



Vulnerability

non-communicable disease remoteness
disaster risk management climate change
R I S I N G S E A L E V E L
diseconomies of scale labor migration
volatile growth natural disasters

PICS VOLUME 1

Cluster Country Program Evaluation on Small States

Pacific Island Countries Program Evaluation (FY05–15)



IEG
INDEPENDENT
EVALUATION GROUP

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Volume I

AN INDEPENDENT EVALUATION

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Abbreviations and Acronyms

ADB	Asian Development Bank
ANZ	Australia and New Zealand Banking Group
AusAID	Australian Agency for International Development
BSP	Bank South Pacific
CCPE	cluster country program evaluation
CMU	Country Management Unit
DFAT	Australian Department of Foreign Affairs and Trade
DPO	development policy operation
DRM	disaster risk management
EU	European Union
GDP	gross domestic product
IBRD	International Bank for Reconstruction and Development
ICT	information and communication technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
OECS	Organisation of Eastern Caribbean States
PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative
PEARL	Pacific Early Age Readiness and Learning
PICs	Pacific Island countries
PMU	Program Management Unit
PPP	public-private partnership
PRIF	Pacific Region Infrastructure Facility
SCD	Systematic Country Diagnostic
SME	small and medium enterprise
TFSU	Technical and Fiduciary Services Unit

All dollar amounts are U.S. dollars unless otherwise indicated.

Acknowledgments

This report was prepared by a team under the leadership of Florence Charlier (task team leader, Small States cluster country program evaluation), Stephen Hutton (disaster risk management, environment, and climate change), Basil Kavalsky (overall program), and Swizen Rubbani. Basil Kavalsky prepared the initial draft of the overall report, which was under the guidance and supervision of Nick York (director) and Mark Sundberg (manager), and the overall direction of Caroline Heider (director-general, Evaluation). Yasmin Angeles, Aimée Niane, and Gloria Soria provided administrative support. The report also benefited from comments provided by peer reviewers Alan Gelb (Center for Global Development), Ali Mansour (International Monetary Fund), and Jyoti Shukla (World Bank Group).

The Independent Evaluation Group is grateful to the numerous representatives of the government and regional institutions, private sector entities, nongovernmental organizations, and donor agencies who provided valuable insights into the World Bank Group's program in the Pacific Island countries (PICs). The team is also thankful to the Bank Group management and country team members, including both previous and current staff working on PICs, who provided valuable time, information, and feedback to the evaluation team.

Overview

Highlights

The Pacific Island countries (PICs) face major development challenges. Their small size makes the cost of delivering public services a large share of gross domestic product and means that these costs often exceed the resources available to meet them from domestic taxation. Small domestic markets keep the PICs dependent on exports for growth, yet their remoteness and limited supply of skilled labor reduce their export competitiveness. In addition, they are in areas prone to cyclones and tsunamis and are vulnerable to sea level rise in some cases. However, most PICs have achieved middle-income status, largely through consistent donor support and substantial out-migration (both temporary and permanent) that resulted in a steady inflow of remittances.

The high cost of operating in these small, remote countries and limited resources from the International Development Association (IDA) constrained the World Bank to working at the regional level or through multi-country platforms until 2008, when the governments of Australia and New Zealand decided to enter into funding partnerships with the World Bank Group. These partnerships—combined with increases in IDA allocations to small states, availability of IDA regional grant funding, and access to trust funds for disaster risk management and climate change—gave the World Bank the capacity to operate at scale in the PICs.

This evaluation assesses the Bank Group’s relevance and effectiveness in the PICs as satisfactory. The World Bank made effective use of budgetary, IDA, and trust fund resources to support significant transformational changes in the region, and had a key role in persuading Australia and New Zealand to adopt temporary migration programs that yielded major benefits to participating countries. In addition, the World Bank persuaded a number of PICs governments to scale back their departments for infrastructure maintenance and to outsource this maintenance to the private sector. It also increased awareness of the need to build climate resilience into infrastructure design and enabled major improvements in communications through enhanced connectivity. Looking forward, the evaluation emphasizes collaboration between the World Bank and the International Finance Corporation to more effectively support private sector development; increasing the focus on education’s role in providing the skills needed for developing tourism, agriculture, and fisheries; and providing better preparation for temporary and permanent migrants.

The World Bank Group in the Pacific Islands, 2005–15

The Pacific Island countries (PICs) face enormous development challenges. Most PICs have populations ranging

from 10,000 to 250,000, which is the smallest end of the spectrum among small states. Governments have to provide the usual range of public services, such as health, education, social welfare, water, sanitation, roads,

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airports, seaports, power, and communications – many of which require bulky infrastructure investments. Even building and maintaining public administration facilities is a large burden for such small countries. The PICs have largely met these needs and achieved middle-income status with relatively little extreme poverty through a number of means. First, they benefited from substantial donor assistance (on a per capita basis) sustained over a long period; second, substantial out-migration resulted in high levels of remittances; and third, they benefited from some natural resources and derived revenues from ocean fisheries and tourism.

The PICs experienced a prolonged period of weak growth in the past decade, with growth rates of 0.5 to 2.0 percent – well below those of other developing countries. Even these levels of growth are a significant achievement when measured against the challenges of natural disasters during the period. Frequent cyclones and other disasters buffeted countries such as Samoa, Tonga, and Vanuatu, resulting in huge levels of destruction. In Vanuatu, for example, destruction from natural disasters averaged 6 percent of gross domestic product. Furthermore, the soaring food and fuel prices that preceded the global crisis were a major burden, and the global crisis hit hard, resulting in a decline in tourism receipts and remittance earnings.

Analyses by major donors and the World Bank addressed the question of the PICs viability. In *Pacific Futures*, a report that was unpublished, but circulated widely in draft, the World Bank argued that the PICs would require out-migration and donor assistance for the foreseeable future. Subsequent World Bank analysis suggests that this may not be enough to allow the PICs to maintain their place in a growing international economy. The emphasis is turning to how to “bend the growth curve upward” from the current sluggish levels. The World Bank is studying the prospects for promoting development of small and medium enterprises, and expanding fisheries, tourism, and agriculture (the most promising sectors).

The World Bank had difficulty engaging effectively with the PICs for much of its involvement in the region. The allocations for such small countries yielded insufficient budget to address the problems individual countries faced. It is much more expensive for the World Bank to operate in the PICs than in other borrowing countries – travelling to remote islands is difficult because of irregular air services, and recruiting staff and consultants to work in the islands can be challenging. Therefore, the World Bank was mostly constrained to operating at the regional level, along with some analytic and technical support for the countries themselves. Furthermore, IDA allocations for small

states were low, which made it difficult to sustain involvement.

Things started to change at the beginning of the evaluation period. The donor representatives (IDA deputies) adopted new formulas for IDA allocations that were much more favorable to small states, IDA grants became available for some country and regional programs, and donors set up trust funds for disaster risk management and climate change. The governments of Australia and New Zealand had a key role in lobbying for these changes. To allow the World Bank Group to take effective advantage of these new options, both governments decided to enter into partnerships with the World Bank and the International Finance Corporation (IFC) through the provision of trust funds that could supplement the Bank Group's budget resources for activities in the PICs. In effect, they bankrolled a substantially expanded Bank Group presence in the PICs. There are theoretical downsides to the Bank Group accepting such partnerships – they can skew allocations and lead the Bank Group to modify its policy positions in deference to the donor. However, the evaluation found no evidence of any such consequences of these partnerships.

A regional strategy document laid out the World Bank's strategy during the first part of the period. However, with the rapid expansion in programs and support, the World Bank decided to move to country programs in 2009 and

prepared country assistance strategy documents for many of the PICs. These strategy documents emphasized support for making the PICs more resilient to economic shocks and natural disasters, and increasing connectivity with the outside world. The strategies noted the World Bank's intention to provide operational support primarily in two areas: through using development policy operations (DPOs) to support policy dialogue on a range of measures for more effective public financial management; and supporting key infrastructure, especially roads and telecommunications.

The World Bank was selective at the sectoral level, given the large presence of Australia, New Zealand, and the Asian Development Bank (ADB) in the PICs as well as the involvement of Japan and the European Union. The World Bank had limited engagement in the social sectors, for example, viewing itself as filling particular niches in these areas; it also chose to stay out of the water and urban sectors. IFC provided much of the support for private sector development.

The World Bank program roughly quadrupled in the last five years of the evaluation period compared with the first five years. DPOs were a significant share of World Bank lending in some PICs. The instruments are seen as a good fit for several reasons. Their rapid disbursement feature allows a faster response time after natural disasters, they helped build consensus for key

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areas of policy reform, transactions costs are lower compared with investment lending, and they provided a convening instrument for donors.

The World Bank has also used multi-country platforms for lending to aviation and fisheries in a number of countries. Various infrastructure subsectors were supported in most of the PICs at the same time, including roads, power, and telecommunications. The World Bank worked to reduce vulnerability to natural disasters in all of the more vulnerable islands by increasing infrastructure resilience, building disaster response capacity, and supporting risk reduction and risk management efforts. In the social sectors, the World Bank responded to specific government requests or used global trust funds to support programs in the PICs, such as Education for All and the Early Grade Reading Assessments program. IFC supported programs in the financial sector and worked with ADB and the World Bank to improve the overall investment climate. IFC programs also attempted to work on the commercial potential of tourism, fisheries, and agribusiness, though these programs are in the early stages and have yet to show significant results.

Conclusions

The core of the World Bank's strategic engagement with the PICs during the period was to support the institutional changes needed for more rapid shared

growth. World Bank documents do not articulate this clearly, but this is what evolved in practice. The focus was less on achieving a specific quantitative target in a four-year period and more on helping build the institutions needed for sustainable long-term growth.

Therefore, in transport and health, the objective was to reduce overstretched ministries' burden of managing health services and road maintenance; in agriculture, to promote shifting from subsistence to commercial farming; in energy and telecommunications, to reduce government monopolies and create space for public-private partnerships (PPPs); and to build a margin for resilience to natural disasters into new infrastructure investment. It will be important for the World Bank's new Country Program Framework to articulate the centrality of this set of institutional objectives.

The World Bank Group program in the PICs is highly relevant. In the context of the PICs, relevance is not just a question of whether the Bank Group did the right things in supporting activities that were of high priority for growth, shared prosperity, and poverty reduction. The Bank Group would have had a hard time missing the key development targets, given the limited range of options in the PICs and the relatively large scale of its program. In this context, the more important question is whether the Bank Group's program reflected its comparative advantages in raising difficult policy issues,

undertaking key analytic studies, supporting regional approaches, and promoting effective donor coordination. The evaluation concluded that the program was a good reflection of the Bank Group's comparative advantage.

The evaluation rates the effectiveness of the Bank Group's contribution to development of the PICs as satisfactory. This rating reflects the analysis of the outcomes for the Samoa and Tonga programs during part of the review period. Most important, the in-depth interviews with donor government representatives and PIC officials enabled the evaluation team to attribute a number of genuinely transformational institutional outcomes to support provided through the World Bank program. These include:

- The temporary migration programs of New Zealand and Australia have reduced poverty and indirectly helped provide resources needed to fund public services and support recovery from natural disasters. The World Bank's September 2006 publication *Pacific Islands at Home and Away: Expanding Job Opportunities for Pacific Islanders through Labor Mobility* discussed this option at length and was an important contribution to the internal debate in New Zealand and Australia that led to policy modifications needed for temporary migration. The World Bank's task team leader had a significant role in helping the authorities design these programs.
- The World Bank Group made a major contribution to connectivity by introducing competition into the provision of mobile telecommunications and supporting underwater cables to promote better quality and faster access. The World Bank and IFC worked together with other donors to get countries to move away from monopoly public ownership in telecommunications, and then helped establish the PPPs that invested in underwater cables and brought in the private mobile providers.
- The World Bank increased awareness among both governments and donors of the need to build environmental resilience into investments in infrastructure. The World Bank insisted that all infrastructure it supports build in adequate allowance for climate resilience, and it persuaded governments to extend this to other areas of their investment programs not supported by the World Bank. This work was significant in creating a new norm in the region.
- Persuading governments in some PICs to outsource road
- The temporary migration programs of New Zealand and Australia have reduced poverty and indirectly helped provide resources needed to fund public services and support recovery from natural disasters. The World Bank's September 2006 publication *Pacific Islands at Home and Away: Expanding Job Opportunities for Pacific Islanders through Labor Mobility* discussed this option at length and was an important contribution to the internal debate in New Zealand and Australia that led to policy modifications needed for temporary migration. The World Bank's task team leader had a

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maintenance contracts to the private sector instead of carrying them out through force account helped promote more efficient use of public resources, better road management quality, and development of the private sector. The World Bank effectively combined policy dialogue with finance ministries and investment lending through public works ministries to help shift the line ministries' focus to planning and regulation in the sector, with national highway authorities responsible for managing road construction and maintenance.

The evaluation specified a number of process areas and substantive topics in which the World Bank Group could improve its effectiveness. Regarding processes, governments complained that some areas, such as procurement, remain difficult to handle (given the very limited numbers of procurement staff in line ministries), despite the World Bank's considerable efforts, and that the steps required for small activities were as intensive as those for much larger activities.

Governments also expressed concerns about inadequate arrangements for transitions when new task team leaders came on board, and the tendency for the new leaders to move the goal posts. Donor government officials emphasized the need for visiting missions to meet with their local representatives to

ensure effective communications. A number of government officials also noted the need for the World Bank to exercise better quality control of consultants. Governments expressed broad, general appreciation for the World Bank's willingness to listen and the speed with which it responds to concerns from clients and other donors.

An important agenda needs to be addressed regarding substantive topics. If the World Bank Group wants to help bend the growth curve upward in these countries, it needs a more concerted effort to promote the private sector—particularly micro, small, and medium enterprises. The analysis in *Pacific Possible* is an important starting point for a much more focused World Bank Group effort in this area. The Bank Group needs to work with ADB to identify and address the various constraints and provide support for private sector development.

Education policy is another area in which the World Bank Group could increase its focus. In the view of some interlocutors, a dialogue is necessary in the PICs on the role and content of education. For example, should it be less urban-oriented, and what role should preparation for migration have? The World Bank is in a good position to promote this dialogue, building on former work done on long-term education prospects, possibly by including some of these issues among those considered for DPOs supported by the World Bank and other donors.

Education has not been a major focus of Bank Group support, but it seems to be relevant for the program going forward.

It is important to reiterate the role the Pacific Facility and the Pacific Partnership had in supporting the level and quality of World Bank Group support for the PICs. The combination of generous budget allocations and increased IDA availability created the conditions necessary for an effective Bank Group presence in the region. They are not sufficient conditions, however, and the quality and commitment of Bank Group management and staff during the period reviewed were crucial to the achievements. This is an important lesson for the Bank Group when comparing programs in the small Pacific states with some of the other small states reviewed in this cluster evaluation.

Recommendations

Several recommendations emerge from the findings of this report, confined to actions within the purview of the World Bank Group country team. Lessons related more broadly to the modalities for delivering support to small states will be set out in the main cluster country program evaluation.

Recommendation 1: Systemic issues, such as land acquisition, education policy, domestic violence, and the role of local government, need careful study

from the perspective of how to best deal with them in various project contexts. These issues, which are priority areas for World Bank analytic work, surfaced in discussions on the Samoa and Tonga programs, and they relate to other PICs. The World Bank Group, together with other donors, should initiate cross-global practice efforts to review these topics.

Recommendation 2: The World Bank Group needs to ensure that the ramping up its program in Fiji does not draw resources and staffing away from Kiribati and Vanuatu, which have more poverty than the other PICs and will continue to require sustained support taking into account their absorptive capacities.

Recommendation 3: The World Bank should take a lead in evaluating the costs and benefits of increased regional integration in the Pacific, the current and potential role of regional institutions, and the implications for their staff capacity development.

Recommendation 4: The private sector in small states is less able to benefit from economies of scale and the PICs face additional binding constraints given their remoteness such as high cost of imported inputs and high transaction costs in trade. In these circumstances, just levelling the playing field may not be sufficient to promote private sector development. A joint Bank-IFC approach is needed to support private sector development in general, and

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specifically micro, small, and medium enterprises (particularly in Samoa and Tonga), starting with analytic work to identify areas of strong potential. Support for private sector development in all the PICs needs to be a prominent feature of the World Bank Group strategy going forward.

Recommendation 5: World Bank staff location is of considerable interest to

PIC governments and the donor community. Management's decision to shift some positions from Sydney to the Suva office over time seems appropriate for both efficiency and effectiveness objectives. Furthermore, liaison offices with ADB are working well, and the World Bank should consider establishing them in other islands.

1. Country Context and Evaluation Purpose

The cluster country program evaluation (CCPE) is an Independent Evaluation Group (IEG) instrument that evaluates programs in a group of countries sharing a common characteristic to derive lessons for World Bank Group support for all countries in that category. The CCPE for Small States is the second of these evaluations. IEG prepared full Country Program Evaluations for the Caribbean Islands and the Pacific Island countries (PICs), with case studies for Mauritania, the Seychelles, Cabo Verde, and Djibouti.

The PICs CCPE¹ covers island groups that are small states (populations less than 1.5 million) and World Bank Group members, but it excludes Timor-Leste and the Solomon Islands, which IEG recently evaluated (IEG 2011, 2013). The evaluation includes these states: the Federated States of Micronesia, Fiji, Kiribati, Palau, the Marshall Islands, Samoa, Tonga, Tuvalu, and Vanuatu.

There are a number of reasons for focusing on Tonga and Samoa. The two countries have the most substantial World Bank Group programs, and natural disasters severely affected both countries during the evaluation period, with profound fiscal implications. Furthermore, the logistics of covering both countries on a three-week mission are less challenging than those the other PICs, especially since the joint World Bank–Asian Development Bank liaison offices are in the capital cities of Nuku’alofa (Tonga) and Apia (Samoa). However, this does not mean Tonga and Samoa represent the challenges facing all the PICs. Both countries have relatively high levels of capacity and low levels of extreme poverty, and both received substantial donor support. Most of the PICs share some common features, but the particular combination of characteristics differs for each, and the differences often drive development priorities. Therefore, the evaluation emphasized desk reviews of World Bank Group programs in other countries, and discussions with World Bank Group staff and donors of overall regional and country-specific development programs and their impact.

PICs Development Challenges

The PICs share a number of features:

- *Small size.* Even within the definition of small states, most of the island groups have populations of less than 250,000 – Tuvalu and Palau are the smallest at about 10,000 and 20,000, respectively. Fiji is the outlier with

nearly 1 million people. The small size means there are limited economies of scale in providing public services, and domestic markets are too small to support manufacturing for local consumption.

- ***Dispersion.*** The PICs are scattered over an extremely large area of the Pacific Ocean and, in most cases, the major destinations (Sydney, Auckland, and Nadi in Fiji) lack daily air services. Even within island groups, there can be large distances between the island where the capital is located and the outer islands, making service provision costly and difficult.
- ***Vulnerability to natural disasters.*** The PICs are disaster hotspots. During the evaluation period, a number of countries experienced tsunamis or major cyclones – impacts on their gross domestic product range from 2 to 6 percent per year. The cost of making infrastructure and housing resilient to these events raises the cost of doing business in these countries. Furthermore, their long coastlines make them vulnerable to rising sea levels due to climate change, particularly the atoll islands such as Kiribati and Tuvalu.
- ***Vulnerability to global economic downturns.*** The PICs are highly dependent on the flow of remittances and tourism revenues. Both were severely affected by the global economic crisis.
- ***Limited private sector opportunity.*** All these challenges (notably small market size, susceptibility to natural disasters, remoteness from supply foreigners, weak administrative infrastructure and lack of access to finance) create a high cost-operating environment and reduce the opportunity for business growth.
- ***Middle-income status with some hardship, but little extreme poverty.***² This is due to a combination of high levels of remittances and external assistance per capita, and subsistence agriculture and fisheries on relatively abundant land and coastal fishing grounds.
- ***Good progress in some PICs on achieving the Millennium Development Goals related to health and education.***³ However, noncommunicable diseases are a growing problem, and many countries have high levels of obesity and diabetes.
- ***Uneven progress on closing gender equality gaps.*** The PICs show considerable progress in health and education endowments. However, there is less progress regarding economic opportunity for women, who have no rights to land ownership in many countries and less access to finance than men. Low female representation in political bodies and high levels of domestic violence are important issues.
- ***Strong but thin administrative capacity.*** Senior officials compare well with those of much larger countries. At the same time, given the small size of the ministries and departments, there is generally little backup, which can lead

to delays when senior officials are away on official travel, move to new positions, or migrate.

- ***High rates of temporary and permanent migration.*** The PICs are increasingly dependent on remittances from a large number of the population that is abroad at any given time. A “brain drain” of qualified individuals, relatively easy permanent migration from the Marshall Islands and the Federated States of Micronesia to the United States, and a small but steady stream of permanent migrants to Australia and New Zealand account for high rates of permanent migration. Temporary migration to New Zealand (and Australia to a lesser extent) is for agricultural work in horticulture and viticulture.
- ***Large flows of assistance from the regional Organisation for Economic Co-operation and Development countries.*** Australia and New Zealand provide substantial support to the PICs, and the United States (in the Federated States of Micronesia, the Marshall Islands, and Palau), government of Japan, and the European Union are an important presence. Australia and New Zealand also provided large amounts of technical support and leveraged a significant increase in international agencies and international financial institution presence in these countries.
- ***Tension between modern secular democracy and traditional leaders and powerful religious groups.*** Most of the islands have traditional chiefs and nobles who are the source of rights to much of the land and are disproportionately represented in national parliaments. Christian churches of many denominations also have substantial weight. The mix of powerful traditional structures, a growing educated urban middle class, unemployed urban youth, and returning migrants is a volatile one that has contributed to fragility in a number of island states.

Although most of these characteristics can be discerned in each island, the degree to which they are present adds up to significant differences between them. For example, Kiribati is much less exposed to natural disasters, but as a low-lying atoll island, it faces major challenges as sea levels rise. It has limited land and is mainly reliant on fisheries, so most food is imported. Kiribati also has relatively low capacity, particularly in technical fields. The country has only one qualified structural engineer to support the major road-building project currently under way. This contrasts sharply with Samoa, a volcanic island with a large subsistence farming sector. Samoa is a major beneficiary of temporary migration programs and has relatively good administrative and technical capacity. The frequency of natural disasters is perhaps Samoa’s major development challenge.

Regional Institutions in the Pacific

Regional mechanisms play an increasingly important role in the PICs. The PICs developed well-organized regional intergovernmental organizations, each with a particular focus and funded by member contributions (mainly from Australia and New Zealand). Notable among these are the Pacific Islands Forum and the Secretariat of the South Pacific Community. In 2014, the Pacific Islands Forum's leaders endorsed a new framework for Pacific regionalism that emphasizes climate change adaptation, sustainable fisheries management, trade and transport, logistics, information communications and technology, and private sector engagement in infrastructure provision. To avoid duplication and harmonize their activities, the organizations established the Council of Regional Organizations of the Pacific, a key function of which is to improve cooperation, coordination, and collaboration among the intergovernmental regional organizations.⁴ By adopting a regional approach, the PICs can take advantage of opportunities to pool and share expertise and resources, thereby optimizing benefits to member countries and territories. Appendix A (Volume II) describes the functions of the main regional organizations. Despite the institutions' substantial scale and broad coverage, the relationship between them and the individual countries is complex – a perception exists that in some areas these institutions compete with national agencies instead of complementing them.

Economic Developments

Growth in the PICs has been sluggish during the past decade. Average per capita growth was between 0.5 and 2.0 percent per year – well below the growth rate of most other developing countries (table 1.1). Because of their small domestic markets, the PICs are dependent on tourism, fisheries, and labor exports for their growth. Although there has been some expansion of these activities through the temporary migration programs (chapter 3) and better management of fisheries resources, this expansion was partially offset by stagnant agricultural output and limited development of private small and medium enterprises.

Progress in improving social indicators in the PICs was mixed and uneven across the different islands. Fiji, Palau, and Tonga progressed the most, while Kiribati, Papua New Guinea, and the Solomon Islands lagged (PIFS 2015). Considerable progress was made in all the PICs in reducing child mortality, achieving universal primary education, and gender parity at all education levels. However, challenges remain in achieving inclusive, sustainable human development, reducing income inequality, and reaching the broader goal of promoting gender equality and empowering women.

Table 1.1. Economic Characteristics of the Pacific Island Countries

Indicator	Fiji	Kiribati	Marshall Islands	Micronesia, Fed. Sts.	Palau	Samoa	Tonga	Tuvalu	Vanuatu
Population (millions) ^a	.0089	0.11	0.05	0.10	0.02	0.19	0.11	0.01	0.26
Population growth (annual %) ^a	.070	1.80	0.20	0.30	0.80	0.80	0.40	0.20	2.20
Land area (sq. km)	18,270	810	180	700	460	2,830	720	30	12,190
General government total expenditure (% of GDP)	28.7	84.9	53.1	59.9	39.5	43.8	28.2	81.1	22.3
General government gross debt (% of GDP)	51.5	8.5	31.9	26.9	10.5	55.0	42.9	41.1	19.5
GDP per capita, PPP (current US\$) ^a	8,113	1,797	3,890	3,389	14,757	5,791	5,211	3,645	2,986
GDP per capita growth (annual %) ^c	0.8	-0.4	1.7	-0.1	0.0	0.7	0.05	1.1	1.5
GDP (current \$, millions) ^a	4,030	167	191	316	251	801	434	38	802
Imports (% of GDP) ^b	76.4	103.1	104.7	81.7	82.3	52.1	59.2	103.1	51.5
Exports (% of GDP) ^b	58.9	13.2	54.9	27.9	60.9	28.3	21.2	53.7	46.8

Source: Adapted from the Systematic Country Diagnostic.

Note: GDP = gross domestic product; PPP = purchasing power parity.

a. Refers to 2014 data.

b. Latest year available.

c. Average over last 10 years of available data (2005–2014).

Evaluation Objective and Report Structure

This report covers World Bank Group support to the PICs during 2005–15. It seeks to determine if the support was relevant to the countries' development needs and the World Bank Group's institutional priorities, if the World Bank Group-supported programs were effective in meeting the strategic objectives the World Bank Group defined and agreed to with the countries, and if the support was provided efficiently and sustainably.

Chapter 2 describes the evolution of the World Bank Group's approach and the objectives it defined through its strategy documents. Chapter 3 summarizes the assessment of the World Bank Group strategy and program on three dimensions. The first dimension is how the World Bank Group addressed the particular challenges of working in the PICs. The second dimension considers how the World Bank Group helped the PICs improve resilience (the evaluation's first pillar) in three subareas. These areas are: economic resilience (focusing on macro-fiscal sustainability in the context of external shocks and volatility), environmental resilience (how the World Bank Group helped to address risks to people, assets, and economies from natural disasters and climate change), and social resilience (covering the contribution to human resource development through support for labor mobility, the education and health sectors, gender equality, and social protection). The third dimension examines how the World Bank Group assisted PICs in improving competitiveness (the evaluation's second pillar). It looks first at World Bank Group support for promoting a competitive business environment, second at the financial sector; third at the World Bank Group's support for infrastructure; and finally at specific program areas considered to be key productive potentials, namely fisheries, tourism, and agriculture. Chapter 4 presents the main findings and recommendations. The appendixes provide a more detailed analysis of the relevance and efficacy of the World Bank Group program that underlie the overall assessment and lessons.

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¹ The evaluation mission in September and October 2015 visited Sydney to talk with staff in the World Bank's Country Unit for the Pacific region. The office covers the nine island groups plus Papua New Guinea, the Solomon Islands, and Timor-Leste. The evaluation team visited Suva for discussions with government of Fiji and the regional institutions based there. The team engaged in extensive discussions with government, donors, and civil society during visits to Tonga and Samoa, and held discussions with officials of the Department of Foreign Affairs and Trade of the government of Australia in Canberra, and the Ministry of Foreign Affairs and Trade of the government of New Zealand in Wellington.

² The outliers are Kiribati and Vanuatu, where extreme poverty is still significant.

³ In Samoa and Tonga, for example, few gaps remain in access to both education and health services, and most Millennium Development Goals were achieved in these areas, except for some remote outer islands.

⁴ Organizations involved include Forum Fisheries Agency, Forum Secretariat, the Pacific Islands Development Programme, the South Pacific Commission, the South Pacific Regional Environment Programme, the South Pacific Geoscience Commission, the Tourism Commission of the South Pacific, and the University of the South Pacific.

2. World Bank Group Approach and Strategy

The World Bank Group substantially expanded its engagement with the nine PICs during the evaluation period, raising its lending, increasing its regional presence, and increasing the volume of technical assistance and analytic work. Increased availability of IDA funding for small states and the ability to tap into regional IDA and crisis response funding enabled this expansion, which meant a considerable increase in the scale of programs the World Bank Group could support. The PICs became IDA-grant eligible, which was particularly important. The World Bank Group could undertake this expanded program and make this funding available to the Pacific Islands largely because of expanded resources for staff and operational expenses in the Pacific region. Although an increase in World Bank Group budget allocations financed some of the expansion, the most important factor was the Pacific Facility, a trust fund established by the governments of Australia and New Zealand, which provided fully fungible resources to the World Bank Group to supplement its budget. This allowed the World Bank Group to devote large amounts of staff and consultant resources to the PICs relative to comparator countries.¹

The support of the governments of Australia and New Zealand for an expanded World Bank Group presence in the region reflected their commitment to a strong, prosperous, and stable Pacific. In the Australian view, the strategic importance of the PICs outweighs their small population. Because of its central role in leveraging a major expansion of the World Bank Group's role, it is important to understand the motivation for the Australian government's "willingness to bankroll the World Bank Group's engagement," in the words of one interlocutor. "The Bank's comparative advantage is policy dialogue. Bilateral donors are much more constrained in providing policy advice than the World Bank, which is seen as objective and credible, particularly in areas such as governance." An evaluation of Australia's support for noncore funding of the international financial institutions suggested a number of other factors (box 2.1). Also underlying these factors is the sensitivity of the Australian and New Zealand governments to the perception of neocolonialism inherent in their relationship with the PICs – the combination of high levels of aid, migration, expatriates in executive positions in PIC governments, and so on. An expanded role for the World Bank Group and Asian Development Bank (ADB) is important to lessening this perception.

The impact of this special relationship with Australia and New Zealand on the programs of the World Bank raised important questions for the evaluation. Besides increasing the volume of World Bank Group support, did the trust fund lead the

World Bank Group to act in ways it would not have acted if, for example, the World Bank's own budget had funded the same level of resources? Did the source of the funding and knowledge of the special interests and concerns Australia and New Zealand had in the PICs affect the resources allocation in any way?

Box 2.1. Why Australia and New Zealand Funded the Costs of World Bank Group–ADB Support for the PICs

“The first and strongest motivation was to leverage the multilateral development banks' specialist skills and relationships with partner governments to increase Australia's role in shaping recipient government policies. The second major motivation was to improve the World Bank's effectiveness by helping them to overcome institutional constraints, largely in their budgets for administrative costs and technical assistance, and in the rules that govern their budget allocations. The third major motivation was to provide aid that was harmonized with other donors, and thus reduce administrative costs and complexity for recipients.”

Source: DFAT 2012.

The World Bank Group's strategic approach to the PICs evolved during the period, influenced by key analytic studies. The World Bank published *Pacific Islands at Home and Away: Expanding Job Opportunities for Pacific Islanders through Labor Mobility* in September 2006. The report asserts that the PIC economies could not generate the levels of employment needed based on demographic trends, and presents evidence that remittances have a vital role in social protection, especially for poorer households and communities. Australia and New Zealand needed to open their labor markets to temporary migration from these countries. The report was the subject of considerable discussion in Australia and New Zealand, and the principal author, Manjula Luthria, conducted a dialogue with authorities in both countries. According to New Zealand government officials, this report was crucial for the adoption of a temporary migration program for workers from the Polynesian Islands, which is ongoing. The Recognized Seasonal Employer program, introduced in 2007, brought up to 8,000 workers from the Pacific Islands each year to work in New Zealand horticulture and viticulture on short-term contracts. The Australian Pacific Seasonal Worker Pilot Scheme provided for up to 2,500 seasonal work visas over three years from 2009–10 to 2011–12. The World Bank worked closely with the Australian and New Zealand governments on designing the programs, bringing international experience of comparable temporary migration programs to the table.

The World Bank Group took the analysis further with the preparation of *Pacific Futures* in early 2012. This broader analysis of the PICs' economic situation essentially maintained that the path to economic viability must include substantial

reliance on remittances from labor migration and sustained flows of assistance in the long term. It argued that public sectors in these countries were likely to be a large share of gross domestic product (GDP) given the countries' small size and the minimum critical mass required for conducting many public functions and providing services. Although it recognized the potential for some economies of scale through regional integration, these were unlikely to be sufficient to avoid the need for additional resources. The analysis proposed expanding budget support from donors to enable the public sector to carry out its role while avoiding some of the transaction costs of investment lending, which were particularly burdensome given the thinness of government capacity in these countries. Despite not being published, the draft report was extremely influential. In the words of an Australian government official, "Acknowledging that aid will always be needed and that labor mobility is part of the package – this was a huge shift for Australia, and the World Bank takes a lot of the credit for this" (box 2.2). Overall response to Pacific Futures was highly positive, though questions arose over time. There is a sense that Pacific Futures underplays the private sector's potential role. Although its messages are particularly relevant for Kiribati and Nauru (which have limited potential), it is less relevant to Fiji, for example. Samoa and Tonga fall somewhere in the middle.

Box 2.2. Pacific Futures: The World Bank's View of Development Challenges Facing the PICs

"Not all of this analysis is new: some academics have long argued that remittances and aid were critical for island economies. Moreover, the Pacific island region is extremely diverse, and the World Bank itself notes that its analysis applies much more to the smaller countries in the region than the larger. Overall, however, there is no doubt that Pacific Futures not only challenges conventional wisdom about the Pacific, but in some cases turns it on its head.

"How Australia responds to these new ideas from the World Bank will be a lot more important than what the World Bank itself does. We are after all the dominant power in the region. Are we prepared to accept that aid will be a permanent feature of the Pacific? ('Overall, international assistance of various kinds is likely to remain an enduring feature of Pacific Island economies for the foreseeable future.') Will we open up our labor market to the Pacific? (To remove 'barriers to increased flows of short and, eventually, longer-term or permanent migrant workers to large markets.') And are we willing to share our institutions with neighbors willing to adopt them? ('In some cases, more effective regional integration may arise from negotiating the expansion of larger country institutions to cover PIC economies.')

Source: Howes and Pryke (2012).

The World Bank is working on a new strategic study, *Pacific Possible*, with publication expected in 2016. This reflects an evolution of World Bank Group thinking in the past two or three years, which places more emphasis on growth

potential through exploiting comparative advantages in fisheries, tourism, seabed mining, and agricultural production for both the domestic market and neighboring export markets. This is not an about-face – the report continues to recognize the limits imposed by size and geography, but it argues for a more aggressive approach to improving the business environment and exploiting the potential of foreign and domestic private investment. Pacific Possible asserts that there is a way to be transformational.

In the World Bank country director's view, "The essence of Pacific Possible is to ask what we can do to bend the growth curve upward." This will require a concerted effort in all four potential growth areas: tourism, fisheries, information and communication technology, and labor. In his view, "Labor mobility remains important. We need to see a move from temporary to permanent migration...[and] provide labor market opportunities for the unskilled. For example, increasing Australia's temporary migration program to 40,000 people a year (proportional to that of New Zealand) would generate remittances on the scale of the current Australian aid program. The major constraints to increased growth are the costs of natural disasters and of treating noncommunicable diseases. The cost of noncommunicable diseases, for example, is 2–3 percent of GDP and is expected to rise to 4–5 percent."

Bank Regional Strategy for the PICs, 2006–09

An earlier evaluation of World Bank assistance to the Pacific during 1992–2002 that set the stage for subsequent work, found that the World Bank did not satisfactorily contribute to fueling economic growth in the region. The evaluation recommended that the World Bank take five actions:

- Focus on improving expenditure management and removing bottlenecks to private activity in the region.
- Define focused and measurable country-specific objectives and interventions for countries where its engagement is expected to continue.
- Prioritize support for a select set of regional level initiatives.
- Deepen and broaden its relationship with other donors.
- Ensure that its strategy is fully funded and staffed (World Bank 2005a).

The World Bank's Regional Strategy for 2006–09 built these recommendations into its approach (World Bank 2005b). The strategy aimed to create "an environment conducive to generating sustainable economic growth and employment." It had two major objectives. The first of these, "strengthening government capabilities in

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service delivery,” sought to improve the effectiveness of public expenditures (with particular attention to the social sectors), improve the management of infrastructural assets, and safeguard service delivery by improving resilience to natural hazards. The second objective, “improving the incentives for private sector-led growth and employment,” aimed to help create domestic jobs by reducing regulatory and administrative barriers to business development and improving utility services and costs; to increase sustainable revenues from fisheries, tourism, and other resource-based sectors; and to improve access to regional labor markets.

The strategy recognized the lack of IDA funding and budget needed to support a lending program to achieve the ambitious set of objectives. It therefore indicated that the World Bank would focus its assistance on strategic economic and sector work, donor coordination, targeted policy notes, and technical assistance to support reforms. According to the strategy, “Selective lending activities will actively seek to leverage donor resources to maximize their policy impact. The assistance will balance demand-driven, country-specific initiatives with regional-level initiatives to help create regional public goods.” The drafters believed the World Bank lacked the resources to adopt a country-specific approach to lending, but that it could undertake projects that were relevant for a number of countries and customize these to the specific context of each country. The approach, later reflected in Pacific Futures, was that these countries were not viable unless they could export labor and had long-term, predictable aid flows, better fiscal management and governance, and better behavior by international investors on natural resources including fisheries (with the possible exception of Papua New Guinea and Timor-Leste). According to the country director at that time, “The World Bank was telling clients that sustainability was out of the question, and that these countries were always likely to need aid. The challenge for the World Bank was to help them live with this and build regional synergies.”

The Move to a Country Program Strategy Approach as of FY11

The increased availability of IDA resources for small states and the availability of substantially more budget and trust fund support overtook the regional strategy. With the Pacific Islands Facility providing trust funding and the increase in the minimum country allocation under IDA, World Bank management decided to prepare individual country strategies to underpin a much-expanded engagement in the region instead of preparing a new regional strategy. Between 2011 and 2015, the World Bank prepared Country Assistance Strategy documents for Tonga, Kiribati, Samoa, the Federated States of Micronesia, Tuvalu, the Marshall Islands, and the Solomon Islands. The Tonga Country Assistance Strategy explained the rationale,

“As World Bank Group engagement intensifies, Pacific island clients are increasingly demanding individual ‘custom-tailored’ strategies to reflect their individual circumstances, and to incorporate the support that can be provided from across the World Bank Group, including both IDA and IFC. Of course, given the importance of greater regional integration if Pacific island countries are to increase opportunities, such bespoke strategies will draw from key elements of a common regional approach” (World Bank 2010).

A regional framework appended to the country document was the basis for each country strategy. This was especially important because it set out two core themes for World Bank support in the region. The first was Promoting Opportunities for Greater Regional and Global Integration, inspired by *World Development Report 2009: Reshaping Economic Geography*, which highlighted the importance of sea-locked countries integrating more with the global economy. It stressed the need for greater regional and subregional cooperation in areas such as fisheries, aviation, fuel purchases, telecommunications regulation, and public sector audit institutions. The second core theme was resilience against shocks. The definition of resilience was broad – for example, covering the expansion of agricultural productivity, which was seen as providing resilience against food price shocks. Notably, the World Bank did not produce the regional framework jointly with IFC, and coverage of private sector development in the regional framework is brief. The country strategy documents, however, discuss in somewhat more detail the joint role of the World Bank and IFC, together with ADB, in improving the enabling environment for new foreign and local private investment, both foreign and local.

The World Bank Group prepared a Country Engagement Note for Fiji in 2015 because of its reengagement with the country. After the coup d’état in December 2006, the World Bank essentially ceased any new lending to Fiji while continuing to support implementation of the ongoing program for renewable energy. The general sentiment in Fiji is that the World Bank went too far and could have provided additional technical assistance and maintained better contacts with government officials. However, the World Bank did provide technical assistance to Fiji during the period, most notably a study on its social protection system in FY12 that cost \$900,000. Although ADB also did not provide new funding for Fiji, it had a large ongoing program, and the continuation of that program led to the perception that ADB, unlike the World Bank, was being much more independent (of the Australian position). Furthermore, ADB and agencies in Suva maintained their offices there. The World Bank did not have an office in Suva at that time. The chill in relations with Fiji had the unintended consequence of making the World Bank somewhat less engaged with the regional agencies based in Suva than it might otherwise have

been. Once elections were scheduled, the World Bank moved quickly to resume lending through cofinancing with \$50 million from the International Bank for Reconstruction and Development (IBRD), a road project with ADB, and through locating a country economist in Suva. The intention is to co-locate four to six staff in the ADB office in Suva by the end of 2016. This reflects both the needs of a growing Fiji program and the desire for closer association with the regional bodies based there, along with easier logistics and lower travel costs.

The First Systematic Country Diagnostic for the PICs

The World Bank Group prepared the first Systematic Country Diagnostic (SCD)² for the PIC-8 in 2015–16 (the SCD excluded Fiji from the group covered by the evaluation, given that the World Bank had just issued a separate Country Engagement Note for Fiji). Extensive consultations were conducted on the SCD, including visits to the main island of the various groups and to the outer islands. The most common feedback from the consultations was that extreme poverty is not an issue. Comments from participants included: “No one goes without food and shelter.” “Do you see anyone naked here?” “Everyone can afford fees to send children to school and donate money to the church”. Even in Kiribati,³ the extreme poor are only 10 percent of the population. Regarding shared prosperity, the bottom 40 percent seem to be growing somewhat more slowly than the rest of the population, but the data are unreliable. The poorer sections of the population tend to be on the outer islands and in the peri-urban areas of the capital city. Migration and remittances are an important factor – they are generally pro-poor and are a safety net because they go up when natural disasters strike. However, remittances can be pro-cyclical when there are shocks like the global economic crisis.

The SCD discussed three sectors that have the greatest potential to drive growth: agriculture, tourism, and fisheries. Agriculture is the main source of livelihood for women and most of the poor in the PIC-8. The SCD stated that the greatest potential for agriculture lies in effectively exploiting the export and tourism sectors. Tourism is an important driver of economic growth because of its significant potential for job creation, and it tends to have a pro-poor focus and high distributional impact. The SCD noted that despite the considerable potential for tourism, its development would rely on an accommodating business environment, including the development of new source markets, better marketing, improved air access, and better value for money. Fisheries are the third potential growth driver in the region. The report noted that although the employment impact of fisheries is limited, the PIC-8 could obtain higher revenues from selling fishing licenses, which facilitates the provision of public services to the poor.

The Balance of World Bank Lending for Budget Support, Sectors, and Countries

During the past 10 years, the World Bank program in the Pacific increased eightfold in number of new commitments and nearly twentyfold in lending volume. The average number of World Bank commitments to the nine Pacific Islands increased sharply from about two new commitments per year during the FY06–08 period to about 19 per year during FY13–15 period (including those supported through trust funds). At the same time, the volume of commitments increased from an annual average of \$8 million during FY06–08 to \$151 million per year during FY13–15. The bulk of commitments occurred through investment lending, which accounted for 87 percent of total commitments during FY06–15. Three countries – Samoa, Tonga, and Vanuatu – accounted for a little over half of the new commitments during the evaluation period.

The World Bank’s role and presence in the region expanded equally with its operational support program. According to an earlier country director interviewed for the evaluation, “Fifteen to 20 years ago, the World Bank was asking itself whether it had any role in the South Pacific. There was a very small unit in Sydney and a headquarters-driven program, which consisted mainly of preparing Country Economic Memorandums on each island. The program had little shape or rationale.” That began to change after Timor-Leste’s independence in 1999, and by the end of 2006, there were about 55 staff – half of which were local staff in Timor-Leste, and 20 were based in Sydney. Discussions with the Australian authorities at this time revealed a common interest in ramping up programs in the region. The Australian government wanted to bring in the World Bank’s analytic skills and wanted its involvement in catalytic projects in infrastructure. The World Bank decided to create a larger and more dynamic work program supported by the Pacific Facility, but also with substantial World Bank budget increases (10–15 percent). The World Bank staff expanded to 90 by 2009, with 40 based in Sydney. The World Bank also established joint offices with ADB in Samoa and Tonga.

Infrastructure was the major focus of World Bank lending in the PICs, focused on energy, road transport, telecommunications, and aviation. The World Bank strategically decided, for selectivity, not to take on urban infrastructure and water projects. Although ADB is present in these areas, donors expressed concern that the urban sector in particular has not received the focus it requires given the influx from rural areas into peri-urban areas. Besides infrastructure, the lending program put substantial weight on building buffers to withstand shocks, doing so through policy agreements under Development Policy Operations (DPOs). The work included an early warning system in Vanuatu, a damage assessment in Tuvalu, and establishing the regional insurance program

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Pacific Catastrophe Risk Assessment and Financing Initiative, which helps provide liquidity in the immediate aftermath of a shock. The program put less weight on health and education, reflecting the Australian and New Zealand aid programs' emphasis on these areas. Agriculture was not a significant feature of the World Bank program until recently. Although World Bank strategies in the PICs have little discussion of the IFC program, the government of Australia was particularly interested in increased engagement by IFC in the region and established a trust fund to support increased IFC involvement.

Development policy operations to provide budget support were a key element of the World Bank's approach. DPOs represent a significant share of the World Bank's lending in some PICs and are considered a good fit for several reasons. DPOs' quick-disbursement feature allows rapid response after natural disasters; they helped build consensus for key areas of policy reform; they require lower transactions costs than investment lending; and they provided a convening instrument for donors.

The World Bank continued to use multi-country platforms where they are a good fit with the program. World Bank projects in aviation (Tonga, Kiribati, Tuvalu, Vanuatu and Samoa) and fisheries (the Federated States of Micronesia, the Marshall Islands, and the Solomon Islands, and Tuvalu) are the most prominent examples. The World Bank Group also provided selective support across countries in niches where it has capacity that other donors may lack, such as measuring education achievement and expanding women's access to banking.

Expansion of the World Bank's engagement in the past five years is evident in table 2.1. The largest engagements were in Samoa and Tonga, and coverage of Tuvalu was considerable relative to its small size. Programs in Kiribati and Vanuatu are somewhat smaller, reflecting their lack of capacity and, in Vanuatu, political instability. Fiji is an outlier, reflecting the political developments during the period. The programs in the North Pacific were much smaller due to the grant assistance available from the United States and the consequent reluctance of these countries to borrow. Both the Federal States of Micronesia and the Marshall Islands were classified as IBRD countries until 2011. They were reclassified as IDA only borrowers under the exception for small island economies in 2011 for the Marshall Islands and in 2013 for the Federated States of Micronesia.

Table 2.1. World Bank Financing Program, FY06–15

Country	2006–10		2011–15		Total	
	Commitments	Commitments (US\$, millions)	Commitments	Commitments (US\$, millions)	Commitments	Commitments (US\$, millions)
Fiji	1	0.4	2	50.8	3	51.3
Kiribati	1	1.8	10	64.5	11	66.3
Marshall Islands	0	0	5	14.4	5	14.4
Micronesia, Fed. Sts.	0	0	3	67.4	3	67.4
Pacific Islands	4	11.1	13	25.4	17	36.4
Palau	1	0.2	1	0	0	0.2
Samoa	4	34.3	13	150.4	17	184.7
Tonga	1	5.4	13	105.4	14	110.8
Tuvalu			7	38.2	7	38.2
Vanuatu	2	3.7	8	83.2	10	86.9
Total	14	57.0	74	599.8	88	656.8

Note: The data in the table includes both IDA/IBRD lending and trust fund grants.

Source: World Bank data.

The World Bank also had a large program of analytic work and technical assistance over the period. The World Bank undertook about 80 analytic and advisory activities in the PICs totaling \$28 million. Most striking is the extent to which the World Bank moved away from core diagnostic studies in the PICs. Nearly 40 of these studies were regional, ranging from the major studies such as Home and Away and Pacific Futures, to small technical assistance activities to support regional institutions. Many of these 40 are classified as regional because they are multi-country studies, even though they do not relate directly to broader regional issues. The sectoral breakdown of World Bank analytic and advisory activities shows no particular concentration in any one sector, and even areas such as agriculture and the social sectors, where the World Bank had limited lending, have substantial coverage in the analytic and advisory activities program. Regarding the country breakdown, there were no analytic and advisory activities in the Federated States of Micronesia, the Marshall Islands, and Tuvalu other than those undertaken under the regional rubric. There were more analytic and advisory activities in Vanuatu and Fiji than in other countries – perhaps reflecting the World Bank’s intent to continue providing support in political environments that made lending difficult.

The cost per dollar lent of World Bank operations in the PICs is far above the World Bank average. As might be expected given the small population of the PICs (and therefore the much smaller size of the average operation), transactions costs per dollar lent are significantly higher. During FY05–15, a proxy for average lending cost per dollar of new commitments in the PICs was 16.4 times the East Asia and Pacific Region’s average and 15.8 times the World Bank average.⁴ This compares to a ratio of about 10 times the World Bank average for the Organisation of Eastern Caribbean States (OECS). Similarly, in the same period a proxy for average supervision cost per

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dollar of active commitments in the PICs was 14 times the East Asia and Pacific Region's average and 8.8 times the World Bank average.⁵ The proxies used are extremely crude, but they illustrate the orders of magnitude involved.⁶

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¹ Pacific Facility 3, which covered 2005–13, was funded 90 percent by the government of Australia and 10 percent by the government of New Zealand. The trust fund covered all the countries in the Country Management Unit, including Papua New Guinea, Timor-Leste, and the Solomon Islands.

² The SCD highlights three major pathways: (i) fully exploiting the limited set of economic opportunities, (ii) fostering access to economic opportunities and public services and (iii) protecting incomes, assets and services for the poor.

³ Among the PICs, the poor are concentrated in the Federated States of Micronesia, Kiribati, and Vanuatu, and most of them live in outer islands.

⁴ The evaluation team used World Bank administrative budget data (which distinguishes new lending – that is, project preparation – and supervision costs), data on the flow of new World Bank lending commitments, and the stock of active World Bank net lending commitments (that is, the size of operations under supervision) during the period FY05–15. To proxy preparation costs per dollar lent, the evaluation team calculated the ratio of new lending costs in a given fiscal year to new lending commitments in the next fiscal year, and used the average for the entire period.

⁵ To proxy supervision costs relative to project size, the evaluation team calculated the ratio of supervision costs in a given fiscal year to the stock of active net lending commitments at the end of the fiscal year, and again used the average for the entire period.

⁶ Although the measures used are extremely crude proxies for what the team seeks to capture, two factors dampen potential bias and error: the averaging over a 10-year period, and the use of a (unit-free) measure that compares one country group with another.

3. Assessment of World Bank Group Strategy and Program

How the World Bank Group Addressed the Constraints of Supporting the Pacific Island Countries

Donors supporting small states face a particular constraint because their systems and approaches evolved to serve the needs of larger borrowers. These therefore reflect procedures and safeguards that require considerable counterpart capacity. The World Bank Group had to address six major issues to operate effectively in the Pacific Island Countries (PICs):

- International financial institutions have small lending envelopes and limited budgets in absolute terms for small states, even if large in per capita terms.
- Country capacity is often weak, and they tend to be thin in the field, even where there are competent senior officials.
- World Bank systems in financial management, legal opinions, monitoring, reporting, audit requirements, and particularly procurement are at the same scale for small states as for much larger ones.
- The small size of ministries and limited capacity puts a much greater premium on effective donor coordination in small states than in larger ones.
- There is a need for a careful balance between regional- and country-level support and operations, particularly in the PICs.
- The balance between representation at the regional and country levels is a difficult one for the World Bank, given that the basic Bank model of a regional country director supported by country managers in all borrowing countries, is not feasible for very small states.

The game-changer in the PICs has been the support provided by Australia and New Zealand through the Pacific Islands Facility for the World Bank and the Pacific Partnership for IFC. This support was necessary for the expansion of World Bank Group programs in the PICs, but it also requires the World Bank Group to meet donor objectives, both explicit and implicit. The Pacific Partnership has a clear results framework agreed to with the Australian and New Zealand governments and IFC. The Pacific Islands Facility does not have an explicit results framework, but the broad objectives of Australia and New Zealand are understood and reflected in the World Bank's approach. Although the evaluation's focus is on whether the World Bank Group is meeting its own objectives in the PICs (as reflected in its strategies), it is also important to ask whether the World Bank Group is meeting

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Australia and New Zealand's objectives – if not, funding is at risk, raising issues for the program's sustainability as currently conceived.

WORKING UNDER SMALL LENDING ENVELOPES AND LIMITED BUDGETS

Effectiveness largely relates to the scale of operations and the need to undertake a critical mass of activity in small countries. Modifications to the IDA allocation formula made a substantial difference in the World Bank's ability to operate in small states. The Country Management Unit (CMU) took full advantage of regional IDA allocations and trust funds, which allows the World Bank to operate with the coverage and depth it needs in its chosen areas of expertise in a number of the islands. A frequent complaint is that the IDA allocation formula does not account for vulnerability, which should factor into both the overall allocation and the balance between IDA credits and grants (currently 50–50). Bilateral donors and the European Union (EU) also expressed concern over the inconsistency between the World Bank's policy advice to these countries not to take on debt and the debt burden incurred through IDA credits.

Projects in the PICs are costly to administer. Costs per dollar lent in the PICs are a multiple of the World Bank average. This is not just a function of the small size of loans. World Bank engagement in some islands and sectors is relatively new, and a great deal of handholding is required. Bank staff provide an unusually large amount of direct implementation support. In addition, many task teams hire consultants to provide implementation support, which must continue well beyond quarterly or six-monthly missions. Travel is often difficult. Some islands, such as Kiribati, require a week of travel for a one- or two-day presence, and flight cancellations are frequent. The impact of the Pacific Facility and Pacific Partnership in enabling the World Bank Group to scale up its activities cannot be overstated. The additional resources provided a margin that enables the World Bank Group to respond to countries' and donor's demand for expanded activities.

ADDRESSING THIN COUNTRY CAPACITY

Capacity is a major issue for small states. The short-term issues are ensuring that the capacity needed to carry out core development programs is available, and ensuring that donor demands do not overstress or preempt the limited capacity. The long-term issue is determining which capacities to build and retain.

Capacity varies widely across the PICs. Kiribati, for example, has no qualified accountants and only one civil engineer. Samoa, by contrast, has a substantial amount of capacity. In places that lack capacity, trying to build local capacity is not necessarily the answer. A great deal of donor support goes to capacity supplementation instead of capacity building. According to a World Bank staff

member, “In the road sector in Kiribati and Tuvalu, where there is one road, there is no point in building capacity. Capacity in those contexts is about managing outsourcing.”

Heavy dependence on consultants raises cost and quality control issues. Remoteness is a strong disincentive for many individual consultants, and the small contracts are unattractive to consulting firms. There is a perception that consultants who come to small states, particularly to the PICs, are often ‘from the bottom of the barrel’. One donor representative commented, “Countries get second-rate quality at a premium price.” This perception’s validity is questionable. Australia and New Zealand have many well-qualified consultants with considerable experience in different PICs. They know the region well and are closer to it than, for example, a European consultant working in Africa. For every anecdote about a consultant’s poor performance, others speak of their high commitment. The premium in the PICs is less on technical skills and more on trying to understand the context and adapting approaches to deal with realities in the field. A problem is that PICs governments have less capacity to manage consultants, so a great deal of this burden falls on the donors who fund consultants. This additional supervision burden should factor into the cost equation. Government representatives said that in some cases, the World Bank had not done enough to set clear expectations for consultants at the outset. One official said, “Sometimes the consultants are content to sit back and rely on the local staff to do the work instead of being proactive. Some consultants are more of a cost than a benefit. The World Bank needs to do better quality control of consultants.”

Small administrations mean that it is difficult to get timely critical decisions. Ministries have limited senior backup, so for adequate checks and balances, countries generally require contract approval by two or three different agencies. Officials in thin administrations often travel for regional and donor meetings, and their absence contributes to processing delays. This makes World Bank approvals time-consuming because the final approvals must wait for absent key officials to return, which puts a premium on country presence. For example, liaison officers in Tonga and Samoa can anticipate potential delays and expedite necessary actions, follow up effectively because of their good connections in national bureaucracies.

WORKING UNDER WORLD BANK SYSTEMS

Project management in the PICs relies heavily on the use of Program Management Units (PMUs). Although it has undoubtedly contributed to better project processing, it raises a number of issues. In many cases, PMU staff salaries are well above regular ministry levels, and the career path may not lead back into the government but to migration instead. A number of officials voiced concern at the high cost of World

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Bank-supported PMUs, given the heavy reliance on international consultants that can amount to as much as 30 percent of the project's cost.

The World Bank's standard operating procedures still caused significant delays in project implementation, even with the large expenditure on PMUs. A number of midlevel staff noted the World Bank's tendency to provide pages of comments on almost every project document and not focus on key issues. Of particular concern is the tendency of a new task team leader to want to put a personal stamp on the project by changing some aspects that were agreed to with the previous task team leader. Differences between donor procedures are another source of complexity. According to one official, "We are still trying to get used to all the World Bank rules. I wish ADB and World Bank procedures were harmonized. Because of this we need to allocate an excessive amount of funds for staffing up the PMUs." However, it is worth noting the high praise among the officials interviewed for how quickly the World Bank responds to issues the government raises or problems that arise. Said one official, "It takes us two or three weeks to get a decision, but the other way around they (the Bank) respond in an instant."

World Bank procurement is a major challenge for the PICs with their very limited numbers of procurement staff, despite considerable efforts to simplify the rules and provide support. The recent simplification, which raised the ceiling for shopping to \$500,000, helped considerably in this area.¹ The CMU held seminars in the region to get contractors familiar with World Bank requirements, and many projects have international procurement advisers. However, the problem remains despite these efforts as line ministries face chronic human resources limitations. Indeed, line ministries in the PICs that do not provide direct services typically have about 30 staff, many of whom do not have the technical skills even to manage outsourced contracts. One official noted, "The World Bank's procurement processes are a nightmare. The procurement needs are the same for a small project as a big project. Perhaps the World Bank should just do all these small technical assistance-type projects as Bank-executed." A number of officials in Tonga and Samoa raised the question of why the World Bank could not use national systems (which are based on Australian and New Zealand models). Even if national systems were used, it would still be necessary to monitor whether they are being correctly implemented. In countries this small, it is almost impossible to have procurement as a career stream, and the tiny public procurement agencies have great difficulty staffing up.

The World Bank used several implementation models in its projects, including recruitment of implementation support specialists, regional implementation units and outsourcing to private sector consulting firms. The CMU has piloted the "Implementation Support Specialist" initiative to provide responsive, hands-on

assistance to small states, fragile clients, as well as high-risk or problem projects. The recruitment of staff to work with the weakest countries has been successful and is now being replicated in Papua New Guinea, the North Pacific, and the energy sector Pacific wide. The World Bank's model for aviation in which a regional advisory implementation unit has helped handle procurement, is also promising. However, the World Bank needs to do a better job of explaining the benefits of this model and getting country buy-in. Another approach used in Samoa that has potential for replication outsourced the PMU to a private consulting firm. The Samoan government contracted with Isikuki Punivalu and Associates (IPA) Engineering and Management Consultants, a private company founded by a former government official, to manage a number of infrastructure and environmental projects. The company has eight professional staff and handles accounting, technical advice, and procurement, and serves as a secretariat to the project's steering committee. Views are mixed on the success of this approach and procurement is still challenging.

Taking a systemic view on how to handle weak contracting capacity would be helpful. The lack of a domestic market (except for Fiji) constrains contracting capacity. Contractors do not work steadily and will not buy equipment until they have a contract. Donors should periodically examine the entire project portfolio to see if contracting might be coordinated to provide greater continuity for potential contractors. Analytic work on the private contracting industry in the PICs would help explore how to strengthen it.

Similarly, a systemic approach to handling traditional land tenure systems in project design and implementation could help speed implementation and reduce costs. Land issues caused delays and increased costs in a number of projects. In Tonga's post-cyclone reconstruction project, where the World Bank financed housing, those who occupied the houses did not have clear title to their land, meaning it was uncertain if they could continue to occupy the reconstructed houses. In the Samoa agriculture project, the lack of title makes it difficult for banks to lend for land improvements and farm buildings. Leasehold arrangements generally resolved these issues but invariably with lengthy delays. Hence, the complexities surrounding land regime require a very thorough understanding of the political economy of land issues for a particular context. The Bank would need to do upfront analytic work on understanding these issues at the country level, and considering these issues much more explicitly during project preparation. For example, one approach for the Bank, suggested by the Pacific team, could be instead of offering a wholesale land reform advice (i.e., moving toward clear title approach), to improve the capability of existing institutions/stakeholders that manage land dealings to produce fairer and more durable outcomes – the landholders, investors, and government – by bolstering the checks and balances of associated administrative

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processes, supporting innovation in local level dispute resolution, and by strengthening the provision of independent advisory service to all parties in the transaction. A fragility filter as part of infrastructure/private sector development project could help by guaranteeing that investments are taking those complexities into account and have mechanisms to ensure that they are not exacerbating further tensions.

PROMOTING ENHANCED DONOR COORDINATION

There are eight major donors in the PICs: Australia, China, the EU, Japan, New Zealand, Asian Development Bank (ADB), United Nations Development Programme, and the World Bank Group. Other United Nations (UN) agencies, the International Fund for Agricultural Development, and the International Monetary Fund (IMF) are also important players in selected areas. This is a large number of actors and donor missions relative to the size of these countries. Meeting donor requirements and representing countries at donor-organized meetings imposes large burdens on overstretched senior government officials.

The donor community uses the Pacific Region Infrastructure Facility (PRIF) to coordinate their efforts in infrastructure. In the PICs, effective aid coordination is particularly important in support of infrastructure. Governments tend to worsen the coordination problem by presenting the same wish list to each donor. A former World Bank staff member leads the PRIF, established in 2008 and funded mainly by Australia and New Zealand. The PRIF's objectives are to allow donors to coordinate effectively in the sector, conduct research and analysis on infrastructure needs and priorities, and provide technical assistance to governments in the infrastructure sector. Five working groups – transport, energy, water, urban, and information and communication technology (ICT) – meet quarterly to exchange ideas, keep all members informed about projects, and assess the technical assistance needs of individual countries. An important part of the PRIF's work was to prepare reports that benchmark the performance of the PICs, such as a recent report on Pacific power utilities. The PRIF has proved useful for identifying infrastructure needs after natural disasters and planning how best to meet those needs. It also worked with countries to develop strategic infrastructure plans. The World Bank is a PRIF member, but it does not provide funding. One World Bank staff member said, "The PRIF has been a real plus – providing for a more strategic approach among the donor community to support for the energy sector." The countries are somewhat more skeptical. They particularly note that China's absence is a disadvantage because it finances and constructs so much infrastructure.

The World Bank and ADB also made special efforts to coordinate their engagements in infrastructure in the PICs, such as designating a lead institution in some sectors in

particular countries. In the energy sector, for example, the World Bank takes the lead in Tonga and Vanuatu, while ADB leads in Samoa. When the two institutions cofinanced projects, they worked to try to harmonize procedures. For the Fiji road project, the World Bank provided \$50 million of cofinancing to ADB's \$100 million in support of the project. Bank management agreed to use ADB's procedures for the project, including its procurement procedures. This is the first time that the Bank has done this and it has proven a major advantage for the implementing agency, which has not worked with the World Bank since well before the 2006 coup. ADB will be using the World Bank's procurement systems in the Samoa cable project. For the Tonga cable project, the World Bank and ADB agreed on harmonizing the procurement approach, but there were teething problems. Neither institution had, at that time, policies that were conducive for co-financing an investment of this type. Consequently, the company was burdened with eight different versions of the documents and 668 pages, according to the company's chief executive. Moving forward, there would seem to be substantial benefits for small states from the adoption of harmonized procedures by the multilateral development banks.

The Development Policy Operation (DPO) instrument significantly contributed to more effective donor coordination. The experience with budget support in Tonga shows the importance of effective donor coordination in the small country context and the potential role of the DPO in this regard. ADB started with budget support in 2009 as the impact of the global crisis on remittances became clear. The World Bank decided to link its budget support to the energy sector program. Australia and the EU also came in with budget support. All these different programs had separate sets of policy conditions – for example, 30 conditions from ADB, and two pages each of conditions from Australia and New Zealand. After this round of budget support, in 2010 the Bank started a new round of budget support for the 2011 and 2012 DPOs, which focused on a small number of actions – about 10–12 in a joint matrix. Australia and New Zealand provided their budget support against this matrix. The multi-donor dialogue continued in subsequent years, with the ADB also providing support against the new joint matrices for the 2013 and 2014 DPOs.

The World Bank contributed effectively to aid coordination. Donor coordination in the policy dialogue on macro, fiscal, and governance issues has been an area of good practice. The DPOs have been particularly effective in this regard. Said one donor, "The push for budget support has been driven by the World Bank and has been a big success. It was very fragmented before. The World Bank has worked very closely with Australia, New Zealand, ADB, and the EU." Collaborative work on digital communications is another good practice example, in the Australian authorities' view. The Australian project on policy engagement and subsidy in Vanuatu led to

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opening the market; the World Bank helped by bringing in the experience of Barbados, and IFC brought in the clients. Conversely, in the Enhanced Road Access Project in Samoa, a Bank decision was taken that the project was not able to absorb funding from the Australian Department of Foreign Affairs and Trade (DFAT) because the implementing agency was not performing well. The World Bank team failed to communicate this to the Australian authorities in a timely fashion. Donor government officials emphasized the need for visiting missions to meet with their local representatives to ensure effective communications.

All donors and PICs believe it is important for China to enter the donor coordination framework. China is a particularly important player in the region (except in Kiribati, the Marshall Islands, Palau, and Tuvalu, which recognize Taiwan, China). Samoa and Tonga received substantial funding from China. The fact that the Ministry of External Affairs in China is not responsible for the assistance provided by the Chinese Exim Bank (which falls under the Ministry of Commerce) complicates the dialogue.² However, it is generally recognized that “China is a difficult partner to manage,” as one donor stated. Continuing efforts are needed to bring China into the aid coordination frameworks in the PICs (by inviting Chinese authorities to send observers to meetings, for example) and to persuade governments that offers of assistance from Chinese companies require the same kind of vetting and due diligence that is applied to other assistance.

WORKING AT THE REGIONAL, MULTI-COUNTRY, OR NATIONAL LEVEL

It seems, in principle, that there would be great scope in the PICs for capturing economies of scale through regional or multi-country approaches, but this has proven difficult to achieve. Careful thought has been given by donors to the areas in which regional institutions can add value in the PICs, and studies have been published on this topic. The value added of a regional approach in areas as diverse as aviation, fisheries, and auditing is widely recognized and accepted. The University of the South Pacific is also regarded as a successful regional institution. In the private sector, the Bank South Pacific (BSP) is a successful multi-country enterprise. Despite this, in some sectors donor officials saw the regional institutions as an additional and unnecessary layer, and observed that the quality of staffing in these institutions is highly uneven. The PICs see the regional institutions as competing with their own; they have limited ownership of these institutions, most of which depend on donor support.

The World Bank tried to take advantage of economies of scale through multi-country platforms. The most important examples are in fisheries and aviation. The World Bank adopted a regional approach in the aviation project, in which it supported the creation of a regional advisory implementing service the “Technical

and Fiduciary Services Unit” (TFSU) based in Tonga. This body has been working effectively and is viewed by the Bank as a cost efficient way to address capacity constraints, but there has been pushback from the government of Kiribati and also dissatisfaction expressed by some officials in Samoa, who see the unit as an additional bureaucratic layer.

The World Bank has not been consistent in its approach to involving regional institutions. Some projects recognized the importance of bringing regional institutions into the dialogue, the program design, and areas in which their capacity is inadequate (including special training in the project design). The fisheries project is a good practice model in this regard. The aviation project provides technical assistance to the Pacific Aviation Safety Organization for preparation of a business plan, implementation of restructuring measures, strengthening capacity for management policy, safety, and security oversight. However, in projects not explicitly adopting a regional or multi-country platform, it appears that the World Bank is not systematically addressing regional involvement. Regional authorities noted lack of support from the World Bank for training their staff. Medical personnel training would seem to be an area with high potential for a regional approach, such as licensing across national borders. In education, regional work could include standard setting, assessment systems, teacher training, and vocational education.

Strengthening regional institutions to support development programs more effectively is seen as a World Bank comparative advantage. Australian authorities, for whom regional approaches are difficult, consider the World Bank’s work with regional institutions among its useful contributions. The authorities noted, “Although the outcomes have been modest, the World Bank lends credibility to the dialogue.” The chill in the World Bank’s relationship with Fiji from 2006 to 2014 reduced interaction between the World Bank and the regional agencies, and the evaluation team found that some of the regional agencies distrusted the World Bank. It was noted, however, that World Bank engagement had increased during the past two years, perhaps reflecting the revival of the Fiji program. The larger World Bank presence in Suva, where most of the agencies are based, has potential for a more collegial and productive relationship between the World Bank and regional institutions.

ENSURING THE WORLD BANK’S PRESENCE IN THE FIELD IN THE PACIFIC REGION

The lack of World Bank presence in the field is the most frequently expressed concern of donors and country authorities. Given the capacity issues in the PICs, Bank missions to support implementation are frequent, at least quarterly in most

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cases. However, there have been complaints from senior officials about the amount of time they spend meeting with World Bank and other donor missions. One cause of their concern is the continuity of Bank task team leaders. Officials suggested that the Bank plan the transition of task team leaders more carefully with overlap and handover missions, and consider replacing brief, periodic missions with extended stays by task team leaders during key points in the project cycle or implementation. (These concerns resonate with the findings of a recent IEG evaluation on learning in World Bank operations.) The complaint about a lack of presence in the field seems to relate more to the need for a deepening of political economy and contextual understanding of the PICs, and the need for a clearer strategic approach to their development priorities at the country level to balance the excellent job the World Bank is doing through its regional analytic studies. Some suggested that moving the CMU to Suva would help improve the World Bank's presence (box 3.1).

The World Bank opened its regional office in Sydney in 2000.³ The difficulties and frequency of travel to the PICs, the distance of the Sydney office from other Bank offices, and the awkward time difference between Washington, D.C. and Sydney are major operational problems for the Bank. These may worsen under the Bank's new structure because staff members are mapped to a global practice instead of the East Asia and Pacific Region or the CMU in Sydney. It is difficult to get experienced staff to locate in the PICs because of the distances and their small populations. Costly, poor-quality Internet connectivity is another problem for the World Bank. However, this is likely to improve through ongoing Bank support in this area.

Box 3.1. Should the World Bank Consider Relocating its Country Management Unit to Suva?

Asian Development Bank's regional office is in Suva, as is the IMF regional representative. Some interlocutors suggested that the World Bank should consider moving its Country Management Unit to Suva. This option should be on the table, but in the evaluation team's view, it is premature. Although it would reduce costs, it would make recruitment much more difficult. There is symbolic value in such a shift, but it is unlikely to increase the depth of World Bank engagement in the PICs. Rebalancing staffing between Sydney and Suva is appropriate, and with resumption of lending to Fiji, the World Bank plans to locate four to six technical staff in Suva by the end of 2016. A macroeconomist is based there now. Some World Bank managers noted that the new global practice structure adds to the complexity of staffing in the PICs because technical staff – even if located in Suva – may have incompatible work programs or programs that require them to travel to other countries or regions. For example, a major reengagement with Fiji on the Reform of Public Services is managed by the Governance Global Practice, but the macroeconomist based in Fiji is mapped to the Macroeconomics and Fiscal Management Global Practice. Therefore, no one is in the field to help communicate with counterparts and move the public services program forward.

Joint liaison offices established with ADB in 2009 underpin growing World Bank Group engagement in Tonga and Samoa. The offices (each staffed by a local professional) were instrumental in improving dialogue with the government and encouraging better cooperation with ADB and with other partners present in Nuku'alofa and Apia. The World Bank provides funding for the Samoa office staff, and ADB funds the Tonga office. In the evaluation mission's view, the joint local liaison offices have been highly effective. Joint liaison offices are also in Kiribati and Vanuatu, but the liaison officer position in Kiribati has been unfilled for two years.⁴ The joint liaison offices also strengthen coordination with ADB. The question was raised in Tonga whether the volume of work now warranted splitting the office and having separate liaison officers for the World Bank and ADB, perhaps using a shared facility. This would also help with providing backup capacity.

MEETING TRUST FUND OBJECTIVES SET BY THE GOVERNMENTS OF AUSTRALIA AND NEW ZEALAND

The governments of Australia and New Zealand established two trust funds to support World Bank Group operations in the Pacific region. The initial phase of the Pacific Facility (about \$50 million) was established in 2005 and closed in December 2014. A follow up phase has been agreed. It provides noncore funding (funding not associated with specific program objectives) to the World Bank. The funding can be used in ways that are fully fungible with the World Bank's own budget and represents an augmentation of the World Bank budget for the region of about 40 to 50 percent. The Pacific Partnership (about \$19 million) was established in 2006 and closed in 2013 with subsequent follow-up. It provides funding to IFC to support a results framework related to the achievement of support for private sector development in the region.

The Pacific Facility's purpose was to leverage a greater role for the World Bank (and ADB through a similar trust fund) in the Pacific region. Although World Bank activity expanded substantially, it is uncertain to what extent this is attributable to the trust fund. The availability of larger IDA allocations for small states (to which Australia and New Zealand contributed through their roles as IDA Deputies) was a major part of the expansion. World Bank activities would have expanded to use the increased allocation. However, the availability of the additional budget enabled by the Pacific Facility most likely facilitated the CMU's success in mobilizing additional trust funds to support work on environment, education, crisis response, and regional programs. Arguably, the most important impact of the additional funding was on the quality of work and the World Bank's ability to engage in policy dialogue, provide on-demand technical support, contribute to more effective donor coordination, and support regional institutions.

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An independent evaluation of Pacific Facility III covering 2005 to 2012 rated relevance, effectiveness, and efficiency fully satisfactory (DFAT 2012). The evaluation found that the facility delivered value for money, and the World Bank “played an increasing and highly appreciated role in macroeconomic policy, economic dialogue, and donor coordination around budget support operations, and has expanded its Analytic and Advisory Activities.” Furthermore, the evaluation found that the World Bank managed its operation well and establishing new offices had enhanced its performance. It noted that coordination with regional agencies, such as Secretariat for the Pacific Community and the Pacific Forum, and reporting to the donors was less than fully satisfactory and that there were “still areas where more effective support could be provided in a context of thin implementation capacity.” The evaluation recommended continuation of the trust fund and suggested that the World Bank emphasize implementation of the current portfolio over preparing new operations. It proposed a stronger donor voice in determining which analytic and advisory activities are undertaken. The evaluation rated the World Bank’s support for gender equality through the trust fund as moderately unsatisfactory. Discussions in Canberra and Wellington validated the independent evaluation’s findings, emphasizing the positive findings, but also noting the World Bank’s lackluster support for gender equality.

It is too early to evaluate the Pacific Partnership between Australia and New Zealand and IFC, but initial indications are positive. The partnership identifies a set of quantitative targets to be achieved by 2017. These seem ambitious, and the Pacific Partnership may need to consider modifying them. Still, the achievements so far seem to have met donor expectations. The independent evaluation notes that the expanded World Bank role in many areas that are critical for private sector development and the synergies between the two trust funds supported IFC’s efforts, and vice versa.

The symbiotic relationship between Australia and New Zealand and the World Bank Group in the Pacific Islands is evident. Each challenges the other to do more and to do it better.⁵ The World Bank speaking up on the need for expanded migration and for long-term donor support may have come as a surprise, but it was welcomed as a significant contribution to the internal dialogue in Australia and New Zealand on migration and aid policies. Similarly, the two trust funds had a favorable impact on the level and quality of World Bank Group programs in the Pacific region. Whether this is a model that can or should be replicated elsewhere is a more difficult discussion. The risk for the World Bank Group is that these kinds of approaches undermine the integrity of the basic internal budget allocation process. Although the evaluation team recognizes this risk, it is difficult for any allocation system to adequately factor in the minimum critical mass required for effective operation in a

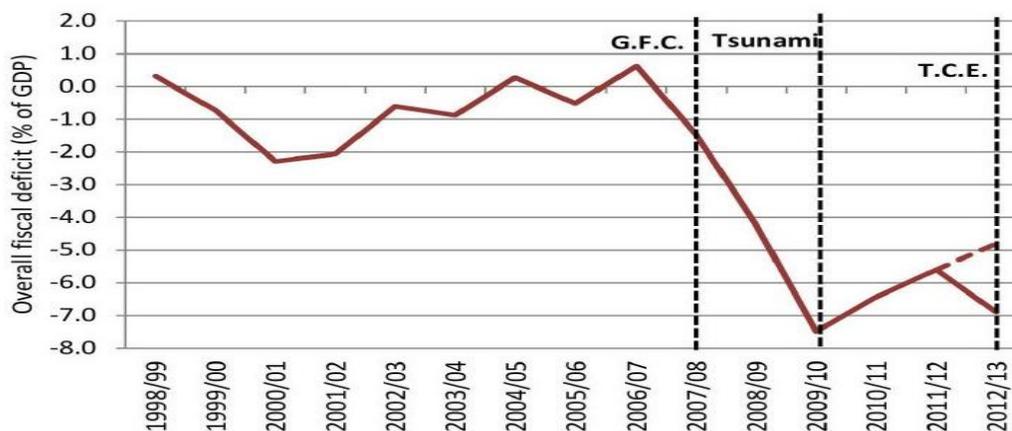
country as small as Tuvalu. Comparing the World Bank Group’s program before the trust funds with the present program shows that the World Bank can now operate at the scale required to define and achieve results in the field in these countries.

Assessing World Bank Group Assistance in Building Resilience in the PICs

STRENGTHENING ECONOMIC RESILIENCE

The PICs have large structural fiscal deficits. Public expenditures for PICs represent a multiple of their own revenues because they cannot capture the economies of scale in administration and service provision, despite a revenue effort comparable to that of other lower-middle-income countries. The heavy burden of financing public services in small states is even larger where services must be delivered to isolated island communities. Therefore, the PICs depend on aid flows to meet their current account deficits and finance virtually all their capital expenditures. Almost all donor support for the PICs is on concessional terms, but even highly concessional debt imposes a burden on repayment capacity when used for projects that have no direct financial returns, such as government buildings, hospitals, and roads. Therefore, sustainable debt management is a crucial part of the resilience challenge they face. However, the experience of the past decade suggests that resilience needs to go beyond capacity to service debt. The global crisis and earlier spikes in food and fuel prices required temporary relief for the less well off. Those events and frequent natural disasters suggest a need for governments to be able to act counter-cyclically to accumulate reserves or borrowing capacity during normal years that can be used during crises and disasters. Figure 3.1 shows the impact of external shocks on the fiscal deficit for Samoa.

Figure 3.1. Trend in Fiscal Deficit in Samoa (percent of GDP)



Source: IMF Staff Report 2013.

Note: GFC = global financial crisis; TCE = Tropical Cyclone Evan.

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Consequently, support for enhanced public financial management was an important part of the World Bank's program in the PICs. The role the World Bank could have in promoting effective public financial management was an important motivation for setting up the Pacific Facility. The strategy documents and World Bank programs show four objectives or focal areas of World Bank engagement with public financial management: raising revenues, improving public expenditure efficiency, encouraging sustainable fiscal management, and strengthening public financial management systems for enhanced transparency and accountability. Appendix G provides detailed evaluative evidence on the World Bank contributions under each of these objectives in the PICs. Appendixes B and D present detailed reviews of World Bank programs in Tonga and Samoa.

The evaluation assesses the World Bank Group's overall work on economic resilience in the PICs as moderately satisfactory. The World Bank effectively used the DPO instrument to help harmonize donor efforts and deepen the policy dialogue on macro-fiscal issues with the PIC governments. Outsourcing various infrastructure and social services significantly contributed to both streamlining the government and its functions and to promoting private sector activity. The World Bank also helped deepen the understanding and analysis of debt sustainability issues in the PICs. Furthermore, the World Bank helped create awareness of the potential for expanded fisheries revenues, and the twin health and fiscal benefits of increased tobacco and sugar taxation. However, the PICs still have some way to go in recognizing the importance of building a more resilient approach to fiscal management.

BUILDING ENVIRONMENTAL RESILIENCE

Pacific Island countries are among the most vulnerable in the world to natural disasters. Most face high exposure to cyclones, tsunamis, floods, earthquakes, and other hazards, and have limited capacity to manage the resulting risks.⁶ Damage from natural hazards is a significant drag on development, with a large portion of economic output consumed by reconstruction and rehabilitation costs. It also takes a significant human toll through deaths, injuries, displacement, and social impacts. The damage was substantial in recent years and was a major driver of macroeconomic performance.⁷ Climate change will worsen existing risks in the medium term, though coastal development, poor planning, and other factors also drive increased disaster exposure. Climate change may also have severe long-term impacts through sea level rise, coastal inundation, and salinization of groundwater, particularly for low-lying atoll countries such as Kiribati and Tuvalu, which may face existential threats.

The World Bank's strategy during the past decade was anchored by two pieces of analytic work: *Not If But When: Adapting to Natural Hazards in the Pacific Islands Region: A Policy Note* (2006), and *Acting Today for Tomorrow: A Policy and Practice Note for Climate and Disaster Resilient Development in the Pacific Islands Region* (2012). The 2006 study argued for a shift from disaster response toward proactive risk reduction and climate proofing, noting as constraints a range of perverse incentives in donor and client countries, poor country institutional arrangements, and overemphasis on physical investments rather than behavioral change and knowledge work. The 2012 study noted that fragmented project-based disaster risk management (DRM) and climate change adaptation initiatives have not reduced underlying vulnerability in a lasting way. It noted weak coordination between and within donor and country institutions and the need for improved access to climate and disaster data, and argued for mainstreaming disaster risk reduction and climate change adaptation in development planning. The 2012 study also reiterated the need to house DRM coordination in high-level institutional bodies.

The World Bank used a range of instruments to engage in DRM. The World Bank has a history of engagement in disaster response reconstruction and in risk reduction in Samoa and Tonga, primarily through investment lending operations, but also through Development Policy Lending in Samoa.⁸ These operations supported a mix of post-disaster reconstruction (aiming to build structures that will be more resilient), specific risk reduction investments, and capacity building for disaster preparedness and response capacity. The World Bank had a long running program on climate change adaptation in Kiribati – one of its first explicit climate change adaptation efforts. Otherwise, engagements on DRM were more recent. The World Bank had a key role in developing the ongoing Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), which supported a large amount of technical preparatory work and initiated a catastrophe insurance pilot in Samoa, Tonga, Vanuatu, the Marshall Islands and the Cook Islands. Furthermore, the World Bank established the Pacific Resilience Program, a new multi-country platform for engaging on disaster resilience, with investment lending operations in Samoa and Tonga, disaster risk financing components for Vanuatu and the Marshall Islands, and regional components through the Pacific Island Forum Secretariat and Secretariat for the Pacific Community. The World Bank hopes to extend this platform to other countries in the future. Because much of the portfolio is still active, it has not been evaluated. Appendix G provides detailed evaluative evidence on the World Bank contributions to DRM and climate change adaptation. A more in-depth review of the programs in Tonga and Samoa is in appendixes B and D.

The World Bank's support for the PCRAFI was its most innovative contribution to DRM. A series of investments to support development of databases for hazard and

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vulnerability information assisted in the development of country risk profiles, informed investment design decisions by donors, and allowed for the creation of insurance products. However, as of September 2015 the future of the PCRAFI is unclear. Donors have paid for premiums so far, and it is not clear that countries would value the coverage enough to pay their own premiums. Furthermore, the small market size may not be sufficient to make the PCRAFI sustainable as a standalone facility. Recent events occurring after this evaluation's timeframe have not been assessed.⁹

The recently approved Pacific Resilience Program establishes a regional platform for the World Bank's DRM engagement in the Pacific. The program focuses primarily on early warning systems and preparedness, along with risk reduction activities and the payment of PCRAFI premiums. The program has operations in four countries and regional activities implemented through regional institutions, with financing from the Pilot Program for Climate Resilience and Special Climate Change Fund. The Pacific Resilience Program intends to help consolidate resilience initiatives across the Pacific, but increased attention to DRM by other donors while positive has made this a more difficult task.

The World Bank's climate change interventions throughout the Pacific have largely focused on current rather than future climate risks. This is an understandable focus since countries face substantial deficits in adapting to current climate risks. Yet small island countries, especially low-lying atolls, face strategic questions from future climate change more than almost anywhere else in the world, and they need to consider anticipatory adaptation to long-term threats. For example, the World Bank could be encouraging internal debate about long-term migration options and the wisdom of development in places that may become untenable.¹⁰ World Bank country program strategies can have a disconnect between the acknowledgment of threat and the scale and type of interventions supported. The World Bank's strategy in Tuvalu notes the existential threat from climate change, but provides support for only water tanks and rainwater harvesting. The Kiribati strategy states that the core of the strategy will help with climate change adaptation, but the recent major interventions focus on fixing the road and improving water supply efficiency. The World Bank could also do better in addressing donor fragmentation in the climate change space and the stresses it places on country capacity by helping governments navigate the multitude of climate finance sources, while acting at a regional and global level to encourage consolidation of funds and greater donor coordination and harmonization for activities related to climate change. The World Bank is often seen as acting apart from regional institutions except when it needs them for implementation.¹¹ These institutions have important political functions that the World Bank could use to assist in the design of major operations.

The evaluation rates the World Bank's overall efforts to support environmental resilience as moderately satisfactory. Selecting DRM and climate change adaptation as core areas of engagement makes sense given the potential for disasters to derail other development efforts and the serious threats posed by climate change. Engaging with finance ministries instead of weaker line ministries helped raise the profile of DRM and began to affect broader government planning. Supporting a large portfolio in the region enabled the World Bank to build a critical mass of sectoral experts in the country office. Developing a multi-country platform through the Pacific Resilience Program may help to build economies of scale in project preparation and supervision, and facilitate cross-country learning and support. It is difficult to assess the overall impact of the program, much of which is still active and has not been evaluated. Furthermore, monitoring and evaluation systems have often been weak, focusing on production of outputs instead of assessing impact on disaster vulnerability. Experts and stakeholders hold a generally positive view of the World Bank's interventions in DRM. Government officials say that financing was crucial and technical expertise was of high quality.

STRENGTHENING SOCIAL RESILIENCE

This section examines five dimensions of social resilience in the PICs: labor mobility, health, education, gender equality, and social protection. Social resilience features modestly in the country strategy documents for the PICs. The Tonga Country Assistance Strategy has two outcomes related to education, and the Samoa, Kiribati, and Tuvalu Country Partnership Strategies have an outcome on increased temporary migration. There are no outcomes on health, gender equality, or social protection in the results frameworks. The World Bank had some coverage in all these areas. Labor mobility was a major thrust of the World Bank's work and policy dialogue with governments. Though significant in the period's earlier years, the health program was scaled back later, partly because of less demand from governments. The World Bank saw itself as a niche player in education for much of the period. Support for gender equality is through mainstreaming it in the World Bank's investment operations, and there was analytic work on social protection. Appendix G provides analysis of World Bank support under these five topics. A more in-depth review of the programs in Tonga and Samoa in appendixes B and D assesses the relevance and impact of these interventions.

The World Bank's most important contribution to social resilience was its involvement in the migration issue since 2008. The Bank provided Australia and New Zealand with knowledge about temporary migration programs worldwide. This was instrumental in giving the authorities confidence to proceed with the Recognized Seasonal Employee program. The World Bank provided advice on

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preparing workers for migration – including development of an orientation course for workers – and supported monitoring and evaluation of the program. Overall, the benefits were substantial, and a significant share of remittances went for children’s education. Still, the migrants work in activities that do little to build their capacity for skilled employment or to set up enterprises when they return. In recognition of this, both Australia and New Zealand have set up add-on skills training that allows workers to receive formal qualifications.

World Bank engagement in the health sector focused mainly on efficient delivery of services, with some attention to budgeting and financing in the sector. The World Bank’s role was to identify gaps, particularly in health financing and public financial management, and provide analytic work on those issues. Management of the sector improved, but progress is slow and erratic. World Bank support for strengthening tertiary care in Tonga continued to improve service delivery. In Samoa, the World Bank helped split planning, management, and operational functions of the sector to enhance service delivery. The World Bank used DPOs to support improvement to the Tuvalu Medical Treatment Scheme, a tertiary level care program, and the savings contributed to an increase in budget allocations to primary and secondary health care. The main area of continuing concern on health issues for the PICs is noncommunicable diseases. World Bank analytic work in this area contributed to helping government understand the impact of noncommunicable diseases. The World Bank is working with the World Health Organization, Australia, and New Zealand to support a way forward on the issue.

World Bank support in the education sector focused mainly on primary education. The World Bank helped introduce grant mechanisms early in the period that allowed for funding decisions at the level of each school. Through the Education for All Fast Track Initiative and in conjunction with the Australian Agency for International Development (AusAID) and New Zealand, the World Bank also supported reading ability assessments in the early grades of primary education. IEG found the \$5 million Tonga Education Support Project was highly relevant, but unrealistically broad in its objectives. It rated the achievement of outcomes unsatisfactory. Presently the World Bank, with support from Australia, is providing assistance through the Pacific Early Age Readiness and Learning project (PEARL) funded by the Global Partnership for Education and the Australia Aid Program, a program that is being implemented in Tonga and Samoa. The project works at the policy and intervention fronts to improve efficiency by improving the students’ readiness and preparedness early in life, when impact is greater.

Donors said the World Bank could and should have done more to support education policy reform in the PICs. They expressed some concern about the state of education

in the region. Improving the quality of education access to the rural/outer islands remain a challenge for most PICs. Education follows a post-colonial model and is oriented toward public sector jobs and urban areas. More needs to be done to engage in dialogue with PIC governments about the future of education. In the donors' view, the World Bank needs to provide strategic leadership in this area. The Bank could build on the analytic work done (notably on teaching, learning, school readiness including in remote areas) through the Rural Education and Development project and PEARL interventions to look at the long-term prospects of education and provide guidance in this area. It would be worth exploring Bank-IFC engagement to provide the skills needed¹² for the development of tourism, agriculture, fisheries as well as providing better preparation for temporary and permanent migrants.

The World Bank did not provide any direct lending for social protection in the PICs, but it supported technical assistance in Fiji, undertook some important analytic work and provided support for good policies through its DPOs. The Fiji Social Protection Technical Assistance improved the targeting and efficiency of the country's social protection programs. The 2010 DPO in Samoa supported a government decision to cushion vulnerable households from the impacts of the food and fuel crisis, the global economic crisis, and the 2009 tsunami. This was done through accelerating progress on plans to improve access to education by implementing a waiver of primary school fees at all public, special, and missionary schools (World Bank 2010). In Tonga, a World Bank study provided the impetus for adopting a lifeline tariff for electricity to support low-income households (Adelman et al. 2015).

World Bank engagement on gender in the PICs is perceived as limited. Although gender gaps in women's access to health and education were closed in the region, women do not have land ownership rights in a number of countries, which limits their economic opportunities. Women are also underrepresented in parliaments and civil services, and domestic violence is still the most pervasive and serious gender issue in the region. Although the World Bank produced sound analytic work (a Tonga Gender Investment Climate Reform Assessment in 2010, among others), the work was not always translated into operational work. One notable exception is a recent \$400,000 grant for improving services for victims of domestic violence in Kiribati. In its infrastructure projects, the World Bank tried to ensure that gender issues are considered in the design. In Tonga, for example, the electricity authority, under a Bank-supported project, is employing women as linemen in the outer islands. The head of maintenance is a woman in two of the three outer islands. IFC investments on the business environment for women are seen as a particularly valuable contribution of the World Bank Group.

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There is a disconnect between the World Bank's efforts to support gender equity and the perception of donors. The evidence of World Bank supported projects in the PICs, reviewed or visited by the Evaluation team, is that gender has been effectively mainstreamed in the program. The problem is that while the default mode for the Bank is ensuring that its projects and programs factor gender into their design, this rarely helps to address issues such as domestic violence. The evaluation team's hypothesis is that the Australian authorities' frustration comes from the World Bank's failure to propose concrete programs and approaches to address the remaining gender gaps in the PICs. Going forward, in line with the Bank's new strategic approach to gender mainstreaming, the Bank needs to define results in this area and gear programs to their achievement.

The social agenda was not a major focus of the World Bank's work in the PICs. The World Bank intervened selectively using a mix of DPOs, trust funds, and analytic work in areas where countries specifically requested help, or where funds were available through Bank-executed global programs (such as Education For All). Some staff and donors view this as a reflection of selectivity and characterize the World Bank as a niche player in health, education, and social protection. Others argue that the World Bank could and should have done more, and that the small World Bank program reflects the lack of grant funding (because PIC governments are reluctant to borrow for the social sectors) and a relatively weak World Bank strategy and program in this area, which did not garner government or donor support. Based on its discussions and the evidence, the evaluation team takes the former view. Lack of strategic focus in a sector does not prevent the World Bank from engaging periodically when there are resources available from a global program, or when asked to do so by governments or donors.

The evaluation rates the World Bank's contribution to social resilience as satisfactory. The World Bank's significant contribution to labor migration and its attendant benefits merits a highly satisfactory rating. Its support for gender is fully consistent with the World Bank's gender strategy during the period and is a relatively good practice example. Donor criticism reflects the need for updating the Bank-wide approach, which publication of a new gender strategy in December 2015 accomplished. The basic approach of selective interventions in health and education was appropriate, but the quality of these interventions, such as in the Tonga education project, was not adequate. Selectivity at the strategic level does not release the World Bank from the obligation of meeting the narrower objectives of its specific interventions. The need for the World Bank to raise its game in health and education is particularly important, since it is likely to increase its involvement in these areas in the future. This reflects the increased emphasis the World Bank is placing on

noncommunicable diseases, and the need for a strategic approach to education policy in the PICs.

Assessing World Bank Group Assistance in Enhancing Competitiveness and Private Sector Development in the PICs

World Bank Group support addressed several aspects of the private sector agenda the PICs are pursuing. The World Bank Group's most important contributions to private sector development resulted from its involvement with infrastructure (transport, energy, and ICT). Selective support also sought to enhance the enabling environment (notably through DPOs). The World Bank Group was opportunistic in the financial sector and focused on piloting different approaches, notably to provide underserved people with access to basic financial services through the Pacific Microfinance Initiative. These approaches include targeted support to women's groups in Tonga and Samoa, supporting BSP to foster mobile banking for easier access to transfers (notably in rural areas), and to launch a small and medium enterprise (SME) risk share facility. The World Bank Group also designed programs in some PICs to help develop their most promising areas for private sector development, which are fisheries, tourism, and agribusiness. Appendix G provides detailed evaluative evidence on the World Bank Group contributions under each of these objectives in the PICs. Appendixes B and D present detailed reviews of World Bank Group programs in Tonga and Samoa.

PROMOTING A BUSINESS-FRIENDLY ENVIRONMENT

The private sector's importance in the PICs was a controversial topic, both in the islands and in the donor community. The PICs had little tradition of private sector activity, and in some cases, private enterprises were seized at independence (such as New Zealand-owned commercial agriculture in Samoa). The domestic market's small size and the distance from international markets limit opportunities for profitable private investment. The uncertain business environment tended to attract foreign businesspeople who wanted to exploit market distortions and had little interest in bringing investment into the countries. The study on 'Pacific Futures' asserted that there should be a level playing field, but saw little likelihood of private investment except in tourism.

A consensus seems to be emerging that "bending the growth curve upward" will require SMEs to become more prominent in the PICs. A number of countries have evolved to the point where there is sufficient entrepreneurial capacity to take on an expanded role, and remittances can provide the seed capital needed. However, the private sector faces a difficult environment, and the constraints must be addressed.

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A number of regional institutions, led by ADB, are working in this area. The recent Systematic Country Diagnostic gives considerable prominence to private sector development and discusses in some detail the PICs' performance on the Doing Business Indicators and the nature of the constraints.

IFC and ADB worked with governments to improve the enabling environment and lower the cost of doing business while the World Bank focused on the regulatory environment. ADB and IFC succeeded in Tonga to the extent that the country is now highly rated on the ease of doing business. The World Bank supported independent regulators in energy, telecommunications, and water. Land ownership issues are critical for business development and a particularly difficult problem in PICs, where local chiefs control land not owned by the state. Disputes about land delayed one IFC project by one-and-a-half years. Leasehold arrangements are in place in some cases, but they tend to be short and therefore do not encourage improvements or investment.¹³ The World Bank conducted some analytic work in Vanuatu and the Solomon Islands aimed at finding practical ways to use leasehold arrangements to provide the surety needed for investment.

STRENGTHENING THE FINANCIAL SECTOR

Access to finance is still limited in the PICs. In 2013, only 28 percent of the population in Tonga had access to financial services, 19 percent in Samoa, and 39 percent in Fiji. Microenterprises and SMEs in the PICs identify access to finance and access to markets as key constraints. Financial institutions identify lack of collateral and information asymmetry as key limitations they face in expanding lending to SMEs. Getting credit is still difficult, publicly available credit information is limited, and insolvency resolution can be costly and time-consuming. Challenges of customary land ownership (which accounts for about 80 percent of all land in Samoa, for example) and an inability to transfer ownership also impede access to finance.

The Pacific Microfinance Initiative developed by IFC and AusAID aimed at promoting innovative ventures and broadening access to basic financial services for underserved people in the Pacific region. The Pacific Microfinance Initiative used performance-based grants through financial institutions to entrepreneurs, but the initial experience provided mixed results with little take-up and difficulty building a pipeline of viable projects. One successful initiative, the South Pacific Business Development Foundation, was a program to support women's groups in Samoa and Tonga. The Pacific Microfinance Initiative also supported a mobile banking initiative that helped reduce the cost of transferring money, as part of a broader effort by the World Bank Group to reduce the costs associated with remittances.

IFC was instrumental in supporting banking development and building banks' capacity to lend. The support contributed to a major expansion of BSP that enabled it to compete effectively with the ANZ Bank in the region, focus on small business, reach unbanked people, and increase the rates of banking among women. The World Bank Group launched an SME risk share facility with BSP in Papua New Guinea in 2011. IDA supported the program as a guarantor and provided technical assistance to help SMEs prepare business and marketing plans. Another World Bank intervention supporting commercial bank funding comes from a Global Environment Facility-funded program in Fiji supporting renewable energy. The program, which provides guarantees to help banks overcome some of the risks of lending to small enterprises, resulted in an increase in lending and numerous village-based projects that will help achieve the goal of 100 percent electricity access by 2020. Similar approaches in other islands were less successful.

The financial sector has not been part of the World Bank's core strategy in the PICs. World Bank efforts were selective and opportunistic. Efforts thus far focused on piloting different approaches. Both the BSP risk sharing facility in Papua New Guinea and the Fiji renewable energy program show that the World Bank can intervene effectively in the sector by providing guarantees to help commercial banks overcome some of the perceived risks of lending to small enterprises. These programs could provide models for a strategic approach to financial development going forward. The World Bank is committed to promoting greater access to banking, so the focus on the financial sector in the PICs is likely to increase. A stronger focus, coupled with the need for increased support to SMEs, will require a more strategic approach going forward.

IMPROVING INFRASTRUCTURE SERVICES

The infrastructure investment required in the PICs is enormous. Infrastructure development in the Pacific Islands increased significantly in recent years, but accessing sufficient and appropriate financing is still challenging, and maintenance financing is also an issue. A recent PRIF study estimated that an average of 6 percent of gross domestic product (\$1,266 million per year) is required to maintain existing infrastructure (PRIF 2013). Most PICs do not sufficiently plan for the maintenance of completed infrastructure projects, resulting in fast deterioration and the need for rehabilitation – the PRIF calls this the build-neglect-rebuild paradigm. Provision of infrastructure services is also difficult because of the PICs' vulnerability to natural disasters and the high costs of linking small and dispersed communities to major population centers, especially when the costs of doing so are often not recoverable from these communities.

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The infrastructure sectors in the PICs have a major donor presence coordinated by PRIF since 2008. The multi-donor partnership is a financing mechanism that blends PRIF grants, multilateral loans, and private sector equity and loans. It also offers advisory services and technical assistance (paragraph 3.16).

The World Bank Group infrastructure focus in the PICs concentrated on areas where it could add value (transport, energy, and ICT) and opted to exclude water and urban development. The PICs' infrastructure needs require large amounts of financing, and the World Bank and ADB have been major players. The World Bank is also valued for its technical expertise and its ability to promote reforms in infrastructure policies, which are challenging and difficult for bilateral donors to influence. In this regard, the World Bank promoted policies that ministries often viewed as counter to their short-term interests, such as downsizing and focusing attention on policy and regulation instead of on carrying out investments directly. In general, the World Bank has tried to get governments to focus more on results and on the broad impact for the investments it supports on issues such as road safety, gender equality, and market access.

Support for public-private partnerships (PPPs) was an important aspect of World Bank Group support. IFC focused its infrastructure support on PPPs, and the World Bank supported PPPs through a condition in its Samoa DPO that required approval of a PPP policy framework. IFC worked with the Samoan government to identify potential PPP transactions. Efforts are still at an early stage, and except for the telecommunications sector, results have been limited so far.

Aviation Transport

The aviation sector, which is essential to tourism and migrant labor, became an important part of the World Bank program in the PICs. The World Bank provided technical assistance for sector strategies and master planning and conducted a needs assessment and designed an aviation program to help countries finance infrastructure related to runway rehabilitation, terminals, and firefighting equipment. Countries had to comply with some of the measures enacted by the regional aviation regulatory agency (the Pacific Aviation Safety Organization). The World Bank program also supports risk mitigation with the development of an Insurance Asset Reserve Fund and a design for remedial actions after a natural disaster. The program started in Tonga (where the World Bank was engaged since 2000 to help corporatize the airports,) and gradually spread to Kiribati, Samoa, Tuvalu, and Vanuatu, which allowed the World Bank to access the regional IDA allocation.

A particularly important part of the World Bank's aviation support is the use of a single Technical Fiduciary Services Unit (TFSU) for all five countries. The TFSU, based in Tonga, is an implementing advisory unit. By combining procurement packages for different countries in some cases, the project implementation unit could contract on more favorable terms than it would have if countries operated individually. Despite this success, the program shows the difficulties of adopting a multi-country approach. Although it is working well for Tuvalu, authorities in Kiribati would prefer the World Bank to work entirely through their own agencies. Some officials in Samoa also expressed concern about what they saw as an additional layer of bureaucracy in implementing the project.

Road Transport

The PRIF characterized the traditional approach to roads in the PICs as build-neglect-rebuild, a situation the World Bank tried to address through a new approach to road maintenance in the region. The approach is a key part of World Bank transport support in Samoa and Tonga, and it relies on outsourcing. The public works department in Samoa downsized, and outsourcing is now the default mechanism for road maintenance. The same approach is now being attempted in Tonga, but there is ongoing tension over the approach with the Ministry of Public Works. In Kiribati, the World Bank is supporting a project to set up microenterprises to handle road maintenance, but progress has been slow because of the entrepreneurs' limited business and management skills.

Two major roads projects encountered difficulties: the Samoa West Coast Road Project and Kiribati Road Rehabilitation Project. Available funding under the West Coast Road Project in Samoa was insufficient for full rehabilitation of the main West Coast Road, so the project needs a Government decision about priority sections to rehabilitate. The Kiribati project aims to rehabilitate the country's main lifeline at a cost of \$50.6 million, of which the World Bank approved just \$35 million. The difference is due to cost inflation for materials, failure to account for the project's remoteness, and plans for a higher standard of road than was originally planned.¹⁴ Progress on the project, rated unsatisfactory for much of the implementation period, recently improved, but maintenance of the road is still a concern.

Information and Communication Technology

Basic phone service access and affordability improved substantially in the past decade, particularly through creation and growth of mobile service. However, broadband Internet access is lagging and prices remain high. Most PICs liberalized their telecommunications markets, and made policy and regulatory reforms, which cleared the way for private companies to enter the market with lower-cost mobile

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services. Consequently, the number of mobile cellular subscriptions per 100 increased from 20.2 in 2006 to 74.4 in 2014. Broadband Internet access grew more slowly. Depending on the country circumstances, the slower growth can be due to high international bandwidth costs and low bandwidth capacity in countries that depend on satellite services, high international bandwidth costs associated with regulatory issues, high user device costs, or insufficient awareness (particularly among remote populations).

Telecommunications may be the area in which synergies between the World Bank and IFC made the largest contribution to development. The World Bank focused on the enabling environment, providing advice on liberalizing markets and support for new legislation. It also provided support for cable infrastructure after the markets were liberalized. IFC invested \$170 million to promote new entrants to the Pacific telecommunications market and more than \$500 million in the sector in Fiji, Papua New Guinea, Samoa, and Vanuatu. The World Bank is now working with Kiribati, one of the least connected countries in the world, to liberalize its market and introduce competition (through its first DPO). It is also supporting a telecommunication and ICT project that aims to strengthen the legal, regulatory, and institutional environment.

Energy

The World Bank is addressing major issues in the energy sector in the PICs – access, affordability and reliability – by helping to develop strategies and engineering master plans, making investments, and through institutional development and capacity building. The World Bank supported preparation of a comprehensive energy road map in Tonga that establishes targets, defines the necessary regulatory frameworks, identifies the role and prospects of renewable energy, and reviews the petroleum supply chain. The road map was important to establishing the potential of renewables and the cost advantages of solar and wind power. Tonga set a target to have 50 percent of its energy come from renewable sources by 2020. Vanuatu requested a similar road map, which was prepared in 2011–12 and built on earlier World Bank work on energy regulation. The Vanuatu Rural Electrification Project is looking into connecting systems for micro and mini-grids to increase access. The World Bank had limited engagement on energy in Samoa, where ADB helped the government create a road map. In Fiji, the World Bank has an active project for sustainable energy that has been highly successful. The loans resulted in numerous village-based projects in solar power production. The World Bank’s engagements in the Federated States of Micronesia, the Marshall Islands, and Palau related mainly to petroleum supply. The Federated States of Micronesia has a \$14 million project in the energy sector to do a comprehensive master plan with a focus to more efficiently

manage the sector, bring down costs and move to renewables. The Bank has had no engagement in the Marshall Islands, apart from a scoping mission to look at an energy DPO a few years back.

The evaluation rates the World Bank Group's infrastructure support in the PICs as satisfactory. Even without support for urban and water (which was specifically excluded from its support), the World Bank has a substantial footprint in infrastructure in the PICs – transport and ICT together account for more than half of the World Bank's total commitments in the PICs in FY06–15. The World Bank made a significant financial contribution and a major contribution to connectivity. It helped expand capacity, build resilience into an increasing proportion of the infrastructure of the PICs, and contributed to moving the relevant institutions in the PICs from a colonial force account mentality to a more modern approach based on contracting and outsourcing to the private sector.

SUPPORTING SECTOR LINKS AND VALUE CHAINS FOR PRIVATE BUSINESS: SUPPORT FOR FISHERIES, TOURISM, AND AGRICULTURE

Fisheries, tourism, and agribusiness are the most promising areas for private sector development in the PICs. The situation differs from one country to another. The atoll islands are dependent on fisheries and have limited potential in other areas. By contrast, Fiji already has substantial tourism and agribusiness, with potential for further expansion. Both fisheries and tourism have large regional dimensions and should be approached through coordinated efforts. Agricultural development¹⁵ is particularly challenging because of how it interacts with traditional land tenure arrangements (especially in Fiji) and the lack of well-developed value chains linking domestic farm production to local or export markets.

The World Bank Group's work on fisheries consisted of analytic work and regional fisheries management, and IFC support for the development of the fish-processing sector. The World Bank used IDA and Global Environment Facility funding to produce an analysis of the PICs fisheries economies (2009) and an engagement strategy (2012). It provided nearly \$40 million in late 2014 for the Pacific Islands Regional Oceanscape Program, which will enhance management of fisheries resources. The 2013 Kiribati DPO included approval and implementation of a national fisheries policy.

All of the significant World Bank Group activity in tourism was by IFC, which provided support for PPPs and for promoting regional tourism. An IFC-facilitated PPP for the Otintaai Hotel on Tarawa, Kiribati mobilized \$2.25 million for rehabilitation. IFC also supported training and promoted dialogue on priorities for tourism development. In FY09, it undertook a diagnostic of the impediments to

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tourism development in five countries. IFC launched the Pacific Regional Tourism Initiative in 2012, focusing on Samoa, Tonga, and Vanuatu. The project aimed to mobilize \$15 million in new infrastructure investments and \$30 million to support up to 4,000 new tourist arrivals over three years in the target countries, but has yet to meet its ambitious goals.

Agricultural development is a growing interest in the PICs, and the World Bank supported projects in Samoa. The Bank has financed the Agriculture and Fisheries Cyclone Recovery Project in Samoa, from 2013 to 2016, which has sought to restore the production capacity of farmers and fishers affected by Cyclone Evan, and to mainstream disaster resilience/risk management into the Ministry of Agriculture work. The World Bank is now supporting the Samoa Agricultural Competitiveness Enhancement Project (SACEP), designed to improve productivity, quality, and take greater advantage of market opportunities. The focus is on supporting increased livestock and fruit and vegetable production by semi commercial farmers. The key is to develop links with companies that currently import raw and processed foods to increase the use of domestic suppliers. If this is accomplished, the project will provide an important model for future development.

World Bank Group support for these three key commercial sectors (fisheries, tourism, and agribusiness) presents a mixed picture. The World Bank and IFC collaborated well in the fisheries and tourism sectors, but somewhat less so in the agriculture sector to date, though it is too soon to assess the outcomes. Perhaps this reflects weaknesses in the projects' designs and in efforts to promote agricultural value chains. This area clearly needs a more coordinated effort. The evidence from the evaluation team's visit to project sites in Samoa suggests that the project will be particularly difficult to implement. The marketing arrangements are weak, and farmers lack a commercial orientation.

Overall, the evaluation concluded that the World Bank Group has not yet adopted a strategic approach to its support for private sector development. The World Bank and IFC have been opportunistic in these areas so far – progress has more often been a byproduct of supporting other objectives than a direct effort to promote private sector development. Going forward World Bank programs supporting education, health, and infrastructure should be viewed in the context of the need for developing small enterprises and attracting foreign direct investment. Although World Bank and IFC programs are broadly in sync, they are far from achieving the levels of systematic coordination needed to achieve synergies in enhancing the investment climate, getting more benefit from remittances in promoting financial sector development and enhancing investment in micro, small, and medium

enterprises, in promoting the development of the local contracting industry, and in adopting a perspective of the PICs as a regional production base and market.

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¹ The ceiling for shopping for civil works is higher at \$1 million, and consultant qualification selection (CQS) is \$500,000. With these thresholds, the majority of contracts in the PIC's are procured through shopping (goods/works) and CQS (firms for consultancy). Therefore, the procedures for shopping/consulting are not more complex than those of the countries' own system.

² In the case of the Apia terminal in Samoa, the World Bank engaged with Chinese contractors on meeting Bank's environmental and social safeguards in work on the airport (see appendixes D and H).

³ Establishing the regional office for the Pacific region headed by a country director, followed the recommendations of a joint World Bank–Commonwealth Secretariat Task Force, which led to the World Bank issuing its 2000 regional strategy.

⁴ The World Bank and Asian Development Bank published tenders for the position of liaison officer, but were not satisfied with the quality of applicants.

⁵ One donor representative stated, "The World Bank is sometimes too deferential to the Australian and New Zealand perspective. There is room for a bolder approach, more of that good old World Bank arrogance. Is the World Bank becoming too comfortable in the Pacific?"

⁶ The risks posed are different across countries – countries closer to the equator are facing less risk from cyclones, and atoll islands are facing relatively more severe risk from drought.

⁷ Damage from a tsunami in 2009 cost roughly 22 percent of gross domestic product (GDP) in Samoa, and in Tonga roughly 2 percent of GDP. Damage and loss from Cyclone Evan in 2012 cost an additional 28 percent of GDP in Samoa and 2.6 percent in Fiji. Cyclone Ian's damages in 2014 cost about 11 percent of GDP in Tonga, and Cyclone Pam in 2015 caused damage and loss of at least 64 percent of GDP for Vanuatu. World Bank country risk profiles produced in 2011 calculate annual average estimated losses from natural disasters as a percentage of GDP, ranging from 0.8 percent for Tuvalu to 6.6 percent for Vanuatu.

⁸ The World Bank engaged in disaster risk management in Samoa in 2004, 2007, 2011, 2013, 2014, and 2015, and in Tonga in 2002, 2011, 2014, and 2015.

⁹ According to Bank staff, following the COP 21 in Paris in 2015, donors have committed more than US\$35m to establish a multi-donor trust fund that will support premium payments for the PCRAFI. This significantly increases the medium term sustainability of the program.

¹⁰ Staff indicated that this is a dialogue that will be accelerated through the *Pacific Possible* ASA and continued through the Pacific Labor Mobility Programmatic AAA.

¹¹ For example, the Bank has little engagement with SPREP, the main regional environmental agency, and has engaged with SPC largely on a limited basis where it possesses specific technical skills. The Bank is not heavily engaged with regional climate change discussions among donors, which are centered in Suva.

¹² Education in the Pacific does not only become relevant when it's linked to skills and the labor force. A significant portion of the skill deficit comes from poor cognitive and non-cognitive skills that were not developed in the early years, from poor quality of education and inefficient system management – that translates into poor learning outcomes, repetition, drop outs--, and from weak coordination and connections between the education system and the labor market.

¹³ Even in the case where land leases can be issued for long period of time (75 years in Vanuatu, or even longer in Papua New Guinea), there are significant problems with the way those leasing deals are transacted and inequities associated with them have been a major source of grievance for landholding groups. Poor lease administration processes often privilege a small number of 'men' acting as custom owners/middle men and fail to deliver long term benefits for the larger landholding group which has legitimate interest in the land. Customary landholding groups are often disadvantaged in the deal making process as they are poorly informed about the land leasing process, entitlements, etc., and are unable to negotiate optimal outcomes. Investors are also poorly informed about the land leasing processes and often rely on middle men in their engagement with landholder groups, further reinforcing inequitable outcomes and fueling local disputation. There is often a lack of checks and balances on how leases are regulated, how compensations are determined, and poor enforcement of lease provisions.

The small size of the Pacific Islands and populations also complicates the nature of those deals as individuals often wear multiple hats with Ministers and Government officials often having a conflict of interest over a piece of land subject to investment acting simultaneously as land owners, government facilitators, and middle men.

The other complicating aspect of land issues in the Pacific is that land disputes are never brought to finality – even if there has been a court case decision, there is not always an acceptance at the local level and disputes re-emerge over time and manifest in multiple forms: (i) within the land owning group over land rights; (ii) within neighboring landholders over land interests or benefits from the development; (iii) between landholders and government - over compensation or the exercise of regulatory authority; or (iv) between landholders and outside investors - over the terms of lease agreements and unfulfilled promises.

¹⁴ The team acknowledges that this was one of the first ever IDA projects in Kiribati, which has no in-country road industry or programs that would have help to provide a more accurate costing.

¹⁵ Lack of financing and access to markets are important difficulties to agriculture expansion. Beyond these constraints, the problem of agricultural development in the region is structural in nature, linked mainly to high concentration of the population in rural areas; to the lack of appropriate technologies and extension support; to low literacy rates; to cultural norms; and to the perception of agriculture more as a default livelihood rather than a farm enterprise with growth and profitability objectives.

4. Learning and Recommendations

Conclusions

The core of the World Bank's strategic engagement with the PICs during the period was to support the institutional changes needed for shared and more rapid growth. World Bank documents do not articulate this clearly, but this is what evolved in practice. The focus was less on achieving a specific quantitative target in a four-year period and more on helping to build the institutions needed for sustainable long-term growth. Therefore, the objective in transport and health was to reduce overstretched ministries' burden of managing road maintenance and health services; in agriculture, to promote the shift from subsistence to commercial farming; in energy and telecommunications, to reduce government monopolies and create space for public-private partnerships; and to build a margin for resilience to natural disasters into new infrastructure investment. It will be important for the World Bank's new Country Program Framework to articulate the centrality of these institutional objectives.

The evaluation did not use the standard approach to rating the program in the PICs. IEG generally rates country programs against the results frameworks of the strategies covering the period. This is not a mechanical process, especially since the coverage of strategy documents is generally much shorter than the evaluation period. Therefore, IEG accounted for the evolution of the World Bank's strategic approach and gave weight to the outcomes reflecting longer-term strategic trends. Unlike the OECS countries (IEG 2016), for example, no regional strategy covers the whole period for the PICs, and there was a major discontinuity in the partnerships with Australia and New Zealand midway through the period. The evaluation, therefore, attempted to triangulate among three sources of information:

- first, desk studies of the region and the pattern of outcomes in areas reflecting World Bank support
- second, interviews with the donor community, particularly officials of the Australian and New Zealand governments, who are familiar with the World Bank's programs and have made their own assessments of the outcomes
- third, an in-depth assessment of outcomes relative to the Country Assistance Strategy (FY11–14) in Tonga and Country Partnership Strategy (FY12–16) in Samoa and their related results frameworks, including interviews with government and civil society, and visits to project sites to talk with beneficiaries (appendixes B and D).

The evaluation rates the relevance of the World Bank's program in the PICs as satisfactory. In the context of the PICs, relevance is not just about whether the World Bank did the right things in the sense of supporting activities that were of high priority for growth, shared prosperity, and poverty reduction. The World Bank would have had a hard time missing the key development targets, given the limited range of options in the PICs and the relatively large scale of its program. In this context, the more important question is whether the World Bank's program reflected its comparative advantages in raising difficult policy issues, undertaking key analytic studies, supporting regional approaches, and promoting effective donor coordination. The evaluation concurs with the evaluations carried out for the governments of Australia and New Zealand, and the statements by both government and donor interlocutors of the high degree of relevance of the World Bank program based on the criterion of comparative advantage.

The selectivity of the World Bank program enhanced its strategic focus and contributed to its relevance and effectiveness. The decision to limit World Bank social sector involvement to areas in which governments requested it or where global trust funds were available and to leave support for the water sector and urban development to other donors enabled increased depth of World Bank involvement in other key sectors. The difficulty that World Bank management faces in being selective is evident—in each of the areas in which the World Bank was less active, donors with programs in those areas complained to the evaluation team about the World Bank's failure to engage.

The evaluation rates the effectiveness of the World Bank's contribution to development of the PICs as satisfactory. This rating reflects a number of approaches. The starting point was a review of the outcomes included in the results frameworks for Tonga (FY10–14) and Samoa (covering part of the FY12–16 Country Partnership Strategy). The analyses suggested a rating of satisfactory for the Tonga program, and a moderately satisfactory rating for the Samoa program for the period covered by the Country Partnership Strategy (CPS). However, for the full evaluation period, the rating for Samoa was raised to satisfactory, reflecting important outcomes through World Bank interventions in health, transport, postal services, and telecommunications in the years before FY12. Desk studies of evaluation materials produced or commissioned by the World Bank and by the Australian and New Zealand governments also contributed to a rating of satisfactory. Perhaps most important, the in-depth interviews with donors and with government officials during the evaluation mission indicated a set of transformational institutional outcomes that were not fully reflected in the various strategy documents. The interviews suggested a high degree of attribution of these outcomes to the World Bank program. These outcomes include:

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- The temporary migration programs of New Zealand and Australia reduced poverty and indirectly helped provide resources needed to fund public services and support recovery from natural disasters.
- Introducing competition into the provision of mobile telecommunications and supporting underwater cables to promote better quality and faster access was a major contribution to connectivity.
- Awareness was increased among governments and donors of the need to build environmental resilience into investments in infrastructure.
- Persuading some governments to outsource road maintenance contracts to the private sector instead of carrying them out through force account helped promote more efficient use of public resources, better road management quality, and perhaps most important, development of the private sector.

Missteps occurred at the project level. The analysis of the Tonga and Samoa operations suggested two areas that contributed to problems. The first is occasional shortcomings in implementation arrangements in places where capacity is inadequate to support the relatively ambitious World Bank program (whether through the need for more presence in the field, better quality control of consultants, or better coordination with successor task team leaders). The second is the World Bank's uncertainty about how to address the land issue in the PICs and the tendency to deal with this as a new problem every time it comes up instead of trying to anticipate the issue and discuss systemic approaches with other donors and governments.

It is important to reiterate the role the Pacific Facility and the Pacific Partnership had in supporting the level and quality of World Bank Group support for the PICs. The combination of generous budget allocations and increased IDA availability created the necessary conditions for an effective World Bank presence in the region. They are not sufficient conditions, though, and the quality and commitment of World Bank management and staff during the review were obviously crucial to the achievements. This is an important lesson for the World Bank to take to heart when comparing programs in the small states of the Pacific with some of the other small states reviewed in this cluster evaluation. Although there are downsides to the World Bank accepting such partnerships – they can skew allocations and lead to the World Bank modifying its policy positions in deference to the donor – the evaluation found no evidence of any such consequences of these partnerships.

Lessons

The World Bank Group has potential to add value to the PICs in a number of ways. Although the following list may apply to most World Bank clients, the framing of these issues and their emphasis differs by country category, and the differences can be significant for small states. The World Bank can:

- Raise difficult policy issues that other donors may feel constrained to address.
- Bring a comprehensive package of global knowledge and technical skills to the table.
- Provide additional financing for high-priority development programs.
- Strengthen the regional dimension.
- Provide leadership for donor efforts to achieve coordination that is more effective.
- Support private sector development through the synergies of the World Bank working on country policies and IFC's ability to work directly with private entrepreneurs (a special potential).

RAISING DIFFICULT POLICY ISSUES WITH GOVERNMENTS

The sense among interlocutors is that the World Bank met their expectations regarding engagement in the policy dialogue with governments. Several praised the World Bank's willingness to deliver the messages, to "play the bad cop." This does not seem to come at the expense of close, supportive relationships with governments. One Minister of Finance said, "The World Bank has been flexible when changes were needed on project design, and the policy reforms supported by the budget support operations have been helpful. There is a much more genuine policy dialogue now. The World Bank is taking more care to explain to us why certain changes are needed and what their impact would be, and is more responsive to our explanations of the political economy factors associated with change."

BRINGING GLOBAL KNOWLEDGE AND TECHNICAL SKILLS TO THE TABLE

Both donors and governments specifically cited the quality and importance of the World Bank's analytic work. From the donor perspective, the World Bank's capacity to identify and manage key technical skills is of particular importance. In the governments' view, the World Bank's role in providing just-in-time advice is particularly appreciated. According to one donor official, "The World Bank's analytic work is excellent and plays a very important role. For example, there was a bill in the house to set up a trust fund. The Minister e-mailed the World Bank, which provided a brief recommending against the setting up of extra-budgetary funds."

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The one concern expressed in this area related to the uneven quality of consultants recruited by the World Bank and the need for the World Bank to clearly define expectations and exercise quality control.

PROVIDING ADDITIONAL DEVELOPMENT FUNDING FOR HIGH-PRIORITY PROGRAMS

There is much appreciation for the additional funding the World Bank provided. Both donors and governments mentioned the considerable added value of the World Bank's ability to access climate change funds to support programs in the PICs, especially because the programs needed for resilience against natural disasters are essentially the same as those needed to adapt to climate change. Therefore, these programs serve both a long-term objective and short- and medium-term priority concerns for governments in the region. The main concern is that IDA credits, though highly concessional, add to the countries' debt burden. At the same time, there is recognition that IDA grant resources are scarce, and that without IDA credits, the overall contribution the World Bank can make will be limited. "A number of projects would simply not have been done without the World Bank's involvement," said one senior official.

STRENGTHENING THE REGIONAL DIMENSION

The World Bank receives mixed grades for its role in the regional dimension. It was effective in promoting multi-country approaches in fisheries, aviation, and, to some extent, telecommunications, and tourism through IFC's support. However, the World Bank had a limited role in strengthening regional institutions. This may partly have been an unintended consequence of the disengagement with Fiji after the coup, given that many of the regional institutions are in Suva. The main dilemma, however, is the awkward relationship between the regional institutions and the countries. The regional institutions are viewed as competing for resources with the countries and adding little value. The World Bank needs to take a more systemic view of the regional institutions' role and how it will work with them. Regional integration is an issue for all donors, and the World Bank is well-placed to be an honest broker. The World Bank could do more to promote the capacity building of these institutions and to use them as the basis for enhanced peer learning among the PICs (and more broadly with other small states). Presently this tends to be opportunistic, and it is for the task team leader to decide whether regional involvement will add value to a particular project.

PROVIDING LEADERSHIP TO THE DONOR COMMUNITY TO ENHANCE DONOR COORDINATION

Most interlocutors commented favorably on the World Bank's leadership in the context of the Development Policy Operations and in the sectors in which the

government or other donors asked it to take the lead. Perhaps even more important was evidence of the World Bank's willingness to step back and identify niches where it could add value by complementing the efforts of other donors. In the energy sector, for example, one government official stated, "The World Bank focuses on software (regulation, capacity, and so on) while other donors support hardware. Sometimes the World Bank's role is huge, but not seen. I'm glad the World Bank likes it that way." The PICs are also the front lines of World Bank-Asian Development Bank (ADB) coordination – best practice in the Fiji Road Transport project and in the joint liaison offices, but still work in progress with regard to procurement in other cofinanced projects. The resumption of work in Fiji followed a joint World Bank-ADB mission to develop an initial strategy. The co-located offices in Tonga and Samoa have worked extremely well without any evident tensions.

PROMOTING PRIVATE SECTOR DEVELOPMENT

The donor community perceives IFC's engagement in the PICs as a success story. IFC was more aggressive on transactions and put together a surprisingly large and robust portfolio since the trust fund was established. It helped trigger the telecommunications revolution. IFC has positioned itself to start taking risks in small upstream equity investments. ADB is the lead agency in dialogue with governments on the enabling environment, but IFC's contribution was important, too. IFC was particularly good at using its networking capacity to link potential projects in the PICs to foreign investors.

However, there is still an important agenda to address in supporting private sector development. If the World Bank wants to help bend the growth curve upward in these countries, it needs a more concerted effort to promote the private sector and particularly micro, small, and medium enterprises. The analysis in *Pacific Possible* is an important starting point for a much more focused World Bank effort. The World Bank Group will need to work together and join forces with ADB to identify and address the various constraints and to provide support for private sector development. The PIC operations in some areas represent good practice in exploiting the synergies that can be derived from the World Bank and IFC working together to promote sectoral programs, yet in other areas such as agribusiness, a better-coordinated approach between the World Bank and IFC is still needed. The small size of the PICs means that the boundaries between the public and private sectors are unusually porous, and support for private sector development invariably requires close coordination with the government. The premium on a well-coordinated approach by the World Bank and IFC is therefore even higher than that in larger countries.

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Interlocutors identified two areas as missed opportunities: gender equality and education policy. There was a sense that the World Bank had not been effective in helping countries address gender issues. The World Bank has been trying to ensure that women are properly consulted, and that infrastructure projects, for example, are sensitive to their needs. It also factored the need for adequate representation for women into projects with defined beneficiaries. However, in the view of some interlocutors, the World Bank did not define clear objectives in its support for gender equality or work with countries and other donors to identify ways to achieve them. This is more a reflection of the World Bank's overall strategic approach to gender than a specific shortcoming of its programs in the PICs. The other area in which donors felt the World Bank could do more was education policies. In the view of some interlocutors, the World Bank is in a good position to promote dialogue in the PICs on the role and content of education – for example, should it be less urban-oriented, and what role should preparation for migration have? Education has not been a major focus of World Bank support,¹ but this would seem to be relevant for the program going forward.

Recommendations

Several recommendations emerge from the findings of this report, confined to actions within the purview of the World Bank Group country team. Lessons related to the modalities for delivering World Bank Group support to small states will be set out in the overview report for the Cluster Country Program Evaluation.

Recommendation 1: Systemic issues, such as land acquisition, education policy, domestic violence, and the role of local government, need careful study from the perspective of how to best deal with them in various project contexts. The World Bank, together with other donors, should initiate cross-global practice efforts to review these topics.

Recommendation 2: The World Bank Group needs to ensure that the ramping up its program in Fiji does not draw resources and staffing away from Kiribati and Vanuatu which have more poverty than the other PICs, and will continue to require sustained support taking into account their absorptive capacities.

Recommendation 3: The World Bank should take a lead in evaluating the costs and benefits of increased regional integration in the Pacific, the current and potential role of regional institutions, and the implications for their staff capacity development.

Recommendation 4: The private sector in small states is less able to benefit from economies of scale and the PICs face additional binding constraints given their

remoteness such as high cost of imported inputs and high transaction costs in trade. In these circumstances, just levelling the playing field may not be sufficient to promote private sector development. A joint Bank-IFC approach is needed to support private sector development in general, and specifically micro, small, and medium enterprises (particularly in Tonga and Samoa), starting with analytic work to identify potentials. Support for private sector development in all the PICs needs to be a prominent feature of the World Bank Group strategy going forward.

Recommendation 5: World Bank staff location is of considerable interest to PIC governments and the donor community. Management's decision to shift some positions from Sydney to the Suva office over time seems appropriate for both efficiency and effectiveness objectives. Furthermore, liaison offices with ADB are working well, and the World Bank should consider establishing them in other islands.

Reference

IEG (Independent Evaluation Group). 2016. *Regional Program Evaluation of the Organisation of Eastern Caribbean States: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines*. Washington, DC: World Bank.

¹ So far Australia and New Zealand were leading the dialogue with their focus on Tertiary Vocational Education and Training.