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Every effort has been made to ensure the accuracy of the data used in this publication.

Contents

List Figures

Abbreviations

ADB	Asian Development Bank
BNCTL	Banco Nacional de Comércio de Timor-Leste (National Commercial Bank of Timor-Leste)
CSO	community service obligation
DMC	developing member country
FSM	Federated States of Micronesia
GDP	gross domestic product
ICCC	Independent Consumer and Competition Commission (Papua New Guinea)
ICT	Information and Communication Technology
M&E	monitoring and evaluation
PNG	Papua New Guinea
PPPs	Public–Private Partnerships
PSA	private sector assessment
PSDI	Pacific Private Sector Development Initiative
SOE	state-owned enterprise
VANWODS	Vanuatu Women’s Development Scheme
VFSC	Vanuatu Financial Services Commission

Pacific Private Sector Development Initiative: Background and Rationale

Introduction

This report, which covers calendar year 2012 and up to June 2013, is the sixth progress report of the Pacific Private Sector Development Initiative (PSDI).

It marks a watershed for in June 2013, the Asian Development Bank (ADB) and its bilateral partners, the Australian Government and the New Zealand Aid Program, renewed PSDI for a third phase that will run for 6 years (until June 2019) with significantly increased funding that will allow it to further build on the successes of the first two phases and expand its scope into additional focus areas.

PSDI is a unique program. During its first 6 years of operation, PSDI has evolved into a performance-driven, technical assistance instrument that is closely integrated into Pacific government strategies and programs. Results to date have proved its effectiveness in addressing constraints to private sector development in ADB's 14 Pacific developing member countries (DMCs). PSDI owes its success to the flexibility of its operating model, its continuity, strong technical expertise, ability to work at all levels of government, the emphasis placed on research and analysis, and the coherence of its focus on institutions. It is able to marshal support and resources rapidly when needed, or to reduce involvement when reform enthusiasm wanes.

The 2012 Independent Evaluation of PSDI concluded, "The in-country interviews conducted as part of the evaluation confirmed that the assistance is highly valued by the recipients. Moreover, PSDI is seen as the instrument of choice by those who have benefited from the assistance."[1]

With PSDI moving into its third phase, this report reviews the analytical basis for reform. This document, therefore, departs somewhat from previous progress reports in that there is a brief analytical outline of the issues underlying PSDI's focus areas, initiatives, and reforms to date in the preamble to the chapters. The financial data cover the period January 2007 to 30 June 2013.

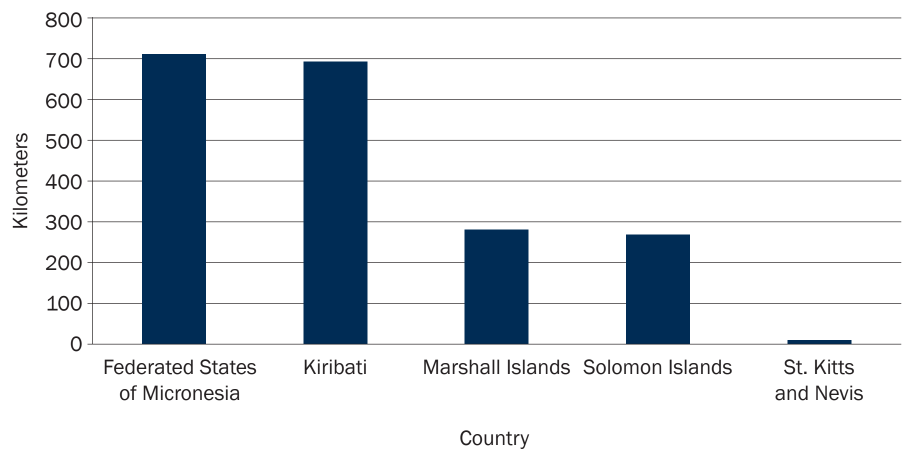
With PSDI moving into its third phase, it is timely to review the analytical basis for reform

Characteristics of Pacific Island Economies

Countries in the Pacific are mostly small, geographically isolated, and relatively undiversified, with narrow export bases. Because of their size, there are few opportunities for economies of scale and limited access to international capital markets. They are vulnerable to natural disasters and rely heavily on

[1] Australian Aid. 2013. *Independent Evaluation Report, TA 7430–REG: Pacific Private Sector Development Initiative Phase II*. Canberra. http://aid.dfat.gov.au/Publications/Documents/adb-pacific-private-sector-development-initiative-evaluation.pdf

Figure 1: Average Sea Distance between Two Inhabitants



Note: This chart is weighted by population.

Source: International Monetary Fund. 2013. *Asia and Pacific Small States: Raising Potential Growth and Enhancing Resilience to Shocks*. Washington, DC.

development partner assistance. While there are many other small countries in the world, the isolation of Pacific countries adds to the problems of promoting growth and development. In a number of ways, these factors make the challenges faced by Pacific countries unique.[2] In particular, the provision of public goods—those that cannot be supplied by the private sector or markets—is costly because many of the institutions of government have high fixed costs, even in small economies.

A general rule is that the smaller the country, the higher the per capita cost of providing services. Furthermore, Pacific island economies have narrow export and production sectors and substantial imports. In widely dispersed countries, there is often a need to duplicate basic infrastructure and public services over a number of islands. They, therefore, face the need to fund, on a per capita basis, higher government spending and higher imports than larger countries. Since many Pacific countries are not on major shipping routes, the freight components of imports and exports are also high, adversely impacting competitiveness.

Because of these factors, the tax base in many Pacific DMCs is severely strained in providing not only public goods, but also social services. In the past, remittances and aid played a significant role in closing the public sector funding gap and financing imports. However, tightening budget constraints among donor countries and the fall in remittances following the global financial crisis may well constrain funding from both these sources in the future.

2 For example, the average sea distance between two inhabitants of the same country is 706 kilometers (km) in the Federated States of Micronesia (FSM), 691 km in Kiribati, 280 km in the Republic of the Marshall Islands, and 267 km in Solomon Islands. See International Monetary Fund. 2013. *Asia and Pacific Small States: Raising Potential Growth and Enhancing Resilience to Shocks*. Washington, DC.

The Role of the Private Sector

Until the early 2000s, many believed that the private sector had little or no role in the development of Pacific island economies. According to this view, the responsibility for encouraging growth and development rested squarely with the public sector and government. As a result, in many countries in the region, the public sector dominated the economy, owning a substantial portion of assets and often prohibiting competition with state-owned enterprises (SOEs), particularly in the key areas of telecommunications, electricity generation, and transport. However, more recently, there has been a dramatic shift in attitude toward acknowledging that a dynamic private sector has to be the major contributor to poverty alleviation.

... many believed that the private sector had little or no role in the development of Pacific island economies

Officials at both the national and regional level frequently refer to the need for private sector led growth in Pacific island economies. At the regional level, the Pacific Islands Forum Economic Ministers have named promoting private sector development, improving access to finance, SOE reform, and economic empowerment of women as priorities.[3]

The Business Environment in the Pacific

PSDI's extensive analyses of business environments across the Pacific region have identified the barriers that investors and entrepreneurs face in establishing and growing businesses. The analysis reveals just how difficult it is to do business in the region. Besides the natural constraints resulting from isolation, small market size, and natural disasters, firms face high costs in doing business arising from inadequate infrastructure, poor communications, limited access to financial markets, outdated legal systems, and inefficient SOEs. And women in Pacific cultures face yet more obstacles in entering the formal economies of the region.

Many of the constraints to private sector growth arise because the institutional foundation for economic development is weak. Earlier work had concluded that economic development in the Pacific had been hampered by the failure of the state to develop the fundamental institutions that provide the foundation for investment and entrepreneurship.[4] It identified the main constraints as follows:

- state presence and interference in a broad swath of economic activity;
- underdeveloped financial markets;
- an adversarial mind-set toward foreign investment; and
- limited provision of public goods, particularly with respect to business law.

Furthermore, it pinpointed that there was little understanding or contact between the public and private sectors, with the result that neither appreciated the problems each other faces.

There are many reasons why it is costly to start up and operate a business in the Pacific. Business laws are outdated and unsuited to the needs of modern commerce. Starting a business is expensive and time consuming. Laws governing contracts are confusing and difficult to enforce so that businesses dealing

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3 The Forum Economic Ministers' Meeting (FEMM) has consistently supported improving the enabling environment for the private sector as a policy priority (i.e., its 2011 Economic Action Plan called for "pursuing reforms to create an enabling environment for the private sector.") The 2012 FEMM Economic Action Plan directed the Pacific Islands Forum Secretariat to collaborate with development partners to improve the enabling environment for women's economic participation and pursue reforms that place SOEs on a more commercial footing, and reiterated the urgency of improving access to finance.

4 ADB. 2004. Swimming Against the Tide? An Assessment of the Private Sector in the Pacific. *Pacific Studies*. Manila.

with customers or suppliers in Pacific DMCs are reluctant to enter into long-term agreements. Regulations are often contradictory and costly to observe. It is also hard for successful, growing businesses to obtain the finance necessary to expand. The finance sector is generally not well developed. Access to and knowledge of financial services and their use by customers is typically limited. Informal sectors are large, and productivity is low. While foreign investors should be a source of capital and knowledge, many countries make it hard for them to start new businesses.

Inefficient SOEs... result in unreliable and costly utilities and transport services, adding to the high cost of doing business

Inefficient SOEs dominate infrastructure service delivery, resulting in unreliable and costly utilities and transport services, adding to the high cost of doing business. Public sector investment achieves rates of return that are either very low or negative, which further reduces the competitiveness of Pacific DMCs.

State interventions intended to promote growth have often introduced further constraints and market distortions that reduce the dynamism of the private sector. Many Pacific DMCs have weak competition frameworks that are not strong enough to regulate monopolies, providing poor consumer protection, allowing a small number of firms to dominate local economies, and leading to higher prices and lower-quality goods and services. Many countries attempt to counter market power with price controls, which introduces further distortions.

Economic development and women's economic empowerment are closely interrelated. Limited economic opportunities for women result in lower growth and higher incidence of poverty due to the exclusion of women from the workforce and from business. Analysis by PSDI has identified that many barriers to women's economic empowerment are systemic, being rooted in law or exclusionary economic and cultural practices.

These factors reduce returns on investment in the region, decrease flows of capital and technology into Pacific island economies, and limit growth opportunities, which engender inclusive economic development that reduces poverty.

Business environment reform has many benefits

To realize its potential, the private sector requires a business climate that is conducive to investment and entrepreneurship. Typically, business environment reforms result in the following:

- More firms start in the formal economy, leading to increased productivity as a result of better access to the financial system, contracts to supply other, larger companies, and improved access to government services.
- Investment increases as a result of an improved legal and regulatory environment. Change in firm behavior as a result of investment in new technologies leads to greater productivity, which in turn, increases profitability. Profitable businesses employ more people.
- Firms increase their profits (e.g., through the removal of trade barriers or savings from more efficient licensing and inspections processes). In turn, high profits lead to more investment.
- Firm productivity, firm turnover, and profits all improve, which contributes to aggregate economic growth.
- Growth is more inclusive through more and better-paying jobs and economic opportunities for women in the formal sector.

The Pacific Private Sector Development Initiative

With the shift in perception regarding the role of the private sector in promoting growth, countries and development partners, particularly ADB, recognized the importance of business environment reform. Active private sector–oriented reform programs were embedded in many ADB country strategies for the region. These sought to increase the competitiveness of Pacific DMCs. While some of these reforms occurred through stand-alone technical assistance programs, the majority of them have occurred through PSDI.

Both identifying and working with Pacific DMCs to remove barriers to growth has been the focus of PSDI. It was established in 2006 as a cofinanced technical assistance project to promote private sector development in the region through reducing the costs of doing business. A second phase of PSDI commenced in 2010 and a third phase commenced on 1 July 2013. Earlier annual reports discussed PSDI progress in the years up to December 2011. This report extends that analysis to June 2013, but also takes a retrospective look at some of the more important reforms.

The reforms implemented under PSDI to improve the business environment have made starting businesses easier, improved access to finance and financial services, and enhanced the efficiency of SOEs. The reforms initiated under PSDI Phases I and II have strengthened the foundation for private sector development in the Pacific.

Concrete results have been achieved in all areas of intervention, and the number of requests for [PSDI] support continues to grow

Concrete results have been achieved in all areas of intervention, and the number of requests for support continues to grow. Initiatives under PSDI III will further improve the business environment in the region and enhance the competitiveness of Pacific DMCs. Ongoing and planned reforms will build on achievements in countries where initiatives are underway through intensive implementation and the commencement of work in the core areas where limited reforms have occurred to date. PSDI III will continue to strengthen the foundation for more inclusive growth and advance the economic status of women.

Nevertheless, experience has shown that reforming the business environment takes many years and requires sustained political support. A number of initiatives that are only now coming to fruition began in the 2007–2009 period.

One of the great benefits of the longevity of the PSDI is that it allows for a much longer reform and implementation period than do more traditional technical assistance programs. Furthermore, because of its flexibility and accelerated approval processes, PSDI can respond rapidly to requests for assistance from Pacific DMCs and provide support until the reforms are fully implemented.

PSDI has an extensive ongoing program of analytical work[5] that identifies constraints to private sector entrepreneurship and investment as well as the barriers to women entering the formal sectors of Pacific DMCs. Regular country-level private sector assessments (PSAs) identify obstacles to growth and update appropriate reform priorities on a regular basis.

Going forward, PSAs will also assess and evaluate progress from reforms already implemented or underway under PSDI. In PSDI's third phase, the goal is to update PSAs on at least a 4-year basis to ensure that analytical work remains current.

The PSAs and other analytical work are also key tools for discussion and advocacy to establish a strong consensus for reform with Pacific DMC governments and private sectors. Experience has demonstrated the importance of establishing agreement on reforms and their implementation if they are to be effective.

5 Under PSDI I and II, analytical work produced included six PSAs, two papers on gender issues and private sector development, three papers on the performance of SOEs in the Pacific, a paper on contracting in the region, and analyses of regulatory issues in microfinance.

Close consultation with Pacific DMCs and sensitivity and responsiveness to their requests for assistance has been, and will continue to be, a feature of PSDI.

Another striking manifestation of the effectiveness of a regional approach to private sector–oriented reforms has been that the "demonstration effect" of initiatives in one country often leads to requests for assistance from other Pacific DMCs. As a result, the appetite for private sector–oriented reforms continues to grow.

The communications revolution provides further potential for reform. PSDI has been able to take advantage of advances in internet access and telecommunications to enhance the effectiveness of its initiatives in a number of Pacific DMCs.

Further, it highlights that countries without effective communications are in risk of being left behind by countries that take advantage of the rapid changes in technology. It is increasingly evident that there are public goods aspects of telecommunications in remote island economies. Enhanced connectivity with the rest of the world is an essential precondition for the prosperity of Pacific DMCs.

Development partners including ADB have recognized this and are assisting in the upgrade of information and communications technology (ICT) infrastructure, such as the connection of fiber-optic cable, bringing access to high-speed broadband internet to a number of countries in the region.

These advances ensure that reforms implemented under PSDI, such as the establishment of company registries and secured transactions registries, and the promotion of mobile and "branchless" banking, will be able to take advantage of fast data networks.

Identifying Reform Priorities

The process of formulating reform strategies in Pacific developing member countries (DMCs) is based on the analysis of constraints to private sector–led economic growth. The conclusions of this analysis lead to in-depth policy dialogue and advocacy with government and the private sector. On the basis of these discussions, specific policies to remove constraints and improve the business climate become part of ADB's country partnership strategies. Periodic updates of analytical work assess progress and ensure that reform priorities remain current.

The reform strategy is translated into individual technical assistance initiatives at either the country or regional (often multi-country) level. Experience shows that the multi-country approach is highly beneficial in terms of economies of scale, feedback and learning, and cooperation. Multi-country benchmarking becomes a powerful tool in engendering a sense of awareness and competition among regional neighbors in terms of reform achievements.

...reform strategies in Pacific DMCs (are) based on the analysis of constraints to private sector-led economic growth

PSDI Phases I and II: 2007–2013

Pacific Private Sector Development Initiative's (PSDI) comprehensive analytical work led to a technical focus on three core areas:

- increasing access to finance, so that successful businesses can expand and invest;
- business law reform by updating outdated commercial legal frameworks typical in many Pacific DMCs, strengthening property rights, and promoting competition; and
- state-owned enterprise (SOE) reform through assisting countries to reduce the drag of SOEs on output, costs, and government budgets by privatizing (where feasible), improving governance, encouraging SOEs to operate on a commercial basis, accounting fully for community service obligations, and implementing public–private partnerships (PPPs).

A crosscutting theme of PSDI has been promoting the **economic empowerment of women** by identifying and removing barriers to their participation and economic advancement. Work in business law reform and access to finance has had a significant impact on reducing these barriers in the countries where reforms have occurred.

PSDI Phase III: 2013–2019

Going forward with additional resources, the scope of PSDI will be extended into more intensive work on competition policy and a strategic management focus that will coordinate and implement ongoing analytical work, disseminate lessons learned, and integrate the tracking of results through PSDI's monitoring and evaluation framework. PSDI III will also develop and implement pilot initiatives for the economic empowerment of women. Those that are judged to be successful will be scaled up and expanded into additional countries in conjunction with development partners.

PSDI Focus Areas

Access to Finance and Financial Services

The importance of well-developed financial systems. Effective financial systems are instrumental in channeling savings to their most productive use. Countries with well-developed financial systems experience faster growth rates and lower levels of poverty than those where financial institutions are underdeveloped. There is a substantial body of empirical evidence documenting the relationship between levels of credit to the private sector relative to gross domestic product (GDP) and per capita GDP growth.[6]

Not only is financial sector development a key factor in promoting growth, it is also vital in reducing poverty as the poorest sections of the population gain relatively more both in terms of higher incomes and improved income distribution. Evidence from macrolevel cross-country studies and micro-level research shows that countries that have higher levels of private sector credit to GDP have experienced faster reductions in poverty rates.

At the lower levels of income distribution, access to financial services has also been shown to reduce poverty. Financial services consist of a broad spectrum of financial products provided to businesses and consumers, including loans and savings facilities, payment services, investment accounts, insurance products, retirement accounts, and leasing services. In more sophisticated markets, they also include stock exchanges and venture capital.

Financial markets in the Pacific are generally not well developed. In many Pacific countries, most people do not have access to even the most basic financial services

Financial markets in the Pacific are generally not well developed. In many Pacific countries, most people do not have access to even the most basic financial services. Increasing access to such services has been a key focus of PSDI's activities in the region. Without access to financial services, businesses cannot grow and people on low incomes cannot save securely to invest, pay for unexpected expenses, or move beyond subsistence standards of living. PSDI has focused on improving the ability of borrowers to pledge movable assets as collateral for loans and supported reforms to maintain financial sector stability. It has helped to develop innovative financial products and "branchless" banking models, and has strengthened the capacity of financial institutions to sustainably deliver financial services. These initiatives have improved access to finance and financial services that will break down barriers to economic participation by the poor and lead to increased investment.

Factors that reduce access to loans. Many of ADB's Pacific DMCs display a number of specific barriers to building a more inclusive and well-functioning financial system, such as low access to loan financing and poor financial infrastructure. More specifically, these include

- inability to pledge as collateral for lending, both movable property (i.e., assets such as accounts receivable, inventory, and equipment) and fixed property (i.e., land and buildings)—not being able to take collateral increases the risks of lending and reduces the supply of credit;

6 This relationship is robust when controlled for such factors as macroeconomic stability, levels of education, openness to trade, and population growth, to name a few.

- weak legal systems and enforcement mechanisms;[7]
- lack of credit information;
- underdeveloped capital markets;
- lack of specialized financial products and services in certain sectors such as agribusiness; and
- misdirected lending and crowding out of commercial lenders because of the weak performance of development banks and misguided government intervention to direct credit.

Weak financial infrastructure. In many Pacific countries, the financial infrastructure is weak and characterized by

- underdeveloped clearing systems and weak core banking systems in financial institutions;
- severely underdeveloped payment mechanisms at both the individual and company levels, raising the transaction costs of doing business in countries that have populations that are geographically dispersed, often in remote outer island communities;
- dominance by a small number of foreign-owned commercial banks;
- low institutional and staff capacity at all levels of the financial sector, including in regulatory bodies and financial service providers; and
- weak financial sector regulation.

Other factors that reduce financial market development. A number of other factors present challenges to developing Pacific financial markets, including

- low financial literacy and business development skills among clients; and
- high cost of delivering financial services in rural and remote areas.

Constraints in access to finance and financial services for businesses and people engaged in agriculture continue to be a significant barrier to development of the sector and to achieving improvements in the livelihoods of smallholder growers.

Unlocking collateral and credit with secured transactions. In the Pacific, extensive analysis of credit constraints for businesses concluded that one of the most important causes of financial underdevelopment was the outdated legal system and institutions that seriously inhibit lending, raise the costs of borrowing, and reduce access to credit, especially for smaller businesses.[8] Problems with the legal framework for lending explained a large part of the limited access to finance in the region.

In all of the Pacific DMCs, legislation governing lending and the enforcement framework was based primarily on outdated English laws that were no longer extant in the home country. In the Pacific, these seriously impeded the use of collateral, in particular movable property, as security for the granting of credit. The result was reduced access to credit except for large companies or wealthy individuals with substantial land holdings. Smaller borrowers were essentially excluded from the system.

A secondary effect of limited access to credit was a shortening of the credit chain. This meant that unlike countries that have highly developed financial markets, few businesses extend credit terms to their customers, and borrowing against inventories or warehouse receipts rarely occurs. In addition, purchase of equipment through leasing was unusual, and specialized financial institutions did not exist.

As a result, there was underinvestment in capital equipment and inventories. In Pacific economies, where resupply is difficult because of distances from suppliers, businesses need to hold higher inventory than do those in countries where suppliers are nearby. Since these have to be financed, access to credit at reasonable cost is especially important for productivity improvements and growth in the Pacific.

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7 ADB. No date. Access to Finance in the Pacific Region: Issues and Options. Sydney.

8 ADB. 2006. *Technical Assistance for Diagnostic Studies for Secured Transactions Reform in the Pacific Region*. Manila. These conclusions find more general support in Beck, T., A. Demirguc-Kunt, and R. Levine. 2001. Law, Politics, and Finance. Washington, DC: The World Bank. Legal factors are one of the most important determinants of financial development.

When the framework for the pledging of personal property as security for loans is weak, creditors have no certainty that the collateral could be repossessed within a reasonable period of time upon default. Lending to all but the wealthiest of borrowers was, therefore, fraught with risk. As a result, lenders tend to ask for personal guarantees on bank loans that are backed by real estate. Furthermore, since the process of repossessing and selling real estate assets was costly, the value of the collateral was usually several times the value of the loan, which raised risks for borrowers.

Potential borrowers without titled, registered real estate and other substantial assets could not find finance. At the outset of PSDI, no Pacific DMC had an effective system for pledging movable property as security for loans. Under PSDI, ADB embarked on a program to improve and upgrade the legal framework for secured lending in the region.[9]

Reforms of the secured transactions framework or, as it is more commonly known in the Pacific, the **personal property securities (PPS) framework**, is now well advanced in the Pacific island economies. Starting with the Federated States of Micronesia (FSM) in 2006, six Pacific countries have fully implemented these reforms.[10] In addition, Papua New Guinea (PNG) passed a PPS Act in December 2011. The registry has been procured and expected to be operational by early 2014. Samoa passed its PPS Act in March 2013. Secured transactions reform commenced in Timor-Leste in 2013. PSDI has undertaken the most extensive program of secured transactions reform of any region in the world. Ongoing work is taking place to ensure that the electronic registries keep pace with the needs of lenders and borrowers. Registry upgrades were rolled out regionally in 2012 and 2013.

PSDI has undertaken the most extensive program of secured transactions reform of any region in the world

Figures 2 to 6 show security interests and searches in five countries where secured transactions reforms have been completed. Secured loans and searches are shown cumulatively, which indicates the number of filings made since the reform was implemented.[11] The secured transactions reforms have resulted in more than 20,000 outstanding secured loans in the region as of 30 June 2013.

The registries are being actively searched. There have been over 60,000 searches so far, a remarkable number given the population size of the region. A very approximate idea of the ratio between the number of loan applications and the number of loans granted can be obtained by subtracting searches from loans, which would yield the number of searches that did not result in a loan. For every 3.5 searches, there is one secured loan. However, it is very likely that a single loan application might have more than one search so in reality this ratio is probably smaller.

Access to financial services

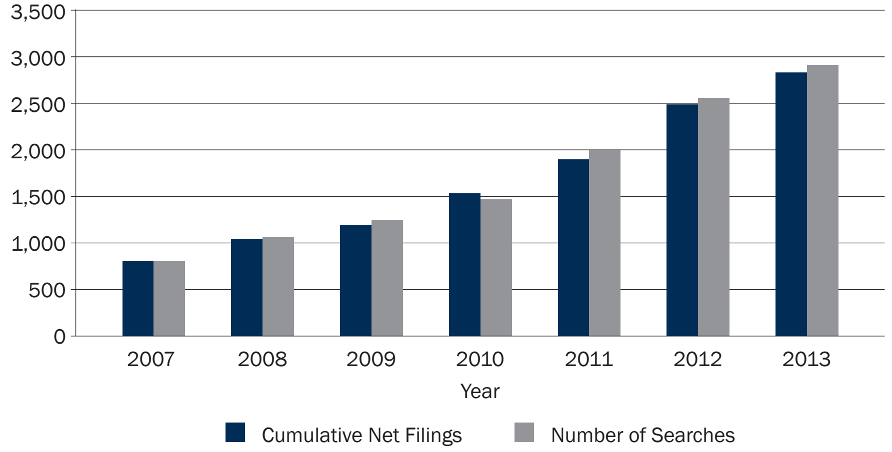
In the Pacific, the range of available financial services is limited. Those that do exist are costly. Financial underdevelopment particularly impacts lower-income people who need to save for both planned and unexpected future expenses. Important financial services are either unavailable or in limited supply. For example, in many countries, insurance products are limited and are beyond the reach of the poor. Furthermore, the paucity of data in the region makes it difficult to pinpoint penetration of financial services, which makes the prioritization of reforms difficult.

[9] The exceptions are the reforms in the Republic of the Marshall Islands and the FSM, which were undertaken prior to PSDI, although PSDI subsequently supported the upgrade of the registries.

[10] The Republic of the Marshall Islands, the FSM, Palau, Solomon Islands, Tonga, and Vanuatu.

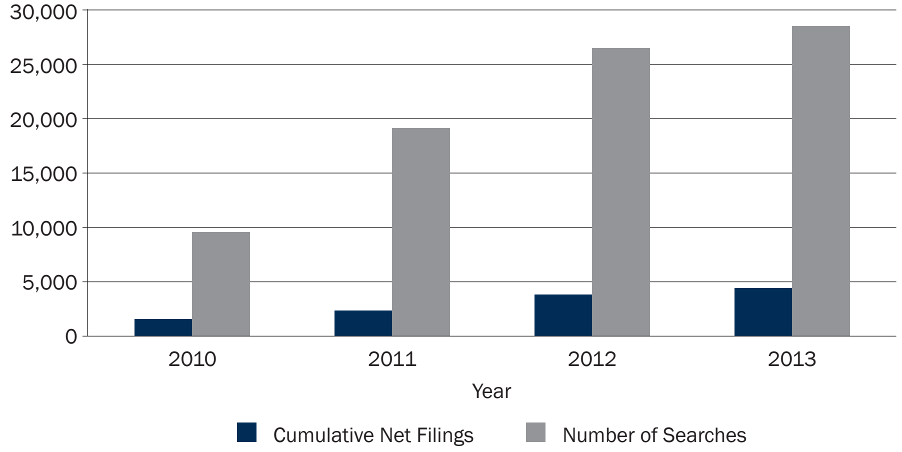
[11] The number of secured loans is calculated by adding new security interests registered or modified and subtracting terminations of security interests, which occur when loans are paid off. Cumulative data are obtained by adding the total outstanding security interests registered in the previous year.

Figure 2: Cumulative Net Filings and Number of Searches in the Federated States of Micronesia



Source: ADB/PSDI.

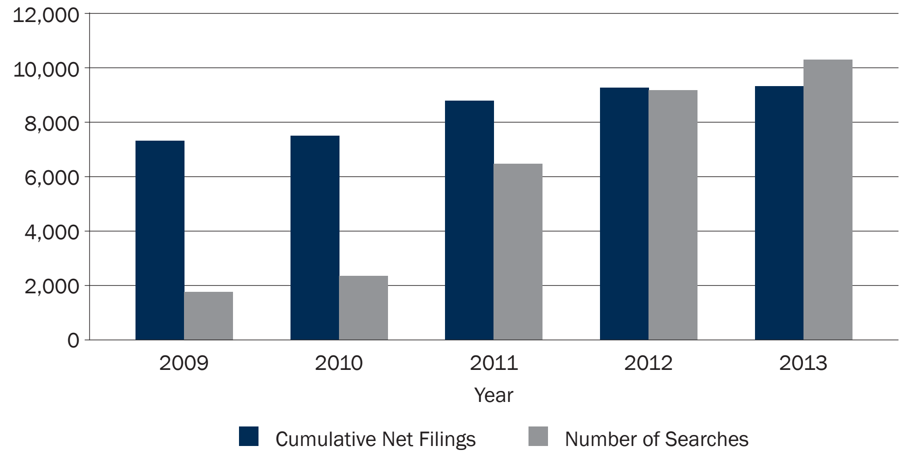
Figure 3: Cumulative Net Filings and Number of Searches in the Republic of the Marshall Islands



Source: ADB/PSDI.

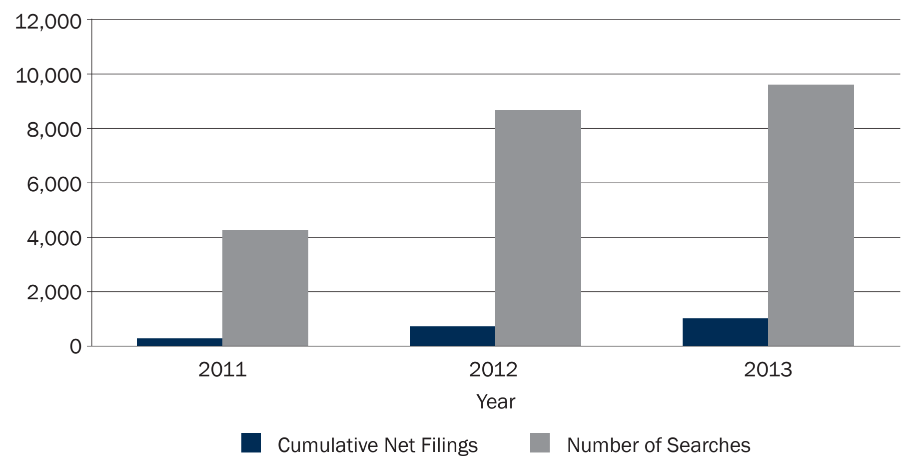
Many factors limit access to financial services in the region. The geographical characteristics of Pacific island economies make it costly to provide services in remote areas. Documentation requirements in countries where the possession of identity documents is limited provide another barrier to accessing financial services. In many cases, the high fixed costs of opening and maintaining accounts discourage the spread of savings accounts. Payment systems are underdeveloped and for government employees in rural areas, getting paid can involve a trip that can take many hours or even days. Carrying cash brings with it the risk of crime and, for women, confiscation by male relatives.

Figure 4: Cumulative Net Filings and Number of Searches in Solomon Islands



Source: ADB/PSDI.

Figure 5: Cumulative Net Filings and Number of Searches in Tonga

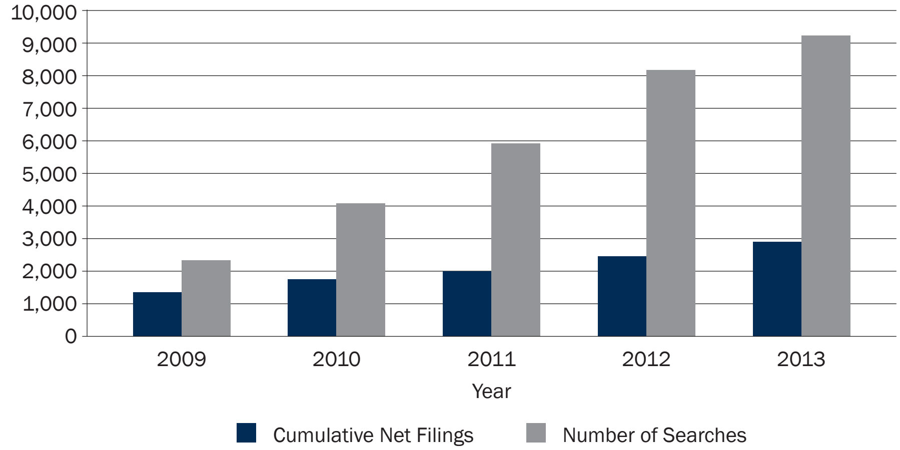


Source: ADB/PSDI.

Efforts to improve access to finance through government ownership of financial institutions have, in general, been as unsuccessful in the Pacific as they have elsewhere. Historically, a number of development banks have failed and been bailed out by government funds. Ceilings on interest rates distorted financial markets. Agricultural banks and housing finance institutions further demonstrate that government bureaucrats make poor bankers.[12]

[12] Economies with a higher share of government-owned banks experience lower levels of financial development. See, for example, Barth, J., G. Caprio, and R. Levine. 2006. *Rethinking Bank Regulation: Till Angels Govern*. New York: Cambridge University Press.

Figure 6: Cumulative Net Filings and Number of Searches in Vanuatu



Source: ADB/PSDI.

Credit information has proven to be a vital component of financial market development. Unfortunately, the evolution of credit bureaus in the region has been slow. This is gradually changing, but since the deployment of credit information is outside the purview of PSDI, the pace of implementation cannot be predicted.

PSDI has promoted rural outreach through the use of new and innovative business

New and rapidly evolving technologies hold the promise of offsetting at least part of these disadvantages. PSDI has promoted rural outreach through the use of new and innovative business models and the latest technological advances. It has assisted in the development of financial products for the rural population. It has also promoted reform of the enabling environment for financial services, including a focus on seeking solutions for gender-specific constraints.

The rapid expansion of mobile telephone coverage in the Pacific has dramatically increased the options available for provision of financial services through branchless banking models. ADB technical assistance to the National Bank of Vanuatu (NBV)[13] has helped it move toward piloting a mobile phone banking system that will reduce transaction costs, increase security, and increase access to financial services in rural areas. PSDI has also funded assistance for the identification and development of branchless and mobile phone banking opportunities in PNG and Timor-Leste.

Enhancing the capacity of financial institutions to assist the poor. In 2011, the Microfinance Institute of Timor-Leste formally became the National Commercial Bank of Timor-Leste (Banco Nacional de Comércio de Timor-Leste or BNCTL), Timor-Leste's first locally owned commercial bank. PSDI was instrumental in supporting this major achievement. Since the transformation was completed, PSDI has supported the institutional strengthening of BNCTL in the areas of risk management, accounting, and credit. BNCTL is compliant with central bank regulations and requirements, largely as a result of PSDI's targeted assistance. As of June 2013, the bank had a significant financial market presence with 13 branches, more than 17,000 borrowers with approximately $20.1 million in loans, and about

[13] ADB. 2007. *Technical Assistance to the Republic of Vanuatu for Expanding Access to Financial Services*. Manila.

130,000 depositors with approximately $22.5 million in savings. This represents a significant increase in the number of depositors (+140%) and volume of deposits (+135%) compared with the end of 2011, which is largely attributable to the decision by the Government of Timor-Leste to channel welfare payments through BNCTL. This resulted in new savings accounts being opened for a large number of new customers, many of whom previously received cash payments and did not have access to financial services. PSDI support to BNCTL is expected to increase going forward to further support the growth and development of the institution.

PSDI continues to support the implementation of the ADB Microfinance Expansion Project in PNG

PSDI continues to support the implementation of the ADB Microfinance Expansion Project in PNG,[14] which focuses on (i) strengthening institutions, (ii) offering financial literacy and business development skills training for clients, (iii) providing a risk share facility to partner institutions to promote expansion of credit to micro and small enterprises, and (iii) working with the central bank (Bank of Papua New Guinea) to review the legislation upon which the licensing and supervision of microfinance institutions and savings and loan societies is based.

Improving outreach through innovation. A central part of PSDI's efforts to improve access to finance is to increase financial outreach through innovative products and delivery methods. One main obstacle to increasing access to financial services in rural areas has been the high cost of establishing traditional banking networks versus the relatively low revenue that low-income and rural customers generate for financial institutions. Efficient and low-cost approaches to outreach are needed to facilitate the dramatic increase in service provision that is required. The rapid growth in mobile phone coverage in the Pacific provides an opportunity to extend financial services to a far greater portion of the population than previously possible.

Branchless banking. In 2012 and 2013, ADB continued to support financial institutions in PNG and Timor-Leste to develop branchless banking models. In PNG, Nationwide Microbank launched MiCash, an innovative mobile phone-linked bank account that enables customers to deposit and withdraw funds from their bank accounts through an agent network without having to travel to a bank branch, and to transfer funds to friends and family who also have an account with Nationwide Microbank. This has reduced transaction costs, increased security, and greatly improved the ease of accessing financial services.

In August 2012, Nationwide Microbank won the 2012 PNG Institute of Directors Award for the most innovative company of the year for its MiCash product. Customers can now deposit and withdraw funds through more than 150 agents and branches, predominantly in rural areas. To date, 61% of subscribers reside in rural areas, 37% are female, and 80% are new customers to Nationwide Microbank.

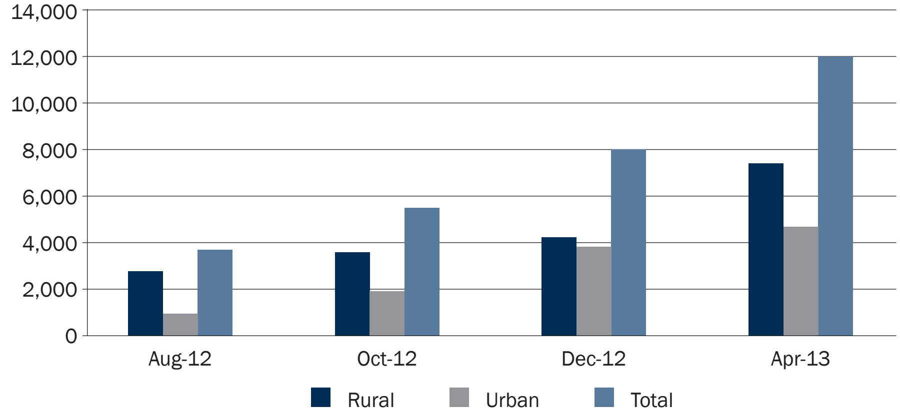
In 2012/2013, PSDI provided support for

- a review of the MiCash pilot in West New Britain Province,
- the development of appropriate audit and risk management processes for MiCash, and
- the development of a training program for staff and agents.

In Timor-Leste, PSDI carried out an assessment of potential models to establish branchless banking and/or mobile phone-based electronic payment services, facilitated by demand research undertaken by the Inclusive Finance for the Under-Served Economy Programme. Findings were presented to the Government of Timor-Leste in June 2013. It was found that while there are significant challenges to developing branchless banking services in Timor-Leste, such as lack of ICT infrastructure and mobile

[14] ADB. 2010. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Administration of Grant Papua New Guinea Microfinance Expansion Project*. Manila.

Figure 7: Number of MiCash Users in Papua New Guinea



Source: Nationwide Microbank.

payments systems, there are also recent positive developments, including (i) the introduction of new and improved mobile telecommunication services and (ii) increased interest of commercial banks in upgrading their banking infrastructure to enable branchless banking services. PSDI will continue to work with the government and stakeholders to support the development of branchless banking initiatives in the country.

Microinsurance. PSDI is supporting the development of innovative products that can help low-income populations smoothen cash flows for lifecycle events and cope with shocks and crises. In 2012, ADB published the results of microinsurance demand research in Fiji, in partnership with the Pacific Financial Inclusion Programme. The research contributed to the launch, in June 2012, of the first community-based microinsurance scheme in the Pacific, targeted to Indo–Fijian communities.

Banking services in microstates. While many Pacific countries face difficulties in meeting the demand for financial services from their inhabitants, the Pacific microstates face particular challenges. The Republic of Nauru has been without a financial institution capable of providing commercial banking services since the collapse of the Bank of Nauru in the early 2000s. There is currently no formal domestic system for consumers and business to hold deposits or access credit, and only limited international transactional services are available. In 2012, PSDI carried out an assessment of the financial services required, potential banking models, and potential financial service providers. It concluded that there could be sufficient deposit funds in Nauru to attract a financial institution to establish operations on the island. In 2013, PSDI supported the government in preparing an information memorandum to invite a short list of financial institutions to submit proposals to establish operations. PSDI will also support the government in updating Nauru's banking legislation.

There is currently no formal domestic system for consumers and business [in Nauru] to hold deposits or access credit

Strengthening the policy and regulatory framework for financial inclusion. PSDI conducted reviews of the legal and regulatory environment for deposit-taking microfinance institutions and branchless banking operators in Solomon Islands and Vanuatu in 2011. In 2012, discussions with the respective governments were progressed on how the current frameworks can be strengthened. PSDI presented its findings at a meeting of the Solomon Islands National Financial Inclusion Taskforce in June 2012 and at the Vanuatu National Financial Inclusion Workshop in August 2012.

In 2012, PSDI supported the Central Bank of Timor-Leste in reviewing the laws and policies affecting branchless banking operations, which continued in 2013. An appropriate level of financial sector regulation and supervision must be in place to protect customer deposits while not over regulating institutions, which can prevent much-needed innovation.

ADB also contributed to a workshop for insurance regulators convened by the Pacific Islands Working Group of Central Banks and organized by the Pacific Financial Inclusion Programme in 2012. The workshop brought together insurance supervisors from seven Pacific island countries to highlight the integral role that accessible insurance services play within wider financial inclusion efforts and to build requisite regulatory capacity.

Business Law Reform

Firms dealing with many suppliers and customers, and trading at a distance, cannot rely solely on personalized relationships to underpin their transactions. Formal institutions are needed for firms to prosper and grow. Moreover, government policy matters, even for small start-ups. The business environment must be stable and predictable if the shadow of the future is to give firms reason to be able to trust each other. In particular, the legal framework for business must enable contracts to be formed with confidence that they are binding and can be enforced.

Most laws are based on foreign laws, which were transplanted prior to independence in many of these countries and do not cater to, nor promote, many of the unique aspects of island economies

Analysis of the business environment in the region indicates that Pacific economies are constrained by outdated and inappropriate laws and regulations. In many cases, laws are simply absent. The key legal areas of company formation, contracting, dispute resolution, and insolvency present a common theme in all Pacific DMCs—they are uncertain, poorly enforced, increase the transaction costs for business, and do very little to provide the legal platform necessary to support a robust and developing private sector.

Most of these laws are based on foreign laws, which were transplanted prior to independence in many of these countries, and neither cater to, nor promote, many of the unique aspects of island economies. These outdated laws have little impact on the majority of the population, and do not foster economic activity by community groups, women's groups, associations of small farmers, and local entrepreneurs. The laws are not accessible to the majority of the population.

Cost burden of informality. The effect of these costly and outdated laws is to encourage informality, which brings with it heavy costs. One of the most salient characteristics of the difference between formal and informal entities is the difference in productivity between firms and workers in the two sectors. The main reasons for a business to become formal are to gain access to finance to support growth and access the legal system for entering and enforcing contracts. Neither finance, nor the legal systems are, in practice, accessible for many of the smaller businesses in the Pacific. Incentives for informality are, therefore, powerful. And much economic activity has taken place outside the formal sector. This brings with it heavy costs, including:

- Informality traps participants in low-wage, low-productivity activities. It also means that formal competition is reduced and that larger, well-connected companies have a disproportionate

advantage in the economy, through access to finance and the legal system. In addition, the tax base is narrowed by informality.
- Informality adds to economic distortions as participants do not adhere to regulations that have public good elements, such as health, safety, and product standards, and thereby have an advantage over their formal competitors. Informal actors also do not conform or comply with the norms and ideals set out in countries' regulatory frameworks.

One of the major aims of PSDI is to make the business law system accessible and inclusive. This means making the legal system accessible to poorer people, women engaged in business activity, and residents of remote areas. Examples of this, which are discussed in greater detail in the following sections, include

- enabling businesses to incorporate a company quickly and for a relatively small cost,
- making formality far simpler for small businesses to achieve through the introduction of single shareholder/single director companies, and
- providing a form of corporation for village and community businesses that is easy to establish and that provides a superior vehicle for the receipt of profits or revenues from royalties.

PSDI has been actively addressing the need to tailor business laws to the specific needs of island economies. Substantial progress has been made since PSDI's inception in 2006, and this has continued in 2012–2013. Legal reform is under way in a number of countries, which will dramatically change the ease with which Pacific islanders can engage in formal economic activity.

Company law

Without reform, business formation and licensing is complicated and costly in most Pacific DMCs. Navigating the complexities of the laws and regulations in many cases requires the services of a lawyer, adding a layer of expense that is beyond the reach of many small and/or informal businesses. The process is further complicated by the geography of many Pacific DMCs because business formation can only be done in the capital city. This means that potential entrepreneurs in rural areas have to incur the additional cost of traveling and waiting while the registration processes are completed. This makes the process of formalization beyond the reach of most small business entrepreneurs.

As Pacific island economies become increasingly integrated with the world economy, potential customers or suppliers need to be able to determine with whom they are dealing. A major thrust of PSDI business law reform has been to modernize company law to increase transparency and reduce the risks of operating over areas with wide geographic separation.

As of June 2013, PSDI had assisted with company law reforms in Samoa, Solomon Islands, and Tonga, and is finalizing a new company law in Vanuatu. It has installed electronic company registries in both Samoa and Solomon Islands, and new electronic registries are planned for Tonga and Vanuatu.

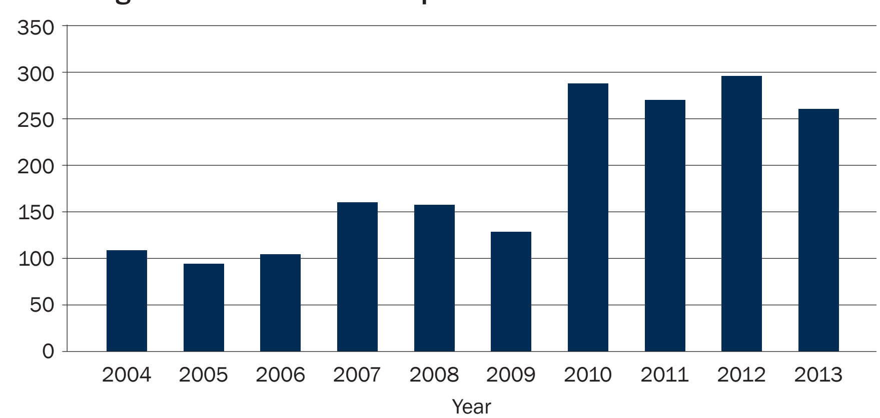
The registries add a necessary degree of transparency in dealing with corporate entities. Tax officials are able to determine who are the directors and shareholders of companies and reconcile these with tax returns. Ombudspersons, organizations such as Transparency International, and the press can also investigate ownership to ensure that political figures have declared all their interests in companies that might be awarded government contracts.

Business law reform in Solomon Islands. To date, the most extensive business law reform has occurred in Solomon Islands, where the new Companies Act was passed in 2010 and a fully electronic company registry was installed with support from PSDI. The new laws eliminate various barriers to company formation, including the need to obtain ministerial approvals for company names, the payment of stamp duty, and the requirement to produce a company seal. The average time taken to form a company has now been reduced from nearly 3 months to less than 36 hours. Improvements in the company law framework have also been observed with greater strengthening of shareholder rights and more straightforward liquidation and insolvency procedures. The registry was designed to record not only the company registration data, but also the

- number of shareholders and directors disaggregated by gender,
- sectors of the economy in which the companies operate, and
- geographic location of the companies.

Data from the registry show that there were 1,525 formally registered companies in Solomon Islands. The data on new incorporations indicate that the rate of company registration has more than doubled since the reform commenced. In 2004–2009, new company registrations averaged 124 per year. The results appear in Figure 8. In the 3.5 years following the reform, 1,008 new companies were registered. Annually, registrations now average 288 per year, more than double the pre-reform registration rate. Since promoting formality is an important goal of PSDI, the reform in Solomon Islands has had a significant impact.

Figure 8: Number of Incorporations in Solomon Islands



Source: Company Haus.

The reforms have benefited a cross section of the economy and expanded business opportunities, including those for women. For example, the analytical work identified that larger corporations, such as hotels and mining companies, were reluctant to enter into supply contracts with informals or even sole traders that were not incorporated. They believed that it was too risky to rely on very small entities—formal or informal.

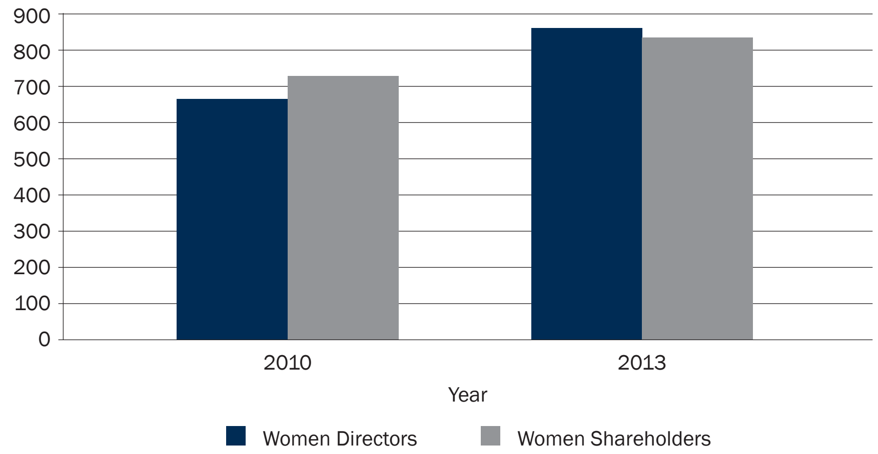
PSDI addressed this problem through a unique feature of the new Companies Act, namely the provision for the formation of **community companies**, which support community-based businesses that are intended to preserve and grow community assets into the future. This form has many advantages over cooperatives or trusts in that they provide for far greater transparency and protection of community assets. They provide for bodies such as women's organizations, community groups, and village groups to incorporate and enter into contracts. They are a powerful instrument for promoting inclusive growth and opportunity.

The community company can also help to manage and distribute royalty income. In 2012, two landowning groups in Isabel Province took steps to set up community companies to responsibly manage significant potential nickel extraction royalties. The stronger protections under a community company structure will enable the community to better manage the significant royalties due to them in the next 40–50 years should the nickel mine proceed. The concept removes many of the issues associated with trusts or cooperatives because it sets out transparent governance requirements and specifies ways in which benefits received are distributed.

As of June 2013, 12 community companies were formed in Solomon Islands, up from 7 at the end of 2010. Solomon Islands is the only country that, so far, has adopted this corporate form. A number of them have thrived, in particular, one that supplies hotels with fresh produce, employs over 30 workers and, when there is a demand in excess of what its own growing facilities can supply, purchases additional goods from other farmers or sellers in the markets around Honiara.

Since the Companies Act was passed in Solomon Islands, the number of women directors has increased by nearly 200 and the number of women shareholders by over 100, demonstrating that the systemic reforms have provided greater opportunities for women. This trend appears to be accelerating (Figure 9).

Figure 9: Number of Women Shareholders and Directors in Solomon Islands

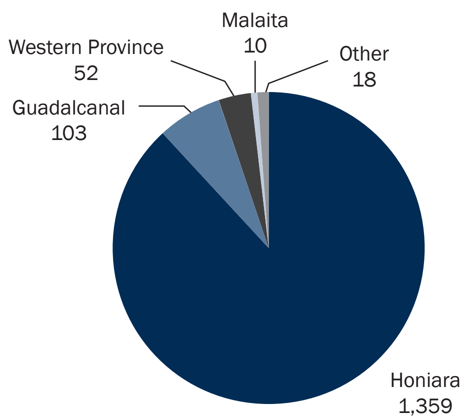


Source: Company Haus.

The company registry also allows policy makers to determine the geographic location of companies, an important tool in formulating regional policies in the country. As the chart demonstrates, by far the largest number is located in the capital, with other areas of Guadalcanal a distant second, and Western Province, third. This clearly explains the large in-migration to the capital city (Figure 10).

It is also striking that a large number of new companies have been formed in the agriculture, forestry, and fishing sectors, demonstrating that ease of formation has been an important factor in the primary producing sectors. This information is potentially valuable for financial institutions and other service providers.

Figure 10: Location of Companies in Solomon Islands

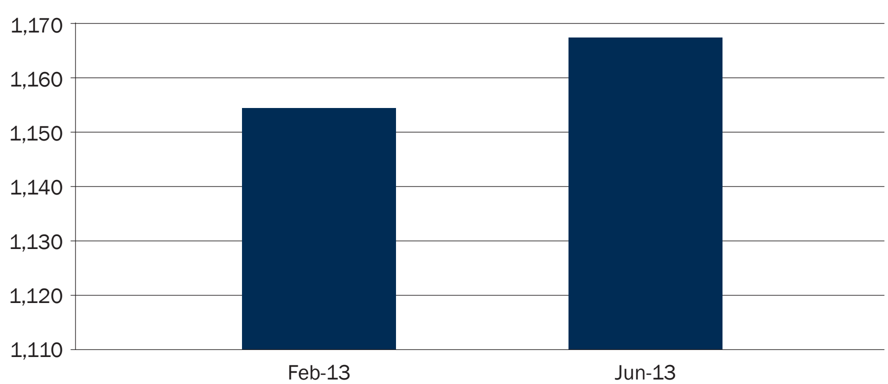


Source: ADB/PSDI.

Company registry reform in Samoa. In March 2013, PSDI helped with the installation of an electronic companies registry and is providing assistance with the amendment of the Companies Act. Currently, it is one of the most modern company registries in the world. Experience with the registry is still new and it is too early to identify trends in registration. Nevertheless, the new processes that the registry allows in terms of registration time, searchability, and transparency have attracted much praise.

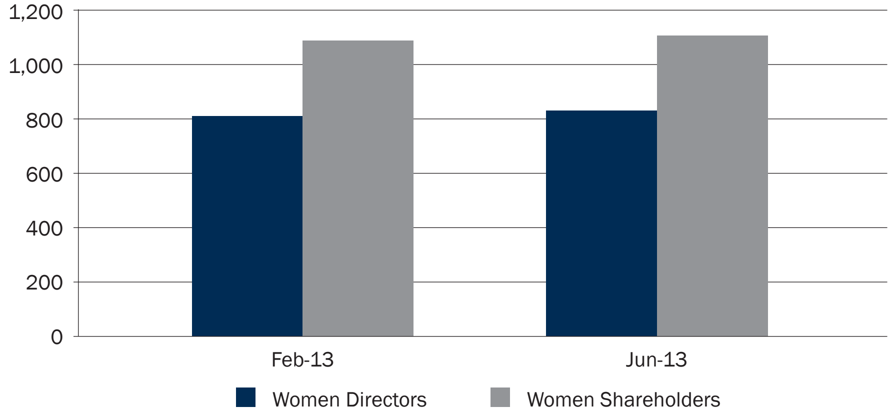
Figure 11 shows the registrations from February 2013, when the registry began operation, to June 2013. The increase during this relatively short period is an encouraging early sign. Like Solomon Islands, the Samoa company registry collects data on women shareholders and directors. Both have registered an increase since the advent of the new registry in about the proportion in which new companies were established in the February–June period. Approximately 32% of directors and 38% of shareholders are women (Figure 12).

Figure 11: Company Registrations in Samoa since the Electronic Registry Commenced Operation



Source: Samoa Ministry of Commerce, Industries and Labor.

Figure 12: Number of Women Shareholders and Directors in Samoa



Source: Samoa Ministry of Commerce, Industries and Labor.

Business licensing in Tonga. The 2012 Tonga private sector assessment[15] identified business licensing as a major factor in increasing the cost of doing business. The requirements of the licensing framework were onerous. The act required licenses to be issued for business activities, rather than for an individual business, which is the practice in virtually every other part of the world. Therefore, a single business engaged in a number of activities had to obtain a license for each activity, and each license had to be renewed annually. Since the regulations identified some 100 different activities, the process was tortuous and costly. Most business activities required the approval of several ministries. The process imposed large costs because of the delays and lack of clarity, as well as the improper exercise of discretion in approving licenses, which was not mandated in the act.

The government accepted the recommendations of the private sector assessment that processes be changed. PSDI provided assistance in drafting the Business Licensing (Amendment) Bill, which became law in October 2012. The licensing framework now conforms with modern practice, further illustrating the strong connection between PSDI analysis, consultation, consensus, assistance, and reform.

Competition Policy

Competition issues in the Pacific

Competition policy is an increasingly important theme in PSDI and going forward will become a focus area in its own right. It is especially important in Pacific island economies because of the trade-offs between small market size and economic efficiency. Lack of competition allows firms to restrict output and/or raise prices without losing sales and reducing profitability because there are no (or few) other suppliers from which consumers can purchase a particular good or service. This is often the case with basic necessities (i.e., electricity, water, and other utilities). A lack of competition may also allow firms to reduce the quality of their products while maintaining prices or ignore market pressure for change. Such outcomes are clearly against the interest of consumers, and reduce overall efficiency and growth prospects.

15 ADB. 2012. *Continuing Reform to Promote Growth: Update of the Private Sector Assessment for Tonga*. Manila.

“Competition policy” encompasses the range of policies, laws, regulations, decisions, and government actions that aim to promote competitive behavior between business undertakings and rationally address any circumstances in which competition might not be efficient or might conflict with other important social objectives. As such, competition policy forms an important part of national economic policy. Competition policy may advance a variety of objectives, such as

- ensuring market efficiency,
- encouraging entrepreneurship and innovation,
- supporting good governance by restricting opportunities for rent-seeking behavior,
- supporting equality of access to economic opportunities,
- enhancing the climate for investment, and
- promoting sustainable and inclusive economic development.

Competition is also a far preferable alternative to price controls, which have been widely used in many Pacific island economies. Price controls distort domestic production and fail to increase supply. These then result in raised prices.

The economic value of competition between firms stems from three types of benefits:

- **Better allocation of resources.** In competitive markets, producers respond to price signals so that consumers can obtain the amounts of goods and services they require at the price they are willing to pay. In a competitive framework, producers do not restrict outputs and raise prices.
- **More efficient production.** The pressure of competition forces suppliers to produce their goods or services at the lowest cost possible. To maximize their profits, suppliers must find the most efficient ways to produce their goods or services.
- **Innovation.** Under competitive conditions, producers are more likely to innovate and develop new products and methods of supplying products. Domestic competition prepares local businesses to better compete in regional and international markets.

Competitive pressures also help minimize supply costs and keep producers mindful of consumer demands and market trends. For the public, the benefits of competition are apparent when competition is contrasted with monopoly (or a market structure where there are only a few suppliers, which may attempt to collude). In a monopoly,

- the quantities of goods and services available may be restricted,
- goods and services may be outdated and produced at higher cost than necessary, and
- consumers may be charged higher prices than they would pay in a competitive market.

Competitive pressures also help minimize supply costs and keep producers mindful of consumer demands and market trends

However, the relative size of economies in the Pacific implies that some sectors cannot support many competitors. In some sectors, economic efficiency dictates that only one or two suppliers serve the domestic market. This does not mean, however, that competition has a small role to play in Pacific island economies. On the contrary, it strengthens the case for competition policy and competition law. Effective competition law deters suppliers that might otherwise attempt to engage in anticompetitive conduct.

To date, PSDI assistance with competition policy has been focused on three countries: the Cook Islands, Papua New Guinea, and Samoa. This will expand on both the country and regional levels as part of PSDI III.

Cook Islands

The Cook Islands has a very narrow economic base. Often, there is only a single supplier of goods and services (e.g., of shipping services between the Cook Islands and New Zealand), even when the market is capable of supporting several competing suppliers. Concentration of ownership, especially in wholesale and retail trade, is another concern.

Given the size of the population and the technical characteristics of production, supply of many services tends to be a natural monopoly and it is, therefore, hard to directly introduce competition. For example, the major power utility company provides 90% of power supply in the Cook Islands. Telecom Cook Islands (TCI) has also been the sole provider of telephony services in the country. However, concern that outside competitors might enter the market caused TCI to slash the cost of overseas calls by half and increase the range of services it offered. Despite this, there have been many complaints regarding the high price and low speed of internet services as well as TCI's business practices.

Significant uncertainty surrounds the implementation of competition law in the Cook Islands. It has no stand-alone competition law and has made significant use of price controls, which are often antithetical to effective competition policy. PSDI has provided assistance in the analysis of competition issues in the Cook Islands and, in the future, will help with developing a coherent competition framework.

Papua New Guinea

In Papua New Guinea (PNG), the Independent Consumer and Competition Commission (ICCC) Act 2002 provides for the establishment of a statutory body (the ICCC) to promote competition and the protection of consumer interests. A commissioner and two associate commissioners administer the ICCC, which comprises three divisions:

- a competitive market and fair trade division,
- a price monitoring and industry regulation division, and
- a consumer protection division.

A staff of economists and lawyers undertake its statutory functions.

The ICCC operates under difficult circumstances. As the ICCC is still working to build a public profile, complaints from the public remain limited, making information gathering a difficult exercise. Requests for information are routinely ignored and there are extremely lengthy delays in investigations. Further, businesses are either unaware of their obligations or choose to ignore them. For example, mergers are not reported to the ICCC. In addition, requests for administrative review are frequently sought to stymie ICCC decisions.

Prosecuting such cases requires considerable economic and legal skill and sophistication. However, such skills and experience are, at present, critically short in PNG. This makes implementing something as complicated as the ICCC Act very difficult. To build capacity, PSDI is providing assistance to strengthen the capacity of the ICCC in PNG to increase its ability to investigate inquiries into competition cases.

Prosecuting such cases requires considerable economic and legal skill and sophistication. However, such skills and experience are, at present, critically short in PNG

Samoa

PSDI was approached by the Samoa Ministry of Commerce, Industry and Labor to assist in developing a competition policy, which will then be used as the basis for a new competition law. In 2012 and the first half of 2013, a framework for the analysis of competition issues in Samoa was developed. A consultation paper sets out

- the role of competition, competition law, and competition policy in Samoa's further economic development;
- proposals for a national competition policy for Samoa; and
- a policy development path, leading to recommendations to the Cabinet for a national competition policy and possible new legislation to follow.

The objective of the national competition policy is to sustain and promote the process of competition in markets within Samoa, in the interests of enhancing economic welfare and sustainable, equitable economic development. The draft national competition policy includes

- proposals for new laws to uphold competition in Samoa's markets;
- proposals for tasking an agency with responsibility for overseeing competition in Samoa's markets and equipping it to carry out that responsibility;
- proposals for policies on matters directly affecting competition in Samoa's markets, such as state-owned enterprises, professional services, and the administration of government; and
- proposals for policies on matters directly affecting the ability of businesses in Samoa to compete in regional and international markets.

The consultation paper has received comments, which will be incorporated into a competition law later in 2013 or early 2014.

State-Owned Enterprise Reform and Public–Private Partnerships

State-owned enterprises (SOEs) place a significant strain on Pacific economies, negatively impacting gross domestic product (GDP) growth and reducing governments' ability to fund higher-priority social needs, such as health and education. They absorb large amounts of scarce capital, on which they provide very low returns. PSDI's analytical work in 2012[16] revealed that SOEs made up 15%–31% of total fixed assets in the six benchmarked countries, yet their output as a share of GDP amounts to far less than this, ranging from 1.8% in Solomon Islands to about 6.0% in Samoa. This reflects the large share of the SOE portfolio in Pacific economies. The low productivity of SOEs, therefore, places a heavy burden on the private sector. If economies are to grow, the private sector must be correspondingly more efficient to compensate for the poor performance of such a large proportion of the capital stock. Furthermore, many Pacific countries face severe budget constraints, which limit their ability to undertake the necessary investment to improve SOE productivity.

Poorly performing SOEs also place additional burdens on the private sector. The commercial SOEs that often compete with the private sector do so with the benefit of subsidized debt and equity. Meanwhile, the infrastructure SOEs—usually monopoly providers of goods and services such as power, ports, water, and airports—are often inefficient, driving up input costs for the private sector and draining budget resources that could be better spent elsewhere.

The work of PSDI in SOE reform and public–private partnerships (PPPs) aims at placing SOEs on a more commercial, transparent, and profitable footing, while facilitating opportunities for the private sector to provide infrastructure and related services through PPPs, contracting out, increased competition, or outright privatization. The goal is to improve SOE performance and to significantly reduce the costs of the SOE sector in each country through increased private sector participation.

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16 ADB. 2012. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Papua New Guinea*. Sydney.

State-owned enterprise reform

Analytical work undertaken on SOE performance in the region has identified the following key factors to improving SOE performance in Pacific DMCs:

- sound governance practices,
- robust legislation supporting the commercial mandate of SOEs,
- well-resourced SOE monitoring units reporting directly to a responsible minister,
- high levels of transparency and accountability, and
- political commitment to improve the performance of SOEs.

PSDI's work on SOE reform has focused on these six factors, which are addressed through the following three categories of interventions:

- improving governance and monitoring practices,
- strengthening the legal and regulatory frameworks under which SOEs operate, and
- restructuring and/or privatizing SOEs.

As PSDI's interventions are demand driven, the allocation of resources between countries differs from year to year. For example, in 2012, the amount of technical assistance provided to the government of Tonga declined from previous years, due mainly to capacity constraints in the SOE ministry, which reduced its ability to respond. In PNG, the new government has continued the SOE reform efforts of its immediate predecessor, and PSDI has continued to actively support that reform program. PSDI has also expanded its coverage, and now supports SOE reform in 12 Pacific DMCs.[17]

PSDI provided training to SOE boards and senior management on how to develop statements of corporate intent and write business plans

Improving governance and monitoring practices. PSDI continued to support the design and implementation of a community service obligation (CSO) policy for SOEs in PNG. In Solomon Islands, three further CSO contracts were signed in 2012, and PSDI provided ownership monitoring training for the SOE monitoring agency. PSDI provided training to SOE boards and senior management on how to develop statements of corporate intent and write business plans.

Solomon Islands SOEs have registered dramatic improvement in their efficiency and profitability over the past 8 years. Rates of return on both assets and equity, which earned negative rates of return of over 30% in the mid-2000s, are now positive, demonstrating that with strong government commitment, SOE reform provides one of the best opportunities to improve economic performance.

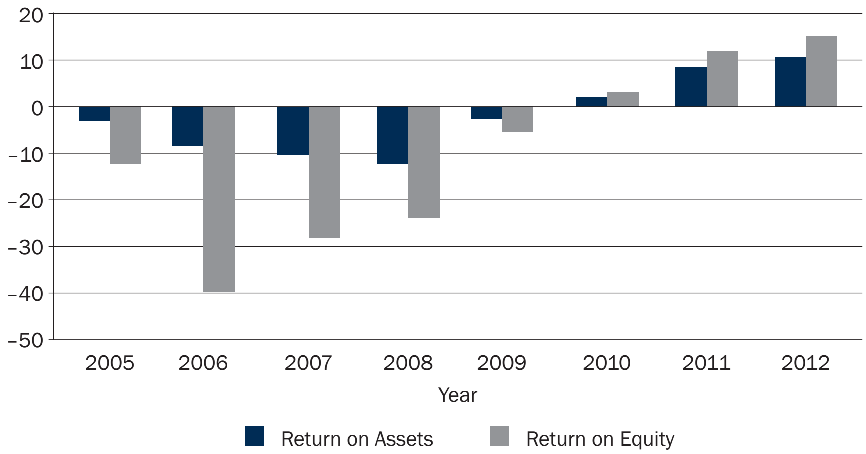
In the first half of 2013, Tonga began negotiating four CSO contracts relating to the provision of power, port, and ferry services. One contract was awarded to a private sector provider.

Working closely with ADB's Pacific Subregional Office, based in Suva, Fiji, and other development partners, PSDI assisted in the design of SOE reform policy actions for inclusion in policy-based grants in Samoa and Tonga. The agreed policy actions will set concrete SOE reform targets in these two countries for the next 2–3 years.

Throughout 2012 and the first half of 2013, ongoing capacity support and training was provided to the SOE monitoring units in PNG, Solomon Islands, Tonga, and Vanuatu. PSDI also supported SOEs in Solomon Islands to prepare financial accounts and assisted in the development of shared accounting and financial management services to overcome capacity constraints in a number of SOEs.

[17] Fiji, Kiribati, Marshall Islands, Nauru, Palau, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Figure 13: Return on Assets and Equity: State-owned Enterprises in Solomon Islands



Source: ADB/PSDI.

Strengthening policy, legal, and regulatory frameworks. At the request of the finance minister of Vanuatu, PSDI supported the preparation of a new SOE policy that should be submitted to the Cabinet in 2013. If endorsed, the policy will serve as a blueprint for subsequent SOE legislation, with a view to placing the SOEs on a firm commercial footing and enhancing the monitoring and accountability frameworks. In the Marshall Islands, PSDI supported the drafting of an SOE policy and SOE act, which was open for public consultation in June 2013.

At the request of the Cook Islands government, PSDI prepared a new SOE Policy that Cabinet endorsed in July 2012. In Palau, PSDI worked with the Chamber of Commerce to design a corporate governance-strengthening program, which was launched with the support of the government in 2013. A draft SOE policy is also under review and will be a precursor to an SOE act which is to be prepared in the second half of 2013. In PNG, PSDI has provided ongoing input to the formulation of a new SOE policy, to be released in the second half of 2013.

Restructuring and privatizing SOEs. At the request of the government of Samoa, PSDI assessed the privatization options for two SOEs: Agriculture Store Corporation and Polynesian Airlines. The Cabinet considered PSDI's recommended sales strategy for Agriculture Store Corporation in November 2012. PSDI's privatization options study on Polynesian Airlines was also completed in 2012.

In Vanuatu, PSDI assisted the government prepare one SOE for liquidation, with another three identified for 2013. In Tuvalu, PSDI supported a technical assistance program preparing (i) a management contract for the government owned hotel and (ii) a merger of three government trading entities into one SOE.

In Palau, PSDI has been supporting the corporatization of the Palau Water and Sewerage Corporation, which will now be merged with the electric utility to create the country's first fully commercial SOE.

In Fiji, PSDI continued to provide peer review for a stand-alone SOE reform technical assistance program funded by ADB and managed by the South Pacific Subregional Office. In Tonga, ongoing policy dialogue has led to agreement to undertake further SOE restructuring and governance reforms in the second half of 2013.

Analytical work. PSDI continued its analytical work in 2012 as an important component of its ongoing advocacy for SOE reform. PSDI's third SOE benchmarking study was formally launched in Port Moresby, PNG, in September 2012.[18] This is the first time that PNG has participated in the benchmarking analysis, and its release generated significant public dialogue, with the Prime Minister and Minister of Public Enterprises organizing a 2-day public forum to discuss reform options. The *Finding Balance* studies have generated an extensive knowledge base on the participating countries' SOE portfolios, with financial information and benchmarking information covering the period 2002–2010.[19] These studies have been instrumental in creating increased appetite for reform in the Pacific, and are now beginning to receive international attention.

Successful reform is only possible when supported by strong political commitment

Successful reform is only possible when supported by strong political commitment. Studies such as *Finding Balance* help to inform policy makers, practitioners, and the public on the true impact of their SOE portfolios and also—just as importantly—what can be done to improve performance. The requirements for public disclosure of the performance of the individual SOEs as set out in the Solomon Islands and Tonga SOE legislation and included in the Samoa joint policy matrix greatly assist the reform momentum by increasing the overall transparency and, hence, accountability for the stewardship of the SOE portfolios.

As greater awareness develops within the region on the outcomes of SOE reforms undertaken in other Pacific countries, the reform momentum will increase as countries build on the experiences of others and can observe the benefits of reform.

SOE reform results. The ongoing SOE reform efforts are showing results, with total fiscal transfers to SOEs dropping for the first time in fiscal year 2009 in four of the six countries benchmarked in the *Finding Balance* study. The improvement in the Solomon Islands SOE portfolio shows what can be accomplished when strong political support results in the implementation of a new and robust SOE legislative framework. Return on equity of Solomon Islands' SOEs rose from an average of –11% in the 2002–2010 period to +10% in 2010–2012. Throughout the Pacific, SOE governance practices are improving. There is greater transparency relating to performance, countries are either developing modern SOE legislation or updating their existing SOE acts, and monitoring agencies are building capacity and progressively enforcing compliance with their generally very effective SOE legislation.

Public–private partnerships

Public–private partnerships (PPPs) have become a central theme in reform in Pacific DMCs, not only in PSDI but also in the ADB Pacific Department, more generally. However, they have generally been embryonic in the region and are only now beginning to achieve momentum. Significant effort was devoted in 2012 to assist countries with their PPP frameworks. Success has begun to attend these efforts. In Timor-Leste, a PPP policy and draft law was endorsed by the Cabinet and promulgated in September 2012. Since the election, additional legislation and regulations have been developed to support the operationalization of the new institutional arrangements, in particular, the new PPP Unit and PPP Steering Group. In PNG, a draft PPP bill, finalized in 2011, was not submitted to Parliament in 2012 due to ongoing debates regarding the future role of the Infrastructure Development Authority, but the bill is expected to be submitted in early 2014. These legal frameworks will provide the basis for preparing PPP transactions in a transparent and predictable manner, allowing a PPP program to develop and

[PPPs] have generally been embryonic in the region and are only now beginning to achieve momentum

18 ADB. 2012. *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Papua New Guinea*. Sydney.

19 Fiji, Marshall Islands, PNG, Samoa, Solomon Islands, and Tonga.

reducing the risks of participation for the private sector. In PNG, the private sector has been a strong advocate of the proposed PPP framework.

While the frameworks are being developed, PPP transactions are also being prepared. One example is the new undersea fiber-optic cable in Solomon Islands, which was approved in 2012, and the "rehabilitate, operate, and maintain" contracts in the water and wastewater sector in Timor-Leste, which are in the prefeasibility stage. In PNG, a PPP assessment of Stage 2 of the Jacksons Airport modernization program was undertaken, outlining the financial implications of bringing in private sector capital and management expertise. The government is considering this PPP modality for Jacksons Airport and possibly also for Lae Airport. In the port sector, PSDI is assisting the Independent Public Business Corporation to review options for the private operation of the new Lae Tidal Basin Port. Work to prepare the PPP component of the new Lae Port commenced in 2013 with PSDI support.

PSDI continues to coordinate with the International Finance Corporation on the preparation of two PPP transactions in Timor-Leste: the Tibar Bay Port and the Dili Airport, where the International Finance Corporation has signed transaction advisory mandates with the government. Given that these transactions are being developed in the absence of a complete legal and regulatory framework for PPP transactions, PSDI is supporting the PPP Unit to ensure that the project development process conforms to the PPP Policy.

Impact and lessons learned. While Pacific DMCs have been slow to successfully complete PPP transactions with substantive private sector investment, few question the benefits of leveraging the resources and know-how of the private sector for the delivery of infrastructure and related services. This is a significant shift from past traditional attitudes, which held that the government should provide all public infrastructure and related services.

Outsourcing of subsidized air and ferry services in Fiji, PNG, Solomon Islands, and Tonga has demonstrated the benefits of outsourcing to the private sector through the most simplified form of PPP—the service contract. This was expanded in 2013 as a result of requests from at least three Pacific governments (Palau, Samoa, and Vanuatu) to help identify and begin to structure outsourcing contracts. More complex PPPs involving capital investments and longer-term concessions will be the next step; a number of these transactions are now under preparation in Timor-Leste and others are being explored in PNG and Vanuatu. The expected impact will not only be increased private sector investment in infrastructure and related services, but also improved service delivery, which will benefit both rural and urban populations. PSDI will track both investment flows and service delivery improvements in the coming years.

The expected impact will not only be increased private sector investment in infrastructure and related services, but also improved service delivery

Gender and the Economic Empowerment of Women

Women's contributions to poverty reduction, economic growth, and private sector development are recognized globally. Promoting the economic empowerment of women is now an integral part of development strategies. A growing amount of research demonstrates the link between women's empowerment and social well-being. Yet research also indicates that women's economic contributions continue to lag behind their achievements in health and education, and a variety of barriers still prevent them from fully contributing to the economy in many parts of the world. Despite having obtained equal legal rights and equal status in many countries, women are still discriminated against in multiple ways. Legislation to promote equal treatment has been adopted and equality mechanisms to monitor implementation have been set up, but despite this, imbalances between women and men persist.

In most of the formal sectors of Pacific economies, women are marginalized for reasons that range from deep-seated cultural practices to structural factors and legal and regulatory constraints. PSDI has increasingly focused on ensuring that it addresses the legal and regulatory barriers to women's economic empowerment. As discussed in previous sections, PSDI's core activities in business law reform and improving access to finance are helping to facilitate women's entrepreneurship and access to financial services.

PSDI's initiatives have, as a crosscutting theme, the goal of promoting the economic empowerment of women through improved access to financial services and through legal and economic reform throughout the Pacific. PSDI is already contributing significantly to gender-based empowerment activities through the creation of enabling conditions for women (and men) to conduct business by making it easier and cheaper to register a business, open a bank account, and apply for credit. As a result, business operators who had previously only been able to work in the informal sector gain access to legal status.

By driving the legal reform process, these initiatives will pass into actual law, requiring Pacific DMCs to facilitate their citizen's participation in all aspects of the formal market and supporting the process to drive further development initiatives. The overall mandate is to deliver economic empowerment through vertical and horizontal impact initiatives across the gender sphere. Women comprise a significant proportion of the informal economy. By formalizing the economy and its associated operating framework, PSDI's initiatives seek to increase levels of participation in formal business, clarify formal fiduciary relationships for both women and men, and enhance the economic and social status of women throughout the region through legal reform.

During the first two phases of PSDI, many initiatives had a strong positive impact on women's economic opportunities through the creation of cheaper, more accessible legal structures and improved access to finance and financial services. PSDI-supported legal reform implemented in Solomon Islands, for example, provides for flexible business structures that will help women create and manage their businesses without unwanted interference from men. Businesses can be incorporated and managed more easily than in the past, while transaction costs can be kept to a minimum.

During the first two phases of PSDI, many initiatives had a strong positive impact on women's economic opportunities

How PSDI initiatives have benefited women

The following list illustrates the strength of the crosscutting impact of PSDI reforms on increasing economic opportunities for women. PSDI has

- supported and formalized the legal and regulatory environment for business creation and company registration in Samoa and Solomon Islands. It is now easy, quick, and inexpensive to form single-shareholder companies, and this has strong long-term potential as an instrument for formalizing women's business activities. This approach has the added benefit of separating women's business and household finances.[20] A formal business provides women with more opportunities to separate the two, as well as some insulation from the *wantok* system.
- implemented numerous access-to-finance initiatives that provide women with the means to save and to access both small and larger-scale loans.
- initiated banking reforms that enable women to open their own bank accounts without the requirement of a male signatory.

[20] Research has found that the effectiveness of providing capital to informal women business owners is reduced because the finances of the business and the household are closely intertwined through "capture" by male household members.

- increased women's opportunity to access credit to create and/or expand businesses through ongoing initiatives such as secured transactions reform and mobile phone banking.
- supported technology-based financial services that create a safer, more secure way to save and transfer money. Women are not required to enter a financial institution with cash, which places them in greater control of their finances as well as offers the flexibility of where and when they do their banking.

To track the gender impact of PSDI, all initiatives are rated using the standard ADB gender categories. Under this schema, a score of 1 for an initiative implies strong gender equity, a score of 2 implies effective gender mainstreaming, and a score of 3 indicates some gender benefits. The nature of PSDI reforms—promoting an enabling environment for any person who wishes to engage in business—implies that interventions that specifically target gender are relatively uncommon. Nevertheless, PSDI is producing a strong gender impact.

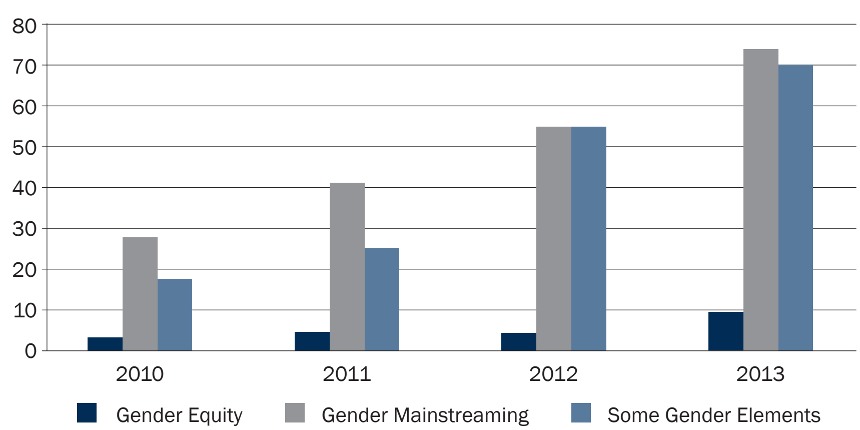
Figure 14 shows the distribution of PSDI initiatives in terms of the ADB classification. About 6% have a strong gender equity impact, and over 50% have effective gender mainstreaming components. There has been a strong rise (near doubling) in the number of initiatives that have a gender equity classification and a substantial increase in the gender mainstreaming initiatives even though this was not a specific focus area under PSDI I and II.

Under PSDI III, the economic empowerment of women occupies a more prominent role in strategic planning, being a focus area in its own right. The first step in implementing an activist gender focus will be to pilot a number of innovative initiatives that will then be evaluated for impact. Those that are successful will be ramped up, either on a larger scale in specific countries, or introduced into other countries, or possibly both.

Monitoring and Evaluation

A monitoring and evaluation (M&E) framework is a central part of PSDI. It was originally developed to ensure the effective tracking and evaluation of initiatives in response to a review of the first phase of

Figure 14: Gender and Pacific Private Sector Development Initiative: Number of Initiatives by Gender Classification



Source: ADB/PSDI.

PSDI, which concluded that while initiatives were effective and had a strong development impact, the M&E process was inadequate, both from the perspective of tracking progress and in its evaluation of development results. The new M&E framework addresses these criticisms by formalizing the way in which the development of initiatives and projects occurs, and through the evaluation of outputs and outcomes. These are integrated with financial planning and control to ensure budget integrity and to show how financial resources are allocated. Furthermore, the M&E framework is a document repository for all information associated with every initiative, which promotes institutional memory and continuity.

As part of the process of evaluating PSDI II, an independent evaluator reviewed the M&E framework to assess the extent to which it provides a tool for tracking progress and documenting results.[21] He concluded, "The improvement in the PSDI M&E framework is a feature of PSDI II. PSDI recognized that a more comprehensive framework was needed for its own purposes, in addition to being able to demonstrate positive outcomes from PSDI initiatives and projects to Australian Aid. Accordingly, PSDI has been progressively rebuilding the M&E framework during Phase II." As pointed out in the evaluation paper, the framework integrates financial planning and budgeting; identification of focus areas for reform; the planning and implementation of reform initiatives; and the evaluation of outputs, outcomes, and impacts. It incorporates a dynamic feedback mechanism that identifies problems as they arise in order to better focus initiatives on accomplishing their goals. In addition, the M&E framework builds in institutional memory through the M&E tool (i.e., database), which, as an added feature, allows the storage of relevant documents within each initiative or project sheet. The framework also provides for surveying the targeted beneficiaries to provide a "reality check" on the effectiveness of reform initiatives and to show where and how they might need to be modified to be fully effective.

M&E processes and procedures are embedded in every phase of PSDI, from conceptual-ization of initiatives to completion and evaluation, as well as budgeting and financial control

The philosophy of the PSDI M&E framework is reflected in the following observation by the *Independent Evaluation Report* (footnote 21). "In designing the PSDI M&E framework, PSDI staff have taken the view that an overemphasis on quantitative indicators is to be avoided, as such an emphasis tends to bias reform efforts toward initiatives that are easy to measure. Having said this, PSDI does compile substantial quantitative indicators for each initiative and project. Similarly, the PSDI M&E framework does not use broader measures of competitiveness on a cross-country basis, because that approach risks directing policies toward improving country rankings rather than basing reforms on priorities identified by in-depth analysis. The evaluator supports this approach."

The guiding principle behind the framework is that M&E processes and procedures are embedded in every phase of PSDI, from conceptualization of initiatives to completion and evaluation, as well as budgeting and financial control. The framework can be used as a management tool to monitor and evaluate initiatives and projects in a timely way. It enables the production of summary reports and information requests on demand. The available information enhances the ability of PSDI management and task managers to make any adjustments that are required during the course of the technical assistance. Furthermore, information will be collected on the impact of any initiative beyond the lifetime of any technical assistance. This will enable a longer-term analysis of impacts than is typically the case in M&E frameworks.

The evaluation report concluded, "The knowledge retention and document linkage aspects are impressive. These features are important to reducing the exposure to key-person risk through committing the experience and documentation from the technical assistance to institutional memory.

[21] Australian Aid. *Independent Evaluation Report. TA-7430 REG: Pacific Private Sector Development Initiative Phase II*. http://aid.dfat.gov.au/Publications/Documents/adb-pacific-private-sector-development-initiative-evaluation.pdf

These features will make it possible to determine how past projects or initiatives evolved, what problems arose, and how those challenges were dealt with, thereby disseminating the lessons learned and underpinning the sustainability of any reforms undertaken.... In summary, it is clear from the documentation supplied to the evaluator and the 'live' demonstration of the capability of the database, that the M&E framework is aimed at ensuring that PSDI effectively addresses the problems constraining the private sector in the Pacific."

M&E remains a central part of the strategic management focus for PSDI going forward. Further intensive development of the M&E framework occurred during 2012 and 2013 and will continue as PSDI III gets underway. The focus has been on

- further refining the tracking of initiatives and projects to improve M&E as a strategic management tool,
- undertaking an ongoing process of integrating the M&E framework with the indicators identified in the PSDI III technical assistance report,
- more tightly integrating the M&E framework with the PSDI budgeting processes, and
- incorporating all documents that have been produced under PSDI since its inception and making them searchable.

Going forward, analytical work will be more tightly integrated with the evaluation framework. In particular, the planned private sector assessments will gather data on the effectiveness of PSDI initiatives and will contain suggestions for necessary follow-up and modifications where necessary. In addition, PSDI aims to become part of a broader knowledge network. Experience in from small island economies in other parts of the world will be incorporated into development of PSDI initiatives. Furthermore, the rich experiences gained under PSDI will be made available to development partners working in other regions.[22]

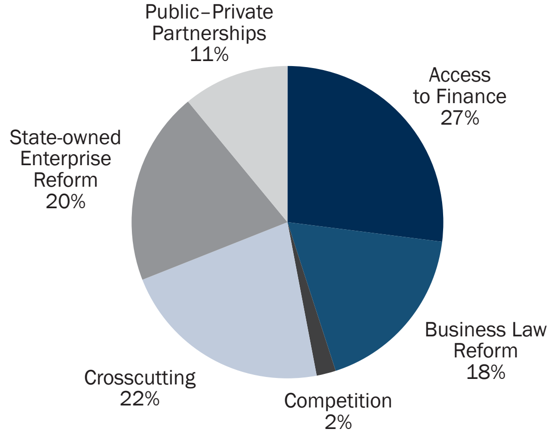
An Overview of Resources and Spending

To date, resources committed under PSDI I and II over the 2007–June 2013 period have amounted to $22,172,249 (Figure 15). The focus area of highest spending was access to finance. This includes the secured transactions reforms, which involved substantial legal reforms including the passage of laws in six countries and the associated installation of electronic registries. As the following sections will demonstrate, private sector–oriented reform in many cases often commences with ensuring that Pacific island economies have a modern legal framework for the activities that are the subject of reforms. PSDI has assisted not only with business law and secured transactions law, but also with laws governing state-owned enterprises, customs, competition, and financial service regulation. Virtually every area has involved some changes to the legal frameworks in which PSDI countries operate.

Another substantial area of spending has been SOE reform and PPPs, which together have accounted for over 30% of total spending. Crosscutting expenditure, which involves analytical work, monitoring and evaluation, and administration expenses, were also substantial. Some additional resources remain in PSDI II, although these consist primarily of committed expenditure, which may not have been fully disbursed. As contracts are closed under PSDI II these will flow back into available resources, but at this point the amounts are minor.

22 During 2012/2013, PSDI team members shared experiences at conferences in Peru and in the Republic of Korea, and presented at the Inter-American Development Bank in Washington, DC.

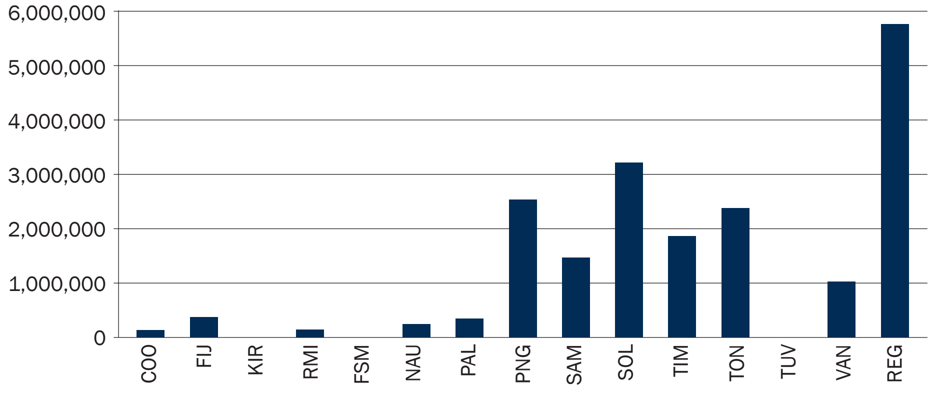
Figure 15: Spending by Focus Area, 2007−2013



Source: ADB/PSDI.

Figure 16 shows PSDI spending by country and for the region. Solomon Islands received nearly 17% of resources from PSDI I and II, which is appropriate because it has been the most active reformer in the region. Considering that it is classified as a "fragile state," this is a remarkable achievement. It also shows that intensive engagement can achieve much, even when institutions are not strong. The second most active reformer has been Tonga, which received 12.2% of resources, only slightly below those committed to PNG, the largest country in the region. Regional spending commanded the most resources, at nearly 30%, reflecting the crosscutting nature of PSDI.[23]

Figure 16: Pacific Private Sector Development Initiative Phases I and II, Spending by Country 2007–2013



COO = Cook Islands, FIJ = Fiji, KIR = Kiribati, FSM = Federated States of Micronesia, NAU = Nauru, PAL = Palau, PNG = Papua New Guinea, SAM = Samoa, SOL = Solomon Islands, TIM = Timor-Leste, TON = Tonga, TUV = Tuvalu, VAN = Vanuatu, REG = Regional.

Source: ADB/PSDI.

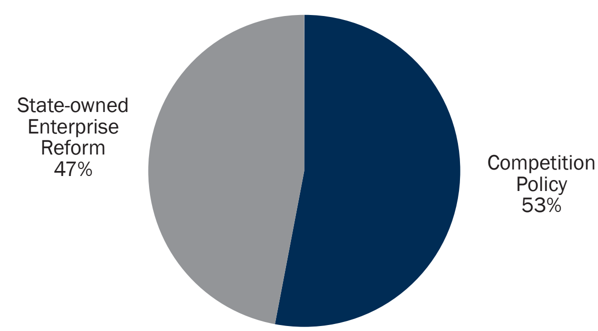
[23] This also reflects that before the M&E tool was developed, a number of initiatives that run across individual countries in the region were classified as regional. However, data no longer exist to allow a reclassification.

Country Updates

Cook Islands

Pacific Private Sector Development Initiative (PSDI) activities in the Cook Islands have focused on competition issues and state-owned enterprise (SOE) reforms. An assessment of the competition and consumer protection laws was completed in 2009. In 2011, at the request of the government, the PSDI undertook an analysis of the gaps in the legislative, governance, and monitoring frameworks that apply to SOEs in the Cook Islands. The resulting paper, listing the gaps identified in the assessment and recommending corrective actions that should be taken as well as specifying implementation priorities, was endorsed by the Cabinet in July 2012. PSDI has been working with the Cook Islands Investment Corporation—the SOE holding company—and its legal advisors to draft amending legislation to codify the approved enhancements to the SOE governance, monitoring, and accountability frameworks.

Figure 17: Cook Islands: Spending by Focus Area: 2007–2013



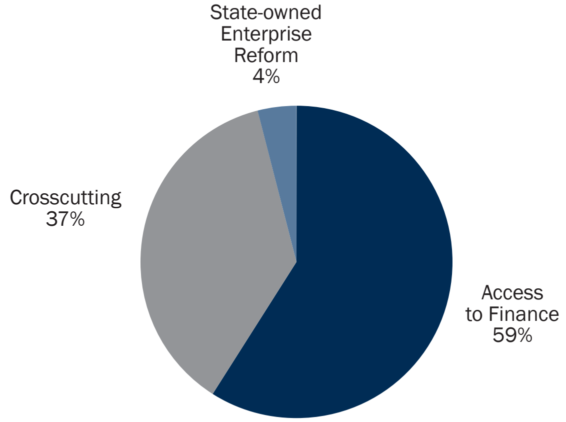
Source: ADB/PSDI.

Fiji

Although PSDI activities in Fiji continue to be limited by political considerations, PSDI has spent over $350,000 in initiatives that support private sector development in the country. As illustrated in Figure 18, over $209,000 of total spending has been on access to finance and about $131,000 on crosscutting activities. Fiji has also participated in activities related to SOE reform, such as director training, community service obligation (CSO) training, and the comparative analyses of SOE performance and reform experiences in the Pacific completed in 2009 and 2011.

In 2006, a comprehensive private sector development reform program was ready to commence, which would have been implemented under the auspices of PSDI. However, this was suspended when the

Figure 18: Fiji Spending by Focus Area, 2007–2013



Source: ADB/PSDI.

coup occurred and since then, PSDI activities have been limited. However, ongoing analytical work, in particular the 2012 Private Sector Assessment, has identified and prioritized initiatives that could reduce constraints to private sector development in Fiji.

In 2012, ADB published the results of microinsurance demand research in Fiji, in partnership with the Pacific Financial Inclusion Programme and Australian Aid. The research contributed to the launch of the Pacific's first community-based microinsurance scheme, targeted at Indo–Fijian communities, in June 2012.

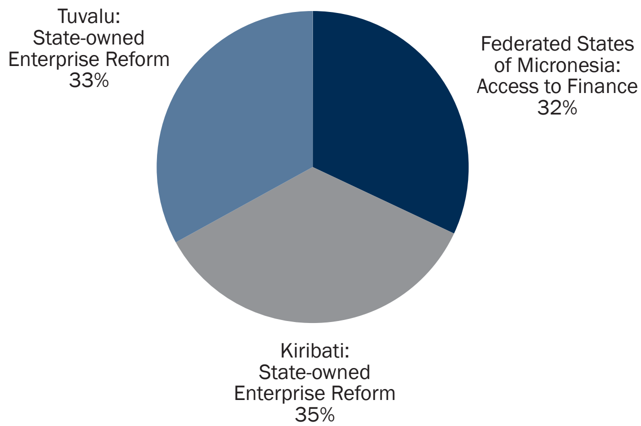
In 2012, ADB also contributed to a workshop for insurance regulators convened by the Pacific Islands Central Bank Working Group and organized by the Pacific Financial Inclusion Programme. The workshop brought together insurance supervisors from seven Pacific island countries to highlight the integral role that accessible insurance services plays within wider financial inclusion efforts and to build requisite regulatory capacity. The workshop was held in Nadi in June 2012. A follow-on workshop was held in August 2013.

Fiji has participated in SOE reform activities, including director training and CSO training. Fiji also participated in PSDI's *Finding Balance* studies in 2009 and 2011, which analyzed and compared SOE performance and reform in the Pacific. PSDI is providing peer review and ongoing support to an ADB stand-alone technical assistance project on SOE reform supporting SOE restructuring, outsourcing of SOE activities to the private sector, and capacity building within the monitoring agencies.

Kiribati, the Federated States of Micronesia, and Tuvalu

PSDI assisted Kiribati, the Federated States of Micronesia (FSM), and Tuvalu in 2012–2013, will total spending in the three countries amounting to $50,084. PSDI assisted the FSM in an interim upgrading of its secured transactions registry. It provided assistance to both Kiribati and Tuvalu with SOE reform, providing input in support of ongoing ADB national-level activities.

Figure 19: Kiribati, the Federated States of Micronesia, and Tuvalu Spending by Focus Area, 2007–2013



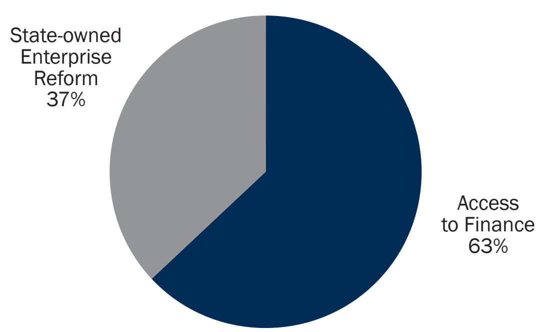
Source: ADB/PSDI.

Nauru

In 2011, the Government of Nauru sought assistance from ADB to restructure the senior executive management of the Republic of Nauru Phosphate Corporation, a fully government-owned enterprise that processes and sells phosphate in the international market. PSDI provided technical assistance, including the recruitment of a new chief executive officer, who commenced work in October 2011. This SOE reform initiative saw resources supporting the government for the first time, with an expenditure of close to $85,000.

PSDI completed an assessment of financial services and potential banking models in September 2012. Drafting of an information memorandum to invite a short list of financial institutions to submit proposals to establish operations commenced during the first quarter of 2013. PSDI will support the Office of Parliamentary Counsel in drafting legislative amendments to Nauru's banking legislation to facilitate the potential entry of an overseas financial institution.

Figure 20: Nauru Spending by Focus Area, 2007–2013

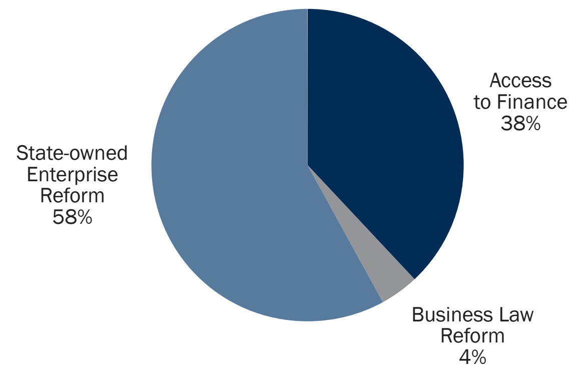


Source: ADB/PSDI.

Palau

Palau passed its Secured Transaction Act in May 2012. PSDI has supported the development of an electronic registry and early stage implementation of the act. The registry went live in early 2013. PSDI also commenced support for SOE reform, including the design of a corporate governance reform program and active support for the corporatization of the new water utility.

Figure 21: Palau Spending by Focus Area, 2007–2013



Source: ADB/PSDI.

Papua New Guinea

Papua New Guinea (PNG) has the third-largest share of PSDI spending among Pacific developing member countries (DMCs), with commitments totaling over $2.5 million. Of this, access to finance accounted for $1.23 million and public–private partnerships (PPPs) for $718,000. The balance was accounted for by crosscutting issues, SOE reform, and competition.

Access to finance. PSDI funded the design, and continues to support the implementation, of the Microfinance Expansion Project in PNG, a sector-wide program with a focus on strengthening institutions, financial literacy and business development skills training for clients, regulation and supervision of the microfinance industry, and promoting expansion of credit to micro and small enterprises through a risk share facility.

Branchless banking. In 2012 and 2013, ADB continued to support financial institutions in PNG and Timor-Leste to develop branchless banking models. In PNG, Nationwide Microbank launched an innovative mobile phone–linked bank account, MiCash, which enables customers to deposit and withdraw funds from their bank accounts through an agent network without having to travel to a bank branch, and to transfer funds to friends and family who also have accounts with Nationwide Microbank. This has reduced transaction costs, increased security, and greatly improved the ease of accessing financial services.

In 2012/2013, PSDI provided support for

- a review of the MiCash pilot in West New Britain Province,
- the development of appropriate audit and risk management processes for MiCash, and
- the development of a training program for staff and agents.

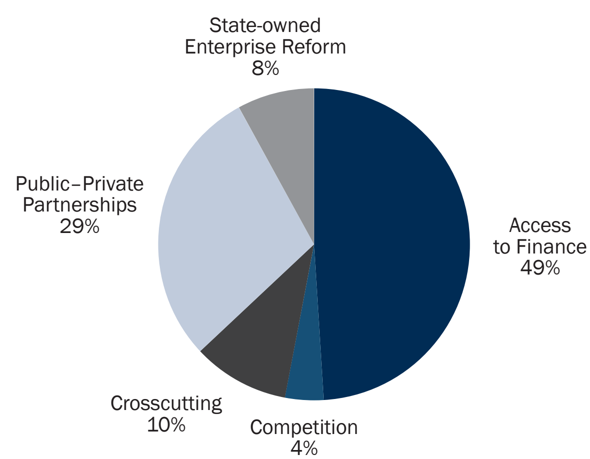
In August 2012, Nationwide Microbank won the 2012 PNG Institute of Directors Award for the most innovative company of the year for its MiCash product.

The Personal Property Security Act was passed in December 2011. As yet, it is not operational as a number of issues remain to be finalized regarding the hosting of the registry and the terms under which this will be done. Assuming these are resolved in the first quarter of 2014, operation of the framework and registry should commence by mid 2014.

Competition. PSDI continues to support the Independent Consumer and Competition Commission (ICCC) in preparing investigations and inquiries in accordance with the specifications of the ICCC Act 2002, including the analysis of abuse of market power, alleged price fixing, and other similar market issues. In 2012, this work was complemented by additional support to the ICCC from Australian Aid in the form of full-time resident technical advisors who will substantially expand ICCC's capacity to execute its mandate. Work on the competition policy will continue and be expanded in 2014.

Crosscutting. In 2008, PSDI published a private sector assessment for PNG and an analytical summary of a survey identifying key constraints to business.[24] PSDI also provided funds for private sector development seminars organized with the Institute of National Affairs and the Port Moresby Chamber of Commerce and Industry. In late 2011, PSDI initiated a program of support to enable the Institute of National Affairs to conduct the 2012 business environment survey. The results of the survey, which took longer than expected to complete because of sampling issues, will be published in 2014.

Figure 22: Papua New Guinea Spending by Focus Area, 2007–2013



Source: ADB/PSDI.

[24] ADB. 2008. *Foundation for the Future: A Private Sector Assessment for Papua New Guinea. Sydney; ADB. 2008. The Challenges of Doing Business in Papua New Guinea: An Analytical Summary of the 2007 Business Environment Survey by the Institute of National Affairs*. Sydney.

State–owned enterprise reform and public–private partnerships. In 2010, PSDI commenced support to develop a legal and regulatory framework to promote full transparency in the identification, costing, contracting, and financing of community service obligations (CSOs) by SOEs. A CSO policy has been drafted and its implementation has been supported in the treasurer's 2012 budget speech and, more recently, in an SOE reform policy document.[25] However, the progress to final approval and adoption of the CSO policy has been slow. Concurrent efforts are also underway to substantially strengthen the legislative, governance, and monitoring framework for the SOEs. PSDI launched an SOE performance benchmarking study in September 2012, the first time in more than a decade that the financial performance of the PNG SOE portfolio was made available to the public. The study triggered substantial public debate and preceded a public forum on the role of SOEs in the economy, opened by the Prime Minister and chaired by the minister of public enterprises. PSDI presented the findings of the study at the forum, and the government is now pursuing a number of its recommendations. PSDI funded a visit by Richard Prebble, former New Zealand minister of state-owned enterprises, to discuss the New Zealand experience with privatization and corporatization and the implications for PNG.

The study triggered substantial public debate and preceded a public forum on the role of SOEs in the economy

In the area of PPPs, a PPP policy was prepared in 2008 and a draft PPP bill was finalized in 2011, in close collaboration with a multiagency task force. The bill underwent further review by the Office of Legislative Counsel in 2012, but due to other pressing matters within the treasury (the principal sponsor of the bill), it was not submitted to Parliament. The bill still awaits National Executive Council review and subsequent submission to Parliament. Once passed, the bill will provide the basis for preparing PPP transactions in a transparent and predictable manner, allowing a PPP program to form and reducing the risks of participation for the private sector.

While the framework is being developed, PPP transactions are being prepared, such as in the port and airport sectors. PNG Ports is currently assessing options for operating the new Lae Port under a PPP arrangement, and PSDI completed a PPP options analysis for Phase 2 of the Port Moresby Airport.

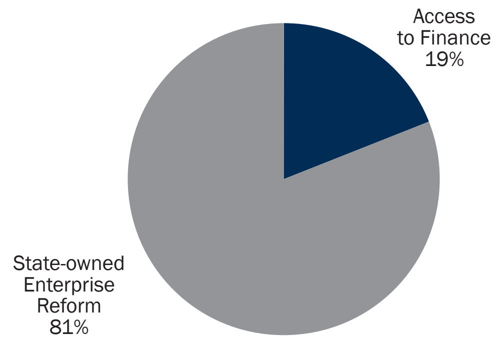
Republic of the Marshall Islands

The Republic of the Marshall Islands has received a small proportion of PSDI funds with $112,745 in total disbursements. Figure 20 illustrates that the bulk of the spending was applied to the preparation of an SOE policy, with a view to strengthening the governance and performance of SOEs. Spending of $21,927 on access to finance focused mainly on work related to secured transactions reform. PSDI drafted an SOE reform policy in 2011, which was approved by the Cabinet in April 2012.

Following Cabinet approval, an SOE bill has been drafted that would, if enacted, propel the Marshall Islands' SOE legislative framework to one of the most robust in the Pacific. PSDI continues to support the government in the passage of the SOE bill by providing ongoing technical assistance and attending public consultation meetings. The Marshall Islands has also participated in the comparative analysis of SOE performance and reform experiences in the Pacific completed in 2011 and 2012. A further update will be published in 2014.

25 PNG Ministry for Public Enterprises and State Investment. 2012. *Strategic Direction for the State in Enterprise: A Strategic Policy Framework*. Port Moresby.

Figure 23: Republic of Marshall Islands Spending by Focus Area, 2007–2013



Source: ADB/PSDI.

Samoa

The Government of Samoa continues to request PSDI assistance in a number of areas, in particular through reform of company registry processes, a review of the competition policy framework, improvement of access to finance through secured transactions reform, and ongoing assistance with reforming SOEs.

Total spending by PSDI in Samoa has amounted to approximately $1.4 million. The largest component of spending was SOE reform, followed by business law reform and access to finance, which included secured transactions reform.

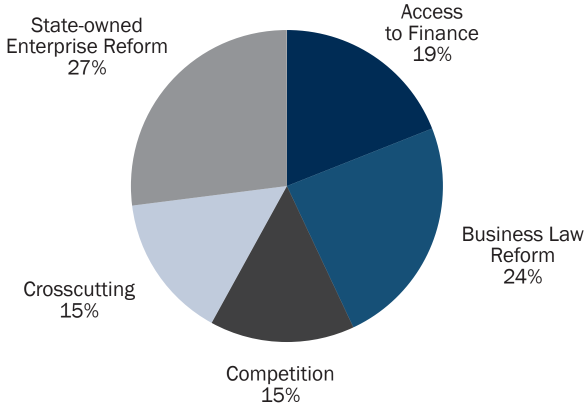
Access to finance. ADB has assisted Samoa with the drafting of a new personal property securities (secured transactions) bill. The bill went through several readings in Parliament and was passed in February 2013. Implementation support will be provided by PSDI through the design and installation of an electronic registry, along with broad implementation and public awareness on the application of the new law.

Business law reform. *Review of business laws*: The attorney general requested that PSDI undertake an analysis of priorities for the reform of business laws. Following the presentation of a summary of recommendations (a detailed analysis will be part of the upcoming private sector assessment), the attorney general requested a review of the competition policy framework, discussed below. PSDI will also undertake reviews of electronic transactions laws in 2014.

Company law reform. After updating the Companies Act Regulations in early 2013, PSDI assisted with the procurement and installation of a new electronic registry. This is being accompanied by significant public awareness activities and capacity building, which is being undertaken in coordination with the New Zealand Companies Office. The registry implementation has also revealed various elements of company law that would benefit from an updating amendment. PSDI has been asked to provide drafting and policy support for those legislative changes.

Competition. In late 2012, the Ministry of Commerce requested PSDI assistance to draft a competition policy. The government sees this a priority reform area. The policy was drafted with extensive consultation

Figure 24: Samoa Spending by Focus Area, 2007–2013



Source: ADB/PSDI.

with both government and the private sector. The Cabinet approved the new policy, and PSDI is assisting with the preparation of a draft competition bill and review of related legislation, which will then be subject to wide-ranging consultation. The legislation should be submitted to the legislature in 2014.

Crosscutting. The government has requested an update of the 2008 private sector assessment, which is expected to be released in the first quarter of 2014.

State–owned enterprise reform and public–private partnerships. Samoa was one of the countries that participated in the PSDI-funded comparative studies on the performance of SOEs in the Pacific in 2009, 2011, and 2012. After the 2009 study was published, the Prime Minister, recognizing that the practice of appointing ministers and public servants as SOE directors was directly contributing to the poor performance of Samoa's SOEs, sponsored the introduction and passage of the Composition Act through Parliament. With the enactment of the Composition Act in early 2012, the boards of all SOEs were restructured to remove all elected officials and substantially reduce the number public servants. In 2010, almost 50% of all SOE directors were either ministers or public servants. Following the reforms in 2012, only 5% of SOE directors are public servants—none are elected officials.

The boards of all [Samoan] SOEs were restructured to remove all elected officials and substantially reduce the number of public servants

In 2012, the government requested PSDI to support the privatization of three additional SOEs: Agriculture Stores Corporation (ASC), Polynesian Airlines (Investment) Limited (PAIL), and Samoan Shipping Services. Privatization scoping studies for ASC and PAIL have been completed, with the former receiving Cabinet approval in November 2012. However, only limited progress has been made in 2013 on securing Cabinet approval for the PAIL privatization and on implementing the ASC transaction. Work on the scoping study for Samoan Shipping Services will be deferred pending completion of the ASC and PAIL transactions. PSDI also supported the development of SOE reform policy conditions for inclusion in the ADB policy-based operations in Samoa in 2013.

Solomon Islands

The Government of Solomon Islands continues to be proactive in undertaking reforms that benefit the private sector. A number of crucial modern business laws have been introduced that improve both business formation and access to finance, and SOEs have become more efficient. With ADB support, communications will be greatly improved when a fiber-optic cable is installed in 2014.

Over PSDI I and II, Solomon Islands has received the largest share of funds of any country at more than $3.16 million. The breakdown by focus area shows that about half of disbursements were allocated toward activities in business law reform, the majority of which was spent on company law and customs law reform. One-third of total spending was made in SOE reform, including the privatization of Home Finance and Sasape Marina. Sixteen percent was spent on access to finance, specifically on secured transactions reform and a review of the regulatory framework for microfinance and mobile banking. Work on competition policy is just commencing in Solomon Islands.

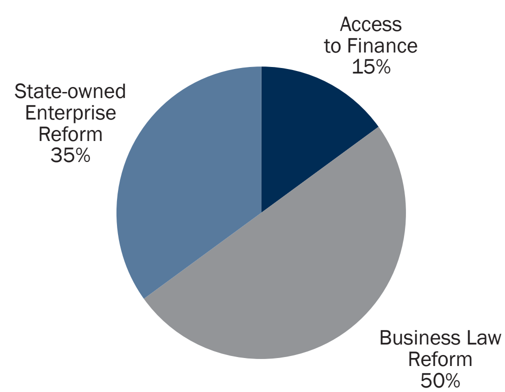
Since the registry began operations, more than 9,000 security interests have been filed

Access to finance. The Secured Transactions Act commenced in 2008, and the associated electronic registry was established in 2009 with support from PSDI. Since the registry began operations, more than 9,000 security interests have been filed (as of June 2013), although a significant number of these have been consumer loans secured by salary or National Provident Fund deductions. Banks have proven to be conservative in their use of the secured transactions framework in cases where loans have been secured only by movable property.

However, the largest finance company in Solomon Islands has aggressively used the new system and has increased its loan portfolio by a factor of six. It reports that the system is easy to use, especially in conjunction with the business law reforms. On average, loan processing times have declined from weeks to 1 or 2 days as a result of the reform.

PSDI continued to support the Central Bank of Solomon Islands and the National Financial Inclusion Taskforce in reviewing the current regulatory framework for microfinance and mobile banking. Many of

Figure 25: Solomon Islands Spending by Focus Area 2007–2013



Source: ADB/PSDI.

the recommendations of PSDI's review were immediately taken on board by the central bank, with a view to encouraging greater financial inclusion in Solomon Islands. These include

- a proportionate approach to mobile banking regulation to encourage market entrants;
- modification of prudential guidelines to allow parent companies of financial institutions to guarantee additional capital, encouraging additional loan activity; and
- reforms to the credit union regulatory regime.

PSDI has also been asked to assist in reforming the policy and legal framework for credit unions, which commenced in the second half of 2013.

Rural finance. In Solomon Islands, PSDI commenced the design of an initiative to improve the availability of financial services—particularly savings services—to cocoa grower associations and their members. Implementation will begin in the first quarter of 2014.

Business law reform. *Company law reform:* The Solomon Islands Companies Act 2009 is now a well-established part of the business law landscape in Solomon Islands. The new laws eliminate various barriers to company formation, including the need to obtain ministerial approvals for company names, the payment of stamp duty, and the requirement to produce a company seal. The average time taken to form a company has now been reduced from nearly 3 months to less than 36 hours. Improvements in the company law framework have also been observed, with greater strengthening of shareholder rights and more straightforward liquidation and insolvency procedures.

There were 1,525 formally registered companies in Solomon Islands as of June 2013. The data on new incorporations indicate that the rate of company registration has more than doubled since the reform commenced. In the period 2004–2009, new company registrations averaged 124 per year. In the 3.5 years following the reform, 1,008 new companies have been registered. Registrations now average 288 per year, more than double the previous registration rate. Since promoting formality is an important goal of PSDI, the reform in Solomon Islands has had a significant impact.

With ADB support, Company Haus, the government office responsible for administering the registry, has turned its attention toward company compliance of the provisions of the Companies Act. Annual returns are now submitted regularly, and if a company fails to submit, it is de-registered. This has resulted in the data on companies, directors, and shareholders being current. It also means greater transparency regarding shareholders and directors, which allows lenders, customers, suppliers, and investors to deal with companies with more confidence.

Company Haus is now fully staffed, and is able to undertake a wider range of routine and nonroutine tasks. In early 2013, Company Haus commenced operating the secured transactions registry, with ADB supporting the transition and training. In 2012, PSDI hosted a company director's workshop with Company Haus, focusing on the duties of directors under the company laws and on company maintenance requirements. The session was well attended, with requests from participants for further sessions in 2013.

Company Haus is now fully staffed, and is able to undertake a wider range of routine and nonroutine tasks

Reform of the Customs and Excise Act: The Solomon Islands government requested PSDI to conduct a complete review of the Customs and Excise Act to promote faster clearing procedures and less informality in processes, improve revenue collections, and enhance border protection and trade facilitation. A draft legislative package was provided to government in 2012, with the Cabinet and Attorney General's Chambers undertaking a review of the policy and bills. In the first half of 2013, public consultations were conducted with PSDI support, and the Cabinet should finalize the package for processing through Parliament during the latter part of the year.

Other business law reform activities: PSDI also supported Company Haus staff in presenting the new law and registry at the global Corporate Registrar's Forum held in Auckland, New Zealand in March 2013. The presentation was well received and resulted in PSDI receiving numerous requests for similar reforms in other countries. PSDI is also assisting the government in drafting a new competition policy framework and a new bill for business name registration, and will continue to ensure that the company registry benefits from upgrades as the software is improved.

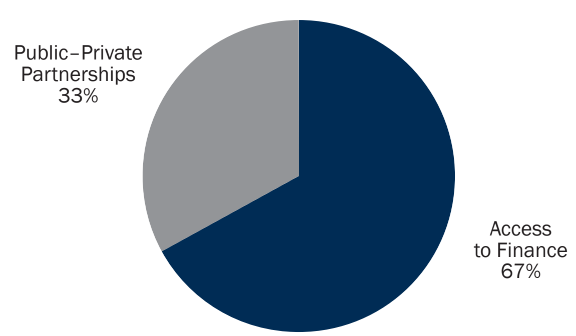
State-owned enterprise reform. PSDI continues to provide assistance toward the implementation of the SOE Act and supporting regulations as well as training and capacity building to SOE directors and board members. A week-long capacity development training program was developed and delivered to the SOE monitoring unit, and PSDI continued to support the unit in implementing the community service obligation (CSO) framework by piloting CSO guidelines in three SOEs, with the first-ever CSO contracts being signed by two SOEs in 2011 and a third in 2012. In-country training on how to develop a business plan and statement of corporate objectives was provided to the board and senior managers of three SOEs. PSDI supported the development of shared accounting services for the smaller SOEs while also supporting the privatization of Solomon Island Printers, which was completed in early 2012. This follows the successful privatization of Home Finance in 2008 and Sasape Marina in 2010. Solomon Islands participated in the PSDI-funded comparative study on the performance of SOEs in the Pacific completed in 2011 and 2012, and will participate in a further edition to be published in 2014.

Timor-Leste

PSDI assistance to Timor-Leste has continued to focus on access to finance and public–private partnerships (PPPs). Total spending from PSDI I and II amounted to $1.8 million, with $1.2 million being accounted for by access to finance, with the majority being spent on assistance to the Institute of Microfinance Timor-Leste and its evolution to a commercial bank, and the development of a business model for a third-party payments provider. Developing the policy, legal, and institutional framework for PPPs and the PPP pre-easibility assessment for new power generation plants constitute 30% of spending in the country.

Access to finance. In 2011, the Microfinance Institute of Timor-Leste formally became the National Commercial Bank of Timor-Leste (Banco Nacional de Comércio de Timor-Leste or BNCTL), Timor-Leste's first locally owned commercial bank. PSDI was instrumental in supporting this major achievement. Since

Figure 26: Timor-Leste Spending by Focus Area, 2007–2013



Source: ADB/PSDI.

the transformation was completed, PSDI has supported the institutional strengthening of BNCTL in the areas of risk management, accounting, and credit. BNCTL is compliant with central bank regulations and requirements, largely as a result of PSDI's targeted assistance.

BNCTL now has a significant financial market presence with 13 branches (as of June 2013), more than 17,000 borrowers with approximately $20.1 million in loans, and about 130,000 depositors with approximately $22.5 million in savings. This represents a significant increase in the number of depositors (140%) and volume of deposits (135%) compared with the end of 2011, which is largely attributable to the government's decision to channel welfare payments through BNCTL. This resulted in new savings accounts being opened for a large number of new customers, many of whom previously received cash payments and did not have access to financial services. PSDI support to BNCTL is expected to increase going forward to further support the growth and development of the institution.

> ...new savings accounts [are] being opened for a large number of new customers, many of whom previously received cash payments and did not have access to financial services

PSDI also carried out an assessment of potential models to establish branchless banking and/or mobile phone–based electronic payment services, facilitated by demand research undertaken by the Inclusive Finance for the Under-Served Economy Programme. Findings were presented to the government in June 2013. It was found that while there are significant challenges to developing branchless banking services in Timor-Leste, there are also recent positive developments, including the introduction of new and improved mobile telecommunication services, and increased interest of commercial banks in upgrading their banking infrastructure to enable branchless banking services.

PSDI will continue to work with the government and other stakeholders to support the development of branchless banking initiatives in the country.

In 2012, PSDI provided support to the Central Bank of Timor-Leste to review the laws and policies affecting branchless banking operations, which has continued in 2013. An appropriate level of financial sector regulation and supervision must be in place to protect customer deposits without overregulating institutions, which can prevent much-needed innovation.

The meetings and workshops that PSDI conducted with stakeholders in 2012 revealed an overwhelming enthusiasm for secured transactions reform in Timor-Leste. In 2013, PSDI has continued to work with stakeholders to initiate the reform process.

Public–private partnerships. A PPP policy and a draft law were finalized in 2011, and the first part of the necessary legal framework was endorsed by the Cabinet in early 2012. PSDI supported the completion of the legal framework, including regulations and guidelines, which have been ready since mid-2012, but were delayed in their submission to the Cabinet due to the elections and other legislative priorities in the second half of 2012. The legal framework was completed in 2013.

PSDI also completed a PPP prefeasibility for the operation and maintenance of the Betano Power Plant, and began working on a PPP assessment for the Dili water supply system. The next phase of the power plant PPP, the preparation of bid documents, is awaiting a joint government decision. The Dili water PPP prefeasibility findings were presented to the government in the second half of 2013. Now that the PPP Policy has been endorsed by the Cabinet and outlines the process for preparing PPP transactions, PSDI is supporting the PPP Unit to ensure that its principles are being adhered to, particularly in the development of the Dili Airport and Tibar Bay port, which are likely to be Timor-Leste's first PPP transactions.

Tonga

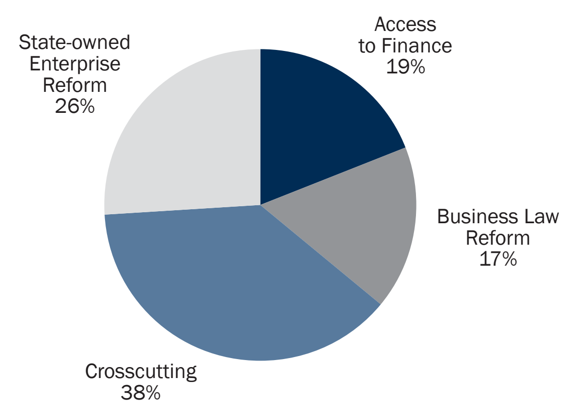
Tonga had the second-largest share of PSDI disbursements at over $2.1 million, with over a third each going to crosscutting initiatives and SOE reform and PPPs (Figure 27). About 18% of total PSDI spending has been spent in the area of access to finance. Secured transactions reform accounts for over 80% of this, and an assessment of the viability of the application of various microfinance technology options at the Tonga Development Bank accounts for the remaining 20%. The drafting and passage of the Companies Act comprises all of the spending in the area of business law reform, which amounts to 9% of total PSDI spending in Tonga.

Access to finance. PSDI support in the area of access to finance has focused on secured transactions reform. The Cabinet and Legislative Assembly approved the Personal Property Securities Act in September 2010, and design of the supporting electronic registry commenced shortly thereafter. In April 2011, the Tonga personal property securities registry went live, with more than 600 notices being filed by the end of the year. In 2012, some minor amendments to the act were made following feedback from users of the system. These became effective in December 2012. In addition, further modifications and improvements to the electronic registry were funded under PSDI in 2012. This was part of a regional upgrade of the registries in a bid to continually improve their operation. Further implementation has been supported by PSDI in 2013.

Business law reform. In 2009, PSDI provided assistance for the preparation of the Companies (Amendment) Bill, in close consultation with the International Finance Corporation, which was responsible for the design and implementation of the company registry. The bill, which was approved by the Cabinet and Legislative Assembly in September 2009 streamlines the Companies Act 1995 and provides for an electronic registry.

The International Finance Corporation–funded registry went live in December 2009. However, as of the end of June 2013, it remains a hybrid paper/electronic registry, which prevents the benefits of the legal reform from becoming fully realized. The government requested ADB to undertake design and implementation of a fully electronic company registry, similar to those of Samoa and Solomon Islands. The diagnostic work has been completed, and procurement commenced in 2013.

Figure 27: Tonga Spending by Focus Area, 2007–2013



Source: ADB/PSDI.

The private sector assessment identified the business licensing laws as one of the most significant impediments to the private sector. The licensing rules were complex. They required businesses to obtain multiple licenses on an annual basis and had significant cost. The government undertook business licensing reform with assistance from PSDI. A diagnostic was completed and amendments to the Business License Act were drafted and passed by Parliament in late 2012. These would simplify the entire licensing regime and reduce transaction costs to business. PSDI also assisted with the advocacy and drafted regulations, and once the new act is passed and PSDI will support the implementation process.

Crosscutting. In 2008, PSDI published *Transforming Tonga: A Private Sector Assessment*, which triggered the initiation of a significant range of reform measures, including company law reform, secured transactions reform, engagement on microfinance, and various initiatives supporting private sector growth. In 2011, an update to the 2008 private sector assessment was commenced with a view to assessing progress on the reforms recommended in the 2008 assessment and identifying and prioritizing private sector–oriented reforms in Tonga. The preliminary results of this update were presented to key policy-making ministries and the Cabinet subcommittee responsible for economic development in October 2011 and to the Tongan economic summit, sponsored by the National Reserve Bank of Tonga, in March 2012. These presentations have significantly influenced government policy development in a number of areas. The final report was published in January 2013.

State-owned enterprise reform. PSDI provided assistance for the preparation of the bid documents for Tonga Print, which were completed and ready for issuance in 2012. PSDI has also supported the design and development of SOE reform conditions in the joint government-donor policy matrix that established SOE reform targets from 2012 to 2016.

Tonga has participated in all three of the PSDI-funded comparative studies on the performance of SOEs in the Pacific.

Vanuatu

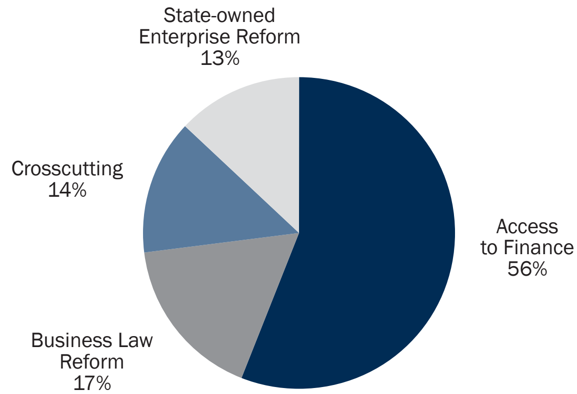
More than half of spending in Vanuatu has been in the area of access to finance, with more than $500,000 being spent on strengthening the institutional capacity of the Vanuatu Financial Services Commission (VFSC), secured transactions reform, and microfinance-related activities. Business law reform (spending of $159,651), consisting primarily of preparing the Companies Bill, Companies (Insolvency and Receiverships) Bill, Personal Insolvency Bill, and Cross-Border Insolvency Bill, received close to a third of PSDI resources spent on the country.

PSDI supported the Vanuatu Women’s Development Scheme (VANWODS) to strengthen its strategy and governance through a series of workshops with the management and board. PSDI also facilitated the participation of microfinance practitioners from Timor-Leste and Vanuatu at the Microfinance Winter Academy hosted by ACLEDA Bank and the Frankfurt School of Finance and Management in Siem Reap, Cambodia, to learn about international best practices in microfinance.

Access to finance. PSDI supported the strengthening of the supervisory capabilities of the VFSC, including an analysis of the viability of the International Financial Center and the structure of the VFSC.

The Vanuatu Personal Property Securities Act came into operation in July 2008. Accompanying the reform of the secured transactions legal framework was an electronic registry installed in April 2009 to record the filing of security interests. Data from the registry show an increasing number of loans in Vanuatu since its operation began. Secured transactions reform also corresponds to a decline in the lending rate of one percentage point as a result of the elimination of stamp duty. Follow-up discussions

Figure 28: Vanuatu Spending by Focus Area, 2007–2013



Source: ADB/PSDI.

with lenders and stakeholders revealed full confidence in the reforms and strong support for the law, the registry, and the performance of the VFSC in operating the registry.

A diagnostic was prepared for the Reserve Bank of Vanuatu and the VFSC on the current framework for the regulation and supervision of microfinance institutions (including VANWODS) that are taking deposits. At present, there is a lack of regulation, and the Reserve Bank is looking at options that may better protect depositors. The government requested the diagnostic, and a discussion paper was prepared and discussed by the working group in 2012. PSDI will support the Reserve Bank of Vanuatu in the implementation of these changes.

Business law reform. PSDI supports the modernization of the Vanuatu commercial legal framework. Assistance was provided for drafting a new companies bill, a companies (insolvency and receiverships) bill, an insolvency (cross-border) bill, a trustee bill, and a personal insolvency bill. The companies bill was passed through Parliament in 2012; however, the legislature was dissolved shortly thereafter, leaving the remainder of the bills package to be passed in subsequent sessions of Parliament. Even though a new government was formed in late 2012, no progress has been made on the additional legislation as of the end of June 2013. It is expected that the remainder of the bills will be passed, which will allow for PSDI to commence preparations for implementation of the company law, including the procurement and installation of a new electronic company registry.

Even though a new government was formed in late 2012, no progress has been made as of the end of June 2013 on the additional legislation

Crosscutting. In 2009, PSDI published *Sustaining Growth: A Private Sector Assessment for Vanuatu*, which concluded that (i) the country's reform efforts have led to high sustained growth rates in the region and (ii) to sustain growth, the reform momentum needs to be maintained by making SOEs more efficient to reduce the high cost of infrastructure services; continuing to upgrade the commercial legal framework; and expanding access to finance through vigorous implementation of measures that were already in process, which should result in lower interest rates and more readily available financial services. Some progress has been made on these measures.

State–owned enterprise reform and public–private partnerships. In 2010, PSDI provided support for the development and implementation of a government business enterprise rationalization program together with the government and Australian Aid. SOE policy principles were formulated in preparation for an SOE act, but progress on this has slowed. In 2012, the government requested PSDI to recommence this work, prepare an SOE reform policy, and conduct preparatory work for the liquidation of four SOEs. A draft SOE policy was submitted to government in June 2012, but due to the elections held during the fourth quarter of 2012, the Cabinet never formally considered the policy. In December 2012, the new minister of finance requested PSDI support to prepare a Cabinet paper on the SOE policy so that it could be submitted in early 2013. As of mid-2013, no further progress has been made.

A PPP transaction in the form of a design–build–operate–maintain contract is being prepared in the wastewater sector in Vanuatu as part of the Port Vila Urban Development Project. Another opportunity will be explored for a slipway in the context of ADB’s Interisland Shipping Project.

Initiatives and Projects, January 2012–June 2013

Pacific Private Sector Development Initiative (PSDI) activities are categorized into **initiatives**, which are achieved through a series of **projects**. Analytical work will identify the need for a particular reform initiative within one of the PSDI focus areas. Initiatives are broken down into several steps or projects, which together constitute the various stages of the reform. For example, reforming a companies act constitutes a **legal reform initiative**. This initiative will involve several discrete **projects**: (i) drafting the bill, (ii) passing the bill, (iii) installing the electronic registry, and (iv) training and operationalization.

The following shows PSDI's ongoing and pipeline activities. Closed initiatives and projects refer to activities completed by 30 June 2013.

Regional

Focus Area	Initiative/Project Name	Status
Access to Finance	Assessment of Private Equity Facilities in the Pacific	Ongoing
	Pacific Microfinance Week (October 2013)	Ongoing
	Secured Transactions Conference	Pipeline
	Secured Transactions Implementation Support to Financial Institutions	Pipeline
	Women's World Banking Pacific Forum (February 2013)	Closed
Business Law Reform	Business Registries Study Tour and Workshop and Corporate Registers	Closed
	Forum (March 2013)	Pipeline
	Contracting Framework (Papua New Guinea, Solomon Islands, Tonga, and Vanuatu)	
	Contracting, Sale of Goods Bill, and Arbitration Bill (Tonga)	Ongoing
	Contract Enforcement in the Pacific	Pipeline
Competition	Competition Framework	Ongoing
	Phase I	Closed
	Phase II	Ongoing
Crosscutting	PSDI Communications Strategy	Ongoing
	Gender Strategy for the Pacific Private Sector Development Initiative	Ongoing
	Independent Evaluation of PSDI Phase II	Closed
	Journalists' Workshop	Pipeline
	Monitoring and Evaluation for the Pacific Private Sector Development Initiative	Ongoing
	Preparation and Implementation of the Monitoring and Evaluation Framework	Ongoing
	Client Surveys	Pipeline
	Support for ADB's Private Sector Operations	Ongoing

Economic Empowerment of Women	Diagnostics on Discriminatory Legal Provisions in the Pacific	Ongoing
Public–Private Partnerships	Review of Outsourcing in the Pacific (Publication) Review of Outsourcing in the Pacific Launch and Publicity	Pipeline Pipeline Pipeline
State-owned Enterprise (SOE) Reform	*Finding Balance* 2014 and Regional Conference SOE Benchmarking Study (Jamaica, Mauritius, Cape Verde) Regional Conference (launch and publicity)	Ongoing Ongoing Pipeline
Number of Initiatives and Projects	**17/22**	

Cook Islands

Focus Area	Initiative/Project Name	Status
Business Law Reform	Company Law Reform Drafting and Passage of the Law Company Registry Design and Implementation	Pipeline Pipeline Pipeline
Number of Initiatives and Projects	**1/2**	

Fiji[a]

Focus Area	Initiative/Project Name	Status
Access to Finance	Microfinance and Microinsurance Initiative Microinsurance Demand Research and Product Development	Closed Closed
Crosscutting	Private Sector Assessment	Ongoing
State-owned Enterprise (SOE) Reform	SOE Reform	Ongoing
Number of Initiatives and Projects	**3/3**	

[a] Participating in Finding Balance 2014 (see regional initiatives).

Marshall Islands[a]

Focus Area	Initiative/Project Name	Status
Access to Finance	Secured Transactions Reform Registry Application Upgrades Review and Implementation of the Law and Registry	Ongoing Ongoing Pipeline
SOE Reform	SOE Reform SOE Policy Preparation Drafting and Passage of the SOE Act Support for the SOE Act Implementation Director Training Program	Ongoing Closed Ongoing Pipeline Pipeline
Number of Initiatives and Projects	**2/6**	

Federated States of Micronesia

Focus Area	Initiative/Project Name	Status
Access to Finance	Secured Transactions Reform	Ongoing
	Registry Application Upgrades	Ongoing
	Secured Transactions Implementation	Pipeline
Number of Initiatives and Projects	**1/2**	

Nauru

Focus Area	Initiative/Project Name	Status
Access to Finance	Introduction of Banking Services to Nauru	Ongoing
	Assessment of Banking Models	Closed
	Drafting of Information Memorandum	Ongoing
	Updating Nauru's Banking Legislation	Pipeline
State-owned Enterprise (SOE) Reform	SOE Reform	Closed
	Organizational Strengthening of Republic of Nauru Phosphate Corporation and the Nauru Utilities Corporation	Closed
	Strengthening of the Nauru Rehabilitation Corporation	Closed
Number of Initiatives and Projects	**2/5**	

Palau

Focus Area	Initiative/Project Name	Status
Access to Finance	Secured Transactions Reform	Ongoing
	Drafting and Passage of the Secured Transactions Law	Closed
	Registry Design and Implementation	Ongoing
Business Law Reform	Company Law Reform	Ongoing
	Drafting and Passage of the Law	Ongoing
	Registry Design and Implementation	Pipeline
State-owned Enterprise (SOE) Reform	SOE Reform	Ongoing
	Assessment of Corporatization Opportunities	Ongoing
	Corporate Governance Strengthening Program	Ongoing
	Corporatization of Water and Wastewater Services and Merger with Electric Utility	Closed
	Development of SOE Policy	Pipeline
	Implementation of the Legal Framework for SOEs	Pipeline
	Support for Palau Public Utilities Corporation Merger	Pipeline
Number of Initiatives and Projects	**3/10**	

Papua New Guinea[a]		
Focus Area	**Initiative/Project Name**	**Status**
Access to Finance	Support to Nationwide Microbank	Ongoing
	Mobile Phone Banking–MiCash Development	Closed
	Mobile Phone Banking–MiCash Expansion	Pipeline
	Secured Transactions Reform	Ongoing
	Drafting and Passage of the Secured Transactions Law	Ongoing
	Filing Archive (Registry) Design and Implementation	Ongoing
	Support for the Microfinance Expansion Project	Ongoing
	Implementation Support	Ongoing
Competition	Support for the Independent Consumer and Competition Commission (ICCC)	Ongoing
	Capacity Building for the ICCC	Ongoing
	Review and Amendment of the ICCC	Pipeline
Crosscutting	Institute of National Affairs Private Sector Survey 2012	Ongoing
Public–Private Partnerships (PPPs)	Jackson Airport PPP Assessment	Ongoing
	Assessment	Ongoing
	Feasibility	Pipeline
	Lae Port PPP Assessment	Ongoing
	Assessment	Closed
	Support for Lae Port PPP Transaction Structuring	Ongoing
	Papua New Guinea Power Assessment	Pipeline
	Assessment	Pipeline
	Feasibility	Pipeline
	PPP Familiarization Workshop (22 Feb 2012)	Closed
	PPP Framework	Ongoing
	Legal Framework for PPPs	Ongoing
	PPP Center	Ongoing
	PPP Pipeline Development	Ongoing
	Establishment of the Project Development Facility	Pipeline
State-Owned Enterprise (SOE) Reform	Community Service Obligation (CSO) Framework	Ongoing
	Phase I—CSO Policy	Ongoing
	Phase II—Legal Amendments to Implement the SOE Policy	Pipeline
	Phase III—Implementation of the CSO Policy	Pipeline
	SOE Reform	Ongoing
	SOE Policy	Ongoing
	SOE Holding Company Law	Pipeline
Number of Initiatives and Projects	**12/24**	

[a] Participating in *Finding Balance* 2014 (see regional initiatives) and planning to take part in a regional contracting framework (see regional initiatives).

Samoa[a]

Focus Area	Initiative/Project Name	Status
Access to Finance	Secured Transactions Reform	Ongoing
	Drafting and Passage of the Secured Transactions Law	Ongoing
	Filing Archive (Registry) Design and Implementation	Pipeline
Business Law Reform	Business Names Act	Ongoing
	Review of Act	Closed
	Drafting and Passage of the Law	Ongoing
	Registry Design and Implementation	Pipeline
	Company Law Reform (Registry and Amendment)	Ongoing
	Registry Design and Implementation	Ongoing
	Amendments to the Companies Act	Ongoing
	Support for the Establishment of the Customary Land Advisory Commission	Ongoing
Competition	Competition Reform	Ongoing
	Competition Policy and New Legislation	Ongoing
Crosscutting	Private Sector Assessment Update	Ongoing
State-owned Enterprise (SOE) Reform	Privatization of Agricultural Stores	Ongoing
	Privatization of Polynesian Airlines	Ongoing
	SOE Reform	Ongoing
	SOE Reform General	Ongoing
	Privatization Transaction Support	Ongoing
	SOE Policy Development and Implementation	Pipeline
Number of Initiatives and Projects	**9/15**	

[a] Participating in *Finding Balance* 2014 (see regional initiatives).

Solomon Islands[a]

Focus Area	Initiative/Project Name	Status
Access to Finance	Agricultural Finance/Value Chain Finance	Ongoing
	Rural Finance with Cocoa Value Chain Stakeholders	Ongoing
	Financial Sector Assessment	Ongoing
	Financial Sector Regulation	Ongoing
	Microfinance and Mobile Banking Regulatory Review	Closed
	Credit Union Policy and Law	Ongoing
	Secured Transactions Reform	Ongoing
	Review, Amendment, and Implementation of the Secured Transactions Act	Ongoing
	Registry Application Upgrades	Closed

Business Law Reform	Business Licensing Diagnostic	Ongoing
	Company Law Reform	Ongoing
	Registry Design and Implementation	Closed
	Review of the Companies Act 2009 and Companies (Insolvency and Receiverships) Act 2009	Ongoing
	Support for the Implementation of the Companies Act	Ongoing
	Customs and Excise Act Reform	Ongoing
	Review, Drafting, and Passage of the Law	Ongoing
	Customs Act Implementation	Pipeline
	Foreign Investment Registry	Ongoing
	Design and Installation of the Registry	Ongoing
	Registration of Business Names Act	Ongoing
	Review of Act and Drafting of New Bill	Ongoing
	Registry Design and Implementation	Pipeline
	Trustee Law Reform	Ongoing
	Drafting and Passage of the Law	Ongoing
Competition	Competition Reform	Ongoing
	Competition Policy and New Legislation	Ongoing
Crosscutting	Private Sector Assessment	Pipeline
State-owned Enterprise (SOE) Reform	SOE Reform	Ongoing
	Support for the Implementation of the SOE Act	Ongoing
	Liquidation of Solomon Island Printers	Ongoing
	Upgrade of Accounting Systems	Ongoing
	Solomon Islands Port Authority	Pipeline
	Commercialization	Pipeline
	Solomon Islands Postal Corporation Restructuring	
Number of Initiatives and Projects	**13/23**	

[a] Participating in *Finding Balance* 2014 (see regional initiatives) and planning to take part in a regional contracting framework (see regional initiatives).

Timor-Leste

Focus Area	Initiative/Project Name	Status
Access to Finance	Branchless Banking	Closed
	Development of Business Case and Model for a Third-Party Payments and Cash Management Provider	Closed
	Development of Legal and Regulatory Framework for Branchless Banking	Closed
	Secured Transactions Reform	Ongoing
	Drafting and Passage of the Law	Ongoing
	Registry Design and Implementation	Pipeline
	Support to Instituição de Microfinanças de Timor-Leste	Ongoing
	Strengthening the Banco Nacional de Comércio de Timor-Leste (BNCTL)	Closed
	Assessment of BNCTL	Closed
	Strategy Workshop/Advice	Pipeline
	Information Technology Assessment	Pipeline
	Long-Term Advisor	Pipeline
	Survey	Pipeline

Public–Private Partnerships	PPP Framework	Ongoing
	PPP Legal Instrument	Ongoing
	PPP Assessments and Prefeasibility	Ongoing
	Implementation of the PPP Law	Pipeline
	PPP Transaction Support (Dili Water)	Pipeline
Number of Initiatives and Projects	**4/14**	

Tonga[a]

Focus Area	Initiative/Project Name	Status
Access to Finance	Secured Transactions Reform	Ongoing
	Filing Registry Design and Implementation	Pipeline
Business Law Reform	Bankruptcy Reform	Ongoing
	Drafting and Passage of the Bankruptcy Bill	Ongoing
	Business License Reform	Ongoing
	Drafting and Passage of the Business License	Closed
	(Amendment) Act	Pipeline
	Registry Design and Implementation	Pipeline
	Business Names Act	Ongoing
	Review of Law and Registry Design and Implementation	Ongoing
	Company Law Reform	Ongoing
	Companies Act Implementation	Ongoing
	Registry Migration and Implementation	Ongoing
	Foreign Investment Act	Ongoing
	Review of the Foreign Investment Act	Ongoing
	Drafting and Passage of the Law	Ongoing
	Receiverships Bill	Ongoing
	Drafting and Passage of the Receiverships Bill	Ongoing
Competition	Competition Reform	Ongoing
	Competition Policy	Ongoing
Crosscutting	Private Sector Assessment Update (2012)	Closed
State-owned Enterprise (SOE) Reform	SOE Reform	Ongoing
	Phase V	Ongoing
	Phase VI	Ongoing
Number of Initiatives and Projects	**10/14**	

[a] Participating in *Finding Balance* 2014 (see regional initiatives) and planning to take part in a regional contracting framework (see regional initiatives).

Tuvalu

Focus Area	Initiative/Project Name	Status
State-owned Enterprise (SOE) Reform	SOE Reform	Ongoing
Number of Initiatives and Projects	**1/1**	

Vanuatu[a]		
Focus Area	**Initiative/Project Name**	**Status**
Access to Finance	Financial Sector Assessment	Ongoing
	Microfinance Legislative Framework	Ongoing
	Phase I	Ongoing
	Phase II	Pipeline
	Secured Transactions Reform	Ongoing
	Implementation of the Law and Registry	Ongoing
	Registry Application Upgrades	Closed
	Support to Vanuatu Women's Development Scheme (VANWODS)	Ongoing
	Support to VANWODS	Closed
	Potential Work Toward the Transformation of VANWODS	Pipeline
Business Law Reform	Business Names Act	Ongoing
	Review of the Law	Ongoing
	Registry Design and Implementation	Ongoing
	Company Law Reform	Ongoing
	Drafting and Passage of the Companies Act	Closed
	Drafting and Passage of the Companies (Insolvency and Receiverships) Act	Ongoing
	Drafting and Passage of the Personal Insolvency Act	Ongoing
	Drafting and Passage of the Cross-Border Insolvency Act	Ongoing
	Company Registry Design and Implementation	Pipeline
	Support for the Implementation of the Companies Act	Pipeline
	Trustee Law Reform	Ongoing
	Drafting and Passage of the Law	Ongoing
Crosscutting	Private Sector Assessment Update	Pipeline
State-owned Enterprise (SOE) Reform	SOE Reform	Ongoing
	SOE Policy and Act	Ongoing
	SOE Restructuring and Privatization (Liquidation of 4 (SOEs)	Ongoing
	Capacity Building of Government Business Enterprise Unit	Ongoing
	Director Training	Pipeline
Number of Initiatives and Projects	**9/20**	

[a] Participating in *Finding Balance* 2014 (see regional initiatives) and planning to take part in a regional contracting framework (see regional initiatives).

Private Sector Development Initiative Portfolio Summary
(cumulative as of 30 June 2013)

	Initiatives and Projects[a]											Current Status of Projects		
Country	Access to Finance	Business Law Reform	SOE Reform	Public–Private Partnerships	Competition	Economic Empowerment of Women	Crosscutting	Total No. of Initiatives and Projects		Total Funding Committed ($)	Total Funding Disbursed ($)	Completed	Ongoing	Pipeline
Cook Islands	n.a.	1(2)	1 (1)	n.a.	1 (1)	n.a.	n.a.	3	4	94,057	94,057	2	0	2
Fiji	2 (4)	n.a.	1 (1)	n.a.	n.a.	n.a.	1 (1)	4	6	353,799	353,799	4	1	1
Kiribati	n.a.	n.a.	1 (1)	n.a.	n.a.	n.a.	n.a.	1	1	17,675	17,675	1	0	0
Republic of the Marshall Islands	1 (2)	n.a.	1 (4)	n.a.	n.a.	n.a.	n.a.	2	6	112,745	112,745	1	2	3
Federated States of Micronesia	1 (2)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1	2	16,031	16,031	n.a.	1	1
Nauru	1 (3)	n.a.	1 (2)	n.a.	n.a.	n.a.	n.a.	2	5	228,352	191,448	3	1	1
Palau	1 (2)	1 (2)	1 (6)	n.a.	n.a.	n.a.	n.a.	3	10	295,923	295,923	2	4	4
Papua New Guinea[b]	3 (6)	n.a.	2 (5)	7 (13)	1 (2)	n.a.	3 (3)	16	29	2,505,759	2,332,586	8	12	9
Samoa	2 (3)	3 (6)	4 (6)	n.a.	1 (1)	n.a.	2 (2)	12	18	1,435,707	1,429,237	4	11	3
Solomon Islands[c]	4 (7)	6 (10)	3 (7)	n.a.	1 (1)	n.a.	1 (1)	15	26	3,195,203	2,863,277	6	15	5
Timor-Leste	3 (14)	n.a.	n.a.	1 (5)	n.a.	n.a.	n.a.	4	19	1,816,117	1,768,959	9	3	7
Tonga[d]	2 (4)	6 (10)	2 (3)	1 (2)	1 (1)	n.a.	3 (3)	14	23	2,358,425	2,358,425	11	10	2
Tuvalu	n.a.	n.a.	1 (1)	n.a.	n.a.	n.a.	n.a.	1	1	16,378	16,378	0	1	0
Vanuatu[e]	6 (10)	3 (9)	2 (4)	n.a.	n.a.	n.a.	2 (2)	12	25	978,314	951,759	6	13	6
Regional	9 (9)	4 (6)	6 (8)	4 (5)	2 (3)	1 (1)	11 (12)	38	46	5,718,917	5,409,570	26	12	8
Miscellaneous[f]										3,028,848	1,590,432			
Total								**128**	**221**	**22,172,249**	**19,802,301**	**83**	**86**	**52**

n.a. = not available, SOE = state-owned enterprise.
[a] Refers to number of initiatives with number of projects in parenthesis.
[b] Includes funding from TA 7782-PNG.
[c] Includes funding from TA 7797-SOL.
[d] Includes funding from TA 7271-TON.
[e] Includes funding from TA 7588-VAN.
[f] Includes administration costs, PSDI core undisbursed, and outreach and other miscellaneous costs.

Pacific Private Sector Development Initiative: Progress Report 2013

The Pacific Private Sector Development Initiative (PSDI) is a regional technical assistance facility cofinanced by the Asian Development Bank (ADB), Australian Aid, and the New Zealand Aid Programme. PSDI works with ADB's 14 Pacific developing member countries to improve the enabling environment for business and address constraints to private sector development in support of sustainable and inclusive economic growth. This publication describes PSDI's progress on recent and ongoing initiatives and reviews the analytical basis for reform in the region.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people who live on less than $2 a day, with 828 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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