

EXECUTIVE SUMMARY

1. The nine Pacific Island countries (PICs)¹ covered in this regional strategy face similar development challenges today despite notable differences in history, culture, and endowments. The lack of economic growth in the face of growing populations has contributed to rising unemployment and hardship in the region. Even those countries that have seen positive growth in per capita income have been unable to fully translate this into adequate job creation and poverty reduction. With over 50 percent of the region's population under age 24, steady rural-to-urban migration, and the erosion of traditional systems of social support, all PICs recognize the importance of dealing with the issue of youth unemployment and its associated social problems.
2. In the face of these common challenges, the World Bank regional strategy focuses on creating an environment conducive to generating sustainable economic growth and employment, while recognizing that small populations and marked remoteness of the PICs pose significant development challenges to this region. This strategy should be considered a regional framework within which country-specific objectives and expected results can be specifically defined, while recognizing that the depth and composition of country-specific assistance will evolve with national priorities, institutional capacity for reform, and the strength of mutual dialogue.
3. The region is relatively aid abundant with bilateral donors filling the resource gaps quite generously. Growing concerns about the poor development record of the Pacific and its implications for the region have elevated the importance of increasing aid effectiveness. There is a need for policy dialogue and global knowledge products that facilitate better use of these resources and effectively address the development challenges facing the region. The Bank's role in providing such knowledge to the region is considered valuable and timely.
4. In formulating its regional strategy, the Bank is faced with the challenge of exercising selectivity in the face of a broad development agenda and defining a strategic role for itself in an aid-abundant region in need of both regional public goods, as well as capacity building at the country level.
5. The design of this strategy therefore takes guidance from the recently completed Operations Evaluation Department (OED) report² of the Bank's activities in the Pacific and focuses on the main recommendations for improving public expenditure management³ and facilitating private sector-led growth. Consultations with Pacific member countries and their feedback have further underscored these messages, which are reflected in the country assistance programs.

¹ Comprising 9 member countries: Fiji, Federated States of Micronesia, Kiribati, Marshall Islands, Palau, Samoa, Solomon Islands, Tonga and Vanuatu. Individual country assistance strategies are underway for Papua New Guinea, and Timor-Leste.

² *Evaluation of World Bank Assistance to Pacific Islands Member Countries 1992-2002* (CODE2004-0088), November 2004.

³ Although current country demand revolves around sectoral public expenditure reviews, the Bank stands ready to conduct economy-wide public expenditure reviews.

6. This strategy rests on a capabilities and incentives framework with a view to making a contribution toward:

(a) Strengthening government capabilities in service delivery

- Improving the effectiveness of public expenditures, primarily in the social sectors;
- Improving the management of infrastructural assets; and
- Safeguarding service delivery by improving resilience to natural hazards.

(b) Improving the incentives for private sector-led growth and employment by

- Facilitating domestic job creation through reductions in the regulatory and administrative barriers to business development, and improving service and costs in utilities;
- Increasing sustainable revenues from resource-based sectors, such as fisheries or tourism; and
- Improving access to regional labor markets.

7. The Bank will deliver its assistance through strategic economic and sector work, multi-donor dialogues to promote donor coordination on a thematic basis, targeted policy notes to disseminate key messages, and focused technical assistance to implement reforms. Selective lending activities will actively seek to leverage donor resources to maximize their policy impact. The assistance will balance demand-driven, country-specific initiatives with regional-level initiatives to help create regional public goods.

8. Close coordination within the World Bank Group will be a priority to harvest global and intraregional lessons on promoting growth in small states. Since the focus of the Bank's assistance is primarily on analytical and advisory work, intensified efforts at communications outreach and dissemination will be undertaken in the course of this strategy through the Sydney office. Maintaining access to the institutional knowledge based in Washington will be essential to deliver high-quality policy advice to the region.

9. The Bank is not in a position to lead a broad donor coordination effort given its limited presence in the region and the multiplicity of donor objectives in delivering aid to the region. However, the Bank will offer its convening power to the development partners by intensifying dialogue on the thematic objectives and instruments central to this strategy, as well as pursuing implementation of the harmonization agenda.

10. The strategy articulates a set of desired but realistic outcomes at a thematic level in accordance with the Bank's scope of engagement. A set of medium-term results for each activity at the country-level will be identified for monitoring the effectiveness of the Bank's assistance and also for making mid-course adjustments to the assistance when warranted.