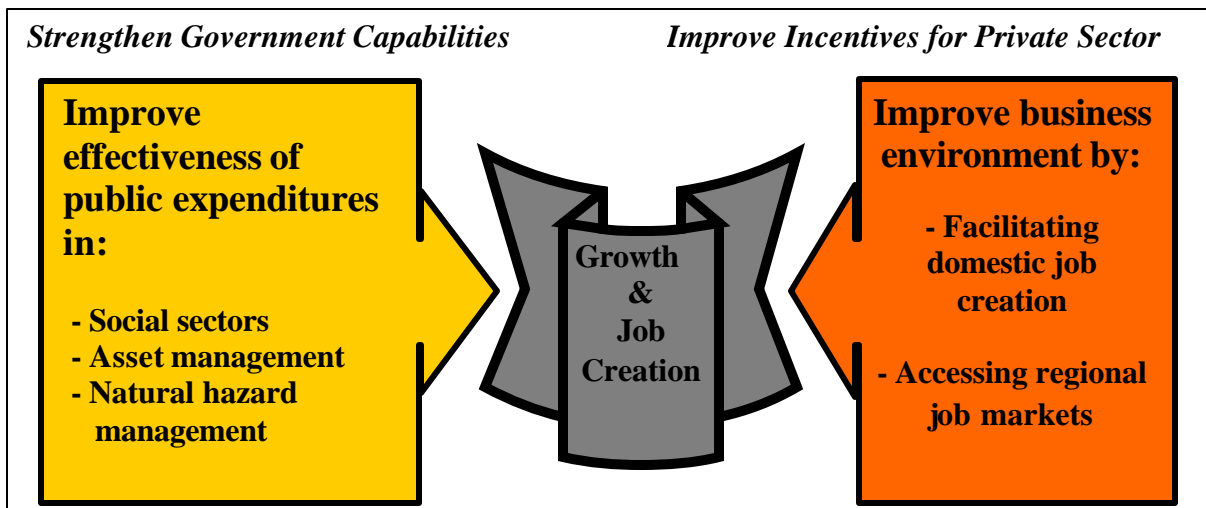


III. REGIONAL FRAMEWORK

37. Reflecting these recommendations and messages, the aim of the Bank's Pacific Regional Strategy for FY2006-2009 is to help address the issues of rising poverty and youth unemployment by creating an environment conducive to generating sustainable economic growth and employment opportunities for Pacific Islanders, working in cooperation with other development partners in the region.

38. An analytic framework reflecting the supply side (capabilities) and the demand side (incentives) is planned as a guide to outlining the strategic pillars for the Bank's role in the region (Figure 3). These pillars are informed by the Bank's assessment of how it can most effectively contribute to addressing the issues of unemployment and rising "hardship" based on areas of comparative advantage and client demand: (a) strengthening government capabilities in service delivery and (b) improving the incentives for private sector development and job creation.

Figure 3. Analytical Framework for Fostering Sustainable Growth and Job Creation



A. Strengthening Government Capabilities in Service Delivery

39. The Bank would contribute to a strengthening of government capacity in improving the effectiveness of public expenditures in the areas where PIC governments expend a large share of their resources—social sectors, infrastructure, and natural disaster management. Donor support to the Pacific is also concentrated in these three areas; and with the rising concerns about aid effectiveness in the Pacific, donors, and governments have expressed a strong need for the Bank to distill the regional and global lessons to inform the design and implementation of programs. Improving outcomes in these three areas also has a potentially large positive impact on some of the most vulnerable sections of the population—the poor, women, and inhabitants of outer islands. The Bank's involvement through sectoral public expenditure reviews would reflect the Bank's comparative advantage and commitment to the MDGs, offer an opportunity to deepen donor coordination, and strengthen government capacity to lay the foundations for economic growth.

40. Consultations with client governments or donors have not yet revealed a demand for broad economywide public expenditure reviews or targeted stand-alone assistance to support public sector and financial management reforms. An emerging request from Fiji to review the general efficiency of public expenditures is under consideration and expected to serve as an entry point into a more specific engagement, the nature of which is not known at this time (see Section VIII, Country Chapter A on Fiji). As the information base and country relationships expand, the Bank will make available its core diagnostic products, adopting as appropriate to the Pacific context.

41. The Bank's contributions will be in the areas of social sectors, infrastructure, and natural hazard management.

1. Improving the Effectiveness of Public Expenditures in the Social Sectors

42. The Bank will attempt to make a contribution toward understanding the causes and addressing the difficulties encountered in improving the outcomes in education and health so that they are better aligned with the large amounts of public expenditures being devoted to these sectors (refer back to Section I for related discussion).

43. The Bank is preparing a regional economic report reviewing the issues in the social sectors in the Pacific that will identify the governance structures, policies and institutions where reforms would speed progress toward the attainment of the MDGs by improving service delivery in health and education, especially to the poor and inhabitants of outer islands. Through this report and country-level activities, the Bank will share global experience, disseminate good practice, and test the relevance of new approaches with the main donor partners, supporting implementation where appropriate (e.g., sectorwide approaches).

2. Improving the Management of Infrastructural Assets

44. While donor funding of infrastructure is quite prevalent, insufficient attention to asset management has led to a deterioration of these investments, causing disruptions to availability of basic services. If costly rebuilding activities are to be avoided, greater attention needs to be paid to the maintenance of these physical assets.

45. The Bank's role here would be to bring in best practice lessons and innovative public-private partnerships to help the countries implement reforms to improve coordination, accountability, and capacity in infrastructure management. This area is being scaled up in the Pacific in response to stakeholder feedback and will take guidance from the recently completed Infrastructure Report prepared jointly by the Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), and the World Bank.

3. Safeguarding Service Delivery by Improving Resilience to Natural Hazards

46. High vulnerability to natural disasters (in terms of proportion of area and population affected) has resulted in the cost of extreme events, primarily cyclones and droughts, totaling

US\$2.8 billion in real 2004 value in the 1990s alone¹⁰ (refer back to Section I for related discussion).

47. The Bank is preparing a policy note to review the incentives, institutions, and (financial) instruments available for hazard risk management, emphasizing that being proactive in building resilience has a high pay-off. In fact, the cost of inaction is high in terms of fatalities and economic damages. From this work the Bank will draw upon regional and international experience to build local capacity for hazard management and develop cost-effective instruments for the Pacific that can minimize the risk of various types of losses and interruptions in public service delivery, which obviously have a disproportionately larger effect on the poorer populations and retard the attainment of MDGs.¹¹

B. Improving the Incentives for Private Sector-led Growth and Employment

48. The Bank will seek to make improvements in the incentive environment for job creation by adopting a two-pronged approach: (a) by supporting private sector development domestically by improving the business environment to make it attractive for domestic business development and inward foreign investment attraction; and (b) in recognition of the natural constraints to private sector development in the Pacific by facilitating outward labor mobility for Pacific Islanders into neighboring developed countries in the context of deeper regional integration. Both these areas are new to the Bank's assistance package in the region and reflect the concerns of countries that have successfully implemented public sector reforms but not received the expected private investment (e.g., Samoa). This work would attempt to deepen and complement those reforms.

1. Facilitating Domestic Job Creation

49. The Bank's activities in this area would fall into one of these categories:

- The cost of doing business could be reduced by improving the broad administrative and regulatory framework affecting entry and exit of firms. The Doing Business Indicators database benchmarks the PICs against several other countries on both cost and time taken to obtain business licenses, access credit, collect on a debt, etc. Several of the PICs have shown a keen interest in improving the performance in some of these areas. Appropriate technical assistance programs will be designed to address those requests in close partnership with other partners. In some countries, the Bank may focus on reducing costs of specific utilities (e.g., telecom), stressing regional cooperation to reap economies of scale and pooling of regulatory capacity. While small size of markets may limit privatization options, regulatory reform efforts to increase private participation in service provision will be supported.
- Sustainable revenues from resource-based sectors, such as fisheries, forestry or tourism, could be enhanced particularly in the smallest islands that are single-sector

¹⁰ Figure from EM-DAT and SOPAC, 2005.

¹¹ Guidance will be drawn from *Managing the Debt Risk of Exogenous Shocks in LICs* (SecM2005-0112), March 9, 2005.

economies and are either not able to secure fair deals in international negotiations that could be addressed through better regional cooperation, or where the lack of transparent frameworks has led to exploitation and threatened sustainability of the sector. Since these are where the long-term sources of growth may lie, the Bank would look for opportunities to team up with the specialized regional agencies¹² to identify proposals for equitable revenue sharing, as well as avenues to support the IFC's sectoral investments (e.g., in tourism) through policy dialogue.

Close coordination with other development partners such as the ADB, AusAID and NZAID on private sector development issues will be a high priority given the broad agenda that needs to be tackled.

2. Accessing Regional Job Markets

50. While the business environments in the PICs have considerable scope for improvement, there are natural limitations on the size of the private sector due to small size and geography of the PICs. Yet, an immediate solution to job creation is needed in the face of large (and growing) percentages of youth in the populations that are showing an inclination to move away from subsistence cultures.

51. As donors are becoming more “hands-on” in the Pacific, the climate is right to offer consideration of the merits of some form of labor market integration with their Pacific neighbors. The Bank is therefore undertaking an analytical and empirical study on this topic that is a logical extension to its previous regional economic report.¹³ One of the recommendations of this report was an expansion of the free trade area (FTA) formed within the PICs (known as the PICTA) to include the developed neighbors, New Zealand and Australia (known as PACER), in order to enhance the gains from trade creation.¹⁴ If the PICs do consider widening the FTA, they are likely to do so if trade in services and in particular labor mobility is incorporated.

52. The Bank's analysis of labor mobility attempts to quantify the costs and benefits of labor mobility with a focus on documenting the impact of remittances on poverty and income inequality reduction in recipient communities while drawing policy recommendations for both sending and receiving countries to maximize the development impact of managed migration. Frequent dialogue with New Zealand and Australia on labor mobility issues is being maintained in order for this study to understand the opportunities and address the constraints to labor market integration.

¹² For example, Forum Fisheries Agency to raise the share of fishing revenues accruing to the Pacific from the current low of 4 percent

¹³ *Embarking on a Global Voyage: Trade Liberalisation and Complementary Reforms in the Pacific*, Report No. 24417-EAP, PREM Unit, East Asia and Pacific Region, World Bank, September 10, 2002.

¹⁴ The report also recommended that more attention be paid to the ‘behind-the-border’ agenda in order to extract benefits from trade integration. The focus of this strategy on improving the domestic business environment is in line with that recommendation. On related areas, the lead is being taken by other development partners (e.g. NZAid on trade facilitation, and PFTAC on tax reform). The Bank is ready to tap into the institutional knowledge on this broad agenda—WTO accession, Integrated Framework on Trade, Small States Task Force work on trade—if the demand arises from clients or partners, and could make available capacity-building instruments in partnership with the World Bank Institute.

Table 7 summarizes the likely delivery instruments, main partners, and analytical products (combination of completed and ongoing reports) which underpin the Bank's approach.

Table 7. Analytical Products, Instruments and Partners for Delivering Bank Assistance to the Region

<i>Thematic focus</i>	<i>Analytical product that will underpin Bank involvement</i>	<i>Proposed instrument to deliver assistance</i>	<i>Main partners^a</i>
Improve Effectiveness of Public Expenditures			
Social sectors	Regional Economic Report (FY05) on HD.	Donor coordination to leverage resources, SWAps in education sector	Australia, New Zealand
Infrastructure Management	Infrastructure Report, Regional Infrastructure Conference (FY05)	Dialogue with regional organizations, Country-level technical assistance and operations to leverage donor resources	Australia, ADB, Pacific Islands Forum
Hazard Management	Policy note on HM issues (FY06)	Capacity building workshops, Country-level operations	Specialized regional agencies
Improve environment for private sector development			
Reducing the cost of doing business	Doing Business Indicators (FY03, and ongoing updates)	Country-level advisors and consultative groups to implement reform	ADB, Australia, FIAS
Increasing revenues and sustainability of natural resource-based sectors	Regional Economic Report (FY96) ^b	Joint sectoral policy reviews with donors or leveraging IFC investments	Australia, EU, Japan, IFC
Improving access to regional labor markets	Migration and Remittances analysis (FY06)	Discussion forums, FEMM briefings, close dialogue with Australia	Australia, New Zealand, Pacific Islands Forum, University of South Pacific

^a Not meant to be exhaustive; more detail provided in Section VIII, Country Chapters.

^b *Pacific Island Economies: Building a Resilient Economic Base for the Twenty-First Century*, Country Department III, World Bank, 1996.