned investments from the private sector to develop these capabilities. The regulatory environment remains quite open to electronic banking and agent networks, but more clarity and predictability will be required to reduce the risks of fraud and provide greater comfort to both users and suppliers. To this end, PSDI will support the Bank of PNG in developing a regulatory roadmap for electronic banking in 2009.

30. Timor–Leste, which has a similar proportion of banked population as PNG (16%–19%), also has significant potential to adopt **branchless banking**, in particular, to reduce the costs of government payments to rural areas. The assessment revealed the cost advantages of using branchless banking models to facilitate these payments and to provide deposit services to the rural population. In 2009, PSDI funds will further support the Government of Timor–Leste and the Banking and Payments Authority in developing a strategy to encourage the development of a commercially-sustainable branchless banking network.

31. Much effort in 2008 went into the preparation of a major **restructuring of a local microfinance institution in Timor–Leste**, toward its transformation into a small, financially-sustainable commercial bank. This restructuring is expected to be conducted in 2009.

32. PSDI funded **high level studies of microfinance services** in PNG, Solomon Islands, and Tonga, with a view to assessing the microfinance situation in these countries, exploring opportunities for expansion of rural and microfinance and, more generally,

identifying institutions and mechanisms which have the potential to sustainably serve the unbanked. These assessments will lead to further work with Nationwide Microbank in PNG, as well as close coordination with AusAID, UNDP, and the World Bank Group, to develop complementary approaches to support the sector.

33. At the regional level, PSDI funds have cosponsored two major **workshops on financial literacy and branchless banking**. The first workshop, conducted in collaboration with the International Monetary Fund, UNDP, and the World Bank Group, brought together central banks and ministries of finance from the Pacific region to discuss approaches to increasing financial literacy. This resulted in the Coombs Declaration, a statement of commitment from all participants to make financial deepening a key tenant of financial sector development programs. The second workshop, held in Port Moresby, Papua New Guinea was co-organized with the International Finance Corporation (IFC) and the Institute of National Affairs (INA), and attended by over 40 bankers, regulators, and telecom operators seeking to leverage mobile technologies to reduce the cost of financial transactions. The workshop has led to further investment in mobile technologies by at least one major commercial bank and one microfinance institution, and heightened understanding of the potential for branchless banking among regulators and government officials.

3. Legal Business Environment

34. **Issues.** The analysis of the legal business environment in the Pacific region indicates that the Pacific island countries are constrained by outdated and inappropriate laws. In many cases, laws are simply absent. The key legal areas of company formation, contracting, dispute resolution, and insolvency present a common theme in all Pacific island countries. They are uncertain, poorly enforced, increase the transactions costs for business, and do very little to provide the legal platform necessary to support a robust and developing private sector. Most of these laws are based on foreign laws which were transplanted prior to independence in many Pacific island countries and do not cater for or promote many of the unique aspects of an island economy. These outdated laws have little impact on the majority of the population and do not foster the growth of community groups, women's groups, associations of small farmers, and local entrepreneurs. The laws are not accessible to the majority of the population, and PSDI is currently addressing the urgent need to not only update these laws, but tailor them to support island economies.

35. **Business Law.** A series of new company laws have been drafted to reflect the needs of the Pacific island countries. It is expected that these legal reforms, once implemented, will reduce the costs of company formation, facilitate access to finance, and encourage the transition from informal to formal business. In the Solomon Islands, a new Companies Bill, together with a Companies (Insolvency and Receiverships) Bill has been drafted. These Bills have been prepared under an ongoing ADB TA (4700–SOL) with PSDI support. The Bills have been widely consulted and have been developed to promote the use of companies in an island economy. The Bills cover all types of companies and associated operations, but the focus is on the smaller companies which are prevalent in the country. The Bills support a simple approach to formation, administration, and disclosure for companies. It introduces the single shareholder company as well as the concept of community companies to encourage a wide range of community groups to use the company vehicle to support their business activities. Community companies will be able to hold community assets so that these can be used to access finance and create greater accountability and security for future generations. Introducing this type of company as part of

the company law creates a system of public notice, and removes many of the current inadequacies and risks associated with the traditional trust vehicle, which is currently in common use.

36. The Companies (Insolvency and Receiverships) Bill in the Solomon Islands simplifies the current law in this important area of corporate insolvency. The new law will codify many existing practices and make the application of insolvency procedures much more straightforward. The Solomon Islands Bills had their first reading in Parliament in November 2008, with the public hearings of the Bills Committee completed in December 2008. The Bills are scheduled to receive their second reading in March 2009.

37. The preparation of other company laws has commenced in Tonga and Vanuatu. In Tonga, a Companies Amendment Bill has been prepared and circulated for comment by stakeholders. This Bill will streamline the current 1995 Act, which is modeled on the New Zealand Companies Act 1993. The Amending Act will support a new company registry. The Act has been drafted in close consultation with the IFC, which is responsible for the design and implementation of the company registry. The Bill is scheduled to be tabled in Parliament in mid-2009.

38. In Vanuatu, PSDI is supplementing a separate ADB TA (4856–VAN), which is providing institutional strengthening to the Vanuatu Financial Services Commission, the non-bank regulator. This work is designed to enhance the corporate governance and supervisory capacity of the Commission. The support includes drafting a new Companies Act and an Insolvency Act. The new company law will provide a more appropriate framework for an island economy and support the private sector by including appropriate company types for Vanuatu, together with improved incorporation, administration, and reporting requirements. The Insolvency Act will include both personal and corporate insolvency. An exposure draft of the Companies Bill has been prepared and distributed to stakeholders. This will be followed by further extensive consultations with the Companies Bill and Insolvency Bill, scheduled to be considered by Parliament in the second sitting in mid-2009. In Fiji, PSDI supported the last stages of the promulgation of the 2008 Electronic Transactions Act, which is an important step toward establishing a safe and secure online commercial trading environment.

39. **Company Registries.** The introduction of new or improved company registries will be a feature of the new company laws being introduced, which have been drafted to reflect modern and appropriate company registries for Pacific island countries. Diagnostic studies and associated consultations have been carried out in Samoa, Solomon Islands, and Vanuatu. An important and innovative feature will be extending the outreach of current registries to enable them to be accessible to people in the rural and provincial areas, and to cater for many communities living on remote islands. The design of the company registries in the Solomon Islands and Vanuatu has commenced. The Solomon Islands registry will come on stream in 2009, and there will be significant capacity building within the current staff of the existing registry. Vanuatu will follow in late 2009 or early 2010. The company registries will compliment the introduction of the secured transactions registries, which will come on line much earlier.

40. In collaboration with the New Zealand Companies Office (NZCO), PSDI organized and sponsored a study tour and the Workshop on Reforming Business Registries in Auckland, New Zealand in May 2008. The event was specifically designed for countries undertaking or planning to undertake reforms of their business law and registries, including

personal property securities registries and company registries. The study tour component of the event focused on NZCO, which is internationally recognized for the effectiveness and efficiency of its operations. It provided participants with hands-on demonstrations of the features of the New Zealand companies and personal property securities registries, and a discussion of the potential synergies from working closely with NZCO. The objectives of the workshop component were to: (i) discuss business law and registry reform in Pacific island countries and share related analysis and challenges; (ii) obtain details of international and regional good practice in business registries; (iii) assess registry reform options; (iv) examine and discuss the potential for regional cooperation and integration; and (v) promote regional consultation and dialogue on registry reform issues and solutions. The event was attended by business registrars, senior government officials, and private sector representatives from Samoa, Solomon Islands, Tonga, and Vanuatu. The event was rated by participants as highly successful. It was instrumental in brokering regional cooperation and harmonization in the area of business law registration, and resulted in the development of and agreement on reform action plans for each participating country.

41. **Trust Law.** There are many problems with the current use of trusts in many Pacific island countries. The trust is a common vehicle used by various groups, but its success depends on qualified and able trustees dealing with the trust property in the interest of the beneficiaries. In many countries, there is a significant lack of well-qualified trustees, with the result that groups depending on well-functioning trusts are often placed at a severe disadvantage. This problem is being addressed in the new company laws, which will provide other options that may be used for similar purposes. Under PSDI, reforms in this area have commenced. New trust legislation is being drafted in the Solomon Islands and Vanuatu. This will replace the outdated laws and many of the equitable rules with which most trustees are unfamiliar. The new trust laws will provide codified and updated duties for trustees, which are essential. The new trust law in the Solomon Islands is timetabled for mid-2009, and Vanuatu, in late 2009.

42. **Contracting Framework.** Analyses and consultations have highlighted numerous problems with the contracting frameworks in the Pacific island countries. Private sector growth is hampered significantly by a number of problems including: (i) the complexity of the law and reliance on outdated, complicated, and inappropriate law; (ii) problems of accessibility; (iii) very little local or "tailored" contract law, which has resulted in "gaps" in local frameworks; (iv) uncertainty about the application of decisions in foreign jurisdictions following the independence of Pacific island countries; (v) the limited knowledge and minimal exposure of judges to the vast number of contract cases; (vi) poor enforcement of contracts; and (vii) a reluctance to engage in formal contracting because of the cost and complexity. In response to these problems, a regional reform roadmap for a contracting framework has been prepared. This focuses on the simplification of the contracting framework through codification. This will encourage the use of contracts by all stakeholders and improve confidence and the resolution of disputes. In preparing the roadmap, diagnostic studies were carried out in PNG, Solomon Islands, Tonga, and Vanuatu. In 2009, the Code will be further developed, with significant consultations and capacity building in all four countries. The review and remodeling of the contract law can be considered on a regional basis as the problems are common across the region. This subproject has been embraced enthusiastically by the stakeholders—from Chief Justices to small business operators and community groups.

43. **Competition Framework.** PSDI-funded experts are assisting in strengthening capacity in the Cook Islands, Fiji, and PNG in the areas of competition policy, consumer protection, and competition regulation. In the Cook Islands, a diagnostic study has been completed to assess the current competition and consumer protection laws. There, and in many other countries in the Pacific, the rudimentary laws are supportive of price controls, with little adoption of modern principles that encourage competitive markets. A larger regional analysis is now planned where competition policies will be reviewed across the region, resulting in a more harmonized approach, which recognizes the unique nature of the small economies and the need to develop codes of practice that protect consumers from predatory market behavior while reducing the reliance on price controls. In Fiji, work is progressing to establish a multisector regulator to more effectively regulate the utilities sector. In PNG, PSDI has been funding ongoing technical assistance to the Independent Consumer and Competition Commission (ICCC) to strengthen its regulatory capacity and establish the parameters for effective competition in the telecommunications sector.

44. **Reform Implementation.** A key theme of the legal reform promoted under PSDI is the implementation of the laws that are being adopted by Pacific island governments. As the new laws come on stream in 2009, appropriate implementation programs will be rolled out to ensure maximum up-take and exposure of the new laws. For example, it is anticipated that the Solomon Islands will pass the new company law in early 2009. An implementation team is currently being assembled to publicize the new laws and support an education program across all stakeholder groups. This will involve the education of judges, accountants, lawyers, private sector groups, as well as urban and rural communities. An important aspect of the new laws is open accessibility for users, particularly rural and provincial groups who previously not had access to the laws. In addition, existing companies will be assisted through the transition from the existing to the new company law.

C. Diagnostic Studies, Advocacy, and Outreach

45. ADB's analytical work underpins our interventions in the three aforementioned key results areas. In-depth analysis of the environment for private sector activity within countries, usually done through PSAs, serves to identify and prioritize reform needs. The PSAs are undertaken through focus group discussions, economic analysis of the laws governing private sector activity, estimates of the costs of doing business, and estimates of the costs and productivity of SOEs. The analysis examines the quality of infrastructure, telecommunications, and transport, and the impact on business activity. ADB, through PSDI or otherwise, also undertakes analytical work on specific topics or themes, both on a country and multi-country basis. To increase awareness of PSD-related reform, an extensive program of dissemination and consultation has supplemented the program, both within individual countries and regionally.

46. The following are highlights of the PSDI policy analysis and advocacy work in 2008:

- A **PSA for Tonga** was completed and published in August 2008. Following extensive consultation and discussion, the PSA was formally launched by the Prime Minister and the Chamber of Commerce in October 2008. The PSA process triggered the initiation of a significant range of reform measures, including business law reform, secured transactions reform, engagement on microfinance, and outsourcing of transport infrastructure works.

- A **PSA for PNG** was completed, formally launched, and published in December 2008. Presentations on the PSA findings were made in a number of larger forums, such as the annual Australia–PNG Business Council meeting and smaller local conferences and seminars. The launch of the PSA in December 2008 received extensive media coverage.
- The **PNG Business Survey**, which is prepared every 4–5 years by the INA, was supported by PSDI. A summary report of the survey was published as a companion volume to the PSA in December 2008.
- A **PSA for Vanuatu** was prepared in 2008. The main findings were presented in draft form to key stakeholders including, by way of a keynote address, to the 2008 National Business Forum in June 2008, and to the new government in December 2008. There appears to be significant interest on the part of the new administration in using the PSA as a platform for its PSD-related reform program.
- A number of studies were undertaken in 2008 relating to access to finance and financial services (see also previous section). In particular, one set of studies explored the **potential of branchless banking** in PNG and Timor–Leste. Interest in these initiatives was strong and has led to follow on activities. Another set of (ongoing) studies have analyzed the **rural and microfinance services** in PNG, Solomon Islands, and Tonga. The potential for enhancing access to finance, particularly in frontier areas for the hitherto unbanked is being explored through follow-up work.
- **Competition** has been an important theme in PSDI's work, and a number of studies and reports covered related topics such as competition and consumer protection in the Cook Islands, the establishment of a multi-sector utility regulator in Fiji, and strengthening competition in telecommunications in PNG (see also previous section).
- **Twenty-two PSD advocacy seminars and training workshops** were conducted in the region, **attended by over 700 key stakeholders**, including policymakers, the media, academia, the private sector, and civil society. (A complete list of these events is available in Appendix 4.)
- **PSD policy and coordination advisers** have been assigned to selected PDMCs—particularly in PNG and Tonga—to lead the advocacy process, in addition to helping implement and coordinate PSDI-related activities.
- Numerous **articles, op-ed pieces, and interviews** addressing PSD issues and PSDI-sponsored activities were published in regional and local media.

47. Raising awareness of PSD issues throughout the Pacific remains a key component of PSDI's implementation strategy. Educating and engaging stakeholders (through PSD-related workshops, seminars, papers, editorials, press interviews, and public policy forums, etc.) enhances awareness and understanding of the issues and solutions, creates demand for reform, and is instrumental for establishing a network of reform advocates. In 2008, PSDI actively engaged policymakers, the media, academia, and nongovernment organizations to discuss the importance of PSD and the nature of the reforms needed to support it

PSDI Media Outreach

In 2008, we collected 400 published media stories relating to ADB's work on private sector development (PSD) in the Pacific Islands. Most of the press coverage was the result of proactive engagement by ADB's Sydney Office of the media and other key stakeholders, for instance, through PSD-related media events, distribution of news releases promoting ADB private sector reform activities, arranging radio/print/television interviews for ADB PSD team members, and writing and placing newspaper articles about ADB's PSD work with targeted media.

Among the various events and milestones covered by media events, the following received the most publicity and interest in the Pacific Islands, Australian, and New Zealand media:

- a news release summarizing ADB's role in promoting PSD in the Pacific Islands (issued in July 2008);
- the launch of ADB's Private Sector Assessment for Tonga (October 2008);
- an ADB organized mobile-banking workshop in Papua New Guinea (October 2008);
- a public-private partnership awareness raising workshop for Pacific government officials (November 2008); and
- the launch of ADB's Private Sector Assessment for Papua New Guinea (December 2008).

48. To improve awareness in the media of the importance of PSD-related reform, PSDI has engaged print, radio, and television media in PSD events. For instance, there was television coverage of the PSA launch in Tonga, newspaper coverage following almost every seminar and workshop, and a number of radio interviews throughout the year, highlighting PSD topics. The PSAs for PNG and Tonga were published and widely disseminated in the press throughout the region.

V. LINKAGES AND PARTNERSHIPS

A. Mainstreaming Private Sector Development in ADB Operations

49. PSDI has been instrumental in fostering linkages and partnerships on the program and project levels within ADB's Pacific Department and Private Sector Operations Department.

- PSDI-funded diagnostics and PSAs have informed country strategies and programs. For instance, the PSAs for PNG and Tonga, and associated policy dialogue, have helped sharpen the respective country partnership strategies and programs.
- PSDI resources amplified various sector-specific TA and loans. For example, PSDI supported ongoing TA and loans in the area of rural and microfinance through viability studies of the potential for branchless banking and application of suitable new technologies to expand the banking frontiers to the outer islands, complemented the ongoing rationalization of public enterprises in Tonga through the analysis and implementation of contracting out measures in the transport sector, and facilitated the preparation of the PPP policy in PNG.
- PSDI has been catalytic in attracting ADB's private sector and cofinancing operations to the Pacific region. For instance, PSDI funded the preparation of a feasibility study for the investment in a local commercial bank in one Pacific country, as well as the assessment of options for private sector participation in selected infrastructure initiatives in the region.

B. Fostering External Partnerships

50. ADB has fostered partnerships with other PSD donors and promoted inter-agency coordination and collaboration, with a view to harmonizing PSD analysis, dialogue, solution design, and reform implementation. The cofinancing of PSDI has strengthened the PSD partnership between ADB and AusAID, particularly in terms of regular dialogue and collaboration between staff on PSD issues, analyses, country strategies, and on the activity level. The PSDI team has held seminars for AusAID and NZAID, respectively, covering issues and opportunities in SOE reform, PPPs, financial sector reform, and legal reform, as well as the PSDI monitoring and evaluation framework. Regional donor and stakeholder coordination on a bilateral basis and through quarterly regional PSD donor meetings ensures that development partners are aware of developments and enables the coordination of policy interventions.

51. The Pacific PSD partnership with the World Bank Group, including the IFC and Foreign Investment Advisory Services (FIAS) has been expanded with the additional leverage provided by PSDI. Partnership decisions between the agencies are based on continuous dialogue between their Sydney offices and selected joint missions, and include: (i) harmonized reform (e.g., business law and supporting infrastructure in Tonga) and joint conferences and workshops; (ii) close collaboration, including joint reform implementation mechanisms and reform programs; and (iii) division of labor (e.g., collateral reform [ADB] and credit bureaus [IFC]). Coordination, information sharing, and peer reviews are undertaken on a regular basis.

52. Significant leverage and benefit is anticipated from PSDI's collaboration with the Pacific Infrastructure Advisory Center,⁶ which will be co-located with PSDI at the ADB Sydney office. In particular, PSDI can contribute through its expertise, experience, and relationships in the area of private sector participation in infrastructure, PPPs, and CSOs.

53. PSDI has also continued to support the excellent partnership with the Pacific media and various research organizations in support of policy dialogue, implementation of initiatives, and reaching out to indirect stakeholders and, the ultimate beneficiaries, the citizens of the Pacific island countries.

VI. RESULTS MANAGEMENT

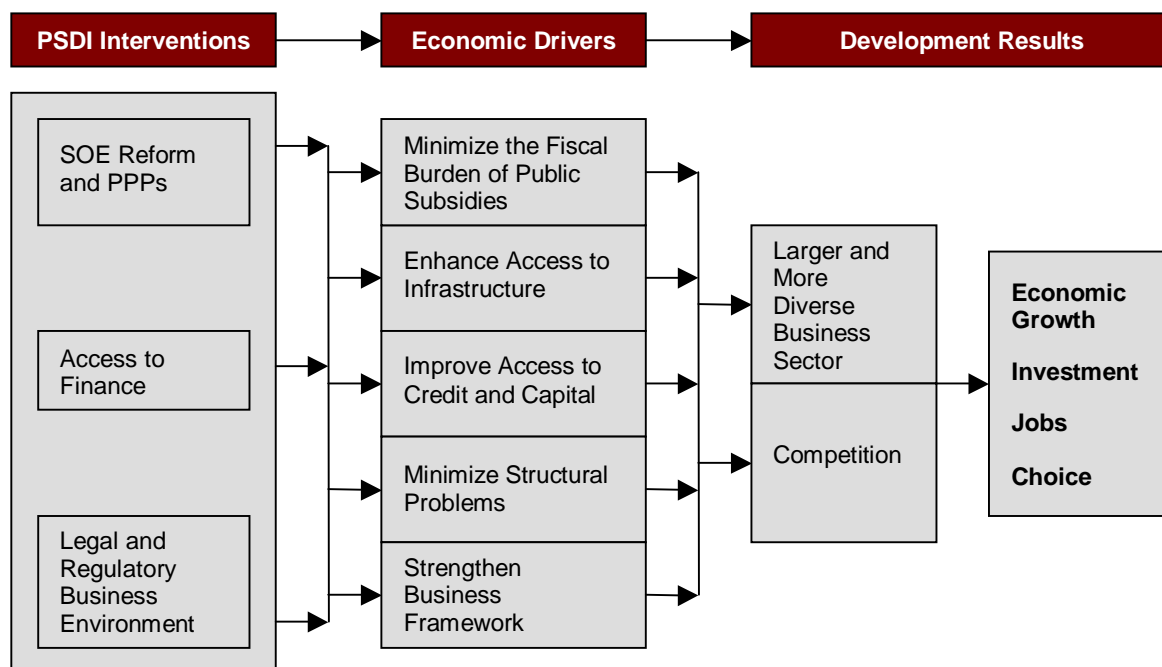
A. Results Framework

54. Many factors, such as global economic trends, the macro-political environment, the efficiency of the public sector, and human resource development—none of which are typically influenced by PSD interventions—typically affect PSD development outcomes.⁷

⁶ The Pacific Infrastructure Advisory Center (PIAC), will analyze, plan, and provide technical assistance to help Pacific island countries develop sustainable infrastructure and services that support national development goals. Announced in August 2008, the center is the first key component of support to be provided under the new Pacific Region Infrastructure Facility (PRIF).

⁷ For example, the surge in PNG's GDP growth rate to 6% per year in 2007–2008 and 31.9% increase in bank lending to the private sector in 2007 occurred despite the government's lack of progress in improving the business climate and property rights or lowering the costs of doing business. Instead, these outcomes were

FIGURE 3: PATHWAYS TO RESULTS



While attribution issues may complicate the evaluation of the effectiveness of PSD-related reform programs, the focus should be on the intermediate outcomes to improve the enabling business environment. Figure 3 shows the principle pathways to results from PSDI's three core areas of intervention.

55. To assess the impact of policy and legal reforms, technical assistance, and donor investments in private sector-oriented initiatives in the Pacific, significant efforts have been devoted under PSDI to develop a comprehensive performance measurement framework. This framework is composed of: (i) a country-level PSD impact analysis; (ii) measurement of progress along an agreed set of PSD indicators in each country; and (iii) at a PSDI project level, measurement of the progress and achievements of individual PSDI-financed technical interventions. Benchmarking options are built into the framework to facilitate regional learning, cooperation, and integration, as well as to induce an element of competition among reform-oriented governments and stakeholders. Taken together, the country-level PSD performance report, the set of PSDI-specific indicators, and the management for development results (MfDR) tool will provide a comprehensive framework for tracking overall progress in PSD in each country, as well as the specific contributions of PSDI interventions. Moreover, we have been actively seeking client feedback to validate the performance from the demand side.

more directly linked to the global commodities boom at the time and demand for PNG's resource exports. Resource booms, however, are cyclical, and long term economic growth depends on the establishment of a legal and policy environment that facilitates private investment. This legal and policy environment is the focus of PSDI.

1. PSD Performance Reports

56. At the country level, PSDI has developed a high level 2008 Pacific PSD performance report in collaboration with the IFC. The report was circulated in November 2008 for comment of development partners (mainly AusAID and NZAID), which will be discussed and taken into account for the 2009 report. The analysis is based on a selection of development performance criteria tracked and analyzed by country each year in the ADB and World Bank Country Performance Assessment/Country Policy and Institutional Assessment.⁸ The methodology is based on international good practice and wide-ranging consultations, hence representing a consensus on the main criteria relevant to assessing country policy and institutional development. Recognizing that the methodology does not include a number of components of an enabling business environment, such as infrastructure, ADB and the IFC intend to expand the scope of the 2008 PSD performance report in 2009 with a view to closing the gaps.

2. PSD Performance Indicators

57. PSDI has developed a set of high-level indicators specifically designed to measure progress under PSDI key results areas (and beyond). Appendix 5 shows the set of quantitative PSD indicators for which baseline data are currently being collected. Once core baseline data have been assembled, progress in key areas will be tracked through time to monitor progress and provide feedback for reform modification where necessary. We expect this tool to be used widely in 2009 and beyond, not only for results measurement purposes, but also for policy dialogue and reform advocacy.

58. Performance indicators can be constructed to determine the success of particular initiatives in PSDI key areas, as illustrated in the following:

- In SOE reform, the total cost of the SOE portfolio should decline if measures to restructure, make SOEs operate on commercial terms, or divest are successful. Moreover, the cost of the services provided by SOEs should decline after successful reform. Careful benchmarking will allow evaluation of the extent to which costs decline. In the area of private sector participation (including PPPs), we can measure, for instance, the number and value of new contracts for government services that have been competitively tendered for private provision.
- For access to finance, broad measures, such as the ratio of private sector credit to gross domestic product will indicate how the financing of investment and entrepreneurship is changing. Interest rate spreads will show whether the cost of intermediation is declining. The number and quantity of deposits will indicate the extent to which access to financial services is spreading. The number of filings of loans secured by collateral will indicate successful personal property securities reform.
- For legal reform, indicators can track progress on the impact of new or amended laws. The cost of and time required for forming a company will decline if company

⁸ The three PSD-related criteria from the CP(I)A that are used are: (i) the financial sector; (ii) business regulatory environment; and (iii) property rights and rule-based governance.

act reform is successful, as will the annual legal cost for maintaining companies. Effectively designed indicators can also show, for instance, the number of community companies or women-owned companies that are being formed.

3. Management for Development Results Tool

59. At the project level, PSDI has developed and implemented a robust monitoring and evaluation framework for ADB's PSD and PSDI activities in the Pacific region, focusing on development results and implementation performance. The tool aims at shaping a plausible strategy to achieve the desired results, supporting vigorous and competent implementation, and assessing progress through project results and aggregating results for a portfolio of projects. The tool tracks target results and monitors the quality of implementation. It defines, for each PSDI subproject, a number of target results that, in turn, correspond to PSDI key results areas. These target results are weighted and rated by the project team, so that the measure of each target result is a function of its potential value, degree of completion, and degree of success. In this way, progress toward each of the key results areas can be monitored, assessed, and aggregated on the portfolio level. In addition, the tool also measures implementation performance for each of the subprojects through application of specific criteria.⁹ A summary of portfolio performance as at 31 December 2008 is given in the following section.

B. Portfolio Performance

60. In 2008, the PSDI portfolio has grown to a total of 52 projects, of which 27 are currently ongoing, 21 have been closed, and 4 are in the pipeline. Overall, the PSDI portfolio continues with a good showing on its second year, with 24% of projects rated as highly satisfactory, 74% satisfactory, and 2% partly satisfactory.¹⁰

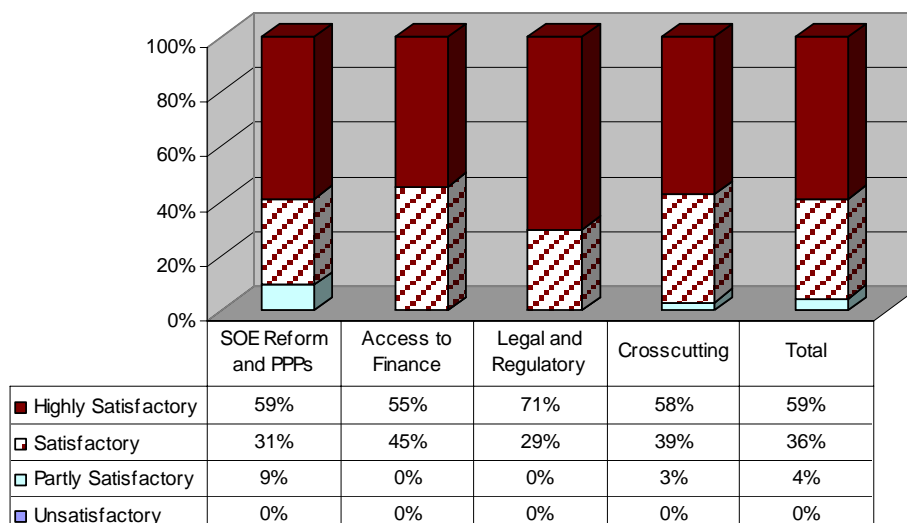
61. The analysis of performance by key results area (i.e., SOE reform/PPPs, access to finance, legal and regulatory reform, and crosscutting) shows that work on legal and regulatory reform continues to have more consistently positive results than the other key results areas in 2008, with 71% and 29% of law-related target results rated highly satisfactory and satisfactory respectively (Figure 4). This may be partly because in legal reform, the difficulty of getting traction occurs mainly prior to the approval stage—that is, progress is relatively easier to obtain once all stakeholders have signed on and the legal reform process is underway. Even with the positive results in legal business environment reform to date, however, additional years will be necessary to implement these reforms fully, and for results to materialize.

62. Conversely, initiatives involving SOE reform are often more difficult at the initial phase. They rely heavily on political leadership to initiate and implement meaningful change. Even where government officials are responsive, political circumstances can hinder progress.

⁹ Criteria for implementation performance are: (i) timeliness of implementation, (ii) executing agency performance, (iii) consultant performance, (iv) ADB performance, and (v) adequacy of consultations with people affected.

¹⁰ Two ongoing projects currently have progress of below 25% of completion. Because it is too early in the project cycle to evaluate their performance, they are excluded from this analysis.

FIGURE 4: RESULTS PERFORMANCE IN KEY RESULTS AREAS



PPP = public-private partnership, SOE = state-owned enterprise reform.

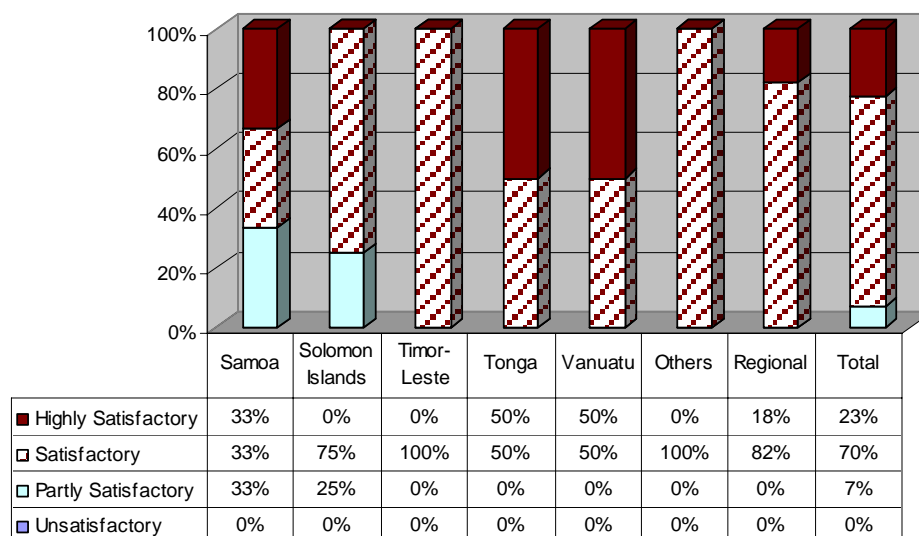
This may explain why in 2008 about 9% of target results related to SOE reform and PPPs were rated partly satisfactory. However, a large number (59%) of SOE and PPP reform initiatives were rated highly satisfactory. Moreover, as a result of intensive engagement in several countries, including related diagnostic work, during 2007–2008, there has been an increasing momentum that we anticipate to lead to positive achievements and results in this key results area in the near to medium term.

63. Tonga and Vanuatu have emerged as the top performers in 2008, with half the projects in their portfolios rated as highly satisfactory and the remainder rated as satisfactory (Figure 5). However, considering that the Tongan portfolio has twice as many projects as that of Vanuatu, it should be noted that projects in Tonga have performed with a greater degree of consistency. Samoa has an even split, with one third of projects rated highly satisfactory, satisfactory, and partly satisfactory, respectively. The comparatively disappointing performance of the Samoa and Solomon Islands portfolios reflects the slow progress on SOE reforms in both countries and, in the case of Samoa, delays in business registry reforms. The remaining country portfolios are rated satisfactory. Regional or multi-country projects continue to score well, with 18% rated highly satisfactory and the remaining 82% rated as satisfactory.

C. Client Feedback

64. In addition to measuring our performance through country, program, or project-based PSD indicators, we have been actively seeking client feedback on our work. In November 2008, an informal PSDI survey of key counterparts and clients measured and assessed satisfaction with PSDI-funded work. This was augmented by direct discussion on how to improve PSDI-funded assistance.

FIGURE 5: OVERALL PERFORMANCE BY COUNTRY



Others = Cook Islands, Republic of the Marshall Islands, Palau, and Papua New Guinea.

65. An overwhelming majority of respondents commended the PSDI work for its relevance, high degree of responsiveness, and the quality of its outputs. In particular, clients appreciated: PSDI funded country analysis, which has led to dialogue and advocacy with key reformers; the scope, relevance, and effectiveness of workshops and seminars held in the region; and the quality of the technical work, particularly in the areas of legal reform, PPPs, and contracting out. The PSDI team also received a number of letters and emails of appreciation, for instance from the Prime Minister of Tonga as well as the Commissioner of PNG's ICCC.

66. The majority of respondents also expressed a need for further PSD(I) support in 2009–2011, some of which is already underway. Indeed, the ultimate and most convincing measure of client satisfaction has been the increasing (repeat) demand and associated requests for support by reform-oriented government officials and private sector organizations.

VII. OUTLOOK

67. PSDI has been instrumental in transforming the nascent acceptance of the need for PSD in the Pacific island economies into a full-fledged demand for reform in a number of areas. It has introduced innovative approaches to reforms that contribute to sustainable economic growth. Participating governments and private sector stakeholders are now keen to sign up for reform in PSDI's core practice areas, highlighting both the relevance of PSDI and the commitment of its clients.

68. The high demand for PSDI-supported reform has resulted in a much faster than expected expenditure of PSDI funds. If PSDI continues at full speed in serving the increasing number of client requests for assistance, funding will be depleted within 2009, before a number of PSDI-funded reforms can be fully implemented. Moreover, PSDI activities have led to the identification, appraisal, and design of a number of larger-scale PSD reform proposals that require funding commitment before they can be launched.

69. In this regard, PSDI replenishment discussions between ADB and AusAID have commenced, and there is considerable interest on both sides to enter a longer term partnership to promote private sector-led growth in the Pacific region. Related agreements are expected to be concluded in 2009. The planning assumption for the purpose of this report is that PSDI will continue through the medium term (if not beyond) at the current resource levels.

70. Looking forward, PSDI will enable the maintenance and expansion of ongoing programs, and continue to be highly responsive to reform opportunities. In addition, building on PSDI's achievements to date, focusing on a relatively smaller number of significant, high impact initiatives, and seeking to achieve real impact level results in the medium-term, we are planning to launch the following initiatives over the next 1–2 years.

- Roll-out of **rural and microfinance** support projects, including the application of new electronic technologies and branchless banking models. In addition to increasing access to finance, this will also help reduce the costs of remittance transfers between emigrants and their home countries.
- Implementation of the new **business law framework**, especially in the areas of company law and personal property securities law. A robust implementation program will ensure that capacity is increased across all stakeholders and the new laws are used with positive flow-on benefits for the private sector.
- Establishment or modernization of **business registries**, both companies and asset registries, and promotion of regional cooperation and integration (e.g., a regional business registrars' association).
- Development of a multi-country **contracting code** with regional application, an initiative strongly endorsed by regional investor associations and legal advisers. A new contracting framework will encourage the use of contracts (which traditionally have not been used in the region) and support increased confidence in contracting on a regional basis.
- Launch of a large-scale effort to promote **competition** in the region through the strengthening of competition policy and its supporting legal and institutional frameworks.

- Support to **SOE reform** initiatives that are expected to emerge as a result of the discussion and advocacy arising from the publication and dissemination of the findings of the comparative SOE performance study.
- Implementation of **PPP transactions** in PNG, Samoa, Solomon Islands, and Tonga, all of which have a pipeline of potential infrastructure projects that will involve PPPs.
- Reinforcement of PSDI's focus on **catalyzing investment opportunities**, ensuring that PSDI's focus on improving the business environment will ultimately translate into increased investment flows.
- Support to larger, **country-specific initiatives** that continue to arise as a result of ADB's ongoing PSD(I)-related analytical work, policy dialogue, and reform activity.¹¹
- As required, assistance to countries to deal with the effects of the global financial and economic crisis, in particular through reform measures that help increase flexibility and productivity in the countries concerned.

71. In conclusion, PSDI funding has created a strong momentum for further, deeper reform engagement in Pacific island countries. If pursued, this momentum should lead to additional investment, entrepreneurship, productivity, and growth in the economies of the region.

¹¹ For instance in Tonga, the 2008 PSA led to intensive consultation with senior members of government, including the Prime Minister, and private sector organizations. As a result and in response to government request, a wide-range of assistance has been provided through PSDI to implement an extensive PSD-oriented reform program. Taking into account the positive reform progress made and momentum created since, there will be opportunities to intensify the level of PSDI support and improve development outcomes.

PSDI ACTIVITIES: COUNTRY PORTFOLIOS

COUNTRY		PAGE
Papua New Guinea	–	24
Samoa	–	29
Solomon Islands	–	33
Timor–Leste	–	36
Tonga	–	37
Vanuatu	–	42

This appendix provides summaries of the Private Sector Development Initiative's (PSDI's) activities in each of the six countries where it is most active. Each country summary is supported by a policy tracking and evaluation matrix, which is intended to provide a snapshot of the core constraints to private sector development (PSD) that are being addressed by PSDI in each country. The matrices are not intended to list all of the constraints to PSD in each country, but instead, focus only on those which PSDI is addressing, thereby providing a useful policy reform performance tracking tool.

PSDI ACTIVITIES IN PAPUA NEW GUINEA (2008)

A. Introduction

1. While private sector-led economic growth remains an important tenet of Papua New Guinea's (PNG's) *Medium-Term Development Strategy 2005–2010*, and has been underscored in each budget speech since 2006, progress to address key constraints to private sector development (PSD) remains mixed. The 2007 Institute of National Affairs (INA) private sector survey showed no improvement, since 2002, in the policy dialogue between government and the private sector, nor in reducing high crime rates, which significantly increase the costs of doing business in the country. It is only in selected infrastructure sectors that notable improvements have been made, largely as a result of increased public investment in the roads sector and the introduction of competition, which has paved the way for private sector investment in the telecommunications and power sectors.

2. While competition is gradually being introduced in selected infrastructure sectors, it is still being approached cautiously by the government, which places great emphasis on protecting incumbent state-owned enterprises (SOEs) at the expense of competition and efficiency.¹² This interventionist role of the state in the economy is one of the principal constraints to private sector activity in PNG. Other core constraints outlined in the PSDI sponsored 2008 ADB private sector assessment (PSA) for PNG¹³ include:

- the inability of the financial sector to fund investment opportunities;
- the lack of transparency and accountability in the public sector;
- unpredictable changes in government policies for the private sector;
- poor infrastructure;
- a difficult contracting environment;
- an underdeveloped leasing system for land; and
- weak property rights over movable assets.

¹² Recent decisions in the telecommunications sector have sent mixed messages on the attitude of the state regarding competition. In 2006, the Independent Consumer and Competition Commission allocated licenses allowing competition in the mobile phone market. This triggered one of the most marked improvements in service delivery since independence. The network coverage has grown from 160,000 to around 900,000 subscribers (Ministry for Treasury and Finance. 2008. *State of the Economy: Ministerial Statement to Parliament*. Port Moresby.) and mobile charges have fallen substantially. According to the Government of PNG, the introduction of competition into the mobile sector has resulted in a 0.7% increase in gross domestic product. Despite these tangible benefits, a draft 2007 Government Information and Communications Telecommunications Policy proposed to nationalize all telecommunications assets. This policy has since been revised, but continues to protect monopoly segments of the state-owned operator. Interconnection between the new mobile service introduced by Digicel and the B-Mobile network operated by the state-owned PNG Telikom took more than a year, and in 2008, the government restored PNG Telikom's monopoly over the international gateway.

¹³ ADB. 2008. *Foundation for the Future: A Private Sector Assessment for Papua New Guinea*. Sydney.

3. PSDI's dialogue with the government on core PSD reforms has focused on the SOE sector, public-private partnerships (PPPs), business law reform, and access to finance. Notable progress was made in 2008 with the formulation of a new PPP policy, which will be operationalized in 2009. The government has also expressed an interest in developing a community service obligation (CSO) framework as an essential component of SOE reform. PSDI's work in the area of business law reform has focused on support to the Independent Consumer and Competition Commission (ICCC), the competition regulator, to facilitate competition in the sectors and strengthen its capacity more broadly. To further improve both the formal and informal sectors' access to finance, PSDI has maintained dialogue with the government on reform of the collateral framework, an initiative which has the support of the business community, banking sector, and the Central Bank. Indications are that this reform could proceed in 2009, subject to the availability of government counterparts. PSDI has also assessed the potential for expanding access to finance through the use of new branchless banking technologies, and for strengthening the microfinance industry. Both initiatives will be pursued in 2009. PSDI activities in 2008 in PNG were mostly undertaken in collaboration with, and augmented, country specific technical assistance (4722-PNG).

B. State-Owned Enterprise Reform and Private Sector Participation

4. PSDI provided technical assistance to a multi-agency government task force charged with developing a national PPP policy. After numerous rounds of stakeholder consultations, the policy was endorsed by Cabinet in December 2008, paving the way for increased transparency, competition, and value for money in infrastructure investment. The policy is designed to encourage private provision of infrastructure goods and services by improving the process by which these investments are planned and procured by the government. Implementation of the policy is planned for 2009, with continued ADB support.

5. In the area of SOE reform, in contrast, only limited progress has been made. SOEs still dominate infrastructure service provision in PNG, yet few prepare audited financial accounts or disclose performance indicators, and the SOE holding company, the Independent Public Business Corporation, does not comply with the corporate governance standards outlined in its founding legislation. As PNG prepares to implement its new PPP policy, SOEs will need to reform if they are to become viable partners in future PPP transactions. A first step in this reform process will be the development of a transparent framework for contracting, financing, and delivering CSOs, most of which are currently delivered by the larger infrastructure SOEs. The government has expressed a keen interest in developing this framework in 2009, with technical assistance from PSDI.

6. In the health sector, PSDI provided support to the multi-donor technical assistance team, developing recommendations for increased private sector participation in the supply and distribution of medical supplies—an area which has suffered from chronic underperformance from the Department of Health. These recommendations are currently being implemented, with a restructuring of the supply chain and the potential outsourcing of delivery to selected regions.

C. Business Law Reform

7. The PSDI sponsored PSA for PNG identified the lack of competition in key infrastructure service markets as a core constraint to PSD. While the government has enacted a competition law and established an independent regulator, sector monopolies continue to deliver suboptimal services, driving up the costs of doing business. In 2008, PSDI continued to support ICCC, the competition regulator, to facilitate interconnection, develop industry codes, and strengthen its regulatory capacity.

8. Other weaknesses in the commercial legal framework continue to represent an impediment to PSD, particularly the underdeveloped leasing system for land and difficult contracting environment. The government has made notable progress in reforming the land tenure system, and these reforms will be pursued in 2009. A diagnostic of the contracting environment was conducted with PSDI support in late 2008, and has confirmed the suitability of PNG to participate in the development of a regional contracting framework. With the government's concurrence, this initiative could be pursued in 2009–2010.

D. Access to Finance

9. With the rapid expansion of mobile telecommunications coverage in PNG, the use of mobile phones to conduct financial transactions has the potential to dramatically reduce transactions costs and lead to increased access to finance in rural areas. A market assessment financed by PSDI in 2008 has revealed the potential for branchless banking in PNG, and recommended a measured regulatory approach to encourage innovation and private investment into these applications. As a result of this assessment, the Bank of PNG has requested further PSDI support in developing an appropriate regulatory framework for mobile banking,¹⁴ which will proceed in 2009.

10. PSDI also conducted a review of the microfinance sector, to identify service gaps and areas which could benefit from further donor support. The review confirmed the high demand for savings products and low effective demand for loans in the microfinance sector, and recommended continued ADB support of Nationwide Microbank, to strengthen its internal controls, outreach capacity, and ownership structure. Similar assistance is being provided by the International Finance Corporation to PNG Microfinance Limited, the country's only other licensed microfinance institution. Further donor support to the sector would also be beneficial to improve financial literacy and education as well as provide basic business skills training to microenterprises.

¹⁴ ADB also co-organized a conference on mobile banking in PNG on 21–22 October, with the International Finance Corporation, Institute of National Affairs, and Port Moresby Chamber of Commerce. The workshop was attended by over 50 government and industry representatives, as well as AusAID and UNDP staff.

POLICY TRACKING AND EVALUATION MATRIX: PAPUA NEW GUINEA

CONSTRAINTS TO GROWTH	SOURCE OF THE ANALYSIS	POLICY RECOMMENDATIONS	PSDI-FUNDED ASSISTANCE	POLICY IMPLEMENTATION AND PROGRESS
<p>Limited initiatives to promote private sector development (PSD) on the part of the government, despite it being acknowledged as important.</p>	<p>2008 Private Sector Assessment (PSA)</p>	<p>Dialogue and interaction with the government regarding policy issues related to the private sector.</p>	<p>Hire a full-time advisor and advocate to promote PSD issues through dialogue with the government.</p>	<p>Apart from public-private partnerships (PPPs), limited progress on a broader PSD reform program.</p>
<p>Poor infrastructure raises transactions costs.</p> <p>Extremely poor road quality is a major impediment to rural area development.</p> <p>State-owned enterprises (SOEs) continue to dominate infrastructure service provision with monopolies in the utilities and transport sectors.</p> <p>Mobile phone provision has greatly benefited from the introduction of competition.</p> <p>Internet provision could do with the same.</p>	<p>PSA</p>	<p>Promote PPPs.</p> <p>Open up infrastructure provision to competition.</p> <p>Increase public investment in roads and facilitate contracting of road maintenance to the private sector.</p> <p>Develop a CSO policy to facilitate private sector participation in infrastructure provision.</p> <p>Eliminate the monopoly on the internet gateway.</p> <p>Strengthen regulation.</p>	<p>ADB supported the development of the PPP Policy, and has signed a Memorandum of Understanding with the government to provide technical assistance (TA) for the implementation phase in 2009.</p> <p>PSDI conducted a 2-day workshop on CSOs in December 2008.</p> <p>PSDI has provided TA to the Independent Competition and Consumer Commission (ICCC), particularly in the area of telecommunications industry code development and interconnection.</p>	<p>Cabinet endorsed a new PPP policy in December 2008 and agreed to develop the institutional and legal framework for PPPs in 2009.</p> <p>Government has requested further TA to develop a CSO policy and guidelines, but fundamental reforms to SOE governance and legal frameworks will be needed to allow the CSO guidelines to be implemented.</p> <p>Interconnection between fixed and mobile lines was established in 2008.</p> <p>The ICCC has been instrumental in promoting competition in several areas including mobile phone competition.</p>
<p>Access to finance is hindered by lenders perceiving risk to be high.</p>	<p>PSA</p>	<p>Introduce a new collateral framework by reforming the personal property securities (PPS) system.</p>	<p>Several presentations to senior government officials have been made by PSDI-financed experts on the advantages of a PPS system.</p>	<p>The reform is supported by the Central Bank and Treasury, but so far there are no champions in the Ministry of Commerce.</p>

CONSTRAINTS TO GROWTH	SOURCE OF THE ANALYSIS	POLICY RECOMMENDATIONS	PSDI-FUNDED ASSISTANCE	POLICY IMPLEMENTATION AND PROGRESS
Access to financial services in rural areas is low.	PSA and Assessment of Potential for Branchless Banking Models in Papua New Guinea (PNG).	<p>Expand the network of microfinance providers that also accept deposits.</p> <p>Leverage the use of new technologies to reduce the cost of access.</p>	<p>PSDI has financed assistance to micro-lenders, in particular Nationwide Microbank.</p> <p>This support will continue in 2009.</p> <p>PSDI has funded an assessment of the potential for branchless banking technologies.</p>	<p>Microfinance growth in PNG is a success story. The most surprising aspect is that the demand for deposit facilities has exceeded the demand for loans.</p> <p>Bank of PNG and the government are supportive of branchless banking applications.</p> <p>Bank of PNG has requested assistance to develop a regulatory framework for e-banking in 2009, which would include branchless applications.</p>

CSO = community service obligation, ICCC = Independent Consumer and Competition Commission, PNG = Papua New Guinea, PPP = public-private partnership, PPS = personal property securities, PSA = private sector assessment, PSD = private sector development, SOE = state-owned enterprise reform, TA = technical assistance.

PSDI ACTIVITIES IN SAMOA (2008)

A. Introduction

1. Private sector-led economic growth and employment creation is one of the goals of the Strategy for the Development of Samoa (SDS) 2008–2012. The Asian Development Bank's (ADB's) assistance strategy for Samoa supports the SDS through interventions targeting: (i) improved delivery of public services, including the removal of infrastructure constraints; and (ii) promotion of private sector development.

2. While considerable progress has been made in improving the business environment during the past decade, there are still many impediments to private sector-led economic growth that need to be removed. ADB's 2007 private sector assessment (PSA) for Samoa¹⁵ highlighted the key impediments to private sector activity:

- too large a role of the state in the economy;
- inadequate economic infrastructure;
- poor quality and high cost infrastructure-related public services;
- underdeveloped financial markets; and
- weaknesses in the enabling business environment, particularly property rights.

While the PSA and its recommendations were fully endorsed by the private sector and generally well received by the government, there appears to be reform fatigue and a lack of political commitment to reinvigorating the reform momentum.

B. State-Owned Enterprise Reform and Private Sector Participation

3. With some PSDI assistance, ADB supported the privatization of the Samoan Broadcasting Corporation (SBC), which was completed in February 2008. The sale of the SBC is only the second wholly state-owned enterprise (SOE) privatized in Samoa since 1998, and despite the government restating in the SDS 2008–2012 its plan to divest all of the non-strategic SOEs,¹⁶ the privatization process has been slow. The SOE portfolio is a significant drag on the economy. The “commercial” SOEs—those established with a requirement to operate as successful businesses—only managed to achieve an average return on shareholder's funds of –0.5% for the financial years 2002 to 2006.

4. In 2007, PSDI carried out an in-depth analysis of the reform options for the loss making Samoa Shipping Services (SSS). Unfortunately, no action has been taken by the government in 2008 to implement the restructuring and divestment recommendations. PSDI also funded an advisor to assist the Ministry of Finance in developing capacity in its SOE Monitoring Division (SOEMD) for a 4-month period, from late 2007 to March 2008. The advisor provided training to SOE managers on the development of corporate plans; helped

¹⁵ ADB. 2008. *Samoa Private Sector Assessment: Consolidating Reform for Faster Economic Growth*. Manila.

¹⁶ The SOEs considered strategic are: Electric Power Corporation, Samoa Water Authority, Samoa Ports Authority, Samoa Shipping Corporation, and Samoan Airports Authority.

to develop guidelines for community service obligations (CSOs); enhanced SOE quarterly reports; assisted in developing a strategic plan for the SOEMD; helped formulate an ongoing privatization pipeline; and helped draft the SOEMD corporate plan for the 2009/2010 financial year.

5. As part of its commitment to enhancing institutional capacity, ADB also continued to support the development of the Samoa Institute of Directors (SIOD) and their ongoing director training programs. Many senior executives and directors of SOE boards have completed the SIOD training program.

6. PSDI funded a major study of the comparative performance of the SOE portfolios in Fiji, Samoa, and Tonga. The study will greatly increase the level of knowledge and understanding of the SOE reform process within the Pacific (i.e., what works well, what has not delivered the desired results, and why). The study will be published in early 2009 and will be a useful reference tool for all countries undertaking SOE reform. It is expected that the study will be updated regularly with additional countries invited to participate. As far as Samoa is concerned, the study concluded that despite a relatively robust SOE legislation, the lack of commitment to political reform, combined with poor governance practices, has resulted in a relatively weak performance of Samoan SOEs.

C. Business Law Reform and Access to Finance

7. The government enacted the new Companies Act in July 2008, which brings Samoa's company laws up to best practice. It should also assist in the improved management of the SOE portfolios. A particular issue is that the new Act strengthens the rules around insolvency. Since many of the SOEs appear to be technically insolvent, the new Act will require government to address this issue. The company registry is in need of modernization, and the Chamber of Commerce and the government have both endorsed a reform program for the registry. PSDI funded a fact-finding mission for senior officials of the Ministry of Commerce and their attendance at a registry workshop in New Zealand. However, resistance remains within the Ministry to signing up to comprehensive reform that could be funded through PSDI. Likewise, little progress has been made on the finalization of the Personal Property Security Act and the associated chattels registry. In 2008, PSDI supported a number of consultations, including at a regional level, with Samoan decision makers on these reform measures. Final commitment to the reform remains to be seen.

POLICY TRACKING AND EVALUATION MATRIX: SAMOA

CONSTRAINTS TO GROWTH	SOURCE OF THE ANALYSIS	POLICY RECOMMENDATIONS	PSDI-FUNDED ASSISTANCE	POLICY IMPLEMENTATION AND PROGRESS
The state controlling over 40% of the capital stock of Samoa. Low rates of return on virtually all of these assets adversely impact the growth rate.	2007 Private Sector Assessment (PSA) and Analysis of State-Owned Enterprises (SOEs) in Fiji, Samoa, and Tonga (2008)	Improve the productivity of government departments through contracting out where possible.	The PSDI-supported advisor provided advice on further contracting out of government services.	
<p>Negative rates of return on SOE assets reducing gross domestic product (GDP).</p> <p>If these assets were yielding positive real rates of return, GDP growth would be substantially higher.</p>	PSA Analysis of SOEs in Fiji, Samoa, and Tonga	<p>Ensure that SOEs operate on business principles.</p> <p>Have SOEs fulfill the requirements specified in the SOE Act.</p> <p>Account explicitly for community service obligations (CSOs) that are reducing the profitability of SOEs, and fully implement the new guidelines.</p> <p>Where possible, privatize additional SOEs.</p>	<p>PSDI funded both the PSA and the SOE analysis.</p> <p>Advice on the possible sale of Samoa Shipping Services.</p> <p>Advice on State-Owned Enterprise Monitoring Division (SOEMD) strategic plan.</p> <p>Drafting advice on new CSO guidelines.</p> <p>Several training programs for SOEMD staff and SOE managers.</p> <p>Capacity development at Samoa Institute of Directors.</p>	<p>Government has acknowledged the need to improve the efficiency of SOEs.</p> <p>Quarterly budgets and reports are being prepared in a timely fashion. In some SOEs, management is improving.</p> <p>No progress has been realized to date on the sale of Samoa Shipping Services.</p> <p>The SOEMD strategic plan was incorporated into the Ministry of Finance corporate plan.</p> <p>Director's performance has improved and Ministers have commented on effectiveness of the training program.</p>

CONSTRAINTS TO GROWTH	SOURCE OF THE ANALYSIS	POLICY RECOMMENDATIONS	PSDI-FUNDED ASSISTANCE	POLICY IMPLEMENTATION AND PROGRESS
An outdated commercial legal framework and delays in implementing the new Companies Act.	PSA	Implement the new Companies Act and establish an electronic company registry.	<p>Scoping analysis for a new company registry.</p> <p>A study tour to New Zealand to show how the New Zealand Companies Office functions and discuss issues involved with implementing electronic registries.</p>	<p>Regulations for the Companies Act have been issued.</p> <p>A decision on the company registry is expected during the first quarter of 2009.</p>
Weak collateral framework contributing to lack of access to finance.	PSA	Finalize drafting and pass the Personal Property Securities Act.	The PSDI study tour also provided a workshop on PPSA issues and registries.	The Ministry of Commerce has indicated that work on the PPSA will recommence shortly.
Limited formal discourse between the government and the private sector reducing the effectiveness of policy initiatives.	PSA	Establish a formal consultative body of government and private sector representatives to discuss policy initiatives.	A number of seminars were held with government and private sector representatives.	It was agreed to re-define an existing public-private body (i.e., the Revenue Board) to include dialogue on private sector development. However, this has not materialized.

CSO = community service obligation, GDP = gross domestic product, PSA = private sector assessment, PPSA = Personal Property Securities Act, SOE = state-owned enterprise, SOEMD = State-Owned Enterprise Monitoring Division.

PSDI ACTIVITIES IN THE SOLOMON ISLANDS (2008)

A. Introduction

1. ADB's current country partnership strategy in the Solomon Islands seeks to achieve rapid, pro-poor, private sector-led economic growth, and focuses on improving transportation infrastructure and services and the enabling business environment. An ADB-sponsored private sector assessment (PSA) for the Solomon Islands¹⁷ in 2005 emphasized the need to:

- rationalize the state-owned enterprise (SOE) portfolio;
- improve infrastructure and infrastructure services;
- enhance access to credit;
- reform business law and regulations;
- encourage rural development; and
- resolve property rights issues by unlocking customary land for productive and economic uses within a traditional landownership framework.

Key crosscutting challenges include: the extent of government commitment to reform and capacity to implement policies; adequate mechanisms and processes to implement the reform agenda; and the private sector's response to microeconomic incentives. A forthcoming ADB-sponsored Economic Report on the Solomon Islands confirms these impediments and stresses the need for structural reform as a matter of urgency, taking into account the challenges facing the economy as a result of the rapid decline of logging—a main pillar of the economy and source of government revenue.

B. State-Owned Enterprise Reform and Private Sector Participation

2. Since 2005, ADB has been assisting the government in improving SOE ownership arrangements, accountability, and performance.¹⁸ Despite the government's reform commitment, as expressed in the passage of the SOE Act in 2007 and Cabinet endorsement of the privatization of Home Finance Limited (HFL) and Sasape Marina Limited (SML), political instability and capacity constraints have slowed implementation. In a positive development following the 2007 SOE Act, a larger exercise to update and audit SOE accounts is being prepared with Australian support. PSDI-supported privatization work on HFL and SML has now stalled despite the government's efforts to settle the outstanding liabilities of SML prior to sale. The PSDI team is also monitoring related progress in relation to the opening up of the telecoms sector to competition, as well as the implementation of the management contract for the local electric utility. In 2008, a number of Solomon Islanders participated in SOE-and-PPP-related workshops.

¹⁷ ADB. 2005. *Private Sector Assessment for the Solomon Islands*. Sydney.

¹⁸ The assistance was initially provided through State-Owned Enterprise Reforms and Private Sector Participation (TA No. 4482–SOL), and more recently through PSDI.

C. Business Law Reform

3. An ADB-sponsored 2008 Secured Transactions Act, the passing of which was supported by PSDI-funded expertise, and an associated asset registry to be established in 2009 with full PSDI support, will make it simple for borrowers to pledge their movable assets to the banks as security. PSDI expertise has been supplementing a stand-alone technical assistance project (4700-SOL), also cofinanced by AusAID, to prepare and implement a new Companies Act, which takes into account the small island realities in the country. The draft Bill had its first reading in Parliament in November 2008, and the public hearings of the Bills Committee were completed in December 2008. The Bill is scheduled for its second reading in March 2009. It makes provision for the registration of “community companies,” a special type of company designed for use by kin groups. The use of a community company enables the use of community assets in a way that benefits all members of the community—women’s groups and farming and fishing cooperatives, among others—while at the same time removing the potential for abuse. The Bill is currently before Parliament. A new company registry is being designed and will be implemented in 2009 with PSDI support. PSDI has also been complementing the preparation and implementation of a Companies (Insolvency and Receiverships) Act (before Parliament) and a new Trustee Bill (scheduled for Parliament in 2009).

D. Access to Finance

4. ADB is currently investigating options to engage in the area of access to financial services in rural areas in the Solomon Islands. To this end, a draft report on access to finance—particularly microfinance—was prepared in October/November 2009, financed by PSDI.

POLICY TRACKING AND EVALUATION MATRIX: SOLOMON ISLANDS

CONSTRAINTS TO GROWTH	SOURCE OF THE ANALYSIS	POLICY RECOMMENDATIONS	PSDI-FUNDED ASSISTANCE	POLICY IMPLEMENTATION AND PROGRESS
Ineffective, loss making, non performing state-owned enterprises (SOEs).	2005 Private Sector Assessment (PSA) 2009 Pacific Islands Economic Report (PIER)	Improve governance and monitoring and evaluation systems. Privatize and contract out where feasible. Introduce competition into telecommunications and other sectors to the extent possible.	Privatization advisers. Public-private partnership (PPP) workshops. SOE corporate governance advisers.	Privatizations of Home Finance Ltd. and Sasape Marina ongoing, though somewhat stalled.
Ineffective commercial legal framework.	2005 PSA 2009 PIER 2005 Legal Analysis	Draft a new Companies Act that reflects the realities of the country. Modernize the company registry. Reform bankruptcy and trustee laws.	Supplementation of TA 4700–SOL through funding of additional time for the legal experts, provision of senior legal peer reviewers, and support for the printing and review process of the Bills.	Excellent progress being made. First reading of the Companies Bill in December 2008, and passing expected in March 2009. Companies Receivership Act and Trustee Act scheduled for the 2 nd Parliament session in 2009.
Lack of access to finance.	2005 PSA 2009 PIER 2005 Secured Transactions Analysis 2008 Microfinance Report	Reform the collateral framework. Improve microfinance services.	Supplementation of TA 6162–REG through funding of secured transactions legal and registry experts. Funding of a microfinance expert to review the microfinance situation and opportunities for interventions going forward.	Secured transactions law passed in 2008. Registry design was agreed on in late 2008, ready for implementation in 2009. Microfinance draft report has been accepted by government and Central Bank of the Solomon Islands counterparts.

PIER = Pacific Islands Economic Report, PPP = public–private partnership, PSA = private sector assessment, SOE = state-owned enterprise.

PSDI ACTIVITIES IN TIMOR–LESTE (2008)

1. In Timor–Leste, private sector-led economic growth remains constrained by a complex and cumbersome legal environment, weak infrastructure, extremely limited access to rural finance, and a poor, yet improving, security environment. The government's limited capacity to formulate and implement reforms has been exacerbated by the multitude of donor interventions, many of which have not been adequately coordinated.

2. In this environment, PSDI has elected to focus its efforts in expanding access to finance by strengthening existing microfinance providers and identifying economically-viable models for rural outreach. PSDI has leveraged the technical assistance already being provided by ADB to the Instituição De Microfinanças De Timor–Leste (IMfTL), a microfinance institution established in 2001 with ADB support. PSDI has outlined a broad program of institutional and governance reforms for the IMfTL in a Memorandum of Understanding with the Government of Timor–Leste, which took ownership of the institution on 31 December 2008. The program involves repositioning and strengthening the IMfTL to become a small, sustainable, private sector-oriented commercial bank, focused on rural outreach.

3. PSDI has also conducted an assessment of the potential for branchless banking models to expand the outreach of banking services to rural areas. There is significant unmet demand for deposit services in Timor–Leste, and increasing volumes of conditional government cash transfers. Branchless banking models, which are considerably more cost-effective than traditional branches, ATMs, or the current government system of cash distribution, could significantly improve access to financial services in the rural areas. The Government of Timor–Leste has expressed interest in the development of these branchless models and has requested support from ADB in formulating a regulatory approach and implementation strategy.

4. Moreover, PSDI has supported an assessment of the environment for and feasibility of collateral reform in Timor–Leste, which concluded there is generally a need for secured transactions reform. The government and lending institutions indicated they would welcome such reform. In view of weak institutional capacities, ADB will consider implementation of secured transactions reform once the above IMfTL and branchless-banking-related reforms have progressed, and there is sufficient absorptive capacity by counterparts for secured transactions reform.

PSDI ACTIVITIES IN TONGA (2008)

A. Introduction

1. ADB's Country Partnership Strategy for Tonga supports the government's *Strategic Development Program* (SDP-8) in the areas of private sector development, fiscal governance, and social services delivery in urban areas.

2. In 2008, PSDI prepared a private sector assessment (PSA)¹⁹ to analyze the constraints to private sector-led growth in Tonga. The PSA process involved extensive consultations with key stakeholders in both the private and public sectors, including the Prime Minister and the council of economic ministers. A draft report was presented and discussed in mid-2008, and the final report was launched in October 2008. The Prime Minister, who presided over the launch presentation, endorsed the findings of the report, which has set the agenda for many of the reform initiatives currently underway in Tonga.

3. The principal constraints identified in the PSA include the following:

- Rates of return on state-owned enterprise (SOE) assets are low, which reduces growth because of the large proportion of Tonga's capital stock controlled by SOEs.
- Poor quality infrastructure, particularly roads and ports, which significantly raises the costs of doing business.
- The commercial legal framework is outdated, and there are many important laws that are missing, which makes contracting difficult and uncertain.
- Licensing and regulation of businesses raise transactions costs, especially since the implementation of many regulations is haphazard.
- As reform gets underway, increased access to finance will be necessary to fund new investment. In particular, the lack of an effective chattels collateral framework and gaps in terms of the provision of microfinance services were highlighted in the PSA.

B. State-Owned Enterprise Reform and Private Sector Participation

4. PSDI funded a major study of the comparative performance of the SOE portfolios in Fiji, Samoa, and Tonga. The study will greatly increase the level of knowledge and understanding of the SOE reform process within the Pacific (i.e., what works well, what has not delivered the desired results, and why). The study will be published in early 2009, and will be a useful reference tool for all countries undertaking SOE reform. It is expected that the study will be updated regularly, with additional countries invited to participate. As far as Tonga is concerned, the study concluded that while Tonga's legal framework for SOEs may need improvement, the governance and financial performance of the Tongan SOE portfolio fared relatively better than those of the other study countries. Nevertheless, the study

¹⁹ ADB. 2008. *Transforming Tonga: A Private Sector Assessment*. Sydney.

recommended continued SOE reform in Tonga and provided important insights in the potential benefits of further reform.

5. The state is earning low rates of return on SOE assets, which is holding back growth. The nominal rate of return on equity of the SOE sector in Tonga was 7.7% per annum during the 2002–2006 period, however, it was significantly lower in real terms. The official target rate of return is 10% per year. The government is seeking to raise the rates of return on SOEs through rationalization of their operating practices, greater private sector participation, and privatization where technically viable and politically feasible. ADB is assisting government in achieving these goals. The PSDI-supported SOE rationalization process will see greater private sector involvement through direct investment in the SOEs, greater contracting out, and public–private partnerships where appropriate.

6. PSDI supplemented an ADB-funded technical assistance project to rationalize the Tongan SOEs, which concluded in December 2008. It resulted in the first ever privatization in Tonga, with the successful sale of the Leiola Duty Free stores. Four other SOEs were rationalized with one being wound-up and three, restructured. PSDI is now preparing for support, in early 2009, of the launch of a new phase of SOE rationalization, which is even more ambitious and could involve eight SOEs, plus the completion of a number of ongoing rationalizations.

7. PSDI also supplemented two director-training programs to support the government's intention of replacing ministers and public servants on SOE boards with private sector directors, and a community service obligation (CSO) workshop. PSDI can assist the government to continue the reform process already underway. Government has announced its intention to appoint well-trained private sector directors to the SOE boards, which should result in most SOEs achieving returns on equity that meet or exceed the government's hurdle rate.

8. Cabinet approved, in late 2008, the recommendations from a PSDI-funded review of outsourcing road maintenance activity. PSDI is committed to fund the ensuing implementation phase, which will result in the private sector being invited to tender for road maintenance work.

C. Private Sector Development Advisor (In-Country)

9. On government request, PSDI has been funding (since August 2008) a PSD advisor to work within the Prime Minister's Office to coordinate and support the ADB-funded PSD reform program, as well as to advise the Prime Minister and his staff on PSD-related issues and projects, such as in relation to the rebuilding of the Nuku'alofa Central Business District, the coordination of donor funded infrastructure projects, developing a medium-term infrastructure investment plan, targeted private sector support, and investment initiatives. Due to the effectiveness of this support, the Prime Minister has requested an extension of the advisor's assignment in Tonga.

10. The PSD advisor is also assisting the government with SOE rationalization and governance through the Ministry of Public Enterprises. The advisor has also drafted CSO guidelines and contributed to extensive, PSDI-funded CSO training for SOE executives.

D. Reform of the Commercial Law Framework

11. The PSA identified weaknesses in the commercial legal framework in Tonga as being a significant constraint to growth. On government request, PSDI is assisting in the reform of the Companies Act. This is being undertaken in conjunction with the IFC's work on the company registry.

D. Access to Finance

12. The PSA also identified problems with access to finance, particularly for microfinance services and the effective pledging of movable assets as collateral. In response, PSDI is assisting the government in drafting a new personal property securities law and an associated asset registry. PSDI also funded in 2008 an assessment of the opportunities and impediments to the development of microfinance services within the Kingdom.

POLICY TRACKING AND EVALUATION MATRIX: TONGA

CONSTRAINTS TO GROWTH	SOURCE OF THE ANALYSIS	POLICY RECOMMENDATIONS	PSDI-FUNDED ASSISTANCE	POLICY IMPLEMENTATION AND PROGRESS
<p>Lack of technical capacity in government to design, coordinate, and implement the ambitious private sector development (PSD) reform agenda.</p>	<p>Policy dialogue and 2008 Private Sector Assessment (PSA)</p>	<p>Move swiftly to seize reform opportunities.</p> <p>Upgrade capacity in key areas through in country and on the job capacity development.</p> <p>Provide external specialists to assist in reform design and implementation.</p>	<p>A PSDI-funded advisor is in the Office of the Prime Minister to provide advice and support on PSD issues, projects, and approaches.</p> <p>External technical advisers.</p>	<p>Government is progressing well in the implementation of its PSD reform agenda, to some extent established by the PSA.</p>
<p>Rates of return on state-owned enterprise (SOE) assets are low.</p> <p>This reduces growth because of the large proportion of Tonga's capital stock that is controlled by SOEs.</p>	<p>PSA</p>	<p>Make sure that SOEs operate on business principles.</p> <p>Once SOEs are operating on business principles, privatize them or contract out their operations through public-private partnerships (PPPs).</p>	<p>Public enterprise advisors are assisting the government as part of the ongoing support to the Ministry of Public Enterprises and Investment.</p> <p>Help has been provided with community service obligation (CSO) guidelines.</p> <p>Support for public enterprise director training.</p>	<p>Two SOEs have been privatized.</p> <p>Three additional SOEs are being prepared for privatization.</p> <p>Government assets in Westpac have been sold.</p>
<p>Poor quality infrastructure that raises the costs of doing business.</p>	<p>PSA</p>	<p>Contract out road maintenance.</p> <p>Make further investments in infrastructure, and provide for maintenance.</p>	<p>Advice and support is being provided by the PSDI-funded Advisor in the Office of the Prime Minister.</p> <p>Support for contracting out of Ministry of Works' road maintenance and construction is being provided in close coordination with the World Bank Transport Sector Consolidation Program.</p>	<p>A contracting out program is being designed for the Ministry of Works, and other areas of contracting out are being explored.</p>

CONSTRAINTS TO GROWTH	SOURCE OF THE ANALYSIS	POLICY RECOMMENDATIONS	PSDI-FUNDED ASSISTANCE	POLICY IMPLEMENTATION AND PROGRESS
<p>Outdated commercial legal framework, with many important laws missing.</p> <p>Contracting that is difficult and uncertain.</p>	<p>PSA</p> <p>Contracting Framework Diagnostic</p>	<p>Reform outdated laws and pass new laws to fill in the many gaps in the commercial law framework.</p> <p>Explore the possibility of developing a new contracting framework.</p>	<p>PSDI-funded legal experts have engaged in extensive discussion with stakeholders in Tonga during numerous visits. This feedback is being utilized in the drafting of new laws.</p> <p>Contracting experts have had discussions in Tonga as part of a region-wide initiative on a contracting framework.</p>	<p>Amendment to the Company Law is under preparation, in close cooperation with the International Finance Corporation-supported company registry reform.</p> <p>The Cabinet has endorsed the paper outlining the reform.</p> <p>The exposure draft is being finalized and intensive consultations with stakeholders have commenced.</p>
<p>Better access to finance will be needed when growth expands following the reforms.</p>	<p>PSA</p>	<p>Pass a new personal property securities (PPS) law to improve the collateral framework.</p>	<p>An expert in PPS reform has visited Tonga several times to engage in discussions with stakeholders.</p>	<p>The Cabinet paper outlining reform proposal has been endorsed.</p> <p>The drafting process for a new secured transactions law is underway.</p> <p>Design options for associated notice filing archive for movable assets are being developed.</p>
<p>Microfinance is underdeveloped and needs improving.</p>	<p>PSA</p> <p>Microfinance Initial Diagnostic Report</p>	<p>An evaluation of microfinance is required.</p>	<p>Experts dispatched to Tonga in late 2008, and scheduled for a follow up visit and technical assistance design in early 2009.</p>	

CSO = community service obligation, PPP = public-private partnership, PPS = personal property securities, PSA = private sector assessment, PSD = private sector development, SOE = state-owned enterprise.

PSDI ACTIVITIES IN VANUATU (2008)

A. Introduction

1. Vanuatu is currently on its fifth consecutive year of growth, the longest period of sustained economic expansion since independence. Gross domestic product is estimated to have risen by 6.6% in 2007, and despite a difficult international environment, growth continued in 2008, albeit likely at a lower rate. Sound macroeconomic management, together with some private sector-oriented reform has resulted in an improved investment environment. There has been strong expansion in tourism, construction, real estate, and finance, together with higher agricultural output.

2. Recent reforms in the telecommunications sector have seen the entry of a new mobile phone operator that has significantly reduced calling costs and expanded access to services. The airline sector has been opened to more competition. The resulting reduction in fares and expansion of service has significantly benefitted the Vanuatu tourism sector, which is reflected in tourist visits and spending figures.

3. ADB's current strategy supports the Government of Vanuatu's policies outlined in their *Priorities and Action Agenda 2006–2015*. The aim is to promote economic growth while improving the incomes of the poorer sections of the community and enhancing opportunities and growth in rural areas. The strategy focuses, among other things, on improved infrastructure, social development, governance, and private sector development.

B. Constraints to Growth

4. A recent ADB-sponsored draft private sector assessment (PSA) for Vanuatu analyzes constraints to sustained private sector-led growth. The principle barriers to investment and entrepreneurship identified in the report are:

- Poor quality or limited access to infrastructure that adds to the costs of doing business.
- High cost infrastructure services, especially electricity generation. Electricity prices are substantially above those in most other Pacific island economies.
- High port charges resulting from monopoly stevedoring charges, which add to the costs of importing and exporting.
- Limited access to finance, with lending being increasingly concentrated in the property market, while not financing productive investment.
- While improving, access to microfinance services is limited.
- A weak commercial legal framework that does not serve the needs of the local population well and disadvantages community and women's groups.
- Land leasing issues that threaten the long-term stability of land market arrangements.
- The intrusive role of the state, especially in the areas of foreign investment regulation and the state-sponsored Agricultural Marketing Board.

C. Business Law

5. PSDI is funding, alongside other ADB technical assistance (TA) (e.g., 4856–VAN), the modernization of the Vanuatu commercial legal framework. Experts have assisted in drafting a new Companies Act and a new Insolvency Act. They have helped analyze the options for the development of an electronic company registry. Diagnostic reports for both the domestic Companies Law and the Insolvency Law are complete, and should be considered by Parliament in the second half of 2009. The company registry is likely to come on line in 2010. In addition, progress is being made toward redrafting the Trustee Act. A draft Trustee Bill will be prepared for discussion during the first quarter of 2009.

D. Access to Finance

6. A new Personal Property Securities Act was passed and gazetted in 2008. Implementation awaits the installation of a new electronic personal property securities registry. PSDI is supporting the development of the new registry, with installation expected by April 2009.

7. PSDI is supplementing ADB TA (7023–VAN) for the expansion of a microfinance pilot scheme in several of the Vanuatu islands to implement a rural outreach program using smart card and other technologies to expand access to financial services. Lending has already commenced under this initiative, and the full range of financial services should become available during 2009.

8. PSDI is supporting the strengthening of the supervisory capabilities of the Vanuatu Financial Services Commission (VFSC), which is being required to implement more stringent regulatory standards connected with the International Financial Center and which will also be implementing the new personal property securities law and registry. PSDI funded an analysis of the viability of the International Financial Center and the structure of the VFSC. As a result, it is also funding governance assistance to the VFSC.

E. Land Lease Issues

9. The PSA identified long-term land lease issues as a potentially serious problem that threatens the sustainability of economic growth. Discussion on this issue has commenced along the lines of providing guidelines for land leases that provide not only for current custom owners, but also their heirs. Contracting issues are also part of legal reform analysis, and both topics will form part of the ongoing PSA-related consultation and presentations to key stakeholders in Vanuatu.

POLICY TRACKING AND EVALUATION MATRIX: VANUATU

CONSTRAINTS TO GROWTH	SOURCE OF THE ANALYSIS	POLICY RECOMMENDATIONS	PSDI-FUNDED ASSISTANCE	POLICY IMPLEMENTATION AND PROGRESS
Weak commercial legal framework.	PSA	Implement a modern commercial legal framework.	Supplement technical assistance (TA) (4856–VAN) to reform the Companies Act, the Insolvency Act, and the Trustee Act, and assist with an electronic company registry.	<p>Diagnostic reports for the domestic company law and the insolvency law are complete, and they are expected to be considered by Parliament in mid to late 2009.</p> <p>Design for a new company registry has also commenced, which is likely to come online in 2010.</p> <p>An inception mission for redrafting the Trustee Act was completed in October 2008.</p>
<p>Limited access to finance, with lending being concentrated in the property market.</p> <p>The Vanuatu Financial Services Commission (VFSC) requires upgrading to ensure that it meets the demands of more stringent regulatory standards connected with the Vanuatu International Financial Center.</p>	<p>PSA and technical analysis on reform of the Personal Property Securities (PPS) Act</p> <p>PSA and other PSDI-funded technical analysis</p>	<p>Implement a new PPS Act and registry to reduce the risk of lending against movable property.</p> <p>Strengthen supervisory capabilities.</p>	<p>Supplement TA 4457–VAN for the PPS Act and is funding the installation of a PPS registry.</p> <p>PSDI funded support for technical assistance to the VFSC.</p>	<p>A new PPSA has been passed and gazetted.</p> <p>A new PPS registry will be put in place in 2009.</p> <p>An analysis of the structure of the VFSC has been completed and recommendations have been made for restructure and other actions.</p> <p>Governance assistance is being provided to the VFSC.</p> <p>An analysis of the viability of the offshore financial center is complete.</p>

CONSTRAINTS TO GROWTH	SOURCE OF THE ANALYSIS	POLICY RECOMMENDATIONS	PSDI-FUNDED ASSISTANCE	POLICY IMPLEMENTATION AND PROGRESS
Limited microfinance and access to financial services.	PSA and other PSDI-funded technical analysis	Expand the innovative microfinance pilot scheme of the National Bank of Vanuatu.	<p>The microfinance pilot scheme is being expanded to other islands through TA (7023–VAN), which is supplemented by PSDI.</p> <p>A rural outreach program, including “smart card” technology and mobile phone capabilities is being implemented.</p>	Lending has commenced and the rural outreach program providing access to financial services will be implemented in 2009.
Land lease issues.	PSA and a paper on land leasing issues in the region	Restructure land leases to ensure that they are sustainable.	A regional paper on land issues and a more detailed analysis of land issues in Vanuatu.	Discussion of the issue is ongoing as part of the consultation and presentation of the PSA.

PPS = personal property securities, PSA = private sector assessment, TA = technical assistance, VFSC = Vanuatu Financial Services Commission.

PSDI PROJECT LIST

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
COO	Strengthening Competition and Consumer Protection	Assess competition framework and make recommendations to improve capacity of government to encourage competitive behavior.	Ongoing	<ul style="list-style-type: none"> • Deliver to the government report on mechanisms for enhancing the competitive framework • Government to discuss and agree on course of action as a result of report • Government to implement agreed reforms
RMI	Secured Transactions Registry	Establish a secured transactions registry in support of the 2007 Secured Transactions Act.	Ongoing	<ul style="list-style-type: none"> • Registry design report submitted to and approved by government • Regulations issued • Procurement process completed • Registry operational online • First 50 security interests registered
PAL	Secured Transactions Reform	Support the establishment of a functioning secured transactions framework, including a new law and electronic notice board (registry), and capacity building and awareness.	Ongoing	<ul style="list-style-type: none"> • Sound secured transactions law passed by Parliament • Implementing regulations approved • Registry established and operational online • First 100 security interests registered
PNG	Private Sector Assessment	A private sector assessment (PSA) for Papua New Guinea (PNG) to identify binding constraints to doing business, discuss solutions to address these, and recommend reform priorities.	Ongoing	<ul style="list-style-type: none"> • Draft PSA submitted and communicated • Final PSA communicated to and consulted with key stakeholders in PNG • Publication • Agreement from government to implement selected recommendations
PNG	PSD Seminar Series	Organize, together with the Institute of National Affairs (INA) and the Port Moresby Chamber of Commerce, seminars on key private sector development (PSD) issues (e.g. competition, business climate, secured transactions reform, corporate governance, public-private partnerships [PPPs], branchless banking, etc.) to raise awareness and support policy dialogue.	Closed	<ul style="list-style-type: none"> • Agree concept and sponsorship for PSD Seminar Series with local partners INA and the Port Moresby Chamber of Commerce • Implement first seminar on PSA and INA Business Survey results • Implement three additional seminars on PSD topics during the first half of 2008 • Key policymaker and government official attendance at seminar series
PNG	Private Sector Participation in Medical Supplies Distribution	Support multi-donor group through provision of team leader for a study to assess feasibility of outsourcing the procurement and distribution of medical supplies to the private sector.	Closed	<ul style="list-style-type: none"> • Recommendations to Department of Health Task Force on options for reforming the procurement and distribution of medical supplies

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
				<ul style="list-style-type: none"> Department of Health Task Force endorsement of recommendations to the NEC (Cabinet) Recommendations implemented
PNG	PPP Framework	Develop a PPP policy as a first step in the establishment of a functioning PPP framework to support future infrastructure investment. Once the policy is formally endorsed by the NEC, implementation will involve the development of implementing rules and regulations as well as institutional arrangements.	Ongoing	<ul style="list-style-type: none"> Develop a PPP framework to encourage private sector participation into the infrastructure sector Two public consultation workshops Policy statement endorsed by the NEC Agreement with government on implementation support from ADB
PNG	PPP Implementation Framework	Support the implementation of PNG's newly-issued PPP policy, with a focus on implementing rules, regulations, and institutional arrangements.	Pipeline	<ul style="list-style-type: none"> Develop business plan for PPP center Identify necessary changes to existing legal framework affecting PPPs, and agree with government Draft PPP law and implementing regulations Finalize operating manuals for PPP center and recruiting plan Agree financing plan for PPP center and project development
SAM	SOE Reform Program	Support Samoa's State-Owned Enterprise Monitoring Unit (SOEMD) in the (i) development of a new pipeline for state-owned enterprise (SOE) reform, and (ii) implementation of its newly-issued policy on community service obligations (CSOs).	Closed	<ul style="list-style-type: none"> Business and financial review of SOE portfolio completed, including recommended focus areas for 2008 Corporate Plans SOEMD Strategic Plan completed, including SOE reform pipeline For three priority SOEs, reform plan developed and endorsed by Cabinet Implementation of two of the three SOE reform plans, resulting in increased private investment and/or reduced fiscal transfers to these SOEs New CSO guidelines piloted in two SOEs
SAM	SIOD Capacity Building	Support the newly-formed Samoa Institute of Directors (SIOD) in implementing director training courses with international corporate governance specialists so that (i) skills levels of directors increase, and (ii) SIOD	Ongoing	<ul style="list-style-type: none"> Produce business plan Conduct customer survey and prepare course agenda for 2008 Implement selected director training courses to be attended by at least 60 participants in 2008

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
		sustainability is improved as skills of local trainers increase and SIOD develops capacity to continue course offerings without external support.		<ul style="list-style-type: none"> Develop SIOD financing plan for 2009
SAM	Samoa Shipping Services Restructuring	Provide restructuring and privatization recommendations for Samoa Shipping Services (SSS), an SOE 100% owned by the government.	Closed	<ul style="list-style-type: none"> Recommendations to task force on MV Forum Samoa II Recommendations to task force on crewing services Overall reform and privatization recommendations SSS implements restructuring plan
SAM	Companies Registry Reform	Support the modernization of the Samoan company registry in line with international standards and the 2006 Companies Law Amendment Act. Components include a diagnostic, software and installation, training, and awareness campaign.	Ongoing	<ul style="list-style-type: none"> Diagnostic report to government completed Registry operational First 100 companies registered
SAM	Secured Transactions Reform	Support the establishment of a functioning secured transactions framework, including a new law, electronic notice board (registry), and capacity building and awareness.	Ongoing	<ul style="list-style-type: none"> Diagnostic report to government completed and agreed on Registry operational online First 100 security interests registered Implementing registration issued
SAM	Preparing (Quasi) Equity Investment in a Commercial Bank	Prepare the feasibility study for the strengthening of Samoa's commercial banking sector through: (i) quasi equity investment (subordinated convertible bonds) in a commercial bank, and (ii) supporting the bank through strengthening of credit policies and procedures, developing adequate corporate governance and internal control procedures, as well as in opportunities for commercial cooperation.	Closed	<ul style="list-style-type: none"> Due diligence report prepared, presented to Samoa Central Bank Board and Management, and ADB Project document for ADB's Private Sector Operations Department prepared Equity investment facilitated
SAM	Private Sector Assessment	A PSA for Samoa to identify binding constraints to doing business, discuss solutions to address these, and recommend reform priorities.	Closed	<ul style="list-style-type: none"> Draft PSA presented to and consulted with local key stakeholders High-level roundtable conducted Final PSA government endorsed and considered for implementation At least two recommendations translated into reform measures
SOL	Privatization of Home Finance Ltd.	Support the sales process for (100% government owned) Home Finance Ltd. to the	Ongoing	<ul style="list-style-type: none"> Advisor delivers recommendations to Ministry

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
		National Provident Fund. (As this transaction failed in 2008 due to inability of parties to agree on price, an open tender is being planned in 2009.)		<ul style="list-style-type: none"> of Finance on sale structure and price Transaction completed
SOL	Privatization of Sasape Marina	Support the sales process (full privatization) of Sasape Marina Ltd. with a view to revitalizing the ailing SOE through private investment capital and management expertise.	Ongoing	<ul style="list-style-type: none"> Privatization strategy developed and agreed by transaction task force Bid documents prepared Tender completed Transaction completed
SOL	Support for Implementation of the SOE Act	Support implementation of the SOE Act by developing statements of corporate intent (SCIs) prescribed by the Act in five pilot SOEs.	Closed	<ul style="list-style-type: none"> Implementing regulations for SOE Act drafted SCI format for SOEs developed SCI completed for five pilot SOEs SOEs report on compliance, with targets identified in SCIs
SOL	Secured Transactions Framework	Support the establishment of a functioning secured transactions framework, including a new law, electronic notice board (registry), and capacity building and awareness.	Ongoing	<ul style="list-style-type: none"> Secured Transactions Law (as previously drafted) passed Registry design agreed and approved Procurement process completed Registry online First 200 filings entered
TIM	Secured Transactions Reform	Support the establishment of a functioning secured transactions framework, including a new law, electronic notice board (registry), and capacity building and awareness.	Ongoing	<ul style="list-style-type: none"> Reform roadmap agreed with government Sound secured transactions law drafted and submitted to Parliament Implementing regulations approved Registry established and operational online First 100 security interests registered
TIM	Strengthening the Financial Sector in Timor-Leste	Promoting effective PSD policies and practices in the area of financial sector development within the context of ADB country assistance strategies and the restructuring of the Institute for Microfinance (IMfTL).	Ongoing	<ul style="list-style-type: none"> Diagnosis of legal and institutional issues around IMfTL finalized and reform roadmap agreed upon Foundation for Poverty Reduction Board restructuring finalized and reform measures for IMfTL transformation initiated IMfTL transformation successfully completed

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
TON	Private Sector Assessment	A PSA for Tonga to identify binding constraints to doing business, discuss solutions to address these, and recommend reform priorities.	Closed	<ul style="list-style-type: none"> • Draft PSA presented to and consulted with local key stakeholders • High level roundtable conducted • Final PSA government endorsed and considered for implementation • At least two recommendations translated into reform measures
TON	Companies Law Reform	Support the strengthening of the legal business framework through the modernization of the Companies Act. This is part of a joint ADB–World Bank Group reform approach to improve the investment climate in Tonga.	Ongoing	<ul style="list-style-type: none"> • Diagnostic report on company law reform prepared and consulted • Reform white paper prepared and consulted • Law drafted, widely consulted, and submitted for Parliament consideration
TON	Microfinance Technologies	Assess the viability of the application of various microfinance technology options at the Development Bank in Tonga.	Closed	<ul style="list-style-type: none"> • Experts' fact finding report • Design and implementation of ensuing reform program commenced.
TON	Secured Transactions Reform	Support the establishment of a functioning secured transactions framework, including a new law, electronic notice board (registry), and capacity building and awareness.	Ongoing	<ul style="list-style-type: none"> • Reform roadmap agreed with government • Sound secured transactions law drafted and submitted to Parliament • Implementing regulations approved • Registry established and operational online • First 100 security interests registered
TON	Outsourcing in the Ministry for Public Works	Develop a restructuring program for the Ministry of Works so that it can outsource most of its road maintenance and other activities to the private sector.	Ongoing	<ul style="list-style-type: none"> • Conduct scoping mission in response to Ministry of Finance request • Finalize terms of reference in close coordination with the World Bank Transport Sector Consolidation Project and ADB Urban Rehabilitation projects as well as recruit and assemble technical assistance (TA) team • Team to submit draft recommendations and implementation plan • Cabinet endorsement to implement recommendations

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
TON	Support for PSD Reform	Full-time support to the Prime Minister's Office to coordinate ADB's PSD reforms, provide overall PSD policy recommendations, coordinate road outsourcing project, and support SOE reform in the Ministry of Public Enterprises and Information (MPEI)	Ongoing	<ul style="list-style-type: none"> All ADB PSD initiatives in Tonga fully supported Develop CSO guidelines and conduct training with SOEs and MPEI Provide effective support for the Prime Minister's Office Coordinate road outsourcing TA, draft cabinet paper, and facilitate approval by 31 December 2008 Support completion of Phase III Rationalization TA
TON	SOE Reform Phase IV	Support continued implementation of Tonga's SOE program rationalization.	Pipeline	<ul style="list-style-type: none"> Finalization of at least one SOE transaction Situation analysis of at least two SOEs
TON	Outsourcing the Ministry for Public Works Phase II	Support the implementation of the outsourcing strategy for the road maintenance operations of the Ministry for Public Works.	Pipeline	<ul style="list-style-type: none"> Establish project team and key counterparts from the government Finalize bid documents for road maintenance contract Conduct bidders conference Conduct tender Finalize road maintenance contract
VAN	Microfinance Technologies	Assess the viability of the application of various microfinance technology options at the National Bank of Vanuatu.	Closed	<ul style="list-style-type: none"> Experts' fact finding report TA paper for ensuing TA project (not PSDI funded) approved by ADB and endorsed by the government
VAN	Strengthening the Financial Services Commission	Strengthen the institutional capacity of the Vanuatu Financial Services Commission (VFSC).	Ongoing	<ul style="list-style-type: none"> Clear mid-term and long-term business strategy and corporate plan for VFSC developed Recommendations developed for the proposed legal reforms in relation to international companies on existing laws and regulations in Vanuatu Diagnostic on institutional framework of VFSC prepared in the areas of organizational structuring, management responsibilities, staffing issues, management information systems, internal operating procedures, and training Organizational policies and procedures of the VFSC procedures manuals for this regulator developed Reform recommendations implemented at VFSC

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
VAN	Private Sector Assessment	A PSA for Vanuatu to identify binding constraints to doing business, discuss solutions to address these, and recommend reform priorities.	Ongoing	<ul style="list-style-type: none"> • Draft PSA presented to and consulted with local key stakeholders • Final PSA government endorsed and considered for implementation • At least one recommendation translated into reform measures; recommendations used for the ADB Country Partnership Strategy to be prepared in 2009
VAN	Secured Transactions Reform	Support the establishment of a functioning secured transactions framework, including a new law, electronic notice board (registry), and capacity building and awareness. This project supplements ongoing ADB TA (4457-VAN).	Ongoing	<ul style="list-style-type: none"> • Sound secured transactions law passed by Parliament • Implementing regulations approved • Registry established and operational online • First 100 security interests registered
REG	Support for PPPs	Building upon the work of RETA 6257, which has produced country strategies to improve infrastructure service delivery, the work will support the implementation of the private sector participation aspects of these strategies (PPPs) in two countries.	Closed	<ul style="list-style-type: none"> • Hold three regional workshops to discuss strategies for improving the delivery of infrastructure services • Identify two countries with which to partner to support implementation of PPP opportunities • Secure written agreement from two host country governments on time-bound action plans to develop PPP opportunities, including areas for PSDI TA support • Deploy TA to support selected reform actions • Selected reform actions implemented
REG	Regional CSO Conference (October 2007)	Workshop in Port Vila for 50 senior officials from SOEs and line ministries from FIJ, PNG, SAM, and VAN to discuss best practices for identifying, contracting, financing, and monitoring the implementation of community service obligations (CSOs) in the power, water, telecommunications, and transport sectors.	Closed	<ul style="list-style-type: none"> • Complete conference prospectus • Finalize agenda, speakers, and presentation content • Conduct workshop with participation from senior policymakers (Department Secretaries) • Positive evaluation from participants regarding relevance and quality of workshop

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
REG	Market Assessment for Partial Risk and Term Financing Initiative	Assess the viability and market demand for partial risk guarantee products and term financing facilities in the Pacific region.	Closed	<ul style="list-style-type: none"> • Advisor visits to four Pacific countries (FIJ, PNG, SAM, and VAN) linked to ongoing exercises and supported by local stakeholders • Paper on potential for partial risk guarantees and term financing facility • ADB to use recommendations to identify innovative products
REG	PSD Communications Strategy	A comprehensive study of the use of communication to secure adoption, and then support successful, sustainable implementation of PSD reforms in ADB's core PSD practice areas in the Pacific region.	Closed	<ul style="list-style-type: none"> • Analysis of stakeholders perceptions of PSD • Media Workshop delivered in Oct 2007 • Report with campaign details • ADB decides to roll out campaign
REG	MfDR Monitoring and Evaluation Framework for PARD's PSD and PSDI	Develop a robust management for development results (MfDR) tool for PSDI (and ultimately all ADB PSD interventions), focusing on development results and implementation performance. The tool aims at shaping a plausible strategy to achieve the desired results, supporting vigorous and competent implementation, and assessing progress through project results and aggregating results for a portfolio of projects.	Ongoing	<ul style="list-style-type: none"> • On the basis of attendance at the ADB Pacific Department Retreat in Manila, discussions in Washington with MfDR units at the World Bank, Inter-American Development Bank, and the International Finance Corporation, and working discussions with ADB's Pacific Liaison and Coordination Office in Sydney, Australia, a draft working paper describing an MfDR tool appropriate to PSD in the Pacific • Supervision of development of data base (Access) to capture MfDR information gathered through use of the tool test (in PNG and on PSDI) • Preparation of approach, report structure, and template for PSDI reporting • MfDR tool for first annual PSDI report • Monitoring support for PSDI and summary report
REG	Directors Training	Develop and deliver director training courses for SOE directors in at least three countries.	Closed	<ul style="list-style-type: none"> • Develop director course • Deliver director course in first two pilot countries • 60 SOE directors trained across all countries involved

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
REG	PSD Briefing Notes	Develop and disseminate briefing notes for PDMC policymakers on key PSD topics: SOE Reform, PPPs, Legal Business Environment, and Access to Finance. The briefing notes outline the issues and use Pacific examples to illustrate the benefits of reform.	Closed	<ul style="list-style-type: none"> • Develop briefing note content and format • Publish briefing notes • Implement dissemination strategy
REG	PPP Workshop with Bond University and the Commonwealth Secretariat	Conduct a 1-week course on PPPs for Pacific island officials, with a view to improve understanding of the principles and modalities for successful PPPs.	Closed	<ul style="list-style-type: none"> • Secure commitment from at least 25 participants to attend the course and finance their own travel • Prepare and deliver presentations at the seminar focused on Pacific challenges in implementing PPPs • Conduct seminar and receive positive overall ratings from participants
REG	Improving the Contracting Environment in the Pacific Phase I	Prepare diagnostic on contract law framework and recommendation on codification of contract law in the Pacific.	Ongoing	<ul style="list-style-type: none"> • Diagnostic and recommendation • Draft code for discussion • Conference • Phase II
REG	Microfinance Strategies	Help improve access to finance in the area of rural and microfinance in the Pacific region, with pilot countries PNG, SOL, and TON.	Ongoing	<ul style="list-style-type: none"> • Fact finding and consultations to PNG, SOL, and TON • Diagnostic report • Translation of recommendations into reform measures
REG	Registry Reform Study Tour and Workshop (May 2008)	(i): Discuss business law and registry reform in Pacific island countries and share related analysis and challenges; (ii) obtain details of international and regional good practice in business registries (especially New Zealand business registries); (iii) assess registry reform options; (iv) examine and discuss the potential for regional cooperation and integration; and (v) promote regional consultation and dialogue on registry reform issues and solutions.	Closed	<ul style="list-style-type: none"> • Study tour at New Zealand Companies Office • Workshop successfully concluded • Follow up action toward regional integration and cooperation agreed upon

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
REG	CSO Training	Workshops for government officials to work through country-specific issues related to the delivery of CSOs. Practical approaches to identifying, contracting, financing, and monitoring the implementation of CSO delivery were discussed, and this has resulted in requests for additional TA to develop CSO frameworks and support the formalization of the CSO contracting process.	Closed	<ul style="list-style-type: none"> Finalize CSO workshop presentations and format Deliver CSO training in three countries Deliver CSO training in one additional country Provide follow-on assistance in developing and/or implementing CSO frameworks in at least two countries
REG	SOE Comparative Analysis	Conduct a comparative analysis of SOE performance in FIJ, SAM, and TON in order to underscore the importance of reform and key drivers. Conduct a high-level seminar to discuss reform strategies with the participating countries.	Ongoing	<ul style="list-style-type: none"> Collect and analyze data from participating countries Submit initial draft of report for country feedback Report published and sent to countries Conduct seminar to discuss results Press coverage of key messages of report
REG	Regulatory Roadmaps in Support of Mobile Banking	Conduct an assessment of the regulatory implications of new microfinance technologies designed to enable banking services via mobile phones. Assessment to be conducted in PNG and TIM.	Ongoing	<ul style="list-style-type: none"> Secure agreement from counterpart governments to conduct analysis Conduct analysis in PNG and deliver report to counterpart agencies as well as to private providers of these technologies Conduct analysis in TIM and deliver report to counterpart agencies as well as to private providers of these technologies Counterpart agencies to endorse recommendations
REG	Pacific Aviation and Shipping	Organize a major regional workshop to (i) support the dissemination of Oceanic Voyages: Aviation and Shipping in the Pacific, and (ii) assist Pacific countries in developing action plans for reforming aviation and shipping through private sector participation (including leveraging regional partnerships, developing robust contracts for CSOs, and strengthening regulatory frameworks).	Closed	<ul style="list-style-type: none"> Develop target invitation list and recruit participants Develop agenda and recruit resource speakers Deliver workshop Finalize and disseminate workshop proceedings

COUNTRY	PROJECT NAME	OBJECTIVE/SCOPE	STATUS	EXPECTED KEY RESULTS
REG	PPP Workshop with Bond University and the ADB Institute	Conduct a 1-week course in PPPs for Pacific island officials, with a view to improve understanding of the principles and modalities for successful PPPs.	Closed	<ul style="list-style-type: none"> Secure commitment from at least 25 participants to attend the course and finance their own travel Prepare and deliver presentations at the seminar focused on Pacific challenges in implementing PPPs Conduct seminar and receive positive overall ratings from participants
REG	Pacific Competition Framework	Identify and promote competition issues and strategies to address these. This is expected to lead to a series of support activities both regionally and multi-country.	Ongoing	<ul style="list-style-type: none"> Identification of competition issues and strategies to address these Implementation of associated strategies in at least two countries Awareness raising and promotion of competition strategies regionally, leading to expansion of competition support program
REG	Registry Reform Study Tour and Workshop (2009)	(i) Discuss business law and registry reform in Pacific island countries and share related analysis and challenges; (ii) obtain details of international and regional good practice in business registries (especially New Zealand business registries); (iii) assess registry reform options; (iv) examine and discuss the potential for regional cooperation and integration; and (v) promote regional consultation and dialogue on registry reform issues and solutions.	Pipeline	<ul style="list-style-type: none"> Study tour at New Zealand Companies Office Workshop successfully concluded Follow up action toward regional integration and cooperation agreed upon
REG	PSD Performance Evaluation	To assist ADB and the World Bank Group in developing a set of high level PSD performance assessments in FIJ, PNG, SAM, SOL, TIM, and VAN, with the aim of monitoring progress toward PSD outcomes in the region.	Ongoing	<ul style="list-style-type: none"> Sound 2008 PSD assessment report

ADB = Asian Development Bank, COO = Cook Islands, CSO = community service obligation, FIJ = Fiji Islands, IMFTL = Instituição De Microfinanças De Timor-Leste, INA = Institute of National Affairs, MfDR = management for development results, MPEI = Ministry of Public Enterprises and Information, NEC = the Cabinet (Papua New Guinea), PAL = Palau, PNG = Papua New Guinea, PPP = public-private partnership, PPS = personal property securities, PSA = private sector assessment, PSD = private sector development, PSDI = Private Sector Development Initiative, REG = regional, RMI = Republic of the Marshall Islands, SAM = Samoa, SCB = Samoa Commercial Bank, SCI = statement of corporate intent SIOD = Samoa Institute of Directors SOE = state-owned enterprise, SOEMD = State-Owned Enterprise Monitoring Division, SOL = Solomon Islands, SSS = Samoa Shipping Services, TA = technical assistance, TIM = Timor-Leste, TON = Tonga, VAN = Vanuatu, VFSC = Vanuatu Financial Services Commission.

PSDI PORTFOLIO PERFORMANCE SUMMARY

PORTFOLIO RESOURCES: ALL PROJECTS

	Ongoing	Closed	Pipeline	Total
No. of Projects	27	21	4	52
Budget Amount (\$)	\$4,006,350	\$2,225,250	\$890,000	\$7,121,600
Disbursed Amount (\$)	\$2,408,947	\$2,118,776	\$6,079	\$4,533,802
Disbursed Amount (% of Budget)	60%	95%	1%	64%
Value Achieved (%)	47%	88%	n.a.	54%
Value Achieved (\$)	\$1,884,820	\$1,964,275	n.a.	\$3,849,095

Value achieved shows the achievement of target results in percent of completion or absolute dollar amounts.
n.a. = not applicable.

PORTFOLIO PERFORMANCE SCORES: ACTIVE PROJECTS

Implementation Score (/6)	4.29	Satisfactory
Timely Implementation to Date (/6)	4.12	Satisfactory
Implementing Agency Performance to Date (/6)	3.97	Satisfactory
Consultant Performance to Date (/6)	4.56	Satisfactory
ADB Performance to Date (Self Assessment) (/6)	4.41	Satisfactory
Adequacy of Consultations with People Affected (/6)	4.32	Satisfactory
Results Score (/6)	4.56	Satisfactory
Overall Project Performance Score (/6)	4.31	Satisfactory

DISTRIBUTION OF OVERALL SCORES: ALL PROJECTS

Overall Project Performance Score (/6)	4.49
Number Of Projects Rated	46
Unsatisfactory (%)	0%
Partly Satisfactory (%)	2%
Satisfactory (%)	74%
Highly Satisfactory (%)	24%

RESULTS PERFORMANCE BY KEY RESULTS AREA: ACTIVE AND COMPLETED PROJECTS

	SOE Reform and PPPs	Access to Finance	Legal and Regulatory Reform	Crosscutting	Total
No. of Commenced Results Targeted	54	31	17	33	135
Commenced Results Targeted (%)	40%	23%	13%	24%	100%
Results Score (/6)	4.58	4.61	5.15	4.80	4.71
Disbursed Amount (\$)	\$1,500,766	\$1,096,371	\$748,205	\$1,188,460	\$4,533,802
Value Achieved (%)	92%	81%	84%	94%	89%
Value Achieved (\$)	\$1,335,521	\$760,092	\$654,860	\$1,098,622	\$3,849,095

PPP = public-private partnership, SOE = state-owned enterprise.

RESOURCES BY COUNTRY: ALL PROJECTS

	COO	RMI	PAL	PNG	SAM	SOL	TIM	TON	VAN	REG	TOTAL
No. of Projects	1	1	1	5	7	4	2	8	4	19	52
Budget Amount (\$)	\$50,000	\$100,000	\$200,000	\$882,336	\$813,266	\$384,382	\$350,000	\$1,290,375	\$490,654	\$2,560,587	\$7,121,600
% of Total Budget	1%	1%	3%	12%	11%	5%	5%	18%	7%	36%	100%
Disbursed Amount 2008 (\$)	\$16,920	\$863	\$29,109	\$256,075	\$245,280	\$67,739	\$309,176	\$600,443	\$348,202	\$1,119,754	\$2,993,561
Disbursed Amount 2007-2008 (\$)	\$16,920	\$5,000	\$29,109	\$353,341	\$504,675	\$213,388	\$309,176	\$759,544	\$444,039	\$1,898,610	\$4,533,802
Value Achieved (%)	30%	26%	17%	32%	48%	30%	13%	56%	62%	75%	54%
Value Achieved (\$)	\$15,000	\$26,000	\$33,000	\$279,811	\$389,227	\$116,004	\$45,000	\$722,516	\$306,029	\$1,916,507	\$3,849,095

COO = Cook Islands, PAL = Palau, PNG = Papua New Guinea, REG = regional, RMI = Republic of the Marshall Islands, SAM = Samoa, SOL = Solomon Islands, TIM = Timor-Leste, TON = Tonga, VAN = Vanuatu.

PERFORMANCE SCORES BY COUNTRY: ALL PROJECTS

	COO	RMI	PAL	PNG	SAM	SOL	TIM	TON	VAN	REG	TOTAL
Implementation Score (/6)	4.00	4.10	4.00	4.50	4.04	3.85	4.00	5.06	4.60	4.65	4.29
Timely Implementation to Date (/6)	4.00	3.50	4.00	4.13	4.33	3.63	4.00	5.17	4.75	4.64	4.12
Implementing Agency Performance to Date (/6)	4.00	4.00	4.00	3.83	2.10	3.00	n.a.	5.40	5.00	4.67	3.97
Consultant Performance to Date (/6)	4.00	5.00	4.00	4.88	4.75	4.38	4.00	5.17	4.50	4.66	4.56
ADB Performance to Date (Self Assessment) (/6)	4.00	4.00	4.00	4.75	4.40	4.38	4.00	5.00	4.50	4.54	4.41
Adequacy of Consultations with People Affected (/6)	4.00	4.00	4.00	5.00	4.30	4.00	4.00	4.50	4.25	4.61	4.32
Results Score (/6)	4.00	4.17	4.00	4.64	4.53	4.16	5.00	4.98	4.85	4.65	4.56
Overall Project Performance Score (/6)	4.00	4.10	4.00	4.60	4.20	3.90	4.00	4.99	4.67	4.56	4.31

COO = Cook Islands, n.a. = not applicable, PAL = Palau, PNG = Papua New Guinea, REG = regional, RMI = Republic of the Marshall Islands, SAM = Samoa, SOL = Solomon Islands, TIM = Timor-Leste, TON = Tonga, VAN = Vanuatu.

PSDI-SUPPORTED SEMINARS AND WORKSHOPS IN 2008

In 2008, **22 PSD advocacy seminars and workshops** were conducted in the region, **attended by over 700 key stakeholders**, including policymakers, the media, academia, the private sector, and civil society.

1.	PSD Seminar Series: PNG Information and Communication Technology Seminar	Port Moresby, Papua New Guinea	23 Jan 2008
2.	Delivering Community Service Obligations in Samoa Workshop	Apia, Samoa	27 Mar 2008
3.	Samoa State-Owned Enterprise Monitoring Division Strategic Planning Retreat	Savai'i, Samoa	7–8 Mar 2008
4.	Public–Private Partnership Leadership Training with Bond University and the Commonwealth Secretariat	Queensland, Australia	7–12 Apr 2008
5.	Delivering Community Service Obligations in Fiji Workshop	Suva, Fiji	16–17 Apr 2008
6.	Public–Private Partnership Roundtable	Honiara, Solomon Islands	23 Apr 2008
7.	Delivering Community Service Obligations in Tonga Workshop	Nuku'alofa, Tonga	1–2 May 2008
8.	PSD Keynote Address at the Australia–PNG Annual Business Council Meeting	Cairns, Australia	4–6 May 2008
9.	Study Tour and Workshop on Reforming Business Registries in the Pacific Region	Auckland, New Zealand	8–9 May 2008
10.	Vanuatu Chamber of Commerce and Industry Fifth National Business Forum	Port Vila, Vanuatu	11–13 Jun 2008
11.	Samoa Institute of Directors Three One-Day Directors Courses	Apia, Samoa	11–13 Jun 2008
12.	Samoa Institute of Directors' Training	Apia, Samoa	14–18 Jul 2008
13.	Conference on Deepening Financial Capacity in the Pacific Region	Sydney, Australia	25–26 Aug 2008
14.	PNG Public–Private Partnership Policy Public Consultation Forum	Port Moresby, Papua New Guinea	28 Aug 2008
15.	PNG Public–Private Partnership Policy Public Consultation Forum	Lae, Papua New Guinea	3 Sep 2008
16.	Tonga Private Sector Assessment Launch and Discussion Forum	Nuku'alofa, Tonga	8 Oct 2008
17.	Oceanic Voyages: Aviation and Shipping in the Pacific Workshop	Cairns, Australia	15–16 Oct 2008
18.	PSD Seminar Series: Mobile Money Summit	Port Moresby, Papua New Guinea	21–22 Oct 2008
19.	PNG Business and Government Leaders Summit with the Pacific Adventist University and the Port Moresby Chamber of Commerce	Port Moresby, Papua New Guinea	5 Nov 2008
20.	Public–Private Partnership Leadership Training with Bond University and the ADB Institute	Queensland, Australia	17–22 Nov 2008
21.	PSD Seminar Series: Launch of the PNG Private Sector Assessment and Business Survey	Port Moresby, Papua New Guinea	8 Dec 2008
22.	PSD Seminar Series: Delivering Community Service Obligations in PNG	Port Moresby, Papua New Guinea	9–10 Dec 2008

ADB = Asian Development Bank, PNG = Papua New Guinea, PSD = private sector development, PSDI = Private Sector Development Initiative.

PSD(I) INDICATORS (INDICATIVE)

The Size of the Private Sector in the Economy

1. Ratio of investment to gross domestic product (GDP), broken down into public sector investment, local private sector investment, and foreign direct investment
2. Share of private sector in GDP
3. Employment breakdown between the private sector as a percentage of the formal workforce, the public sector as a percentage of the formal workforce, and the ratio of the formal workforce to the working age population

State-Owned Enterprises and Public–Private Partnerships

1. The number of state-owned enterprises (SOEs) and their contribution to GDP
2. SOE return on assets and return on equity
3. SOE contribution to GDP
4. Number and value of privatization transactions
5. Value of community service obligations (CSOs) provided by SOEs / provided by the private sector (This will show whether or not a CSO framework exists and is being used—an important indicator of reform.)
6. Number (or value) of new contracts for government services competitively tendered for private provision, including via public–private partnerships

Access to Finance

1. Ratio of domestic credit to the private sector to GDP
2. Interest rate spreads between borrowing and lending rates, for prime customers as well as for smaller businesses
3. Real borrowing and lending rates (nominal rates adjusted for inflation)
4. Rate of return on bank equity
5. Rate of return on bank assets
6. Number of bank accounts per capita
7. Availability of credit information

Infrastructure

1. Kilometers of road per capita
2. Kilometers of paved road per capita
3. Access to electricity (% of population with access)
4. Cost per kilowatt hour (KwH) of electricity
5. Number of airlines operating domestic / international routes

6. Cost per kilometer of economy class air travel
7. Cost of moving a container from ship through the harbor

Telecommunications

1. Number of landline phones
2. Number of mobile subscribers
3. Access to telecommunications (percentage of population covered by mobile operators)
4. Cost per minute of international call (land line / mobile line)
5. Cost per minute of domestic mobile phone call
6. Number of operators with access to internet gateway

The Commercial Legal System

1. Does the Companies Act provide for a single shareholder, community, public company, or other?
2. How many "active" companies are there in the company registry?
3. Is there a single law governing the creation of security interests over moveable property? If not, under how many laws can movable property be registered?
4. Does the law provide for parties to choose an alternative dispute resolution mechanism?
5. Is there a local Arbitration Act?
6. Is there a codified personal and corporate insolvency regime?

Competition Framework

1. Is there a competition framework?
2. Is there a competition commission or economic regulator?
3. Over what industries does it have authority?