



Asian Development Bank Framework¹

1. The charter of the ADB (Bank) calls for the Bank to give special attention to the needs of smaller or less developed countries. “Small states” members of the Bank include eleven of the twelve Pacific Developing Member Countries (PDMCs)², which are soon to be joined by East Timor, as well as Bhutan and the Maldives.
2. Small states are entitled to assistance from the Bank prepared in accordance with the Bank’s annual cycle of country programming and cycle of project preparation. The Bank engages in a wide range of social and economic development activities aimed at improving the welfare of the people of the region. Its over-arching strategic objective is to reduce poverty. In all its work, the Bank seeks to encourage the private sector, strengthen public sector management capacity, develop human resources, and help manage natural resources sustainably.
3. To promote investment of public and private capital for development purposes, the Bank makes loans and equity investments. It offers a range of lending modalities. Most Bank loans are to the public sector and are for specific projects, but the Bank also makes loans to the private sector for specific projects and to governments for program purposes. The Bank also provides technical assistance for the preparation and execution of development projects and programs, and for advisory purposes. It pays special attention to the needs of smaller or less-developed countries, and gives priority to projects and programs that contribute to the harmonious economic growth of the region as well as a whole and that promote regional cooperation.
4. Bank policies and procedure are continuously being updated in an effort to better serve member countries. Relevant current reviews include the drafting of new policies with respect to the operations of Resident Missions, Performance-Based lending, and the preparation of a new regional strategy for the PDMCs.

Resident missions

5. The Bank is reviewing the need for a stronger presence in developing member countries, increasing the number, strength, and responsibilities of Resident Missions. This is likely to lead to a greater Bank presence in borrowing-member countries consistent with what is practical.

¹ This text is extracted from *Small States: Meeting Challenges in the Global Economy*, Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States, Washington DC and London, April 2000.

² The PDMCs are: Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, PNG, Samoa, Solomon Island, Tonga, Tuvalu, Vanuatu.

Performance-based lending

6. The Bank is reviewing means to adopting a performance-based allocation of ADF resources. Although performance-based lending has been endorsed in principle the means to adopting this approach has not yet been approved.
7. A factor that has a bearing on a country's need for development assistance is population size. At one level this is straightforward: the larger the population, the higher the total allocation. However, small countries merit special attention. The underlying rationale is that many of them, especially the PDMCs, suffer from structural vulnerability to shocks. The sources of vulnerability include high exposure to external economic forces, remoteness, and proneness to natural disasters.³ Here, the smaller the population, the larger the allocation on a per capita basis. This is in consonance with the Bank's Charter mandate. There is also the consideration that for very small countries, an allocation below a certain amount ceases to be operationally meaningful i.e. projects/programs must be of some minimum size to have a development impact.
8. Second, country size matters. The formula should ensure that the larger the population, the larger the allocation on an absolute basis and the smaller the allocation on a per capita basis. However, large allocations to big countries may crowd-out small countries. In the Bank's context, three DMCs account for 82 percent of the total population with ADF access. Hence, there is a need to moderate the effect of population in the allocation formula. The formula must build in what is referred to as the small country bias.
9. Third, the formula must respond to needs. The poorer the country, the larger the resources that ought to be made available, other factors being the same. This calls for an inverse relationship between allocation and per capita GNP (GNPC). Excluding the PDMCs that have relatively high per capita incomes, there is a wide range of per capita incomes among ADF recipient countries. Per capita GNPC levels range from \$210 (Nepal) to \$ 1180 (Maldives).⁴ Hence, overemphasis on per capita GNPC can distort the allocation of resources among ADF recipients. While the formula must indeed retain the poor country bias, it needs to be carefully calibrated.
10. A project or program has to have a certain minimum size to have any development impact. Application of the allocation formula to the PDMCs along with the other larger DMCs can result in allocations to the PDMCs as a group and individually that are too small to be operationally meaningful. It is, therefore, proposed that PDMCs be treated as a distinct category. A specific amount could be set apart for this category, and the formula, or a variant thereof, applied to obtain relative shares of

³ Of relevance in this regard is ongoing work by the World Bank and the Commonwealth Secretariat on developing measures of structural vulnerability of the type faced by small states.

⁴ ADB's policy on ADF eligibility takes into account not only per capita GNP but also debt repayment capacity in determining which countries should have access to ADF resources. The DMCs that currently are ADF-eligible and have ADF access are identified in R204-98. A Graduation Policy for the Bank's DMCs, 4 November.

countries. Further, efforts will be made to adapt and/or develop indicators of structural vulnerability as determinants of allocation for small countries.

Regional Strategy for the PDMCs

11. The Bank plays a lead role in providing advice and assistance to many of the small states that are its members. For instance, in the 1990s the Bank has played an important role in economic and public sector reform in the PDMCs.
12. The Bank is currently updating its regional strategy for the Pacific⁵. An Initiating Paper for the new strategy has been prepared and this is now subject to internal discussion.
13. The paper proposes that across all Pacific DMCs, the cornerstone of the strategy will continue to be support for economic reform in the areas of economic policy, public sector management, and governance. In this regard and given the large need for capacity building, the technical assistance function will continue to have greater importance than resource transfer in the Bank's assistance mix.
14. In line with the Bank's adoption of poverty alleviation as its overarching objective, a larger proportion of Bank resources and assistance is proposed to be shifted to the Melanesian countries (Papua, New Guinea, Solomon Islands, Vanuatu) and East Timor where both poverty and population in the Pacific are concentrated. The thrust of poverty alleviation assistance will be on expanding access in rural areas (and by women and children) to basic health and education, including non-formal education. This assistance could also include support for transport infrastructure (to improve access to disadvantaged regions) and for capacity building of local governments. Bank assistance will also seek to reduce high population growth rates in these countries.
15. In the small, isolated, and vulnerable atoll economies (Republic of Marshall Islands, Nauru, Tuvalu, Kiribati), a special concern is the sustainable financing of essential services. Accordingly, the Bank will seek to establish and expand trust funds, in collaboration with other donors, to finance recurrent expenditures. Given the limited scope for growth in these economies, as appropriate, the Bank will explore opportunities for marine resource development, niche-market tourism support, and skills development for labor export.
16. In the other countries (Fiji, Samoa, Federated States of Micronesia, Tonga, Cook Islands) with relatively good growth prospects, a broader natural resource base, and generally skilled human resources, the Bank will focus on private sector development and physical infrastructure to promote economic growth (including support for tourism-related infrastructure).

⁵ Pacific Studies Series. Strategy for the Pacific. Policies and Programs for Sustainable Growth. ADB March 1996.