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**PACIFIC
REGIONAL STRATEGY**

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**Papua New Guinea and Pacific Islands Country Unit
East Asia and Pacific Regional Office**

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GLOSSARY OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AusAID	Australia Agency for International Development
APL	Adaptable Program Loan
CDF	Comprehensive Development Framework
CRP	Comprehensive Reform Program
DWFN	Distant Water Fishing Nations
ESW	Economic and Sector Work
EU	European Union
FEMM	Forum Economic Ministers Meeting
FDI	Foreign Direct Investment
FFA	Foreign Fisheries Agency
FIAS	Foreign Investment Advisory Service
FSM	Federated States of Micronesia
FTMM	Foreign Trade Ministers Meeting
GDP	Gross Domestic Product
GSP	General System of Preferences
GEF	Global Environment Facility
HPI	Human Poverty Index
IBRD	International Bank for Reconstruction and Development
IAMP	Infrastructure Management Project
IDA	International Development Association
IFC	International Finance Corporation
LIL	Learning and Innovation Loan
MHLC	Multilateral High Level Commission
ODA	Official Development Assistance
OED	Operations Evaluation Department
OECD	Organization of Economic Cooperation and Development
PFTAC	Pacific Financial Technical Assistance Center
PIC	Pacific Island Country
PMCs	Pacific Member Countries
PSRP	Policy and Structural Reform Program
R&D	Research and Development
RER	Regional Economic Report
SPC	Secretariat of the Pacific Community
SES	Statement of Economic Strategy
SOE	State Owned Enterprise
SOPAC	South Pacific Applied Geoscience Commission
SPPF	South Pacific Project Facility
SPREP	South Pacific Regional Environment Program
UNDP	United Nations Development Program
WTO	World Trade Organization

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PACIFIC REGIONAL STRATEGY

EXECUTIVE SUMMARY

CHARACTERIZING THE PACIFIC

i. The Bank's Pacific Regional Strategy will provide the framework for the re-engagement of the Bank with the Pacific region and the nine Pacific countries that are Bank members¹. It follows the recent work of the Joint Commonwealth Secretariat-World Bank Task Force on Small States and places the issues raised through that process in a Pacific context. A regional strategy was considered appropriate given the size of the Bank's operations in the Pacific and the shared nature of many of the problems facing countries of the region. The Regional Strategy does, however, lay the foundation for future individual Country Assistance Strategies for Pacific Bank members if required.

ii. The Bank's Pacific Member Countries (PMCs) share many characteristics with other small states. They are all relatively small, open economies with limited diversification and limited institutional capacity. They are vulnerable to external economic and environmental shocks and have limited or nonexistent access to global capital markets. Size and remoteness are strong defining characteristics of the nine Pacific Bank members with the total land area of only some 64,000 square kilometers (equivalent to twice the size of Belgium), while the exclusive economic zones they control exceeds the land area of the USA. The population of all members totals some 2 million (of which Fiji accounts for over 40 percent).

iii. Unlike the Caribbean and Indian Ocean countries to which they are sometimes compared, indigenous cultures and traditions have remained strong in the Pacific Islands and continue to play a large role in political, economic and cultural life. The existence of these strong cultural and social systems continues to ameliorate the incidence of absolute or abject poverty, but there are clear indications that the systems and the values that underpin them are under strain.

iv. The challenges facing the PMCs are to overcome the constraints they share with other small states, including economic and environmental vulnerability, changing global trade regimes, lack of institutional and human capacity and identifying practical options in response to the continuing process of globalization. A major challenge specifically confronting all PMCs is to provide sustainable and meaningful economic and social opportunities and services for growing populations and within a context of fast paced social, cultural and economic change.

v. Most PMCs have broad based economic reform programs under development or in place which have at their core macroeconomic and fiscal policy stability and recognition of the private sector as the engine of sustainable economic development. Many also focus on promoting development in rural and regional areas and improving access to health, education and training

¹ The Pacific Member Countries (PMCs) comprise Solomon Islands, Vanuatu, Fiji, Samoa, Tonga, Kiribati, Palau, Federated States of Micronesia and Republic of Marshall Islands. A separate CAS (19590-PNG) has been prepared that covers Papua New Guinea; for East Timor a Transition Strategy will be submitted to the Board shortly.

services. The degree and extent of broader civil society involvement in and ownership of reform programs varies.

vi. There is a strong history of dialogue in the region on how to respond to shared vulnerabilities and opportunities and a number of regional institutions have been developed. Prospects for continued regional and subregional cooperation loom strong in the areas of trade, banking, transport, telecommunications, management of marine resources and bulk purchasing of supplies and products; but the immense size of the region and the variety of cultures and political systems limits regional cooperation.

THE ROLE FOR DEVELOPMENT PARTNERS

vii. PMCs have all depended heavily on external assistance to help finance their development expenditures. In line with both colonial history and national interests, some 20 developed countries provide bilateral assistance to the PMCs, though the top four (Australia, Japan, New Zealand and, in the case of compact countries, the USA) accounted for over 95 percent bilateral Official Development Assistance (ODA) in 1998. Multilateral partners include the Asian Development Bank (ADB), the European Union (EU) and specialized agencies of the United Nations family. The ADB and EU accounted for 82 percent of multilateral ODA provided to PMCs in 1998. The scale of involvement by development partners, and the lack of institutional capacity of PMCs to manage and drive it renders importance to the issue of aid coordination.

THE BANK'S PACIFIC EXPERIENCE

viii. The Bank has extended 38 loans and credits to PMC since 1971, comprising 13 IBRD loans (\$US152.8m) to Fiji and 25 IDA credits to Samoa, Solomon Islands, Vanuatu and Tonga. The success of the Bank's lending to PMCs can only be described at best as mixed. The Bank has maintained an expanded program of economic and sector work since the beginning of the 1990s, with the cornerstone of that program being the biennial Regional Economic Report (RER). The main lessons drawn from assessing the Bank's Pacific program have been:

- The Bank's role in the transfer of resources to the PMCs has been and is likely to remain limited, with the bulk of resources to be provided by bilateral donors, the ADB and the EU.
- In view of its limited lending, the Bank needs to carefully define its strategic objectives and tailor its lending and non-lending activities to achieve those objectives.
- The absence of a long term strategy for assistance to PMCs has circumscribed the effectiveness of the assistance that the Bank has been able to provide.
- A long-term strategy for development in the region has to include active collaboration with other principal development partners in the region.

THE BANK'S PACIFIC STRATEGY

ix. The Comprehensive Development Framework, the Bank's evolving understanding of the root causes of poverty and the shared work with the Commonwealth Secretariat on the challenges facing small states all provide the basis of a long term strategy for assistance to the Bank's Pacific members. This strategy has at its core the fight against poverty as manifested in the Pacific, will be supportive of reform programs that are owned and driven by the PMCs themselves, will acknowledge the central importance of the sustainable utilization of natural resources in meeting the development aspirations of the Pacific peoples, will identify country-led coordination with other development partners as a key element for success and will stress the role that Pacific institutions, traditions and customs play in making sustained progress against poverty.

x. The Bank's mission in the Pacific is based on partnership with the nine members and their development partners. The Bank will provide a targeted and focused mix of project financing, and a program of economic and sector work that brings global experience to the development problems faced by PMCs.

i) The Bank's Lending Program

xi. The Bank's lending program will be largely IDA-based, focused in sectors that match the Bank's overarching mission of poverty reduction and in which the Bank's has a proven track record, will involve direct policy and strategic reform and will only involve financial assistance where there are no other sources of financing available. This will entail a sectoral focus on education and health, measures to address the remoteness and isolation faced by the Pacific including in the transport infrastructure and telecommunications sectors and a focus on strengthening the private sector's capacity to play a greater role in these areas. In the area of environment and natural resources, the Bank will continue to address country priorities through GEF medium-sized grants and by mainstreaming it into lending, policy and advisory activities. Support for broad based economic reform and restructuring will be considered where PMCs can articulate a coherent reform program and demonstrate commitment to carrying it through.

xii. In terms of overall scale, an indicative benchmark of 2-3 new lending activities per fiscal year will see a portfolio under supervision of some 7-10 projects and will entail a call on IDA resources of up to \$US30-\$40 million over the next three years.

xiii. In recognition of the circumstances that apply in the Pacific, including the capacity of small states and the cost of doing business with International Financial Institutions, continued efforts will be made to use existing instruments more flexibly and develop new instruments that match the scale and capacity of Pacific countries. This will include fine tuning and more extensive use of Adaptable Program Loans (APLs) and Learning and Innovation Loans (LILs), as well as development of sector and program lending and possibly regional based lending operations.

ii) Economic and Sector Work

xiv. The Bank's role as a global knowledge provider is the key strength that it can bring to the Pacific. The Bank's biennial Regional Economic Report (RER) will continue to be the main vehicle for bringing the Bank's global perspective to the Pacific. It will be supplemented and supported by a more focused program of regional and sector based analysis developed and undertaken in conjunction with PMCs and other regional and bilateral development partners. The Bank will maintain its capacity to undertake country-specific economic and sector work.

xv. In the medium term, the main focus of the Bank's economic and sector work will focus on the agenda identified through the joint World Bank-Commonwealth Secretariat Task Force on Small States and on developing specific strategies that are relevant to the Pacific. This will include:

- i) helping identify scope for cooperation at the regional level to share infrastructure and institutional resources to overcome the lack of economies of scale that some individual PMC face;
- ii) working with PMCs, regional organizations and bilateral development partners to see what relevance the Bank's work on catastrophe risk management in Caribbean can have for the Pacific;
- iii) analyzing and identifying adaptation strategies open to PMCs to respond to global climate change, environmental degradation associated with the growth of towns and population growth;
- iv) drawing on the Bank's involvement with trade liberalization experiences in other countries to identify roadblocks to liberalization in the Pacific that could increase the cost of adjustment; and
- v) working with PMCs and other development partners to identify how the forces of globalization, particularly technological and communication advances, can provide new opportunities for reducing physical isolation and remoteness from markets.

ISSUES PROPOSED FOR BOARD CONSIDERATION

xvi. Issues that the Board may wish to provide guidance on include:

- the balance between lending and non-lending services in the Bank's Pacific operations;
- strategic selectivity in terms of sectors identified and activities proposed; and
- how the issue of partnership is best handled in the Pacific context.

PACIFIC REGIONAL STRATEGY

1. BACKGROUND AND RATIONALE

1. The Bank's Pacific Regional Strategy will provide a framework for the re-engagement of the Bank with the Pacific region and nine Pacific Bank members². It follows the recent work of the Joint Commonwealth Secretariat-World Bank Task Force on Small States and places the issues raised through that process in a Pacific context. A regional strategy was considered appropriate given the size of the Bank's operations in the Pacific and the shared nature of many of the problems facing countries of the region. The Regional Strategy does, however, lay the foundation for future individual Country Assistance Strategies for Pacific Bank members if required.

2. A broad Bank Strategy for the Pacific will:

- build on and refine the work of the Small States Task Force;
- provide member countries with a clear statement of the World Bank's ongoing commitment to the Pacific region;
- articulate a set of principles on which World Bank activities in the region would be based and on which their effectiveness could be judged;
- identify those areas and sectors in which the World Bank would focus its involvement in the region; and
- provide an indication of the likely scale and composition of the support that could be mobilized by the World Bank in the region.

² The Pacific Member Countries (PMCs) comprise Solomon Islands, Vanuatu, Fiji, Samoa, Tonga, Kiribati, Palau, Federated States of Micronesia and Republic of Marshal Islands. A separate CAS (19590-PNG) has been prepared that covers Papua New Guinea; for East Timor a Transition Strategy will be submitted to the Board shortly.

2. THE PACIFIC SETTING

A. CHARACTERIZING PACIFIC ECONOMIES

3. The total land area of the PMCs, dispersed among hundreds of small islands and atolls, is only 88 800 square kilometers – equivalent to about twice the size of Belgium. However, the sea area controlled through exclusive economic zones (EEZs) exceeds the land area of the USA. The total population of the PMCs is about 2 million, with Fiji accounting for about 42 percent and Palau less than 1 percent (Figure 2). In terms of GNP per capita PMCs range from low income countries (Solomon Islands, US\$750) to upper middle income (Palau, over US\$7,000). All other PMCs belong to the lower-middle-income group with GNPs per capita ranging from US\$1,020 (Samoa) to US\$2,110 (Fiji).

Figure 1: GNP per Capita (US\$, 1998)

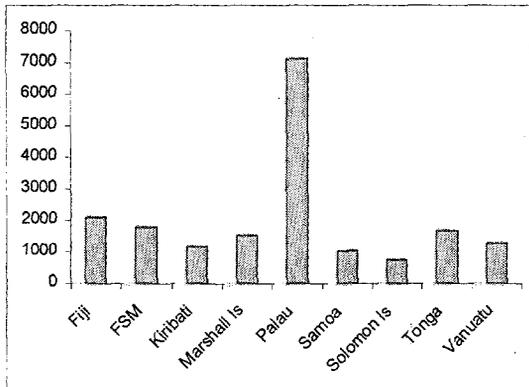
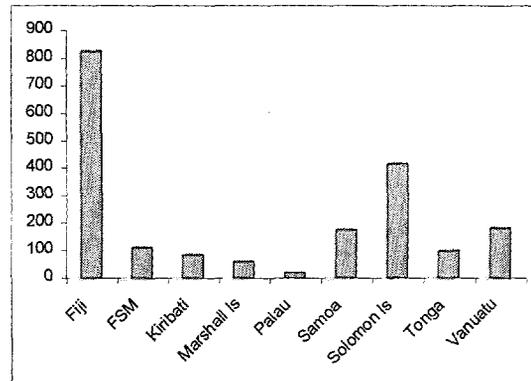


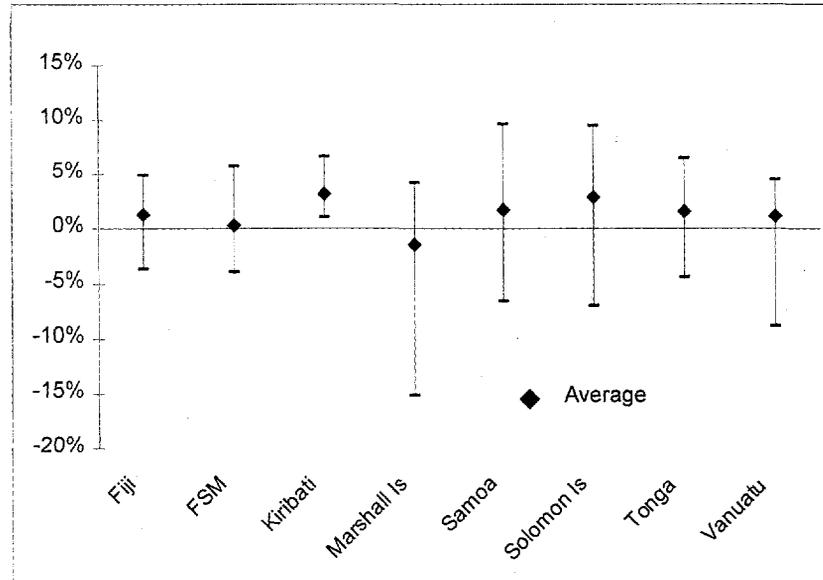
Figure 2: Population (Thousands, 1998)



Growth and Vulnerability

4. Gross Domestic Product (GDP) growth in the PMCs has been modest ranging from -1.4 percent to 2.9 percent per annum between 1990 and 1998 (Figure 3). Growth however has not been smooth and most countries' growth rate had a coefficient of variation of 2 or greater. The volatility of incomes is to be expected given the nature of these economies—highly open, commodity exporting with low levels of diversification, and prone to natural disasters. Despite their relatively higher levels of income within the subset of developing countries PMCs are more vulnerable than their larger counterparts. Here, vulnerability means exposure to exogenous shocks over which they have no control, and have relatively low resilience to withstand and recover from these shocks. According to a vulnerability index designed by the Commonwealth Secretariat for 111 developing countries all PMCs rank amongst the 28 'most vulnerable' countries.

Figure 3: GDP Growth (%)—High, Low, and average (1990-98)



Structure of PMC Economies

5. The small size of the domestic market interacts with a narrow resource base to make PMC economies relatively undiversified and highly open on the trade account, with openness being expressed through a high share of exports to GDP or a high share of imports to GDP or both. The *remoteness and isolation* of these countries from major centers of trade and commerce makes it more difficult to compensate for the limited domestic markets by turning to world markets. Transport costs are high because of small cargo volumes. The ratio of freight and insurance debits to import costs (an indicator of transport costs) is 20 percent or higher for PMCs compared with the median value of 14 percent for all developing countries.

6. The constraints of a narrow resource base and small size are most apparent in 'advanced' manufacturing activities such as capital goods, metal working, and intermediates. These activities are characterized by economies of scale in production, product development and R&D. The share of manufacturing in GDP in PMCs is generally under 10 percent. Manufacturing is thus limited to basic small scale 'low technology' activities like food processing and breweries which are not greatly impacted by market size. The exception is Fiji where the share is 15 percent because of the sugar and garment industries.

7. In the absence of a large manufacturing sector PMCs are dependent on the primary and tertiary sectors of the economy as a source of output, employment, and foreign exchange. In the agricultural sector a large share of production is in the form of smallholder operated, semisubsistence, household enterprises growing chiefly root crops and garden vegetables. In Fiji agriculture is organized more along commercial lines, although the subsistence sector remains important. Large scale agriculture comprises oil palm, coconut, cocoa, and coffee plantations, and beef cattle in Vanuatu with the bigger and more capital intensive operations wholly or

partially foreign owned. The sharp fall in prices of traditional PMC export crops has stimulated producers to move into nontraditional crops to exploit niche markets in squash pumpkin, vanilla, melons, and coconut cream.

8. The contribution of the tertiary sector ranges from 55 to 60 percent in Fiji, Samoa, Tonga, and Vanuatu, while in FSM, Marshall Islands, and Kiribati it is greater than 75 percent. In the tertiary sector the two important activities are public services and tourism related services.

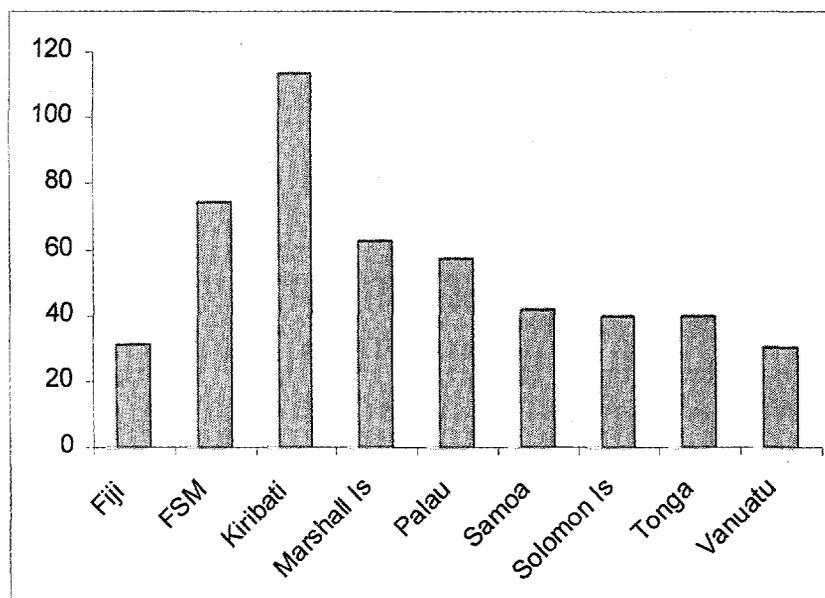
9. The economic contribution of the fisheries sector comes from subsistence activities employing traditional methods, commercial fishing, and downstream industrial processing. National accounts statistics show a contribution ranging from about 2 percent in Fiji to about 9 percent in Marshall Islands, but these are greatly understated as they fail to take full account of artisanal and subsistence production. For example, in Kiribati where commercial fishing contributes about 3.5 percent to GDP, the share of subsistence fisheries is estimated at nearly 9 percent. Trade data show that fish exports figure prominently in most countries (Table 1), but especially in Micronesian countries where they range from 50 percent to nearly 90 percent of commodity exports. All PMCs also receive access fees from licensing of Distant Water Fishing Nations (DWFNs) vessels. Total revenues from access fees varies significantly across countries reflecting the great variation in the distribution of offshore fish resources. For the Micronesian countries, fishing fees have in the recent past contributed amounts equivalent to 50 percent to 100 percent of revenues raised from taxes.

Public Sector

10. The size of the public sector in most PMCs is larger than virtually all countries at similar levels of per capita income (Figure 4). Small but widely dispersed island nations cannot exploit economies of scale in the provision of public services. The role of the private sector has been small. Lack of private initiative stemming from social, cultural, and land tenure reasons partially account for this, but it has been further aggravated by policies that inhibited private sector development. The generous inflows of foreign aid which have been used mainly for public sector projects have also contributed to this. PMC governments are engaged in a wide range of economic activities such as utilities, development finance, commercial credit, overseas trade, marketing of agricultural goods, operating fishing fleets, mines, plantations, aviation services, and hotels. As government has grown it has failed to create many new opportunities in the private sector and has become the 'default' employer of skilled and educated workers. Government employment accounts for nearly 30 percent of total formal employment in Fiji and Solomon Islands and about 50 percent in Kiribati. The wage bill amounts to about 45 percent of total recurrent expenditure in Fiji and Solomon Islands.

11. The range of activities carried out by the governments is wide but is not matched by requisite technical and managerial resources. As a result limited skills are spread thinly. Governments have responded to this situation by over staffing agencies with partially qualified personnel, spending heavily on overseas training, and relying on overseas technical assistance to fill gaps. In some services technical assistance has become an almost permanent feature.

Figure 4: Government Expenditure 1996-98 (% GDP)



Investment and Saving

12. During the 1990s, investment rates in the PMCs have been of the order of 25-35 percent (save Fiji where it has been 10-15 percent), with the public sector playing an equal if not dominant role in most. However, the growth rates achieved from this level of investment have been relatively low. The low level of productivity of investment can partly be explained by natural constraints imposed by size, spread and remoteness of PMCs which raise the unit cost of economic activities. The volatility of output and incomes generated by external shocks to the economy poses a tremendous challenge to the efficient utilization of capital stocks. However, there is evidence that even after controlling for these factors there has been inefficient allocation (poor choice of projects) and utilization of capital (weakness in implementation). A large part of public investment in the PICs has been in low return areas such as public buildings. The investments of public enterprises in loss-making commercial activities have also contributed to this outcome. The policy environment, including distortions in trade, tax, and tariff regimes have tended to support high-cost uncompetitive investment.

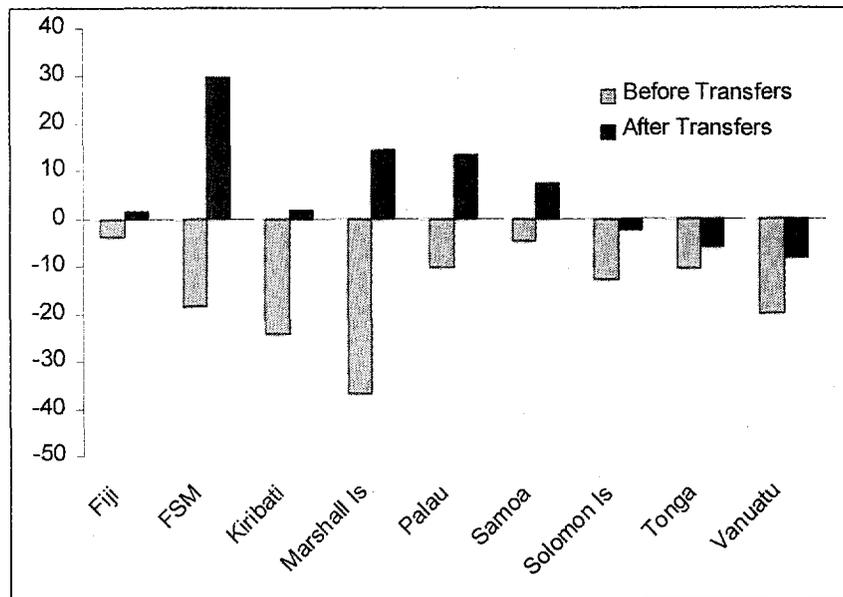
13. Public investment has had a crowding out effect on the private sector. Government controlled enterprises operate in many sectors of the economy that could readily be undertaken by the private sector and the involvement of the public sector in these commercial areas has tended to discourage entry of the private sector. Crowding-out has also occurred through factor market effects wherein public sector activities resulted in pushing up wages and interest rates and the pre-empting of credit.

14. Domestic savings rates are low, reflecting a high propensity to consume, shallow financial systems and the narrowness of the monetized portion of the economy. High rates of investment have been sustained primarily through aid and remittances.

External Sector

15. Because of their structural and resource characteristics PMCs produce a relatively narrow range of goods and services but they consume a wide range. For some PMCs merchandise imports are a multiple of exports, implying large merchandise deficits. Invisible earnings reduce the gap in most countries except Solomon Islands, Marshall Islands, and FSM. Tourism earnings are important for Fiji, Vanuatu, Tonga, and Samoa (Table 1); investment income for Kiribati, and remittances from nationals working abroad in the case of Kiribati, Tonga, Vanuatu and Samoa. Despite these flows a large gap remains that is met through aid (Figure 5).

**Figure 5: Current Account Balance Before and After Official Transfers
(% GDP, Average 1996-98)**



16. Exports have been mainly confined to primary commodities with a high degree of concentration on a single commodity (Table 1). Over the last few years, however, changes have occurred in the export structure as countries begin to diversify by moving towards higher value added products by finding niche markets. Fiji moved in to the manufacturing sector by exporting garments others diversified within primary commodities – squash in Tonga; logging in Solomon Islands, seaweed in Kiribati, and sashimi in FSM. Imports consist mainly of machinery and capital goods and petroleum products.

17. The PMCs have benefited from preferential trade arrangements which convey duty free or low duty access for their exports into the markets of major industrial countries. All of the PMCs receive GSP treatment which accords them the lowest duties on offer for products exported to OECD countries. FSM, Marshall Islands, and Palau have special trade access agreements with the USA. The others are signatories to the Lome Convention that, in addition to development assistance, extends them duty free access for most products to European Union

markets. Fiji, as a founding signatory to the Commonwealth Sugar agreement has an export quota of 200,000 tons for its chief commodity export in the EU. In the last decade about 70 percent of Fiji's total sugar exports have been at preferential prices which were 2 to 4 times the world market price. The tuna fish processing industries of Fiji and Solomon Islands have also relied heavily on Lome preferences. Within the Southern Pacific, PMCs are provided duty-free access to the markets of Australia and New Zealand. This preferential market arrangement has been very important for the development of garments and footwear in Fiji and automotive wire harnesses in Samoa. The preferential trading arrangements are, however, eroding under the new World Trade Organization (WTO) rules, posing a stiff challenge to PMCs. It will not be possible to sustain domestic industries built on preferential market access once it is eroded. The PMCs are gearing up to face this challenge by forming a regional trading area and by proposing to become a signatory to the successor of the Lome Convention – the Suva Convention.

Table 1: Main Merchandise Exports and Tourism Receipts

	Main Merchandise Exports (% total merchandise exports)		Tourism Receipts (% exports of goods & services)	
Fiji	Sugar	26.4	25.1	
	Garments	22.3		
FSM	Fish	87.7	7.6	
	Garments/buttons	5.7		
Kiribati	Copra	51.6	15.7	
	Seaweed	7.2		
Marshall Is	Chilled fish	67.4	8.3	
	Coconut oil	13.4		
Solomon Is	Logs	51.1	..	
	Palm oil	11.0		
Samoa	Coconut oil	27.6	51.3	
	Copra	15.9		
Tonga	Squash	44.4	29.1	
	Fish	19.6		
Vanuatu	Copra	40.2	41.7	
	Beef	12.1		

* Average for latest three years for which data are available. Figures not available for Palau.

Macroeconomic Policy

18. Five of the nine PMCs have their own central banks and currency while the other four do not have central monetary authorities—Kiribati uses the Australian Dollar and FSM, Marshall Islands, and Palau use the US Dollar. In the countries with independent monetary authorities the

use of monetary policies is limited owing to their small size and the openness of capital accounts. The use of monetary policy is also restricted by structural and institutional constraints. These include the existence of a large nonmonetary sector, the rudimentary stage of capital markets which hinders smooth financial intermediation, a shortage of monetary instruments to implement policy, and high consumption propensities that limit the savings flowing into the financial system.

19. Fiscal policy is the main instrument of macroeconomic management for all PMCs because of the limited role of monetary policy and the large share of public expenditures in GDP. During the 1980s, even in the face of a large and growing government, PMCs record of fiscal management was generally positive. In the face of budgetary imbalances most countries took corrective action without undue delay so as to avoid major inflationary pressures or the build up of debt. In recent years, however, several of the PMCs have faced fiscal stress (Table 2). In many PMCs, weakness in public expenditure management has lead to a recurrence of unbudgeted spending and arrears to government employees, to suppliers, or to holders of government paper. More generally, budget management has been weak, with loose procedures for supplementary appropriations, and an inadequate monitoring and review system.

**Table 2: Overall Fiscal Balance, 1994-98
(in percent of GDP)**

	1995	1996	1997	1998
Fiji	-0.5	-4.9	-6.6	3.8
FSM	1.6	6.9	1.4	0.4
Kiribati	-10.1	-35.6	6.3	24.0
Marshall Islands	-14.1	20.3	3.9	4.2
Palau	95.8	-7.4	0.2	6.0
Samoa	-7.4	1.6	2.4	2.1
Solomon Islands	-5.3	-4.4	-4.8	0.1
Tonga	-3.5	0.8	-1.2	-4.4
Vanuatu	-2.7	-1.8	-0.7	-13.3

20. On the revenue side, the tax base is narrow, relying largely on indirect taxes such as trade and excise taxes. Trade taxes provide over 60 percent of tax revenues in Kiribati, Tonga and Vanuatu and about 40 percent in Marshall and Solomon Islands. The tax base is made narrower by numerous discretionary fiscal incentives in the form of income tax holidays or import tax exemptions, which often benefit multinational corporations. Fiji and Samoa have a broader based tax system. Large external grants (ranging from 10 to 15 percent of GDP in Solomon Islands, Samoa, and Tonga to over 40 percent in FSM, Kiribati, and Marshall Islands) have, in part, permitted the fiscal profile to remain weak. These grants, while financing an enlarged government sector did not compel the PMCs to prioritize its needs or generate more of their own revenue.

21. In recognition of the fundamentally weak fiscal positions several PMCs have undertaken comprehensive adjustment programs. The governments have made efforts towards downsizing

the public sector and reducing budgetary outlays, improving revenue streams with revised taxation and tariff systems, and initiating privatization of state owned enterprises (SOEs) that are a drain on the budget and can be sold. Efforts also have focused on improving the enabling environment for the private sector.

Access to External Capital

22. PMCs depend heavily on external development assistance and official aid to help finance their development expenditures (Table 3). Their access to external commercial borrowing is either non-existent or very limited. Information costs and country risk issues (especially for those who suffer repeatedly from natural disasters) are perceived as making spreads very high or prohibitive. Gathering information about the country's capacity to repay the loan has significant fixed costs and the small absolute size of the loan amount makes it less attractive to the lender. The cost of enforcing contracts are also perceived to be higher on account of differences in legal and administrative systems. PMCs are also at a disadvantage in attracting foreign direct investment (FDI) relative to larger developing countries. A recent study (Collier and Dollar, 1999) showed that small states are rated as being almost 30 percent more risky for FDI even when they had good policies and human resource development indicators. To some extent this may reflect the underlying riskiness of very small economies, but, importantly, it could also reflect the weaker incentives that risk rating agencies and investors have to do their homework and learn about opportunities in small states.

Table 3: Debt Stocks and Aid Flows (Average, 1996-98)

	External Debt/GDP	Concessional Debt/Total Debt	Aid/GNP	Aid per capita (US\$)
Fiji	11.7	9.7	2.2	53
FSM	..	..	44.5	868
Kiribati	..	..	17.6	182
Marshall Islands	..	..	60.5	1039
Samoa	92.7	89.7	17.7	190
Solomon Islands	43.3	61.3	12.5	104
Tonga	36.0	80.3	15.7	290
Vanuatu	23.0	84.0	14.4	185
Palau	..	..	45.9	3492
Low & middle income	38.0	16.3	0.7	9
Low income	37.7	34.0	1.4	7
Lower middle income			0.9	17

Aid Effectiveness

23. Like other small states, PMCs receive significantly larger inflows of aid than larger low and middle income developing countries. However, aid has not always been effective in generating a good growth performance in PMCs, in part because of inadequate policy settings. This is generally consistent with a recent study by the Bank on the effectiveness of aid to

developing countries which has shown that financial assistance leads to faster growth and poverty reduction in countries with sound economic management. This finding applies to small states and larger ones alike. The combination of good policies and significant financial aid decreases perceived riskiness of countries and leads to larger private capital flows. In other words, aid “crowds in” private investment in a good policy environment. The presence of aid increases investor confidence that good policies will be maintained. Aid also helps governments finance investments such as schools and roads that are complementary to private investment. The reform programs (discussed below) currently underway in the PMCs are likely to lead to more effective utilization of aid, but the extent of success would depend on the strength of ownership of reforms by the countries.

24. Donors too need to play a critical role in improving aid effectiveness in the PMCs. Aid should be targeted to modernize the economy and aid allocations should reflect the country’s overall policies and entire public spending program rather than flows to individual projects. Donors should also make major efforts to coordinate their activities in a country-led framework as is already happening in some PMCs (discussed below). In the longer term the combination of good policies and aid should lead to decline in the aid needs of the PMCs. The larger and more resource rich PMCs should be able to achieve a faster decline in aid requirements and eventually ‘graduate’ to a situation where aid is needed only in emergencies arising out of external shocks.

B. GEOGRAPHIC, POLITICAL & SOCIAL DIVERSITY

25. Geography continues to play a major role in shaping opportunity in the Pacific. The region is remote from major world centers and the 2,700 islands that make up the region are relatively small and dispersed, with the total land area being only 88,800 square kilometers. Isolation, remoteness and internal dispersion have an impact on the economies and social fabric of most Pacific Island countries (see Box A).

26. Strong identification with village and kin networks often supercedes affinity to any national or regional groupings and diversity and differences within countries can be pronounced as those between countries. For example, the 417, 800 citizens of the Solomon Islands live on a scattered archipelago of mountainous islands and coral atolls with a land area of 27,556 square kilometers and speak over 85 different languages.

27. The formal political systems that prevail in the region today reflect the interaction of strong and vibrant traditional political systems, varied colonial histories and relatively recent independence experiences. Colonial history in the Pacific, stretching back over 200 years, has involved the USA, France, Spain, Britain, Australia, New Zealand, Germany and Japan. The move to political independence in the Pacific is a relatively recent phenomenon, beginning in 1962, when Samoa gained independence.

28. This history has left behind a patchwork of different political systems and allegiances that include strong US-styled republic models in Palau and the Marshall Islands; a federal system in FSM; Westminster-based parliamentary democracies underpinned with varying degrees of provincial and state structures in Samoa, Vanuatu and the Solomon Islands; and a strong monarchy in Tonga where the King both reigns and rules. All political systems allow and support

formal political oppositions and all involve, to varying degrees, the regular exercise of popular elections.

Box A: The Case of Kiribati

Kiribati has a population similar in size to that of Andorra, but spread over an area roughly equal to that of Europe. Most of the area is ocean: its land mass amounts to 810 square km, compared to an Exclusive Economic Zone of 3.55 million square km. The vast geographic spread of the 33 islands reaches from 4,000 km from east to west and roughly 2,000 km from north to south. Transport within Kiribati is extremely limited and is primarily by boat. The nearest large markets are 4,000 km away, in Honolulu and Brisbane. There are only six flight in and out of the country per week, all by small plane. Hence distance from and access to markets not just externally but internally presents challenges of a magnitude faced by few other countries.

The resource base is very narrow. The arid climate and poor soil offer little potential for agricultural development. Ocean resources are the mainstay of the economy – about 80 percent of households make a living or survive through fishing. The public sector dominates all spheres of economic activity. Fishing licensing are the major source of foreign exchange and government revenue while import duties and remittances from I-Kiribati employed in foreign shipping fleets provide significant additional government revenue, respectively.

The population of 88,500 is concentrated in the Gilbert Islands Group, which includes Tarawa, the capital. One-third of the population live in the urban center on South Tarawa, where density reaches 1,610 persons per square km, while the Phoenix group is largely uninhabited. If present trends continue, population will double in 20 years; such an outcome will present even greater challenges to efforts to overcome environmental and health problems, particularly in Tarawa where sanitation and water problems are already pressing. The demographic profile of Kiribati is skewed to the young which is placing significant strain on the Government to provide basic health and education services.

In addition to these constraints, Kiribati's potential to benefit from globalization is hampered by its limited institutional and human capacity. The society has strong 'traditional' practices and values based on family relationships, the sharing of resources and a co-operative approach to economic activity. The private sector is very small and fragmented and the privatization program has not progressed very far. These factors present challenges to the government in determining the most appropriate pace and sequencing of policy changes in areas such as privatization, downsizing and improving the performance of the public sector, tax and duty reforms (which would initially have negative revenue consequences), and the installation of modern technologies. And while embracing the global trading regime will deliver certain benefits, commodity exports will continue to be hampered by Kiribati's remote location and irregular supply routes.

29. Shared throughout much of the region is the importance placed on land. Although demographic shifts and population growth are changing the rural and urban balance in the Pacific Islands, land ownership and use still forms an integral part of everyday life. Though systems of ownership and use vary greatly, shared ownership is often based on common descent, residence and participation in social and economic activities. Land helps identify family, clan and lineage and is valued for what it symbolizes as well as the subsistence and livelihood it provides.

30. Unlike the Indian Islands and Caribbean countries, to which they are sometimes compared, indigenous cultures have remained strong in the Pacific Islands. They continue to play a large part in national life, and although continually modified and adapted, their influence remains strong, retaining control over significant national resources and exerting influence on national policies and decision making.

C. GOVERNANCE

31. A number of stresses are influencing patterns of governance and organization throughout the Pacific. Traditional forms of authority and organization are being modified by a variety of largely imported substitutes and by the globalization of trade, investment and economic governance. The first is primarily a social phenomenon with local roots, and the second primarily economic and driven internationally, but they are connected, and each has reached beyond its origins to shape social and economic structures and performance.

32. In some areas of the Pacific traditional governance systems that provided robust accountability and participation are eroding and the introduced western structures erected alongside or in place of them are seen to be costly and ineffective, not responsive to local needs and priorities, and prone to capture by domestic and foreign interests. This is not to suggest that 'traditional' and introduced systems of governance are mutually exclusive, or that one is necessarily better than the other, rather that changing patterns of governance are having a significant impact on community access to decision making and levels of accountability. The success of the PMCs in integrating the respective strengths of traditional and introduced structures, institutions and practices will have a significant bearing on their ability to successfully adapt to the internal and external challenges they face.

33. In the PMCs that are well endowed with natural resources such as fisheries and forests, governance arrangements relating to the rewarding of contracts for their use assume great importance. In the past, however, nontransparent negotiations between government officials and politicians and resource users have resulted in resources being undervalued and large economic rents have been appropriated by, mainly foreign logging and fishing companies. In some instances negotiations over the granting of fishing rights have been linked to bilateral aid negotiations. This has tended to weaken the negotiating position of PMCs and has reduced the transparency of the actual levels of access fees.

34. The role of the kinship ties and 'wantok' type systems of support in providing for basic human needs is one of the underlying strengths of many Pacific societies; however it can also hamper transparent and clear governance and contribute to corruption. The small size of many PMCs has some community leaders performing a number of different roles, ranging from a church leader, to businessman or high level government minister. These competing roles can lead to conflicts of interest and influence decision making processes.

D. BASIC HUMAN INDICATORS

35. Despite the diversity of population dynamics in the Pacific there are some common trends. Over the past few decades fertility has declined or remained stable, life expectancy has increased and urban population growth has outpaced rural population growth. Growth rates are highest in the Micronesian countries at an average of 2.7 percent and lowest in the Polynesian countries where growth averages 1.3 percent. The Melanesian countries average 2.2 percent (Table 4). One of the most pressing concerns for many Pacific Island countries is growing frustration and alienation among youth. About 40 percent of the Region's population is under 15 years of age and about 20 percent is between 15 and 24 years of age.

Table 4: Basic Human Resource Profile

COUNTRY	Annual pop. Growth (1990-98)	Adult Literacy	Life Expect at birth	Human Dev Index (HDI)*	Global HDI rank
Federated States of Micronesia	2.1	71.3	65.7	0.569	120
Fiji	0.9	92.9	66.5	0.667	101
Kiribati	2.1	92.2	61.6	0.515	129
Marshall Islands	3.6	74.4	65	0.563	121
Palau	2.4	91.4	69	0.861	46
Tonga	0.3	99.0	68	0.647	107
Samoa	1.2	95.7	66.6	0.590	117
Solomon Islands	3.3	30.3	64.7	0.371	147
Vanuatu	2.7	33.5	65.8	0.425	140

* The Human Development Index is derived from the combination of average life expectancy at birth, adult literacy, gross school enrollments, and adjusted GDP per capita.

Sources: Secretariat of the Pacific Community, UNDP, various national censuses.

36. Although still far from satisfactory, with the exception of the Melanesian countries of the Solomon Islands and Vanuatu, access to basic educational opportunities is no longer the overriding priority in many of the PMCs. It has been replaced by a focus on the quality of education services and continued financing of schools and teachers salaries. A recent regional education survey identified a number of issues that were commonly shared throughout the PMCs. These included concern about: teacher shortages; how to ensure that education assisted national economic growth; increased efficiency in the public and private education sectors; promotion of national identity and culture; and resolving the growing mismatch between skills and livelihood opportunities.

37. Life expectancy is generally high in the region but there has been an increase in mid-adult mortality, especially of males.³ This is associated with an upsurge in so called "life-style diseases", accidental deaths, and the resurgence and emergence of infectious and vector-borne diseases. There has been an increase in communicable diseases in the Pacific, and many communicable diseases that health officials had thought were almost eradicated, such as leprosy, TB, malaria and measles have reappeared, while new types of communicable diseases have emerged, including HIV/AIDS, and hepatitis C.

38. The shortage of financial resources in the social sectors is pervasive. The predicted growth in future school enrollments, the demographic profile of the population (mainly the vulnerable population—children and the elderly) and the growing burden of noncommunicable diseases while communicable diseases continue to persist will continue to outstrip the ability of governments to finance quality health and education services.

³ UNDP. Pacific Human Development Report. 1999. Pg. xi

39. The status of women in the Pacific varies considerably, often dependent on the systems of land ownership and access to education. Matrilineal and patrilineal systems give women different access to resources and power and are influenced by development changes including: outer island and oversea migration; access to education and training, monetization of the economy, reforms to the public sector that affect the terms of distribution of men's and women's roles, and status in society. In general terms, women in Polynesian societies have traditionally enjoyed high social status and more access to power in government and the commercial sector than women in Melanesia, but this can also vary greatly within communities depending on access to education and family position.

40. In most countries of the region the colonial experience resulted in a deterioration of women's public position as the representatives of the patriarchal colonial countries preferred to deal with men in public or business transactions and tended to marginalize women. Today women's economic role is becoming more diversified. In many cases, this is making women's lives more difficult in the context of serving as the head of households, persistence of the sexual division of labor, a growing informal sector, low or nonexistent legal recognition of their rights, and gender based violence. Women still lag behind men in many countries in the region across a range of social and economic indicators, including school enrollment ratios, literacy rates and access to the formal labor market.

E. POVERTY IN THE PACIFIC

41. Pacific Islanders are proud of the unique networks of support and sharing that sustain many of their communities. Yet, while these networks of sharing food and resources still operate, increasing economic strains and changing cultural patterns imply that Pacific Island societies are not as egalitarian as they are sometimes portrayed. In many ways the gaps in income, access to services, well-being and opportunities are widening.

42. Poverty in the Pacific is rarely as visible or as extreme as it is in some of the harshest parts of the world. Yet recent surveys have shown big differences in income and well-being in several countries, even after traditional forms of redistribution have been accounted for. There are people who are truly disadvantaged or deprived compared to other people in their country.

43. The Human Poverty Index (HPI) rankings reflect quite marked differences between Pacific countries, especially between Melanesian and Polynesian countries (Table 5). For example, the Solomon Islands and Vanuatu rankings put them on a par with countries such as Guinea, Burundi, Senegal and Bangladesh in sharp contrast with Tonga and Fiji with rankings similar to Costa Rica and Singapore.

Table 5: Human Poverty Index for the Pacific

COUNTRY	Percentage of people not expected to reach 40 yrs	Percentage of adults who are illiterate	Percentage of people without access to safe water	Percentage of children >5 yrs who are under-weight	Human Poverty Index*
Federated States of Micronesia	10.5	28.7	56	15	26.7
Fiji	7.4	7.1	23	7.9	8.5
Kiribati	16.3	7.8	20	12.9	12.6
Marshall Islands	13.2	25.6	23.5	17	19.5
Palau	7.3	8.6	14	8	10.8
Samoa	10.3	4.3	10	17	8.6
Solomon Islands	13.7	69.7	36	21	49.1
Tonga	8.4	1	5	2	5.9
Vanuatu	12.2	66.5	13	23	46.6

**The Human Poverty Index reflects deprivation in three essential elements of human life: longevity, knowledge and a decent standard of living. Sources: Secretariat of the Pacific Community, UNDP, various national censuses*

44. While instructive on a regional and national level, the HPI does not reflect growing inequalities within Pacific Island communities. A series of surveys in Solomon Islands revealed big differences in household incomes, even after subsistence production and traditional gifts were accounted for. This was especially so in Honiara, the national capital and main urban center, where 1 percent of households shared more than 50 percent of total earnings. Many urban and rural households have very poor living conditions and lack safe water or sanitation, problems in towns are compounded by contaminated groundwater and growing waste disposal problems. Recent and continuing unrest between Guadalcanal landholders and settlers from Malaita has disrupted schooling, access to facilities and the delivery of services and is likely to have exacerbated existing poor living conditions.

45. The United Nations Development Program's (UNDP) 1997 Fiji Poverty Report found that poverty was an undercurrent in both urban and rural areas and in all ethnic communities. One in four households could not afford a basic standard of living and these households often included people who have little formal education or skills and had difficulty getting paid employment.⁴ The 1998 Samoa Household Income and Expenditure Survey found that one in three households could not properly meet their basic needs and were poor relative to national standards of living.

46. A 1996 survey of Tarawa, the capital of Kiribati, found many aspects of the urban poverty that is common in the Pacific. Many households live in badly overcrowded conditions.

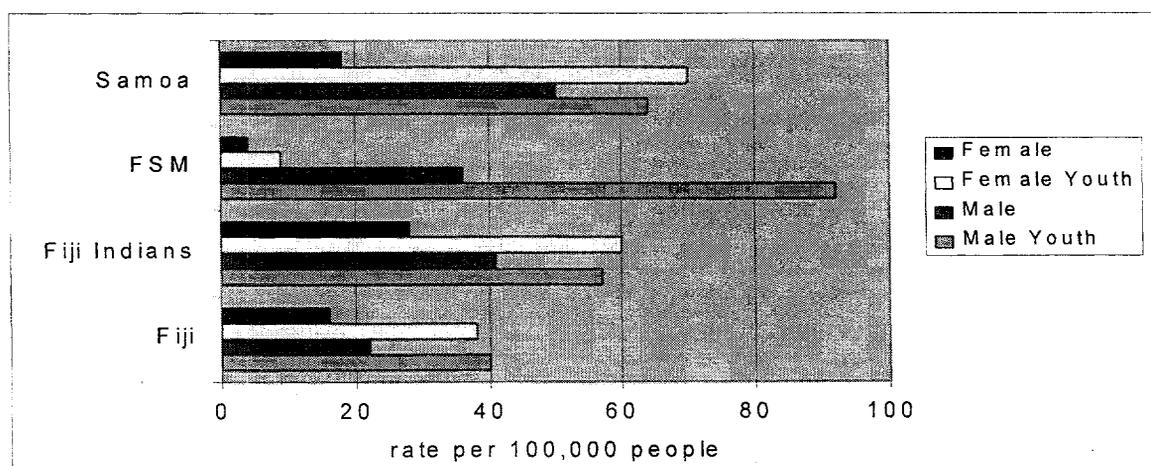
⁴ Fiji Government and UNDP, 1997

Most households depend on cash incomes, yet only few adults have paid jobs. Most of this cash is spent on food, mainly rice, fish, frozen meat and sugar⁵.

47. Approximately 20 percent of the labor force of the PMCs is employed in the formal sector. Rapid population growth, shifts in the age structure towards the working age group, the diminishing capacity of the semisubsistence sector to absorb labor, and a growing need for cash incomes means that the number of people seeking employment in the formal sector is fast increasing. This, however, is not being matched by growth in formal sector jobs. Youth unemployment is in excess of 10 percent in most countries, and higher than 20 percent in FSM and Marshall Islands. To date, the issues of labor standards, including child and forced labor, have not been identified as major concerns in the PMCs. In the rural informal sector people mainly depend on semisubsistence agriculture and fishing. The few small-scale enterprises that exist employ mainly family labor. In the urban areas, small-scale informal enterprises employ the urban poor who often seek multiple sources of income. Many children, particularly those who leave school early are also employed here. The informal sector is the main source of employment for women, often because they lack the education and skills to join the formal sector.

48. A broader concept of *poverty of opportunity* is to include 'lack of education and health, lack of economic assets, social exclusion and political marginalization', is a better description of poverty for many people in the Pacific⁶. Poverty of opportunity in the Pacific is evident in many ways including rapid emigration from some countries, high but disguised unemployment, and an emerging subculture of youth crime and high youth suicide rates (Figure 6). Overcoming poverty of opportunity is a major challenge facing many Pacific economies so that people's talents, skills and aspirations are not frustrated but utilized to benefit the domestic economy and improve human development. Economic growth in most of the PMCs has been far less than that needed to open up such opportunities.

Figure 6: Suicide Rates in Selected Pacific Island Countries, by Sex and for Youth



Source: UNDP, *Pacific Human Development Report 1999*, pg. 64.

⁵ Government of Kiribati, Bureau of Statistics, 1996

⁶ ul Huq, M. 1997. *Human Development in South Asia*, Oxford University Press, Karachi

3. REFORM AND DEVELOPMENT IN THE PACIFIC

49. There are a number of public sector reforms underway throughout most of the Pacific region and much is being done through national reform programs, supported by regionally focussed institutions and action programs. The quality of the design and implementation of programs has been mixed but the engagement of development partners in these reforms is significant both in terms of sheer numbers and in terms of the resources they bring to the development table.

A. NATIONAL REFORM PROGRAMS

50. Most PMCs have reform programs in place or under development (Table 6). In Melanesia, Vanuatu's Comprehensive Reform Program (CRP), first endorsed in 1997, has provided one extreme in terms of the breadth, scope and timing of reform approaches in the region. The Solomon Islands' Policy and Structural Reform Program (PSRP), initially focussed on the macroeconomic environment, public finances and the public sector, has broadened to include a medium term development strategy and private sector development (Box B). In Polynesia, the Samoan Statement of Economic Strategy (SES) has provided perhaps the most successful example of reform, with the SES providing the overall macroeconomic framework for the development of separate strategies focusing on health, education and rural development. In Micronesia, explicit reform programs have been developed in Kiribati and the Federated States of Micronesia.

Box B: The Solomon Islands' Reform Program

The Solomon Islands Government developed the Policy and Structural Reform Program (PSRP) in 1997 in response to a nexus of critical issues in the fiscal, financial and forestry sectors. The program, supported by the World Bank through a Structural Adjustment Credit and other partners including Australia, ADB and New Zealand, focuses on a three-pronged approach: restoring and maintaining a sound macroeconomic environment; reform of public finances, including wider public sector reform; and review and reform of the public service. The process is designed to achieve a number of major objectives:

- *Restoration and maintenance of a sound macroeconomic environment.*
- *Improving governance, accountability and productivity across the public sector, especially in the quality and quantity of service provision in core areas (primary education, preventative health, agricultural support services, and infrastructure support to private sector led growth)*
- *Establishing conditions for the private sector to become the engine of economic growth in a competitive environment.*
- *Creating the basis for sustainable and equitable development of renewable resources, including through an effective and sustainable forestry policy.*
- *Liberalizing the financial sector, particularly with respect to nonbank financial institutions and especially those that are government owned and influenced, but with an accompanying enhancement of regulation and supervision.*
- *Achieving greater self-reliance in rural areas by emphasizing projects in core activities which will support development of economic activity in these communities and ensure a more equitable allocation of public funds between the rural and urban areas and across provinces.*

Progress on the PSRP reforms has been significant but recent ethnic tensions will have an impact on implementation. The rehabilitation of public finances, the core of the PSRP, is threatened by the loss of revenues because of the closure of enterprises, reduction in employment and lower levels of taxable activities. At the same time expenditure is rising to cover increased security operations. Public service reforms and collaboration with the private sector are less effected, but privatization of state owned enterprises may be more difficult because of the shock to investor confidence.

Table 6: The Pacific Reform Agenda

Prerequisites for Sustainable Growth and Development	Solomon Island - Policy and Structural Reform Program	Samoa - Statement of Economic Strategy	Vanuatu - Comprehensive Reform Program	Kiribati - Development Strategy	Federated States of Micronesia - Public Sector Reform Program	Regional Organizations	Non-Government & Volunteer Organizations	Multilateral and Bilateral Engagement (past & present)
Good and Clean Government	Major focus	Major focus	Major focus	Major focus	Major focus	South Pacific Forum, SPC, FEMM, PIDP	Major Focus	ADB, Australia, New Zealand, UN, UK
Justice System	No explicit focus	No explicit focus	No explicit focus	No explicit focus	No explicit focus		Focus	New Zealand, Australia
Financial System	Major focus	Major focus	Major Focus	Major Focus	Major Focus	South Pacific Forum, FEMM	Focus	ADB, Australia, WB
Social Safety Net and Social Programs	No explicit focus	Central role played by village, churches and NGOs.	Focus	Focus	No explicit focus	South Pacific Forum, SPC	Major Focus	Australia, New Zealand, UN
Education	Focus	Separate strategy developed and linked to SES	Focus	Focus	Focus (retraining of civil servants)	South Pacific Forum, SPC, USP	Major Focus	Australia, New Zealand, WB, EC, UN, UK, Japan
Health	Focus	Separate strategy developed and linked to SES	Focus	Focus	No explicit focus	South Pacific Forum, SPC	Major Focus	Australia, New Zealand, Japan, WB, UN, EC, Japan
Water and Sewerage	No explicit focus	Separate water and waste management national policies	No explicit focus	Focus	No explicit focus	South Pacific Forum, SPC, SPREP, SOPAC	Major Focus	ADB, Australia, EC, UN, Japan
Energy	No explicit focus	Identified as a priority	No explicit focus	No explicit focus	No explicit focus	South Pacific Forum	Focus	ADB
Roads, Transportation & Telecommunications	No explicit focus	Identified as a priority	Focus	No explicit focus	No explicit focus	South Pacific Forum, FEMM	Focus	ADB, Australia, New Zealand, EC, WB
Environment and Natural Resources	Major focus (forestry)	Identified as a priority	No explicit focus	Focus	No explicit focus	South Pacific Forum, SPC, FFA, SPREP, SOPAC, CROP	Major Focus	New Zealand, Australia, ABD, WB, UN, EC, Japan
Rural Strategy	Major focus	Separate strategy developed and linked to SES	Major focus	Focus	No explicit focus	South Pacific Forum, SPC, CROP, SPREP	Major Focus	Australia, New Zealand, EC, UN
Urban Strategy	No explicit focus	Not an explicit focus	Major focus	Focus	No explicit focus	South Pacific Forum, SPC, FEMM	Major Focus	ADB, WB, UN
Private Sector Strategy	Major focus	Major focus	Major focus	Major focus	Major focus	South Pacific Forum, FEMM	Major Focus	ADB, Australia, NZ, UN, EC, WB.

Secretariat of the Pacific Community (SPC), Forum Economic Ministers Meeting (FEMM), Forum Fisheries Agency (FFA), South Pacific Regional Environment Program (SPREP), South Pacific Applied Geoscience Commission (SOPAC), The University of the South Pacific (USP), Council of Regional Organizations in the Pacific (CROP), Pacific Islands Development Program (PIDP).

51. In general, there are a number of similarities between many of these reform programs. Most have at their core macroeconomic and fiscal policy stability and the importance of stimulating the private sector as the engine of sustainable economic development. Many of the reforms also focus on promoting development in rural and regional areas and improving access to quality health, education and training services. While all reform programs have acknowledged its importance, the degree and extent of broad civil society involvement in and ownership of the reform programs has varied.

B. THE REGIONAL DIMENSION TO REFORM

52. There is a considerable history of dialogue in the region about how to respond to shared vulnerabilities and opportunities. Coordinated action has led to the creation of the University of the South Pacific, the Forum Fisheries Agency (FFA), the South Pacific Regional Environment Program (SPREP), the South Pacific Applied Geoscience Commission (SOPAC), the Tourism Council of the South Pacific and the Pacific Islands Development Program.

53. Pacific Island governments are developing a shared policy agenda for change in areas including government accountability, environmental policy, trade and investment policy, government involvement in business enterprises, and private sector development. The Pacific Islands Forum focuses on economic and trade issues and has been a major force in regional economic cooperation but moves cautiously and on the basis of consensus among its diverse membership. The Forum Economic Ministers Meeting (FEMM) process has been one of the main vehicles driving the reform agenda in the region and is particularly concerned with issues such as government reform and private sector development. The Secretariat of the Pacific Community (SPC), the oldest regional organization, has a wide range of programs including demography, agriculture, fisheries research and development, education, health, gender and community development.

54. Prospects for regional and subregional cooperation loom strong in the areas of trade, banking, transport, telecommunications, management of marine resources and bulk purchasing of supplies and products. The Forum Secretariat, Forum Economic Ministers Meeting, the Forum Trade Ministers Meeting (FTMM) and the Melanesian Spearhead Group are working on cooperation on regional trade, telecommunications and bulk purchasing of pharmaceuticals. The June 1999 meeting of the FTMM endorsed a free trade area among Forum members to be implemented in stages. There are a number of other ongoing initiatives such as work on the Environmental Vulnerability Index for the Pacific, and the work of SPREP and SOPAC on climate change. The Multilateral High Level Commission (MHLC) is currently looking at the management regime for highly regulatory fish stocks. Underpinning this is an acceptance that regional and subregional collaboration holds the best prospect of overcoming some of the constraints that the countries of the region face, such as lack of capacity and scale of operation, and of maximizing the returns that the region as a whole can obtain from the exploitable resources available.

55. There are limits to regional cooperation. The immense size of the region itself and the variety of cultures and political systems it contains constrains efforts for regional cooperation. Pacific Island countries are keen to maintain bilateral relationships with each other and with

donor countries and multilateral agencies. Importantly, some countries from outside the region and which have direct interests in the region see value in maintaining the focus on bilateral relationships. Increased regional cooperation is both possible and desirable, but must be seen in the context of differences in domestic political agendas and constraints posed by existing bilateral and other relationships.

C. THE ROLE OF DEVELOPMENT PARTNERS

56. Upward of twenty bilateral and multilateral development partners maintain programs in the Pacific. Most larger bilateral donors are present locally, with Australia having by far the largest number of regional offices. The ADB has a regional office in Vanuatu and is in the process of reviewing its regional representation to move to a subregional office structure. Fiji is the main center for regional representation from the UN system and the EU.

57. The largest aid flows to the Pacific come from bilateral donors with significant economic, geographic or political interest in the region including Australia, New Zealand, the United States and Japan (Table 7). The majority of multilateral assistance stems from the European Community, the Asian Development Bank and the United Nations system.

Table 7: Bilateral Official Development Assistance (ODA) to the Nine Pacific Member Countries - 1994-1998

Amount of Official Development Assistance (\$US)					
	1994	1995	1996	1997	1998
Bilateral Donors					
Australia	61.2	51.6	50.4	49	44.1
Belgium	0.1	0.1			
Denmark			0.2	0.3	-0.2
France	13.7	11.7	11	9.2	9.9
Germany	4.3	1.5	1.8	0.5	0.9
Japan	101.1	110.4	95.7	97.6	89.4
Netherlands	0.4	0.9	0.6	0.6	0.4
New Zealand	18.4	27.1	29.1	29.7	25.5
United Kingdom	12.7	8.6			
United States	320	216	219	144	179
TOTAL	531.9	427.9	407.8	330.9	349

Source: Geographical Distribution of Financial Flows to Aid Recipients. OECD. 2000

Bilateral Partners

58. *Australia* has significant economic and political interests in the region and is one of the largest bilateral contributors to the PMCs. Australia's aid is largely directed to Fiji, Solomon Islands, Vanuatu, Samoa, Tonga and Kiribati and is concentrated in education and training, economic reform and governance, health, environment and private sector development. Australia maintains a large network of AusAID offices throughout the region.

59. The overall goal of the Australian aid program is to assist developing countries reduce poverty. In the Pacific this goal is expressed through a long term objective of helping Pacific Island countries achieve the maximum possible degree of self reliance. Self reliance is defined differently for the larger Pacific economies where it is taken to mean eventual graduation from aid, than for the smaller less economically viable atoll states where it is taken to mean the maximum degree of self reliance within an ongoing need for external support.⁷

60. As with Australia, *New Zealand* has a wide range of bilateral and regional economic and political interests in the region. Its development cooperation with the Pacific Islands countries is based on the key areas of health, education, the environment, human resource development and the encouragement of private sector growth. New Zealand maintains a significant network of offices throughout the region and a large and increasingly influential Polynesian Diaspora living in New Zealand has helped ensure an active interest by New Zealand in these countries.

61. The guiding principals of the New Zealand program in the Pacific are a recognition that development will be achieved primarily through the efforts of the countries themselves; capacity building; sustainability; a primary focus on poverty reduction; greater participation of all people, especially the disadvantaged in economic, political and social life and involvement of the New Zealand community in development.⁸

62. *Japan's* engagement in the region is very significant and has focused on the development and promotion of agriculture, forestry and fisheries industries, and the upgrading of basic infrastructure including hospitals, schools and water supply facilities. The *United Kingdom's* links with the Pacific region rest mainly on historical and commonwealth ties. In 1995 a decision was made to move away from individual country programs and focus instead on a single regional program. Key sectors are education and rights and good governance.

63. *The United States* remains the most significant bilateral development partner in the compact of free association countries of Palau, the Marshall Islands and the Federated States of Micronesia. The relationship and access to resources extended to these countries through the compact of free association has a major impact on development prospects for them. The USA, as it renegotiates the compact with individual countries, is seeking ways of moving from what has essentially been united budget support to more focused program approaches that maximize development outcomes.

⁷ Australia & Pacific Island Countries: Partners in Development Australia's Overseas Aid Program December 1998.

⁸ New Zealand Official development assistance; Program Profiles 1998-99, Ministry of Foreign Affairs and Trade.

Multilateral

64. Of the multilateral agencies, the Asian Development Bank and European Community have the largest programs, while the various UN agencies have established significant and high quality programs, especially in the social sectors (Table 8).

Table 8: Multilateral Official Development Assistance (ODA) to Pacific Member Countries 1994 -1998

	Amount of Official Development Assistance (\$US)				
	1994	1995	1996	1997	1998
Multilateral Donors					
Asian Development Bank	18.8	24	5.8	22.7	47.1
European Community	13.8	12.9	12.2	8.9	7.4
International Development Association	4.6	4.2	4.2	3.4	4.5
United Nations Regular Program of Technical Assistance	3.8	10.7	3.5	6	4.2
International Fund for Agricultural Development	2	0.6	1.4	0.2	0.5
United Nations Development Program	3.7	3.6	2.1	1.7	1.7
Other Multilateral	2.5	2.9	1.9	1.6	0.3
Total	49.2	58.9	31.3	44.5	65.7

Source: *Geographical Distribution of Financial Flows to Aid Recipients. OECD. 2000.*

65. The *Asian Development Bank* has a major presence in the region. The ADB has supported major public sector reform programs in the Cook Islands, the Federated States of Micronesia, Marshall Islands, Samoa, Solomon Islands and Vanuatu. Regional activities supported by the ADB have been in the areas of fisheries, aviation, air transportation, financial and investment advisory services and the provision of venture capital.

66. The ADB program has been guided by its 1996 *Strategy for the Pacific: Policies and Programs for Sustainable Growth*. This strategy had as an overall objective the improvement of living standards through sustainable economic development. The ADB is now in the process of developing a new Pacific regional strategy that will specifically address poverty in line with the ADB's overarching objective of poverty reduction.

67. The pattern of commitments by the *European Community* has been influenced by STABEX transfers which has accounted for over 30 percent of all aid. Project aid constitutes approximately 62 percent of assistance to the Pacific Islands and the main sectors supported included; transport and communications, industry, mining and construction and the energy sectors.

68. Various *United Nations* agencies work throughout the Pacific region and have well established programs. The UNDP takes a coordinating role for most UN operations which are particularly active in the social sectors. The UNDP's assistance focuses primarily on the creation of employment and sustainable livelihoods, the advancement of women, empowerment of disadvantaged groups, protection and regeneration of the environment, and improved governance.

69. The *International Monetary Fund* is engaged in the Pacific Islands countries on a number of levels. As well as its regular Article IV consultation meetings and reports, it jointly established with the United Nations Development Program the Pacific Financial Technical Assistance Center in Suva, Fiji. The Center is also funded by ADB, AusAID, the New Zealand ODA and the Forum Secretariat, and its primary aim is to build the skills and institutional capacity in PMC for effective and sustainable economic and financial management.

Partnerships and coordination

70. The sheer number of development partners operating in the Pacific, combined with the limited absorptive capacity of most Pacific Island states and the characteristic limited institutional capacity that they share with other small states, represents a major challenge for PMCs as they seek to coordinate, direct and manage external support.

71. All donors in the region accord coordination and cooperation a high priority and there are a number of mechanisms in place that support these efforts. The ADB convenes consultative group meetings, while the main region-wide vehicle for donor coordination is the donors' consultation meeting that is held following the annual FEMM. This meeting, convened on a rotating basis, provides a forum in which issues and respective donors' programs can be discussed. There are a range of other bilateral and multilateral coordination measures in place, including bilateral high level consultations between the major donors and regional organizations.

72. The Bank takes an active role in coordination and was instrumental, for example, in establishing annual trilateral consultations between AusAID, the ADB and the Bank. The Bank's relations with the ADB in the Pacific are guided by the broader Memorandum of Understanding (MOU) between the Bank and the ADB in the East Asia and Pacific region. This MOU places a premium on close cooperation between the two institutions, to ensure complementarity at the regional, country and sectoral levels. The forthcoming relocation of the Pacific Country Management Unit to Sydney will further enhance the close working relationship between the World Bank, the ADB and other regional development partners. Dialogue with the ADB and other donors will continue with a view toward establishing and maintaining clear understandings of each agency's focus.

73. While a solid basis of cooperation between development partners exists, there is a need to move beyond general discussion of cooperation and into more substantial measures. These include the articulation of donor programs within broader PMC driven sectoral and reform programs, alignment of program cycles, rationalization of reporting requirements and the development of more flexible work programming and targeting within projects. The Bank, in line with the Comprehensive Development Framework (CDF), has actively sought out such approaches. Early experience has been positive. In Samoa the Government has developed an MOU that sets out the respective roles of the Bank and AusAID and ways of operating within the broader context of the Government's health sector reform program. A similar approach is being developed in the Solomon Islands, again in the health sector but which builds on the positive experience of targeting donor assistance under the Solomon Islands reform program.

4. PARTNERSHIP & STRATEGIC SELECTIVITY – IDENTIFYING THE BANK'S ROLE

A. THE BANKS' EXPERIENCE IN THE PACIFIC

74. The Bank Group's involvement in the Pacific Region effectively started in the 1970s. Fiji became the first Pacific member country when it joined the Bank in 1971, with Palau being the most recent, achieving membership in 1998. Throughout the 1970s and 1980s Bank assistance tended to focus on lending operations, with a more substantial program of economic and sector work only beginning in the 1990s.

75. Since 1971 the World Bank has extended 38 loans and credits, totally some \$US284.2 million to Pacific Island members. Of these, 13 have been IBRD loans (\$US152.9m) extended to Fiji, while the remaining 25 IDA credits (\$US131.3m) have been shared between Samoa (11) Solomon Islands (8), Vanuatu (4) and Tonga (2). Half of the Bank's lending operations have been cofinanced (5 with AusAID and 14 with the ADB). In terms of any qualitative assessment of the effectiveness of the Bank's lending portfolio, three key phases can be distinguished.

A beginning in 1970s

76. In the nine years up to and including 1980, the Bank extended eight IBRD loans to Fiji (including one supplemental loan) totaling \$US83.7 million and three IDA credits to Samoa (\$US14.4 million). In Fiji, the bulk of the loans were focussed in the infrastructure sector, with one in agriculture. Project completion reviews found that the bulk of the projects were successful in meeting their objectives. In the case of Samoa, however, where three IDA credits were provided (one in infrastructure and two in agriculture) the results were far less satisfactory with the first agriculture project rated as a failure, in part because the project's development objective reflected Bank rather than the Samoan Government's priorities, and the second as suffering from poorly defined project objectives.

Expansion in the 1980s

77. The period up to and including 1990 saw an expansion in the number, country coverage and sectoral focus of the Bank's lending activities in the region. In addition to continued lending in Samoa and Fiji, lending was also undertaken in Solomon Islands (1981), Vanuatu (1984) and Tonga (1987). The expansion in country coverage was a reflection of a relatively rapid process of independence in the region and growing Pacific membership of the Bank. It was based on a formal cooperative arrangement with the Asian Development Bank (ADB) that saw the World Bank participating as a cofinancier and the ADB playing the lead role in project processing and implementation.

78. This arrangement, agreed in October 1980, had two main objectives: to minimize the burden on the limited staff and institutional capacities of Pacific Island members; and to achieve efficiencies through saving costs and avoiding duplication of effort. Of the 18 loans approved in the 1980s some 11 were cofinanced with the ADB(\$US69.2 million) and a further 4 cofinanced with AusAID (\$US25.6 million). The 1980s also saw an expansion in the sectoral focus of the

lending portfolio, with lending activities undertaken in the following sectors: agriculture, finance, education, transport, power, telecommunications and urban development.

79. An assessment of the Bank's operation undertaken by OED in 1991 and 1992 concluded that "the Bank was generally unable to make an effective contribution to the development of the Pacific member countries during most of the 1980s"⁹ Other conclusions reached by the OED study were:

- the Bank's direct contribution to resource transfers to the Pacific Island member states had been very limited;
- the Bank's lending had not been guided by any well conceived strategy to contribute to long term sustainable development in the Pacific Island member countries;
- the Bank had not been able to make effective use of project lending as an instrument of policy dialogue; and
- the Bank's past experience did not clearly establish areas of comparative advantage for Bank assistance to Pacific Island members.

80. In terms of the arrangement with the ADB, the OED Report noted that "while the ADB arrangement has provided administrative savings to the Bank, the benefits to the PMCs (Pacific Island Member Countries) are less clear. The selection and design of projects has generally not been underpinned by appropriate country strategies and ESW. It has been time consuming and, in some cases, difficult to harmonize policies and procedures. The Bank, in practice, could not give up fully its responsibility for cofinanced projects. Yet the limited contact with PMCs appears to have weakened the country relations".

Refocusing in the 1990s

81. In response to the experience with the cofinancing arrangement, and discussions with member countries and key donors, the Bank reassessed its strategy and made two major adjustments. First, the Bank moved to take a more direct role in project lending. Second, the Bank reassessed its approach to economic and sector work. A number of donors also felt that the Bank could contribute more effectively to the Pacific in a leadership role through the provision of advice on development strategy and policies in the region. A special South Pacific Facility, supported by Australia, became operational in 1989 to support an expanded program of economic and sector work, the center piece of which was a series of regional economic and sector reports. (See Section 4D)

IFC and FIAS

82. IFC investment activities have concentrated on those industries in the PMCs that hold a competitive advantage such as tourism and fishing. In the 1998/1999 financial year alone the

⁹ The World Bank and Pacific Island Countries: An OED Review, May 5 1992

South Pacific Project Facility (SPPF), helped secured financing for fifteen small businesses, seven of them in the service sector.

83. Although the SPPF does not provide project financing, it finances part of the cost of market, technical and feasibility studies and helps entrepreneurs secure financing from banks and other sources of capital. It also assists companies during project implementation and startup, reviews joint venture agreements and assists governments privatizing public sector enterprises. The SPPF has agents in seven member countries and has carried out 43 assignments since it began operations in 1990.

84. The Foreign Investment Advisory Service (FIAS) supports PMC governments design initiatives to attract foreign direct investment and has been active in a number of countries including the FSM, Samoa, Fiji, Palau and the Solomon Islands as well as working on regional projects such as oceanic fisheries with the FFA and the SPC. FIAS advises on laws, policies, incentives, institutions, and strategies

B. LESSONS LEARNED

85. The same OED report cited earlier also identified a number of lessons to be incorporated in the Bank's future program. These lessons remain relevant today:

- Poor definition of strategic objectives made it difficult to tailor lending to achieve these objectives and had an adverse impact on project quality and sustainability;
- The absence of long-term strategy contributed to inadequate sector and economic work;
- Long-term strategy development needs to include active collaboration from the other development partners in the region; and
- Future lending activities in member countries and with development partners need to be based on shared strategy and policy goals.

86. The continuing validity of these lessons has been reinforced through the recently published Asian Development Bank's (ADB) Assessment of its Assistance for Reform Programs in the Pacific, which found that:

- Reform programs have to have broad political ownership and be open to and driven by wide participation if they are to have any chance of success.
- In designing and supporting reform programs the issues of scope, phasing and pragmatism in the design of interventions needs to be considered explicitly.
- Reform is a long term process and longer term perspectives, by both countries themselves and development partners, are essential.

- There is a need to clearly establish the link between inputs, processes, outputs and impacts. To be able to do this timely and reliable information is required.
- Culture plays a crucial role and needs to be accepted as a legitimate consideration in designing reform programs.

C. THE COMPREHENSIVE DEVELOPMENT FRAMEWORK (CDF) IN THE PACIFIC

87. The Comprehensive Development Framework (CDF) establishes a balance in policymaking by highlighting the interdependence of all elements of development—social, structural, human, governance, environmental, economic, and financial. The CDF seeks to move beyond discrete indicators of economic performance and human capacity to address, in concert, the *"fundamental, long-term issues of the structure, scope, and substance of societal development"*. It highlights four major areas of development—structural, human, physical, and sectoral:

- **Structural** elements include honest, competent governments committed to the fight against corruption; strong property and personal rights laws supported by efficient legal and judicial processes; a well-supervised financial system promoting transparency; and a reliable social safety net.
- **Human** development requires universal primary education along with a sound secondary and tertiary system; and a health system that focuses on family planning and child care.
- **Physical** concerns center around the efficient provision of water and sewerage; expanded access to reliable electric power; access to road, rail and air transport along with telecommunications; and preservation of the physical environment and cultural heritage.
- **Sectoral** elements include an integrated rural development strategy; sensible urban management; and an enabling environment for the private sector.

88. Fighting poverty is the central mission of the Bank and is at the core of the CDF. Poverty in the Pacific varies both in terms of its incidence and its defining characteristics. The existence of strong cultural and social systems in the Pacific continues to ameliorate and mask the incidence of absolute or abject poverty, but there are clear indications that these systems, and the values that underpin them, are under strain. Rates of youth suicide throughout the region are some of the highest recorded in the world. Towns and informal settlements continue to grow at a rate that see young people and their families removed from traditional support structures and the incidence of urban poverty growing at an increasing rate. The demographic profile of the Pacific, with some 40 percent of the population under 15 years and a further 20 percent between 15 and 24 years, points to continuing and sustained pressure on Governments' capacity to establish and maintain health and education systems capable of providing even a basic level service. The impact of poverty also varies within the region with the larger Melanesian countries of the Solomon Islands and Vanuatu sharing some features, such as adult illiteracy rates and levels of access to safe water, that place them on a par with experience in Sub-Saharan Africa.

89. Sustainable progress against poverty is conditioned on the development agenda pursued by Pacific countries being broad based, owned and driven by the country itself and realistic in terms of the timing and resources available. Only such an agenda can lead to broad based economic growth and employment creation. While not uniform, there is an ongoing reform process in the region. It is one owned and driven, to a greater or lesser extent, by the individual countries concerned and which finds expression in both domestic reform programs and shared regional action. The World Bank's engagement in the region supports such reform programs, both at a country and regional level, and the scale and type of assistance to individual countries in the region will reflect this (see also Box C).

Box C: World Bank Approaches to Poverty, 1990 and 2000

The definition of poverty has evolved over the past decade together with international knowledge about the nature of poverty and its determinants. In 1990, the World Development Report expanded the traditional income-based definition of poverty to further include capabilities – such as health, education and nutrition. This framework explicitly recognized the interaction and causal relationship among these dimensions. It recommended a strategy for poverty reduction based on broad-based growth in incomes and on investment in basic education and health care, together with safety nets for those unable to participate in growth.

In light of the voices of the poor study and the evolution of events and ideas in the 1990s, the 2000 World Development Report proposes to further extend the concept of poverty to include the dimension of vulnerability and that of voicelessness and powerlessness. These added dimensions broaden the causal framework for analysis and expand the range of policies and actions that can be considered to tackle poverty.

The key elements of an effective poverty reduction strategy are:

- A comprehensive understanding of poverty and its determinants. It will be necessary to identify who and where the poor are and what prevents them from moving out of poverty, and to consider the various dimensions of poverty, including low income, capabilities, security and empowerment.
- Choosing public actions that have the highest poverty impact.
- Policies that lead to more rapid economic growth—including macroeconomic stability, freer and more open markets and a stable and predictable environment for private sector activity—will need to be outlined. Prioritization of public actions in the poverty reduction strategy should, in general, be based on the expected impact on poverty in the short- and long-run. It will also depend on specific national, regional and group priorities that are expressed during the participatory processes. Social sector programs will generally be significant components of the effort, but actions with a more direct effect on the incomes of the poor –based on actions in areas like rural development, local infrastructure, and to enable private sector development – will usually be of equal importance. Strengthening capacity to implement is likely to be of general importance. The availability of non-inflationary financing for the program will need to be assessed.
- Transparency. The process of setting budget and policy priorities, and monitoring progress toward achieving poverty reduction goals, should, in general, rely upon transparent processes for public dialogue and disclosure of information. Greater transparency and accountability in fiscal management will help to boost the efficiency of public spending.
- Outcome indicators which are set and monitored using participatory processes. The identification and measurement of poverty outcome targets, and assessment of the impact of priority interventions on the poor, are crucial mechanisms for regular assessment of policy and program design and implementation. Broad participation is needed to ensure that the most relevant targets are selected and that the results of regular monitoring of outcome indicators feed back to refine policy and programs to improve their effectiveness.

90. The sustainable utilization of natural resources, especially forests and fisheries, is crucial for meeting the development aspirations of Pacific Island populations. In some countries, however, economic growth has been at the expense of an overexploitation of natural resources, and is, therefore, unsustainable. Expanding economic activity has also been accompanied by rapid growth of towns. However, inadequate management of this process has resulted in considerable stress being placed on the urban environment, especially in the areas of sewerage

and waste disposal. The emerging scenario thus calls for a greater integration of environmental policy with economic policy both at the macroeconomic and sector levels. This is an area the Bank has begun work in other regions which it could draw upon in assisting Pacific member countries in ensuring that economic growth occurs in harmony with the natural environment.

91. A wide range of development partners are involved in the region, including both bilateral and multilateral donors. Importantly, a significant element of the response of Pacific countries to the development challenges they face has been to seek partnership with other Pacific countries, both at regional and subregional levels and through development of a range of regional organizations. Fundamental to the success or failure of development in the Pacific must be notion of partnership that encompasses not only governments, bilateral agencies, multilateral and regional organizations, but which extends to broader civil society. Examples of donor coordination in the Pacific, such as the annual meeting between Pacific countries and their development partners, the annual meeting of all Pacific donors, the annual tripartite meeting between the Bank, AusAID and the ADB, and a range of regular high level consultations between the major bilateral donors, all point to a solid foundation. Development partners must now seek practical ways to build on this foundation and demonstrate an increasing willingness to work cooperatively within broad sectoral and policy parameters set by Governments.

92. Part of the uniqueness of the region stems from the way in which Pacific traditions and institutions have evolved and interacted with more recent modes of operation to form unique contemporary systems. These Pacific institutions, traditions and customs need to be acknowledged as important and legitimate elements of the broader governance process that applies in the Pacific. They need to be explicitly taken into account in structuring the assistance that the Bank and other development partners can provide. The consultation process followed and role identified for villages in the management of coastal protection in the Samoan Infrastructure Management Project (IAMP) is one practical example of how this is being done by the Bank. At the same time it needs to be understood that such institutions, traditions and customs continue to evolve and change and are subject to legitimate scrutiny and debate about their inclusiveness, effectiveness and fairness.

D. THE WORLD BANK GROUP'S PACIFIC STRATEGY

93. The Bank works in partnership with the nine Pacific members of the World Bank and their development partners to achieve sustainable social and economic development. The Bank brings its global knowledge to help address the development problems faced by Pacific members particularly at a regional level, and provides a targeted and focused mix of development financing.

The Bank's Lending Program – toward a targeted and innovative portfolio

94. In terms of overall resource transfers to the Pacific region the Bank's role has been modest. In 1998, for example, the Bank accounted for less than 1 percent of the total net disbursements of ODA to the broad Pacific region (excluding the French Territories). The major sources of development financing in the region remain Australia, New Zealand, Japan, the European Union and the ADB (see Section 2C).

95. The ready availability of other sources of development financing, particularly grants-based support from bilateral donors, has enabled the Bank to take a more targeted and strategic approach to the provision of lending in the last 2-3 years. The Bank has only accepted a role in lending where it has a proven track record in the sector concerned or where the program of economic and sector work has provided a sound basis for Bank involvement, where the proposed activity has a strong link to an explicit policy reform agenda, is in keeping with the Bank's mission of poverty alleviation and where there are no other sources of finance readily available. Clearly, as a lending institution the Bank's role in the Pacific is secondary to the ADB and is designed to complement ADB's activities. This is reflected in the current portfolio where the four projects currently under supervision, along with the four at advanced stages of preparation, are all in high priority sectors in which the Bank has a proven track record and which all involve large policy reform components (Table 9).

Lending in the Medium Term

96. Lending operations would be open to all member countries. It is expected, however, that lending will continue to concentrate on the larger Pacific economies in line with the economies of scale associated with doing business with the Bank and given availability of grant based financing opportunities for the smaller Pacific economies.

97. As the majority of the Bank's Pacific members are eligible for IDA, in principle, (Kiribati, Samoa, Solomon Islands, Tonga and Vanuatu) the lending portfolio will continue to be largely IDA-based, though access to IBRD support remains an option, particularly for Fiji. The Bank's lending portfolio will stay within the current level of up to two new lending operations per fiscal year. This would see over time a portfolio under supervision of some 6-8 projects and could involve a commitment of IDA resources to the region over the next three years of \$US30-40 million.

98. The mission of IDA is to support efficient and effective programs to reduce poverty and improve the quality of life in its poorest member countries. IDA helps build the human capital, policies, institutions, and physical infrastructure needed to bring about equitable and sustainable growth and its goal is to reduce the disparities across and within countries, to bring more people into the economic mainstream, and to promote equitable access to the benefits of development. The lending program in PMCs will maintain a strong focus on the social sector, particularly health and education, and will complement ongoing Bank and other donor programs. In the Melanesian countries of the Solomon Islands and Vanuatu a key focus will be on girls education. In the health sector maternal and reproductive health would continue to have a high priority. Gender issues will continue to be mainstreamed in all Bank lending activities. The transport infrastructure and telecommunications sectors have also been identified as priorities given the challenges posed by remoteness and isolation to the countries of the Pacific.

Table 9: Current Lending Activities

Country	Project	Amount \$USm	Description and main focus
Under Supervision			
Solomon Islands	Education III (Approved FY 93)	16.9	The project has supported improved access to secondary education, especially senior secondary Forms 4 and 5 and expanded female participation; establishment of pilot lower unit-cost day schools (Day Junior Secondary Schools (DJSS)); enhanced educational quality including teacher upgrading and curriculum improvements; expanded supply and improved training of nurses; and improved management of the education sector, including strengthening of budgeting and financial planning. Due to close in December 2000. IDA financed.
Solomon Islands	Structural Adjustment Credit (Approved FY 99)	12.0	The first Bank structural adjustment operation in the Pacific, the operation supports the Government's broad Policy and Structural reform Program. Other development partners supporting the reform program are the Asian Development Bank, AusAID, the Government of New Zealand, and the European Union. The IMF has provided advice on macroeconomic issues. Due to close in December 2000. IDA financed.
Solomon Islands	Health Sector Development (Approved FY 2000)	4.0	The project supports improvements in reproductive health, malaria prevention and capacity building in the national department of health and provincial health services. Due to close in June 2005. IDA financed.
Samoa	Infrastructure Asset Management (Approved FY 99)	14.4	In line with the Government's Statement of Economic Strategy, the project is helping change the role of government in the delivery and management of infrastructure services in the three priority subsectors of air transport, road transport and coastal protection Phase I and will help alleviate the constraints imposed by remoteness and isolation. Due to close in December 2002. IDA financed and cofinanced with AusAID
Under Development			
Samoa	Health	5.0 (est)	Within the framework of the Government's Health Sector Strategic Plan, the project will provide support for the strengthening of policy development and health care legislation and regulation; improvement of health facilities planning; improving the quality of key infrastructure; improvement of maintenance of health infrastructure and equipment; and developing a health care waste management system. IDA financed.
Vanuatu	Education II	10.0(est)	Within the context of the Bank sponsored Vanuatu Education Master Plan the project will support system wide reform, including the introduction of mother-tongue instruction in community school grades K-2 and English or French language instruction in primary school grades 3-8. IDA financed.
Solomon Islands	Education IV	8.0 (est)	The project will improve the quality of basic education and strengthen institutional capacity with a particular focus on community based schools. In particular, it will support the implementation of policy reforms in the areas of education financing, textbook provision and management, and preservice teacher training. It will also support increased female participation in basic education.
Tonga	Telecom Sector reform	2.0 (est)	The project will support the implementation of the Government's sector reform program, focusing on: regulatory reform, institutional reform, in particular, corporatization of TTC; and pilot IT Applications (e.g. tele-medicine, tele-education, etc.). IDA financed.

99. Strengthening the private sector's capacity to play a greater role in the development of these areas will be a key concern. The work of the IFC's South Pacific Project Facility (SPPF) on accelerating the development of a productive private sector in the PMCs through supporting the entry of private sector projects will continue (see also Box D). In the area of environment and natural resources, the Bank would continue to address country priorities through GEF medium-sized grants, and by mainstreaming it into its lending, policy and advisory activities. Support for broad based economic restructuring and reform will remain an option where counties can

articulate a coherent reform agenda and demonstrate strong commitment to carry through with that agenda.

Box D: The World Bank's Approach to Private Sector Development in the Pacific

The role played by the private sector in Pacific economies varies greatly but there is a general trend toward private sector development and privatization or corporatization of State Owned Enterprises (SOEs). Given the dominance of the Pacific private sector by small business, the Bank's approach to private sector development is strongly integrated with strategies in Small and Medium Enterprise (SME) development and Microfinance.

SOE Reform and Privatization

Effort in this area is varied but in general there is a stated intention on the part of PMCs to privatize or corporatize state owned enterprises. Some countries have embarked on programs but others are still grappling with what such programs can mean. There is a general lack of community understanding of the processes and benefits associated with privatization and corporatization and legislators and officials are not clear on the process involved or, in many cases, the governance and regulatory framework required to manage the sale process in a transparent manner and create the environment for the successful operation of the privatized or corporatized businesses. The Bank has a role to play in offering advisory support and technical assistance for the process of privatization and corporatization. This support needs to be at all levels of the community but particularly targeted to legislators and officials. Care will continue to be exercised so that efforts are coordinated with other agencies, particularly the ADB and the Pacific Forum.

Small and Medium Enterprise Development (SME) and Microfinance

Small and medium business is the dominant private sector activity in virtually all Pacific countries. Many development partners are involved in the sector, particularly in training and education. There is a need for equity venture capital in the region and also for stronger post-financing technical support for funded projects. There is also a developing focus in village based microfinance largely through the NGO community which is in keeping with the Pacific environment. The Bank will continue to support project development through IFC's South Pacific Project Facility (SPPF) with support from regional donors such as Japan, Australia and New Zealand and will examine ways to offer stronger post-financing technical support. As the private sector grows there will be a developing need for capital markets advisory and investment support, equity funds, leasing and other mechanisms. Evaluation of capacity building in the region and identification of training gaps will also be considered. The Bank's expertise and experience in the area of microfinance can also add value to the work of other development partners in the region.

Private Participation in Social Service and Infrastructure Development

The provision of social services and infrastructure in the Pacific is largely in public hands in all of the PMCs. There is a desire to look at a role for the private provision of many of these services, particularly as part of the SOE reform that is occurring in the region. There are a number of development partners already working with the PMCs in this area. By drawing on its global experience in this area, the Bank can add value to this work. This is likely to include advisory and credit/investment services but in the context of careful targeting and coordination with other development partners.

Matching lending instruments with capacity and need

100. In recognition of the specific circumstances that apply in the Pacific, including issues associated with vulnerability of small states and the cost of doing business with the Bank, continued efforts will be made to both use existing instruments more flexibly and develop new instruments so that they match the scale and capacity of member countries involved.

101. The development of Adaptable Program Loans (APLs), Learning and Innovation Loans (LILs) has provided a greater range of lending instruments that more closely match the scale of operation necessary in the Pacific. The lending program in the Pacific will seek to make more extensive use of such instruments as well as fine tune their application in light of the experience with the first Pacific APL in Samoa and broader Bank experience with APLs and LILs.

102. A number of Pacific member countries have expressed interest in the further development of program and sector lending instruments, as opposed to project based lending. This will be done by building on broader Bank experience and on experience with the bank's first structural adjustment operation in the Pacific. Sector or program approaches will only be feasible, however, in those countries where there are clearly articulated sector reform programs. Such approaches will also be dependent on a willingness, flexibility and capacity of development partners to work cooperatively within a broader country articulated sector program.

103. The countries of the Pacific have long recognized that shared action has a role to play in addressing the development challenges they face. The Bank has started to develop lending mechanisms that can provide resources to support such regional action and this early experience, particularly in the Caribbean and Africa, may provide a model for the development of regionally focused lending in the Pacific. This could involve rolling programs targeting a number of countries or ones based on partnership arrangements with regional organizations. Discussions with PMCs to further explore this option have only just begun.

The Bank's Nonlending Program—A Global Knowledge Bank for the Pacific Region

104. Unlike many other regions in which the Bank operates, its role as a knowledge bank is perhaps the key strength that it brings to the Pacific. To date, the Bank's main means of contributing knowledge at the overall regional level has been through the Regional Economic Reports (RER) (see also Box E). The first of the Bank's RERs was produced in 1991 and the fourth in 1998. The fifth is currently under preparation and due to be presented to Pacific member countries in mid 2000. The role of the RER has been supported and extended by a number of regionally based sector studies, including in the health, post-secondary education, transport and energy sectors. In contrast, the Bank's country-focused economic and sector work has provided a means of bringing the Bank's global experience to bear on development issues specific to individual member countries. The Bank's economic and sector work has been disseminated widely, including through the Pacific Islands Discussion Paper Series, as standalone publication and through country and regional presentations.

105. The RER will continue to be the main vehicle for bringing the Bank's global knowledge to the Pacific region but will be supplemented by a more focused program of regional and sector based economic and sector work developed in conjunction with members countries and other development partners, including sectoral studies undertaken on a partnership basis with regional and other organizations. The country-specific economic and sector work undertaken by the Bank has covered a broad range of sectors including health, fisheries, finance and forestry. Importantly, it has been the means by which all member countries have been able to see tangible returns for their membership. The Bank will maintain this capacity to respond flexibly to individual members country requests for short term technical and analytical assistance.

106. Pacific members have indicated that they would like to see a significantly expanded level of service provision by the Bank in terms of economic and sector work and in the provision of short term technical assistance. There are resource constraints on the Bank's ability to increase its capacity in this regard. One option that will be explored is whether it might be possible to develop, in conjunction with other development partners, a grants based facility to support the

provision of technical assistance by the Bank ideally based on grant contributions by development partners. The existing South Pacific Facility currently financed by AusAID and the arrangements underpinning the very successful operations of PFTAC and FIAS provide some possible models in this regard.

Box E: The Biennial Regional Economic Report

The Regional Economic Report (RER), prepared biennially, is a key piece of economic and sector work undertaken by the Bank in the Pacific region. RER 2000, the fifth prepared by the Bank, is due to be presented to member governments in mid-2000 and aims to help the people and governments of PMCs deal with some of the challenges and opportunities that will confront them in the first part of the new century. Three aspects of managing unavoidable change are examined in detail in RER 2000: they are the growth of towns, the effects of global climate change, and the management of the ocean and its interaction with its island peoples.

These three themes were identified after consultations in the region and because of their region-wide relevance. They were also chosen because of the immediacy of the challenges and opportunities they raise, the ability of the Bank to contribute to the ongoing work on the issues, and because within each of the themes lie substantial opportunities to effect lasting improvements to social and economic conditions. The *growth of towns* is handicapped by lack of understanding of the social and economic nature of the process, poor physical management of the towns themselves, and failure of governments to grasp the strongly positive development potential of urban settlement. The effects of *climate change* and the scope for human response to it is a vast and rapidly evolving subject, very difficult for communities and governments to grasp but of immense and immediate impact on the Pacific Islands. The *Pacific Ocean* is by far the most important physical influence on social and economic activity in the PMCs.

Woven through those three areas of concern, and strongly conditioning the way PMCs react to them, RER 2000 also identifies two widespread sources of stress and assesses their significance: these are the *changing forms of institutions and organization*, and the *globalization of trade, investment and economic governance*.

RER 2000 draws on the advice and experience of Pacific Island countries, regional and international institutions and individuals to suggest what needs to be done, where and how to equip communities and governments in PMCs, and their regional organizations, to meet and manage these inescapable challenges and their accompanying opportunities.

Economic and Sector Work in the Short & Medium Term—the Small States Agenda in the Pacific

107. The recent joint work of the Commonwealth Secretariat and World Bank on identifying the characteristics of small states has brought a new focus and shared perspective on the specific problems that small vulnerable states face. A general focus on small states will be maintained in the Bank's operations on an ongoing basis through the establishment of a Small States Network and the holding of an annual Small States Seminar. The next step is to identify specific strategies that are relevant to the Pacific. The Bank's global coverage, combined with the fact that forty one World Bank developing country members have populations of less than 1.5 million and three out of four of these are island countries, means it well placed to help identify world best-practice approaches and solutions to the development problems that its nine Pacific member countries face.

108. Managing the vulnerabilities that Pacific Island countries face requires innovative, sound and focused thinking on the part of national governments. Sound macroeconomic policies must be at the core of these efforts and scope of national reform programs currently being implemented in the Pacific is testament to the commitment of many Pacific Island governments to implement sound macroeconomic and fiscal policies. Diversification of the domestic

economic base will reduce the impact of specific trade or financial shocks and the small size of many of the national economies and the associated lack of economies of scale could be offset by giving more attention to *cooperation at the regional level to share infrastructure and institutional resources*. The Bank will seek ways to support and foster such regional level cooperation and will focus a significant part of its economic and sector at the regional and subregional levels.

Managing natural disasters

109. Natural disasters, like cyclones, frequently exact a large toll on PMCs in the form of human suffering, damage to infrastructure and loss of export earnings. The cost of such disasters can be considerably reduced through comprehensive disaster management programs. This would include ex ante mitigation measures such as appropriate zoning and hazard mapping, establishment and enforcement of building codes, and disaster information mechanisms. A second component would be the strengthening the capacity of national emergency management agencies. Local communities could be involved by organizing, training and equipping community disaster committees in disaster preparedness and mitigation. Third, the program could include investment in protection of key infrastructure facilities. Such work needs to be informed by the approaches already developed that are uniquely integrated with the social and cultural institutions and understandings in the region. The Bank is undertaking work on the development of *catastrophe risk management* in the Caribbean. This includes both catastrophe insurance and the incorporation of catastrophe exposure into macroeconomic policy making. The Bank will work with PMCs and other development partners to see what relevance such work could have for the Pacific.

Tackling commodity price risks

110. The PMCs being largely dependent on export of primary commodities are vulnerable to fluctuations in their prices. It would therefore be useful if the International Task Force¹⁰ on commodity price risk management pay attention to issues and commodities of relevance to the Pacific. The risks that the Pacific are faced with, however, including fluctuations in volumes and tourism earnings and different land tenure systems are likely to require a combination of different approaches.

Managing environmental vulnerability

111. Pacific Island countries are among the most vulnerable in the world to *global climate change*. Most of the population, economic activities and infrastructure are located near the coast and the combination of inherent small island vulnerability to environmental degradation and population growth entails high costs during extreme climatic conditions such as cyclones or El Niño events. The region has been active on climate change issues, especially through regional organizations such as SPREP and SOPAC. However, despite the progress that has been achieved, knowledge gaps persist in regional impact assessment, economic valuation and adaptation to climate change. Changing population dynamics and increasing numbers of people

¹⁰ This Task Force was convened by the World Bank in 1998 and includes participation from all stakeholders in international commodity markets. See <http://www.worldbank.org/commrisk>.

moving to urban and peri-urban areas located near the coast or at sea level are also having an impact on urban environmental services, including water supply, drainage, sanitation/sewerage and solid water disposal and on urban infrastructure such as roads, power and telecommunication services. The Bank's forthcoming Regional Economic Report will analyze ways for PMCs to develop adaptation strategies and improve their access to international funding for adaptation.

Responding to worldwide trade liberalization

112. Recent years have seen the progressive liberalization of world trade following the implementation of Uruguay Round agreements, the establishment of the WTO, and the proliferation of regional trade agreements. As a result, the trade preferences once afforded to PMCs are likely to be eroded. Both time and resources will be needed as PMCs adjust to this new trading environment. Successful adjustment will require both policy change and external support.

113. There is a recognition among the PMCs that they need to participate more fully in the worldwide trend toward freer trade. The benefits of freer trade are not achieved without costs. It takes time for efficient industries to respond to the new opportunities opened by freer trade. The uncompetitive or less efficient industries may have to be scaled down or forced to exit, resulting in reduced profitability and job losses. These 'adjustment costs' are inevitable and the movement towards freer trade must be carefully managed so as to minimize them. The Bank's past and continuing economic and sector work in the region places it on strong analytical base to help PMCs manage this adjustment in their specific context. In addition, the Bank can draw upon its involvement with liberalization experiences in other countries to identify roadblocks which could increase the costs of adjustment. The Bank could examine whether policies that have been used to successfully tackle the roadblocks in other regions could be adapted for the PMCs.

114. The Lome convention which had accorded preferential treatment to exports from participating PMCs to the EU expired in February 2000. A successor convention is to be signed later this year in Suva, Fiji. The new agreement would require the PMCs to conclude with the EU a WTO-compatible arrangement by 2008. Current market access arrangements would, however, be maintained over these eight years. The new WTO-compatible relationship will likely involve a reciprocal trading arrangement of the PMCs with the EU. PMCs have already begun negotiations for forming a regional free trade area amongst themselves which will greatly facilitate a regional economic partnership arrangement (REPA) between the relevant PMCs and the EU. The Bank could support the PMCs in accomplishing such agreements. It is likely that the REPA with the EU would confer greater benefits to the PMCs than would a free trade area among themselves.

Globalization

115. Economic policies and strategies need to be considered in terms of national priorities and social circumstances, but national level decisions have to be informed by international events and pressures. The fast pace of *globalization* accentuates the economic vulnerability of the region, especially as most countries produce mainly primary commodities that have fluctuating and often low value on world markets. National governments can find their policies superseded by larger global forces over which they have limited or no control. Growing export markets for natural

resources can weaken traditional management systems, particularly when local leaders sacrifice long-term sustainability to short-term gains. Conversely, the forces of globalization can also stimulate an environment where innovative policies and incentives help remove some of the traditional barriers of remoteness from markets. Technological and communications advances can, if managed properly, provide new opportunities by reducing liabilities of physical isolation. The Bank will work with PMCs and development partners to help identify how such advances can be realized in the Pacific.

E. RISKS TO IMPLEMENTATION OF THE STRATEGY

116. The major risks to the Bank's Pacific Regional Strategy stem from the nature and characteristics of Pacific states themselves and the region in which they are located. Major risks include:

- A lack of political and institutional capacity in PMCs to follow through with reform programs, to manage the resources available to them and to respond effectively to the changing global economic environment. This risk is significant, particularly for those PMCs whose reform programs are not yet far advanced. The measures set out in this strategy will help build the institutional capacity of PMCs and the risk will decrease over time as progress is achieved. The Bank's continued involvement in the region, along with the decentralization of the Bank's PNG and Pacific Country Management Unit, will enable more sustained dialogue with PMCs to help maintain the commitment to reform.
- Susceptibility of the region and countries in it to external economic and natural shocks. The measures outlined in paragraphs 107-115, including in disaster mitigation and management, environmental vulnerability and trade liberalization, will increase the resilience of PMCs. It has to be acknowledged, however, that this risk will remain on an on-going basis as a part of the Pacific operating environment.
- A failure on the part of development partners that are active in the region to follow through with their stated commitment and willingness to work cooperatively within country-driven reform and sector programs. This risk is rated as low as all development partners have clearly stated their desire and commitment to work on the basis of partnership. The decentralization of the Bank's Pacific operations will also enable enhanced dialogue with other development partners to help ensure the realization of this commitment.

5. CONCLUDING COMMENTS

117. The Bank has a role to play in the Pacific. It involves working in partnership with the nine Pacific Bank members and their development partners to identify solutions to the development challenges they face. That role must be targeted and focused, playing to the Bank's strengths and avoiding generating expectations that the Bank has neither the resources or clear comparative advantage to satisfy. The Pacific Regional Strategy outlined plays to the Bank's strengths, highlighting its global access to knowledge and combining it with a strategic and targeted lending portfolio. The strategy provides a yardstick by which the Bank's involvement can be predicted, measured and assessed; but perhaps the real value of the regional strategy lies in the commitment it makes to its Pacific members and to the other development partners who share that commitment.

James D. Wolfensohn
President

By: Sven Sandström

Washington, D.C.
May 4, 2000

ANNEX 1: THE BANK'S PACIFIC EXPERIENCE

Table 1: The World Bank's Lending Program 1971 - 2000

Financier	Project	Amount In Millions (USD)			Approval Date	Closing Date
		Principal	Undisbursed	Disbursed		
FIJI						
IBRD	Highway – Suva - Nandi	11.8	0	11.8	29 June 1971	31 Dec 1977
IBRD	Highway – Suva - Nandi	4.2	0	4.2	30 Jan 1973	31 Mar 1978
IBRD	Telecommunication	2.2	0	2.2	15 Jun 1972	30 Nov 1978
IBRD	Telecomm II	5.0	0	5.0	8 Jul 1975	31 Mar 1981
IBRD	Sugar Development	12.0	0	11.7	23 Mar 1976	31 Dec 1983
IBRD	Power	15.0	0	15.0	15 Jun 1978	30 Sep 1982
IBRD	Power II	15.5	0	15.5	29 May 1980	31 Dec 1983
IBRD	Cyclone Reconstruction	18.0	0	18.0	25 Nov 1980	30 Jun 1984
IBRD	Development Bank	6.5	0	1.2	2 Jul 1985	31 Dec 1989
IBRD	Road Upgrading	23.4	0	23.4	3 Sep 1987	31 Dec 1991
IBRD	Third Telecommunication	8.1	0	7.6	25 May 1989	31 Dec 1996
IBRD	Housing Project	16.2	0	12.9	17 Apr 1990	30 Sep 1998
IBRD	Roads Upgrading	15.0	0	14.9	18 Jun 1992	30 Jun 1999
SAMOA						
IDA	Highways I	4.4	0	4.4	4 Mar 1975	30 Jun 1980
IDA	Agriculture Development	8.0	0	6.5	18 Sep 1979	30 Jun 1988
IDA	Second Agr. Development	2.0	0	1.0	9 Dec 1980	31 Dec 1987
IDA	Development Bank	2.0	0	2.4	23 Apr 1985	30 Sep 1990
IDA	Multi-Project Loan	2.5	0	3.1	4 Feb 1986	31 Dec 1993
IDA	Power	3.0	0	3.4	21 Apr 1987	31 Aug 1994
IDA	Power	1.0	0	0.4	22 Apr 1993	31 Aug 1994
IDA	Telecom	4.6	0	5.0	8 Jun 1989	31 Dec 1994
IDA	Emergency Road Rehab	14.0	0	15.3	17 May 1990	31 Dec 1994
IDA	Emergency Road Rehab	5.1	0	5.1	9 Mar 1993	31 Dec 1997
IDA	Infrastructure Management	14.4	0	0.4	15 Apr 1999	31 Dec 2002
SOLOMON ISLANDS						
IDA	Development Bank	1.5	0	0.8	17 Mar 1981	31 Dec 1987
IDA	Primary Education	5.0	0	4.7	2 Mar 1982	31 Dec 1989
IDA	Agriculture Development	3.5	0	2.6	20 Dec 1983	31 Dec 1990
IDA	Guadalcanal Road	2.0	0	2.2	22 Jan 1985	30 Jun 1989
IDA	Education II	5.0	0	6.1	29 Apr 1986	31 Dec 1992
IDA	Education III	16.9	1.3	16.0	25 May 1993	30 Jun 2000
IDA	SAC	12.0	5.0	7.0	17 Jun 1999	31 Dec 2000
IDA	Health Sector Development	4.0	3.9	0.1	6 Jan 2000	30 Jun 2005
TONGA						
IDA	Development Bank	2.0	0	2.1	2 Jun 1987	31 Dec 1990
IDA	Development Bank II	3.0	0	2.3	4 Jan 1990	31 Dec 1995
VANUATU						
IDA	Agriculture Research & Extension	2.0	0	1.4	2 Aug 1983	30 Jun 1989
IDA	Multiproject	2.0	0	2.5	20 Mar 1986	30 Jun 1993
IDA	Education	8.0	0	8.6	15 Nov 1988	31 Dec 1998
IDA	Housing	3.4	0	1.6	11 Jun 1991	30 Sep 1998

Table 2: SECTORAL COMPOSITION OF BANK LENDING, 1971-2000

Sector	Fiji		Samoa		Solomon Islands		Vanuatu		Tonga	
	US\$m	%	US\$m	%	US\$m	%	US\$m	%	US\$m	%
Education					26.9	54	8	52		
Health					4	8				
Agriculture/Rural			10	16	3.5	7	2	13		
Banking	6.5	4	2	3	1.5	3			5	100
Housing/Informal Settlements	16.2	10					3.4	22		
Roads/Transport	54.4	36	23.5	39	2	4				
Asset/Infrastructure Management			14.4	24						
Cyclone Reconstruction	18.0	12								
Telecoms	15.3	10	4.6	7.5						
Structural Adjustment Credit					12	24				
Sugar Industry	12	8								
Multiprojects			2.5	4			2	13		
Power	30.5	20	4	6.5						
TOTAL	152.9	100	61	100	49.9	100	15.4	100	5	100

Analytical and Advisory Work

The Bank's analytical and advisory work in the Pacific has been substantial and included regionally based work such as the biennial Regional Economic Reports and individual country work. Regionally based advisory work has covered a wide range of areas including governance, fisheries, education, health, transport, energy, agriculture, coastal management, information technology, telecommunications, private sector investment and energy.

B) Analytical and Advisory Work—Listing of Substantial Pieces

Working Apart or Together

Pacific Islands Discussion Paper Series, Number 10, 2000

Voices from the Village: A Comparative Study of Coastal Resource Management in the Pacific Islands

Pacific Islands Discussion Series, Number 9, 1999

Pacific Islands Stakeholder Participation in Development : Vanuatu

Pacific Islands Discussion Series, Number 8, 1998

Pacific Islands Stakeholder Participation in Development : Fiji

Pacific Islands Discussion Series, Number 7, 1998

Samoa: Meeting the Challenges of Development.

Health Sector Review, 19998

Pacific Islands Stakeholder Participation in Development : Solomon Islands

Pacific Islands Discussion Series, Number 6, 1998

Enhancing the Role of Governance in the Pacific Island Economies

Regional Economic Report, 1998

Pacific Islands Stakeholder Participation in Development : Kiribati

Pacific Islands Discussion Series, Number 5, 1998

Pacific Islands Stakeholder Participation in Development : Tonga

Pacific Islands Discussion Series, Number 4, 1998

Pacific Islands Stakeholder Participation in Development : Samoa

Pacific Islands Discussion Series, Number 3, 1998

Aspects of the Industry, Trade and Marketing of Pacific Islands Trochus

Pacific Islands Discussion Series, Number 2, 1997

The Use of First and Second Languages in Education

Pacific Islands Discussion Series, Number 1, 1997

Pacific Islands, Building a Resilient Economic Base for the Twenty-First Century

Regional Economic Report, 1995

Pacific Island Economies: Sustainable Development of Fisheries

Regional Report, 1995

Pacific Island Economies: Sustainable Development of Forestry

Regional Report, 1995

Pacific Islands Education Study

Regional Report, 1995

Fiji: Restoring Growth in a Changing Global Environment

Country Report, 1995

Managing Urban Environmental Sanitation Services in Pacific Island Countries, Annotate Bibliography

Regional Report, 1995

Health Priorities and Options in the World Bank's Pacific Member Countries

Regional Report, 1994

Managing Urban Environmental Sanitation Services in Selected Pacific Island Countries

Regional report, 1994

Pacific Island Economies: The Role of the Private Sector

Regional Report, 1993

Post Secondary Education Study

Regional Report, 1993

Transport Sector Study
Regional Report, 1993

Pacific Island Economies: Towards Efficient and Sustainable Growth
Regional Economic Report, 1993
Pacific Regional Energy Assessment
Regional Report, 1992

Pacific Island Economies: Towards Higher Growth in the 1990s
Regional Economic Report, 1991

Fiji: Incentive Policies for Growth
Country report, 1991

Western Samoa: Agricultural Strategy Review
Country Report, 1991

Role of Remittances in Polynesian Economies
Regional, 1991

Tonga: Agricultural Sector Strategy Review
Country Report, 1990

Fiji: Performance and Prospects of Education Training and Health Services
Country Report, 1990

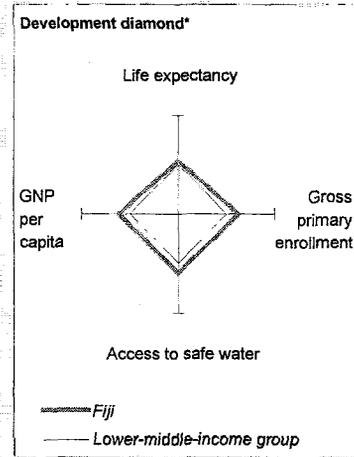
Fiji: Challenges for Development
Country Report, 1990

ANNEX 2: PACIFIC - COUNTRIES AT A GLANCE

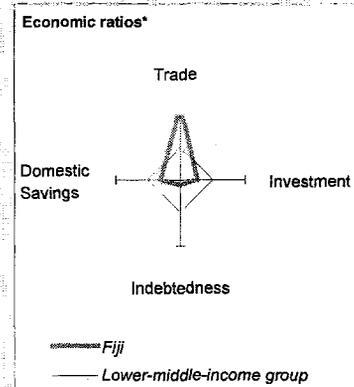
Fiji at a glance

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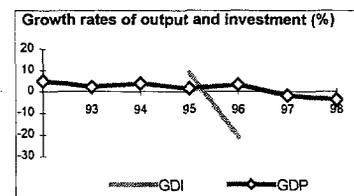
	Fiji	East Asia & Pacific	Lower-middle-income
POVERTY and SOCIAL			
1998			
Population, mid-year (millions)	0.83	1,817	908
GNP per capita (Atlas method, US\$)	2,110	990	1,710
GNP (Atlas method, US\$ billions)	1.7	1,802	1,557
Average annual growth, 1992-98			
Population (%)	1.5	1.2	1.1
Labor force (%)	2.8	1.6	1.5
Most recent estimate (latest year available, 1992-98)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	42	35	58
Life expectancy at birth (years)	73	69	68
Infant mortality (per 1,000 live births)	18	37	38
Child malnutrition (% of children under 5)	8	20	..
Access to safe water (% of population)	90	77	75
Illiteracy (% of population age 15+)	8	15	14
Gross primary enrollment (% of school-age population)	128	117	103
Male	128	119	105
Female	128	118	100



	1977	1987	1997	1998
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
GDP (US\$ billions)	0.7	1.2	2.1	1.6
Gross domestic investment/GDP	23.2	15.9	12.4	12.0
Exports of goods and services/GDP	43.9	45.0	57.3	66.0
Gross domestic savings/GDP	20.4	19.2	10.7	13.3
Gross national savings/GDP	19.0	15.2	11.0	9.7
Current account balance/GDP	-3.6	-1.1	0.2	-2.5
Interest payments/GDP	0.7	2.2	0.5	0.6
Total debt/GDP	16.8	39.5	10.2	13.8
Total debt service/exports	3.4	11.8	3.1	1.8
Present value of debt/GDP	..	..	9.3	..
Present value of debt/exports	..	..	15.4	..
(average annual growth)				
GDP	1.1	2.4	-1.8	-3.7
GNP per capita	-1.1	0.9	-3.2	-5.7
Exports of goods and services	2.2	..	..	..



	1977	1987	1997	1998
STRUCTURE of the ECONOMY				
(% of GDP)				
Agriculture	23.3	22.9	17.6	19.5
Industry	20.7	21.1	26.2	31.0
Manufacturing	11.5	11.7	13.6	15.1
Services	56.0	56.1	56.1	49.5
Private consumption	64.1	63.6	72.9	70.7
General government consumption	15.5	17.3	16.4	16.0
Imports of goods and services	46.7	41.7	59.0	64.7
(average annual growth)				
Agriculture	2.0	0.5	-12.5	-10.0
Industry	-0.1	4.7	-1.3	3.2
Manufacturing	1.6	4.1	-3.4	-5.0
Services	2.3	1.1	1.9	-7.4
Private consumption	-0.2	..	..	..
General government consumption	4.3	..	..	..
Gross domestic investment	-3.0	..	..	..
Imports of goods and services	-0.7	..	..	..
Gross national product	0.8	2.3	-1.8	-4.2

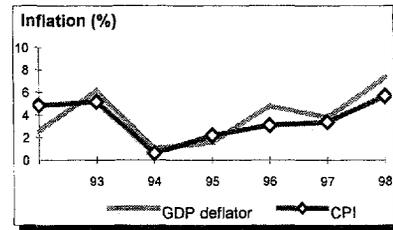


Note: 1998 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

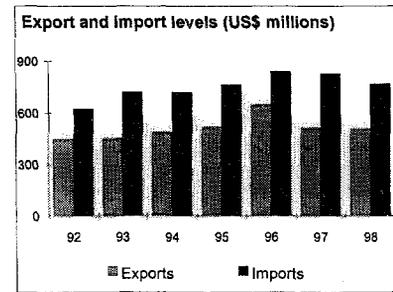
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices				
<i>(% change)</i>				
Consumer prices	7.0	5.7	3.4	5.7
Implicit GDP deflator	0.0	8.2	3.8	7.3
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	23.2	26.5	27.0
Current budget balance	..	-0.9	2.1	1.5
Overall surplus/deficit	..	-5.0	-6.5	-2.4



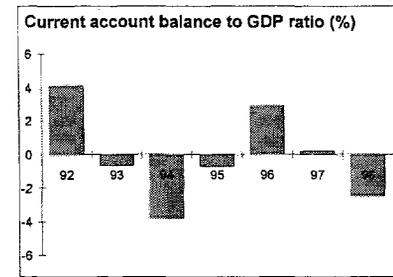
TRADE

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total exports (fob)	..	329	511	505
Sugar	..	150	148	60
Gold	..	41	51	40
Manufactures	155	152
Total imports (cif)	..	374	829	768
Food	..	70	133	114
Fuel and energy	..	61	114	76
Capital goods	..	73	225	152
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



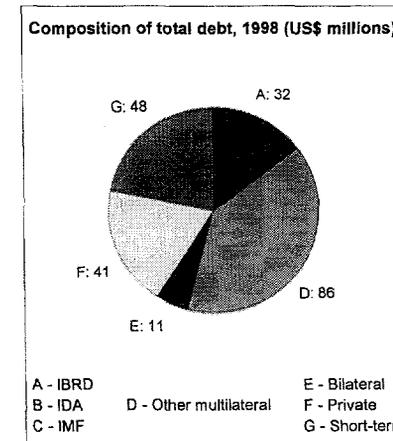
BALANCE of PAYMENTS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Exports of goods and services	318	530	1,240	1,139
Imports of goods and services	334	521	1,241	1,117
Resource balance	-16	8	-2	22
Net income	-9	-11	-68	-86
Net current transfers	-1	-11	74	25
Current account balance	-26	-13	4	-39
Financing items (net)	43	-50	-33	22
Changes in net reserves	-17	63	29	17
Memo:				
Reserves including gold (US\$ millions)	147	132	360	385
Conversion rate (DEC. local/US\$)	0.9	1.2	1.4	2.0



EXTERNAL DEBT and RESOURCE FLOWS

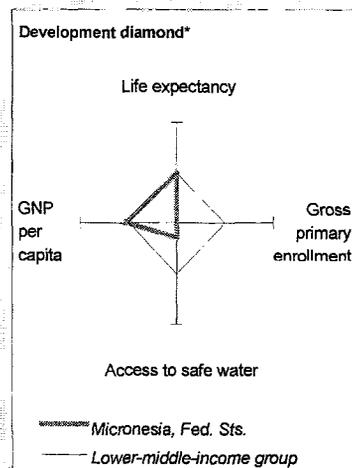
	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	121	468	213	218
IBRD	23	80	30	32
IDA	0	0	0	0
Total debt service	11	67	39	21
IBRD	2	13	6	7
IDA	0	0	0	0
Composition of net resource flows				
Official grants	8	17	14	..
Official creditors	11	-1	-8	-6
Private creditors	8	-16	-12	0
Foreign direct investment	0	11	12	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	0	0	0	0
Disbursements	5	1	4	4
Principal repayments	0	7	4	5
Net flows	4	-6	0	-1
Interest payments	2	6	2	2
Net transfers	3	-13	-2	-3



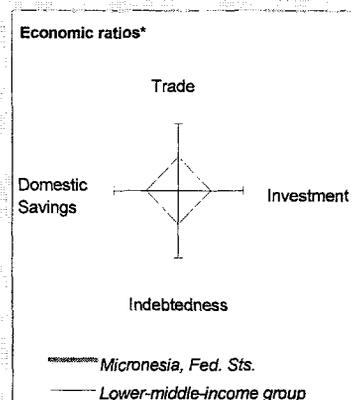
Micronesia, Fed. Sts. at a glance

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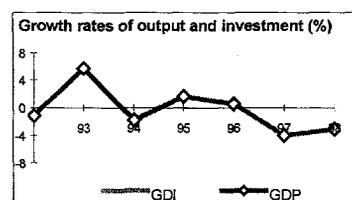
POVERTY and SOCIAL	Micronesia, Fed. Sts.	East Asia & Pacific	Lower- middle- income
1998			
Population, mid-year (millions)	0.11	1.817	908
GNP per capita (Atlas method, US\$)	1.800	990	1.710
GNP (Atlas method, US\$ billions)	0.20	1.802	1.557
Average annual growth, 1992-98			
Population (%)	2.0	1.2	1.1
Labor force (%)		1.6	1.5
Most recent estimate (latest year available, 1992-98)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	29	35	58
Life expectancy at birth (years)	67	69	68
Infant mortality (per 1,000 live births)	30	37	38
Child malnutrition (% of children under 5)	..	20	..
Access to safe water (% of population)	22	77	75
Illiteracy (% of population age 15+)	..	15	14
Gross primary enrollment (% of school-age population)	..	117	103
Male	..	119	105
Female	..	118	100



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1977	1987	1997	1998
GDP (US\$ billions)	0.21	0.21
Gross domestic investment/GDP
Exports of goods and services/GDP
Gross domestic savings/GDP
Gross national savings/GDP
Current account balance/GDP	30.0	31.4
Interest payments/GDP
Total debt/GDP
Total debt service/exports
Present value of debt/GDP
Present value of debt/exports
(average annual growth)				
GDP	..	0.3	-4.0	-3.1
GNP per capita	..	-2.3	-5.6	-4.8
Exports of goods and services



STRUCTURE of the ECONOMY	1977	1987	1997	1998
(% of GDP)				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Imports of goods and services
(average annual growth)				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services
Gross national product	..	-0.2	-4.0	-3.1



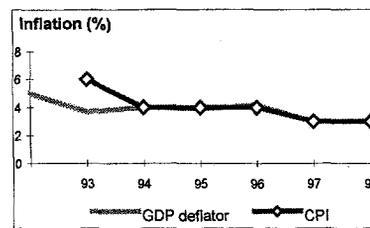
Note: 1998 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Micronesia, Fed. Sts.

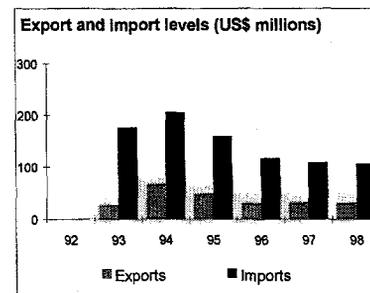
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices				
<i>(% change)</i>				
Consumer prices	3.0	3.0
Implicit GDP deflator	3.0	3.0
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	73.8	75.7
Current budget balance	15.0	23.5
Overall surplus/deficit	1.5	0.3



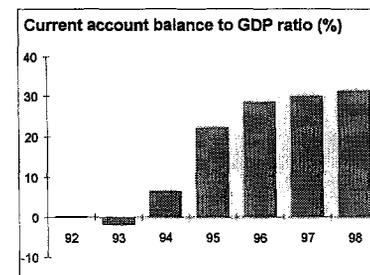
TRADE

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total exports (fob)	33	32
n.a.
Manufactures
Total imports (cif)	109	107
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



BALANCE of PAYMENTS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Exports of goods and services	64	62
Imports of goods and services	118	115
Resource balance	-54	-53
Net income	1	1
Net current transfers	116	118
Current account balance	64	67
Financing items (net)	-56	-51
Changes in net reserves	-8	-16
Memo:				
Reserves including gold (US\$ millions)	46	62
Conversion rate (DEC. local/US\$)	..	1.0	1.0	1.0



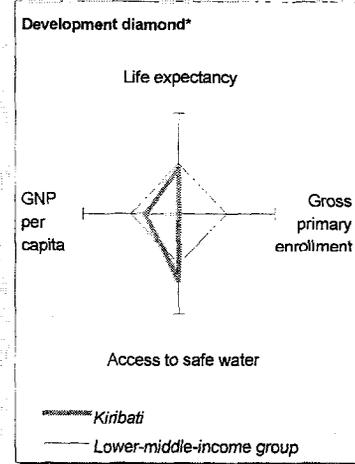
EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed
IBRD
IDA
Total debt service
IBRD
IDA
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments
Net flows
Interest payments
Net transfers

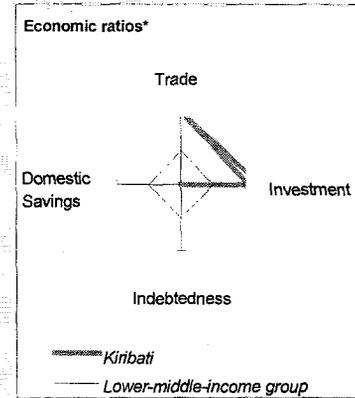
Kiribati at a glance

9/22/99

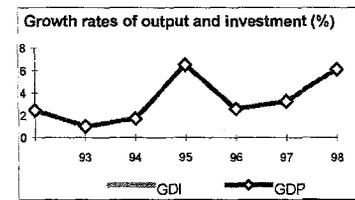
	Kiribati	East Asia & Pacific	Lower-middle-income
POVERTY and SOCIAL			
1998			
Population, mid-year (millions)	0.09	1.817	908
GNP per capita (Atlas method, US\$)	1.180	990	1.710
GNP (Atlas method, US\$ billions)	0.10	1.802	1.557
Average annual growth, 1992-98			
Population (%)	2.1	1.2	1.1
Labor force (%)	..	1.6	1.5
Most recent estimate (latest year available, 1992-98)			
<i>Poverty (% of population below national poverty line)</i>			
Urban population (% of total population)	37	35	58
Life expectancy at birth (years)	60	69	68
Infant mortality (per 1,000 live births)	60	37	38
Child malnutrition (% of children under 5)	..	20	..
Access to safe water (% of population)	100	77	75
Illiteracy (% of population age 15+)	..	15	14
<i>Gross primary enrollment (% of school-age population)</i>			
Male	..	117	103
Female	..	119	105
	..	118	100



	1977	1987	1997	1998
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
GDP (US\$ billions)	0.04	0.02	0.05	0.05
Gross domestic investment/GDP	6.4	70.2	..	..
Exports of goods and services/GDP	55.8	9.3	..	..
Gross domestic savings/GDP	24.0	-35.0	..	..
Gross national savings/GDP	..	..	..	..
Current account balance/GDP	..	..	7.4	25.9
Interest payments/GDP	0.0	4.0	0.0	0.0
Total debt/GDP	0.0	68.1	..	..
Total debt service/exports	..	6.7	..	..
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..
<i>(average annual growth)</i>				
GDP	..	-6.3	2.4	3.3
GNP per capita	..	0.6	-0.2	..
Exports of goods and services	..	..	..	..
	1977-87	1988-98	1997	1998
	1999-03			



	1977	1987	1997	1998
STRUCTURE of the ECONOMY				
<i>(% of GDP)</i>				
Agriculture	..	25.1	..	..
Industry	..	10.5	..	..
Manufacturing	..	2.2	..	..
Services	..	64.4	..	..
Private consumption	49.0	86.4	..	..
General government consumption	27.0	48.6	..	..
Imports of goods and services	38.2	114.5	..	..
<i>(average annual growth)</i>				
Agriculture	..	-1.3	-0.8	..
Industry	..	3.2	-2.5	..
Manufacturing	..	-0.4	1.0	..
Services	..	-3.1	2.6	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	..	..	..
Imports of goods and services	..	..	..	..
Gross national product	2.9	1.8	..	..

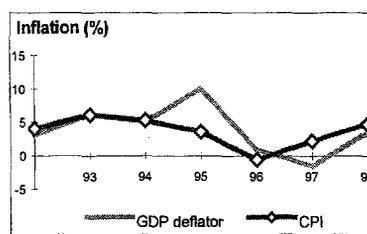


Note: 1998 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

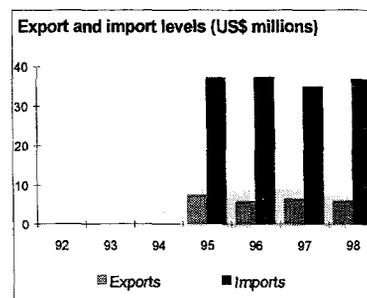
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices				
<i>(% change)</i>				
Consumer prices	2.2	4.7
Implicit GDP deflator	8.9	4.8	-1.5	3.5
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	122.8	137.0
Current budget balance	47.2	64.5
Overall surplus/deficit	6.3	24.0



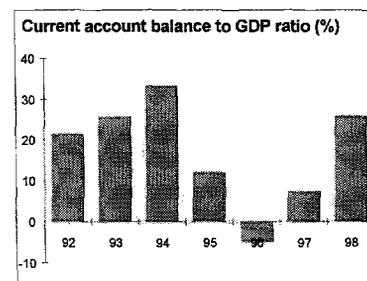
TRADE

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total exports (fob)	7	6
Copra
Fish
Manufactures
Total imports (cif)	35	37
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



BALANCE of PAYMENTS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Exports of goods and services	32	44
Imports of goods and services	58	60
Resource balance	-26	-16
Net income	13	13
Net current transfers	17	15
Current account balance	4	12
Financing items (net)	4	12
Changes in net reserves	..	-1	-7	-24
Memo:				
Reserves including gold (US\$ millions)	323	370
Conversion rate (DEC. local/US\$)	0.9	1.4	1.3	1.6



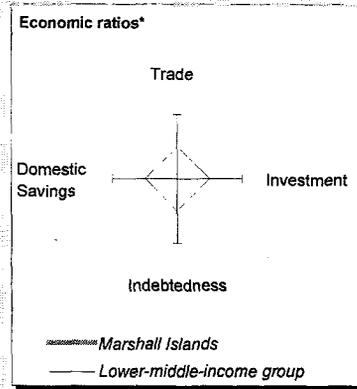
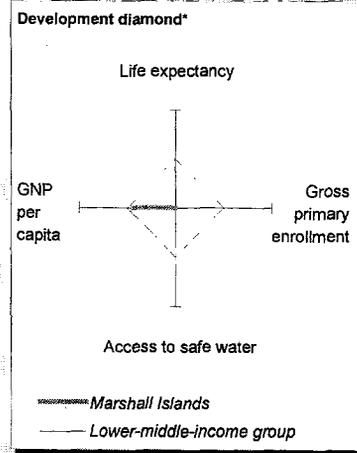
EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	0	17	..	..
IBRD	0	0	0	0
IDA	0	0	0	0
Total debt service	0	1	..	..
IBRD	0	0	0	0
IDA	0	0	0	0
Composition of net resource flows				
Official grants	4	10	..	..
Official creditors	0	0	..	..
Private creditors	0	0	..	..
Foreign direct investment	0	0	..	..
Portfolio equity	0	0	..	..
World Bank program				
Commitments	0	0	0	0
Disbursements	0	0	0	0
Principal repayments	0	0	0	0
Net flows	0	0	0	0
Interest payments	0	0	0	0
Net transfers	0	0	0	0

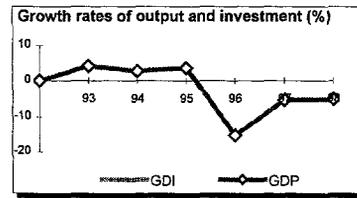
Marshall Islands at a glance

9/22/99

POVERTY and SOCIAL	Marshall Islands	East Asia & Pacific	Lower-middle-income		
1998					
Population, mid-year (millions)	0.06	1,817	908		
GNP per capita (Atlas method, US\$)	1,540	990	1,710		
GNP (Atlas method, US\$ billions)	0.10	1,802	1,557		
Average annual growth, 1992-98					
Population (%)	..	1.2	1.1		
Labor force (%)	..	1.6	1.5		
Most recent estimate (latest year available, 1992-98)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	..	35	58		
Life expectancy at birth (years)	..	69	68		
Infant mortality (per 1,000 live births)	..	37	38		
Child malnutrition (% of children under 5)	..	20	..		
Access to safe water (% of population)	..	77	75		
Illiteracy (% of population age 15+)	..	15	14		
Gross primary enrollment (% of school-age population)	..	117	103		
Male	..	119	105		
Female	..	118	100		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1977	1987	1997	1998	
GDP (US\$ billions)	..	0.06	0.10	0.10	
Gross domestic investment/GDP	
Exports of goods and services/GDP	
Gross domestic savings/GDP	
Gross national savings/GDP	
Current account balance/GDP	16.9	22.2	
Interest payments/GDP	
Total debt/GDP	
Total debt service/exports	
Present value of debt/GDP	
Present value of debt/exports	
	1977-87	1988-98	1997	1998	1999-03
(average annual growth)					
GDP	..	-0.9	-5.3	-5.0	..
GNP per capita	-9.5	..
Exports of goods and services



STRUCTURE of the ECONOMY	1977	1987	1997	1998
(% of GDP)				
Agriculture	14.8	..
Industry	11.9	..
Manufacturing	2.3	..
Services	73.3	..
Private consumption
General government consumption
Imports of goods and services
	1977-87	1988-98	1997	1998
(average annual growth)				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services
Gross national product	..	-3.1	-5.3	-5.0



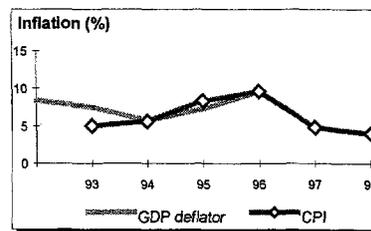
Note: 1998 data are preliminary estimates.

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Marshall Islands

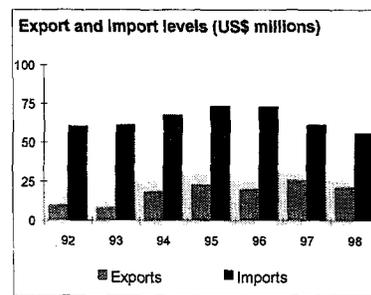
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices (% change)				
Consumer prices	4.8	4.0
Implicit GDP deflator	4.8	4.0
Government finance (% of GDP, includes current grants)				
Current revenue	66.8	66.5
Current budget balance	18.4	16.2
Overall surplus/deficit	3.9	5.2



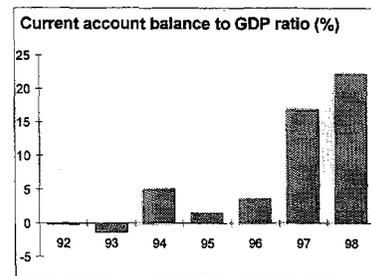
TRADE

	1977	1987	1997	1998
(US\$ millions)				
Total exports (fob)	26	22
Fish	25	..
Coconut oil	3	..
Manufactures
Total imports (cif)	62	56
Food	15	..
Fuel and energy	14	..
Capital goods	6	..
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



BALANCE of PAYMENTS

	1977	1987	1997	1998
(US\$ millions)				
Exports of goods and services	42	36
Imports of goods and services	91	82
Resource balance	-50	-46
Net income	20	20
Net current transfers	47	47
Current account balance	16	21
Financing items (net)	-18	-24
Changes in net reserves	1	3
Memo:				
Reserves including gold (US\$ millions)	7	4
Conversion rate (DEC. local/US\$)	..	1.0	1.0	1.0



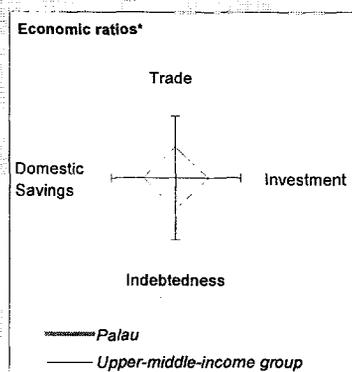
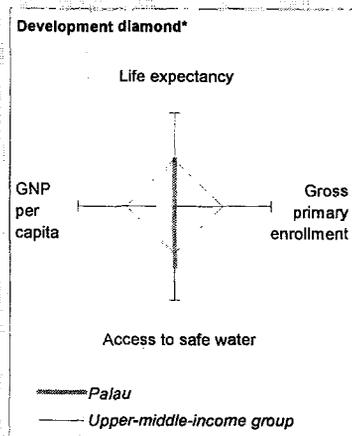
EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
(US\$ millions)				
Total debt outstanding and disbursed
IBRD
IDA
Total debt service
IBRD
IDA
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments
Net flows
Interest payments
Net transfers

Palau at a glance

9/22/99

	Palau	East Asia & Pacific	Upper-middle-income	
POVERTY and SOCIAL				
1998				
Population, mid-year (millions)	0.02	1,817	588	
GNP per capita (Atlas method, US\$)	..	990	4,860	
GNP (Atlas method, US\$ billions)	..	1,802	2,862	
Average annual growth, 1992-98				
Population (%)	2.5	1.2	1.4	
Labor force (%)	..	1.6	2.0	
Most recent estimate (latest year available, 1992-98)				
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	..	35	77	
Life expectancy at birth (years)	71	69	70	
Infant mortality (per 1,000 live births)	25	37	27	
Child malnutrition (% of children under 5)	..	20	..	
Access to safe water (% of population)	100	77	79	
Illiteracy (% of population age 15+)	..	15	11	
Gross primary enrollment (% of school-age population)	..	117	106	
Male	..	119	..	
Female	..	118	..	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	1977	1987	1997	1998
GDP (US\$ billions)	0.13	0.13
Gross domestic investment/GDP
Exports of goods and services/GDP
Gross domestic savings/GDP
Gross national savings/GDP
Current account balance/GDP	16.6	13.2
Interest payments/GDP
Total debt/GDP
Total debt service/exports
Present value of debt/GDP
Present value of debt/exports
	1977-87	1988-98	1997	1998
<i>(average annual growth)</i>				
GDP
GNP per capita
Exports of goods and services



	1977	1987	1997	1998
STRUCTURE of the ECONOMY				
<i>(% of GDP)</i>				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Imports of goods and services
	1977-87	1988-98	1997	1998
<i>(average annual growth)</i>				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services
Gross national product	0.8	..	..	..

Note: 1998 data are preliminary estimates.

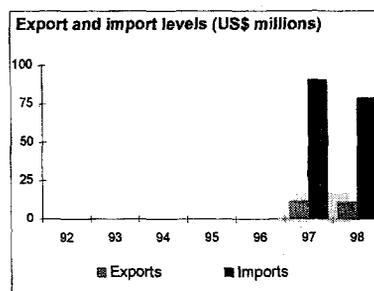
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices				
(% change)				
Consumer prices
Implicit GDP deflator
Government finance				
(% of GDP, includes current grants)				
Current revenue	55.1	56.8
Current budget balance	10.7	14.4
Overall surplus/deficit	0.2	5.9

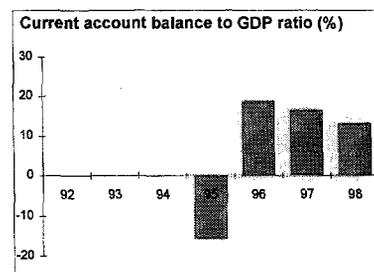
TRADE

	1977	1987	1997	1998
(US\$ millions)				
Total exports (fob)	12	11
n.a.
n.a.
Manufactures
Total imports (cif)	91	79
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



BALANCE of PAYMENTS

	1977	1987	1997	1998
(US\$ millions)				
Exports of goods and services	..	..	73	69
Imports of goods and services	..	..	93	81
Resource balance	..	..	-20	-12
Net income	..	..	18	7
Net current transfers	..	..	24	22
Current account balance	..	..	22	17
Financing items (net)	..	..	-25	-13
Changes in net reserves	..	..	3	-4
Memo:				
Reserves including gold (US\$ millions)	..	..	..	..
Conversion rate (DEC, local/US\$)	1.0	1.0	1.0	1.0



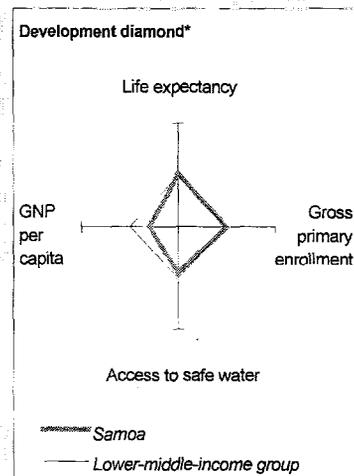
EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
(US\$ millions)				
Total debt outstanding and disbursed
IBRD
IDA
Total debt service
IBRD
IDA
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments
Net flows
Interest payments
Net transfers

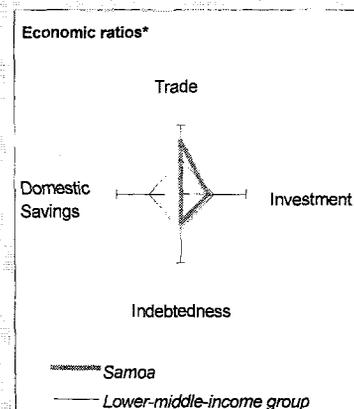
Samoa at a glance

9/22/99

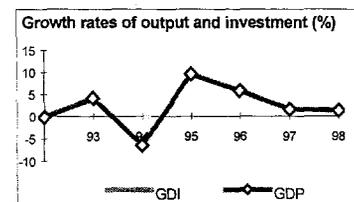
POVERTY and SOCIAL	Samoa	East Asia & Pacific	Lower-middle-income
1998			
Population, mid-year (millions)	0.18	1,817	908
GNP per capita (Atlas method, US\$)	1,020	990	1,710
GNP (Atlas method, US\$ billions)	0.18	1,802	1,557
Average annual growth, 1992-98			
Population (%)	1.2	1.2	1.1
Labor force (%)		1.6	1.5
Most recent estimate (latest year available, 1992-98)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	21	35	58
Life expectancy at birth (years)	69	69	68
Infant mortality (per 1,000 live births)	22	37	38
Child malnutrition (% of children under 5)	..	20	..
Access to safe water (% of population)	68	77	75
Illiteracy (% of population age 15+)	..	15	14
Gross primary enrollment (% of school-age population)	103	117	103
Male	106	119	105
Female	100	118	100



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1977	1987	1997	1998	
GDP (US\$ billions)	..	0.10	0.19	0.18	
Gross domestic investment/GDP	..	35.2	..	..
Exports of goods and services/GDP	..	18.2	32.6	35.3	
Gross domestic savings/GDP	..	-15.3	..	..
Gross national savings/GDP	..	33.3	..	..
Current account balance/GDP	..	7.2	4.7	11.4	
Interest payments/GDP	..	1.3	0.8	0.8	
Total debt/GDP	..	78.6	81.5	107.1	
Total debt service/exports	13.0	11.7	5.9	5.6	
Present value of debt/GDP	..	..	40.7	..
Present value of debt/exports	..	..	91.7	..
(average annual growth)	1977-87	1988-98	1997	1998	1999-03
GDP	-0.1	1.1	1.6	1.3	..
GNP per capita	1.6	0.0	0.4	0.1	..
Exports of goods and services	1.7	..	-7.1



STRUCTURE of the ECONOMY	1977	1987	1997	1998
(% of GDP)				
Agriculture	..	..	17.3	16.6
Industry	..	..	26.8	23.8
Manufacturing	..	..	..	..
Services	..	..	56.0	59.6
Private consumption	..	95.5	..	..
General government consumption	..	19.9	..	..
Imports of goods and services	..	68.8	54.3	52.8
(average annual growth)	1977-87	1988-98	1997	1998
Agriculture	..	..	-8.2	..
Industry	..	..	-3.6	..
Manufacturing	..	..	-5.5	..
Services	..	..	7.5	..
Private consumption	1.2	..	..	..
General government consumption	-5.8	..	..	..
Gross domestic investment	-7.3	..	..	..
Imports of goods and services	-2.6	..	-6.2	..
Gross national product	1.7	1.2	1.6	1.3

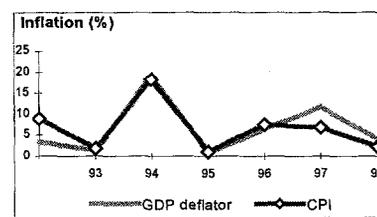


Note: 1998 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

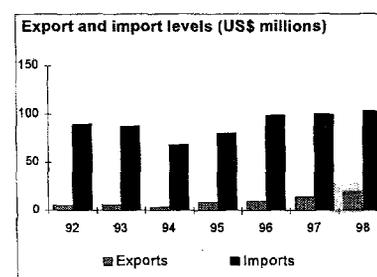
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices				
(% change)				
Consumer prices	..	4.6	6.9	2.2
implicit GDP deflator	..	4.6	11.8	4.0
Government finance				
(% of GDP, includes current grants)				
Current revenue	48.2	44.9
Current budget balance	20.1	17.4
Overall surplus/deficit	0.3	2.0



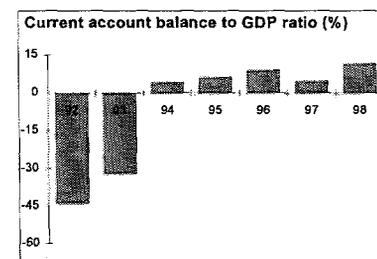
TRADE

	1977	1987	1997	1998
(US\$ millions)				
Total exports (fob)	15	20
Copra	3	..
Coconut oil	3	..
Manufactures
Total imports (cif)	100	104
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



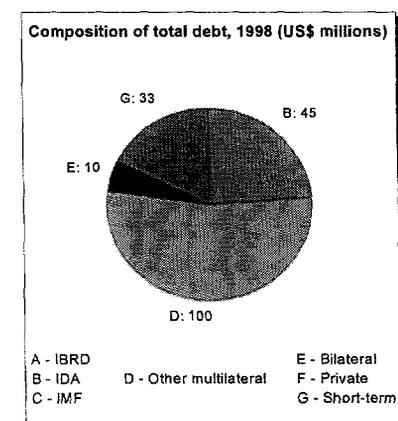
BALANCE of PAYMENTS

	1977	1987	1997	1998
(US\$ millions)				
Exports of goods and services	17	28	80	83
Imports of goods and services	42	71	140	126
Resource balance	-25	-43	-60	-43
Net income	0	1	1	4
Net current transfers	14	49	68	59
Current account balance	..	7	9	20
Financing items (net)	..	2	2	-15
Changes in net reserves	-3	-9	-11	-5
Memo:				
Reserves including gold (US\$ millions)	..	37	64	61
Conversion rate (DEC, local/US\$)	0.8	2.1	2.6	2.9



EXTERNAL DEBT and RESOURCE FLOWS

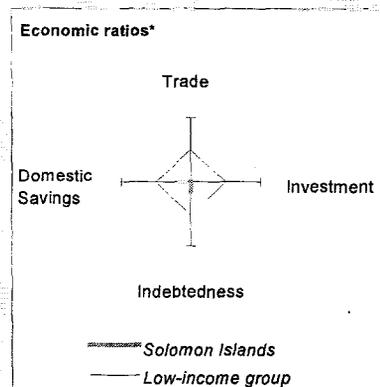
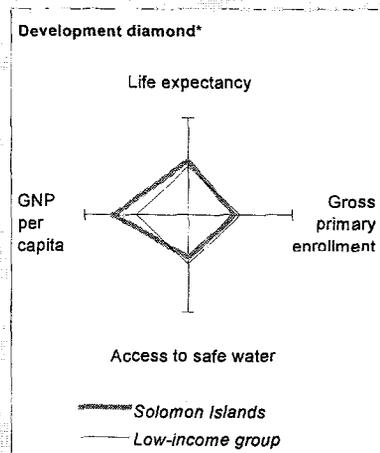
	1977	1987	1997	1998
(US\$ millions)				
Total debt outstanding and disbursed	31	81	156	188
IBRD	0	0	0	0
IDA	3	13	42	45
Total debt service	3	8	5	5
IBRD	0	0	0	0
IDA	0	0	1	1
Composition of net resource flows				
Official grants	10	18	8	..
Official creditors	6	4	-1	1
Private creditors	2	0	0	0
Foreign direct investment	0	1	4	3
Portfolio equity	0	0	0	0
World Bank program				
Commitments	0	3	0	0
Disbursements	1	2	1	2
Principal repayments	0	0	0	0
Net flows	1	2	1	2
Interest payments	0	0	0	0
Net transfers	1	1	0	2



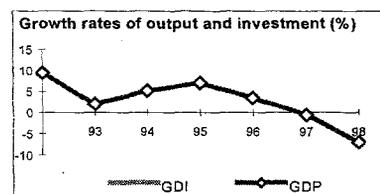
Solomon Islands at a glance

9/17/99

POVERTY and SOCIAL	Solomon Islands	East Asia & Pacific	Low-income		
1998					
Population, mid-year (millions)	0.42	1.817	3.515		
GNP per capita (Atlas method, US\$)	750	990	520		
GNP (Atlas method, US\$ billions)	0.31	1.802	1.844		
Average annual growth, 1992-98					
Population (%)	3.1	1.2	1.7		
Labor force (%)	3.1	1.6	1.9		
Most recent estimate (latest year available, 1992-98)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	19	35	31		
Life expectancy at birth (years)	70	69	63		
Infant mortality (per 1,000 live births)	23	37	69		
Child malnutrition (% of children under 5)	..	20	..		
Access to safe water (% of population)	64	77	74		
Illiteracy (% of population age 15+)	..	15	32		
Gross primary enrollment (% of school-age population)	97	117	108		
Male	103	119	113		
Female	89	118	103		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1977	1987	1997	1998	
GDP (US\$ billions)	0.06	0.16	0.37	0.30	
Gross domestic investment/GDP	..	34.0	
Exports of goods and services/GDP	..	52.8	
Gross domestic savings/GDP	..	22.3	
Gross national savings/GDP	..	44.6	
Current account balance/GDP	9.0	-2.8	-10.2	5.5	
Interest payments/GDP	0.0	1.3	0.3	1.2	
Total debt/GDP	13.3	59.4	36.3	50.9	
Total debt service/exports	0.0	6.1	2.4	3.6	
Present value of debt/GDP	23.5	..	
Present value of debt/exports	37.4	..	
	1977-87	1988-98	1997	1998	1999-03
(average annual growth)					
GDP	7.4	3.9	-0.5	-7.0	4.0
GNP per capita	3.1	0.4	-3.5	-9.7	1.0
Exports of goods and services	8.8



STRUCTURE of the ECONOMY	1977	1987	1997	1998
(% of GDP)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Private consumption	..	47.9	..	..
General government consumption	..	29.8	..	..
Imports of goods and services	..	64.5	..	..
	1977-87	1988-98	1997	1998
(average annual growth)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Private consumption	2.2	..	..	..
General government consumption	5.4	..	..	..
Gross domestic investment	2.2	..	..	..
Imports of goods and services	2.7	..	..	..
Gross national product	6.8	3.7	-0.5	-7.0



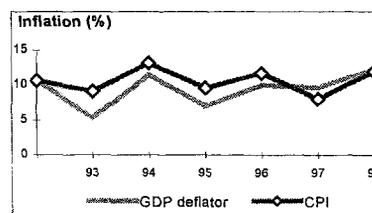
Note: 1998 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Solomon Islands

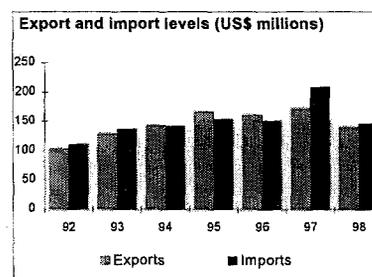
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices				
<i>(% change)</i>				
Consumer prices	..	11.0	8.1	12.0
Implicit GDP deflator	8.6	..	9.7	12.3
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	23.0	24.5
Current budget balance	-3.3	1.7
Overall surplus/deficit	-4.9	0.1



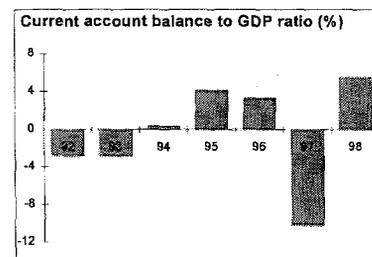
TRADE

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total exports (fob)	174	141
Logs	80	41
Fish (frozen)	17	..
Manufactures	20	..
Total imports (cif)	209	147
Food
Fuel and energy
Capital goods
Export price index (1995=100)	113	..
Import price index (1995=100)	92	..
Terms of trade (1995=100)	123	122



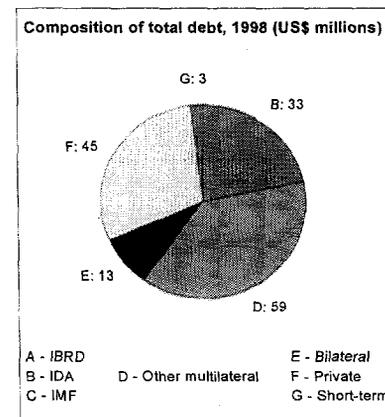
BALANCE of PAYMENTS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Exports of goods and services	36	84	231	191
Imports of goods and services	39	119	302	206
Resource balance	-3	-35	-71	-15
Net income	-4	-8	-7	-6
Net current transfers	13	38	40	38
Current account balance	6	-5	-38	17
Financing items (net)	1	11	32	4
Changes in net reserves	-7	-6	6	-21
Memo:				
Reserves including gold (US\$ millions)	..	37	32	49
Conversion rate (DEC, local/US\$)	0.9	2.0	3.7	4.8



EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	9	98	135	153
IBRD	0	0	0	0
IDA	0	10	30	33
Total debt service	0	5	6	7
IBRD	0	0	0	0
IDA	0	0	0	0
Composition of net resource flows				
Official grants	10	34	16	..
Official creditors	0	14	2	14
Private creditors	0	0	-4	0
Foreign direct investment	4	11	22	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	0	0	0	0
Disbursements	0	1	3	2
Principal repayments	0	0	0	0
Net flows	0	1	2	2
Interest payments	0	0	0	0
Net transfers	0	1	2	1



Tonga at a glance

9/17/99

POVERTY and SOCIAL

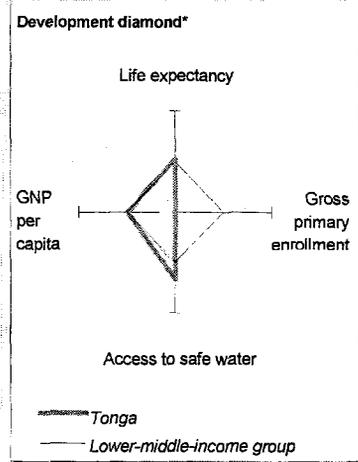
	Tonga	East Asia & Pacific	Lower-middle-income
1998			
Population, mid-year (millions)	0.10	1.817	908
GNP per capita (Atlas method, US\$)	1.690	990	1.710
GNP (Atlas method, US\$ billions)	0.17	1.802	1.557

Average annual growth, 1992-98

	Tonga	East Asia & Pacific	Lower-middle-income
Population (%)	0.3	1.2	1.1
Labor force (%)		1.6	1.5

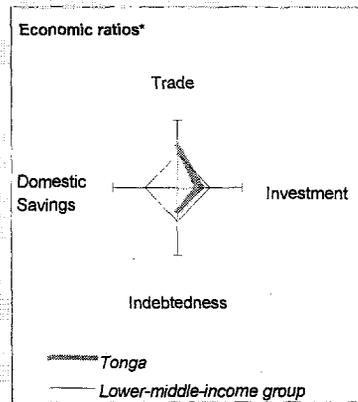
Most recent estimate (latest year available, 1992-98)

	Tonga	East Asia & Pacific	Lower-middle-income
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	44	35	58
Life expectancy at birth (years)	70	69	68
Infant mortality (per 1,000 live births)	22	37	38
Child malnutrition (% of children under 5)		20	
Access to safe water (% of population)	100	77	75
Literacy (% of population age 15+)		15	14
Gross primary enrollment (% of school-age population)		117	103
Male		119	105
Female		118	100



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

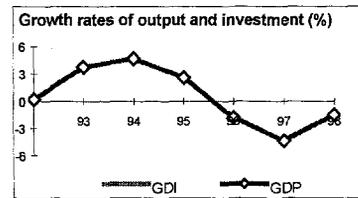
	1977	1987	1997	1998
GDP (US\$ billions)	0.04	0.08	0.18	0.16
Gross domestic investment/GDP	20.1	22.2	..	..
Exports of goods and services/GDP	33.8	31.0	..	..
Gross domestic savings/GDP	-3.2	-11.5	..	..
Gross national savings/GDP		28.0	..	..
Current account balance/GDP		7.5	-0.8	-12.3
Interest payments/GDP		0.4	0.7	0.7
Total debt/GDP		46.8	33.5	41.6
Total debt service/exports		2.4	12.3	11.5
Present value of debt/GDP			20.2	..
Present value of debt/exports			78.5	..



(average annual growth)	1977-87	1988-98	1997	1998	1999-03
GDP	3.3	1.4	-4.4	-1.5	..
GNP per capita	3.2	0.5	-4.8	-2.3	..
Exports of goods and services	..	..	..	..	..

STRUCTURE of the ECONOMY

	1977	1987	1997	1998
(% of GDP)				
Agriculture	43.8	38.9	36.9	38.3
Industry	11.2	12.8	11.5	11.5
Manufacturing	6.7	4.9	4.2	3.9
Services	44.9	48.3	51.6	50.2
Private consumption	88.0	94.9	..	..
General government consumption	15.3	16.6	..	..
Imports of goods and services	57.1	64.7	..	..



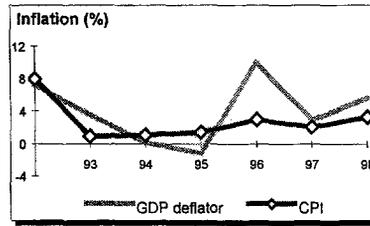
(average annual growth)	1977-87	1988-98	1997	1998
Agriculture	0.5	2.4	-3.0	-3.8
Industry	4.8	-1.7	-28.1	1.8
Manufacturing	11.0	-0.4	0.6	-3.0
Services	3.8	1.6	-2.4	1.6
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	..	..	..
Imports of goods and services	..	..	..	..
Gross national product	3.2	0.8	-4.4	-1.5

Note: 1998 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

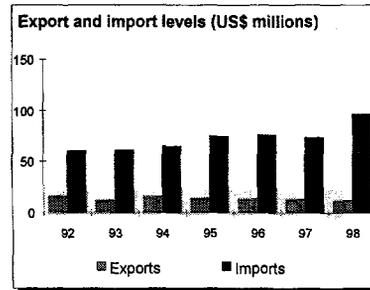
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices				
(% change)				
Consumer prices	..	4.7	2.1	3.3
Implicit GDP deflator	..	11.0	2.9	5.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	40.4	38.4
Current budget balance	14.0	10.7
Overall surplus/deficit	-1.2	-4.4



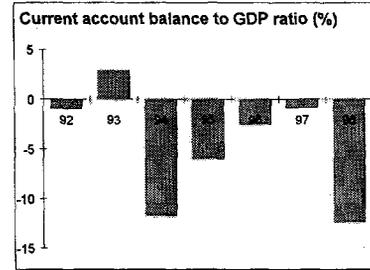
TRADE

	1977	1987	1997	1998
(US\$ millions)				
Total exports (fob)	13	12
Squash	5	..
Fish	2	..
Manufactures	1	2
Total imports (cif)	73	97
Food	24	..
Fuel and energy	11	..
Capital goods	6	..
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



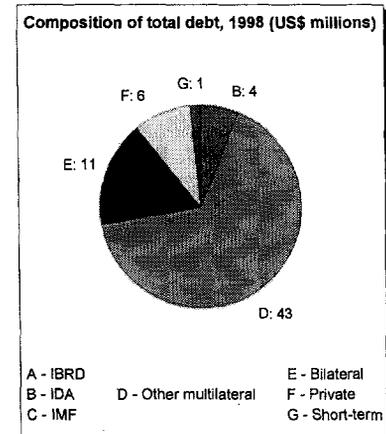
BALANCE of PAYMENTS

	1977	1987	1997	1998
(US\$ millions)				
Exports of goods and services	10	25	44	40
Imports of goods and services	19	52	85	100
Resource balance	-9	-27	-40	-61
Net income	0	4	2	3
Net current transfers	..	29	37	38
Current account balance	..	6	-2	-19
Financing items (net)	..	-5	4	7
Changes in net reserves	-2	-1	-2	12
Memo:				
Reserves including gold (US\$ millions)	..	29	28	29
Conversion rate (DEC. local/US\$)	0.9	1.5	1.2	1.5



EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
(US\$ millions)				
Total debt outstanding and disbursed	..	36	61	65
IBRD	..	0	0	0
IDA	..	0	4	4
Total debt service	..	1	6	5
IBRD	..	0	0	0
IDA	..	0	0	0
Composition of net resource flows				
Official grants	..	12	8	..
Official creditors	..	2	1	3
Private creditors	..	0	-3	-2
Foreign direct investment	..	0	3	..
Portfolio equity	..	0	0	..
World Bank program				
Commitments	..	2	0	0
Disbursements	..	0	0	0
Principal repayments	..	0	0	0
Net flows	..	0	0	0
Interest payments	..	0	0	0
Net transfers	..	0	0	0

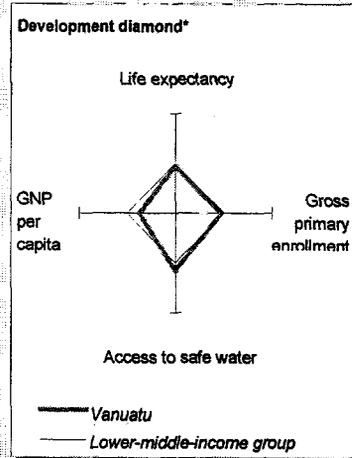


Vanuatu at a glance

9/22/99

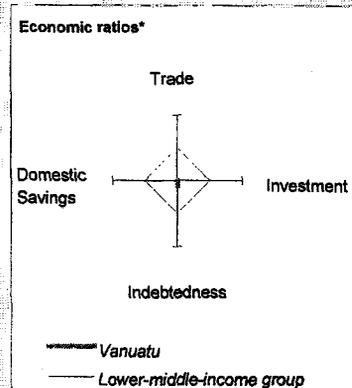
POVERTY and SOCIAL

	Vanuatu	East Asia & Pacific	Lower-middle-income
1998			
Population, mid-year (millions)	0.18	1.817	908
GNP per capita (Atlas method, US\$)	1.270	990	1.710
GNP (Atlas method, US\$ billions)	0.23	1.802	1.557
Average annual growth, 1992-98			
Population (%)	2.6	1.2	1.1
Labor force (%)	..	1.6	1.5
Most recent estimate (latest year available, 1992-98)			
Poverty (% of population below national poverty line)			
Urban population (% of total population)	20	35	58
Life expectancy at birth (years)	65	69	68
Infant mortality (per 1,000 live births)	37	37	38
Child malnutrition (% of children under 5)	..	20	..
Access to safe water (% of population)	87	77	75
Illiteracy (% of population age 15+)	..	15	14
Gross primary enrollment (% of school-age population)	98	117	103
Male	101	119	105
Female	94	118	100



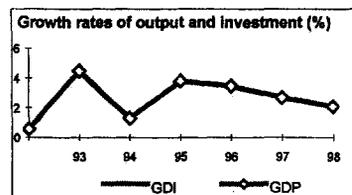
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1977	1987	1997	1998
GDP (US\$ billions)	..	0.12	0.25	0.24
Gross domestic investment/GDP	..	35.3	..	..
Exports of goods and services/GDP	..	38.4	..	..
Gross domestic savings/GDP	..	5.9	..	..
Gross national savings/GDP	..	4.2	..	..
Current account balance/GDP	..	-20.0	-8.1	-15.7
Interest payments/GDP	..	0.4	0.2	0.2
Total debt/GDP	..	19.3	19.0	..
Total debt service/exports	..	3.9	1.5	..
Present value of debt/GDP	11.3	..
Present value of debt/exports	20.0	..
(average annual growth)				
GDP	3.2	1.6	2.7	2.1
GNP per capita	..	-2.5	1.1	-0.4
Exports of goods and services



STRUCTURE of the ECONOMY

	1977	1987	1997	1998
(% of GDP)				
Agriculture	..	21.5	24.7	..
Industry	..	11.2	12.2	..
Manufacturing	..	4.6	4.9	..
Services	..	67.3	63.2	..
Private consumption	..	60.2	..	..
General government consumption	..	33.9	..	..
Imports of goods and services	..	67.8	..	..
(average annual growth)				
Agriculture	4.0	4.7	6.2	..
Industry	-2.8	2.5	1.0	..
Manufacturing
Services	4.1	0.0	1.6	..
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services
Gross national product	..	0.2	3.7	2.1

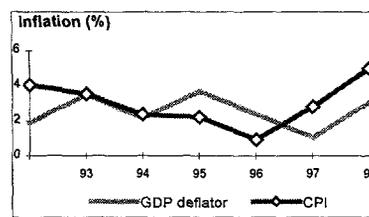


Note: 1998 data are preliminary estimates.

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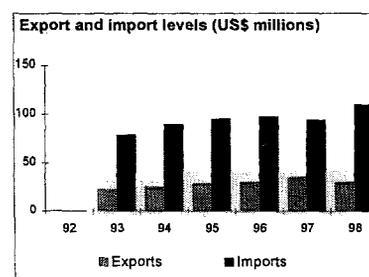
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices				
<i>(% change)</i>				
Consumer prices	..	16.1	2.8	5.0
Implicit GDP deflator	..	9.6	1.0	3.1
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	23.3	27.8
Current budget balance	1.5	4.0
Overall surplus/deficit	-0.7	-13.3



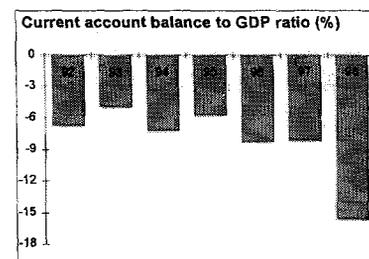
TRADE

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total exports (fob)	35	30
Copra	17	13
Cocoa	2	..
Manufactures
Total imports (cif)	94	109
Food	22	..
Fuel and energy	10	..
Capital goods	24	..
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)



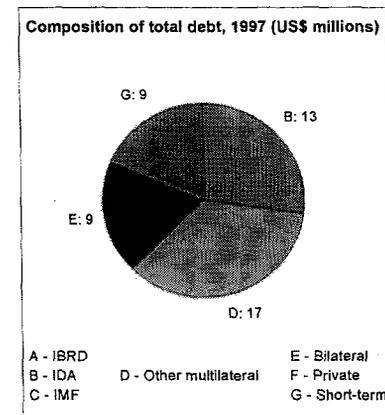
BALANCE of PAYMENTS

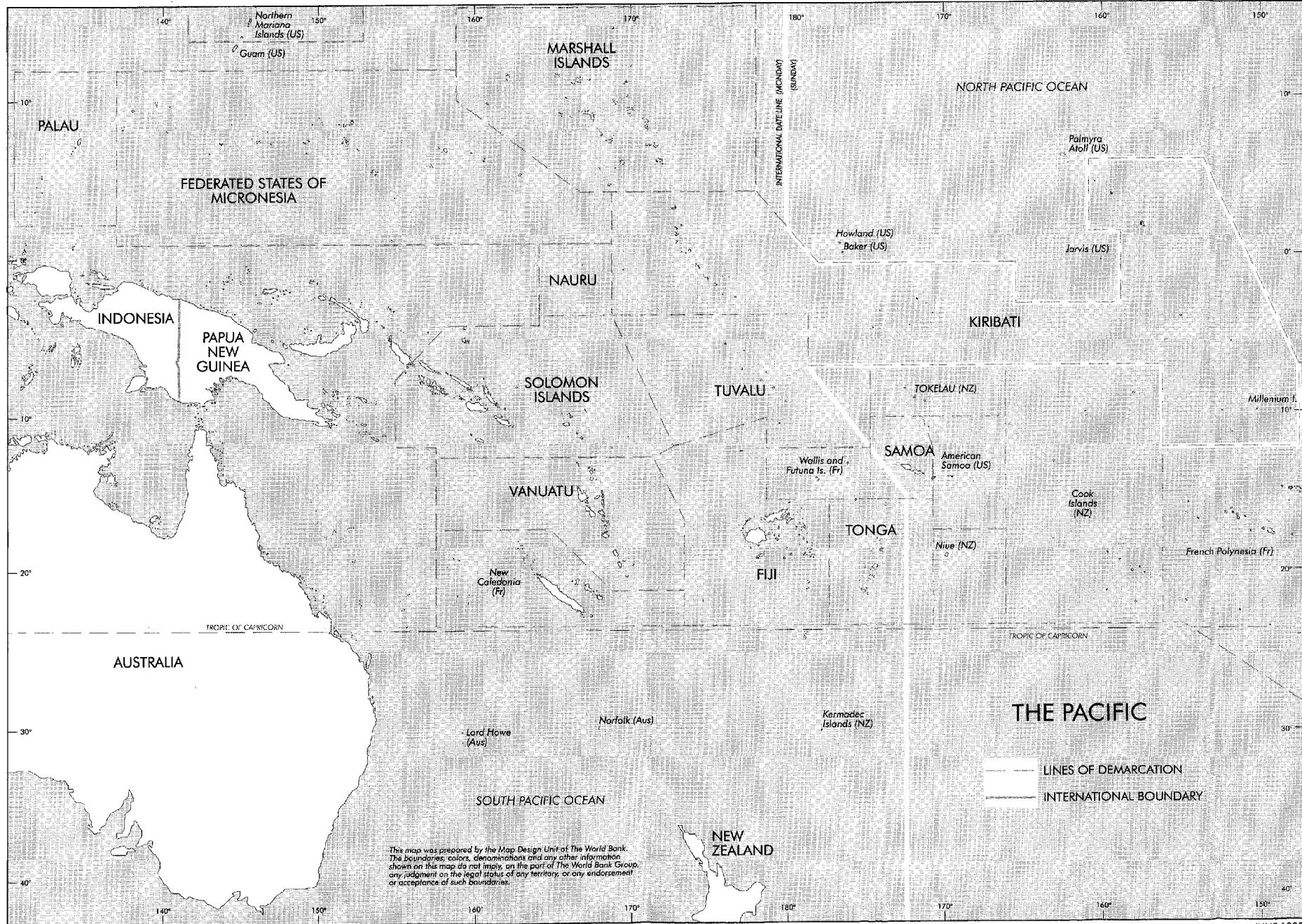
	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Exports of goods and services	..	50	129	111
Imports of goods and services	..	73	122	131
Resource balance	..	-23	7	-20
Net income	..	-21	-31	-31
Net current transfers	..	19	4	13
Current account balance	..	-24	-21	-38
Financing items (net)	..	37	14	37
Changes in net reserves	..	-13	7	1
Memo:				
Reserves including gold (US\$ millions)	..	40	37	45
Conversion rate (DEC, local/US\$)	79.4	109.8	115.9	127.5



EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	5	24	48	..
IBRD	0	0	0	..
IDA	0	2	13	..
Total debt service	0	3	2	..
IBRD	0	0	0	..
IDA	0	0	0	..
Composition of net resource flows				
Official grants	12	32	7	..
Official creditors	0	4	0	..
Private creditors	0	0	0	..
Foreign direct investment	0	13	30	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	0	0	0	..
Disbursements	0	1	1	..
Principal repayments	0	0	0	..
Net flows	0	1	1	..
Interest payments	0	0	0	..
Net transfers	0	1	1	..





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