

II. ROLE OF THE WORLD BANK IN THE PACIFIC

26. In the face of these common challenges, a regional strategy that focuses on creating an environment conducive to fueling sustainable economic growth and job creation is needed. Changing demographics resulting in a large percentage of youth in the population with the backdrop of crumbling economic and social traditional structures is worrisome for PIC governments, neighboring donors, and development partners as it threatens social stability in these economies and, possibly, in the wider region.

27. Aid has largely reflected bilateral strategic motivations and often been directed toward service delivery—law and order, schools, hospitals, or in a few cases, rural employment creation to avoid social conflict—hence its effect on growth has been uncertain. A World Bank strategy that leverages donor resources in a way that focuses attention on economic growth is therefore needed not only to guide the Bank’s activities but also for its greatest potential to enhance the impact of donor resources.

28. While the large presence of bilateral donor grant funds in the region implies that the financing needs of the PICs are met without recourse to borrowing, there is now growing concern regarding aid effectiveness and development outcomes among donors—underpinned by the reality of rising poverty or “hardship” levels, the risk of failing to meet the Millennium Development Goals (MDGs), and to varying degrees, by security concerns for the region. This has elevated the importance of policy dialogue and global knowledge products that facilitate better use of donor resources and effectively address the economic challenges facing the region.

29. There is evidence of a growing donor appetite for the World Bank’s ability to offer technical expertise, access to global knowledge, and international networks; and facilitation of partnerships with other development organizations, the private sector, and civil society. Although a modest level of Bank lending based on country demand and grant instruments is feasible and appropriate, the World Bank is unlikely to be a major source of development finance for the region. Hence, the Bank is mindful of the need to:

- exercise selectivity in the face of a broad development agenda and the backdrop of recent Bank re-engagement with Pacific clients;
- define a demand-driven business model based less on project finance than on knowledge dissemination of good practices in promoting growth in small islands;
- determine an appropriate balance of country-focused and regional interventions—tailoring advice, analysis, and financial support to individual country needs while at the same time seeking to identify regional economies of scale and promoting regional public goods; and
- promote more strategic aid management to enhance aid effectiveness and encouraging harmonization, given the Bank’s small financial role in the donor community.

30. In this context, assimilating the lessons from experience, the OED evaluation, and client consultations are important and discussed next.

A. Lessons from Experience

31. The last Pacific Regional Strategy was discussed by the Board in May 2000. It outlined the World Bank's re-engagement in the Pacific Region, coupled with the decentralization of the Bank's country management unit to Sydney. The objectives of the strategy were to promote poverty reduction through support for the human capital, policies, institutions, and physical infrastructure needed for equitable and sustainable growth. It sought to achieve these objectives by reducing disparities within countries and promoting equitable access to the benefits of development through focused lending, particularly in the social sectors and infrastructure (transport, telecommunications), with an added emphasis on strengthening private sector capacity in these areas.

32. Accordingly, during 2000-2003 the World Bank completed analytical work on regional environmental issues, trade policy, noncommunicable diseases, and climate change adaptation; and offered policy advice on environmental risk management and climate change adaptation. The Bank financed a small number of lending operations in the health and infrastructure (including natural hazard recovery) sectors and technical assistance grants in health, private sector development, and environment/conservation.

33. An OED evaluation of World Bank assistance to the Pacific over the 1992-2002 period found that the Bank had not been able to make a satisfactory contribution toward fueling economic growth in the region.⁹ Going forward the OED evaluation recommended that the Bank (a) focus on improving expenditure management and removing bottlenecks to private activity in the region, (b) define focused and measurable country-specific objectives and interventions for countries where its engagement is expected to continue, (c) prioritize support for a select set of regional-level initiatives, (d) deepen and broaden its relationship with other donors, and (e) ensure that its strategy is fully funded and staffed.

34. The planned strategy incorporates the recommendations of the OED evaluation into the strategy for FY2006-09. This strategy focuses on promoting an environment conducive to fostering sustainable economic growth and job creation in the region. The regional framework emphasizes building government capabilities for service delivery by improving public expenditures in key areas, as well as improving the incentives for private sector-led job creation. The strategy also identifies a combination of regional and country-level objectives and interventions while emphasizing the importance of stronger development partnerships in order for the Bank's technical assistance to effectively leverage donor resources. A set of thematic objectives with accompanying outcomes are identified in the strategy, and country-specific outcomes will be identified for individual activities. Increased attention to dissemination that promotes dialogue with clients, bilateral donors, development partners and civil society on key issues, and follow-up implementation will be priority actions. The World Bank has increased its staff capacity in the Sydney regional office and is strengthening a network of in-country contacts to facilitate dialogue and implementation of assistance. These issues are elaborated upon in this document.

⁹ *Evaluation of World Bank assistance to Pacific Islands Member Countries 1992-2002* (CODE2004-0088), November 2004.

B. Feedback from Consultations

35. The World Bank team has consulted with a range of stakeholders in government, private business, academia, and civil society during the preparation of this strategy and sought feedback on the analytical framework, modalities for assistance, and country-specific needs. The Bank has also consulted other development partners and Pacific regional organizations on the planned strategy, as well as on opportunities for potential partnerships. In-country workshops and follow-up dialogue have provided valuable feedback throughout the preparation of this strategy.

36. There were several key messages received from these consultations:

- The capabilities and incentives approach adopted in this strategy captures the main issues facing the region that need concerted attention from the development community.
- Vehicles that foster donor coordination would improve the chances of tackling these challenging issues effectively, as would a stronger role by Pacific governments themselves that donors could also encourage.
- The World Bank's analytical/technical expertise in these areas is very valuable and hence more frequent interaction and dissemination of its global activities would be desirable.
- The World Bank should work closely with regional organizations in the Pacific.
- The Foreign Investment Advisory Service (FIAS) and IFC's Pacific Enterprise Development Facility (PEDF) and the World Bank should closely coordinate support for private sector development.